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May 19, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Marconi,

Re: Re: Enbridge 2022 to 2027 Demand Side Management ("DSM") Plan
EB-2021-0002

Please find enclosed the submissions of the Ontario Greenhouse Vegetable Growers in the above noted proceeding.

Yours very truly,

Michael R. Buonaguro
Encl.

EB-2021-0002

Enbridge Gas Inc.

Enbridge 2022 to 2027 Demand Side Management ("DSM") Plan EB-2021-0002

SUBMISSIONS OF THE ONTARIO GREENHOUSE VEGETABLE GROWERS

May 19, 2022

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INTRODUCTION

1. These are the submissions of the Ontario Greenhouse Vegetable Growers (OGVG) with respect to the 2023 to 2027 DSM framework (the "Framework") filed by Enbridge Gas Inc. (EGI).

   OGVG's members are commercial greenhouse operators, situated largely in southern Ontario. In the context of EGI's proposed Framework greenhouse operations are defined as industrial sector customers[1], and as such access the DSM assistance offered by EGI within EGI's Industrial Program.

2. OGVG's members also, for the most part, fall within the contract rate classes.

3. Accordingly, OGVG's primary focus in this proceeding is two-fold:

   a) the appropriateness of the programming available to OGVG's members through EGI's Industrial Program, and

   b) the cost of DSM to OGVG's members, recovered from them as customers within EGI's contract rate classes.

4. OGVG recognizes that there are 18 intervenors in this proceeding, with interests that range from customer specific perspectives on EGI's proposal similar in scope to OGVG's interest in the proceeding, to perspectives that encompass the overall effectiveness and appropriateness of the proposed Framework in terms of its impact on reducing the carbon footprint of Ontario. OGVG also recognizes the participation of several intervenors with representatives with long standing participation on EGI's and its predecessor companies Enbridge Gas Distribution Inc.'s and Union Gas Ltd.'s Evaluation and Audit Committees.

5. Accordingly, in view of the numerous intervenors and their wide spectrum of interests and expertise, OGVG has focussed its submissions on a narrow selection of issues of particular interest and concern to its members, with specific focus on those issues that have been noted as being of particular interest to the Ontario Energy Board (the "Board") where OGVG is also directly interested. In doing so, however, OGVG wants to be clear that where it has not made explicit submissions in respect of a live issue in the proceeding OGVG should not be cited as being implicitly in support of EGI's filed position on that issue, as OGVG relies on the efforts of the other intervenors with wider or different perspectives on EGI's proposed Framework to pursue such issues.

6. OGVG notes in particular that much of the time and effort in this proceeding has been focussed on the details surrounding EGI's proposed Residential Program; as OGVG's members do not access DSM assistance through the Residential Program, and do not pay an allocated portion of the costs related to the Residential Program, OGVG relies specifically on those intervenors whose constituents are, in whole or in part, residential

[1] Exhibit E Tab 1 Schedule 5 Page 2, paragraph 4.

customers to bring forward their perspective on EGI's proposed Residential Program and levels of spending.

SUMMARY

7. OGVG's submissions in these proceedings cover the following areas:

   a) EGI's proposed Industrial Custom Program:

      OGVG generally accepts EGI's proposal, with a suggestion that it increase the available incentive for initial energy audits to 100% for historically non-participating customers.

   b) EGI's proposed funding for DSM programming in the contract rate classes, including its efforts to engage all contract rate class customers:

      OGVG general agrees with the proposed level of DSM funding directed to its contract rate class customers, while suggesting an increased focus on tracking and engaging historically non-participating customers.

   c) DSM financing for customers:

      OGVG suggests that EGI should be required to explore and bring forward a streamlined DSM specific financing programming to assist its customers with the financing of customer side DSM investments.

   d) DSM cost recovery:

      OGVG generally supports EGI's proposed cost allocation and cost recovery proposal.

   e) EGI's proposed Shareholder Incentive levels and Target Adjustment Mechanism:

      OGVG generally agrees with the level of proposed shareholder incentive with a fixed maximum; however OGVG believes that the proposed Target Adjustment Mechanism is materially flawed, and that the best option in lieu of the proposed mechanism would be to fix the annual targets over the term subject only to inflationary and productivity factors.

   f) Amortization of DSM costs:

      OGVG does not believe it is appropriate to amortize DSM costs.

   g) Electrification:

      OGVG does not believe it is appropriate to use funding collected from natural gas customers to finance programs that are intended to disconnect existing customers *from natural gas service or discourage potential customers from connecting to natural gas service.*

INDUSTRIAL CUSTOM PROJECTS

8. As previously noted, OGVG's members are designated as industrial customers and receive natural gas distribution service from EGI primarily through the contract rate classes, such that most of OGVG's members access DSM programming from EGI through EGI's Industrial Custom Projects offering.

