March 19, 2019

BY RESS, EMAIL AND COURIER

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0300 - Enbridge Gas Inc. (operating as Union Gas) - 2016 Disposition of Demand Side Management Deferral and Variance Accounts.

EB-2018-0301 – Enbridge Gas Inc. (operating as Enbridge Gas Distribution) – Application for 2016 Demand Side Management Clearance of Deferral and Variance Accounts.

In accordance with Procedural Order No. 1 issued by the Ontario Energy Board on January 21, 2019, please find enclosed Enbridge Gas Inc.'s combined Reply Argument.

The Reply Argument will be filed on RESS and a copy served on all parties.

Yours truly,

[*Original Signed by*]

Adam Stiers
Technical Manager Regulatory Applications

cc: Myriam Seers (Torys LLP)
Dennis O'Leary (Aird & Berlis LLP)
EB-2018-0300/0301 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15 (Sched. B);

AND IN THE MATTER OF Applications by Enbridge Gas Inc., for an order or orders clearing certain non-commodity related deferral and variance accounts.

REPLY ARGUMENT OF ENBRIDGE GAS INC.

March 19, 2019

A. Overview

1. Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") (collectively, the "Utilities") were Ontario corporations incorporated under the laws of the Province of Ontario, carrying on the business of selling, distributing, transmitting and storing natural gas within the meaning of the *Ontario Energy Board Act, 1998* (the "Act"). EGD and Union each filed 2016 Demand Side Management ("DSM") Deferral and Variance Account Clearance Applications ("2016 DSM Clearance Applications") on December 10, 2018 and November 30, 2018, under Ontario Energy Board ("OEB" or "Board") file numbers EB-2018-0301 and EB-2018-0300. EGD and Union amalgamated effective January 1, 2019 to become Enbridge Gas Inc. ("Enbridge Gas"). In its Letter of Direction dated December 21, 2018, the Board decided that the 2016 DSM Clearance Applications would be reviewed together as part of one "Combined Proceeding".[1]

2. Enbridge Gas hereby submits a combined Reply Argument, pursuant to Procedural Order No. 1, given the: (i) amalgamation of the Utilities effective January 1, 2019; (ii) Board's decision to review the 2016 DSM Clearance Applications together; and (iii) similarity of the relief sought by the Utilities in their 2016 DSM Clearance Applications.

[1] OEB Letter of Direction, December 21, 2018, p. 1.

3. In this Reply Argument, Enbridge Gas responds to the submissions of OEB Staff and intervenors, as follows:

- First, Enbridge Gas addresses the appropriateness of the Utilities' adjustments to the Evaluation Contractor's ("EC") 2016 Natural Gas Demand Side Management Annual Verification report ("Verification Report"),[2] to update 2016 DSM program year targets based on prior Board guidance and updated input assumptions and net-to-gross ("NTG") factors from the 2015 Evaluation, Measurement and Verification (the "EM&V" or "evaluation") process. BOMA, LPMA and OSEA support Enbridge Gas's position on this issue. [3] Enbridge Gas responds to the inaccurate assertions made by certain intervenors regarding the adjustments.

- Second, Enbridge Gas addresses the requests from certain intervenors for clarification from the Board in this proceeding regarding budget reallocation and the funding transfer policy.

- Third, Enbridge Gas confirms its compliance with the OEB's direction to modify its DSMVA accounting orders, as established within its Mid-Term Review of the DSM Framework for Natural Gas Distributors (2015-2020) ("Mid-term Report"). OEB Staff, BOMA and OSEA support the proposed DSMVA accounting order changes. [4]

- Fourth, Enbridge Gas confirms that its 2016 DSMVA and LRAMVA balances are accurate and reasonable, including the proposal to roll-forward the OEB-approved tracking and reporting system budget in the Union rate zones from 2016 to 2017 and 2018. OEB Staff[5] confirms the accuracy of Enbridge Gas's 2016 DSMVA and LRAMVA balances, and BOMA, LPMA and OSEA support Enbridge Gas's

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[2] 2016 Natural Gas Demand-Side Management Annual Verification, October 30, 2018, https://www.oeb.ca/sites/default/files/OEB-2016-Natural-Gas-DSM-Annual-Verification-Report-20181030-2.pdf.

[3] BOMA Submission, March 5, 2019, p. 2; LPMA Submission, March 5, 2019, p. 2; OSEA Submission, March 5, 2019, p. 2.

[4] OEB Staff Submission, March 5, 2019, pp. 9-10; BOMA Submission, March 5, 2019, p. 2; OSEA Submission, March 5, 2019, p. 2.

[5] OEB Staff Submission, March 5, 2019, p. 14.

proposal to roll-forward OEB-approved tracking and reporting system budget in the Union rate zones. [6]

- Fifth, Enbridge Gas addresses its proposed allocation and disposition methodologies. BOMA, LPMA and OSEA support the proposed allocation methodologies. [7]

- Sixth, Enbridge Gas addresses ongoing and outstanding concerns raised within the submissions of intervenors regarding: (i) the relevance of certain data in the creation of input assumptions for the Technical Reference Manual ("TRM"); (ii) the EM&V process; and (iii) the use of performance-based conservation as the base for design and evaluation of DSM programs.

4. This reply argument should be read together with Enbridge Gas's Argument-in-Chief.[8] The fact that Enbridge Gas has not addressed a specific submission does not mean that Enbridge Gas accepts that submission. Defined terms bear the meanings assigned to them in the Argument-in-Chief.

