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BY EMAIL

March 5, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: 2016 Demand Side Management Variance Accounts
OEB Staff Submission
Union Gas Limited – EB-2018-0300
Enbridge Gas Distribution Inc. – EB-2018-0301

In accordance with Procedural Order No. 1, please find attached OEB staff's submission.

Sincerely,

Original Signed By

Josh Wasylyk
Project Advisor, Application Policy & Climate Change

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION
March 5, 2019

2016 Demand Side Management Variance Accounts

Enbridge Gas Inc. (formerly Enbridge Gas Distribution Inc. and Union Gas Limited)
EB-2018-0300 / EB-2018-0301

Background

On November 30, 2018, Union Gas Limited (now operating as Enbridge Gas Inc.) (Union Gas) applied for the clearance of 2016 balances in certain Demand Side Management deferral and variance accounts. The OEB assigned file no. EB-2018-0300 to the application.

On December 10, 2018, Enbridge Gas Distribution Inc. (now operating as Enbridge Gas Inc.) (Enbridge Gas) applied for the clearance of 2016 balances in certain Demand Side Management deferral and variance accounts. The OEB assigned file no. EB-2018-0301 to the application.

Pursuant to section 21(5) of the OEB Act, the OEB decided that the applications will be heard together as a combined hearing. A Notice of Combined Hearing was issued on December 21, 2018. Procedural Order No. 1 was issued on January 21, 2019. The OEB indicated that OEB staff and intervenors may file submissions on the applications by March 5, 2019. These are the submissions of OEB staff.

DSM Framework

As outlined in Section 7 of the OEB's *Report of the Board – Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*[1] (the DSM Framework) issued on December 22, 2014, the OEB indicated that it will be taking a central role in the evaluation process of DSM program results. The OEB further indicated that DSM results will be evaluated on an annual basis, with results issued by the OEB to be used by the gas utilities when they file applications for recovery of amounts related to DSM activities.

On August 21, 2015, the OEB announced the formation of an Evaluation Advisory Committee (EAC) to provide input and advice as required throughout the DSM evaluation process. In OEB staff's role of leading the DSM evaluation process, OEB staff chairs all EAC meetings. The EAC is comprised of five independent experts, as well as representatives from Enbridge Gas Inc. (formerly operating separately as Enbridge Gas and Union Gas), the Independent Electricity System Operator (IESO), and observers from the Ministry of Energy and the Environmental Commissioner of Ontario.

[1] EB-2014-0134, Report of the Board: Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)

2015-2020 DSM Plans

The OEB approved 6-year DSM plans for both Enbridge Gas and Union Gas on January 20, 2016 (the 2015-2020 DSM Decision).[2] The 2015-2020 DSM Decision provided the OEB's findings on all components of the gas utilities' DSM plans including budgets, targets and programs, amongst other things. The OEB subsequently issued a Revised Decision and Order on the 2015-2020 DSM Plans on February 24, 2016 (the Revised DSM Decision).[3] The Revised DSM Decision provided the OEB's findings related to comments from the gas utilities on the accuracy of the figures found in the appendices of the 2015-2020 DSM Decision as well as additional clarity. Through the end of the 2018 calendar year, Enbridge Gas and Union Gas have delivered DSM programs independently, consistent with the approved 2015-2020 DSM plans.

Evaluation, Verification and Measurement (EM&V) of DSM Results

The OEB's Evaluation Contractor (EC) is the expert consulting firm DNV GL. DNV GL has completed an independent review and verification of both Enbridge Gas' and Union Gas' DSM program results for both the 2015 and 2016 program years. As part of the 2015 evaluation, DNV GL conducted a net-to-gross (NTG) study of the gas utilities' custom commercial and industrial DSM programs. As part of its evaluation activities, the EC has sought input and advice from the EAC as required.

