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BY EMAIL

October 28, 2020

Ms. Christine Long
Board Secretary and Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

**Re: 2017 & 2018 Demand Side Management Deferral & Variance Accounts
Disposition
OEB Staff Submission
Enbridge Gas Inc. – EB-2020-0067**

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

Sincerely,

Original Signed By

Alexander Di Ilio
Project Advisor, Application Policy & Conservation



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION OCTOBER 28, 2020

2017 & 2018 Demand Side Management Variance and Deferral Accounts Disposition

**Enbridge Gas Inc.
EB-2020-0067**

Background

On July 17, 2020, Enbridge Gas Inc. (Enbridge Gas) applied for the clearance of 2017 and 2018 balances in certain Demand Side Management deferral and variance (DSMVA) accounts. The OEB assigned file no. EB-2020-0067 to the application.

A Notice of Hearing was issued on August 4, 2020. Procedural Order No. 1 was issued on September 3, 2020. The OEB indicated that OEB staff and intervenors may file submissions on the applications by October 28, 2020. 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.

2015-2020 DSM Plans

The OEB approved 6-year DSM plans for Enbridge Gas (then operating as Enbridge Gas Distribution Inc. and Union Gas Limited) on January 20, 2016 (the 2015-2020 DSM Decision).²

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

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, 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 \(2015-2020\)](#)

² [EB-2015-0029/0049, Decision and Order, January 20, 2016](#)

The OEB has been leading the evaluation of utility DSM program results since 2015. The OEB's Evaluation Contractor (EC), consulting firm DNV GL, has completed an independent review and verification of Enbridge Gas's DSM program results for both the 2017 and 2018 program years. As part of its evaluation activities, the EC has sought input and advice from the EAC as required.

2017 and 2018 DSM Results

In March 2020, the OEB issued the final evaluation reports for the 2017 and 2018 DSM program years following the evaluation activities undertaken by the EC. The Annual Verification Reports provided an opinion on the utility-achieved energy savings, lost revenue, shareholder incentive, and cost-effectiveness of Enbridge Gas's DSM programs, broken down by rate zone. The Final 2017 and 2018 DSM Results as verified by DNV GL and reported in its 2017³ and 2018⁴ Annual Verification Reports are shown in the tables below.

Table 1 – Summary of Evaluation Contractor Findings – 2017 DSM Program Results

Item	EC Results – Enbridge Gas Distribution	EC Results – Union Gas
Demand Side Management Incentive Deferral Account (DSMIDA)	\$2,120,130	\$5,519,140
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	\$7,997	\$176,848
Verified Net Cumulative Natural Gas Savings (m ³)	787,171,313	1,182,362,981
Total Spending (not reviewed by EC)	\$59,772,768	\$67,117,043
Cost Effectiveness (TRC-Plus)	2.58	1.91

Table 2 – Summary of Evaluation Contractor Findings – 2018 DSM Program Results

Item	EC Results – Enbridge Gas Distribution	EC Results – Union Gas
Demand Side Management Incentive Deferral Account (DSMIDA)	\$3,982,872	\$6,366,226
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	\$10,827	\$159,339
Verified Net Cumulative Natural Gas Savings (m ³)	807,476,673	1,124,478,523
Total Spending (not reviewed by EC)	\$64,779,279	\$68,988,161
Cost Effectiveness (TRC-Plus)	2.27	2.01

³ [2017 DSM Annual Verification Report](#)

⁴ [2018 DSM Annual Verification Report](#)

Utility Requests

Enbridge Gas has requested approval of the 2017 and 2018 DSMVA account balances shown in the table below. Enbridge Gas indicated that it has relied on the EC's 2017 and 2018 final results included within the 2017 and 2018 Annual Verification Reports, with the exception of the increased costs associated with implementation of the DSM Tracking and Reporting System for the Enbridge Gas Distribution rate zone. Enbridge Gas also indicated that it has filed jointly for the 2017 and 2018 years to parallel the concurrent issuance of the 2017 and 2018 Annual Verification Reports.

Table 3 summarizes the amounts that Enbridge Gas has requested approval to dispose of through a natural gas rate change.

Table 3 – Summary of Requested 2017 and 2018 Enbridge Gas DSM DVA Balances

Account	2017		2018	
	Enbridge Gas Distribution	Union Gas	Enbridge Gas Distribution	Union Gas
Demand Side Management Variance Account (DSMVA)	(\$26,855)	\$6,011,037	(\$1,399,621)	\$5,850,616
Demand Side Management Incentive Deferral Account (DSMIDA)	\$2,120,130	\$5,519,140	\$3,982,872	\$6,366,226
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	(\$10,377)	\$468,352	(\$15,107)	\$402,098
Total Amount Recoverable	\$2,082,898	\$11,998,529	\$2,568,144	\$12,618,940

*Negative amounts are reimbursable to ratepayers

Enbridge Gas is seeking approval for the disposition of the account balances at the first available Quarterly Rate Adjustment Mechanism (QRAM), effective as soon as January 1, 2021. Enbridge Gas proposes to dispose of the amounts in the Enbridge Gas Distribution rate zone as a one-time adjustment. Enbridge Gas proposes to dispose of the amounts in the Union Gas rate zones prospectively over a six-month period.

