

**ONTARIO ENERGY BOARD**

**ENBRIDGE GAS INC.**

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15  
(Sched. B);

AND IN THE MATTER OF an application by Enbridge Gas Inc. (Enbridge Gas) pursuant to Section 36(1) of the Act, for an order or orders approving its Demand Side Management Plan for 2023-2027 (the Application).

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**SUBMISSIONS OF  
CANADIAN MANUFACTURERS & EXPORTERS (“CME”)**

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## I. INTRODUCTION & BACKGROUND

1. On May 3, 2021, Enbridge Gas Inc. (“**EGI**”), filed an application seeking approval for two separate but related proposals. Specifically, EGI sought approval for both a proposed DSM Framework, and a multi-year demand side management (“**DSM**”) plan.<sup>1</sup>

2. EGI’s application came after the OEB published a letter of direction on December 1, 2020, which invited EGI to develop and file a “comprehensive DSM plan application for DSM programs beginning in 2022.”<sup>2</sup> While the Board provided some guidance on the application, it clarified that the proposal would be at EGI’s discretion.<sup>3</sup>

3. Initially, EGI requested both a final decision and an interim decision on its application. The interim decision was requested for August 2021. EGI also requested approval for its DSM budget by July 30, 2021. Procedural Order #1, issued on June 21, 2021, provided the opportunity for parties to make submissions with respect to the interim approval.<sup>4</sup>

4. After receiving submissions from parties, the Board determined that it would not provide an interim approval of EGI’s DSM budget, or its proposed DSM activities.<sup>5</sup> The Board found that it was necessary to fully review EGI’s framework and plan. Accordingly, the Board determined to extend the legacy utilities’ (EGD and Union) existing DSM plan for an additional year.<sup>6</sup> Consequently, the term of both the framework and the plan begin in 2023, with the plan lasting until 2027 and the framework proposed to continue without a sunset date.<sup>7</sup>

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<sup>1</sup> EB-2021-0002, Exhibit A, Tab 2, Schedule 1, p. 2.

<sup>2</sup> Ontario Energy Board, Post-2020 Natural Gas Demand Side Management Framework Letter, December 1, 2020.

<sup>3</sup> Ontario Energy Board, Post-2020 Natural Gas Demand Side Management Framework Letter, December 1, 2020.

<sup>4</sup> EB-2021-0002, Procedural Order #1, June 21, 2021.

<sup>5</sup> EB-2021-0002, Procedural Order #2, June 22, 2021, p. 2.

<sup>6</sup> EB-2021-0002, Decision and Order Related to 2022 Natural Gas Demand Side Management Activities, August 26, 2021, p. 2.

<sup>7</sup> EB-2021-0002, Exhibit B, Tab 1, Schedule 1, p. 9.

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5. Notable features of EGI's proposed framework include the following:

- (a) A term from January 1, 2023 which lasts indefinitely;<sup>8</sup>
- (b) Annual savings targets that are updated through the use of a "target adjustment mechanism";<sup>9</sup>
- (c) Shareholder incentives that begin at 50% achievement of target and scale until 150% of target is achieved;<sup>10</sup>
- (d) A maximum shareholder incentive equivalent to the two maximum incentives for the legacy utilities indexed to inflation;<sup>11</sup>
- (e) The ability for EGI to reallocate funds amongst from approved programs to non-approved programs or to other approved programs. With respect to transfers between approved programs, EGI would be required to inform the Board if reallocations exceed 30% of annual DSM funding for a program;<sup>12</sup>
- (f) A diverse set of programs, including resource acquisition, market transformation for various markets including commercial, industry and low income participants;<sup>13</sup> and
- (g) Coordination between EGI DSM programming and electric CDM programs.<sup>14</sup>

6. Notable features of EGI's DSM plan include the following:

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<sup>8</sup> EB-2021-0002, Exhibit B, Tab 1, Schedule 1, p. 9.

<sup>9</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 11.

<sup>10</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 11.

<sup>11</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 14.

<sup>12</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 15.

<sup>13</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, pp. 16-17.

<sup>14</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 21.

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- (a) Resource acquisition programs focused on the achievement of annual natural gas savings;<sup>15</sup>
  - (b) Certain multi-year programs with two years' worth of targets and defined budgets;<sup>16</sup>
  - (c) A net benefits-related shared savings mechanism;<sup>17</sup>
  - (d) A low carbon transition program for heat pump technology;<sup>18</sup>
  - (e) A long term GHG reduction goal;<sup>19</sup>
  - (f) A mid-point assessment during the five year term of the plan, which would have a "limited scope" but includes any changes to the DSM plan deemed appropriate by EGI for program offerings;<sup>20</sup> and
  - (g) A budget increase of 7.7% over the OEB approved 2020-2022 budget level for 2023, along with yearly budget increases of inflation plus 3% for subsequent years.<sup>21</sup>

7. A number of other parties were also granted leave from the Board to file evidence, including:

- (a) OEB Staff (Optimal Energy Inc.);
- (b) Building Owners and Managers Association (Enerlife Consulting);

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<sup>15</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 2.