9. OGVG has reviewed the details of the proposed Industrial Custom Programs offering, which is in large part a continuation of the existing program, and generally supports EGI's proposal as filed. The availability of a program that looks at the specifics of a particular customer's use of natural gas in their business and provides customized options to optimize that natural gas consumption and access to new technologies as they become available is, arguably, the most desirable program design for the delivery of DSM where feasible.

10. OGVG notes that OEB Staff's expert evidence reviewed the details of all of EGI's proposed programs including the Industrial Custom program and, although providing some recommendations that it believed "could lower free ridership, increase depth of savings, and expand participation", concluded that "Enbridge Gas's programs are largely in line with those of similar jurisdictions".[2] OGVG notes that EGI was asked to review the recommendations in OEB Staff's evidence, with EGI's responding comments appearing at Exhibit JT2.10, pages 12-14; based on these responses OGVG does not believe that there are any fundamental issues to be "corrected" in terms of EGI's proposed Industrial Custom Project offering. It is OGVG's understanding that most, if not all, of the proposed recommendations are adjustments that EGI could explore as part of its proposal if it feels those adjustments will improve its results.

11. OGVG has one suggestion for EGI's consideration with respect to both the Commercial and Industrial Custom Project offerings that might increase participation amongst customers within EGI's contract rate classes that have yet to participate in any of EGI's DSM programs.[3] In OGVG's view EGI should consider offering historically non-participating customers in the contract rate classes an incentive equal to 100% of the cost of any 3rd party energy audits, studies or metering rather than the 50% incentive available within the current proposal.[4]

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[2] Exhibit L.OEB.STAFF.2 page 27. OGVG notes that while the conclusion that EGI's programs were largely in line with those of similar jurisdictions was in respect of all EGI's Commercial and Industrial offerings, OGVG is relying on that statement insofar as it specifically relates to EGI's Industrial Custom Projects offering.
[3] As noted later on in OGVG's submissions OGVG believes that EGI should be required to pay special attention to its historically nonparticipating contract rate customers.
[4] Exhibit E Tab 1 Schedule 5 Page 12, paragraph 35. In making this recommendation OGVG expects that a cap on the recoverable costs of such audits, studies and/or metering would remain in place.

12. In OGVG's view providing the initial energy audits, studies and/or metering that identifies the savings opportunities for historically non-participating customers without any direct cost to the customer may assist EGI with the task of engaging those customers. OGVG expects that limiting the availability of the increased incentive to historically non-participating customers within the contract rate classes will limit the cost impact of the increase, and may, for cost effectiveness purposes, be largely if not entirely offset by reduced Free Ridership considerations because of the participation of customers that have not previously been engaged in DSM programming.

CONTRACT RATE CLASSES-LEVEL OF FUNDING AND FOCUS ON HISTORICALLY NON-PARTICIPATING CUSTOMERS

13. During the proceeding OGVG asked questions through interrogatories and at the technical conference with a view to exploring the effectiveness of EGI's status quo DSM framework in reaching all contract rate customers.

14. In view of the evidence provided by EGI OGVG respectfully submits that the overall proposed level of spending that is allocated to EGI's contract rate customers is reasonable insofar as it is adequate to provide DSM programming, largely through custom projects, to each of its contract rate class customers over a reasonable period of years; OGVG's only caveat is that EGI should be required to more specifically report on those customers that continue to be characterized as non-participants in EGI's proposed DSM programming for contract rate customers in order to ensure that all customers are being presented with the opportunity to become participants.

15. As of January 31, 2022 the total number of contract rate customers across all of EGI's contract rate classes (excluding the "Large Volume" classes and classes that do not participate in DSM) is 956.[5] This contrasts with the more than 3.75M customers in EGI's general rate classes.[6]

16. In OGVG's respectful submission the number of contract rate class customers is manageable by EGI in the sense that it is realistic to expect that, over a reasonable period, EGI should be able to deliver DSM programming to all contract rate customers.

17. OGVG notes that over the 2015 to 2020 period EGI averaged 202 unique DSM programming participants per year in the contract rate classes,[7] with the majority of that participation manifesting in the form of custom commercial and industrial projects.[8] At

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[5] Exhibit JT2.1 Table 2; the excluded classes are EGD Rate 125, Rate 200, Rate 300, Rate 315, and Union Rate 25, Rate 100, Rate M9, Rate M10, Rate T2 and Rate T3.
[6] Exhibit I.6.EGI.OGVG.1, Table 1.
[7] Exhibit K2.6_I.5.EGI_GEC5_Attachment 1_20211115 OGVG ANNOTATED 20220329
[8] Exhibit J2.6; this answer shows that in the two years sampled by EGI over 90% of the unique contract class DSM participants participated through either the Commercial custom or Industrial custom offerings.

that rate of participation EGI is delivering enough DSM programming to the contract rate classes to include all of its 956 contract rate customers as either commercial or industrial custom project participants within the (remaining) 5-year period of its DSM proposal, even if EGI was not proposing to increase the funding and participation levels going forward.

18. If there is an issue, OGVG respectfully submits, it is that EGI's contract rate customers can be split into three groups over the past 6 years of EGI's DSM framework; customers that participated in DSM once, customers that participated in DSM 2 or more times, and customers that have not participated in DSM at all. In reviewing these three groups of customers it is surprising, OGVG submits, that while 484 customers have participated in DSM more than once, 369 had not participated at all.[9]

19. The fact that over the last 6 years almost 39% of EGI's eligible contract rate customers have not participated in DSM programming is of concern to OGVG as the benefits of participation, particularly in the contract rate classes, are substantial in terms of commodity savings experienced by participating customers over time. As contract rate customers are almost all if not entirely comprised of competitive businesses, there is a risk that focussing too heavily on repeat customers of DSM programming as opposed to reaching customers that have not, at least in the last 6 years, participated in DSM programming at all may have an undue impact on the competitiveness of those non-participants. In OGVG's view there should be some explicit focus on reaching as many of the contract rate customers as possible and an accounting of that effort, as the number of contract rate customers in total is a number that lends itself to making the theoretical goal of delivering DSM programming to all the customers that fund DSM through rates achievable, at least within those rate classes.

20. To be clear, OGVG believes that EGI's ability to engage its contract rate customers on an ongoing basis, with customers returning to participate 2 or more times over the course of several years, is evidence that EGI has been successful in delivering DSM to contract rate class customers. EGI notes that the value for many of its Commercial and Industrial custom project participants is the ongoing relationship between the customer and EGI's Energy Solutions Advisors and, in OGVG's view, the instances of repeat participation in the contract rate classes by customers is evidence that that is the case.[10] However, OGVG's concern is that customers that, to date, have not participated in DSM programming, at least in the last 6 years, should not be overlooked because of a focus on repeat participation by customers with whom EGI has already established an ongoing relationship.

21. In making this submission OGVG does not want to overstate the concern with respect to non-participants. For example, OGVG recognizes that between 2020 and January 2022 the number of customers in the Rate 110 Class increased by approximately 77;[11] OGVG expects that many of those connections are new customers that simply have not had time

[9] Exhibit JT 2.1 Tables 4 and 5.
[10] Exhibit E, Tab 1, Schedule 5, page 7, paragraph 19.
[11] Exhibit JT 2.1, Tables 1 and 2.

to become participants in EGI's DSM programming. OGVG also recognizes that EGI cannot compel customers to participate in DSM programming, and that there are several reasons why a contract rate class customer may not wish to participate in DSM or defers participation to a future year, reasons which EGI discusses in some of its responses to OGVG's interrogatories.[12] The issue is that, despite the relatively low number of contract rate class customers, EGI is unable to provide more precise information on the reasons for non-participation.[13]

22. For all these reasons OGVG respectfully submits that EGI should be required to specifically account for those contract rate customers that do not participate in its DSM programming over the program period, keeping track of:

    a) contract rate customers that have not yet been directly engaged by EGI,

    b) contract customers that have been directly engaged by EGI with respect to the possibility of engaging in DSM programming but have declined, and

    c) for those customers that have been engaged but have declined, the stated reasons for declining.

23. With this information, OGVG respectfully submits, EGI and the Board will have a better sense of the extent to which EGI's contract rate class customers have been offered the opportunity to participate in DSM funding, and for those that have been engaged but decline, the reasons for their non-participation including any barriers that EGI could then address in future offerings.

DSM FINANCING FOR CUSTOMERS

24. During the interrogatory phase of the proceeding EGI, in response to OGVG's questions about the reasons why some contract rate customers were seemingly not participating in DSM, noted in general that much of the time the barrier to participation was simply lack of funds:

> *Most customers have limited available funding each year, and other investment opportunities can be prioritized over energy efficiency projects as a result of low natural gas rates.[14]*

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[12] Exhibit I.6.EGI.OGVG.1 c).
[13] OGVG notes that it is not interested in identifying information for non-participating contract rate customer, it is only suggesting that tracking the characteristics of the non-participating customers as a whole, a group which is currently only around 369 in number, would be valuable.
[14] Exhibit I.6.EGI.OGVG.1 c) OGVG notes that this answer appears to have been in relation to all customers engaged in the Industrial Program, not just contract rate customers.