2015 DSM Results

In October and December 2017, the OEB issued the final 2015 DSM program results reports following the evaluation activities undertaken by the EC. The final 2015 DSM program results are summarized in two reports:

1. The 2015 Natural Gas Demand Side Management Annual Verification Report[4]
2. The 2015 Natural Gas Demand Side Management Custom Savings Verification and Free-ridership Evaluation Report[5]

The 2015 DSM program results were the first evaluation of DSM program results led by the OEB. The OEB approved the gas utilities' final 2015 DSM deferral and variance

[2] EB-2015-0029/0049, Decision and Order, January 20, 2016
[3] EB-2015-0029/0049, Revised Decision and Order, February 24, 2016
[4] 2015 Natural Gas DSM Annual Verification Report, December 27, 2017
[5] 2015 DSM Custom Savings Verification and Free-Ridership Evaluation, October 16, 2017

account balances in July 2018 (the 2015 DSM Deferral Decision).[6,7] The OEB approved the gas utilities' requested DSM deferral and variance account balances as filed. The DSM Incentive Deferral Account (DSMIDA), which tracks the annual shareholder incentive amounts, was calculated using historic NTG factors as opposed to those adopted by the OEB in reports related to the 2015 DSM programs. The OEB indicated that the request to use "…historical free ridership values for custom commercial and industrial programs is appropriate due to 2015 being a transition year into the new multi-year DSM framework."[8]

A number of issues were raised by the natural gas utilities on the evaluation process itself. As part of Procedural Order No. 2 of the 2015 DSM deferral and variance account clearance proceeding, the OEB indicated that the review of the evaluation process was outside the scope of the proceeding.

2016 DSM Results

DNV GL acted as the OEB's EC overseeing the evaluation activities related to the 2016 DSM program results. DNV GL was also selected by the OEB to undertake an independent project savings evaluation of the gas utilities' 2016 custom commercial and industrial programs. The Final 2016 DSM Results as verified by DNV GL and reported in its 2016 Annual Verification Report are shown in the table below. [9]

Table 1 – Summary of Evaluation Contractor Findings – 2016 DSM Program Results

Item	**EC Results – Enbridge Gas**	**EC Results – Union Gas**
Demand Side Management Incentive Deferral Account (DSMIDA)	$4,480,052	$3,886,112
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	$14,656	$181,682
Verified Net Cumulative Natural Gas Savings (m^3)	837,114,041	959,435,289
Total Spending (not reviewed by EC)	$55,648,285	$45,305,294
Cost Effectiveness (TRC-Plus)	2.6	2.9

Utility Requests

Union Gas and Enbridge Gas have each requested approval of the 2016 DSM deferral

[6] EB-2017-0323, OEB Decision and Order, Union Gas Limited
[7] EB-2017-0324, OEB Decision and Order, Enbridge Gas Distribution Inc.
[8] EB-2017-0324/0325, Decision and Orders, p. 6
[9] 2016 Annual Verification Report, p. 1

and variance account balances shown in the table below. The utilities indicated they have relied on the EC's 2016 final results included within the 2016 Annual Verification Report. However, the utilities indicated that they have adjusted the 2016 targets approved by the OEB in the 2015-2020 DSM Decision in order to ensure the targets and results are consistent.

The monetary impact is an increased shareholder incentive of $1.886M for Enbridge Gas and $0.235M for Union Gas.

Table 2 – Summary of Requested 2016 Utility DSM DVA Balances

Account	**Enbridge Gas – Requested DSM DVA**	**Union Gas – Requested DSM DVA**
Demand Side Management Incentive Deferral Account (DSMIDA)	$6,365,751	$4,120,731
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	$(95,625)	$487,559
Demand Side Management Variance Account (DSMVA)	$(712,832)	$(6,155,723)
Total Amount Recoverable	**$5,557,294**	**$(1,547,433)**

*Negative amounts are reimbursable to ratepayers

Enbridge Gas and Union Gas are seeking approval for the disposition of the account balances at the first available Quarterly Rate Adjustment Mechanism (QRAM) after the OEB's decision for this current proceeding. Enbridge Gas proposes to dispose of the amounts as a one-time adjustment. Union Gas proposes the same treatment for its in-franchise contract rate classes. For its general service customers, Union Gas proposes to dispose of the balances prospectively over a six-month period.

Summary of OEB Staff Submission

OEB staff submits that the OEB should reject the proposal of the utilities to deviate from the EC's 2016 Annual Verification Report and approve the utilities' 2016 DSM deferral and variance account balances that incorporate the OEB-approved 2016 natural gas savings targets without any adjustments. This will ensure consistency with the 2015-2020 DSM Decision, properly capture the effects of the 2015 NTG study, and appropriately incentivize the utilities to improve how they screen potential free riders. The shareholder incentive amounts would align with those provided by the EC in the 2016 Annual Verification Report.

