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July 6, 2021

Ontario Energy Board
By electronic filing and e-mail

Attn: Christine E. Long, Registrar and Board Secretary

Dear Ms Long:

Re: EB-2021-0002, EGI 2022-27 DSM – GEC Submission on Interim 2022 DSM Program

Pursuant to P.O. 1 in this matter, please find attached GEC's submission on Enbridge's DSM proposal for 2022.

Sincerely,

Cc: All parties

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EB-2021-0002

Before the Ontario Energy Board

Enbridge Gas Inc Application for Multi-Year Natural Gas Demand Side Management Plan (2022 to 2027)

GEC SUBMISSIONS ON THE 2022 DSM INTERIM PROGRAM

Contents

Pursuant to Procedural Order No. 1 GEC offers the following submissions on Enbridge Gas's request for interim approval of the 2022 DSM program year plan and budget.

Overview

Concerns with the Enbridge Proposal for 2022

GEC has identified numerous concerns with the Enbridge 2022 DSM proposal including *inter alia*:

- A continued real dollar decline in budget over the course of recent years at the expense of foregone cost effective savings for customers, with 2022 targets lower than 2019 verified achievement.
- A shift of budget from program costs to overheads.
- Scorecards and shareholder incentives based on first year savings rather than lifetime savings which will disconnect shareholder rewards from customer benefits.
- A shared savings incentive which would incent cream skimming and the creation of lost opportunities.
- A Long Term GHG Reduction Incentive that also incents cream skimming and lost opportunities and has numerous design issues.
- A Low Carbon Transition Program which would encourage entrenchment of gas technology that is more expensive than efficient electricity driven technology and contrary to government GHG policy objectives.

Other Concerns Requiring Immediate Board Direction to Enbridge

GEC has also identified several concerns that should await consideration in the next phase of this process and that invite Board direction at this time, including:

- Directing Enbridge to provide alternative target and budget options that better address government GHG reduction policy goals.
- Directing Enbridge to provide DRIPE, system savings, and past program participation analyses to inform discussion of the net rate impacts borne by current non-participants.
- Directing Enbridge to offer alternative program designs for Board consideration that will improve its low net to gross ratio.
- Directing Enbridge to alter program offerings to favour fuel agnostic measures that will remain valuable in the event of fuel switching.

Recommendations for Board Orders

GEC submits that the Board should at this stage:

- Approve only those aspects of the 2022 proposed plan that are necessary to avoid disruption in program delivery;
- Direct Enbridge to increase its 2022 budget by 18% to $160.2 million – representing a 3% real annual increase (plus a 2% annual inflationary adjustment) relative to 2019 actual DSM spending;
- Require higher 2022 savings targets commensurate with the modest real budget increase referenced in the previous bullet;
- Reject changes to the shareholder incentive structure for 2022 , particularly Enbridge's proposed new program to promote gas heat pumps and hybrid gas electric heat systems (what the Company calls its "Low Carbon Transition Program");
- Reject programs and program components which seek to entrench gas use.

Interim 'Program' vs 'Budget'

We note that the Board's P.O.1 seeks submissions on the 2022 program year but does not explicitly refer to the budget, whereas P.O.2 refers to the 2022 – 2027 budget and indicates that the Board is not considering granting the company an early approval of those budgets. Nevertheless, GEC recognizes that any interim approval of the 2022 program will implicitly amount to an interim approval of the 2022 budget. While recognizing that the budget issue will be dealt with in greater detail in the next phase of these proceedings, given that the budget is the primary constraint on achievable savings, these submissions will comment on the suitability of the spending proposal associated with the company's 2022 interim program as well as program content.

Implications of the limited record

On May 27th GEC and ED jointly sought Board approval to file evidence addressing the budget issue as a preliminary matter. At that time we indicated that such evidence could be produced within four weeks of a procedural order. Given that P.O. 1 is silent on that request and calls for submissions after two weeks, it is not possible to provide expert evidence addressing budget for 2022 along with these submissions. Nor have we and the Board had the benefit of discovery, or expert advice based thereon, or examination of the company's witnesses, to facilitate detailed submissions on the 2022 program at this time.