25. OGVG followed up on that assertion during the technical conference, exploring whether EGI could assist customers in overcoming that barrier by offering financing on its bill. EGI's response was that it was not appropriate for a regulated utility to finance customer assets, and that financing was readily available in the marketplace:

> *Enbridge Gas does not believe financing DSM investments, which are assets owned and operated by the contract rate customer, is an appropriate activity for a utility to undertake. The DSM investments made by a customer are in assets that are also owned by the customer. This contrasts with the financing of capital contributions for distribution assets that are owned by the utility.*
>
> *There are numerous customer financing options available in the market today, and as such, the availability of financing is not considered a barrier for contract rate participation in the DSM programs.*[15]

26. Setting aside the issue of whether it is appropriate for EGI to, itself, finance customer owned assets, OGVG remains concerned that EGI should ever encounter a customer that cited lack of funding as the only material reason for not immediately engaging in EGI's DSM programming, when the nature of DSM programming is such that it creates immediate savings on a customer's natural gas bill in the form of reduced commodity costs that could be harnessed to fully offset the cost of financing the customer's capital investment in DSM over a modest payback period.

27. In OGVG's view there appears to be no reason why EGI should not be partnered with one or more 3rd party financing companies in order to provide EGI's customers with streamlined access to financing options specifically for DSM related investments, including the ability to notionally fund the financed investment using the natural gas savings caused by the DSM investment by combining the repayment of the financed investment on the customer's natural gas bill alongside the customer's commodity based savings. It appears to OGVG that the regulatory mechanism for such a solution is already in place, namely EGI's approved Open Bill Access program; all that is missing is the participation of 3rd parties engaged by EGI with the specific purpose of extending financing for DSM programming.

28. OGVG refers to the Board's approval of EGI's System Expansion Surcharge (SES) as an example of a similar solution to a similar issue.[16] The SES is a monthly charge that is added to a customer's monthly bill in lieu of the need for the customer to provide a lump sum capital contribution towards the cost of infrastructure that connects that customer to natural gas service. The SES charge, which can subsist for as long as 40 years, is notionally offset on the customer's natural gas bills by the savings experienced by the customer relative to their energy costs prior to obtaining natural gas service, such that the customer's experience is that of either neutral or reduced energy bills. In the example of the SES EGI is in effect directly financing the customer's capital contribution by

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[15] Exhibit JT2.3.
[16] EB-2016-0004, Decision with reasons, November 17, 2016, page 21.

including the full cost of the capital contribution in its rate base and recovering the value of that obligation from the customer over time through the SES.

29. In the same way, OGVG respectfully submits, it should be possible for customers to harness the immediate monthly savings associated with DSM measures to obviate the need for large up front DSM related capital investments through financing arrangements that result in either neutral or reduced natural gas bills (relative to what the customer would have experienced in the absence of the DSM measures that have been implemented) over the "payback" period of the DSM investment.

30. OGVG recognizes that there are differences between the SES and a proposal to facilitate DSM related financing. The SES relates to assets ultimately owned and maintained by EGI, and EGI can charge the SES to any customer that connects at the affected address until the term of the SES expires, such that there is only a very low risk that EGI will under-recover through the SES. By contrast DSM related financing for customer owned equipment would require agreements with 3rd party financing companies as previously discussed (given EGI's reluctance to directly finance customer owned equipment), which in turn will likely require the implementation of security agreements between 3rd party financing companies and customers to protect the interests of the financiers in the transaction. However, these differences, OGVG respectfully submits, should not present themselves as fundamental barriers to streamlined on bill financing arrangements for DSM investments by customers.[17]

31. Accordingly, OGVG respectfully submits that the Board should require EGI to bring forward a proposal for a streamlined DSM related financing option to allow customers to seamlessly fund their DSM related capital obligations on their natural gas bills by harnessing their DSM related commodity savings or, alternatively, explain what fundamental barriers exist that prevent EGI from doing so. The proposal could be brought forward as part of or before the mid-term review of the DSM Framework. In bringing forward such a proposal OGVG expects that EGI would be at liberty to explore the possibility of including financing related incentives as part of the financing offer, given that making such financing available to customers so that they can seamlessly harness natural gas savings is likely to increase participation in DSM programming at reduced free ridership rates.

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[17] OGVG is aware that a proposal to facilitate the financing of customers' DSM investments is similar in nature to the proposal to amortize EGI's DSM costs, a proposal OVG believes is inappropriate. In OGVG's view the two proposals are fundamentally distinguishable, in that the proposal to facilitate the financing of customer's DSM investment is specific to each customer, with no risk that those financed costs fall to the rest of EGI's customers should the customer disconnect from EGI's distribution system as a result of the direct relationship between the financing company and the customer.

DSM COST RECOVERY

32. OGVG's interest in the outcome in the various components of EGI's proposed Framework is driven in part by the way the costs of Framework related spending are allocated to and recovered from OGVG's members.

33. EGI's cost recovery proposal is to continue recovering DSM related costs in the same manner as it has been recovering costs under the status quo framework, namely by allocating the costs incurred for DSM across its rate classes based on the program costs incurred by each class.[18] In other words, each rate class is responsible for the DSM costs incurred by that rate class. The exception is the recovery of costs associated with the Low-Income Program budget, which are:

> *. . . allocated to rate classes in proportion to OEB-approved distribution revenues less DSM budget costs which results in all in-franchise rate classes contributing to the recovery of the low-income DSM budget including rate classes which are not eligible to participate in DSM programs.*[19]

34. OGVG specifically supports EGI's proposed allocation of DSM costs, as it helps avoid undue cross subsidization of costs related to DSM spending by recovering costs from relatively homogenous groups of customers in terms of the scale of their gas consumption and the nature and level of DSM spending directed to those customers in support of their participation in DSM programming.

35. To OGVG's knowledge no party has raised objections to EGI's proposed cost recovery, either implicitly through interrogatories and questions at the oral hearing or explicitly through their presentations to the Board. Accordingly, there are no alternative cost allocation and recovery proposals for OGVG to comment on; OGVG assumes that to the extent alternative cost allocation and recovery proposals are brought forward by other parties EGI will respond to them in defence of their proposal as necessary.

36. OGVG notes that while EGI's proposed recovery of costs is based on an allocation of costs to rate classes based on the costs incurred on behalf of customers in that rate class, EGI organizes its DSM programs based on groupings of customers that can span multiple rate classes. For example, EGI's Industrial Program targets customers that are designated as industrial in nature; the customers that meet that definition fall within multiple rate classes depending on their natural gas consumption, both general rate classes and contract rate classes.

37. This is important to note, OGVG respectfully submits, as it means that even if the funding at a program level remains relatively stable over time, the amount of funding from that program that is allocated to a particular rate class can vary from year to year

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[18] Exhibit F Tab 1 Schedule 1 Pages 1-2.
[19] Exhibit F Tab 1 Schedule 1 Page 1.

depending on how many of the program participants in a particular year are in that rate class.

38. This is relevant to OGVG's submission to the effect that the proposed spending on DSM programming in the contract rate classes is reasonable, as what that means from the perspective of the overall Framework proposed by EGI is that OGVG believes that the amount of funding allocated to the contract rate classes out of the Commercial and Industrial Programs on an annual basis is reasonable without necessarily commenting on the reasonableness of the overall Commercial and Industrial Program budgets. Seen in this way it would not be inconsistent for the Board to, for example, agree with OGVG's submission that the program funding allocated out of the Commercial and Industrial Programs to the contract rate classes is appropriate, while at the same time endorsing proposals from other intervenors to the effect that program funding allocated out of the Commercial and Industrial Programs to the general rate classes should be increased. The effect of those two submissions, if both were accepted by the Board, could be increases to the overall Commercial and Industrial Program budgets, but with those increases earmarked for spending on programming delivered to the general rate classes.

39. To be clear, OGVG is not making any submissions as to the reasonableness of the overall DSM funding allocated to the general rate classes out of the Commercial and Industrial Programs; OGVG respectfully defers to the submissions of intervenors with substantial constituencies within those rate classes with respect to their perspective on how EGI's proposed Framework addresses the DSM needs of those customers.

SHAREHOLDER INCENTIVE LEVEL AND TARGET ADJUSTMENT MECHANISM

40. OGVG expects that many of the intervenors will make submissions on the level of shareholder incentive available to EGI and the different target levels of achievement that EGI is required to attain to earn its incentive in any particular year. In OGVG's view the two most important aspects of the incentive proposal are:

    a) the existence of a maximum annual incentive, as opposed to an indeterminate maximum incentive, and

    b) the automatic resetting of the target levels each year based on the previous year's results.

41. With respect to the proposed maximum incentive level in 2023 of $19,890,000 followed by mechanical escalation of that amount in the 2024 to 2027 period, OGVG recognizes that the level of incentive is in line with previous frameworks and maintains a relatively stable ratio between the incentive and the overall spending on DSM programming.[20]

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[20] Exhibit D Tab 1 Schedule 2 Page 3.