B. The Appropriateness of Adjustments to 2016 Targets

5. As set out in paragraphs 7 to 20 of Enbridge Gas's Argument-in-Chief, the Utilities' proposed adjustments to 2016 targets are appropriate as they: (a) are consistent with the OEB's prior guidance and updated input assumptions and NTG factors generated by the 2015 annual evaluation process;[9] (b) include the 10 % target "stretch factor" applied to originally-approved targets to ensure that 2016 targets are "sufficiently aggressive";[10] and (c) remove reliance upon the 2008 NTG Study.

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[6] BOMA Submission, March 5, 2019, p. 2; LPMA Submission, March 5, 2019, p. 3; OSEA Submission, March 5, 2019, p. 2.

[7] BOMA Submission, March 5, 2019, p. 2; LPMA Submission, March 5, 2019, pp. 4-5; OSEA Submission, March 5, 2019, p. 3.

[8] Enbridge Gas Argument-in-Chief, February 27, 2019.

[9] Enbridge Gas Argument-in-Chief, February 27, 2019, p. 2.

[10] EB-2015-0029/0049, Decision and Order, January 20, 2016, p. 66.

6. BOMA, LPMA and OSEA support Enbridge Gas's proposed 2016 target adjustments.[11]

7. It is important to note no party raised concerns with the actual calculation of the proposed adjusted targets submitted by Enbridge Gas. In fact, OEB Staff noted that it had reviewed the detailed calculations outlining how the Utilities adjusted the OEB-approved 2016 targets to account for the 2015 NTG results and concluded that the adjustment calculations are reasonable.[12] Therefore, the issue in dispute is ultimately whether the Board's prior guidance directed adjustment of 2016 targets given the availability of better information from the 2015 EM&V process.

8. OEB Staff, CME, GEC, OGVG and SEC submitted various positions regarding the proposed target adjustments.[13] In summary, their positions can be categorized in the following three broad topic areas, which are addressed in detail below:

i) Interpretation of the Board's prior guidance regarding prescriptive program offers vs. custom programs offers;

ii) Interpretation of the Board's prior guidance regarding the adjustment to targets included in the 2015-2020 (or "Multi Year") DSM Decision for the 2016 program year; and

iii) Suggestions that the 2016 target adjustments are inconsistent with the continuing priority of Enbridge Gas minimizing free-riders.

The Board's prior guidance was directed at all program offers

9. OEB Staff, OGVG and SEC submitted that the Board's prior guidance only applied to prescriptive program offerings, not to custom program offerings.[14] Enbridge Gas submits that such a position is not only inconsistent with prior Board guidance but also certain long standing basic principles of DSM.

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[11] BOMA Submission, March 5, 2019, p. 2; LPMA Submission, March 5, 2019, p. 2; OSEA Submission, March 5, 2019, p. 2.

[12] OEB Staff Submission, March 5, 2019, p. 9.

[13] OEB Staff Submission, March 5, 2019, p. 4; CME Submission, March 5, 2019, p. 1; GEC Submission, March 5, 2019, p. 7; OGVG Submission, March 5, 2019, p. 5; SEC Submission, March 7, 2019, p. 4.

[14] OEB Staff Submission, March 5, 2019, p. 8; OGVG Submission, March 5, 2019, p. 5; SEC Submission, March 7, 2019, p. 4.

10. Enbridge Gas's submissions explaining the rationale for 2016 adjusted targets are consistent with the Board's direction provided in Section 9.5: Input Assumptions and Net-to-Gross Changes of the 2015-2020 DSM Decision, wherein the Board defined the following approaches to address the three applications of input assumptions and NTG changes:[15]

> **"The OEB is modifying the treatment of input assumptions and net-to-gross adjustment factors effective 2015**. The OEB has considered the evidence and submissions and agrees with expert witness, Mr. Neme, that input assumptions for prescriptive measures should not be adjusted retroactively based on the results of the annual evaluation process for the purpose of determining eligible shareholder incentive amounts.
>
> The OEB finds that any updates to existing input assumptions, or new input assumptions identified during a year, should be applied prospectively when evaluating savings from prescriptive measures.
>
> The OEB does not expect the gas utilities to rely on predetermined net-to-gross adjustment factors when calculating savings for custom projects.
>
> **There are three uses of input assumptions and net-to-gross adjustment factors in the evaluation of savings.** The first is the use of input assumptions and net-to-gross adjustment factors to determine final savings results for the purpose of determining shareholder incentives, as just described above. **The second is the use of the input assumptions and net-to-gross adjustment factors to calculate the next year's targets**. The third is the use of the input assumptions and net-to-gross adjustment factors to calculate lost revenues.
>
> **To calculate next year's targets, the OEB directs the utilities to use the new, updated input assumptions and net-to-gross factors that are the result of the annual evaluation process.** The OEB finds it appropriate to use the best available information to determine subsequent targets for prescriptive programs.

[15] EB-2015-0029/0049, Decision and Order, January 20, 2016, pp. 74-75. [Emphasis Added]

> To calculate lost revenues, the OEB directs the utilities to use the final natural gas savings amounts calculated from the use of the best available information that are the result of the annual evaluation process. It is appropriate to use the best available information when determining lost revenues that are the result of DSM programs as this will provide the best indication of the actual effect of the programs and is needed when comparing this amount with the load reduction amounts included in the gas utilities' load forecast."

11. In the above paragraphs, the Board provides direction for three uses of input assumptions and NTG factors, beginning in 2015.