Summary of OEB Staff Submission

OEB staff submits that the proposed DSMVA, DSMIDA, and LRAMVA account balances have been calculated consistent with the OEB's 2015-2020 DSM Guidelines and the EC's Verification reports. Except for the recommended disallowance of 50% of the incremental cost overrun incurred in the development of the DSM Tracking System, or approximately \$0.54M, OEB staff submits that the account balances be approved as requested by Enbridge Gas. The OEB should make its final decision on the appropriate

disposition period of the DSMVA balances as part of its review of Enbridge Gas's next QRAM application, where it can consider the combined bill impact of all rate adjustments being implemented at that time.

OEB Staff Submission

Below are OEB staff's detailed submissions.

DSM Tracking System – Cost Increases

OEB staff submits that the DSMVA, DSMIDA and LRAMVA account balances have been calculated in accordance with the DSM Filing Guidelines and the EC's Verification reports. OEB staff has no concerns with the balances other than the increased costs associated with implementation of the DSM Tracking and Reporting System for the Enbridge Gas Distribution rate zone.

The OEB approved a total of \$5M to be spent by Enbridge Gas Distribution to develop a DSM Tracking and Reporting System in its Decision and Order for Enbridge Gas Distribution's multi-year 2015-2020 DSM plan.⁵ Enbridge Gas incurred an additional \$1.087M, in excess of the \$5M approved by the OEB, in the development and implementation of its new DSM Tracking and Reporting System. Enbridge Gas is seeking recovery of this cost overrun as part of the current DSMVA account disposition.

Enbridge Gas noted that the original budget approved by the OEB was high-level and was not fully reflective of the final project scope and schedule. Additionally, the DSM Tracking and Reporting System project experienced significant delays due to issues related to the vendor selected to develop the tracking system. Although no vendor costs related to the delays were passed on to Enbridge Gas, additional rate-zone specific elements, including data migration complexities, timing, one-stop-shop development and vendor delays that caused enhanced internal resources, resulted in additional overall costs. Enbridge Gas refined project scope to reduce costs where feasible without affecting the final usability of the system to achieve business objectives, but noted difficulty in collaborating across the Enbridge Gas Distribution and Union Gas rate zones due to historical differences in DSM delivery.

OEB staff is not persuaded by the reasons provided in response to interrogatories to justify the entirety of the cost increase. Enbridge Gas noted that the incremental costs associated with internal resources contributed to the project cost overruns. While Enbridge Gas stated that no vendor costs associated with delays were passed on to

⁵ EB-2020-0029 / EB-2015-0049, Decision and Order, January 20, 2016

Enbridge Gas, it is not clear to OEB staff why Enbridge Gas should remain whole as a result of any subsequent effects of these delays as well as from issues that arose as a result of the disparities between rate zones. While Enbridge Gas Distribution was not aware of the eventual merger with Union Gas at the time of the original budget approval and the potential complexities involved in managing disparate rate zones, OEB staff is of the view that more effective internal collaboration during this IT project would have presented opportunities to limit risk and budget overruns. The appropriateness and rationale of passing incremental costs associated with internal resources to ratepayers is not clear, even when considering the noted vendor delays.⁶

OEB staff also does not agree that a 20% cost overrun for this project is consistent with similar IT projects. For example, Union Gas's DSM Tracking System project budget was also approved in the 2015-2020 DSM Decision, but was completed for approximately \$1 million less than its budget of \$6 million⁷. Considering this, OEB staff submits that only 50% of the incremental overrun costs incurred in the development of the DSM Tracking System be approved.

With the exception of the recommended DSM Tracking and Reporting System disallowance of approximately \$0.54M discussed above, OEB staff supports the recovery of the requested balances in the DSMVA, DSMIDA and LRAMVA.

Table 5 – DSMVA, DSMIDA and LRAMVA Account Balances

Account	2017		2018	
	Enbridge Gas Distribution	Union Gas	Enbridge Gas Distribution	Union Gas
Demand Side Management Variance Account (DSMVA)	(\$26,855)	\$6,011,037	(\$1,399,621)	\$5,850,616
Demand Side Management Incentive Deferral Account (DSMIDA)	\$2,120,130	\$5,519,140	\$3,982,872	\$6,366,226
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	(\$10,377)	\$468,352	(\$15,107)	\$402,098
DSM IT Tracking System project recommended disallowance	(543,500)	nil	nil	nil
Total	\$1,539,398	\$11,998,529	\$2,568,144	\$12,618,940

⁶ [EB-2020-0067, Interrogatory Response from Applicant, Exhibit I.STAFF.3, October 7, 2020](#)

⁷ EB-2020-0029 / EB-2015-0049, Decision and Order, January 20, 2016

Disposition Period

With respect to the disposition period of these account balances, the OEB noted its interest in a common disposition period and approach to variance account dispositions going forward as part of its Decision and Order related to Enbridge Gas's 2020 Federal Carbon Pricing application⁸. Enbridge Gas noted that the use of one-time adjustments aligns the incurrence and recovery of deferral account charges for customers and avoids material mismatch between incurrence and recovery due to customers switching between rate classes and year-to-year changes in customer consumption volumes. Furthermore, Enbridge Gas is unable to administer one-time adjustments for Union Gas general service customers until mid-2021 due to limitations in the current billing system used for this group of customers.

OEB staff supports the implementation of a common disposition period and approach to variance account dispositions going forward. In the meantime, while OEB staff does not have concerns with the proposal by Enbridge Gas for the disposition of the 2017 and 2018 DSMVA balances, the OEB should confirm the appropriate disposition period as part of its review of Enbridge Gas's next QRAM application, where it can consider the combined bill impact of all rate adjustments being implemented at that time.

- All of which is respectfully submitted -

⁸ [EB-2019-0247, Decision and Order, August 13, 2020](#)