In OEB staff's view, the OEB approved fixed targets for the 2016 program year as part of the 2015-2020 DSM Decision. The OEB did not make any provisions for adjustments to these targets. OEB staff submits that while the OEB noted the ongoing NTG study in the 2015-2020 DSM Decision, it did not provide any indication that the approved 2016 targets should be adjusted in any way once the study was completed. The 2015-2020 DSM Decision further indicated that the targets would be adjusted starting with the 2017 program year. Therefore, OEB staff submits that the 2015-2020 DSM Decision set the 2016 targets on a final basis, and made no provisions for adjusting these targets.

The gas utilities indicated that adjustments to 2016 targets are appropriate based on the OEB's findings in the Revised DSM Decision related to prescriptive measures. OEB staff disagrees that the OEB's findings on prescriptive measures provide any justification for adjusting 2016 targets based on the NTG Study, which found high free ridership levels in the gas utilities' custom programs.

Further, by applying the results of the 2015 NTG study to the 2016 targets, the effect of the 2015 NTG study results is negated, thereby eliminating any impact to the utilities of their failure to effectively screen out potential free riders from their programs. OEB staff recommends that the OEB direct the utilities to take more proactive steps to screen potential free riders prior to program enrolment. This will ensure program funds are used more efficiently and effectively.

OEB staff also submits that the proposed LRAMVA and DSMVA account balances have been calculated consistent with the OEB's 2015-2020 DSM Guidelines. OEB staff submits that these account balances be approved as requested by the utilities. With respect to the disposition period of these account balances and the DSMIDA, the OEB opined in a previous decision that it would be preferable to know the combined impact of all proposed changes at the time of implementation (i.e. in the first available QRAM following the decision in this proceeding). The OEB therefore did not order a disposition methodology to be used in future proceedings.[10] OEB staff submits that the same treatment should apply in this proceeding.

OEB staff recommends that the OEB clarify whether the funding transfer policy is related to specific programs (e.g., Home Energy Conservation) or scorecard groupings (e.g., Resource Acquisition).

OEB also staff submits that the utilities' proposed revisions to update the account

[10] EB-2018-0131

description for the DSMVA is consistent with the OEB's direction provided in the DSM Mid-Term Report.

Finally, OEB staff submits that any issues related to the evaluation process, including general comments on the process itself, timelines and costs, should be deemed out of scope by the OEB. Similar to last year's proceeding, statements related to process have not been tested and should therefore bear little or no weight in this proceeding.

OEB Staff Submission

Below are OEB staff's detailed submissions.

Topic 1 – Utility-adjusted 2016 Targets

Both utilities have not used the 2016 program targets approved by the OEB in the 2015-2020 DSM Decision. Instead, each utility adjusted the 2016 OEB-approved targets to reflect the 2015 NTG factors resulting from the 2015 NTG study.

OEB staff notes that the 2015 NTG study found that there is significant free ridership in the utilities' custom commercial and industrial programs.

The utilities state that only applying the 2015 NTG factors to their 2016 results and not to their 2016 targets is asymmetrical and inconsistent with the OEB's 2015-2020 DSM Decision. The impact of adjusting the 2016 targets, as proposed by the utilities, results in the following shareholder incentive amounts:

Table 3 – 2016 Shareholder Incentive Amount Comparison

Utility	EC Final 2016 DSMIDA	Utility-proposed 2016 DSMIDA	Difference
Enbridge Gas	$4,480,052	$6,365,751	$1,885,699
Union Gas	$3,886,112	$4,120,731	$234,619

In the table above, both the EC and Utility-proposed 2016 DSMIDA amounts were calculated using the final 2016 DSM results as verified by the EC that include the 2015 NTG factors. However, the 2016 targets used by the EC and utilities when calculating the 2016 DSMIDA are different.

Based on the instructions from OEB staff, the EC used the targets established in the 2015-2020 DSM Decision to calculate the balances in the 2016 DSMIDA.