<sup>16</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 3.

<sup>17</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 3.

<sup>18</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 3.

<sup>19</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 3.

<sup>20</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 5.

<sup>21</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 8.

- (c) Environmental Defence (Dr. Heather McDiarmid);
- (d) Green Energy Coalition (Energy Futures Group); and
- (e) Small Business Utility Alliance (Green Energy Economics Group, Inc.).

8. The various experts have provided helpful perspective and expertise. They have also proposed various alternatives either in addition to, or in contrast to those provided by EGI in its initial application. Additional issues include:

- (a) The potential for amortization of DSM costs;<sup>22</sup>
- (b) The inclusion of electric heat pumps into EGI's DSM program;<sup>23</sup> and
- (c) The end of compulsory participation in DSM programming for large industrial gas users.<sup>24</sup>

9. As a result, while many facets of EGI's applications in this proceeding are evolutionary, there are proposals, both from EGI and from others that are significant changes from the status quo. These proposals include both policy related proposals as well as THE SAMproposals that have a more immediate and direct impact on rates.

10. CME provides its submissions regarding both EGI and other parties' proposals below. However, given the scope of the applications and the evidence, it will not comment on all aspects. To the extent CME does not comment on an issue, it takes no position on that issue.

## **II. ISSUE #2 – DOES ENBRIDGE GAS'S 2023-2027 DSM FRAMEWORK AND DSM PLAN ADEQUATELY SUPPORT ENERGY CONSERVATION AND ENERGY EFFICIENCY IN ACCORDANCE WITH THE POLICIES OF THE**

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<sup>22</sup> EB-2021-0002, the Optimal Energy Report, Exhibit L.OEB STAFF.1, p. ii.

<sup>23</sup> EB-2021-0002, Exhibit L.ED.1, p. 4.

<sup>24</sup> EB-2021-0002, Re: Written Submissions, April 11, 2022.

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**GOVERNMENT OF ONTARIO, INCLUDING HAVING REGARD TO  
CONSUMER'S CIRCUMSTANCES?*****Low Carbon Transition Program***

11. As part of its DSM Plan, EGI has proposed a “Low Carbon Transition Program”, which is “intended to encourage early adoption of lower carbon technologies”.<sup>25</sup> EGI’s proposal includes both residential and commercial heat pump program offerings, which aim to accelerate the adoption of natural gas or hybrid heat pumps in those markets.<sup>26</sup> As outlined in the Board’s letter of April 11, 2022, there has been a significant amount of time during this proceeding devoted to whether or not EGI should go further with its proposals to include funding for all-electric heat pumps. In CME’s view, it is not appropriate for all electric fuel-switching programs in this DSM plan for two reasons.

12. First, it is not clear to CME whether or not fuel-switching to all electric heat pumps is currently cost effective. Second, CME submits that forcing natural gas distribution system users to pay for DSM costs that will be enjoyed by customers that would leave the natural gas system is unfair, and runs contrary to the “benefits follow costs” principle. CME supports the continued decarbonisation of Ontario’s energy, however, funding for such a shift should come from electricity system ratepayers, to better align the benefits and costs.

13. CME’s first concern with fuel switching from natural gas to fully electric heat pumps is the cost effectiveness of such a measure. As previously outlined, the Board has consistently provided that primary objective of ratepayer funded natural gas DSM is assisting customers to make their

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<sup>25</sup> EB-2021-0002, Exhibit E, Tab 1, Schedule 1, p. 4.

<sup>26</sup> EB-2021-0002, Exhibit E, Tab 3, Schedule 1, pp. 4-6, hybrid heat pumps are only discussed in reference to residential markets.

homes and businesses more efficient to manage their energy bills.<sup>27</sup> In order to meet that primary objective, DSM programs should be, with a few exceptions,<sup>28</sup> cost effective.

14. In its letter of December 1, 2020, the Board provided that EGI's DSM plans should be informed by, *inter alia*, the Achievable Potential Study ("**APS**"). The APS was completed for the Independent Electricity System Operator by Navigant and studied the cost-effectiveness of fuel switching measures. The APS was completed in 2019, so the results show the cost effectiveness of fuel switching as of 2019. The APS found that there was "almost zero economic fuel switching potential" and that no fuel switching measures were cost effective in the residential sector.<sup>29</sup>

15. There have been a number of changes since the completion of the APS. For instance, EGI confirmed that the APS was completed when the cost of carbon was set at \$50 per tonne, rather than \$170 per tonne.<sup>30</sup> Moreover, as the technology becomes more refined over time, electric heat pumps become more efficient.

16. The above changes would suggest that fuel-switching measures for all electric heat pumps could now be cost effective, and could potentially be more cost effective than hybrid systems. However, Dr. McDiarmid's analysis of the current cost effectiveness of all electric heat pumps was based in part, on the avoided cost of providing natural gas infrastructure.<sup>31</sup> Dr. McDiarmid acknowledged, on cross examination, that at least for the present, real estate developers would likely continue to include underground natural gas infrastructure in their developments to take advantage of gas appliances and other benefits.<sup>32</sup> Accordingly, there would be no avoided infrastructure cost to differentiate all electric and hybrid heat pumps.