12. The Board <u>did differentiate</u> its direction with regard to the approaches that should be followed regarding updates to input assumptions and NTG factors impacting prescriptive <u>results</u> compared to those impacting custom <u>results</u>, which are then used in the determination of final savings and in the calculation of shareholder incentives. For results, the Board directed that input assumptions and NTG factors for prescriptive program offerings updated during the evaluation process for a given program year should be applied prospectively, in the following year (and not result in adjustment to the current year's results), while for custom program offerings, input assumptions and NTG factors updated during the evaluation process for a given program year should be applied to the year being evaluated and also apply in the following year.

13. Conversely, and importantly, the Board <u>did not differentiate</u> its direction on the determination of next year's <u>targets</u> for each of prescriptive and custom programs, nor on the calculation of lost revenues.

14. As referenced above, from Section 9.5 of the Multi Year Decision, the Board clearly and simply stated that to calculate next year's targets, the OEB directs the utilities to use the new, updated input assumptions and NTG factors that are the result of the annual evaluation process. While the quote continues to say the OEB finds it appropriate to use the best available information to determine subsequent targets for <u>prescriptive programs</u>, this simply affirms that while there is a difference between prescriptive and custom programs in terms of calculating <u>results</u>, there is no difference between prescriptive and custom programs in terms of <u>setting targets</u>. Next year's targets – both prescriptive and custom – should be based on new, updated

input assumptions and NTG factors that are the result of the prior year's annual evaluation process. Similarly, in the determination of lost revenues, the Board did not provide separate and differentiated direction for the calculation of each of prescriptive and custom results.

15. Enbridge Gas has followed the Board's direction and used the new, updated input assumptions and NTG factors that were the result of the 2015 EM&V process to calculate 2016 (i.e. the next year's) targets as specified by the Board in reference to target setting. In so doing, the Utilities used the updated 2015 NTG Study factors and updated prescriptive input assumptions that were part of the prior year (2015) evaluation. More precisely, the Commercial/Industrial Custom (for EGD and Union), Run-it-Right (for EGD) and Large Volume (for Union) NTG factors were updated to reflect the 2015 NTG Study and the CPSV Participant Spillover Results report (the "2015 Spillover Study"), as well as the prescriptive input assumption changes that Union was directed to update.[16]

16. The Board's guidance is clear on the intent to update targets using the most recently available input assumptions and NTG factors.

Adjusting 2016 program year targets is appropriate

17. OEB Staff and SEC submitted that the 2015-2020 DSM Decision set the 2016 targets on a final basis, and made no provisions for adjusting these targets.[17] It is important to note that neither OEB Staff nor SEC could point to any specific directive or finding by the Board which supports this position.

18. Since 2015 was a roll-over year, targets for 2015, as proposed by the Utilities, were approved by the Board based on the 2014 targets and budget. For 2016, however, the Utilities proposed brand new DSM portfolio plans including new scorecards, with different weightings relative to 2015 and which included new metrics and new offerings to begin in the 2016 DSM program year. As such, a new starting point for targets needed to be established beginning in 2016 and the Utilities were required to propose targets for each of the program offerings in their

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[16] 2015 Natural Gas Demand Side Management Custom Savings Verification and Free-Ridership Evaluation (dated October 12, 2017), https://www.oeb.ca/sites/default/files/2015-DSM-Custom-Savings-Verification-Report.pdf; CPSV Participant Spillover Results report (dated May 23, 2018), https://www.oeb.ca/sites/default/files/OEB-CPSV-Participant-Spillover-Report.pdf.

[17] OEB Staff Submission, March 5, 2019, p. 5; SEC Submission, March 7, 2019, p. 4.

plans. As part of the 2015-2020 DSM Decision, the OEB provided specific annual targets for all approved DSM program offerings. These targets included a 10% increase ("stretch factor") to those proposed by the Utilities in their respective DSM Multi-Year plans for the 2016 year.

19. In approving defined values for 2016 targets, the first year of the Utilities' new DSM plans, the Board provided the guidance outlined in Section 9.5 of its Decision on the Utilities' 2015-2020 DSM Plans regarding input assumptions and NTG changes, effective 2015. The Board did <u>not</u> stipulate, in its Decision, that input assumptions and NTG changes should be applied only in certain years or that 2016 targets should be fixed. To the contrary, the Board provided its guidance "effective 2015", which suggests the 2015 EM&V outcomes would indeed inform 2016 targets.

20. Further, in the same Multi-Year Decision, the OEB clearly acknowledges the pending updates to the NTG factors for custom programs:[18]

> "In 2016, the [custom program] free rider rates will be updated based on the results of the [2015] net-to-gross study and the annual evaluation process".

21. Contrary to Enbridge Gas's understanding of the Board's direction summarized above, OEB Staff's submission outlined that it did not believe it was appropriate for Enbridge Gas to update the original 2016 targets with the new 2015 NTG Study values. The approach being recommended by OEB Staff is therefore to leave the targets underpinned by the now outdated 2008 NTG values (for EGD and Union) and March 2015 prescriptive input assumptions (for Union).

22. This position stands in stark contrast to OEB Staff's submission in the 2015 DSM Clearance proceeding where OEB Staff stated "… that the OEB's 2015-2020 DSM Plan Decision and Order (Decision and Order) is clear that the application of the NTG results for custom programs is retrospective. OEB staff submits that Union's suggestion to rely on [2008

[18] EB-2015-0029/0049, Decision and Order, January 20, 2016, p. 21.