That said, GEC recognizes the need for an expedited interim approval of a plan for 2022 to ensure program continuity. However, GEC is concerned that the plan and associated spending as proposed by Enbridge is inadequate given the opportunity for cost effective efficiency and customer bill savings and the evolving policy context (and *a fortiori*, will be entirely inadequate as a basis for the 2023-2027 plan and budget).

Rate impact considerations

The Board has provided guidance in its DSM letter indicating its expectation that the DSM budget rise 'modestly'.

Enbridge has interpreted that guidance as supporting a 3% annual increase above a presumed 2% annual inflation.

However, as discussed below, Enbridge's 2022 proposed non-overhead spending is falling in real dollar terms compared to 2021 and its overall budget does not even equal the inflation adjusted budget of three years ago in 2019 (the year for which the most recent verified results are available). Nor does its target of 106,667,914m^3 even equal the verified achievements from 3 years earlier. The 2019 verified first year savings result was 115,682,378m^3.

The rate impact of Enbridge's proposal does not approach the Board's earlier guideline on acceptability. In its 2015-2020 DSM Decision the Board indicated that a $2/month cap on DSM bill impact for non-participating residential customers would not exceed an acceptable rate impact. Applying actual inflation from 2015 to 2021 plus 2% assumed 2021-2022 inflation that would be $2.27 in 2022 dollars. As indicated in the Board's Notice, Enbridge's proposal does not come close to that cap:

Rate Zone	Average Monthly Natural Gas Conservation Costs in 2022
EGD Rate Zone	$1.69
Union South Rate Zone (Rate M1)	$1.53
Union North Rate Zone (Rate 01)	$1.04

Despite the limited information available thus far, GEC is confident that a cost-effective utilization of a modest budget increase for 2022 is entirely achievable. The Board's achievable potential study demonstrates significant headroom for cost-effective program spending. Moreover, federal and provincial government policies supporting GHG reduction by 2030 and eventual net zero targets make it clear that a focus on efficiency measures is a priority, especially measures such as building shell improvements that will have continuing value where fuel switching to electricity occurs. However, as discussed below, Enbridge, despite purporting to, has not in fact proposed even a modest budget increase for 2022, and accordingly, has not proposed reasonable increases in energy efficiency achievement.

2022 program and budget proposal versus prior years

Enbridge did not obtain approval for any increase in budget for 2021, which meant that the 2021 budget was effectively a decrease from 2020 due to inflation. Accordingly, the proposed 3% increase above inflation for 2022 would allow little more than a flat budget and rate impact in real dollars relative to 2020. But the true picture is worse than that once overheads are separated from program costs. Table 1 provides a comparison of the 2021 budget and the proposed 2022 budget with overheads segregated from program spending[1]. As the table indicates, 2022 program spending is essentially the same as the 2021 program spending in nominal dollars – i.e. without adjusting for inflation. When inflation is considered, the 2022 program spend is therefore down by approximately 2%. It is also notable that all of the nominal spending increase is in non-program costs – overheads plus other portfolio costs – with those costs increasing 9% over 2021 levels (7% after inflationary adjustments).

Table 1

2021 versus 2022 Budget with Overheads Segregated

		2021	2022
Resource Acquisition Programs (w/o Overheads)			
	Residential	34.7	38.4
	Low Income	25.5	21.1
	Commercial & Industrial	32.5	34.7
	Large Volume	3.2	2.5
	Energy Performance	2.5	1.1
	Total	**98.3**	**97.8**
Market Transformation Programs (w/o Overheads)			
	MT - new construction	6.4	5.7
	MT - Low Carbon (gas HPs/hydrid systems)		2.9
	MT - Other	1.8	
	Total	**8.1**	**8.6**
Program Overheads			
	Resource Acquisition	14.9	10.9
	Markt Transformation	1.3	0.7
	Total	**16.3**	**11.6**
Portfolio Costs			
	Portfolio Admin	3.8	11.0
	Evaluation/Regulatory	4.5	3.8
	R&D	2.5	3.2
	Total	**10.9**	**18.0**
Grand Total		**133.6**	**136.0**
Programs Total (w/o overheads)		**106.4**	**106.4**
Programs as % of Total		80%	78%

[1] 2021 data from EB-2019-0271, Exhibit I.SEC.2, Attachment 1, Page 1, but with $1.5 million for Union smart thermostat program added (to reflect approval after the referenced table was developed).