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<sup>27</sup> Ontario Energy Board, Post-2020 Natural Gas Demand Side Management Framework, December 1, 2020, p.2.

<sup>28</sup> For instance, EGI's low-income DSM programs use a modified cost effectiveness test to ensure a robust suite of programs for this ratepayer segment.

<sup>29</sup> Navigant, 2019 Integrated Ontario Electricity and Natural Gas Achievable Potential Study, p. E-10.

<sup>30</sup> EB-2021-0002, Exhibit J2.3.

<sup>31</sup> EB-2021-0002, Exhibit L.ED.1, p. 3.

<sup>32</sup> EB-2021-0002, Transcript, Volume 5, p. 8-9.



17. CME believes that over time, the rising cost of carbon and increased efficiency of heat pump systems will cause fuel switching measures will become more cost effective and should be considered a growing component of efficiency measures in the future. However, CME submits that the evidence on the current cost effectiveness of fuel switching is not clear.

18. CME's other concern is with respect to equity amongst ratepayers. DSM programs are funded through rates charged to natural gas system users. Consequently, there is always a certain danger of cross subsidization from some ratepayers to others, as the costs of DSM are paid for by most of EGI's customers, but the benefits of DSM accrue to those to undertake and complete DSM programs.

19. However, the use of DSM funds to incent complete fuel switching from natural gas use to electric heat pumps exacerbates the inherent inequity between ratepayers. This is illustrated with a simple example. A residential customer whose sole natural gas use is for space heating could apply for a DSM program for fuel switching, and switch to an all electric heat pump system. The DSM program customer's natural gas use would fall to nothing, and it could then leave the natural gas system. The full cost of the DSM program measure would then be borne by the ratepayers remaining on the natural gas distribution system, while the customer who left would reap the entire benefit. This would work an injustice to remaining ratepayers.

20. While CME supports the decarbonisation of Ontario's energy, it submits that all-electric heat pumps should be funded through electricity-side measures. This follows the "benefits follow costs" principle. Ratepayers on the electricity distribution system could benefit from the increased load from additional electrification through economies of scale.<sup>33</sup> Moreover, the customer who

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<sup>33</sup> For instance, increased load often puts a downward pressure on rates as utilities are able to recover their revenue requirement over a greater number of units of energy.

benefited from the fuel-switching measure could then pay at least a portion of the costs of those programs in future years for other ratepayers who fuel switch from natural gas to electricity.

21. Therefore, the groups that directly benefit from fuel switching to electricity would also bear the cost, whereas natural gas distribution system ratepayers, who would not benefit directly from fuel switching,<sup>34</sup> would not bear the cost.

22. CME submits therefore, that the Board should not require that EGI include fuel switching to all electric systems as part of its DSM plan. CME supports the decarbonisation of Ontario's energy, but it submits that EGI's current proposal, of funding some fuel switching to hybrid heat pump systems, is a reasonable approach to this issue for the upcoming plan term. CME is also of the view that EGI could also take this time to investigate whether it could increase its collaboration with electric CDM providers such that it could help foster fuel-switching measures offered by other entities without increasing costs to natural gas distribution system ratepayers.

### ***Electrification***

23. CME agrees with the submissions of other intervenors that electrification is an issue that is best dealt with through a separate process providing for fulsome submissions and analysis on the legal issues. As the Board is aware, allowing EGI to provide incentives to entities that are not natural gas customers engages issues of jurisdiction, amongst other things. These issues would benefit from a dedicated process where all parties can provide their full views on the issue.

### **III. ISSUE #4 - IS ENBRIDGE GAS'S PROPOSED DSM PLAN TERM OF 2023-2027 APPROPRIATE?**

24. In its application, EGI is proposing two separate terms for the plan and framework. With respect to the plan, EGI is proposing a five-year term.<sup>35</sup> EGI proposes an indefinite term for its

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<sup>34</sup> Other than in the general benefit to decarbonizing energy.

<sup>35</sup> EB-2021-0002, Exhibit B, Tab 1, Schedule 1, p. 6.

DSM Framework. EGI argues that an indefinite term is appropriate for the framework, and it increases regulatory efficiency by reducing the amount of times EGI must bring it before the Board for approval.<sup>36</sup>

25. CME submits that an extended term for the framework is appropriate, but submits that it should not be an indefinite term. Instead, it should have a term of intermediate length, for instance, 10 years. CME believes this is preferable for the following reasons:

- (a) It reduces regulatory complexity by reducing the number of times EGI is required to get approval of the framework;
- (b) It would minimize the regulatory burden of re-approving the framework by synchronizing the framework application (after ten years) with the DSM plan (likely 2 terms of 5 years each);
- (c) Ontario's energy sector is undergoing transformational change.<sup>37</sup> As a result, it is important for the DSM framework to undergo regular reviews to ensure that it remains relevant and applicable to utilities and ratepayers. While EGI stated it expected to propose "appropriate evolutionary changes" to the framework, the scope and nature of those changes and the associated reviews that would accompany them remain undefined.

