May 20, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms Marconi:

EB-2021-0002 – Enbridge Gas Inc. – Demand Side Management Framework and Plan – 2023-2027

Please find, attached, the Final Submissions of the Consumers Council of Canada pursuant to the above-referenced proceeding.

Please feel free to contact me if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: EB-2021-0002

ENBRIDGE GAS INC. – 2023-2027 DEMAND SIDE MANAGEMENT FRAMEWORK AND PLAN

INTRODUCTION:

On May 3, 2021, Enbridge Gas Inc. (EGI) filed an Application with the Ontario Energy Board (OEB) for approval of a Demand Side Management (DSM) Policy Framework (DSM Framework) and a proposed Multi-Year DSM Plan for the period 2022-2027 (DSM Plan). These are the final submissions of the Consumers Council of Canada (Council) regarding EGI's Application.

Prior to the filing of the Application the OEB undertook a DSM Consultation that began on May 21, 2019, in order to establish new DSM Framework that would replace the one originally approved for the 2015-2020 period. On December 1, 2020, the OEB issued a letter, (the DSM Letter) indicating its conclusion of the DSM Consultation inviting EGI to file a comprehensive multi-year DSM plan application for the post 2021 period.[1]

EGI was initially seeking approval of its:

- Proposed DSM Framework effective January 1, 2022; and
- Proposed 2022-2027 Multi-year DSM Plan

On April 26, 2021, the OEB approved the continuation of the legacy utility 2021 DSM plans for the duration of 2022[2]. The proposed plan period is now 2023-2027.

EGI is seeking approval of a 2023 base year budget of $142.3 million which represents a 7.7% increase over the 2022 approved budget. The budgets will be increased each year based upon inflation and other incremental amounts to reflect government policy and to support the growth of energy conservation and GHG reduction initiatives[3].

EGI's is seeking approval of a portfolio of programs that attempts to cover the its overall customer bases including:

Residential Program
Low-Income Program

[1] EGI applied for a one-year extension for 2021, which was approved by the OEB (EB-2019-0271)
[2] EB-2021-0002, Decision dated August 26, 2021, p. 2
[3] Argument-in-Chief, p. 23

Commercial Program Industrial Program
Large Volume Program

It also includes:

Energy Performance Program
Building Better Than Code Program
Low Carbon Transition Program

In addition to the DSM Plan term, programs, and budgets EGI is also seeking approval of the following key components of its plan:

- Scorecards (including performance metrics, metric weightings and targets)
- Cost recovery proposals
- Shareholder incentives
- Research and development activities
- Changes to the OEB's evaluation, measurement, and verification (EMV)
- Updates to the treatment of input assumptions, cost-effectiveness screening
- Accounting treatment including the function of various deferral and variance accounts
- Mid-point Assessment proposals

In its Procedural Order (P.O) No. 6, dated December 14, 2021, the OEB set out its procedural schedule. In that P.O. the OEB established indicated its expectation that parties should clearly outline specific framework elements and DSM plan and program components that they want the OEB to establish or approve.

In addition, the OEB released a letter on April 11, 2022, providing further guidance for parties in formulating their submissions. A summary of that guidance is provided below:

- DSM POLICY - Parties have asked EGI a number of questions on several policy related items, including advancing electrification through natural gas DSM programs, restricting or providing incentives for non-gas-fired equipment, and providing DSM program assistance to non-gas customers or customers that would no longer rely on the natural gas system. The OEB is interested in submissions from parties on these issues;

- TERM - The OEB is interested in views on the term of the DSM Plan and the scope of a mid-term review. Considerations that may be relevant to the submissions on these issues include: (i) program stability, (ii) the ability to asses results and implement appropriate changes, (iii) changes in commodity costs and inflation, and (iv) evolving environmental and climate change objectives. In addition, the OEB is interested in what changes, if any, should be made to stakeholder consultation, governance, and evaluation processes to allow the OEB to assess the efficacy of the DSM Plan and

Framework and allow for the ability to make changes to DSM budgets and program commitments as appropriate.