42. In OGVG's view it is important that the maximum level of incentive remain fixed (subject to annual escalation) from year to year to facilitate predictability in terms of the direct impact of DSM spending on rates.

43. With respect to the proposed Target Adjustment Mechanism which, if accepted, automatically changes the annual metric target and corresponding lower and upper bands based on the previous years' performance, OGVG notes that the proposed automatic adjustment does not explicitly recognize EGI's actual performance in delivering DSM to its customers, whether that performance is poor, average, or exceptional.

44. By instituting an automatic adjustment there is an implicit assumption that every factor that impacts the ratio of EGI's spending on DSM to the measured savings produced by that spending is beyond EGI's control. If the year over year results fall from 2.0 m^3/$ to 1.5 m^3/$, for example, EGI's proposed mechanism assumes without inquiry that the reduction in efficiency was caused by factors entirely outside EGI's control as opposed to poor execution by EGI. Similarly, if the results increase from 2.0 m^3/$ to 3.5 m^3/$, the proposed mechanism implicitly assumes the increased efficiency is not indicative of improvements in the delivery of natural gas savings by EGI that EGI should be credited for going forward.

45. The net result is a target adjustment mechanism that is likely overly forgiving of poor performance by lowering the target for EGI even when EGI is arguably doing a poor job of delivering DSM programming, and overly punishing of exceptional performance by increasing the target even when EGI is arguably doing an exceptional job of delivering DSM programming. Whether EGI is consistently performing poorly or exceptionally in its delivery of DSM from year to year, the target for earning its incentive will constantly be updated to match EGI's actual historical performance, with the result that, over time, it is unlikely that EGI will either materially over or under perform in terms of its earned incentive payments.

46. The obvious solution would be to automatically adjust the target annually to reflect inflationary and productivity factors (adjustments already proposed by EGI) and to then allow adjustments to increase or decrease the target based on actual historical performance only through the hearing process, wherein EGI would bring forward evidence that explains the driver behind any material net increase or decrease in spending efficiency. In this way the target would only be adjusted to reflect historical performance when that historical performance is the result of factors unrelated to the quality of EGI's performance. Having said that, OGVG is not necessarily convinced that introducing such an element into the annual DSM related applications that EGI expects to file to have its historical performance approved and set the targets for its program going forward is appropriate.

47. In OGVG's view, rather than diving into the minutia of the drivers of EGI's performance in delivering DSM every year as part of the target setting process, it may instead be preferable to remove the Target Setting Mechanism, relying instead on EGI's implicit incentive in delivering DSM to drive it to achieve improved results.

48. OGVG notes that the proposed "average" incentive for 2023 is $6,630,000; accordingly, that is the amount that is at risk should EGI perform poorly. The maximum incentive is $13,260,000; that means that the incremental value of excellent performance is $6,630,000. In the context of EGI's overall revenue requirement and the return it earns as the regulated distributor of natural gas for most of the province of Ontario, these incentives are relatively small.[21]

49. In OGVG's view the main driver behind EGI's DSM activity is not earning a few extra million dollars per year in incentive payments; the main driver behind EGI's DSM activity should be finding ways to make continued connection to and use of its natural gas transmission and distribution system viable for existing and future customers.

50. In OGVG's respectful submission DSM programming delivered by EGI to its customers is likely not about incentive payments; in OGVG's submission even absent any incentive payments associated with DSM activities EGI would remain fully incentivized to seek DSM funding as part of its rate structure to assist its customers in finding ways to maintain the environmental and economic viability of continued connection to EGI's natural gas system.

51. Accordingly, OGVG respectfully submits that implementing a more detailed process for evaluating EGI's annual DSM performance as part of a target setting process is likely unnecessary given EGI's implicit incentive to deliver cost effective DSM to its customers. Instead, as OGVG believes several other intervenors will propose, it is likely preferable to implement a fixed annual target over the term of the Framework period, with automatic adjustments for inflationary and productivity factors.

AMORTIZATION OF DSM COSTS

52. OGVG respectfully submits that it would be inappropriate for the Board to approve the amortization of DSM costs.

53. Amortization of DSM costs is not a component of EGI's application as filed; in EGI's proposed Framework DSM costs, in their entirety, are to be recovered as an expense in the normal course, with the caveat that some of that recovery would be delayed because of the operation of EGI's several proposed deferral and variance accounts. In this way EGI's proposal collects all DSM funding from all existing customers as the money is spent. Except for the portion of the spending that is cleared through deferral and variance accounts, usually one year or so after it is spent, EGI's proposal ensures that there is no accumulation of DSM costs to be recovered from its future customer base.