26. Accordingly, CME is of the view that a balance should be struck between regulatory efficiency, and ensuring the framework remains aligned with the changes Ontario's energy system is undergoing in the near future. A term of 10 years would strike the appropriate balance.

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<sup>36</sup> EB-2021-0002, Presentation Day Transcript, p. 13.

<sup>37</sup> For instance, see EGI's discussion of the transformation at EB-2021-0002, Exhibit E, Tab 1, Schedule 1, p. 4.

27. With respect to the term of the DSM Plan, CME agrees that five years is an appropriate term, assuming a midpoint assessment is implemented to ensure that the plan and associates forecasts (savings targets, incentives etc.) are reasonable and appropriate.

### ***Midpoint Assessment***

28. EGI proposes to have a “midpoint assessment” as part of its DSM plan. The midpoint assessment would take the form of an application by EGI, at or around the two year mark in the DSM plan.<sup>38</sup> In EGI’s proposal, the midpoint assessment would involve a limited review including:<sup>39</sup>

- (a) New program offerings requiring specific budgetary requests or flexibility beyond what is already provided for in EGI’s proposal;
- (b) Consideration of new metrics or targets;
- (c) Consideration of re-weighting metrics on the scorecards as a result of new or discontinued offerings;
- (d) Establishing metrics, objectives and propose scorecards for multi-year offerings; and
- (e) “Any other changes to the DSM plan deemed appropriate” by EGI for program offerings to make sure they are “meeting the needs of customers.”

29. CME supports the existence of a mid-point assessment. However, CME submits that it should be a more comprehensive review, as a result of the significant changes faced by the energy sector and by ratepayers over the next few years.

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<sup>38</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 5.

<sup>39</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 6.

30. EGI has resisted expanding the scope of the midpoint assessment in order to achieve regulatory efficiency.<sup>40</sup> While CME is sympathetic to that goal, the fact of the matter remains that there will likely be significant changes to the context in which DSM is situated. In this regard, for instance:

- (a) EGI has acknowledged that greenhouse gas policies are undergoing a “transformational shift”. For instance, the federally regulated cost of carbon may continue to increase significantly;<sup>41</sup>
- (b) Inflation has increased to its highest in 30 years;<sup>42</sup> and
- (c) Technological changes could continue to change the cost effectiveness of existing offerings and potential new offerings.

31. Accordingly, the mid-point assessment needs to be broader than simply the changes deemed by EGI to be appropriate. It should be a fulsome review of the DSM plan to ensure that it still aligns with policy, energy and economic contexts.

#### **IV. ISSUE #6 – DOES ENBRIDGE GAS’S PROPOSED BUDGET, INCLUDING PROGRAM COSTS AND PORTFOLIO COSTS RESULT IN REASONABLE RATE IMPACTS?**

##### ***EGI’s Budget and the Impact of Inflation***

32. In its guidance letter to EGI, the Board outlined that it expected “modest” budget increases for EGI’s next DSM plan.<sup>43</sup> In response, EGI has proposed to increase its 2020-2022 budget by 7.7% for 2023, and to escalate that amount for programs by 3% over inflation for the remaining years of the term.<sup>44</sup>

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<sup>40</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 1, p. 5.

<sup>41</sup> EB-2021-0002, Exhibit E, Tab 1, Schedule 1, p. 4.

<sup>42</sup> For instance, see “Food, shelter push inflation in Canada to 6.8% in April: Statistics Canada” accessed online at <https://globalnews.ca/news/8844481/inflation-canada-april-2022/> May 19, 2022.

<sup>43</sup> EB-2019-0003, Re: Post 2020 Natural Gas Demand Side Management Framework, December 1, 2020, p. 3.

<sup>44</sup> EB-2021-0002, Exhibit B, Tab 1, Schedule 1, p. 12.

33. In the intervening period between EGI's initial application and now, inflation has risen from 3.6% in May of 2021,<sup>45</sup> to 6.8% in April of 2022.<sup>46</sup> Accordingly, increasing program budgets by nearly 10% every year is no longer a "modest" budget increase.

34. To be clear, CME's position on this issue is not intended as a criticism of EGI. Inflation has increased significantly in recent months due to macroeconomic conditions, and was not known at the time EGI submitted its application. However, the fact remains that 10% increases, or potentially higher, could significantly increase costs for CME's members, who are already facing significant inflation-related pressures in other aspects of their businesses. While CME acknowledges that measures that are part of the DSM program are by definition, cost effective, the fact that benefits are not shared amongst all ratepayers means that many of CME's members will face significantly increased DSM costs without a corresponding benefit.

