



BY EMAIL and RESS

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Our File No. EB-2020-0067

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Christine Long, Registrar and Board Secretary

Dear Ms. Long;

Re: EB-2020-0067 – Enbridge 2017/18 DSM Clearances

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1, this letter constitutes the Final Argument of the School Energy Coalition.

We will deal with the following components of the Application:

1. The DSM Tracking and Reporting Project and cost overruns.
2. Overspends and budget transfers.
3. Disposition of outstanding balances.
4. The Audit and Evaluation process and report.

DSM Tracking and Reporting System

Enbridge had a budget of \$5 million for this project, and went over budget by about \$1.1 million¹. OEB Staff has proposed that Enbridge be denied recovery for 50% of this cost overrun².

¹ Ex. B/3/1, p. 2-4.

² OEB Staff Submissions, p. 5.

Normally, SEC would not propose disallowance of a cost overrun of this magnitude on an IT project. While it is certainly true that often utilities should plan and implement their IT projects in a more prudent and rigorous fashion, it is also true that utilities rarely are able to keep within their budgets on this category of projects. The uncertainties present a significant challenge to them.

We also note that, in applying for this budget originally, the Applicant was clear that their \$5 million estimate for this project was “high level”.

In this case, however, SEC believes there are three factors that support a disallowance:

1. The project as delivered had less functionality than the original project approved by the Board. Several important elements, including the vendor and customer portals, were removed in the interests of reducing costs³. The customers effectively paid more and got less⁴.
2. Enbridge have included in the project costs amounts that were originally expected to be absorbed in the overall administrative budgets for DSM, such as a Microsoft upgrade⁵. For these items, the customers are paying twice, i.e. once in the approved admin budget, and once in the incremental costs to be recovered through this DVA proceeding.
3. The remaining incremental costs were the result of increased allocations of the time of existing staff to support the external vendor⁶. Neither the Application, nor the interrogatory responses, provide the Board with any evidence that those costs were in fact incremental. They appear to be simply a reallocation of costs for which the utility would in any case have had responsibility during IRM.

SEC was already concerned about this project, given the impending (and now completed) merger between Union and Enbridge. On the face of it, this was spending money to create a stranded asset, or at the very least an asset some of the value of which will eventually have to be scrapped, since the merged entity doesn't need two DSM IT systems.

Now, with these other factors, it would appear to us that the Board should not allow the recovery of the cost overrun, whether incremental or not.

In our submission, 100% of the cost overrun should be disallowed. This is not just a question of going 20% over budget. Enbridge went 20% over budget by allocating additional internal costs to this project, and then still delivered a result that had less value (i.e. functionality) than the project as originally proposed.

³ I.STAFF.3, p. 2.

⁴ Or, looked at another way, the cost overrun is understated.

⁵ I.STAFF.3, p. 2.

⁶ I.STAFF.3, p. 2.

Overspends and Budget Transfers

SEC is very concerned with the large amounts being spent by Enbridge on the Home Energy Conservation program (Enbridge) and the Home Reno Rebate program (Union) through budget transfers and through the DSMVA.

While there is some question as to whether Enbridge actually stayed within the rules in this massive shift in dollars and focus⁷, that is not our primary concern. Our concern is that the Applicant is spending too much on a program with declining cost-effectiveness⁸, one that was heavily dependent on incenting more efficient furnaces that are now the market standard (thus losing the main benefit of the program), and one that is producing declining savings at an increasing cost per cubic meter of CCM⁹.

This additional spending also splashes over into DSMIDA impacts.

To see the order of magnitude impact, SEC asked the Applicant to restate their DVA balances without the impact of these two programs:

1. For the EGD rate zone, the total DVA claimed is \$4.65 million¹⁰. If the Home Energy Conservation program is backed out, that figure is a refund to customers of \$46.33 million¹¹. The delta is more than \$50 million.
2. For the Union rate zone, the total DVA claimed is \$24.62 million¹². If the Home Reno Rebate program is backed out, that figure is a refund to customers of \$37.21 million¹³. The delta is more than \$60 million.

The above differences have been overstated by Enbridge in their interrogatory responses, since they also appear to back out the original budgets for these programs, plus the impacts on non-residential rate classes of combined targets having been missed. These two programs did not, we believe, have a total two year cost of more than \$110 million.

However, the Board does know, for example, that:

1. In the EGD rate zone, the Applicant is seeking \$18.56 million in DSMVA recovery for Rate 1¹⁴, and most or all of that is overspending on the Home Energy Conservation program.

⁷ See for example I.STAFF.5.

⁸ See I.EP.8, p. 3.

⁹ See I.EP.10 Tables 1 and 2. The cost per CCM has almost doubled since the introduction of the program in the Union territory.

