Shepherd
Rubenstein

BY EMAIL and RESS

Jay Shepherd
jay@shepherdrubenstein.com
Direct: 416-804-2767

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Our File No. EB-2019-0271

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Christine Long, Registrar and Board Secretary

Dear Ms. Long;

Re: EB-2019-0271 – Enbridge DSM Rollover – SEC Final Argument

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1 in this proceeding, this letter constitutes SEC's Final Argument in this matter.

General

1. SEC was among the first, about a year ago[1], to propose that Enbridge be allowed to extend their 2015-2020 DSM Plan for one year into 2021 on a straight rollover basis, with minimal changes. This would allow the Board additional time to consider the new DSM Framework.

2. We continue to believe that is an efficient and productive regulatory approach, although we agree with Enbridge and others that the Board's consideration of the

[1] EB-2019-0003, SEC Phase I Submissions, p. 7-8.

next DSM Framework is still urgent, and should be pursued as expeditiously as possible.

3. Many parties may propose changes to the current DSM programs for 2021, either to expand DSM penetration and results, or to reduce DSM spending. As a general matter, SEC believes that the Board should reject most of those proposed changes, and stick to a rollover that is as simple and clear as possible. There will be puts and takes in such a rollover, but on balance SEC believes that it will be reasonably fair to both Enbridge and the customers.

4. There are two areas which we believe are exceptions to the straight rollover. Although in both cases we believe that the DSM programs do not need to be changed in a formal manner, we believe that Enbridge would benefit from clear direction from the Board in these two crucial areas: the Home Efficiency Rebate program, and the utility's response to Covid-19. We will deal with each of them in turn.

Home Efficiency Rebate Program

5. Enbridge has merged the former Home Energy Conservation program (EGD) and the former Home Reno Rebate program (Union) into a combined offering, the Home Efficiency Rebate program[2] ("HER").

6. ***Impact of HER Program.*** It is important for the Board to understand the impact of this program. In 2018, the most recent year for which there is available data, spending on this program amounted to $47.5 million, plus overheads[3]. To put this in context, the total program spending in 2018 was $107.3 million[4], so HER represents 47.3% of the direct spending in DSM.

7. Notwithstanding the spending, HER is the least cost-effective of any of the Enbridge DSM programs, with a TRC plus ratio of 1.02 for EGD and 1.30 for Union, and a total NPV of benefits of $14.3 million[5].

8. The program included incentives of $750 each for efficient furnaces, and 27,700 furnaces were incented. Thus, $20.8 million was paid to customers as furnace incentives, about 43.8% of the HER direct spending, and 19.4% of the total DSM

[2] Argument in Chief, p. 10-11.
[3] All of the figures in this part of the analysis are from SEC #12, Attachment 4, or are calculated from them, except the figures of 27,700 furnaces, $280 incremental cost, and $100 savings, all of which are taken from the GEC Final Argument.
[4] $135.3 million total spending, less $27.9 million of overhead and administrative costs.
[5] $13.5 million for Union, and $0.8 million for EGD.

direct spending by Enbridge in 2018, despite HER delivering only 6.4% of the TRC plus NPV[6].

9. In short, furnaces matter. A lot.

10. ***Material Change in Circumstances.*** Into this situation comes a federal regulatory change, effective January 1, 2020, which prohibits the sale of furnaces manufactured after July 3, 2019 unless they have an efficiency of 95% AFUE or better. As noted by GEC in their Final Argument, furnaces exist that are 96% or 97% AFUE, but they are expensive, and the incremental savings are minimal.

11. GEC has proposed, in their Final Argument, that the Enbridge HER program be amended by the Board in three ways:

    a. Exclude furnaces from the two major measures required for participant qualification.
    b. Ensure that the baseline for the 15% overall improvement test with HOT2000 be the 95% stipulated by the federal rules.
    c. Amend the targets for 2021 to reflect reduced ability to meet the HER targets set under the current formula.

12. SEC agrees with GEC that this is a significant change, but does not agree with the proposed solution. In our view, no formal action is required by the Board, but action is required by Enbridge.

