

08 February 2022

Nancy Marconi, Registrar
Ontario Energy Board

VIA RESS AND EMAIL

Dear Ms Marconi:

Re: EB-23021-0002 EGI DSM – GEC IRs to EGI on Reply Evidence

Please find GEC's IRs on the First Track evidence (EGI's reply evidence) attached.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Poch', with a stylized flourish at the end.

Cc: All parties

GEC IRs to EGI on Reply Evidence

4-GEC-EGI-Reply.1

Please indicate whether all of the First Tracks report observations and recommendations are acceptable to Enbridge. If not, which are not accepted?

4-GEC-EGI-Reply.2

Ref. p. 3 “I was first engaged by Enbridge in the summer of 2021, and completed most of my work over the autumn and early winter.”

Please describe the work for EGI referred to above. Please provide a copy of all communications and documents detailing the scope of your work for EGI then and since.

6-GEC-EGI-Reply.3

Ref. p.24 Re: Impacts of Higher Budgets

- a. Does the author agree that a full consideration of bill impacts of DSM spending would include DRIPE (both on gas and electricity prices) and long-term T&D savings?
- b. Does the author agree that widespread opportunity for participation in DSM programs over many years can mitigate concerns about rate impact as more customers enjoy reduced bills from DSM?
- c. Does the author agree that placing emphasis on DSM for low income consumers can mitigate concerns about rate impact?
- d. Does the author agree that focusing on DSM measures that are fuel neutral (that will remain of value if a customer electrifies load) would help ensure that DSM budgets are not wasted investments?

5-GEC-EGI-Reply.4

Ref. p.17 Re: regulatory assets: “If regulatory policies do actually transition away from natural gas in the future, some investors and regulators worry that a mismanaged transition could have negative consequences on customers and investors. For example, some regulators fear that large scale electrification could results in spiraling gas rates, as the fixed costs of the gas system are spread over

fewer remaining customers. This is especially worrisome if higher income customers drive early electrification, leaving low income or other disadvantaged groups to shoulder ongoing costs.”

- a. Could concerns about low income customers being saddled with regulatory assets due to amortization as electrification occurs be addressed in part by programs to assist low income customers fuel switch?
- b. Does the author agree that this concern about costs being borne by remaining gas customers (especially low income customers) as electrification occurs also arises for all depreciating gas distribution assets including pipeline investments?
- c. Would the author agree that electrification may reduce customers’ electricity rates due to fixed costs being spread among higher volumes and that all gas customers are likely to benefit to some degree from these offsetting electricity rate reductions?

8-GEC-EGI-Reply.5

Ref p. 47-48, Re: Shareholder incentive multi-year components: “Obviously, if the OEB accepts EFG’s recommendations and eliminates some offerings, those components should also be eliminated. However, evaluating the merits of those offerings is beyond the scope of my evidence in this proceeding.”

- a. Does the author agree that the utility has some incentive to invest its own funds in gas technology R&D and market transformation as a means of addressing the risks it faces from electrification of loads?
- b. Does the author agree that DSM shareholder incentives should not conflict with stated government policy goals?
- c. Does the author agree that DSM shareholder incentives should support stated government policy goals where possible?

8-GEC-EGI-Reply.6

Ref.: p. 53 Re: performance thresholds: “Enbridge would be directly penalized for delivering portfolio savings above 75%, unless it also maintained savings above 75% for every program group; it cannot access the incentive pools allocated to each program group until it meets the threshold floors.”

- a. Would the author agree that failure to earn a performance incentive should not be considered to be a ‘penalty’ if the level of performance is considered to be lackluster? If not why not?
- b. Would the author also agree that there is a compensating “upside” in EFG’s and Optimal’s proposals because the company would not have to achieve potentially unachievably high levels of savings relative to goals to earn their maximum incentive for any given metric? If not, why not?