These approved 2016 targets were established in the 2015-2020 DSM Decision. They are explained in section 9.3 – 2016 Targets:

> “The utilities are receiving significantly higher budgets in 2016 relative to prior years, when the utilities simply rolled-forward the prior year's budgets and target metrics. Despite the significant increase in 2016 budgets, the proposed target metrics do not indicate a significant increase in performance. Furthermore, the utilities are continually gaining experience in the delivery of DSM programs. The OEB has balanced these factors and considers a 10% increase to all 2016 target metrics to be reasonable.”[11]

The OEB further specified that 2016 targets differ from targets for 2017-2020:

> “Targets from 2017 to 2020 are to be calculated by applying the approved formula, which is based on actual results from the prior year, as discussed in the next section of the Decision.”[12]

In their applications, the gas utilities argue that the annual targets, beginning with the 2016 targets, should be updated to take into consideration updated input assumptions and NTG factors from the previous evaluation. By adjusting the targets in this way, OEB staff submits that the gas utilities negate the impact on the shareholder incentive of the higher free ridership rates found as part of the 2015 NTG study. To demonstrate that point for the purposes of this submission, OEB staff has developed a fictional example that illustrates the impact of a target adjustment, akin to what the utilities have requested in this proceeding:

> Let’s assume that a gas utility anticipates completing ten (10) custom projects in 2016, which forms part of its 2016 DSM budget. The utility estimates that each project will save an average of 200 m^3. Therefore, the utility estimates that the gross savings from the ten projects will be 2000 m^3. The utility also has a 50% free ridership rate based on a study from 2008. Therefore, a target of 2,000 m^3 x (1-50%) = 1000 m^3 is set for 2016.
>
> An OEB decision in 2016 sets the target 10% higher at 1,100 m^3.
>
> A new NTG study finds that the free ridership rate is 75%, not 50%. If the utility still only completes ten (10) projects that each save an average of 200 m^3, their program results for that year would be 2,000 m^3 x (1-75%) = 500 m^3. If the target

[11] EB-2015-0029/0049, 2015-2020 DSM Decision, p.66
[12] Ibid

> remains unadjusted, their scorecard achievement would be 500 m^3 / 1,100 m^3= 45% and they would not receive a shareholder incentive.
>
> If the utility, on the other hand, adjusts its target to take into account the new NTG study findings, the 2016 target for that program becomes 2,000 m^3 x (1-75%) x 10% = 550m^3. With an adjusted target, their scorecard achievement would be 500 m3/550 m^3= 90% and they would receive a shareholder incentive. This is the same incentive that the utility would have received if the new NTG study had found that free ridership remained the same since 2008 at 50%.

The references from the 2015-2020 DSM Decision and Revised DSM Decision cited by the gas utilities do not provide any indication that the 2016 targets were not final. The utilities centrally rely on the OEB's finding in the Revised DSM Decision, in which the OEB responded to Union Gas' request for clarification on the modification of the treatment of prescriptive input assumptions and NTG factors for prescriptive measures.[13]

OEB staff submits that the OEB's clarification on the treatment of prescriptive input assumptions and net-to-gross factors in the Revised DSM Decision does not justify adjustments to 2016 targets to account for the NTG study, which found high free ridership levels in the gas utilities' custom programs.

OEB staff submits that while the OEB noted the ongoing NTG study in the 2015-2020 DSM Decision, the OEB it did not provide any indication that the approved 2016 targets should be adjusted in any way once the study was completed. The 2015-2020 DSM Decision is also clear that the 2017-2020 targets are distinctly different from the 2016 targets as the 2017-2020 targets and will be adjusted relative to the performance of the preceding year.

OEB staff also submits that by applying the results of the 2015 NTG study to the 2016 targets, the utilities are protected from any impact of doing a poor job of ensuring its program was being delivered to participants who truly require the program to make the efficiency improvements.

