

SUPPLEMENT A - OEB'S INFORMATION AND REQUIREMENTS

1.1 PROJECT INFORMATION

Project Name: Post-2020 Demand Side Management (DSM) Policy Framework for Natural Gas Distributors – Expert Analysis and Recommendations related to Natural Gas DSM Cost Recovery Approaches, Shareholder Incentive Models and Natural Gas DSM Best-in-Class Program Jurisdictional Review

VOR Subject Area(s):

- 1) Climate Change

VOR Topic Area(s):

- 1) Cap and trade regulatory frameworks
- 2) Carbon pricing forecast
- 3) Conservation policy frameworks
- 4) Conservation potential studies
- 5) Evaluation, measurement and verification of conservation programs (EMV) including net to gross studies, impact and process evaluation and market effects
- 6) Marginal abatement cost curves and cost effectiveness evaluation
- 7) Renewable and distributed generation
- 8) Technology assessment

Anticipated Project Start Date:

The OEB expects that the final deliverables will be completed within approximately two (2) months following the start of the engagement.

Supporting services could be required for the duration of the post-2020 DSM framework policy consultation (EB-2019-0003).

Vendors will be asked to consider these approximate timelines when preparing their bids, and should include within their bids a proposed schedule for Tasks 1, 2, 3 and 4.

Task 5 – Supporting Services could extend for up to one (1) year.

Project End Date:

The term of the engagement is for one (1) year with an option for the OEB, in its sole discretion, to extend it for one (1) additional one-year term.

1.2 BACKGROUND INFORMATION

1.2.1 Project Background:

Overview

The OEB intends to retain a vendor to provide support for the development of the post-2020 policy framework for natural gas demand side management (DSM).

DSM provides opportunities for natural gas customers to improve the energy efficiency levels within their homes and businesses in an effort to reduce overall natural gas usage and associated greenhouse gas emissions, help manage energy costs and play a role in potentially deferring or avoiding future infrastructure development.

The OEB has had policy guidance related to ratepayer-funded and utility-delivered DSM programs since [1993](#). Policy guidance has been updated in [2006](#), [2012](#) and most recently for the period of [January 1, 2015 to December 31, 2020](#), including the OEB's [Mid-Term Review Report](#).

The current 2015-2020 DSM Framework was developed following a March 31, 2014 directive from the Ontario Minister of Energy. Following the release of the OEB's DSM Framework, the two large gas utilities in Ontario, Enbridge Gas Distribution Inc. and Union Gas Limited, filed proposed multi-year DSM plans. On January 20, 2016, the OEB issued its [Decision and Order](#) related to the gas utilities' 2015-2020 DSM Plans. The approved annual budgets for the two utilities to implement natural gas DSM programs for residential (including low-income), commercial, and industrial (including large volume) customers are outlined in the table below:

Table 1 - Enbridge and Union 2015-2020 OEB-approved annual DSM budgets

Utility	2015	2016	2017	2018	2019	2020	2015-2020 Total
Enbridge Gas	\$37.7M	\$56.4M	\$62.9M	\$67.6M	\$66.4M	\$67.8M	\$358.8M
Union Gas	\$34.0M	\$56.8M	\$58.6M	\$63.3M	\$63.3M	\$64.3M	\$340.3M
TOTAL	\$71.7M	\$113.2M	\$121.5M	\$130.8M	\$129.7M	\$132.1M	\$698.1M

In September 2019, the OEB [announced](#) that it is undertaking a comprehensive review of the current DSM policy framework ([EB-2019-0003](#)). The scope of the review will include consideration of the objectives to be achieved by DSM activities, targets, program mix, budgets (including cost recovery models) and how utility performance should be incentivized and measured.

The OEB is consulting with interested parties in the development of the post-2020 DSM framework. To-date, the OEB has sought feedback on the scope of the review, the goals, objectives and guiding principles of the post-2020 DSM framework, and the consultation plan.