¹⁰ Ex. B/3/1, Tables 4 and 5.

¹¹ I.SEC.6, Tables 1 and 2.

¹² Ex. C/3/1, Tables 6 and 7.

¹³ I.SEC.10, Tables 1 and 2.

¹⁴ Ex. B/3/1, Tables 4 and 5.

2. In the Union rate zone, the Applicant is seeking \$26.27 million in DSMVA recovery for Rate M1¹⁵, and most or all of that is overspending on the Home Reno Rebate program.
3. In the Union rate zone alone, the Applicant transferred \$7.58 million from other budgets into Residential to cover the costs of delivering and evaluating the Home Reno Rebate program¹⁶. The DSMVA recovery is over and above that amount. We have been unable to find similar detail with respect to transfers into Residential in the EGD rate zone.
4. In both rate zones, the total DSMIDA claim for the residential rate classes is \$12.22 million¹⁷, but without these two programs the DSMIDA claim for those classes is only \$1.36 million¹⁸. That difference, \$10.85 million, is an additional cost borne by customers associated primarily with these two programs.

This has all been done in part at the expense of commercial and industrial programs. While Enbridge claims that their underspending in commercial/industrial is the result of “lower than expected participation levels”¹⁹, this would appear to us to be only part of the truth. The more fundamental truth would appear to be that the Applicant made a conscious decision to refocus its efforts on the residential home retrofit programs, and the commercial/industrial programs simply had less money, and less effort, as a result.

Redirecting your efforts to achieve better results is a central tenet of DSM programs, and we are not in any way opposing flexibility. In fact, the rules of the DSM Framework are rewarding Enbridge for using this flexibility in residential, to the tune of \$10.85 in incremental shareholder incentives²⁰.

However, SEC is concerned that Enbridge may be shifting too strongly in the direction of these programs with low cost-effectiveness, and neglecting another central tenet of DSM programs, i.e. balance.

As we note below, in the particular case of the Union rate zone, there is a significant unfair impact on some members of the M1 rate class because of the method of cost recovery. There is still a broader concern, though, that – no matter which customers are paying - these tens of millions of dollars chasing residential savings may not be the best use of customer money.

Disposition of Outstanding Balances

Enbridge is proposing to recover the total of about \$4.65 million in the EGD rate zone as a one-time charge based on the last twelve months’ volumes, and the total of about \$24.62 million in the Union rate zone as a six month volumetric charge implemented with the January 1, 2021 QRAM. In the latter case, if the order cannot be issued in that time frame, Enbridge proposes to

¹⁵ Ex. C/3/1, Tables 6 and 7.

¹⁶ I.STAFF.5, Tables 1 and 2.

¹⁷ Ex. B/3/1, Tables 4 and 5 and Ex. C/3/1, Tables 6 and 7.

¹⁸ I.SEC.6, Tables 1 and 2 and I.SEC.10, Tables 1 and 2.

¹⁹ I.CME.4.

²⁰ I.e. more than 60% of the \$17.99 million of shareholder incentives earned for these two years.

collect from Union customers a volumetric charge over three months implemented with the April 1, 2021 QRAM²¹.

This creates a specific, and very material, anomaly for non-residential customers in Union classes M1 and 01. Whereas Enbridge segregates smaller general service customers into Rate 1 (residential), and Rate 6 (non-residential), Union includes non-residential customers in the same rate classes as residential. This includes most schools, and many other small commercial/industrial customers.

If there were a balance of DSM programs offered to all customers in rates M1 and 01, proportionate to the DSM costs they are bearing in rates, then mixing the two groups is not a significant problem. In the current situation, however, a major shift in spending to a program only available to residential customers creates a material cross-subsidy. In fact, a large part of the Home Reno Rebate program, and the shareholder incentives being paid related to it, are in the Enbridge proposal to be paid for by non-residential customers in classes M1 and 01.

The example of schools is instructive. There are approximately 1100 schools in the Union South territory, almost all of them in rate M1. While on average they have an annual usage of 40,000 cubic meters per school, as with most weather sensitive loads they have more early in the year. In the January to June period, their usage averages 26,000 cubic meters.

At the proposed six month recovery rate of \$0.018301 per cubic meter²², the total charge for each school is just under \$500, for an aggregate total of about \$524,000. Conversely, if the Home Reno Rebate program were not included in the recoveries from rate M1, schools would get a credit of \$0.011581 per cubic meter²³, for a total refund of about \$331,000.

Thus, schools are being asked to subsidize the Home Reno Rebate program, retroactively, in the amount of \$855,000²⁴.

This is neither fair, nor good regulatory policy.