The OEB has stressed the importance of the utilities doing a better job of reducing and eliminating free riders from its programs. For example, the OEB directed Enbridge and Union in the 2015-2020 DSM Decision to provide evidence showing how they lowered

[13] EB-2015-0029/0049, Decision and Order, February 24, 2016, p. 3

the free ridership in their custom programs in the mid-term review.[14] In the OEB's DSM Mid-Term Review Report, the OEB also encouraged the utilities to continue to be diligent in their screening efforts to ensure that customers participating in their programs would not otherwise undertake the energy efficiency upgrades on their own.[15]

Beginning in 2017 and carrying through to the end of the current 2015-2020 term, the targets will be adjusted in accordance with the target adjustment formula approved by the OEB in the 2015-2020 DSM Decision. The target adjustment formula accounts for prior year program results which incorporate all updates to input assumptions and NTG factors. Therefore, this issue is specific to the 2016 program targets.

Notwithstanding the above, OEB staff has reviewed the detailed calculations outlining how the utilities adjusted the OEB-approved 2016 targets to account for the 2015 NTG results. The adjustment calculations are reasonable.

Topic 2 – DSMVA Accounting Order

As part of the OEB's Mid-Term Review Report of the 2015-2020 DSM Framework, the OEB indicated that Enbridge Gas could use the DSMVA to track future financial commitments for programs with deferred customer incentives. The OEB indicated that Enbridge Gas was expected to file a draft accounting order as part of its 2016 DSM deferral and variance account application to capture this change.[16]

Enbridge Gas followed the OEB's instructions and filed a draft accounting order to update the DSMVA account description. Enbridge Gas indicated that the changes to the accounting order will:

- Allow the DSMVA to track the variance between the forecasted customer incentives committed to current and previous program participants.
- The variance recorded will be the forecasted commitments net of the customer incentive payments made in the current year or the commitments redeemed from prior program participants.
- Payments that are not redeemed by program participants will be returned at the end of the last potential commitment date or as directed by the OEB.

[14] EB-2015-0029/0049, 2015-2020 DSM Decision, p.21
[15] EB-2017-0127/0128, Report of the Ontario Energy Board, Mid-Term Review of the DSM Framework for Natural Gas Distributors (2015-2020), November 29, 2018, p. 30
[16] EB-2017-0127/0128, Report of the Ontario Energy Board, Mid-Term Review of the DSM Framework for Natural Gas Distributors (2015-2020), November 29, 2018, p. 22

In response to OEB staff interrogatories, Union Gas also proposed to update the account description for its DSMVA accounting order. Union Gas noted that although it does not anticipate requiring access to approved funding in a different year than what was approved, due to deferred customer incentives, it may be required to access program funding beyond 2020.

OEB staff submits that the proposed revisions to the DSMVA account description are consistent with the OEB's direction in the DSM Mid-Term Report. OEB staff suggests that as part of future DSM deferral and variance account applications that the OEB require complete reporting on all program amounts that will be carried forward to a future year with a description of those costs and when they expect them to be collected from or returned to ratepayers.

Topic 3 – Approved Funding Transfers

The OEB's policy related to budget transfers among approved DSM programs is as follows:

> However, if the gas utilities decide to re-allocate funds amongst existing, approved DSM programs, the gas utilities should inform the Board, as well as their stakeholders, in the event that cumulative fund transfers among Board-approved DSM programs exceed 30% of the approved annual DSM budget for an individual DSM program (either the program the funds are being transferred from, or the program the funds are being transferred to). This level of guidance is meant to ensure that adequate flexibility in DSM program and portfolio design is maintained, while recognizing that the gas utilities are ultimately responsible and accountable for their actions. This flexibility should ensure that the gas utilities can continuously react to and adapt with current and anticipated market developments.[17]

OEB staff understands this to mean that there should be no more than a 30% variance between the OEB-approved budget and actual spending for a given program in a given year, unless the utility informs the OEB and stakeholders in advance. OEB staff submits that this limit should apply at the specific program level, and not at the scorecard level.

[17] Filing Guidelines to the DSM Framework, EB-2014-0134, pp. 14-15

OEB staff has combined the information Enbridge Gas provided in its interrogatory responses to show spending variances and budget re-allocations in 2016. Spending variances and budget re-allocations at or greater than 30% at the specific program level have been highlighted.