NTG] free ridership figures that were developed approximately 10 years ago when better, actual information is known is grossly inappropriate."[19]

23. Further, OEB Staff recently offered a similarly entirely contradictory interpretation of the Board's direction regarding updates to targets to the Evaluation Advisory Committee ("EAC"). Specifically, as it relates to applying the Measure Life Study to the 2017 DSM program year, OEB Staff confirmed that the "[r]esults of Michaels' Custom Measure Life Study will apply to 2017 shareholder incentive and LRAM calculations. **2017 targets will also reflect changes to the custom measure life study because the DSM Decision notes "to calculate next year's targets, the OEB directs the utilities to use the new, updated input assumptions and net-to-gross factors that are the result of the annual evaluation process**.", and the Custom Measure Life study is part of the 2016 evaluation process (as long as there are no very significant discrepancies)."[20]

24. It is appropriate that the Board intended that the targets set in the first year of the Utilities' new Multi-Year Plan, being 2016 (2015 was a transition year), should reflect updated NTG factors based on the 2015 EM&V efforts, and not values based on a NTG study completed in 2008. GEC summarized a similar approach outlined by the Illinois Commerce Commission: "Illinois allows for gas savings goals to be adjusted to reflect changes in NTG assumptions for all programs, but only at the beginning of a multi-year plan (the current plans cover the four years from 2018 through 2021) and not in the middle of the plan cycle."[21]

Enbridge Gas continues to prioritize minimizing free riders

25. The Utilities devoted a considerable amount of time and effort at both the 2015-2020 Multi-Year Plan proceeding and during the Mid-Term Review to explain the ongoing efforts undertaken by both of the Utilities to minimize free-ridership. This remains a priority of Enbridge Gas but as all parties recognize, there is no simple method or test that would screen out each and every free-rider. Indeed, it is recognized that if too fine a screen is used to filter program participants, many qualified and eligible non free-rider participants will be lost.

[19] EB-2017-0323, OEB Staff Submission (amended), April 30, 2018, pp. 3-4. [Emphasis Added]
[20] Exhibit C.SEC.EGD.18. [Emphasis Added]
[21] GEC Submission, March 5, 2019, p. 3.

26. Program offerings are designed with the goal of minimizing free-ridership, along with other objectives. The Utilities presented a portfolio of program offerings to the Board which were considered in great detail during the Multi-Year Plan proceeding and were approved by the Board. The Utilities then successfully undertook and operated the programs professionally and in good faith. This included a continued commitment to minimizing free riders.

27. Had the Board intended 2016 program year targets to be fixed and not subject to change despite the presence of better available information (i.e. the 2015 EM&V process results), it could have simply stated this. The Board did not and instead gave the directions relied upon by Enbridge Gas to the contrary.

28. Despite Enbridge Gas's well documented concerns regarding the shortcomings of the 2015 NTG Study, including its fundamental methodology, Enbridge Gas acknowledges that the findings of this prior year evaluation effort are expected to be used to inform the following year's targets, and in the absence of a NTG study in 2016, to the results as well. Enbridge Gas adjusted targets in order to comply with the Board's direction, <u>not</u> to be consistent with the assumptions used to estimate actual savings for custom results and <u>not</u> in order to negate the effect the 2015 NTG Study. The 2015 EM&V process was not completed until nearly two years after the beginning of the 2016 program year and therefore the new updated findings were significantly delayed. However, all new input assumptions and NTG changes resulting from the 2015 EM&V process have been applied to the next year's (2016) targets as required resulting in the submission of adjusted 2016 targets as outlined in evidence.

29. SEC's accusation that Enbridge Gas is adjusting targets "retroactively" is inaccurate. The proposed adjustment to 2016 targets is a natural consequence of the two-year delay in the annual EM&V process and the Board's guidance. It is <u>not</u> a retroactive adjustment, it is simply an anticipated adjustment later than originally expected. Had the latest 2015 NTG Study been completed on time and used to develop 2016 targets, as was the original intent, it is likely that no party would take issue. Even if the 2015 evaluation process had been completed on time in 2016, the Utilities would have provided 2016 target adjustments within the 2016 calendar year. This is consistent with Union's target adjustment mechanism under the previous 2012-2014 DSM Framework, where targets would not be established for a program year until the prior year's

EM&V process was complete in the second half of the year.[22] This was not considered retroactive. The fact that the 2015 NTG Study was delayed should not now afford certain parties an opportunity to use the delay to their advantage and avoid the very thing that the Board anticipated, namely that 2016 targets would be based upon the updated 2015 NTG Study.

30. GEC leaves it to the Board to determine whether the timing of completion of the 2015 NTG Study should have any bearing on the calculation of Enbridge Gas's performance incentives and notes that the Utility's ability to optimize custom program design and delivery to minimize free ridership is affected by the timing of feedback received from NTG evaluations. GEC even noted that there is some unfairness in comparing 2016 actuals computed with the 2015 NTG estimates to 2016 goals developed with much older and higher NTG estimates.[23]

31. It is important to understand that the decision to use the same 2015 NTG factors to adjust 2016 results (rather than undertake a 2016 NTG study) rests wholly with Board Staff. Of note, the Board outlined in its Multi-Year Decision that "[a]nnually, the evaluation process will continue to inform the free rider rates for custom programs."[24] However, at the commencement of the 2016 EM&V process, Board Staff informed the EAC that it had decided not to evaluate NTG results for the Utilities' custom programs results and instead Board Staff instructed the EC to apply the 2015 NTG factors to the 2016 program results. If, as intended by the Board, evaluation of free-rider rates continued annually, 2016 NTG values would have been determined and applied to 2016 results, giving the utilities the intended motivation to improve upon the previous NTG values (i.e. lower free-ridership, given the expectation of ongoing evaluation in this area). Instead, Board Staff decided not to adhere to the Board's direction regarding evaluating free rider rates annually and as such, Board Staff directed that the 2015 NTG Study was the most up to date value available for application to 2016.