5-GEC-EGI-Reply.7

Ref.: On p. 14 of his report, Mr. Weaver states that the growing size of a regulatory asset associated with amortizing DSM “could be a concern to Enbridge investors and credit rating agencies...” and that “Since the asset is not backed by physical property, Enbridge is at risk if a future OEB Panel would ever decide to stop funding the ongoing cost recovery required to fully repay Enbridge’s bondholders and shareholders.”

- a) Why would this concern be different for a DSM regulatory asset than for an asset associated with capital investment in the utility’s distribution system, such as a larger underground pipe to serve a particular region of its service territory?
- b) If the answer to part “a” of this question is that DSM does not involve physical assets whereas distribution systems do, why does the presence of a physical asset change the risk of a future Board deciding to stop “funding ongoing cost recovery”? Wouldn’t the presence of a physical asset only be a risk mitigating factor if the Company could sell it to another party in the event that the Board stops allowing cost-recovery? If not, why not?
- c) Would Mr. Weaver agree that for an underground gas pipe replacement project, the physical asset is unlikely to have any net salvage value to the Company in the event that it is no longer being used and/or paid for 10 or 15 years after its installation – i.e., it is unlikely that the utility could make any money by digging up and selling the physical asset (and that the market value of the asset may even be less than the cost of digging it up)?

5-GEC-EGI-Reply.8

Ref: On p. 17 of his report, Mr. Weaver shows the unamortized regulatory asset for DSM growing to between a little more than \$600 million in under a 5-year amortization approach and a little under \$1.8 billion under a 16-year amortization approach.

How do those values compare to the current (2022) unamortized asset balance for all non-DSM investments Enbridge has made to date?

5-GEC-EGI-Reply.9

Ref.: On p.17 of his report, Mr. Weaver states that “large regulatory balances create risks for Enbridge’s investors should future OEB Panels change their policy supporting the natural gas utility industry in general.”

Wouldn’t the same regulatory risks also be a good reason to amortize capital investment in the Enbridge transmission and distribution (T&D) system over a time period much shorter than the technically useful life of such new assets? If not, why not? What is different about DSM relative to supply side investments – in terms of risks to Enbridge investors – that would argue for shorter amortization period for DSM but not for capital investments in T&D?

5-GEC-EGI-Reply.10

On p. 23 of his report, Mr. Weaver lists three questions the OEB should address before moving forward with amortization. The third of these is “How should competing policy objectives be balanced, specifically, increases in DSM budgets, short- and long-term rate levels, and acceptable regulatory asset balances.”

- a) Would Mr. Weaver agree that significantly increased DSM savings, at least if it included significant measures and programs that would reduce winter peak hour usage, would lower and/or defer future capital investments in gas transmission and distribution infrastructure that would otherwise be necessary to meet growing peak demands (what is sometimes called “passive deferral” of T&D investment)? If not, why not?
- b) Would Mr. Weaver agree that, all other things equal, greater DSM savings will reduce future regulatory asset balances associated with new T&D capital investments? If not, why not?
- c) When considering tradeoffs between DSM budgets, rate levels and regulatory asset balances, should the OEB consider the reduction in future T&D regulatory assets resulting from passive deferral of T&D investments as well as increases due to amortization of DSM? In other words, should it consider the net impact on regulatory asset balances of DSM? If not, why not?

3-GEC-EGI-Reply.11

Ref.: On p. 23 of his report, Mr. Weaver recommends that the OEB phase in a “substantial budget increase” over several years. Mr. Weaver further notes that “other jurisdictions that have phased in new and expanded portfolios over a period of three to four years.

- a) How would Mr. Weaver define “substantial” in this statement?
- b) Please provide examples of other jurisdictions that have phased in expanded portfolios over three or four years. In providing those examples, please indicate: (i) how many years the program administrator had been running programs prior to the expansion; (ii) the level of annual savings being achieved prior to the expansion; and (iii) the level of annual savings to which it ramped up.

