

Ms. Christine Long  
OEB Registrar  
Ontario Energy Board  
P.O. Box 2319, 27th Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

May 28, 2021

**Re: EB-2021-0072 2019 DSM Deferral and Variance Account Disposition Application  
Pollution Probe Submission**

Dear Ms. Long:

In accordance with Procedural Order No. 1 for the above-noted proceeding, please find attached Pollution Probe's written submission.

Respectfully submitted on behalf of Pollution Probe.



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cc: Ms. Asha Patel, Enbridge Regulatory (via email)  
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All Parties (via email)  
Richard Carlson, Pollution Probe (via e-mail)

**ONTARIO ENERGY BOARD**

**Enbridge Gas Inc.  
Application for 2019 Demand Side Management Deferral  
and Variance Account Disposition**

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**POLLUTION PROBE SUBMISSION**

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**May 28, 2021**

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**Consultant for Pollution Probe**

## Background

Enbridge Gas Inc. (Enbridge) filed an application with the Ontario Energy Board (OEB) on March 10, 2021 under section 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) seeking approval to clear amounts recorded in certain 2019 deferral and variance accounts related to its delivery of natural gas conservation and energy efficiency programs.

A Procedural Order was issued by the OEB on April 20, 2021, providing OEB staff an opportunity to file written interrogatories by April 29, 2021 and intervenors to file written interrogatories by May 3, 2021. Written submissions are due by May 31, 2021.

The following are the written submissions on behalf of Pollution Probe.

## Overview

Enbridge Gas Distribution and Union Gas (collectively, referred to as “Enbridge”, following their merger) filed an application on March 10, 2021 to clear 2019 DSM Deferral and Variance Account Balances, more specifically the following amounts.

Table 1  
2019 DSM Deferral and Variance Account Balances - EGD Rate Zone

<b>Account</b>	<b>2019</b>
DSM Variance Account	\$6,717,372
DSM Incentive Deferral Account	\$6,421,667
LRAM Variance Account	\$9,082
<b>Total Balance</b>	<b>\$13,148,121</b>

Table 2  
2019 DSM Deferral and Variance Account Balances - Union Rate Zones

<b>Account</b>	<b>2019</b>
DSM Variance Account	\$5,950,363
DSM Incentive Deferral Account	\$2,335,533
LRAM Variance Account	\$928,440
<b>Total Balance</b>	<b>\$9,214,336</b>

Although clearance of the amounts highlighted in the tables above are the direct approvals requested by the Enbridge, there are other implied approvals that an OEB Decision for this proceeding provides. In order for the OEB to approve the amounts above, it is required to review all the inputs to these amounts, including the program savings, cost effectiveness and alignment with the current OEB DSM Framework and OEB DSM Guidelines. Governments, consumers and other stakeholders rely on the outcome of the process established by the OEB to ensure that all these results are accurate and reasonable. For example, policy at all levels of government is influenced by the cost effectiveness values validated by the OEB. Enbridge used this information to publish cost-effectiveness, energy and emissions savings related to the OEB approved portfolio. Additionally, the Province of Ontario uses this information for international and other reporting related to energy and emissions reductions. The OEB conducted an audit related to information underlying these accounts (see audit scope below) and leveraged a small group of industry experts and intervenors stakeholders (i.e. EAC) to assist. This proceeding represents the only public consultation<sup>1</sup>, review or input into the DSM results, account clearance amounts requested and the related DSM portfolio

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<sup>1</sup> EB-2021-0072 Exhibit I.PP.2a

information (e.g. cost-effectiveness, energy and emissions reductions)<sup>2</sup>. The DSM audit and EAC process evaluated a portion of the information related to the 2019 DSM results and this proceeding is the only process to review all the accounts requested for clearance and the underlying evidence supporting the request.