The table below provides the complete breakdown of Enbridge Gas' spending during 2016.[18],[19]

Table 4 – Enbridge Gas 2016 Spending Summary

A	B	C	D	E	F	G
Program	**OEB Approved Budget (Built Into Rates)**	**2016 Spending**	**Variance**	**Variance %**	**Re-allocation**	**DSMVA**
Resource Acquisition	**$34,336,673**	**$38,867,717**	**$4,531,044**	**13.2%**		**=C-B-F**
Home Energy Conservation	*$12,148,317*	*$22,057,458*	*$9,909,141*	*81.6%*	*$3,644,495*	*$6,264,646*
Residential Adaptive Thermostats	*$876,371*	*$1,666,753*	*$790,382*	*90.2%*	*$262,911*	*$527,471*
Commercial & Industrial Prescriptive	*$2,196,952*	*$1,001,671*	*-$1,195,281*	*-54.4%*	*-$659,086*	*-$536,195*
Commercial & Industrial Custom	*$7,020,664*	*$6,746,119*	*-$274,545*	*-3.9%*	*-$274,545*	*$0*
Commercial & Industrial Direct Install	*$4,955,421*	*$2,390,902*	*-$2,564,519*	*-51.8%*	*-$1,486,626*	*-$1,077,892*
Small Commercial New Construction	*$396,933*	*$0*	*-$396,933*	*-100.0%*	*$0*	*-$396,933*
Energy Leaders (Large & Small C/I)	*$400,000*	*$73,775*	*-$326,225*	*-81.6%*	*-$120,000*	*-$206,225*
Run it Right (RA)	*$1,260,162*	*$300,962*	*-$959,200*	*-76.1%*	*-$378,049*	*-$581,152*
Comprehensive Energy Management (RA)	*$48,805*	*$0*	*-$48,805*	*-100.0%*	*-$14,642*	*-$34,164*
Overheads	*$5,033,048*	*$4,630,077*	*-$402,971*		*-$402,971*	*$0*
Low Income	**$11,945,410**	**$8,732,572**	**-$3,212,838**	**-26.9%**		
Home Winterproofing	*$5,806,064*	*$4,543,350*	*-$1,262,714*	*-21.7%*	*-$56,934*	*-$1,205,780*
Low-Income Multi-Residential Affordable Housing	*$3,279,028*	*$2,326,325*	*-$952,703*	*-29.1%*	*-$56,934*	*-$895,769*
Low-Income New Construction	*$1,116,696*	*$258,877*	*-$857,819*	*-76.8%*	*-$335,009*	*-$522,810*
Overheads	*$1,743,622*	*$1,604,019*	*-$139,603*		*-$139,603*	*$0*
Market Transformation	**$6,579,034**	**$6,377,381**	**-$201,653**	**-3.1%**		
Residential Savings by Design	*$3,250,842*	*$3,469,121*	*$218,279*	*6.7%*	*$218,279*	*$0*
Commercial Savings by Design	*$1,345,890*	*$1,398,940*	*$53,050*	*3.9%*	*$53,050*	*$0*
School's Energy Competition	*$302,197*	*$289,555*	*-$12,642*	*-4.2%*	*-$12,642*	*$0*
Run it Right (MT)	*$250,824*	*$225,819*	*-$25,005*	*-10.0%*	*-$25,005*	*$0*
Comprehensive Energy Management (MT)	*$464,930*	*$106,806*	*-$358,124*	*-77.0%*	*-$139,479*	*-$218,645*
Overheads	*$964,351*	*$887,140*	*-$77,211*		*-$77,211*	*$0*
Program Cost Subtotal	**$45,120,096**	**$46,856,434**	**$1,736,338**			
Overhead Subtotal	**$7,741,021**	**$7,121,236**	**-$619,785**			
Porfolio Overheads	**$3,500,000**	**$1,670,616**	**-$1,829,384**		**$0**	**-$1,829,384**
Total	**$56,361,117**	**$55,648,285**	**-$712,832**		**$0**	**-$712,832**

Ten of Enbridge Gas' seventeen specific programs (e.g. Home Energy Conservation) had a final spending variance of 50% or more. However, the variance at the scorecard level was less than 30% for all three scorecards (Resource Acquisition, Low Income and Market Transformation).