32. OEB Staff and SEC both neglect to note the inherent incentive which exists for the minimization of free riders by adjusting targets as proposed by Enbridge Gas and as directed by the Board. While the adjustments contemplated for 2016 adjust downwards where the prior years' EM&V process determines an increase in free ridership, no mention is made of the equal

[22] Unlike Union, in the previous framework, EGD had fixed annual targets with no target adjustment mechanism.
[23] GEC Submission, March 5, 2019, p. 6.
[24] EB-2015-0029/0049, Decision and Order, January 20, 2016, p. 21.

and opposite scenario where targets are adjusted upwards if the prior years' EM&V free ridership rate goes down. This balanced target adjustment mechanism works to incentivize Enbridge Gas towards decreasing custom free rider rates by encouraging lower free rider rates than what existed in the year immediately prior. In this case, performance against targets is maximized and this continues moving forward only if free rider rates continue to decrease. As such, the Utilities are held accountable for reducing free rider rates and have taken proactive steps towards doing so. The Utilities' efforts in this regard are discussed in their respective submissions as part of the OEB's Mid-Term Review of the 2015-2020 DSM Plans and in response to interrogatories in this proceeding.[25]

33. Enbridge Gas believes that the positions taken by OEB Staff and SEC are not truly due to a belief about Enbridge Gas's continued commitment to minimizing free ridership but rather by the desire to impose a penalty on the Utilities in circumstances where there is absolutely no evidence of conduct that warrants application of such, and no provision in either the DSM Framework or the Multi-Year Decision of the Board which allows for same. OEB Staff and SEC are inferring in argument that free-ridership rates in the 2015 NTG Study are such that the Utilities should be penalized after the fact. The fact is that Enbridge Gas continues to prioritize minimizing free ridership and it submits that it would be wholly unfair for it to be penalized in circumstances where there is no evidence of any failure on its part in this regard. To not adjust 2016 targets to reflect the results of the prior year's (2015) EM&V process amounts to an unwarranted and inappropriate penalty on the Utilities.

C. 2016 OEB-Approved Budget Reallocation and the Funding Transfer Policy

34. In their submissions, both OEB Staff and SEC raised concerns regarding 2016 DSM budget reallocations made by the Utilities. Briefly stated, OEB Staff believe that the requirement of informing the OEB and stakeholders of a 30% variance between the OEB approved budget and actual spending applies at the specific program offering level and not at the program level. SEC implies that increasing budget spending on a particularly successful specific program offering by more than 30% is improper but it then goes on to admit that it has no

[25] Exhibit C.SEC.EGD.15; Exhibit C.SEC.Union.23; Exhibit C.SEC.Union.36.

recommendation to make to address the issue.[26] Both OEB Staff and SEC speculate that Enbridge Gas shifted funding from one customer sector to the detriment of another without offering any evidence to support this claim. [27]

35. Enbridge Gas disagrees with the submissions of OEB Staff and SEC. OEB Staff and SEC have mischaracterized "offerings" as "programs", and on this basis conclude that Enbridge Gas has reallocated funds inappropriately. Enbridge Gas's approach to budget reallocation is consistent with prior OEB guidance in the DSM Framework, with its OEB-approved 2015-2020 DSM Plans, with its submissions in the OEB's Mid-term Review and with historical practice. In this regard, the results of Enbridge Gas which have been encompassed previously in DSMVA balances reviewed and approved by the Board included without complaint increases to program offering budgets.[28] Enbridge Gas has allocated funding, within OEB-approved parameters, to successful program offerings in order to maximize lifetime natural gas savings and thus overall DSM program success. As is evident from the credit balances recorded in DSMVA's for 2016, funding was available for all successful program offerings and no program offering, whether residential or commercial/industrial, was prioritized above another due to lack of funding. Modifying the Board's budget reallocation process in the manner suggested by OEB Staff and SEC, to apply to the program offering level rather than the program level would significantly hamper Enbridge Gas's ability to maximize energy savings going forward.

36. The DSM Filing Guidelines state that the budget reallocation guidelines apply at the program level.[29] The OEB-approved 2015-2020 DSM Plan for the EGD rate zone includes the following programs:[30] the Resource Acquisition Program; the Low Income Program; and the Market Transformation Program. The Union rate zones OEB-approved 2015-2020 DSM Plan includes:[31] the Residential Program; the Commercial/Industrial Program; the Low-Income Program; the Large Volume Program; the Market Transformation Program; and the Performance-Based Program. Within each program, there are multiple program offerings (e.g.

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[26] SEC Submission, March 7, 2019, pp. 6-7.

[27] OEB Staff Submission, March 5, 2019, p. 12; SEC Submission, March 7, 2019, p. 7.

[28] EB-2017-0324, Exhibit B, Tab 1, Schedule 1, p. 108.

[29] EB-2014-0134, Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), pp. 14-15.

[30] EB-2015-0049, Exhibit A, Tab 2, Schedule 4, p. 5.

[31] EB-2015-0029, Exhibit A, Tab 3, Appendix A, p. 1.