### 2019 Audit & Evaluation Process

Enbridge filed evidence to support clearance of the accounts including Enbridge's 2019 Demand Side Management Annual Report and a link to the 2019 Natural Gas Demand-Side Management Annual Verification report (the "Verification Report")<sup>3</sup> for the EGD rate zone and Union rate zones completed by the OEB's Evaluation Contractor (DNV GL Energy Insights).

In 2015 the OEB established an Evaluation Advisory Committee ("EAC") which was formed to provide input and advice to the OEB on the development of the EM&V plan and on the evaluation and audit of the DSM results. Members are appointed by the OEB and current members include:

- OEB Staff
- Two industry experts
- Two non-utility stakeholder (intervenor) representatives
- Natural gas utility representative(s)
- And an observer from the Ministry of Energy, Northern Development and Mines.

It appears that there was no scope of work published to guide the EAC in assessing 2019 results<sup>4</sup> and there was no documentation filed indicating that the EAC supported or rejected the 2019 DSM savings or if they assessed any of the 2019 DSM account elements not covered by the OEB's Evaluation Contractor.

The Evaluation Contractor (DNV GL) proposal<sup>5</sup> indicated that a review of all accounts, including the DSMVA was in scope for the audit. However, the final Verification Report excluded an assessment and opinion of the DSMVA<sup>6</sup>. The DSMVA represent the largest accounts (by dollar amount) requested for clearance and it is unclear why they were excluded from the Verification Report.

According to the DSM Guidelines the DSM audit should include the following<sup>7</sup>:

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<sup>2</sup> EB-2021-0072 Exhibit I.PP.2b

<sup>3</sup> [2019 Natural Gas Demand-Side Management Annual Verification Report \(oeb.ca\)](#)

<sup>4</sup> EB-2021-0072 Exhibit I.PP.1b

<sup>5</sup> EB-2021-0072, Exhibit I.PP.1, Attachment 1

<sup>6</sup> [2019 Natural Gas Demand-Side Management Annual Verification Report \(oeb.ca\)](#). Page 4.

<sup>7</sup> Demand Side Management Guidelines for Natural Gas Utilities (EB-2008-0346) page 41.

“At a minimum the independent third party auditor should be asked to:

- Provide an audit opinion on the DSMVA, LRAM and incentive amounts proposed by the natural gas utilities and any amendment thereto;
- Verify the financial results in the Draft Evaluation Report to the extent necessary to express an audit opinion;
- Review the reasonableness of any input assumptions material to the provision of that audit opinion; and
- Recommend any forward-looking evaluation work to be considered.”

The assessment conducted by the EC and EAC included less than 47% of the amounts requested for approval in this proceeding. That places a higher burden on this proceeding to validate the remaining 53%+ not previously assessed. The EC and EAC also did not review portfolio overhead spending such as the amounts spent on the new DSM IT system (estimated at \$5.2 million) commissioned in 2019<sup>8</sup>. It is recommended that the EC and EAC include the full scope of the DSM portfolio for future annual audits. This written hearing process does not afford the ability to assess accounts and supporting information in a detailed manner, nor is the level of detail provided to the EC and EAC available in this proceeding. Pollution Probe has not included specific program issues in this submission since this proceeding would not likely impact future program requirements and that should be the scope of the more detailed audit and evaluation process. It is recommended that the OEB assess how to make that process more open and accessible to all stakeholders, For example, recently some stakeholders indicated that they were unaware that the audit was complete and posted on the OEB website.

### DSMVA Clearance

The DSMVA was not included in the audit conducted by the EC and it appears that there was no assessment done by the EAC (i.e. DSMVA amounts equate to \$12,667,735 or just over 56% of the amount requested for OEB approval and were excluded from the scope of the audit). The EC also does not verify spending figures or conduct a financial audit of Enbridge’s 2019 DSM spend<sup>9</sup>.

Prior to the OEB assuming responsibilities for the DSM audit and evaluation, all accounts were included in the audit process and filed as part of the clearance of accounts. This appears to be a gap in the current process and it is recommended to close that gap for future years.