13. ***Responsibility of Enbridge as Program Administrator.*** What has happened is that the circumstances in which an existing program is being offered have changed, effective the beginning of 2020. When that happens, it is the responsibility of the utility to adapt to the change. That is precisely the reason that the utility has freedom to redirect budget from one initiative to another, and even to access additional budget where something is especially successful. The customers want the utility to pursue maximum savings, and conversely want the utility to reduce spending where savings are less likely to be achieved.

14. SEC therefore believes that Enbridge, at the beginning of 2020, had the responsibility to change its approach to HER in at least two ways[7].

15. First, it would have to change its calculation of the 15% savings threshold to use 95% as the baseline, since the former 90% baseline would be not only incorrect, but

[6] $14.3 million out of a total of $222.9 million.

[7] We assume that they did so, and invite Enbridge in their reply to confirm this, or to provide reasons why they did not, if that is the case.

likely improper and certainly misleading. It would be counting savings known by Enbridge not to be true, and we assume they would not do that.

16. Second, it would stop giving customers $750 cheques for efficient furnaces, even those at 96% or 97%, since they are a patent waste of the money of the customers funding the DSM programs, and the money of the participant customers to spend $280 more on a furnace that produces $100 in lifetime savings. Enbridge has an obligation, at all times in the implementation of its DSM programs, to be as cost-effective and prudent as possible. It is clearly imprudent to give a customer $750 to incent $280 of incremental participant spending, all for $100 of savings.

17. In our view, Enbridge likely does not have to be told to make these changes. It is a function of proper management of their own DSM programs, and if they didn't make these changes, or are not at least planning to do so, they should explain themselves to the Board and their customers in their Reply Argument. Wasting $20.8 million of their DSM funds is not reasonable. We would assume, for example, that when Enbridge seeks to clear their DSMVA accounts for 2020 and 2021, they will be asked to demonstrate that they made the appropriate changes to stop this waste, and the Board's assessment of the balance that should be in the DSMVA will take that into account.

18. ***Impact on Targets.*** The flip side to this is that Enbridge has at least $20.8 million, and probably more[8], available to redirect to other DSM offerings. Enbridge should see this as an opportunity, particularly since their other DSM offerings are all more cost-effective than HER.

19. Because the budget remains available, there is no reason to amend any targets. Indeed, to some extent this is likely a windfall to Enbridge, since the other DSM programs are more cost-effective, and thus spending this much money on those other programs should produce increased shareholder incentives.

20. ***No Formal Action Required by the Board.*** SEC therefore submits that, while it would be useful for the Board to reaffirm Enbridge's responsibility to adjust this program in light of a material change in circumstances, it is not necessary to make any formal changes to the 2021 DSM Plan, including budgets or targets.

Impacts of Covid-19 Pandemic and Lockdown

21. SEC submits that there are two relevant impacts of the pandemic that the Board should consider at this time, both of which relate to the DSMVA.

[8] Because some of the remainder of the $47.5 million HER direct spending probably is reduced if furnaces no longer count in the two measures required.

22. ***Background.*** In addition to their summary of the impacts in this proceeding[9], Enbridge has made public statements with respect to the material nature of the impacts from the pandemic and lockdown.

23. With respect to the impact on prices, Enbridge has recently said the following[10]:

> *"The spread of the COVID-19 pandemic has caused significant volatility in Canada, the United States and international markets. We continue to monitor the impact of the COVID-19 pandemic, reduced crude oil demand and reduced commodity prices on our results of operations. These demand effects coincided with decisions by various global producers, including the Organization of Petroleum Exporting Countries and other oil producing nations (OPEC+) to increase global production levels, putting severe downward pressure on prices. As a result, prices of crude oil, natural gas, natural gas liquids and other commodities whose prices are highly correlated to crude oil have decreased substantially. Given the many outstanding questions as to the length and depth of the COVID-19 pandemic and the current low commodity price environment, the impact on us is uncertain; however, it is possible that they may have an adverse impact on our business and results of operations in the future."*

24. If there is downward pressure on natural gas prices (especially for an extended period of time), something that is not currently known, there is the potential that it will be more difficult for Enbridge to justify DSM measures to their customers. That is particularly true of industrial and commercial customers that are cost-sensitive, and potentially capital constrained at this time. In effect, demand for some or all of the Enbridge DSM offerings may decline in 2020 and 2021, until the economic situation is, as they say, "back to normal".