The budget comparison shown in Table 1 above does not consider what is actually being achieved, which is more indicative of what should be expected going forward. The auditor's verification report of the 2019 efficiency program results, the least year for which such verified numbers are available, provides the basis for such a comparison. The data provided there indicates that the proposed 2022 targets are decreasing relative to past achievements. Table 1.1 of that report shows Enbridge annual savings of 52.3 million m^3 with total spending of $72.8 million and Table 1.2 of that report shows Union annual savings of 63.4 million m^3 with total spending of $65.6 million for a total of 115.7 million m^3 in savings with total spending of $138.4 million.

Enbridge's 100% targets for 2022 amount to 107 million cubic meters[2] which is 7.5% less in 2022 than the 115.7 million m^3 of verified savings achieved three years earlier in 2019. Further, the companies cost-effectively spent a total of $138.4 million in 2019. Assuming three years of 2% inflation, the 2019 spend would be $146.9M in 2022 dollars. Thus the interim budget proposal of $135.9M including overheads amounts to a decrease of roughly $11 million compared to the 2019 verified cost-effective spend in current dollars.

The $131M 2019 budget adjusted by three years of 2% inflation would be $139M in 2022 dollars versus the $135.9M proposed.

Proposed budget and target increase

GEC proposes that higher savings can be achieved while respecting the Board's expectation of a modest budget increase.

If we take Enbridge's 3% increase (plus 2% inflation) as an indication of what a modest budget increase might be, the 2019 budget of $131M when increased 5% each year for 2020, 2021 and for 2022, comes to $151.6M – a difference of $15.75M or 11.6% above the EGI proposal.

More importantly, if we take the verified actual cost-effective spend of $138.4M in 2019 and increase it by 2% inflation and 3% growth for three years it amounts to $160.2M rather than the $135.9M proposed -- a difference of approximately 18%.

Accordingly, GEC submits that the proposed 2022 budget and targets all be adjusted upwards by at least 18% after making the reallocations noted below. Enbridge can then utilize the reallocation flexibility included in the framework to implement the increase effectively.

[2] Being the sum of 100% target values from Table 1 at Exhibit D, Tab 1, Schedule 3 Page 3

Indeed, GEC notes that the $2/customer per month cap enunciated by the Board in the prior framework would support a budget of $166M in 2021[3]. If inflation since that cap was announced is factored in, that value would approach $190M in 2022 dollars, roughly 40% higher than the company's proposal. Enbridge has in effect been incented to low ball its annual targets, allowing it to ease its goal of maximizing its shareholder incentive. As discussed below, revising the incentive mechanism to overcome this perverse result should be a focus in the subsequent phase. In the interim, Enbridge should not be rewarded for its success at holding targets down.

Elements of the 2022 program that should not be approved at this stage

Consistent with the Board's direction, GEC submits that the company's two proposed longer-term shareholder incentive metrics should be off the table for 2022. Similarly, we submit that issues such as integration with IRP will be addressed in the next phase of this process.

Further, due to their complexity and controversial nature the following items should not be approved for 2022 in this abbreviated and expedited stage of the process:

- **Use of first year savings rather than lifetime savings in Enbridge's annual scorecards.** This is a switch from the past practice of utilizing lifetime savings and is entirely unreasonable. To do so would reduce the incentive to focus on longer-lived measures which is harmful to climate goals and would potentially offer higher shareholder rewards for lower total savings.

- **The Annual Net Benefits "shared savings" performance metric proposal** (~31% of total max incentive) **i**s highly contentious and should not be considered without the benefit of discovery and the opportunity for intervenor sponsored expert evidence. Problems include:

    - Shared savings incentives risk incenting cream skimming. Put another way, a shared savings incentive can drive the company to favour low hanging fruit rather than comprehensive treatments, and that in turn creates lost opportunities. Low hanging measures are also the very measures that customers are more likely to eventually pursue on their own (even if they aren't free riders at the time of program implementation -- e.g. smart thermostats at $150 rather than insulating attics at $2000).

