K1.2

Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

EB-2006-0021

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

AND IN THE MATTER OF a generic proceeding initiated by the Ontario Energy Board to address a number of current and common issues related to demand side management activities for natural gas utilities.

BEFORE: Pamela Nowina
Presiding Member and Vice Chair

Paul Vlahos
Member

Ken Quesnelle
Member

DECISION WITH REASONS

August 25, 2006

Ontario Energy Board

FILE No. EB-2012-0394

EXHIBIT No. ~~Proxy~~ Issues Day K1.2

DATE Apr 29/13

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EXECUTIVE SUMMARY

The Ontario Energy Board (the "Board") determined the original regulatory framework for gas utility sponsored Demand Side Management ("DSM") programs through guidelines established in its EBO 169-III Report of the Board dated July 23, 1993. DSM programs are programs which assist utility customers in reducing their natural gas consumption. Since 1995, Union Gas Limited ("Union") and Enbridge Gas Distribution Inc, ("EGD") have been filing DSM plans in response to the directives of the Board in the EBO 169-III Report.

In the Board's EB-2005-0001 decision dealing with EGD's 2006 rates, the Board announced its intention to convene a generic proceeding to address a number of current and common issues related to DSM activities for natural gas utilities – this decision. In the ensuing Notice of Hearing, the Board stated that the hearing will result in orders under section 36 of the Ontario Energy Board Act. The Board's findings in this decision, therefore, are orders of the Board pursuant to section 36 of the Act.

At the beginning of the oral hearing the Board was presented several documents which segmented the issues list into four categories. The categories consisted of a list of completely settled issues, a list of partially settled issues to which most intervenors and the utilities agreed, a list of partially settled issues to which all intervenors agreed with the exception of the utilities, and, a list of completely unsettled issues. At the beginning of the oral hearing the Board accepted the completely settled issues as proposed. The oral hearing dealt with the issues contained in the two partial agreements, and other unsettled issues. The oral phase of the hearing, including argument, was concluded on July 28, 2006.

The Board's decision deals with a large number of issues relating to DSM. Generally, a rules-based and framework approach has been established where

appropriate and practical. Below is a list of the broader matters that have been decided.

- A three-year term for the first DSM plan
- Processes for adjustments during the term of the plan
- Formulaic approaches for DSM targets, budgets, and utility incentives
- Determination of how costs should be allocated to rate classes
- A framework for determining savings
- A framework and process for evaluation and audit
- The role of the gas utilities in electric Conservation and Demand Management activities and initiatives

The Board will issue a Procedural Order to commence the next phase dealing with the determination of the input assumptions after which the gas utilities can file their respective three-year DSM plans.

CHAPTER 3- PARTIAL SETTLEMENT (FINANCIAL PACKAGE)

In addition to the completely settled issues, the Board was presented with a list of partially settled issues. Union, EGD, CCC, SEC, Energy Probe, IGUA, LPMA, and VECC (the "Partial Settlement Proponents") were parties to a complete agreement on a number of issues. Certain of these issues were presented as a package (the "Financial Package") which the parties presented as being un-severable; i.e. if the Board did not accept the entire package, the Financial Package agreement would be withdrawn. The Financial Package dealt with:

- DSM budgets (Issue 1.3),
- DSM plan targets (Issue 1.4),
- allocation of DSM budgets amongst customer classes (Issue 1.7),
- the DSM incentive mechanism (Issue 5.2),
- the DSM variance account (Issues 6.1, 6.2, 6.3),
- market transformation and lost opportunity program budgets and utility incentives related to them (Issues 10.2, 10.4, 10.8), and
- targeted programs for low income customers (Issues 13.1, 13.2, 13.3).

The Partial Settlement Proponents explained that the individual elements of the Financial Package were tied together, and that to change one element would have repercussions on other elements. On the opening day of the hearing, the Board explained to the parties that it would hear whatever evidence the parties chose to lead; however, if at the conclusion of the hearing the Board determined that it did not wish to accept the Financial Package in its entirety, it would not re-open the hearing to hear fresh evidence on any of the issues. The Partial Settlement Proponents subsequently informed the Board that they would continue to exclusively support the Financial Package, and would not present any evidence to be considered in the event that the Board did not accept the entire Financial Package.

In addition to the Financial Package, the Partial Settlement Proponents reached a partial settlement on a number of other issues that could be considered individually. This chapter deals only with the Financial Package; the remaining partially settled issues will be addressed in Chapter 4.

The chief proponents of the Financial Package in the hearing were the utilities through their witness panels. The other Partial Settlement Proponents did not present witnesses in support of the Financial Package, but did conduct what was described as "friendly" examinations of the utility witnesses on these issues. The parties opposed to the Financial Package cross-examined the utility witnesses and, in some cases, filed their own proposals.

The Board will accept the Financial Package as presented by the Partial Settlement Proponents. As the Board explained when considering the meaning of a partial settlement on July 10, the Board has considered all of the issues in the Financial Package on an issue by issue basis. Taken individually and as a whole, the Board finds all of the proposals contained in the Financial Package to be reasonable.

The Board is pleased that the Financial Package amounts to what is largely a "rules-based" approach. Many of the major elements of the three year DSM plans will essentially be locked in for the term of the plan, and will not require further review by the Board during this period. This should result in significant regulatory savings for the parties, the Board, and, ultimately, for ratepayers.

The Board finds that the Financial Package strikes an appropriate balance between advancing DSM forward through higher budgets and ultimately higher TRC savings targets, while not forcing the utilities to try to spend money that they indicated they would have trouble spending in a cost effective manner. The Board is also satisfied that the Financial Package will not cause undue rate

impacts to ratepayers given the relatively modest nature of the proposals, in light of the overall revenue requirement of the respective utilities.

In addition to the overall comments above, the Board has the following remarks on the individual issues that comprise the Financial Package.

How should the financial budget be determined? (Issue 1.3)

The Partial Settlement makes the following proposal.

> "Parties in agreement with this partial settlement accept that a DSM budget cap should be developed using the following formulaic approach in each year of a multi-year DSM plan. For the first year, the budget for EGD will be $22.0 million, an increase of $3.1 million or approximately 16% from its 2006 budget. For Union, the 2007 budget will be $17.0 million an increase of $3.1 million or approximately 22% from its 2006 budget.
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> In the second and subsequent years of a multi-year DSM plan, the DSM budget for each year of the plan will be determined by applying an escalation factor of 5.0% for EGD and 10% for Union to the budget developed for the immediately preceding year. The purpose of the application of different escalation factors for EGD and Union is to address the desire by some parties that the difference between the level of spending by EGD and Union be narrowed. The parties agree that this formula results in budgets of $23.1 million and $24.3 million for EGD in 2008 and 2009 respectively, and budgets of $18.7 million and $20.6 million for Union in 2008 and 2009 respectively.
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> Parties to this partial settlement agree that the Utilities remain obligated to develop, and spend monies on, cost-effective DSM programs up to the budget amount developed by this methodology."