Home Energy Conservation, Residential Adaptive Thermostats, Residential Home Reno Rebate etc.). Consistent with past practice, budget reallocations between program offerings may have exceeded 30%, but budget reallocations between overall programs have not, as is reflected in Table 4 and Table 5 of OEB Staff's submission.[32] It should be noted that Enbridge Gas believes negative variances (i.e. underspending) in excess of 30% at the program level would not be captured under the intent of the OEB's policy.[33]

37. The option to spend up to 15% above the approved annual DSM budget through the DSMVA is mutually exclusive from the 30% budget reallocation discussed here. These two mechanisms are intentionally outlined by the Board in the Filing Guidelines to the DSM Framework under separate sections: (i) the 15% budget overspend is addressed in Section 11.2, where the Board states "The option to spend 15% above the approved annual DSM budget is meant to allow the natural gas utilities to aggressively pursue program offers which prove to be very successful."[34]; (ii) the 30% budget reallocation is addressed under Section 6.6, where the Board states "This level of guidance is meant to ensure that adequate flexibility in DSM program and portfolio design is maintained..."[35]

38. Because the 15% overspend of the approved annual DSM budget can be applied to any program offering budget provided the terms outlined in the DSM Filing Guidelines are met, this can result in individual program offerings having significant variances versus budget. This should be expected given the Board's direction to aggressively pursue very successful program offers, which may require higher levels of funding to achieve continued success. Furthermore, if the 30% budget transfer guideline is inclusive of the ability to utilize the 15% overspend in the DSMVA, as appears to be suggested by OEB Staff,[36] Enbridge Gas's ability to aggressively pursue very successful program offers and to drive ratepayer benefit through energy conversation opportunities would be significantly impeded.

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[32] OEB Staff Submission, March 5, 2019, pp. 11, 13.

[33] OEB Staff has included negative variances in excess of 30% in their analysis at the offering level.

[34] EB-2014-0134, Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p. 38.

[35] EB-2014-0134, Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p. 15.

[36] OEB Staff Submission, March 5, 2019, p. 10.

39. It is important to understand that if the threshold for notice is an increase in spending at a specific program offering level by more than 30%, it should be expected that Enbridge Gas will be providing multiple notices annually to the Board and stakeholders. Enbridge Gas questions the value of such notice as the operating decision making in respect of specific program offerings remains with Enbridge Gas.

40. OEB Staff requests that the OEB provide clarification on its prior guidance regarding the budget transfer policy going forward. While Enbridge Gas believes that no clarification is required, if the Board sees fit to offer clarification in this regard, such clarification should be implemented on a prospective basis as the earliest this change could be implemented, as a consequence of the delayed EM&V process, would be for the 2019 DSM program year (the 2017 and 2018 DSM program years are complete). Enbridge Gas cautions the Board that a more rigid interpretation may hamper its ability to pursue increased savings as opportunities are presented, potentially leaving OEB-approved funding recovered through rates unutilized. This contradicts the guiding principle of achieving all cost-effective DSM that result in a reasonable rate impact.

D. Proposed Modifications to the DSMVA Accounting Orders

41. Enbridge Gas's proposed revisions to the existing DSMVA accounting orders, for the EGD rate zone and Union rate zones, comply with the Board's direction in the Mid-term Report[37] and were supported by OEB Staff, BOMA and OSEA. [38] CME and OGVG did not oppose Enbridge Gas's proposed revisions.[39]

42. OEB Staff submit that "the proposed revisions to the DSMVA account description are consistent with the OEB's direction in the DSM Mid-Term Report."[40] OEB Staff also suggested 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

[37] EB-2018-0301, Exhibit B, Tab 6, Schedule 1; Exhibit C.Staff.Union.3.

[38] OEB Staff Submission, March 5, 2019, pp. 9-10; BOMA Submission, March 5, 2019, p. 2; OSEA Submission, March 5, 2019, p. 2.

[39] CME Submission, March 5, 2019, p. 1; OGVG Submission, March 5, 2019, p. 6.

[40] OEB Staff Submission, March 5, 2019, p. 10.

ratepayers. Enbridge Gas does not oppose OEB Staff's suggestion for a future reporting requirement related to program amounts that have been carried forward.

43. SEC argues that Enbridge Gas's proposed revisions are not consistent with the Board's intent in the DSM Mid-term Report.[41] SEC interprets the Boards intent in its Mid-term Report to direct Enbridge Gas to track commitments in a sub-account of the DSMVA and that if, in a subsequent year, Enbridge Gas has to make a payment on account of that commitment, it would be recovered from customers through the DSMVA, over and above the normal variances in the year. On the other hand, if Enbridge Gas does not have to pay all or some of the committed amount, then it is never collected from customers.[42]

44. Nowhere in the Mid-term Report is SEC's interpretation of the intent of the proposed DSMVA accounting order revisions detailed. On the contrary, in addition to the Board's direction to file the draft accounting order, at pages 15 and 16 of the Mid-term Report the OEB modified the target adjustment formula for programs with incentives over multiple years to include "annual accrued program costs", which had been suggested by SEC.[43] The OEB stated that "[a]ccrued program costs are those costs that the gas utility is subject to providing to the customer in latter years should the customer fulfill its commitments to the program and be eligible for the financial incentives."[44] The use of the words "accrued program costs" is consistent with treating these costs as committed, as is the direct intent of the proposed changes to the DSMVA accounting order. It would be illogical to treat the costs as committed for purposes of the target adjustment, but to then treat them another way for purposes of recording the related amounts in the DSMVA. Enbridge Gas believes it is clear that the Board intended for these costs to be treated as an accrued spend (i.e. committed) within the year (in an effort to match when these costs are collected in rates and to avoid the instability of refunding and potentially re-collecting in a future year and also to meet commitments that become due beyond 2020). These commitments must be tracked within the DSMVA and drawn down or refunded as appropriate in future years.

[41] SEC Submission, March 7, 2019, pp. 4-5.
[42] SEC Submission, March 7, 2019, p. 5.
[43] EB-2017-0127/0128, Mid-Term Review Report of the OEB, pp. 15-16.
[44] EB-2017-0127/0128, Mid-Term Review Report of the OEB, p. 16.