6-GEC-EGI-Reply.12

Ref.: On p. 24 of his report, Mr. Weaver states that for the OEB “to continue to meet its historic guidance on rate impacts”, DSM budget growth would need to be far lower than a doubling of Enbridge’s proposed budgets. On pp. 24-25, he states that more modest budget increases of 20% would “track closer to the OEB’s historic rate guidance.”

- a) In making these statements, did Mr. Weaver adjust the OEB’s historic guidance for inflation?
- b) In making these statements, did Mr. Weaver adjust for any rate reducing impacts of DSM?

9-GEC-EGI-Reply.13

Ref.: On p. 48 of his report, Mr. Weaver states that EFG's proposed performance target of 5% reduction in energy intensity would require Enbridge to reduce systemwide gas sales by 1.25% per year, or a level that far exceeds the Company's proposed savings targets. Mr. Weaver goes on to state that if the OEB were to adopt an energy intensity metric, it should be based on levels that can be reasonably be achieved within the budgets approved.

- a) Given that this is a five-year plan, wouldn't EFG's recommendation only require a 1.00% per year reduction?
- b) Would Mr. Weaver agree that when determining a value of a potential energy intensity metric that is achievable within approved DSM budgets, it should consider not only the savings that would be counted towards resource acquisition savings targets, but also savings that could be achieved through customer education and potentially other market transformation initiatives? If not, why not?

9-GEC-EGI-Reply.14

Ref.: On pp. 50-51 of his report, Mr. Weaver states that while the concerns raised by Optimal and EFG regarding first year or annual savings metrics (in comparison to lifetime savings metrics) are hypothetically valid, they are not a "practical concern with Enbridge's actual portfolio" because the Company's planned programs are dominated by long-lived and have very few short-lived measures.

- a) What is Mr. Weaver's understanding with regards to the flexibility, after its plan is approved, that Enbridge has to add new measures and/or new programs without regulatory approval? What is the basis for that understanding?
- b) Would Mr. Weaver agree that if the Company has the flexibility to add new measures or programs with much shorter lives, that having an annual savings goal rather than a lifetime savings goal could create an incentive to do so? If not, why not?

9-GEC-EGI-Reply.15

Ref.: On p. 51 of his report, Mr. Weaver states that the need to multiply annual savings by an assumed equipment life creates an evaluation risk for Enbridge.

Other than the fact that it is a second assumption to be considered, how is the nature of that risk any different than for annual savings?

9-GEC-EGI-Reply.16

Ref.: On pp. 51-52 of his report, Mr. Weaver states that Enbridge has already encountered issues related to evaluation risk associated with measure life assumptions or estimates and that experience "is partly behind their proposal to change for lifecycle to annual savings metrics."

Please list specific examples of such evaluations in which Enbridge assumptions on measure life were changed in ways that adversely affected its ability to reach savings targets. Please include in the examples provided the actual magnitude of the evaluation change as a percentage of the Company's total lifetime savings goal for a given year.

9-GEC-EGI-Reply.17

Ref.: On p. 52 of his report, Mr. Weaver states that there are ways to mitigate evaluation risks associated with using lifecycle savings including (1) using TRMs to define measure lives and baseline adjustment rules; (2) applying changes to lifecycle calculations only prospectively; (3) limiting changes within plan cycles; and (4) defining savings goals that automatically adjust within plan cycles with measure lives or baseline adjustments change.

- a) Would Mr. Weaver agree that Enbridge has historically been able to extensively rely upon TRM defined measure lives? If not, why not?
- b) What is Mr. Weaver's understanding regarding how frequently measure life assumptions have been changed in the Ontario gas TRM? Please be specific, if you can, regarding the number of assumptions whose measure lives have changed in each of the last three TRM updates, the specific measures for which they were changes, how much of a change was made (i.e., as a percent of the previous measure life assumption), and what fraction of Enbridge's lifetime savings were associated with such measures.
- c) Would Mr. Weaver agree that TRM assumption changes to which Enbridge has historically been tied have only been applied prospectively? If not, please explain why not.