- COST RECOVERY - Parties may wish to provide their submission on (i) whether there should be amortization of DSM costs and if so, the various components of an amortization approach, such as term of recovery, return for the utility shareholders and what interest rate should be applied.

- PROGRAMS - As part of submissions, parties may want to consider addressing how, if at all, the final agreement between Enbridge Gas with Natural Resource Canada for the delivery of a joint residential program throughout Ontario given many of the specific details are not yet available. Parties may want to consider how the final agreement between NRCan and EGI should be reviewed by the OEB.

- PROGRAMS - Parties may wish to address EGI's proposed programs, including the mix of measures and technologies and whether financial incentives should be available for gas-fired measures or fuel switching measures, whether EGI's financial measures should be combinable with incentives from other programs, and if any programs fail to meet the objectives outlined in the December 1, 2020 letter and the Minister's mandate letter dated November 15, 2021[4].

The Council does not intend to comment on all aspects of EGI's Application. The Council will primarily focus on those issues that directly impact residential consumers. This is consistent with the OEB's expectation that "the focus of submissions should be consistent with each party's interests related to the constituents it represents." [5] Prior to addressing the key components of the Application that impact residential consumers the Council is of the view that it is important to set out the current background and context that are important for the OEB's determination of the issues.

BACKGROUND:

Union Gas Limited and Enbridge Gas Distribution Inc. (now EGI) have been delivering DSM programs for over 20 years. This plan follows the implementation of the 2015-2020 plans that were subsequently continued into 2021 and 2022 through OEB decisions.

In developing this Application EGI was informed by the Existing Framework, the OEB's Mid-Term Review and Report and the OEB's DSM Letter (December 2, 2020).

In that letter the OEB states that, "the primary objective of rate-payer funded DSM is assisting customers in making their homes and businesses more efficient to help manage their energy bills." The OEB also pointed to the following secondary objectives:

[4] OEB Letter dated April 11, 2022
[5] OEB Letter dated April 11, 2022, p. 3

- Help lower overall average annual natural gas usage
- Play a role in meeting Ontario's greenhouse gas reductions goals
- Create opportunities to defer and/or avoid future natural gas infrastructure projects.

The OEB also noted that energy conservation has a role in helping to reduce energy costs assist customers in managing their energy bills. The OEB anticipates "modest budget increases to be proposed by Enbridge gas in the near term". The OEB highlighted the need to weigh the cost-effective natural savings to be achieved against both short-term and long-term customer bill impacts[6].

On November 15, 2021, the Minister of Energy sent a Mandate Letter to the OEB. In that letter the Minister set out his expectations with respect to DSM. These included:

- A strong interest in a framework that delivers increased natural gas savings and reduces greenhouse gas emissions;
- The need for the DSM Framework be implemented in a way that enables customers to lower energy bills in the most cost-effective way possible, and help customers make the right choices regardless of whether that is through more efficient gas or electric equipment;
- The need to collaborate with the IESO's Conservation and Demand Management (CDM);
- The need to collaborate with the Federal Government and its Canada Greener Homes Program[7]

In its Argument-in-Chief EGI asserts that the development of the Application and its proposed multi-year plan are fully responsive to the direction given by the OEB and the Minister of Energy[8]. As became apparent during the oral proceeding parties differ on the interpretation of the direction given from both the OEB and the Minister of Energy and whether or not EGI has presented a DSM Plan and Framework that is consistent with that direction. A good example is what constitutes "modest budget increases". Another example is what constitutes enabling customers "to lower energy bills in the most cost-effective way possible". Is EGI sufficiently "coordinating" with the IESO and NRCan? The OEB will need to assess EGI's proposals in the context of whether they are consistent and compatible with the objectives it has set out and the direction given in the Mandate Letter.