35. CME also understands however, that climate change is an important and pressing priority, as outlined by both the provincial and federal governments. Accordingly, CME submits that EGI's budget, if approved by the Board should be within scope to review as part of the midpoint assessment, in order to ensure that it remains in the best interest of Ontario. At that point, EGI, the Board and other parties can review the long term inflationary trend, and determine whether an increase over and above inflation is sustainable (if inflation goes down) or if ratepayers simply can't bear the increases any longer (if inflation persists or goes up).

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<sup>45</sup> For instance, see "Canada's inflation rate climbs 3.6% in May, largest yearly increase since 2011" accessed online at: <https://globalnews.ca/news/7954290/canada-inflation-may/> May 19, 2022.

<sup>46</sup> For instance, see "Food, shelter push inflation in Canada to 6.8% in April: Statistics Canada" accessed online at <https://globalnews.ca/news/8844481/inflation-canada-april-2022/> May 19, 2022.

**V. ISSUE #7 – IS ENBRIDGE GAS’S PROPOSED COST RECOVERY APPROACH APPROPRIATE WHILE ADDRESSING THE OEB’S STATED OBJECTIVES IN ITS LETTER ISSUED ON DECEMBER 1, 2020?**

***Amortization***

36. In its report entitled “Review and Assessment of Cost Recovery and Performance Incentive Options for Natural Gas Demand Side Management Programs” (the “**Optimal Energy Report**”), Optimal Energy, Inc. proposed amortizing DSM costs.<sup>47</sup> Optimal Energy noted that currently, EGI treats efficiency investments as operational costs that are fully recovered on an annual basis.<sup>48</sup>

37. Optimal Energy argued that the full recovery of costs over the short term creates significant short-term rate impacts, and creates an imbalance between supply side investments and efficiency investments.<sup>49</sup> As a result, the Optimal Energy Report proposes that EGI could amortize the recovery of DSM investments, in order to allow an immediate increase in DSM spending without a correspondingly large rate increase.<sup>50</sup>

38. CME supports the move to an amortized recovery of DSM balances, assuming that the Board intends to materially increase DSM program budgets. As outlined in the Optimal Energy Report, a move towards amortization will allow investment in DSM measures to increase without causing a commensurately large increase in rates. Given that CME’s members and all Ontarians are currently grappling with significant cost increases as a result of inflation, CME submits that amortizing some or all of the costs of DSM is an appropriate way to ensure that efficiency measures receive the increased investment they require, while still protecting ratepayers against prohibitive cost increases.

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<sup>47</sup> EB-2021-0002, the Optimal Energy Report, Exhibit L.OEB STAFF.1, p. 4.

<sup>48</sup> EB-2021-0002, the Optimal Energy Report, Exhibit L.OEB STAFF.1, p. 4.

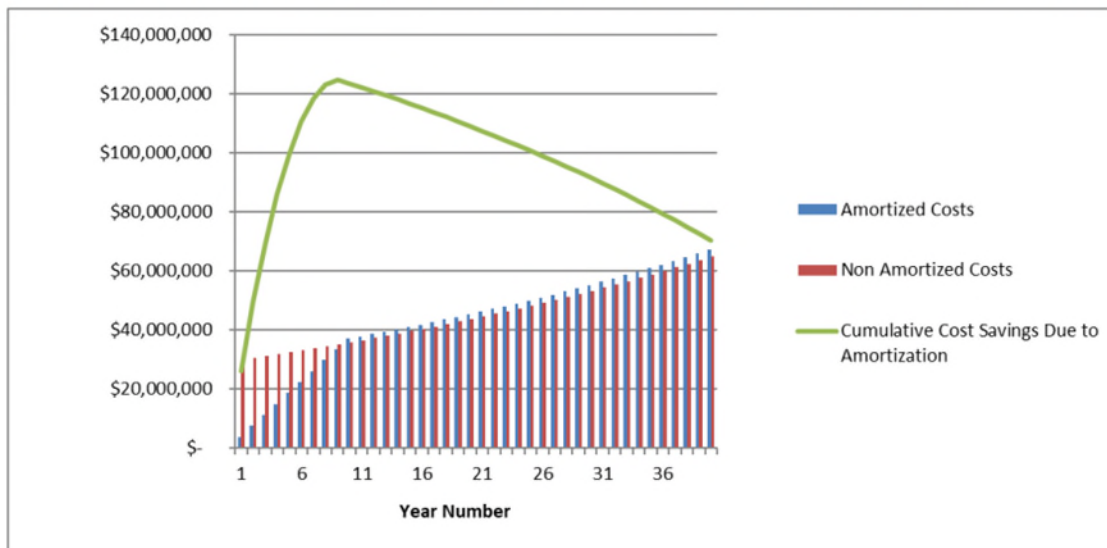
<sup>49</sup> EB-2021-0002, the Optimal Energy Report, Exhibit L.OEB STAFF.1, p. 4.

<sup>50</sup> EB-2021-0002, the Optimal Energy Report, Exhibit L.OEB STAFF.1, p. 4.

39. Notwithstanding CME's support above, CME submits that the amortization horizon should be relative short, for instance five to ten years. While CME acknowledges that shortening the amortization period blunts the advantages of amortization, since repayment would happen more quickly and therefore cost more, sooner, CME is concerned about future debt burdens and the potential shift away from the gas distribution system.