Schools are not the only ones affected, of course. All smaller commercial/industrial customers are in this class. While we do not have the full data to do the subsidy calculation, it is possible to estimate. The total M1 recovery of \$34.83 million²⁵ is recovered at an average rate of \$32.90 per customer²⁶. Since the average residential customer's impact is \$27.01²⁷, the incremental amount recovered from the non-residential customers is \$6.24 million.

²¹ See I.LPMA.1. In the case of Union M1 customers, the volumetric rate more than doubles because volumes in January through March for this weather sensitive class are more than twice the volumes in April through June.

²² Ex. C/3/1/A13 and A17.

²³ I.SEC.10, Attach 1.

²⁴ The subsidy if the April QRAM is used is even more, since the unit rate is \$0.051048 over the April to June volumes (about 10,000 cubic meters on average for a school): see I.LPMA.1, Attachment 1, page 2.

²⁵ Ex. C/3/1/A13 and A17.

²⁶ Union has 1,058,900 M1 customers: EB-2020-0095, Ex. D/2/5, p. 9. The average recovery per customer is therefore \$34.83M/1.0589M = \$32.90.

²⁷ Ex. C/3/2/A1. Note that the residential impact is less, \$26.62, if the three month recovery is used: see I.LPMA.1, Attachment 1, page 2. In that scenario, the subsidy from non-residential to residential, on the incremental amount only, increases from \$6.24 million to \$6.65 million.

This does not include the underlying cost of the residential program already included in rates, which is also volumetric. If you include that as well, that would increase the subsidy by non-residential customers of this residential program to almost \$10 million over this two year period.

SEC submits that the solution to this is to recover the rate M1 amount on a per customer rather than a volumetric basis, i.e. \$32.90 per customer. It can be recovered over any number of months, so that there is no bill shock, just as with the Enbridge proposal. However, instead of recovering, say, \$4.50 per month ($\$27.01/6$) for six months from a typical residential customer, as proposed by Enbridge, the recovery would be \$5.48 per month ($\$32.90/6$) for six months for that same customer.

There would still be a subsidy from the non-residential customers, because they would each still have to pay that same \$32.90 for a program from which they can get no benefit. The amount is small, though, probably in the order of \$0.47 million subsidy rather than \$6.24 million.

We should also note that the non-residential customers would still be subsidizing this program in base rates to the tune of \$2 - 3 million. Even if the unfair recovery of the incremental amounts is fixed, the underlying problem remains. That is probably best dealt with either in the next DSM Framework, or when Enbridge harmonizes its rate classes on rebasing.

Finally, we should note that a similar calculation should be done for Rate 01 in Union North, although the impact will be fairly small. No similar calculation is required for Rate 1 in the EGD rate zone, because that class is exclusively for residential customers.

Therefore, based on this analysis, SEC proposes that Enbridge recover the DSM DVA balances allocable to Union rates M1 and 01 on a per customer rather than a volumetric basis, but still spread over a suitable number of months. This will avoid unfair recovery of millions of dollars from non-residential customers who cannot benefit from this program.

Audit and Evaluation Process

SEC Counsel Jay Shepherd has been a member of the EAC since its inception, and can comment that the process, while certainly not perfect, is working considerably better than the audit and evaluation process prior to the current framework. A combination of a knowledgeable and experienced external expert firm (the Evaluation Contractor, or EC), and OEB Staff that actively push for practical improvements in the process, and objectivity in the EC's work, has been successful.

Those who continue to criticize the process are simply off base. The process can still be improved – and the EAC is actively seeking improvements on a regular basis – but it does not deserve the criticisms levied on it.

One aspect of the audit and evaluation process that continues to be a concern is cost, and that will presumably be the subject of much discussion and submissions in the upcoming DSM Framework.

In the meantime, SEC submits that, given the current Framework, the costs of audit and evaluation for 2017 and 2018 are in line with what should be expected. In fact, savings were

achieved for the 2017 and 2018 evaluations by rethinking how some of the statistical sampling was done, and deciding not to repeat certain studies every year. Further refinements have already been made to the work for 2019 and 2020, and some of those savings may be sustainable in later years as well.

Conclusion

SEC therefore submits:

1. The Board should disallow recovery of 100% of the cost overrun on the DSM Tracking and Reporting project.
2. The Board should encourage the Applicant to re-balance its efforts so that the very expensive home energy retrofit programs, when they are consolidated, do not take up such a disproportionate amount of budget and focus.
3. Recovery of DSM DVA balances from Rate M1 and 01 customers in the Union rate zone be calculated on a per customer rather than on a volumetric basis, but still spread over a suitable number of months, to prevent an unfair subsidy of residential programs by non-residential customers.

All of which is respectfully submitted.

Yours very truly,
**SHEPHERD RUBENSTEIN
PROFESSIONAL CORPORATION**



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties