Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

February 8, 2022

Nancy Marconi
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Enbridge Gas Inc. – EB-2021-0002
Application for new DSM Framework and 2022-2027 DSM Plan
OEB Staff Interrogatories on Reply Evidence

In accordance with Procedural Order No. 6, please find attached OEB staff's interrogatories related to the reply evidence filed by Enbridge Gas Inc. in the above noted proceeding.

Yours truly,

Josh Wasylyk Digitally signed by Josh Wasylyk
Date: 2022.02.08 14:20:01 -05'00'

Josh Wasylyk
Senior Advisor – Application Policy & Conservation

cc: All parties in EB-2021-0002

OEB Staff Interrogatories on Enbridge Gas Inc. Reply Evidence
2022-2027 Demand Side Management Framework and Plan Application

Enbridge Gas Inc.
EB-2021-0002

February 8, 2022

Reply Evidence submitted by Enbridge Gas Inc. (First Tracks Consulting Services, Inc.)

Issue 7 – Cost Recovery

7.OEB Staff.1.EGI Reply

Reference: EGI Reply Evidence, p. 11, Figure 2

Questions:

a) Please confirm that the cash flow analysis in figure 2 (amortization treatment of proposed 2023 DSM costs) would result in overall costs to ratepayers in excess of $142M due to applying WACC over the 10-year amortization period.
b) Please indicate what the incremental costs would be above the proposed $142M base budget.

7.OEB Staff.2.EGI Reply

Reference: EGI Reply Evidence, p. 11-35, Figures 1-14

Question:

Please provide all working files (live excel files) in an unlocked format that were used in conducting the analysis related to amortization of DSM costs, including that which developed Figures 1-14.

7.OEB Staff.3.EGI Reply

Reference: EGI Reply Evidence, p. 23

Preamble:

The report notes that "if the OEB approves a substantial budget increase, that it phase in the increase over several years. For example, other jurisdictions have phased in new and expanded portfolios over a period of one plan cycle…"

Question:

Please discuss and provide references to those jurisdictions that have phased in expanded portfolios.

7.OEB Staff.4.EGI Reply

Reference: EGI Reply Evidence, p. 23

Preamble:

The report notes "Enbridge already deploys one of the largest gas DSM portfolios in North America, and so substantial budget increases will likely require structural market changes to accommodate more funding."

Questions:

a) Please expand on what structural market changes may be required.
b) Can Enbridge please discuss if any sort of market analysis has been conducted to determine what, if any, impacts an increased budget of greater than 25% of that which has been proposed would have on Enbridge's ability to engage the necessary trade allies and implementation partners. Please provide any internal analysis that supports your response, if available.

7.OEB Staff.5.EGI Reply

Reference: EGI Reply Evidence, pp. 23-24

Preamble:

The report suggests that if budget increases are ordered by the OEB, that a portion of the increased budget be used to develop increased workforce resources.

Questions:

a) Please confirm that the workforce development funding example provided of Nicor Gas in Illinois is recovered from rate payers.
b) Please discuss and provide references to any other utilities that, to First Tracks' knowledge, are approved of ratepayer funding to develop workforce resources in support of efficiency and conservation programming.
c) Does Enbridge agree that it would be reasonable to use OEB-approved ratepayer funding to develop workforce resources to support its DSM programs? In your response, please discuss the nature of these workforce development activities in the Ontario energy efficiency context (for example, the IESO already offers training for energy managers).

7.OEB Staff.6.EGI Reply

Reference: EGI Reply Evidence, p. 24

Preamble:

The report notes "large budget increases will also eat into the rate savings generated by amortization, so the OEB will need to match increase to the specific amortization structure to stay within the historic rate guidance."

Questions:

a) Please confirm that the "historic rate guidance" referenced to here is approximately $2/month for a typical residential customers which was provided in the 2015 DSM Framework.
b) Please clarify what is meant by "the OEB will need to match increase to the specific amortization structure to stay within the historic rate guidance".

7.OEB Staff.7.EGI Reply

Reference: EGI Reply Evidence, pp. 24-25, Figure 9 and Figure 10

Question:

Please confirm that the analysis conducted to produce Figure 9 and Figure 10 only considered increases to the total DSM budget and did not contemplate specific changes to certain programs/sectors of Enbridge's DSM Plan (e.g., specific budget changes for any of the various programs proposed by Enbridge - residential, commercial, industrial, low-income, etc.).

7.OEB Staff.8.EGI Reply

Reference: EGI Reply Evidence, pp.24-25, Figure 10

Preamble:

The report notes that “Figure 10 shows more modest increase of 20%...these scenarios track closer to the OEB’s historic rate guidance…”

Question:

Please clarify that this statement assumes that an even budget increase across all programs and therefore a corresponding rate impact of 20% relative to historic impacts.

7.OEB Staff.9.EGI Reply

Reference: EGI Reply Evidence, p. 28

Preamble:

The report notes “I disagree with Optimal’s recommendation to recover performance incentives by amortizing them along with other portfolio expenditures. This approach greatly reduces the magnitude of shareholder earnings, and sends the wrong signal to Enbridge management.”

Questions:

a) Does First Tracks agree that, if the performance incentive is amortized using the WACC, then, from Enbridge’s perspective the net present value is the same whether or not it is amortized? Why or Why not?

b) If First Tracks agrees, please explain how amortizing “greatly reduces the magnitude of shareholder earnings.”

7.OEB Staff.10.EGI Reply

Reference: EGI Reply Evidence, p. 30

Preamble:

The report notes “I don’t see how Enbridge could raise a billion dollars by promising investors only 4% returns.”

Questions:

a) Please confirm that the $1 billion figure referenced is cumulative over 20 years

b) What is Enbridge's current debt?

c) Does First Tracks agree that if Enbridge were to amortize the program costs using WACC as the interest rate, that it would be fully compensated for those costs related to carrying the debt?

d) Please provide evidence supporting the statement that Enbridge would not be able to raise $1 billion in debt over 20 years.

e) Does the author think that Enbridge would be able to raise $1 billion in debt for supply side investments over the next 20 years? Why or why not?

7.OEB Staff.11.EGI Reply

Reference: EGI Reply Evidence, p. 31

Preamble:

The report notes "As I discussed in Section 2.1.1.2, the regulatory asset created by amortizing DSM expenditures is not as valuable or secure as physical assets like power plants or pipelines. For this reason, an argument could be made that even fully compensating Enbridge for its authorized ROE might not be enough to attract capital."

Questions:

a) Please provide all examples where previously approved Enbridge efficiency spending was later denied collection.

b) If the OEB treats the amortized investment as an approved regulatory asset does that give Enbridge as much certainty of recovery of other asset investments? If not, why not?

c) Does First Tracks agree that investments in physical assets carry risks that construction expenses might not be fully recovered if the asset does not become used and useful and/or if there are large unapproved cost overruns?

d) Does First Tracks agree that once an efficiency program year is complete, the risk of denial of approved cost is very low? If no, why not?

e) Does First Tracks agree that, given overall climate change mitigation risks and current or potential future Canadian or Ontario climate policies, that the risk of investments in physical gas assets with very long estimated lives and amortization terms carries some risk of becoming a stranded asset?

7.OEB Staff.12.EGI Reply

Reference: EGI Reply Evidence, p.34

Preamble:

The report notes that ""[f]or similar reasons, I disagree with the broader policy conclusion that customer discount rates provide a reasonable framework for evaluating Ontario's DSM policies, whether those policies address cost recovery policy or DSM cost-effectiveness. If Enbridge evaluated cost effectiveness using a higher, customer discount rate, many measures and programs currently delivered through the portfolio could be eliminated. The resulting portfolio would provide far fewer benefits to Enbridge customers, far smaller reductions in carbon emissions, and might not be delivered at all."

Questions:

a) Does First Tracks agree that, if two approaches to revenue collection have the same NPV from Enbridge's perspective, then the approach with a higher NPV from the customer's perspective should be chosen? Why or why not?

b) Does First Tracks agree that it may make sense to use a different discount rate when evaluating which DSM programs and measures to offer (which may be about maximizing benefits from a societal perspective) than when determining the preferred rate structure used to collect the costs necessary to offer the programs while still fully compensating Enbridge (which may be about adopting rate impacts that are most preferred from a ratepayer perspective)? Why or why not?

Issue 8 – Shareholder Incentives

8.OEB Staff.13.EGI Reply

Reference: EGI Reply Evidence, pp. 45-47

Preamble:

First Tracks included a performance incentive structure that it has referred to as a "compromise proposal".

Questions:

a) Please clarify if the "compromise proposal" is First Tracks' recommendation to the OEB of the performance incentive structure that is in the best interest of ratepayer funded natural gas DSM.

b) Please explain how First Tracks' compromise proposal is in the public interest and protects ratepayer risks related to future DSM performance and overall costs and cost efficiency of ratepayer funding.

8.OEB Staff.14.EGI Reply

Reference: EGI Reply Evidence, p. 46

<u>Preamble:</u>

The report notes: "As EFG points out, Enbridge's proposed incentive mechanism allows it to shift resources from costly programs and measures to cheaper options, although the important safeguards I outline in Section 2.1.6 limits this flexibility. These resource shifts, if executed thoughtfully, generate higher savings without increasing portfolio budgets. If Enbridge can deliver higher savings within available budgets, it will generate more net benefits from both the TRC-Plus and PAC-Plus perspectives. Thus, the performance mechanism, through the Resource Acquisition scorecards, already provide Enbridge a profit incentive to improve cost-effectiveness. In my view, a Net Benefit component adds complexity without substantially improving management incentives."

<u>Questions:</u>

a) In First Tracks' view, does the ability to shift resources among different programs provide an effective incentive to increase cost efficiency if Enbridge is on track to achieve the maximum performance incentive goals?

b) Does First Tracks agree that net benefits are highly correlated with annual and/or lifetime savings?

   i. If yes, does First Tracks agree that any net benefits metric will still provide at least the same incentive to maximize annual and/or lifetime savings? Why or why not?

   ii. Does First Tracks agree that the effective difference between a net benefits metric vs. an annual and/or lifetime savings metric is simply to add an additional incentive to be cost efficient in addition to the inherent incentive to maximize savings?

c) Please explain in detail how a net benefits component adds complexity if based on a PAC test, where all inputs other than savings are deemed and held constant based on the original plan numbers and the same cost-effectiveness calculation tool was used?

i. Please also explain if any complexity would be eliminated if the only energy avoided cost benefits counted in the PAC were gas benefits?

8.OEB Staff.15.EGI Reply

Reference: EGI Reply Evidence, p. 48

Preamble:

The report notes: "For these reasons, I do not incorporate the Energy Intensity component in my compromise proposal. I also note that EFG's proposed performance targets of 5% reductions in energy intensity, would require Enbridge to reduce systemwide gas sales by 5%, or approximately 1.25% savings per year. **These savings far exceed Enbridge's proposed savings targets, which is constrained by the OEB's historic limits on rate increases.** If the OEB does adopt an Energy Intensity component, I recommend that performance targets can be reasonably achieved within the budget resources available to Enbridge." (emphasis added)

Question:

Please discuss the basis for the underlined statement above. In the response, please discuss the review and analysis that was conducted of Enbridge's historic DSM budget amounts, performance towards its scorecard targets and ultimate DSMSI earnings.

8.OEB Staff.16.EGI Reply

Reference: EGI Reply Evidence, p. 50

Preamble:

The report discusses Enbridge's proposed change from net lifetime savings to net annual savings. As part of the discussion, the report notes "I agree with both Optimal and EFG that the most important objectives achieved by Enbridge's portfolio align better with lifecycle savings than they do with annual savings". The discussion continues to review this topic and provides a breakdown of the current measures in Enbridge's portfolio, showing no measures below 10 years and almost 70% of the proposed savings from measures with lives between 18-22 years.

Questions:

a) Please confirm First Tracks' understanding that Enbridge's proposal to shift its natural gas savings metric from lifetime savings to annual savings is a divergence from current practice, and if so, does First Tracks still recommend this change in approach given all of the detailed measure life information the OEB has developed for prescriptive and custom programs.

8.OEB Staff.17.EGI Reply

Reference: EGI Reply Evidence, p. 52

Preamble:

The report notes: “Finally, I note that other jurisdictions have developed policies that effectively reduce controversy and evaluation risks associated with lifecycle savings calculations. These include using Technical Reference Manuals to clearly define measure lives and baseline adjustment rules; applying changes to lifecycle calculations only prospectively; limiting changes within plan cycles; and defining savings goals that automatically adjust within plan cycles when measure lives or baseline adjustments change. I recommend that Ontario adopt similar policies. If appropriate policies were adopted, then I could support using lifecycle savings as the performance metric for the Resource Acquisition scorecards.”

Questions:

a) Please discuss if First Tracks is familiar with the OEB’s evaluation process that has been in place since the 2015 program year. This process includes an annual verification exercise, annual TRM update process (the TRM includes measure lives for prescriptive measures among other things and solicits proposed updates and input from Enbridge and non-utility expert stakeholders that form an Evaluation Advisory Committee), often includes a detailed review of custom projects, periodic review of NTG values from custom programs, and other studies as required including a custom program measure life review (with changes to custom measures lives applied prospectively). In the response, please discuss any improvements the OEB should consider to the current approach to update the TRM and measure life values for prescriptive and custom measures relative to the recommendation above.
b) Please discuss if instead of changing from lifetime savings goals to annual savings, an alternative course could be to conduct an updated detailed measure life study of certain measures in question in order to increase the accuracy of measure life estimates.
c) With respect to limiting changes within a plan cycle, please confirm that there are a lot of changes that happen outside of evaluation (e.g., changes to appliance standards, new technologies mature, energy avoided costs change which changes cost-effectiveness changes, etc.).
d) Please discuss the potential impact of including direction of limiting or making no changes within the proposed plan cycle of 5-years relative to trends and pace of change in the energy industry and particularly the natural gas sector.

8.OEB Staff.18.EGI Reply

Reference: EGI Reply Evidence, p. 52, Section 3.4.4.2

Preamble:

The report discusses participation vs savings metrics for multi-year scorecards, primarily related to market transformation programs.

Question:

Please confirm that First Tracks did not undertake a review of the market transformation program on its merits. If a review of the program was undertaken, please provide the analysis and conclusions.

8.OEB Staff.19.EGI Reply

Reference: EGI Reply Evidence, p. 53

Preamble:

The report notes: "In other jurisdictions, utilities have broad flexibility to shift funds among offerings to increase portfolio performance and thereby maximize incentives."

Questions:

a) Please define more precisely what is meant by "broad flexibility".

b) Please provide a list of utilities that, to First Tracks knowledge, have flexibility to move program funds from scorecard/program (e.g., sector to sector), beyond the 30% provision currently included in the OEB's DSM Framework.

8.OEB Staff.20.EGI Reply

Reference: EGI Reply Evidence, p. 53

Preamble:

The report discusses performance thresholds and concludes that maintaining Enbridge's proposed bands that allow it to start earning a performance incentive at 50% of target up to 150% is reasonable due to Enbridge facing "substantially more restrictions on its flexibility to move funds among offerings and rate classes" compared to other jurisdictions. Further, the report notes that this is reasonable due to the report's compromise proposal giving up components that provided a hedge against individual program performance.

Questions:

a) Please discuss and provide references to research and analysis of other jurisdictions that have a greater ability to shift funds among offerings and rate classes.
b) Please confirm your understanding that this proposal is a divergence from current practice, where Enbridge only begins to earn a performance incentive once 75% of a target is achieved.
c) Please provide and explain any analysis that was conducted that reviewed Enbridge's performance since 2015 relative to the performance thresholds.

8.OEB Staff.21.EGI Reply

Reference: EGI Reply Evidence, p. 54

Preamble:

The report supports the continued use of the target adjustment mechanism and notes:

"Optimal recommends eliminating the TAM and instead defining fixed performance targets that would no longer adjust annually through the TAM (but could be adjusted during the one-time Mid-Point Assessment).

I cannot support this change. The TAM allows Enbridge to evolve the portfolio in reaction to real-world changes in program markets and in the general economy. The TAM adjusts savings targets to reflect underlying changes to key evaluation parameters and inflation, which both affect the cubic meters of savings that Enbridge can reasonably save with available budgets. If the OEB were to set fixed targets today, based on Enbridge's current evaluation inputs and expectations for inflation, Enbridge would be accountable for changes to those assumptions, even though they are largely out of its direct management control. For example, a lower net-to-gross (NTG) assumption will make it harder for Enbridge to meet savings targets with available budgets, and penalize Enbridge through the incentive mechanism. It also is important to remember that the TAM cut both ways; if NTG rises, Enbridge receives a windfall when it can create higher savings with its available budgets.

While NTG and other evaluation changes are not entirely out of utility management control, in my experience, evaluation results often reflect random changes to evaluation methods and assumptions, or noise in evaluation data collection, rather than real changes in underlying market conditions or utility performance. I have seen many evaluations where NTG levels change, even though utility program designs do not change, and the evaluator offers no program design recommendations for improving NTG. Savings from low-volume, high savings programs like the Industrial and Large Volume programs are especially susceptible to NTG and other evaluation changes."