[18] EB-2018-0301, Exhibit C.STAFF.EGD.2
[19] Ibid, Exhibit C.SEC.EGD.19

At the specific program level, it appears that Enbridge Gas shifted funding away from commercial and industrial programs towards residential programs. This provided the utility the opportunity to increase its shareholder incentive. As part of the Resource Acquisition scorecard, there are three metrics: Small Volume Natural Gas Savings, Large Volume Natural Gas Savings and Residential Deep Savings Participants. The Residential Deep Savings Participant metric is the number of participants in the Enbridge Gas' residential whole home program (Home Energy Conservation). The residential deep savings participants metric in the Resource Acquisition scorecard accounts for 20% of the scorecard's shareholder incentive. Due to the high residential participation levels, Enbridge Gas surpassed its residential deep savings participants metric (157%) which resulted in a shareholder incentive of $0.860M.[20]

In columns F and G of Table 4 above, Enbridge Gas appears to be re-allocating the OEB-approved budget so that adjustments at the specific program level are capped at 30%, as specified in the OEB's policy related to budget transfers. OEB staff does not understand the rationale for this re-allocation, other than appearing to have kept the specific program budget level within 30% while recovering the remainder of the over or under spending in the DSMVA. OEB staff notes that Union Gas does not appear to have used this approach. OEB staff invites Enbridge Gas to further clarify this aspect in its reply submission. In OEB staff's view, the OEB's budget transfer policy should be in relation to the difference between OEB-approved and actual spending at the specific program level.

Union Gas also provided spending information in response to interrogatories from OEB staff and SEC. Similar to the Enbridge Gas table above, OEB staff has combined the information provided by Union Gas to show spending variances and budget re-allocations in 2016. Unfortunately, Union Gas did not provide spending information at the same level of granularity as Enbridge Gas – instead, Union Gas provided spending information summarized by broader program participant class (e.g. Residential) with an associated evaluation budget for each. Spending variances greater than 30% have been highlighted. The table below provides the complete breakdown of Union Gas' spending during 2016.[21],[22]

[20] 2016 Annual Verification Report, Table 20, p. 18
[21] EB-2018-0301, Exhibit C.STAFF.Union.2
[22] EB-2018-0301, Exhibit C.SEC.Union.39