[3] EB-2019-0271 I.ED.7

- The value of the reward can go up or down significantly for reasons beyond the utility's control. For example, if avoided costs double due to carbon pricing, the utility earns twice as much for the same effort.
- Shared savings mechanisms discourage extra spending on low income and other customers for whom savings may be less cost-effective (e.g., relative to programs targeting large businesses) but for whom the need for efficiency investments and resulting bill savings is arguably the greatest.
- A shared savings mechanism could encourage the utility to shift funding from one target area to another as a way to realize significant increases in shareholder earnings. For example, if Enbridge shifts just 20% of residential whole building program budget (~$6M) to Industrial (which would be ~35% increase in the industrial budget), the result would be a reduction in residential net benefits of about $6M and an increase in industrial net benefits of ~$70M, for a net increase of ~$64M. At current forecast net benefits for 2022, that shift would earn the utility nearly $1M in added incentive under its shared savings metric. This result is a function of the fact that industrial programs are forecast to have a much higher benefit-cost ratio than residential whole building programs. Such a dramatic shift in emphasis should not be an artifact of the incentive structure unless it is an intended result consistent with the Board's priorities.

GEC suggests that the value of the annual net benefits shared savings incentive be reassigned to other scorecard items for 2022, with the merits of the proposal to be debated and considered by the Board only for 2023 and subsequent years.

- **The proposed Long Term GHG Reduction Incentive** is an incentive for gas savings that potentially suffers the same failings we have noted as a risk for shared savings incentives. For the same reasons, consideration of that proposal should await a fuller record. Further, this incentive (supposedly for GHG reductions) is based on the sum of "annual gross" gas savings "targeted" in the first year multiplied by 6 years plus 15%. This structure introduces numerous potential problems including:

  - A target based on gross rather than net (i.e., excluding free rider effects) is different from all other metrics and detached from the goal of GHG reductions with no reasonable basis or explanation for why.

  - Because the incentive is based on the sum of six years of first year savings, it isn't actually measuring total energy or GHG reductions because the focus on first year savings treats measures with a 10 year life as worth the same as those with a 25 year life, and because some short-lived measures installed in years one and two may not still be providing GHG reductions at end of the six year period.

  - EGI proposes that it earn all of the incentive for achieving 100% of the target (i.e. all or nothing) with no ramp up to 150% as with other incentives. Thus the incentive rests entirely on the reasonableness of the first year target – and there is therefore an enhanced incentive to low-ball the first year target.

  - The incentive doesn't account for increasing budget or savings goals over time (other than the 15% bump equal to the DSMVA allowance).

  - The incentive is based on prescriptive savings calculations rather than actual gas sales.

Accordingly, the Board should alert Enbridge that it will not consider 2022 targeted savings should it subsequently approve any long-term incentive.

- **The Low Carbon Transition Program** would incent installation of capital intensive gas-fired equipment such as gas fired heat pumps which could displace more efficient, less impactful, and more economic options such as efficiency and electric heat pumps. Losing opportunities for more economic treatment or for fuel switching to electric heat would be contrary to government policy goals for customer savings, energy efficiency and GHG reduction. There is no demonstration that this is in the long-term interest of the province or least cost pathways to reducing GHGs because there is no evidence to suggest RNG at scale is even possible, let alone at a price that is affordable relative to efficient electrification. We note that this could mean fuel-switching to gas for cooling, which is not only blocking a move forward on GHG reduced heating but potentially moving backwards on GHG impacts of cooling. Moreover, to our knowledge, after decades of experimentation, gas-fired heat pumps are still at best in a pilot testing phase – there is essentially no real market for them today and no reason to believe they will ever be sold in North America at any significant scale. Accordingly, both this program and the incentive should not be approved for 2022. Any inclusion of the program or the incentive should not occur before consideration in the main proceeding.

- **Enbridge's shareholder incentive proposal incents low target setting** Enbridge has little or no incentive to raise targets because to do so jeopardizes its opportunity to earn rewards. This is a fundamental issue that deserves informed discussion. Allowing changes in the incentive structure in this abbreviated and limited first phase will impede and needlessly complicate consideration of the more fundamental changes that can address this problem.