Questions:

a) Please confirm that if the TAM structure continues that in the event Enbridge underperforms in one year of its plan cycle, all subsequent targets will be reduced while available budget remains constant.
b) Please discuss the level of risk to ratepayers and general impact of ratepayer funding of continuing with the TAM as opposed to incorporating fixed natural gas savings targets.
c) In contrast to (b) above, please discuss the level of risk to Enbridge (and its shareholders) of a potentially smaller annual shareholder incentive if fixed targets were approved, considering that all program and admin costs are fully recovered.
d) Please discuss if First Tracks considered alternative improvements to the structure of the TAM (including minimum levels of achievement/natural gas savings floors that future targets could not fall below; TAM with set floors equal to prior year savings levels multiplied by a minimum annual escalator; etc.).
e) Please discuss First Tracks' familiarity with the OEB's evaluation process which includes, amongst other things: NTG studies conducted in relation to the 2015 and 2018 custom C&I and Large Volume programs; a study of 2017 prescriptive C&I programs; annual recommendations from the OEB's Evaluation Contractor to Enbridge on how it can improve its programs and evaluated results (2020 Annual Verification Report, p. 30). In your response, and based on your review of these evaluation studies, please discuss if the above conclusions remain unchanged about Enbridge's level of insight and control over NTG values and other key inputs.
f) Please confirm First Tracks understanding that program design and customer enrolment of Enbridge's custom C&I programs is entirely within its control, including the ability to screen prospective participants to ensure they are good candidates for the program and not free riders.

8.OEB Staff.22.EGI Reply

Reference: EGI Reply Evidence, p. 54

Preamble:

The report notes that "many other jurisdictions apply policies similar to the TAM to dampen effects of evaluation changes on utility performance metrics."

Questions:

a) Please provide a list of all other jurisdictions that, to First Tracks' knowledge, use a TAM or similar mechanism or policy in place, a description of the policy, and a reference and/or link to the source documentation fully describing all details of the policy/mechanism.

b) Which of these jurisdictions specifically use the cost to achieve from a previous program year to modify previously approved targets for a future program year within the same plan cycle (as opposed to, for example, updating targets via updating NTG values or other explicit EM&V findings, in the original planning model).

8.OEB Staff.23.EGI Reply

Reference: EGI Reply Evidence, p. 55

Preamble:

The report notes "Ontario's TAM has been in place for many years and, although I'm sure its processes could be improved, it has a successful track record."

Questions:

a) Please discuss what analysis was conducted to reach the conclusion that the TAM "has a successful track record".
b) On what basis is First Tracks determining the TAM has been successful?
c) Please discuss the extent of First Tracks' review of the TAM, Enbridge's targets since 2015 and actual performance, and if any suggestions can be made on improvements that could be implemented.
d) If the OEB were seeking to ensure continuous improvement and improved efficiency in programming from Enbridge's DSM plan in order to deliver value to ratepayers and the province in general, would First Tracks still recommend the OEB approve the TAM as proposed?

8.OEB Staff.24.EGI Reply

Reference: EGI Reply Evidence, p. 56

Preamble:

The report recommends that the OEB accept Optimal's recommendation of Enbridge being able to manage a 5-year budget, while also continuing the 15% DSMVA annual overspend policy as a "best of both worlds" option.

Questions:

a) Please confirm that this recommendation is not consistent with Optimal's recommendation as it does not also include a 5-year target component.
b) Please provide greater clarity on this recommendation. In the response, please discuss the mechanics of this approach – for example, if this recommendation is accepted by the OEB, will Enbridge have full access to the entirety of its 5-year

budget on January 1, 2023 and the ability to spend as much or as little in any year of the new plan term? Additionally, on what basis would the 15% DSMVA overspend provision be applicable – for example, would this be based on an annual budget milestone or on the overall 5-year budget amount? Further, since the TAM is based on annual budgets, how would this recommendation reconcile with that formula?

c) Please discuss the basis and rationale for not also supporting the 5-year target component of Optimal's recommendation.

Issue 9 – Scorecards, Metrics and Targets

9.OEB Staff.25.EGI Reply

Reference: EGI Reply Evidence, p. 59

Preamble:

The report cautions the use of EFG's savings benchmarks due to different regulatory environments, market conditions, and resources available to them.

Questions:

a) Has First Tracks reviewed Enbridge's proposed savings targets and past performance?
b) If yes, please comment on the overall level of natural gas savings relative to budget and the proposed trajectory throughout the plan term relative to other leading natural gas efficiency program administrators.

Issue 10 – Suite of Programs

10.OEB Staff.26.EGI Reply

Reference: EGI Reply Evidence, p. 58

Preamble:

The report rejects a number of recommendations from Optimal and EFG without providing rationale in section 3.5.2: Recommendations Excluded from the Compromise Proposal.

Question:

Please provide rationale for each Optimal and EFG recommendation that First Tracks suggests the OEB reject, clearly explaining any analysis done in coming to the conclusion that the particular recommended should be rejected.