40. For instance, in the Optimal Energy Report, Optimal Energy's example calculations show that amortized costs are actually higher than unamortized costs beginning around year 10:

**Table 1: Cumulative Cost Savings from Amortization – Undiscounted, 4% Interest Rate**



41. Moreover, cumulative cost savings begin to decrease over time as the total amortized amount grows over time.

42. CME's concern is exacerbated by the potential for entities to leave the gas distribution system. As outlined in the School Energy Coalition's presentation,<sup>51</sup> amortization of the costs of efficiency investments benefit customers who can migrate off the natural gas distribution system

<sup>51</sup> EB-2021-0002, Exhibit KP1.12, p. 5.



earlier. These early adopters are able to reap the benefits of increased efficiency investments, then leave the natural gas distribution system before the full costs of those investments are paid. These departures then increase the costs of the natural gas distribution system participants who remain.

43. Some of CME's members will not have the opportunity to move away from the natural gas distribution system, either as a result of costs, or because natural gas is used for more than just energy in their manufacturing processes (for instance, as feedstock). Therefore, certain CME members, and other ratepayer segments will have to bear a disproportionate burden of the cost of current energy investments. As a result, CME submits that amortization, should the Board adopt such an approach, should have a shorter time frame to mitigate against potential unfairness amongst ratepayers.

44. CME submits that the carrying cost of any amortized efficiency balance should be EGI's short-term cost of debt. As outlined by Mr. Mosenthal of Optimal Energy, Inc. during cross-examination, investment returns have two components.<sup>52</sup> The first component is a risk-free return that is comparable to a treasury bill. The second component is the risk premium, which matches the level of risk to the level of return.<sup>53</sup> EGI has argued that DSM investments, should attract EGI's weighted average cost of capital ("**WACC**"), thus attracting a rate of return that includes a risk premium. However, EGI is also earning a premium with respect to DSM investments through the performance incentives it receives for its DSM program achievements. As a result, EGI would be earning two returns for DSM. In CME's view, this is inappropriate. Accordingly, CME submits that EGI should earn its cost of short-term debt. To the extent that the use of debt for carrying costs

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<sup>52</sup> EB-2021-0002, Transcript Volume 5, p. 136.

<sup>53</sup> EB-2021-0002, Transcript Volume 5, p. 136.

causes issues for EGI,<sup>54</sup> the Board should reduce EGI's incentives by a commensurate amount to ensure that EGI does not get rewarded twice for DSM investments.

## **VI. ISSUE #8 – ARE ENBRIDGE GAS'S PROPOSED SHAREHOLDER INCENTIVES APPROPRIATE?**

45. EGI has proposed a shift in the way incentives are calculated as part of this application. EGI proposes three levels of achievement for each individual scorecard metric: 50%, 100% and 150%.<sup>55</sup> EGI would begin earning a shareholder incentive upon reaching 50% of the target, and would not hit its maximum achievable incentive until it reached 150% of the target. Achieving 100% of the target would result in EGI earning 50% of the incentive. Results in between 50% and 150% of target would be linearly interpolated.<sup>56</sup>

46. The Optimal Energy Report, as well as the Energy Futures Group Report both criticize this proposal. Their criticisms include the following:

- (a) Earning incentives by only achieving 50% of the target goal is too low and threshold. It does not sufficiently incent EGI to strive for superior performance if it can earn a reward by significantly missing its target.<sup>57</sup> The target adjustment mechanism exacerbates the rewards for missed targets as discussed further below;
- (b) The 150% achievement would likely be very difficult, if not impossible to achieve within budgetary limitations.<sup>58</sup> Given the difficulty in reaching the uppermost budget, there would be proportionally less interest on EGI's part in trying to achieve this maximum; and

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<sup>54</sup> For instance, in its Argument-in-Chief, EGI discusses the issue with respect to debt/equity thickness at EB-2021-0002, EGI AIC at para 59.

<sup>55</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 11.

<sup>56</sup> EB-2021-0002, Exhibit D, Tab 1, Schedule 2, p. 4.

<sup>57</sup> EB-2021-0002, Energy Futures Group Report, Exhibit L.GEC/ED.1 at p. 27.

<sup>58</sup> EB-2021-0002, Energy Futures Group Report, Exhibit L.GEC/ED.1 at p. 19.

- (c) The incentive cap, combined with the fact that maximum incentive is independent of proposed program budget creates a strong incentive for the utility to propose low goals.<sup>59</sup>

47. Optimal Energy and Energy Futures Group both propose a narrower band for incentive eligibility. Both experts suggest that incentive eligibility should be bound between 75% as a minimum and either 110% or 125% as a maximum.<sup>60</sup>

48. CME agrees with Optimal Energy and Energy Futures Group. Incentives should serve to properly incent appropriate behavior from the utility, namely the maximization of natural gas savings to help customers manage their energy bills. A wide incentive band diminishes the power of the incentives to achieve the desired outcome, both by making it easier to earn a reward, and harder to maximize earnings. Consequently, CME submits that the band for incentives should be altered to 75% to 125%.