- **Building Beyond Code Program eligibility** This program inappropriately requires that participants commit to using gas for space or water heating. This program requirement is indicative of Enbridge's conflict of interest. The Board should not allow Enbridge to use DSM as a means to preserve gas load. This proposal begs for a broader discussion of how and who can best deliver efficiency programs that are fuel agnostic. GEC submits that the Board should defer consideration of that question to the subsequent phase of this process.

Observations with Implications for the balance of this proceeding requiring Board direction

- **Lack of alternative budget and rate impact analyses:**

  Enbridge sought early approval of its entire 6 year budget envelope based on the logic that any significant change from its proposal would necessitate it going back to the drawing board. GEC agrees with that observation and submits that the implication flowing therefrom is that the Board will be hamstrung in its considerations in the next phase of this process if suitable evidence informing the budget is not available for consideration. In particular the Board has noted that it expects a proposal for "modest" budget increases and enhanced productivity. Yet, as discussed above, Enbridge has effectively proposed a decrease in spending and achievements and an increase in overheads.

  Further, the Board's concern for, and consideration of, budgets will be based both on the cost-effectiveness of the proposal and the rate impacts (particularly for non-participants). Consideration of both of these topics requires a fuller evidentiary record with implementable alternatives.

  Enbridge's evidence on rate impacts is similarly lacking. A potential key factor in determining the rate impact on non-participants is the impact of the DSM effort on gas and electricity commodity prices (DRIPE). In its Decision in the joint 2015-2020 DSM proceeding (EB-2015-0029 / EB-2015-0049) at p. 87 the Board noted:

> "The cost impact of DSM programs for a customer was discussed during the proceeding. Some parties suggested that this cost impact be shown as a net rate impact, and both the benefits and the costs of the DSM programs be included in the same calculation. The OEB suggests the gas utilities consider a net rate impact approach further. Some areas to consider include: the sample (e.g., years, participants, customers, etc.) required to reasonably consider the benefits and costs to customers, price forecasts used, **demand reduction impact on price**, among others. This analysis should be presented to the OEB as part of the gas utilities' next multi-year DSM plans." (emphasis added)

Apart from some data in the Guidehouse Avoided Costs Report, Enbridge's application fails to respond to the Board's request for broader evidence on net rate impacts, evidence that is central to an informed consideration of what is a modest budget increase with acceptable rate impacts. Enbridge has not conducted a local DRIPE study, and has offered no analysis of the proportion of its customers who have enjoyed the benefit of past DSM efforts, both of which are mitigating factors when considering rate impacts on current non-participants. Given that there are verified net customer savings of $6.3 billion for the programs up to 2018, and there are distribution system savings on top of that, it is likely that the vast majority of customers are enjoying bill reductions that significantly offset or exceed the rate impact of the DSM budget.[4]

Accordingly, GEC submits that the Board should direct Enbridge to file for consideration in the next phase of this process:

- A DRIPE analysis looking at net rate impacts for participants and non-participants including impacts on electricity costs (due to gas-fired generation at the market margin) and due to multi-year effects.

- Alternative versions of its 6 year plan based on 18% higher 2022 base year budget and savings and escalating at a representative array of steeper rates.

- **Low net to gross ratio.** EGI's total net first year savings of ~107M m3 compared to the gross savings of 243M m^3 suggests a very low net to gross ratio which calls into question overall program and customer incentive designs. Higher participant incentives could attract more customers who are not free riders. GEC submits that the Board should

[4] EB-2019-0271, Exhibit I.ED.2, Page 1

direct Enbridge to provide (for consideration in the main proceeding) alternative customer incentive structures that decrease free ridership.

- **Entrenchment of gas consuming equipment.** Throughout Enbridge's portfolio no distinction is being made between measures that are fuel agnostic and those involving investment in gas-specific technology. Fuel agnostic measures such as building shell improvements or ventilation and water management measures can maintain value in the event of a fuel switch. Given government GHG reduction goals for 2030 significant fuel switching will likely be needed in the coming years but no recognition of this likelihood is reflected in the company's proposal. GEC submits that the Board should direct Enbridge to provide measure, program and scorecard alternatives in the next phase of this process that emphasize fuel agnostic measures.

All of which is respectfully submitted this 6th day of July, 2021

David Poch
On behalf of the Green Energy Coalition