45. SEC also raised concerns that the wording in the draft accounting order could be used for programs beyond those outlined in the DSM Mid-Term Review.[45] Enbridge Gas confirms its intent is to only use this treatment for the DSM programs outlined in the DSM Mid-Term Report, and the potential requirement to access program funding outside of the current term due to deferred customer incentives for which it is obligated beyond 2020. Therefore, Enbridge Gas does not believe that any updates to its draft accounting orders are required.

E. Proposed DSMVA and LRAMVA Balances

46. Enbridge Gas has proposed the following balances for disposition within its DSMVA and LRMVA for each of the EGD rate zone and Union rates zones:

($ millions) (1)	EGD	Union
Demand Side Management Variance Account (DSMVA)	$ (0.713)	$ (6.156)
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	$ (0.096)	$ 0.488

Note
(1) Negative values indicate amounts to be reimbursed to ratepayers.

47. In their submissions, OEB Staff and BOMA support approval of the balances in these respective accounts.[46] Further, BOMA, LPMA, OGVG and OSEA support or did not oppose Union's proposal to roll forward $2.822 million of the 2016 DSM budget for tracking and reporting system upgrade costs into 2017 and 2018, to reflect the actual spending in those years.[47] The impact of this roll forward amount is reflected in the applied-for DSMVA balance in the Union rate zones noted above.[48]

48. As noted in LPMA's submission, LPMA supports the roll forward proposal, as to do otherwise would result in a refund to customers as part of the 2016 DSMVA clearance of nearly $3.0 million and then recovery of the $2.822 million in 2017 and 2018. This would add unnecessary variability to rates, while the roll forward proposal smooths the impact. [49] Enbridge Gas also noted that it would refund the accumulated interest on the rolled-forward balance in this

[45] SEC Submission, March 7, 2019, p. 5.
[46] OEB Staff Submission, March 5, 2019, p. 14; BOMA Submission, March 5, 2019, p. 2.
[47] BOMA Submission, March 5, 2019, p. 2; LPMA Submission, March 5, 2019, p. 3; OGVG Submission, March 5, 2019, p. 7; OSEA Submission, March 5, 2019, p. 2.
[48] EB-2018-0300, Exhibit A, Tab 3, Appendix A, Schedule 3.
[49] LPMA Submission, March 5, 2019, p. 3.

proceeding, thus providing ratepayers with the timely payment of interest on the funds collected in 2016 and spent in future years.[50]

49. SEC claims that the roll forward proposal allows Enbridge Gas to collect an additional $2.8 million from customers, the net effect of which is to get around the DSMVA limit on spending (inclusive of the 15% overspend). SEC submits that Enbridge Gas should refund the full underspend in 2016 and then apply again to recover any associated overspend in 2017 and 2018 as long as they are within the DSMVA caps.[51] Enbridge Gas believes that SEC's position is motivated by a desire to limit the availability of additional funding using the DSMVA to something less than 15%.

50. Enbridge Gas notes that the tracking and reporting system upgrade costs are a separate line item within the OEB-approved DSM budget for the Union rate zones. These funds were specifically budgeted to upgrade Union's tracking and reporting system. The DSMVA is the vehicle to flow through any variances related to this specific incremental budget amount. Enbridge Gas is not attempting to circumvent the current rules with respect to DSMVA overspend limits. Enbridge Gas has proposed a solution that matches separate budget funds, related to the budget approved by the OEB for tracking and reporting system upgrades, with the expenses that were ultimately incurred. As noted by LPMA, this provides an overall benefit to ratepayers.

51. SEC's proposed solution, to direct Enbridge Gas to refund $2.822 million to ratepayers in the Union rate zones in 2016 and force Enbridge Gas to apply for recovery of this amount in its 2017 and 2018 DSM Clearance Applications,[52] could prevent Enbridge Gas from recovering prudently incurred costs, despite the fact that Enbridge Gas's actual tracking and reporting system upgrade costs for the Union rate zones came in nearly $1.0 million under budget.[53] This would occur even though these costs were a separately-identified budget item and were simply spent later than anticipated. This is clearly not a reasonable or desirable outcome for dealing with a matter that results purely from the timing of the spend. Further, there is not an "additional $2.8

[50] Enbridge Gas Argument-in-Chief, February 27, 2019, p. 9.
[51] SEC Submission, March 7, 2019, p. 6.
[52] 2017 ($2.614 million) and 2018 ($0.208 million).
[53] Enbridge Gas Argument-in-Chief, February 27, 2019, p. 9.

million"[54] to be collected from customers as SEC suggests, but to the contrary nearly a $1.0 million benefit to ratepayers related to the tracking and reporting system underspending versus the OEB-approved budget.

52. As noted in the DSM Filing Guidelines, the 15% allowable overspend "…is meant to allow the natural gas utilities to aggressively pursue programs which prove to be very successful", and this funding "…must be utilized on incremental program expenses only".[55] In the event the 15% overspend were to be accessed in 2017 and 2018, these funds would only be spent on programs to drive incremental savings as directed in the DSM Filing Guidelines, and not on tracking and reporting system costs, which were a separate item within the OEB-approved DSM budget.

53. Finally, Enbridge Gas is not proposing to apply this roll forward principle to "all aspects of the budget" as SEC suggested.[56] Its proposal relates only to the costs for DSM tracking and reporting system upgrades incurred by Union. Overall, Enbridge Gas is proposing to return $6.156 million to ratepayers in the Union rate zones through the 2016 DSMVA. Enbridge Gas has provided the full details of the tracking and reporting system upgrades as part of this proceeding, including a refund of the final project underspend (including interest), and its proposal should be approved as filed, as it is a sensible solution to address the timing of the spend on this specific item of the DSM budget.