25. Enbridge has also commented on the need to cut back on costs, in order to maintain profitability[11]:

> *"While the length and depth of the current energy demand reduction and its impact is challenging to estimate at this time, we have initiated several actions to further strengthen our resiliency and position for the future, while assuring that the safety and reliability of our operations remains our first priority. We will be reducing operating costs by approximately $300 million, including reductions to senior management and Board of Directors compensation. We have also recently executed $0.4 billion of asset sales*

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[9] SEC #16.
[10] Q1 2020 Financial Statements of Enbridge Inc., note 14 (Risk Factors).
[11] Q1 Financial Statements of Enbridge Inc., MD&A, p. 35.

and increased our available liquidity to approximately $14 billion. We are experiencing a natural slowing of 2020 capital spending in light of COVID-19 and the health and safety measures put into place by federal and regional governments. After a review of capital execution schedules, we expect that 2020 capital expenditures will be approximately $1 billion lower than budgeted and will primarily shift into 2021."

26. ***Expectation of Prudence.*** It is clearly prudent for Enbridge, faced with reduced revenues, to reduce costs as well, just as it does when other factors increase or decrease their top line.

27. The same is true with respect to the DSM programs. If - as is likely - it is more difficult to market DSM offerings with the price of natural gas less predictable, pipeline projects deferred, and safety measures in place that reduce available sales methods, prudent management should require that costs be cut where possible, and where longer term impacts can be mitigated. With $28 million in annual overhead and administrative costs, there should be at least some room to reduce costs in 2020 and 2021, as long as the pandemic is having a material impact.

28. SEC is, of course, conscious that the Board has initiated a consultation (EB-2020-0133) on how to deal with the impacts of Covid-19 for all utilities, and this is not the appropriate forum to raise those more general issues.

29. However, gas DSM is in a special situation, because the DSMVA flows through both cost increases (in certain cases) and cost decreases to the ratepayers. SEC assumes that, when the time comes for Enbridge to clear its 2020 and 2021 DSMVA accounts, they will have to explain what actions they took, acting prudently, to keep costs down, particularly if DSM results are also down.

30. As with the change in circumstances of HER, no formal change in the DSM program is required for 2021 (or 2020, for that matter). However, SEC believes it would be useful for the Board to reaffirm the responsibility of the utility to manage its DSM spending this year and next in a manner that prudently takes the pandemic and lockdown into account.

31. ***Government Assistance.*** There is no evidence on the record in this proceeding of any government assistance available to Enbridge to mitigate the impacts of Covid-19, and it is not clear if any of the known assistance programs apply. By way of example, Enbridge Gas Inc. likely is eligible for the Canada Emergency Wage Subsidy, but may be unable to collect any assistance if its revenue has not declined

by 30% or more[12]. There is also a large corporation program, the details of which are still being worked out, but could potentially apply to Enbridge.

32. While there is clearly insufficient information to predict what government assistance will be available to the utility, and it is premature for parties or the Board to even speculate, SEC is flagging the fact that any government assistance that relates, directly or indirectly, to the DSM budget, should be reflected in the calculation of the DSMVA for 2020 or 2021, as the case may be.

33. As with the other items noted above, SEC believes it would be helpful to Enbridge if the Board would confirm this, so that it can be dealt with efficiently when the time comes to clear the DSMVA accounts in the respective years.

Conclusion

34. SEC supports the proposal by Enbridge to roll over the 2020 DSM programs into 2021, with formulae intact, and does not believe any formal changes to the programs are required at the instance of the Board. SEC does believe that Enbridge would benefit from Board guidance on the matters discussed in the above submissions.

35. SEC submits that it has participated responsibly in this matter with a view to maximizing its assistance to the Board, and asks that the Board order reimbursement of its reasonably incurred costs to do so.

All of which is respectfully submitted.

Yours very truly,
SHEPHERD RUBENSTEIN
PROFESSIONAL CORPORATION

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties

[12] EGI's top line revenues declined from $1.856 million in 2019 to $1.417 million in 2020 for the first quarter, a drop of 23.7%, but this is almost entirely due to a drop in heating degree days (Q1 Financial Statements of Enbridge Inc., Segmented information, note 3). On the other hand, in non-winter quarters merchant generation might be more important than HDD, so the extent of any revenue drop is not at present predictable.