There is a significant portion (\$3.32 million) of the 2019 DSMVA account amount (\$3.18 million from the EGD portfolio and \$0.14 million from the Union portfolio) that is an

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<sup>8</sup> EB-2021-0072 Exhibit I.PP.4d

<sup>9</sup> <https://www.oeb.ca/sites/default/files/2019-Natural-Gas-Demand-Side-Management-Annual-Verification-Report.pdf>, Page 28.

allocation of funds for future payments as program incentives<sup>10</sup>. It is unclear to Pollution Probe what rules the OEB has put in place for accruing funds from a program year for future payment. There is risk in tracking these amounts between program years, particularly heading into a new DSM Framework which has the potential to change programs and portfolio rules. If this treatment aligns with the OEB approval for the 2019 DSM plans or the DSM Framework in place for 2019, then these amounts would be open for clearance in 2019. OEB treatment of costs typically align with the benefits/results they create, requiring the savings to be claimed in the same year as the program (incentive) expense. Pollution Probe suggests that Enbridge include clarity around the OEB approved rules in its Reply Submission to provide further support to claiming the \$3.32 million of related DSMVA costs in 2019. The response to OEB Staff IR#1 indicates that if the incentive payments expire, they are returned to Ratepayer, but since the DSMVA is an umbrella account, that would only occur if the amount was not otherwise spent somewhere else.

In addition, since the \$3.23 million of funds proposed to be recovered through the DSMVA is retained by Enbridge since 2019, it would be expected to earn interest that should reduce the actual amount of DSMVA recoverable. OEB Staff IR #2<sup>11</sup> indicated that amounts in the 2019 DSMVA include interest payments owed to Enbridge since 2019. The interest related to \$3.12 million retained by Enbridge since 2019 should perhaps be deducted from the 2019 DSMVA amount calculation. This would be approximately \$0.312 million<sup>12</sup> less.

Pollution Probe requested a summary of IT costs capitalized related to the DSM<sup>13</sup>. Enbridge's response indicates it has treated those costs as pure O&M which is different than other similar IT systems. Enbridge also referenced that it had flagged the discrepancy in IT cost treatment in Exhibit B, Tab 3, Schedule 1, page 4 of the 2017/2018 DSM Deferral and Variance Account Application. It is suggested that Enbridge should include an explanation for each program year where the OEB approval was different than what was actually done (e.g. changing capital to O&M treatment). This would provide transparency until a new harmonized DSM plan is brought forward for approval.

It appears inconsistent to budget for some non-program costs (e.g. EAC, Process & Program Evaluation<sup>14</sup>) and do a DSMVA pass-through to other similar non-program

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<sup>10</sup> EB-2021-0072 Exhibit I.STAFF.1

<sup>11</sup> EB-2021-0072 Exhibit I.STAFF.2

<sup>12</sup> EB-2021-0072 Exhibit I.STAFF.2 calculates \$50,041 of interest against a total of \$50,335,535 (total less interest)

<sup>13</sup> EB-2021-0072 Exhibit I.PP.4a

<sup>14</sup> EB-2021-0072 Exhibit I.PP.2 f and g.

costs (e.g. OEB Audit costs, Potential Study allocation, etc.). Treating a portion of these as a flow through to the DSMVA makes it difficult to compare year-over-year budget to actuals and incents underspending of audit and evaluation costs which degrade governance over time. It would be more consistent for Enbridge to allocate an annual amount that Enbridge and the OEB can leverage for all annual audit, improvement and program evaluation activities. If the OEB overspends for an annual audit in one year, that could be offset by underspending in other EAC or evaluation costs for the same year.