One of the objectives identified by the OEB is to lower annual gas use. Despite the fact that EGI's customers have funded DSM for over 20 years annual gas throughput has been increasing. According to EGI's current demand forecasts, gas throughput will continue to rise through the DSM plan term. The OEB must decide whether EGI's proposals represent the best approach to

[6]OEB letter dated December 1, 2020, p. 4
[7] Mandate Letter date November 15, 2021, p. 3
[8] Argument-in-Chief, p. 8

lowering natural gas usage. The OEB must also clarify its expectations regarding the need to lower overall gas use.

Several things have changed since EGI filed its Application in May of 2021 that will undoubtedly impact the Application and EGI's proposals. Natural gas commodity prices have risen significantly (which may well be impacting how customers use natural gas). Do we know how much natural conservation is taking place in the context of these rising prices? Gasoline prices are also rising and we are seeing consumers directly respond. Inflation has risen significantly and continues to rise. In addition, climate change policies at all levels of government continue to evolve. New governments may change course and implement new policies. The Ontario Government has established an Electrification and Energy Transition Panel that will provide advice to the Minister on various issues related to long-term energy planning including increased electrification.[9] Municipalities across Ontario are developing energy plans to improve energy efficiency, reduce greenhouse gas emissions with goals to achieve net zero emissions. Some are offering their own home retrofit programs[10]. The energy landscape is changing rapidly. The need for further and more extensive collaboration between EGI and the various levels of government cannot be understated. It is for these reasons that the OEB should, at this time, only approve a three-year term for EGI's DSM Plan. The entire concept of gas ratepayer funded and gas utility delivered DSM may well have to be reconsidered.

The Council does not see it as practical or cost-effective to reject the Application and direct EGI to start over either immediately or in the next year or two. Although many of the specific proposals need to be redesigned, the Council agrees with EGI that to "start again" would be wasteful.[11] The OEB should approve the specific program proposals that would best meet the OEB's stated objectives for no more than a three-year period.

The Council will address several of the issues approved by the OEB in addition to the issues identified in its letter dated April 11, 2022. The Council's primary focus is on EGI's Residential Program and the fact that given the amount of money EGI is seeking to recover in rates for DSM (program and portfolio costs) the value for money for residential consumers is limited. The Council fully supports the OEB's objectives to lower overall annual gas usage, play a role in meeting Ontario's GHG reduction goals and to create opportunities to defer and/or avoid future natural gas infrastructure. However, meeting those objectives through the Residential Program as proposed by EGI is not appropriate. The Council relies on other parties and their experts to identify the most cost-effective programs and where, in effect, EGI can get the "biggest bang for the buck".

[9] Order in Council 698/2022 dated March 24, 2022. The Order in Council indicates the Government of Ontario is reviewing its long-term energy planning process to increase the effectiveness, transparency, predictability and accountability of energy decision-making in Ontario to enable better use of resources and increase benefits to customers. It also states that the successful transition to a clean energy economy and increased electrification will bring with it wide-ranging consequences that will require careful consideration and coordination.

[10] "City of Ottawa to launch its own home retrofit program". CBC News, July 6, 2021

[11] AIC, pp. 8-9

The Council will not address the program proposals for EGI's other customers with the exception of the Low-Income Program. The Council fully supports the Low-Income program and the associated budget levels for the program as proposed by EGI.

ISSUES:

TERM (ISSUE 4)

EGI has proposed a term of 5 years for its DSM Plan. In its original application EGI was seeking a plan term of 6 years. In its Decision dated August 26, 2021, the OEB extended the 2021 plan into 2022.

As set out above the energy landscape in Ontario is changing and is expected to evolve as governments at all levels are looking to reduce GHGs and move toward increased electrification. There have even been changes since EGI initially filed its Application that will potentially impact the way in which consumers use energy and will use energy in the future. It is for these reasons that the OEB should not approve a DSM Plan for EGI for longer than three years. It will be important for the OEB and the various levels of government to consider collectively what the potential role will be for EGI going forward with respect to DSM. There may be a determination that DSM and CDM programs are more appropriately developed, coordinated and delivered through a central third-party organization that has clear policy direction. There may be a push for further collaboration with the IESO.