1.3 OEB'S REQUIREMENTS

The objectives of this Project will be to:

1. Develop a report that provides expert analysis of cost recovery approaches (e.g. amortizing energy efficiency program costs) and performance-based shareholder incentive models to maximize overall results, including natural gas savings and reductions in customers' energy costs. Review of other jurisdictions should be considered, for example Commonwealth Edison and Ameren in Illinois, PSE&G in New Jersey, Rocky Mountain Power in Utah and EmPower in Maryland that have incorporated an amortization approach. The report should ultimately provide recommendations for natural gas DSM cost recovery approaches and performance-based shareholder incentive models in Ontario; and
2. Undertake a jurisdictional review of best-in-class natural gas energy efficiency programs across all sectors and customer classes and provide recommendations on programs or specific program components that should be considered for inclusion as part of future natural gas DSM programs in Ontario; and
3. Provide supporting services, as needed, to provide information regarding the contents of the report as part of stakeholder consultations.

1.3.1 Purpose and Scope:

The purpose of this project is to contribute to the OEB's policy review to develop a new DSM framework by generating expert analysis of natural gas DSM cost recovery approaches and performance-based shareholder incentive models, as well as a review of best-in-class natural gas DSM programs and recommendations on considerations for future programs in Ontario. This research project is intended to assist OEB staff and stakeholders as part of the policy consultation process and ultimately, the OEB in its determination of appropriate policy guidance related to future DSM activity in Ontario.

The scope of this project will be to develop two expert reports and to provide supporting services as needed. Supporting services could include attending stakeholder consultation meetings, and presenting the report's conclusions to internal and external parties.

1.3.2 Mandatory Requirements

Vendors must have sufficient resources available to address the scope of services required in accordance with the timelines indicated in this RFS.

1.3.3 Project Requirements (Description of Specific Deliverables/Milestones):

Task 1: Develop Work Plan for the Cost Recovery Approaches and Performance-based Shareholder Incentive Models Report

Vendors are asked to provide a draft work plan and schedule to complete the cost recovery and shareholder incentive models report as part of their bids. The draft work plan should provide sufficient detail for the OEB to assess what information-gathering and analytical techniques will be used to develop the cost recovery and shareholder incentive models report (e.g. whether research will involve the use of documents in the public record, proprietary information/tools/knowledge of vendor, informational interviews, etc.). This work plan will be finalized based on discussion with OEB staff, and potentially interested stakeholders in the policy consultation, after the successful vendor has been selected.

Deliverables

1. **Final Cost Recovery and Shareholder Incentives Report Work Plan:** finalized based on discussion with OEB staff.

Task 2: Report on Natural Gas Demand Side Management Cost Recovery Approaches and Performance-based Shareholder Incentive Models

The cost recovery approaches and shareholder incentive models report will focus on considerations needed for the OEB to determine if it is appropriate to change the DSM cost recovery model, or parts of the DSM cost recovery. The current cost recovery model allows for DSM expenses and performance-based shareholder incentives to be recovered on an annual basis proportionally from all customer rate classes.

The OEB is interested in understanding more about different cost recovery approaches, particularly an amortization approach that treats DSM costs similar to capital investments and allows DSM costs to be amortized over a certain period of time.

The vendor is also expected to consider if and how performance-based shareholder incentives can or should be altered from the current model that rewards a utilities' annual achievement relative to various metrics across multiple scorecards up to a maximum absolute incentive amount, to a different model that prioritizes and motivates maximizing overall natural gas savings, reducing customers' energy costs and deferring or avoiding future infrastructure projects.

The OEB expects that, at a minimum, the cost recovery and shareholder incentives report would include the following information:

- A general description of at least three current examples where provincial, state or regional energy efficiency and conservation costs are amortized, and the experience to-date of those models, including overall costs, costs as a percentage of customer's bills, and overall energy reduction targets. Preference should be given to natural gas conservation examples, but electricity conservation examples can also be included where there are no natural gas examples.