The OEB DSM Framework indicates that incremental DSMVA spending can be “utilized on incremental program expenses only”<sup>15</sup>. The DSM Guidelines also indicate that the natural gas utility will be permitted to recover from ratepayers up to 15% above its annual DSM budget recorded in its DSMVA provided that the “DSMVA funds were used to produce results in excess of those targets (i.e., in excess of 100%) on a pre-audited basis.”. Additionally, the DSM Guidelines indicate that “the natural gas utility will be permitted to recover from ratepayers up to 15% above its annual DSM budget recorded in its DSMVA provided that: ... the DSMVA funds were used to produce results in excess of those targets (i.e., in excess of 100%)”. It is not clear based on the current rules that overhead and non-program costs (e.g. Potential Study allocation, Audit, etc.) can be recovered through the DSMVA. For future DSM plans and Frameworks, it would be more consistent to include all these items in the annual budget and not include them in the DSMVA.

Enbridge carries the burden of bringing forward sufficient evidence to support the requested clearance of account. It would have been beneficial for the EC to include an opinion on the DSMVA (and other elements not included in the EC or EAC scope) to help guide the OEB in ensuring that all amount align with current OEB requirements. Given that it is not practical to replicate the audit in this proceeding, it appears appropriate in this case to approve clearance of the requested DSMVA amounts, adjusted for items noted above.

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<sup>15</sup> EB-2014-0134, Report of the Board, DSM Framework for Natural Gas Distributors (2015-2020), December 22, 2014 refers to the DSM Guidelines for treatment of DSMVA. Demand Side Management Guidelines for Natural Gas Utilities (EB-2008-0346) page 25-26.

## LRAMVA

Enbridge indicated that the LRAMVA amounts are calculated off the Lost Distribution Revenue in Table ES1 is based on the partially effective 2019 DSM volumetric results only<sup>16</sup>. The LRAM is a calculation of the difference between what was in Rates for 2019 and the actual partially effective 2019 DSM volumetric results. Pollution Probe recommends that the OEB approve that approach which would accurately reimburse Enbridge for the difference (or reimburse Ratepayers if actual partially effective volumes were less than included in the 2019 budget used for rate setting).

## Recommendations

Pollution Probe recommends that the OEB approve the amounts requested by Enbridge, with the exception of the adjustments outline above (i.e. DSMVA and LRMVA). Although several elements were not included in the Evaluation Report or EAC review, there appears to be no basis to suggest additional adjustments. Based on current information available and in Pollution Probe's view, it would be unfair to hold up the clearance of these accounts while additional verification was conducted. This gaps should be closed in future years.

It is recommended to improve audit and evaluation process for future years. It is recommended that a scope of work or workplan be created for the EAC for each year going forward. It is also recommended that the EAC produce a summary of their<sup>17</sup> review and recommendations that can be used to assess the reasonableness of the Enbridge DSM accounts in the future<sup>18</sup>.

"Process and Program Evaluation" was underspent by 12% and Union "Research" and "Evaluation" was underspent by 23% and 29%, respectively<sup>19</sup>. Enbridge indicated that it has no control over some of these budget categories since the OEB governs some of the activities and level of spending included in some categories underspend in 2019. If it was known in advance that there would be surplus budget available, it could be allocated to customer incentives which drives DSM results and shareholder incentive. Underspending consistently on research, evaluation and continuous improvement activities will impact the governance of the portfolio, particularly immediately before a new DSM Framework and 6 Year DSM Plan is filed for OEB review.

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<sup>16</sup> EB-2021-0072 Exhibit I.PP.3c

<sup>17</sup> 2019 is the most recently audited year available before Enbridge filed its next multiyear plan in May 2021 in EB-2021-0002.

<sup>18</sup> EB-2021-0072 Exhibit I.PP.2e

<sup>19</sup> EB-2021-0072 Exhibit I.PP.2 f and g.

It is recommended that the EC include an assessment and opinion related to all accounts and underlying information, including the DSMVA in all future audit reports. To the extent that it can help expedite the process, Enbridge could also provide confirmation from its auditor that the amounts in the DSMVA align with current regulatory requirements.