## **VII. ISSUE # 9 – ARE ENBRIDGE GAS’S PROPOSED SCORECARDS, INCLUDING PERFORMANCE METRICS, METRIC WEIGHTINGS, AND TARGETS APPROPRIATE?**

### ***Target Adjustment Mechanism***

49. EGI proposes to set metric targets for DSM results for the first year of the plan. Subsequently, it proposes to employ a “target adjustment mechanism” which would set targets based on the previous year’s audited metric achievement and spend.<sup>61</sup> The target adjustment mechanism would employ the following formula:

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<sup>59</sup> EB-2021-0002, Exhibit L. OEB Staff.1, p. 41.

<sup>60</sup> EB-2021-0002, Energy Futures Group Report, Exhibit L.GEC/ED.1 at p. 19; EB-2021-0002, Exhibit L. OEB Staff.1, p. 41.

<sup>61</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 12.

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(Year 1 Performance / Year 1 Spend) \* Year 2 Budget x (productivity factor x inflation adjustment)<sup>62</sup>

50. CME does not support the use of the target adjustment mechanism, and submits that the Board should require EGI to set firm targets for at least the first two years of the plan term.

51. As outlined in the Optimal Energy Report, the use of a target adjustment mechanism could potentially undermine the incentive mechanism and reward EGI for continued sub-standard performance.<sup>63</sup> For instance, if EGI were to achieve 50% of its target, and thereby earn an incentive pursuant to its proposal, the second year's target, assuming a steady budget, would be approximately that same level of achievement.<sup>64</sup> EGI could then meet that new target (50% of the original target) for 2024, 2025, 2026 and 2027 using the same budget. Moreover, EGI would earn the full 100% achievement incentive for the subsequent years, despite the fact that it would have repeatedly failed the target it set for itself initially. CME submits that this is inappropriate.

52. Moreover, the symmetry of the target adjustment mechanism also causes its own concerns. Assuming that EGI is successful beyond its expectations delivering savings, future years will be harder to achieve significant incentives. Moving incentives more out of reach with harder to achieve savings diminishes their power to change utility behavior. In essence, if it is impossible to reach the incentive, the utility will not strive to reach it.

53. It is not enough for incentives to exist. Incentives must incentivize the right outcomes, and not should not become "perverse".<sup>65</sup> In the case of DSM, incentives should shape utility behavior to continue to strive for greater achievements. The target adjustment mechanism undermines this objective.

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<sup>62</sup> EB-2021-0002, Exhibit C, Tab 1, Schedule 1, p. 12.

<sup>63</sup> Optimal Energy Report, Exhibit L. OEB STAFF.1, p. 39;

<sup>64</sup> Subject to inflation and productivity as outlined in the formula.

<sup>65</sup> EB-2021-0002, Transcript, Volume 5, p. 101.

54. Moreover, if the Board were to determine that EGI should use pre-determined targets, the risks of poor forecasting can be mitigated by the use of the midpoint assessment. At that point, EGI could bring forward any forecast issues it has encountered during the first half of the plan (for instance, if targets were forecasted too high and were out of reach) and could apply to reduce targets for the second half of the term.

55. Accordingly, CME submits that the Board should reject the use of the target adjustment mechanism and require EGI to provide discrete targets for the plan period.

**VIII. ISSUE #10 HAS ENBRIDGE GAS PROPOSED AN OPTIMAL SUITE OF PROGRAM OFFERINGS THAT WILL MAXIMIZE NATURAL GAS SAVINGS AND PROVIDE THE BEST VALUE FOR RATE PAYER FUNDING?**

***Industrial Programs***

56. EGI is proposing, *inter alia*, a number of DSM programs for industrial customers. In its application, EGI outlined the primary barriers to participation in the programs included the following:<sup>66</sup>

- (a) Is the customer aware of the program?
- (b) Does the customer understand how the program can benefit them?
- (c) Does the customer have sufficient resources to participate in the program?

57. EGI states in its application that it is devoting greater resources to develop market awareness of the program, but that this additional resourcing will come at the expense of higher costs, lower average project size, and lower cost-effectiveness.<sup>67</sup>

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<sup>66</sup> EB-2021-0002, Exhibit E, Tab 1, Schedule 5, p. 4.

<sup>67</sup> EB-2021-0002, Exhibit E, Tab 1, Schedule 5, p. 4.

58. CME submits that EGI's approach to developing market awareness is reasonable under the circumstances. However, EGI should ensure that the increased resources continue to drive increased participation, to ensure that resources are not being wasted that would be better spent on increasing the size of the average project.

59. The central focus of EGI's industrial program is the custom program. As outlined in EGI's evidence, the custom program provides industrial firms with the technical and engineering support of an Energy Solution Advisor ("**ESA**"). The customer and the ESA then develop a custom program suited to the customer's business.