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- A comparison of the current cost recovery approach in Ontario to other cost recovery approaches that discusses the following:
 - Whether there are cost recovery approaches, other than the current Ontario model where costs are recovered on an annual basis or amortization approach, that Ontario should consider
 - Amortization period
 - Return on equity for demand-side investments relative to traditional infrastructure investments
 - Impacts on customer bills and annual rate impacts
 - Equitability of amortizing costs
 - Inclusion of penalties for not meeting targets
 - Time period used as basis for DSM budgets, performance incentives and targets (e.g. single-year vs. multi-year)
 - Implementation of new programs and changes to existing programs at various points during a multi-year plan
 - Programs, measures, sectors and other utility DSM costs best suited for amortization
 - Utility focus on cost-effective energy efficiency relative to other investments
- A comparison of Ontario's energy policy, resource mix and conservation efforts to jurisdictions that have transitioned to an amortization cost recovery model.
- A comparison of Ontario's natural gas DSM shareholder incentive model to the shareholder incentive model of at least three other leading jurisdiction's natural gas energy efficiency programs, including key policy considerations that govern natural gas energy efficiency program activity, overall policy goals and maturity and sophistication of program delivery.
 - As part of the review of shareholder incentive models, the vendor is expected to provide the linkages to the cost recovery model(s) and how best the two should be aligned. Additional analysis should also be included, including risks to various shareholder incentive models.
- Recommendations from the vendor regarding the appropriateness of transitioning, either in part or exclusively, Ontario natural gas DSM costs to a different cost recovery approach and/or performance-based shareholder incentive model.

Vendors are asked include a draft Table of Contents (ToC) for the cost recovery and shareholder incentives report as part of their bids. The draft ToC of the successful vendor will then be refined and finalized based on discussion with OEB staff, and potentially stakeholders in the post-2020 DSM framework policy consultation (EB-2019-0003).

The vendor is asked to submit a draft cost recovery and shareholder incentives report to OEB staff for review. The vendor should plan for at least two meetings with OEB staff (one prior to finalizing the ToC, likely in conjunction with finalizing the work plans (Task 1 and Task 3) and jurisdictional review criteria (Task 4), and one subsequent to submitting the draft cost recovery and shareholder incentives report and draft jurisdictional review (Task 4), with communication via phone/e-mail as needed between these milestones. The vendor should also plan on making up to two presentations of its findings, one potentially to OEB staff and

one to external stakeholders as part of the OEB's post-2020 DSM framework policy consultation.

Vendors are asked to submit a fixed price for Tasks 1 and 2 combined. Evaluation of bids on this criterion will be based on the fixed price submitted by vendors. Vendors will also be asked to provide a list of proposed team members for Tasks 1 and 2 along with their hourly rates. The successful vendor's invoices will need to provide a breakdown of the fixed price by: i) the team member(s) that performed services ii) each team member's hourly rate(s) and iii) number of hours expended by each team member on Tasks 1 and 2 combined.

Deliverables

1. **Final Table of Contents for the Cost Recovery and Shareholder Incentives Report:** finalized based on discussion with OEB staff.
2. **Draft Cost Recovery and Shareholder Incentives Report**
3. **Final Cost Recovery and Shareholder Incentives Report:** revised and finalized based on comments from OEB staff. The vendor will be expected to detail how comments provided by OEB staff have been addressed.
4. **Presentations of Report Findings and Recommendations:** with internal and external stakeholders as part of the OEB's policy consultation.

Task 3: Work Plan for the Jurisdictional Review of Best-In-Class Natural Gas DSM Programs

Vendors are asked to provide a draft work plan and schedule to complete the jurisdictional review of best-in-class natural gas DSM programs as part of their bids. The draft work plan should provide sufficient detail for the OEB to assess what information-gathering, analytical techniques and criteria will be used to select the best-in-class programs to compare to the current Ontario natural gas DSM programs. The goal of the jurisdictional review is to provide recommendations on program concepts and key program elements that will enhance the programs delivered in Ontario as part of future multi-year DSM plans (e.g. whether research will involve the use of documents in the public record, proprietary information/tools/knowledge of vendor, informational interviews, etc.). This work plan will be finalized based on discussion with OEB staff, and potentially interested stakeholders in the policy consultation, after the successful vendor has been selected.

Deliverables

1. **Final Jurisdictional Review Work Plan:** finalized based on discussion with OEB staff.