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[21] Exhibit D Tab 1 Schedule 2 Page 3; for the purposes of the discussion OGVG is focussed on the Annual Scorecards Maximum Incentive. OGVG notes, for the purposes of scale, that EGI's reported total Utility Income for 2020 was $802M per its filing in EB-2021-0149, Exhibit B Tab 1 Schedule 1 Page 1.

54. Through the evidence filed in response to EGI's Framework it has been suggested that overall DSM spending could be materially increased without immediate bill impacts through the amortization of that spending.

55. In OGVG's respectful submission the proposal to increase and then amortize DSM costs fails to properly account for the real possibility that EGI's future customer base will decline materially, dramatically increasing the rate impact of amortized spending on remaining customers. EGI's reply evidence noted the risk associated with increasing EGI's regulatory asset balances through the amortization of DSM costs:

> *As mentioned above, large regulatory asset balances create risks for Enbridge's investors should future OEB Panels change their policies supporting DSM programs. These regulatory assets also pose risks should future OEB Panels change their policy supporting the natural gas utility industry in general. For example, the EFG report in this proceeding recommends that Ontario consider "whether future building codes should allow for any fossil fuel heating, water heating, cooking and other gas end uses." 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. Investors might also worry that a mismanaged transition would result in largescale asset write offs in attempts to lessen rate impacts. These investors might worry that regulatory assets not backed by physical property would be at higher risk for write- downs. To mitigate these risks, some regulators are already recommending that gas asset lives be lowered to accelerate the draw-down of unamortized asset balances.*[22]

56. In other words, at the same time some parties are suggesting that EGI should increase its regulatory asset balances by amortizing DSM costs rather than expensing them, the current state of natural gas related policy is such that some regulators are recommending an opposite course of action, decreasing the reliance on the amortization of regulated assets in order to recover those costs while the customer base remains at current levels.

57. OGVG notes that the issue of declining customer numbers and a response that includes minimizing the impact of amortization is not new to EGI. As noted in Exhibit I.7.EGI.OGVG.2 c) EGI's predecessor company Union Gas Ltd., as recently as 2016, raised the issue of a declining customer base in its proposal to shorten the amortization period associated with the Panhandle Reinforcement Project and advised the Board that it intended to raise the issue of shortened amortization periods for all of its assets in its

[22] EB-2021-0002 EGI Reply Evidence pages 17-18.

2019 rebasing application.[23] OGVG asked EGI to provide information on its proposal, if any, with respect to shortened amortization periods in its planned 2024 rebasing application for the amalgamated company. EGI refused to answer the question, suggesting it was out of scope.

58. OGVG further notes that while EGI's reply evidence focusses on the various revenue requirement patterns that can be produced over time because of the amortization of DSM costs, First Tracks Consulting Services, the author of EGI's reply evidence, did not attempt to forecast the impact of lower volumes and declining customer numbers in the future in conjunction with the amortization of DSM spending on rates.[24] Accordingly, were the Board to approve the amortization of DSM spending, it would be doing so in the absence of any evidence forecasting the impact of that amortization on rates, since there is no evidence forecasting the EGI's customer numbers over time during any proposed amortization period.

59. In addition to the potentially deleterious effect of amortized DSM costs in conjunction with declining volumes and customer base, there is also the issue of funding DSM incentives for customers who may then disconnect from the natural gas system, with the effect that they will escape paying an appropriate share of the amortized DSM costs associated with incentive they received.

60. There was some evidence suggesting that the Board need not be concerned about customers taking advantage of DSM programs and then avoid paying for those programs by disconnecting from the distribution system:

> *MR. SHEPHERD: Do you have a concern, or maybe it is a benefit of amortization, that early adopters -- customers who are early adopters who do electrify for example early, basically will never have to pay any of those amortized DSM costs because they will have exited the gas distribution system?*
>
> *MR. MOSENTHAL: I mean, you know, that certainly would be the case in that scenario.*
> *In general, spreading the costs out to be roughly contemporaneous with the accrual of benefits should give you sort of your best intergenerational equity per se because the ratepayers are benefiting from those benefits as they come.*
> *If you instead expensed the costs, you're telling existing ratepayers to pay for everything, but then if you leave the system you're not receiving those future benefits.*[25]

[23] OGVG notes that this proposed rebasing application was obviated as a result of the amalgamation of Union Gas Ltd. and Enbridge Gas Distribution Inc..
[24] Exhibit I.7.EGI.OGVG.2 a).
[25] EB-2021-0002 Technical Conference Transcript Volume 3, page 214.