EGI is proposing a mid-point assessment at the end of the first two years of the plan. It is EGI's view that this assessment will provide an opportunity to determine if any additional program offerings merit introduction, or if changing market factors/government policy necessitates some reconsideration in program design or delivery.[12] The problem with this approach is that the 2024 audited results may not be available well into 2025. That allows for very little time to review the results and undertake an OEB process to determine how to adjust the plan going forward. In some cases audited results have taken years to produce. If the OEB approves a 5-year plan the mid-point assessment should be required. However, if a 3-year plan is accepted there will be ample time to consider in the next three years the role of EGI with respect to DSM going forward.

PROGRAMS (ISSUE 10A):

EGI is proposing a Residential program that has three components:

- Whole Home offering: This offering provides a holistic approach to residential home energy upgrades by providing financial incentives towards their home energy audits and thermal envelope and mechanical system upgrades.

[12] Ex. D/T1/S1/p. 5

- Single Measure offering: Customers using a contractor can receive single measure incentives in support of insulation or professional air sealing upgrades with no home energy audit requirement.
- Smart Home offering: This offering provides customers with incentives towards smart home technologies which provide automated controls to reduce energy consumption[13] (e.g. smart thermostats)

The first component of the program is essentially a continuation of the home audit/retrofit programs provide by both Union Gas Limited and Enbridge Gas Distribution Inc. The Council has a number of concerns with the Residential Program offering.

Costs for Non-participants:

EGI has projected that for its Whole Home program – where most of the residential savings will result - there will be approximately 15,000 participants per year[14]. This is less than what has been achieved in historical years. In fact, in 2019, the combined total number of participants for the EGD and Union Gas rates zones was 27,439.[15] We note that there are more participants for the Single Measure Offering and the Smart Home Offering, but the whole Home offering is where most of the savings are expected to be achieved.

In 2023 EGI's residential consumers are funding approximately $78.5 million[16] of DSM costs in rates. This represents more than 50% of the overall DSM budget of $142.3 million. This includes the following:

- $40.8 million in direct Residential Program costs;
- Approximately 30% of the Portfolio Costs – which includes Administration Costs, Evaluation and Regulatory Costs, Research and Development Costs – of $18.4 million
- $4 million in Residential Savings by Design costs
- $2.7 million for the Residential Low Carbon Transition Program; and
- A proportion of the $22 million related to the Low Income Program.[17]

The Council notes that the $78.5 million could be easily be exceeded if EGI accesses its Demand Side Management Deferral Account (DSMVA) and receives a shareholder incentive payment.

The Council acknowledges that program participants typically see their energy bills go down. As noted by Energy Futures Group (EFG) this is because their energy savings are substantially larger than any increase in rates caused by efficiency programs.[18] The Council is concerned,

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[13] Ex. E/T1/S2/pp. 78
[14] Transcript, Vol. 3, p. 39/10a.EGI.CCC.32
[15] Ex. 10a.EGI.CCC.28
[16] Ex. F/T1/S2/p. 1
[17] Transcript Vol. 3, pp. 47-48
[18] L.GEC.ED.1, Energy Futures Group evidence, p. 15

however, about the non-participants. 15,000 of EGI's customers are expected to participant in the Whole Home Offering where the majority of savings will result. However, the vast majority of EGI's customers will not directly benefit from bill reductions. We acknowledge that there are past participants that continue to benefit from the program, but this still represents a relatively small portion of EGI's overall residential customer base.

From the Council's perspective these numbers are stark - $78.5 million or more to be recovered in rates (increased annually throughout the plan term) to provide bill savings for a very small proportion of EGI's residential customer base. It is clearly hard to continue to justify EGI's Residential program offerings. The Council submits there must be a more cost-effective approach in meeting the OEB's four DSM objectives rather than to continue the Residential Program with a relatively small number of participants at such a great expense.