Table 5 – Union Gas 2016 Spending Summary

A	B	C	D	E	F	G
Program Budget	**OEB Approved Budget (Built Into Rates)**	**2016 Spending**	**Variance**	**Variance %**	**Transfer**	**DSMVA**
Resource Acquisition Scorecard	**$ 27,927,833**	**$ 27,585,942**	**$ (341,891)**	**-1.2%**		
Residential Program	$ 8,052,657	$ 10,199,498	$ 2,146,841	26.7%		$ 2,146,841
Residential Evaluation	$ 559,000	$ 1,001,900	$ 442,900	79.2%	$ 442,900	$ (0)
Commercial/Industrial Program	$ 19,127,176	$ 16,263,967	$ (2,863,209)	-15.0%		$ (2,863,209)
Commercial/Industrial Evaluation	$ 189,000	$ 120,578	$ (68,422)	-36.2%	$ (68,422)	$ (0)
Low-Income Scorecard	**$ 11,407,470**	**$ 10,400,612**	**$ (1,006,858)**	**-8.8%**		
Low-Income Program	$ 11,187,342	$ 10,238,880	$ (948,462)	-8.5%		$ (948,462)
Low-Income Evaluation	$ 220,128	$ 161,733	$ (58,395)	-26.5%	$ (58,395)	$ (0)
Large Volume Scorecard	**$ 4,000,000**	**$ 2,989,176**	**$ (1,010,824)**	**-25.3%**		
Large Volume Program	$ 3,937,000	$ 2,951,494	$ (985,506)	-25.0%		$ (985,506)
Large Volume Evaluation	$ 63,000	$ 37,682	$ (25,318)	-40.2%	$ (25,318)	$ (0)
Market Transformation Scorecard	**$ 1,703,070**	**$ 1,004,693**	**$ (698,377)**	**-41.0%**		
Market Transformation Program	$ 1,676,250	$ 996,760	$ (679,490)	-40.5%		$ (679,490)
Market Transformation Evaluation	$ 26,820	$ 7,933	$ (18,887)	-70.4%	$ (18,887)	$ 0
Performance-Based Scorecard	**$ 548,000**	**$ 274,604**	**$ (273,396)**	**-49.9%**		
Performance-Based Program	$ 513,000	$ 274,203	$ (238,797)	-46.5%		$ (238,797)
Performance-Based Evaluation	$ 35,000	$ 401	$ (34,599)	-98.9%	$ (34,599)	$ (0)
Programs Sub-total	$ 45,586,373	$ 42,255,026	$ (3,331,347)		$ 237,279	$ (3,568,626)
Portfolio Budget						
Research	$ 1,500,000	$ 517,567	$ (982,433)			$ (982,433)
Evaluation	$ 1,300,000	$ 168,121	$ (1,131,879)		$(237,279)	$ (894,600)
Administration	$ 2,935,000	$ 2,364,580	$ (570,420)			$ (570,420)
Pilots	$ 500,000	$ 183,200	$ (316,800)			$ (316,800)
DSM Tracking and Reporting System Upgrades	$ 5,000,000	$ 2,041,209	$ (2,958,791)			$ (2,958,791)
Portfolio Sub-total	$ 11,235,000	$ 5,274,676	$ (5,960,324)		$(237,279)	$ (5,723,045)
Incremental DSM Projects 2016 Budget Spend						
Achievable Potential Study		$ 267,199	$ 267,199			$ 267,199
Future Infrastructure Planning Study		$ 46,946	$ 46,946			$ 46,946
Total 2016 DSM Budget (before Adjustments)	$ 56,821,373	$ 47,843,847	$ (8,977,526)		$ -	$ (8,977,526)
Adjustments[1]						
DSM Tracking and Reporting System Upgrades 2016 Variance - to be spent in 2017 and 2018	$ (5,000,000)	$ (2,041,209)	$ (2,958,791)			$ (2,958,791)
Remaining DSM Tracking and Reporting System Upgrades spend in 2017 and 2018	$ (2,958,791)	$ (2,821,803)	$ 136,988			$ 136,988
Total 2016 DSMVA						$ (6,155,723)

Two of Union Gas' five scorecards (Market Transformation and Performance-based) had a final spending variance of 30% or more. OEB staff notes that Union Gas does not appear to reallocate funds as Enbridge Gas is doing in columns F and G in Table 4 above.

As previously stated, OEB staff is of the view that the OEB's policy related to transferring budget funds should be in relation to the difference between OEB-approved and actual spending. In addition, OEB staff submits that the 30% difference included in the OEB budget transfer policy should apply to specific programs (e.g. Home Energy

Conservation) within a particular scorecard as this is consistent with the manner in which the OEB referred to programs throughout the 2015-2020 DSM Decision.[23]

OEB staff recommends that the OEB clarify the application of the budget transfer policy going forward i.e. whether the funding transfer policy is related to specific programs (e.g., Home Energy Conservation) or scorecard groupings (e.g., Resource Acquisition).

Topic 4 – DSMVA and LRAMVA Account Balances

The utilities have applied to dispose of the DSMVA and LRAMVA account balances shown in the table below:

Account	Enbridge Gas	Union Gas
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	$(95,625)	$487,559
Demand Side Management Variance Account (DSMVA)	$(712,832)	$(6,155,723)

OEB staff submits that the amounts have been calculated in accordance with the DSM Filing Guidelines. OEB staff supports the recovery of the requested balances in the DSMVA and LRAMVA.

With respect to the disposition period of these account balances and the DSMIDA, the OEB opined in a previous decision that it would be preferable to know the combined impact of all proposed changes at the time of implementation (i.e. in the first available QRAM following the decision in this proceeding). The OEB therefore did not order a disposition methodology to be used in future proceedings.[24] OEB staff submits that the same treatment should apply in this proceeding.

Topic 5 – Other Issues – DSM Process

The utilities have raised a number of issues with respect to the OEB's evaluation process, including timing and various evaluation methodologies. Although staff disagrees with many of these comments, OEB staff submits that, consistent with 2015 DSM deferral and variance account clearance proceeding, a review of the evaluation process should be out of scope.

[23] EB-2015-0029/0049, Section 5.2
[24] EB-2018-0131

- All of which is respectfully submitted -