60. EGI proposes to provide a capped, two-tier incentive system. EGI would provide \$0.20/m<sup>3</sup> saved for the first 50,000m<sup>3</sup> saved, and \$0.10 for every m<sup>3</sup> saved thereafter. The total incentive would be capped at \$100,000.00.<sup>68</sup>

61. In its report, Optimal Energy recommended that EGI should increase or remove the incentive caps. According to Optimal Energy's evidence at the hearing, a cap of \$50,000.00 for commercial programs or \$100,000.00 for industrial programs are significantly below other jurisdictions, which are in some cases capped at \$500,000.00 for commercial or \$1,000,000.00 for industrial.<sup>69</sup>

62. In its response to Optimal Energy's concerns, EGI raised two main reasons why it had not proposed increased caps:<sup>70</sup>

- (a) Many projects do not reach the existing incentive cap, and therefore would not benefit from an increased threshold; and

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<sup>68</sup> EB-2021-0002, Exhibit E, Tab 1, Schedule 5, p. 13.

<sup>69</sup> EB-2021-0002, Transcript, Volume 5, p. 106.

<sup>70</sup> EB-2021-0002, Exhibit JT2.10, p. 12.

- (b) Incentives are not necessarily the primary driver of projects. Technical assistance was in many cases more determinative than incentives.

63. Notwithstanding its rationale, EGI indicated it was open to testing increased thresholds through “limited time offers”.<sup>71</sup>

64. CME submits that EGI should raise the incentive caps on the Industrial Custom Offering. While CME accepts EGI's assertion that most projects do not meet the existing cap, there is no way to tell whether or not the existence of a cap, or the current level of the cap is preventing entities from engaging in more significant projects that could drive natural gas savings going forward. Moreover, while technical expertise may be a greater driver of participation, there is no conflict between technical assistance and increasing incentive levels. Both are drivers of program participation. An increase to the incentive level would continue to be complementary with technical assistance and drive further participation in the offering.

65. In CME's view, a modest increase to the incentive cap, from \$100,000.00 to \$200,000.00 would not necessitate additional testing through limited time offers. As outlined, these caps are still well below those in other jurisdictions, such as Fortis Gas in British Columbia. Moreover, as outlined in EGI's response, most projects do not reach the existing incentive cap. The impact on the Industrial Custom Offering should therefore be moderate and incremental.

## **IX. NRCAN AND THE GREENER HOMES PROGRAM**

66. In the fall of 2020, the Government of Canada announced that it would provide \$2.6 billion in funding for the “Greener Homes Initiative” which would offer up to \$5,000 to help homeowners improve energy efficiency.<sup>72</sup>

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<sup>71</sup> EB-2021-0002, Exhibit JT2.10, p. 12.

<sup>72</sup> EB-2021-0002, Tab 1, Schedule 2, p. 3.

67. EGI's witnesses testified that they are currently negotiating with Natural Resources Canada ("**NRCan**") on details of a joint program offering.<sup>73</sup> EGI's evidence is that the requested budget will not change,<sup>74</sup> but that other program details such as targets and attribution have not been finalized.<sup>75</sup> EGI also stated that many of the program details, such as whether or not incentives from EGI and the Greener Homes Program were "stackable" had not yet been determined.

68. As a result, there is an issue with respect to the timing of the Board's approval of EGI's current program, as the details may vary as a result of EGI's cooperation with NRCan. Parties are unable to provide submissions on the reasonableness and appropriateness of a program that has yet to be determined. Similarly, the Board does not have the ability to make a decision on its appropriateness without a full understanding of what it entails.

69. EGI has argued that it would be "untenable" for it to be expected to collaborate on a program and not have approvals for the program it is expected to collaborate on.<sup>76</sup> EGI's witness further stated that if the negotiation would have happened at any other time, they would already have approvals for existing programs and would have simply updated the Board.<sup>77</sup>

70. EGI's comments miss the point. Whether or not a negotiation at other times in the DSM planning cycle would have changed, the nature of how it received approvals is irrelevant. There is a significant difference between the Board approving a program that is subsequently changed and the Board approving a program it knows is not the program ratepayers will end up with.

71. Although there are a number of different reasonable ways to approach the issue, one solution would be to provide an interim or conditional approval on the program as currently

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<sup>73</sup> EB-2021-0002, Transcript, Volume 3, pp. 23-24.

<sup>74</sup> EB-2021-0002, Transcript, Volume 3, pp. 23-24.

<sup>75</sup> EB-2021-0002, Transcript, Volume 3, pp. 23-24.

<sup>76</sup> EB-2021-0002, Transcript, Volume 2, p. 184.

<sup>77</sup> EB-2021-0002, Transcript, Volume 2, p. 184.



proposed by EGI. If and when NRCan and EGI come to a final agreement, EGI can apply for the Board's approval of the new proposed joint program. Parties could then make fulsome submissions with the benefit of understanding the details such as the targets, attribution of benefits, and any efficiencies derived by jointly offering the program.

## **X. COSTS**

72. CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 19<sup>th</sup> day of May, 2022.



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