Incomplete Negotiations with NRCan:

EGI has proposed to continue with its Whole Home offering and expand it by offering the two new components. After EGI filed its Application the Federal Government announced its Greener Homes Grant Program. EGI and NRCan are currently in negotiations to offer joint program with EGI as the delivery agent. Rebate levels, funding parameters and savings attribution rule have yet to be determined.[19] The negotiations are expected to be concluded later in 2022.

There are currently differences between the two programs. This includes incentive levels, offerings (the NRCan Program does not offer incentives for gas-fired measures) and enrollment policies.

The Council is of the view that it would be premature to approve the joint program at this time. The details and final program design is not in place. With federal funding EGI's current program could be enhanced, but until an agreement has been reached the OEB cannot assess the reasonableness of EGI's budgets, its targets and its incentive levels. The Council agrees with many of the experts that testified in this proceeding that including gas fired equipment in this program is no longer appropriate given that efficiency standards have essentially transformed the market. Once the joint agreement is reached, EGI can bring forward its proposals for a joint program and the OEB can evaluate whether that program is in the best interests of EGI's customers and merits ratepayer funding.

Another factor with respect to residential programs is that municipalities are offering energy efficiency programs. Enbridge should be required to report on the extent to which it and NRCan are collaborating with municipalities and the extent which it can leverage the funding associated with those programs for its customers.

Lack of an Ontario Free-Ridership Rate:

[19] Transcript Vol. 2, p. 178

The Whole Home offering has a free-ridership rate of 5%. This means that 5% of the participants would have undertaken the measures even in the absence of EGI's program. This number has been based on experience in other jurisdictions and represents the long-standing free-ridership rate used for a number of years.[20] Free-ridership rates are developed through the OEB's Evaluation and Audit Committee (EAC) and the development of the Technical Resource Manual. In support of this program there is not a current Ontario-based free-ridership study.[21]

The Council is concerned that EGI customers, who have every intention of renovating their home make that decision first, then go to EGI looking for a funded audit and incentives towards those renovations. In the absence of a free-ridership study the projected savings in support of this program are questionable. If this program proceeds the Council submits that a free-ridership study should be highly prioritized by the EAC.

COST RECOVERY (ISSUE 7)

EGI is not proposing any changes to the way it recovers DSM costs. However, several of the DSM experts that presented evidence in this proceeding discussed amortization of DSM costs. The Council expects that several parties will be advocating for the amortization of DSM costs, as it is an approach that mitigates rate impacts resulting from material increases to the DSM budgets.

The Council is of the view that amortization at this point is not appropriate nor required for the following reasons:

- Amortization adds costs for ratepayers relative to the current practice of expensing DSM costs;

- Amortization of costs is complicated as it involves decisions regarding tax impacts, discount rates and timing;

- Amortization pushes cost recovery into the future. If there are policy initiatives that move towards increased electrification those left on the system will bear a disproportionate level of DSM costs; and

- EGI would be faced with the risk of non-recovery.

SCORECARDS AND SHAREHOLDER IINCENTIVE (ISSUES 8 AND 9):

[20] Transcript Vol. 3, pp. 42-43
[21] Transcript, Vol. 3, p. 43

EGI's scorecards include performance metrics, metric weightings and target. The shareholder incentive mechanisms in the past are tied to these scorecards. In addition, EGI has introduced further incentives – an annual net benefits incentive, a long-term scorecard incentive and long-term GHG achievement.[22]

In the past the Council has questioned the need for a shareholder incentive on the basis that the utility is kept whole and shielded from the impacts of DSM through lost revenue adjustment mechanisms, average use adjustments and load forecasting. In addition, we have argued that EGI has an obligation to provide services to it customers, including DSM. We recognize the OEB has acknowledged the need to provide shareholder incentives and has in the past approved incentives in the amount of $20.9 million for the combined utility. EGI is proposing to cap it at that level for 2023 and increase it with inflationary adjustments in each subsequent year.