Task 4: Jurisdictional Review of Best-In-Class Natural Gas DSM Programs

The jurisdictional review should focus on highlighting exemplary natural gas energy efficiency programs and/or key program elements offered to residential, commercial and industrial customers in other provinces, states or countries. Up to six (6) programs or up to twelve (12) key program elements, that ideally span each of the residential, commercial and industrial sectors, should be included as part of the review. The programs highlighted should be active programs that have been deployed within the last four (4) years. The programs should have remarkable characteristics, such as having achieved significant natural gas savings and/or greenhouse gas reductions, were extremely successful in removing barriers to participation, resulted in significant bill reductions, or had a material effect in changing business operation and energy management practices.

The vendor is expected to review the current Ontario DSM programs and provide specific recommendations on program improvements, enhancements and new program elements that are not currently offered to natural gas customers in Ontario. Final verified results of the current programs from the 2018 program year can be found on the [OEB's webpage](#). Comparisons with programs in other jurisdictions should be prioritized relative to the comparability to the Ontario DSM programs, with key features such as energy conservation policy and goals, program maturity, and service territory characteristics (including weather, population density, etc.) guiding the programs that are selected.

In addition to the program characteristics noted above, other areas of interest include:

- program elements that have led to low free ridership levels;
- innovative residential home retrofit programs that do not include furnace upgrades;
- increasing participation amongst small commercial customers;
- targeting programs at customers with the greatest potential for significant savings,
- benchmarking, energy management and monitoring,
- pay-for-performance,
- coordination with electricity conservation programs, and
- enhancing and/or modifying programs to increase buy-in from a customer's senior management team and reduce overall customer burden.

The vendor is asked to submit a draft jurisdictional review to OEB staff for review. The vendor should plan for at least two (2) meetings with OEB staff (one prior to finalizing the work plan and criteria for the jurisdictional review, likely in conjunction with finalizing the work plan and ToC for the cost recovery and shareholder incentives report (Task 1), and one subsequent meeting prior to submitting the draft jurisdictional review, likely in conjunction with the draft cost recovery and shareholder incentives report (Task 2), with communication via phone/e-mail as needed between these milestones. The vendor should also plan on making up to two presentations of its findings, one potentially to OEB staff and one to external stakeholders as part of the OEB's post-2020 DSM framework policy consultation.

Vendors are asked to submit a fixed price for Tasks 3 and 4 combined. Evaluation of bids on this criterion will be based on the fixed price submitted by vendors. Vendors will also be asked to provide a list of proposed team members for Tasks 3 and 4 along with their hourly rates. The successful vendor's invoices will need to provide a breakdown of the fixed price by: i) the team member(s) that performed services ii) each team member's hourly rate(s) and iii) number of hours expended by each team member on Tasks 3 and 4.

Deliverables

1. **Final Criteria for Jurisdictional Review:** finalized based on discussion with OEB staff.
2. **Draft Jurisdictional Review**
3. **Final Jurisdictional Review:** revised and finalized based on comments from OEB staff. The vendor will be expected to detail how comments provided by OEB staff have been addressed.
4. **Presentations of Report Findings and Recommendations:** with internal and external stakeholders as part of the OEB's policy consultation.

Task 5: Supporting Services

The vendor will provide supporting services as needed to communicate the contents of the deliverables within the context of the OEB's policy consultation to develop a new DSM framework (EB-2019-0003). Supporting services could include requests for additional research, analysis and reporting, presenting the reports' conclusions to parties in the policy consultation and/or future adjudicative proceeding, as required.

The policy consultation schedule will be determined by the OEB; the vendor should ensure that it can dedicate resources as needed to comply with the schedule.

Vendors are asked to submit one total fixed hourly rate for Task 5 which is the rate that the successful vendor will use in its invoicing, rather than individual vendors' rates. Evaluation of bids on this criterion will be based on this total fixed hourly rate and the successful vendor will be required to invoice at this fixed rate. Vendors are required to indicate which team member(s) are proposed for Task 5 (supporting services), along with their usual hourly rates, even though they will only be permitted to charge the fixed hourly rate for Task 5.