61. OGVG respectfully submits that this evidence misunderstands the concern expressed by Mr. Shepherd's question. Take, for example, a customer that accepts DSM programming that provides incentives to customers to improve the efficiency of their building envelope, who then disconnects from the natural gas system in favour of electrification. Under a scenario where DSM is funded as an expense and immediately included in rates, that customer will, notionally, fully contribute through rates their allocated share of DSM costs, and the full cost of any incentive paid to that customer will be recovered in short order.[26] In contrast, under a scenario where DSM costs are amortized over a number of years, that customer will stop paying towards their share of DSM costs as soon as they disconnect, yet will continue to benefit from the building envelope improvements in conjunction with their new source of heating while remaining natural gas customers are left with the obligation to fund the amortized costs of those improvements. In other words, remaining natural gas customers will be subsidizing the disconnected customer's building envelope improvements.

62. The answer from OEB Staff's witness only partially makes sense if the DSM costs relate to, for example, discounts on natural gas related equipment that become stranded when the customer disconnects from the natural gas system in favour of electrification. However, in that case the customers remaining on the system are left with the burden of the outstanding amortized costs of the incentives paid towards the stranded equipment even though the benefits that were supposed to have been generated by the spending have ceased.[27]

63. For all these reasons OGVG respectfully submits that it would be inappropriate to allow EGI to amortize DSM related costs. In the alternative, OGVG respectfully submits that any final decision on the reasonableness of amortizing DSM costs should be deferred to EGI's 2024 rebasing application, wherein the impact of amortized DSM costs can be more fully evaluated in the context of all of EGI's proposed changes to rates, alongside

[26] OGVG acknowledges that in theory such a customer could disconnect from natural gas so soon after the DSM incentive is paid that it pays very little to none of the costs associated with the programming that customer directly receives. However, OGVG notes, where DSM costs are consistently included on an expensed basis that customer will, arguably, have paid their "fair" share of DSM funding through historical inclusion of DSM costs in rates. It is when the DSM costs are deferred over several years through amortization that it becomes possible, in OGVG's view, for customers to materially benefit from DSM programming and then avoid paying an appropriate share towards the costs of that programming by disconnecting from the distribution system.

[27] In this scenario it is likely that the benefits of decreased natural gas consumption generated by the incentivised natural gas equipment will have been replaced if not more than replaced by the subsequent electrification by the customer. However, in that case the result is wasted DSM spending on the part of the natural gas distributor that must be recovered, assuming recovery is permitted, from its remaining natural gas customers even though that DSM spending is no longer a cause of reduced natural gas consumption; the electrification by the departing customer has become the sole cause of reduced natural gas consumption.

evidence forecasting the trend in EGI's customer numbers and volumetric load into the future.

ELECTRIFICATION

64. In OGVG's respectful submission it is fundamentally inappropriate to require EGI, a regulated natural gas distributor, to collect funding from its natural gas distribution customers and then use that funding to encourage existing natural gas distribution customers to disconnect from EGI's distribution system or encourage other potential customers to avoid connecting to EGI's distribution system. OGVG believes the collection and use of funding for such purposes is inappropriate because it constitutes an explicit subsidy from natural gas customers to non-gas customers, while at the same time undermining the specific objective of the Board to "facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas" by artificially increasing the cost of natural gas service.[28]

65. To be clear, it is not OGVG's position that there should be no funding and no regulated entity operating within Ontario directed to the cause of promoting fuel switching from natural gas to electricity. It is, however, OGVG's position that such funding should be sourced from either general tax revenue or from electricity customers and that such activities should not be undertaken by an entity, like EGI, whose existence relies on the continued viability of natural gas as an energy source in Ontario that, in turn, requires the ongoing maintenance of a natural gas transmission and distribution system.

66. In OGVG's view the activities that are appropriate for EGI to undertake under a framework for "Demand Side Management" are specific to the actual use of natural gas; in other words, DSM funding should be limited to programming that assists natural gas customers in the management of their natural gas consumption. Programming that is intended to eliminate natural gas consumption by customers, even where that is the better or more efficient outcome, should not be the purview of a regulated gas distributor.

67. To the extent there is a failure either of the free market or in the way the province regulates the electricity sector to adequately pursue the aim of switching customers from natural gas to electricity the cost of rectifying that failure should neither be borne by natural gas customers nor be the responsibility of regulated natural gas distributors whose existence is predicated on an obligation to maintain access to natural gas.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 19th DAY OF MAY, 2022

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[28] *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, s. 2 part 5.1.