9-GEC-EGI-Reply.18

Ref.: On p. 54 of his report, Mr. Weaver supports maintaining Enbridge's proposed TAM mechanism for adjusting annual savings goals.

Is Mr. Weaver aware of any other jurisdiction that has a mechanism that makes the savings goal for any given year an entirely formulaic function of what was achieved the previous year? If so, please identify all such jurisdictions and describe how their mechanisms are structured.

3-GEC-EGI-Reply.19

Ref.: On p. 59 of his report, Mr. Weaver cautions the OEB about using the benchmarks for leading gas utility DSM savings that were referenced in EFG's report, indicating that the jurisdictions "have very different regulatory environments, market conditions, and resources available to them."

- a) What is Mr. Weaver's definition of "very different?"
- b) Has Mr. Weaver conducted an in-depth analysis of the regulatory environments, market conditions, and resources for each of the utilities compared in the EFG report? If so, please provide the supporting evidence.

- c) Would Mr. Weaver agree that comparing the savings as a percentage of sales across multiple gas utilities of varying regulatory environments, budget levels, and market conditions somewhat mitigates the impact of such factors on whether a utility is able to exceed 1% energy savings?
- d) Would Mr. Weaver agree that Enbridge's proposed portfolio is achieving significantly lower savings than other gas utilities' energy efficiency portfolios in similar climates?

3-GEC-EGI-Reply.20

On p. 59 of his report, Mr. Weaver cautions the OEB about using the benchmarks for leading gas utility DSM savings that were referenced in EFG's report, citing the following differences between those jurisdictions and Enbridge:

- Xcel (Minnesota) tracks performance against gross savings rather than net
 - Furnace efficiency standards in the U.S. are lower than in Canada
 - National Grid, Eversource and Consumers have behavior programs that account for significant annual savings, "but much smaller lifecycle savings
 - National Grid and Eversource can claim large savings from stretch building codes, while it is unclear that Enbridge would be allowed to do so
 - National Grid and Eversource have budgets that are at least twice those proposed by Enbridge
- a) With respect to the first bullet above, was Mr. Weaver aware that level of savings that EFG presented for Xcel Minnesota was an estimate of net savings (not gross), developed by applying a U.S. national average net-to-gross ratio for gas DSM used by ACEEE to Xcel's reported gross savings level (see EFG report footnote 15)? Does that not eliminate Mr. Weaver's first caveat? If not, why not?
 - b) With respect to the third bullet:
 - i) Please confirm that Consumers Energy's 2019 Reconciliation report shows that its residential behavior program (Home Energy Reports) accounted for less than 8% of its gas savings (see PDF p. 74 at <https://mi-psc.force.com/sfc/servlet.shepherd/version/download/068t000000CG3VcAAL>).
 - ii) Was Mr. Weaver aware that the EFG report acknowledged that Enbridge's savings portfolio had a longer average measure life (perhaps because of less reliance on shorter lived behavior program savings), but that even from a lifetime savings perspective leading gas utilities are saving about twice as much gas as Enbridge? Does Mr. Weaver have any basis for contesting that conclusion?
 - c) With respect to the fourth bullet:
 - i) What does Mr. Weaver consider to be "large savings"?
 - ii) What fraction of their annual savings in 2019 did National Grid and Eversource obtain from their stretch codes programs? If Mr. Weaver does not know, what is the basis for suggesting that such savings represent a "large" fraction of their total savings?
 - iii) What is the basis for Mr. Weaver's suggestion that Enbridge might not be able to claim savings from supporting stretch codes in Ontario?

- d) Would Mr. Weaver agree that even if one were to adjust for the first four of his five bullets – and not make any adjustments for situations that may make it easier to produce savings in Ontario – that the savings in the jurisdictions cited by EFG are significantly higher than recently achieved and then proposed for the future by Enbridge? If not, why not?