With respect to the scorecards, the Council will rely on the advice of the experts that provided evidence in this proceeding. Assessing scorecard metrics – especially targets for programs is a difficult exercise. EGI has an incentive to present targets that are relatively easy to achieve. It has an intimate knowledge of its market segments and knows better than anyone what is achievable and the extent to which it can realistically meet or exceed its targets. The targets proposed in this Application may be easily achievable – we simply do not know. The Council is of the view that each year should be a stretch target so the OEB should consider taking what EGI has proposed and increasing the targets, in each year, over and above what EGI has proposed for the 2023 base year.

The Council does not support the proposal for the Target Adjustment Mechanism (TAM) which sets targets in subsequent years based on actual results in previous years. Instead, the OEB should set targets for each year of the approved plan that exceed the previous years targets. This will encourage productivity in the delivery of programs and ensure EGI is incented to improve as time goes on.

With respect to the shareholder incentives the Council agrees this should capped at the $20.9 million. The Council sees no reason to increase this amount by inflation every year – especially in light of the current inflation levels. There has been no evidence provided in this proceeding that $20.9 is the "right" number which if reduced would dissuade EGI from aggressively pursuing its targets. There was also no evidence provided that in order to incent EGD to pursue more cost-effective DSM this incentive amount needs to be increased. It is the result of historical circumstances and not based on a detailed performance analysis.

CHANGES TO THE OEB'S EVALUATION, MEASUREMENT, AND VERIFICATION (EMV) (ISSUE 12)

The Council does not propose any changes to the current OEB supported Evaluation and Audit Committee. The Council would, however, be open to allowing other stakeholders more insight

[22] Ex. D/T1/S2

to the process and more opportunity to provide input on the evaluation of DSM results and changes to input assumptions going forward. Increased transparency may avoid the annual DSM LRAM and SSM clearance proceedings, or at least reduce the scope of those proceedings.

OTHER ISSUES:

The OEB was seeking input on whether EGI should be advancing electrification through natural gas DSM programs, restricting or providing incentives for non-gas-fired equipment, and providing DSM program assistance to non-gas customers or customers that would no longer rely on the natural gas system. From the Council's perspective this is part of a larger discussion the OEB needs to have with provincial policy makers.

We note the direction provided in the Mandate Letter:

- The need for the DSM Framework be implemented in a way that enables customers to lower energy bills in the most cost-effective way possible, and help customers make the right choices regardless of whether that is through more efficient gas or electric equipment;

From the Council's perspective it is not clear how this "ask" from the Minister should be implemented. However, it seems problematic to expect EGI customers to fund incentives for non-gas customers. There is also the question of whether the OEB has the jurisdiction to allow for this.

CONCLUSIONS:

The Council acknowledges that the primary objective of rate-payer funded DSM is to assist customers in making their homes and businesses more efficient to help manage their energy bills. The Council also supports the following secondary objectives:

- Help lower overall average annual natural gas usage;
- Play a role in meeting Ontario's greenhouse gas reductions goals; and
- Create opportunities to defer and/or avoid future natural gas infrastructure projects.

The Council questions, however, whether EGI has designed a DSM Plan that best meets those objectives. EGI's residential consumers do not appear to be getting clear "value for money", as their portion of DSM funding is significantly high and expected to increase significantly over the plan term (with 3% plus inflation increases in program costs). Whereas participant levels are projected to be less than historical levels. Once EGI concludes its negotiations with NRCan and brings those proposals back to the OEB, the OEB can assess whether this program proposal is warranted.

As discussed throughout this submission the energy landscape in Ontario has changed significantly in the past several years and is continuing to evolve. EGI has presented a DSM Plan and DSM Framework in response to OEB direction and direction from the Minister of Energy. Approval of that plan for a period of no more than three years will allow DSM programing to continue and give the OEB, and the Government of Ontario ample time to consider what may be a new paradigm to facilitate conservation, energy efficiency, GHG reductions and the move toward further electrification.