F. Proposed Allocation and Disposition Methodologies

54. In their submissions, BOMA, CME, OGVG and OSEA support or did not oppose the allocation and disposition methodologies proposed for each of the EGD and Union rate zones.[57] As Enbridge Gas noted in its Argument-in-Chief, these methodologies are consistent with past practice as approved by the OEB, with the exception of the pooling of Rate M4, Rate M5 and

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[54] SEC Submission, March 7, 2019, p. 6.

[55] EB-2014-0134, Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p. 38.

[56] SEC Submission, March 7, 2019, p. 6.

[57] BOMA Submission, March 5, 2019, p. 2; CME Submission, March 5, 2019, p. 1; OGVG Submission, March 5, 2019, p. 7; OSEA Submission, March 5, 2019, p. 3.

Rate M7 DSM budget costs and DSMVA balances in the Union rate zones, which was approved by the OEB as part of Union's 2015-2020 DSM Plan proceedings effective for 2016.[58]

55. While LPMA support Enbridge Gas's proposed allocation methodologies, LPMA submitted that the Board should direct Union to investigate the cost and feasibility of moving to the methodology used by EGD of disposing of the deferral and variance account balances as a one-time adjustment for future dispositions of deferral and variance accounts. LPMA stated the Board should direct Enbridge Gas to harmonize its approach across all rate zones in future disposition applications.[59]

56. The disposition methodologies proposed are consistent with past practice due to the continued use of legacy billing systems for the each of the EGD and Union rate zones. Due to system limitations within the current billing system, it is currently not possible for Enbridge Gas to dispose of deferral and variance account balances as a one-time adjustment for general service customers in the Union rate zones. Therefore, harmonizing disposition methodologies in all future deferral and variance account disposition applications is currently not possible. If and when Enbridge Gas integrates into one common billing system, harmonization of disposition approaches will be considered.

G. Ongoing and Outstanding Concerns Raised by the Utilities and Intervenors

57. Certain other issues were raised by OSEA,[60] in relation to the TRM and the costs associated with the EM&V process, and by BOMA,[61] in relation to performance-based conservation.

58. OSEA submitted that the Board should require Enbridge Gas to give more consideration to the Ontario market and climate for input assumptions in the TRM. OSEA claims that the use of weather data from London, Ontario has the impact of under-estimating and valuing savings in more severe climates in Ontario. OSEA also submitted that the Board should require OEB Staff

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[58] Enbridge Gas Argument-in-Chief, February 27, 2019, p. 9.
[59] LPMA Submission, March 5, 2019, p. 4.
[60] OSEA Submission, March 5, 2019, pp. 3-5.
[61] BOMA Submission, March 5, 2019, pp. 3-4.

and Enbridge Gas to implement a process to accurately forecast, accrue and track all EM&V related costs and to reconcile accrued amounts to invoices received.

59. Enbridge Gas reminds OSEA that OEB Staff coordinates the annual review and update of the TRM. As outlined in the response at Exhibit C.OSEA.EGD.1, Ontario specific data is used for the purpose of estimating average prescriptive savings values for weather sensitive DSM measures. Having a portfolio of prescriptive measures enables Enbridge Gas to use a mass-market approach to help Ontario customers improve their natural gas efficiency.

60. As further outlined in the response at Exhibit C.OSEA.EGD.2, Enbridge Gas believes that full transparency in budgets and spend is necessary to enable the EAC to provide guidance on the EM&V process. To this end, Enbridge Gas welcomes the opportunity to work with OEB Staff to improve EM&V related accounting and reporting going forward.

61. BOMA suggested using performance-based conservation as a framework for program design and evaluation with respect to commercial and institutional buildings.

62. Enbridge Gas continues to evaluate the appropriateness and applicability of performance-based conservation with a focus on how it could apply to the next DSM Framework.

H. Conclusions and Relief Sought

63. Enbridge Gas requests that the proposed target adjusted 2016 DSM deferral and variance account balances be approved for disposition as filed. The application of 2015 NTG Study findings to 2016 DSM results, but not targets, as was done by the EC at the direction of OEB Staff, is not consistent with the prior guidance provided by the Board and thus necessitated the adjustments proposed by the Utilities in this proceeding.

64. For the reasons set out above and in its Argument-in-Chief, Enbridge Gas respectfully requests that the Board make the following findings, determinations and orders:

(1) For each of the EGD rate zone and Union rate zones, approve Enbridge Gas's audit-adjusted deferral and variance accounts balances for the DSMVA, DSMIDA and the LRAMVA;

(2) Approve Enbridge Gas's proposed amendments to the DSMVA accounting orders for the EGD rate zone and Union rate zones;

(3) Approve the roll-forward of $2.822 million of 2016 DSM budget in the Union rate zones related to the DSM tracking and reporting system upgrade expenditures that occurred in 2017 and 2018;

(4) Approve the proposed allocation and disposition methodologies for the 2016 DSM deferral and variance account balances in the EGD rate zone and Union rate zones; and

(5) Provide direction related to: i) the timely completion of 2017 and 2018 EM&V activities; ii) a more complete assessment of NTG in future studies; and iii) the appropriateness of a NTG Factor for the Large Volume program in the Union rate zones.

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All of which is respectfully submitted this 19th day of March, 2019

(Original signed by Adam Stiers)

Adam Stiers
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