uniongas
A Spectra Energy Company

October 15, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**RE: EB-2014-0134 – Developing a New Demand Side Management Framework for Natural Gas Distributors – Union Gas Limited ("Union") Submission**

On September 15, 2014 the Ontario Energy Board ("Board") posted for comment the Draft Report of the Board on the DSM Framework for Natural Gas Distributors for 2015 to 2020 (the "draft DSM Framework") and the Draft Filing Guidelines to the DSM Framework ("the draft DSM Guidelines"). Please find attached Union's submission on the options and recommendations contained therein. Union's comments largely follow the format of the draft DSM Framework and the draft DSM Guidelines.

In recognition that an approved multi-year DSM Plan will not be in place prior to 2015, Union requests the Board initiate an expedited process to address the transition from the current 2012 – 2014 DSM Plan to the new multi-year Plan.

If you have any questions, please contact me at 519-436-5334.

Yours truly,

*[original signed by]*

Vanessa Innis
Manager, Regulatory Initiatives

cc: Alex Smith (Torys)
Union's DSM Consultative

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# EB-2014-0134 UNION GAS SUBMISSION

## Section 1.0 INTRODUCTION

Throughout the Demand Side Management ("DSM") Working Group consultation process convened by the Ontario Energy Board (the "Board") from April to July 2014, Union Gas ("Union") maintained that the existing DSM framework worked well. The new DSM framework should continue to build on the experience of this proven model.

The current DSM framework provided the gas utilities with the necessary flexibility and stability to create and deliver effective DSM programs. Importantly, the current DSM framework provided the reward structure needed to motivate the utilities to drive significant energy savings for Ontario's energy consumers.

In general, the Draft Report of the Board – Demand Side Management Framework for Natural Gas Distributors ("Draft Framework") and Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributor ("Draft Guidelines") continue to provide the gas utilities with the flexibility needed to respond to changes in the market and to evolve programs. The proposed DSM shareholder incentive ("DSM incentive") structure, however, is not appropriate and is contrary to the Ontario Government's objective of maximizing energy savings.

The annual DSM incentive is a fundamental component of the DSM Framework and it has been extremely effective in driving the business focus required to achieve strong results. Union is motivated by this proven model and the reward structure needs to be restored in the new DSM Framework to continue to drive exceptional results.

With the proposed reduction in the DSM incentive at the upper band 150% score, Union will not continue to be motivated to achieve greater than the 100% target. This structure will lead Union to reduce internal focus on DSM as it removes the motivation to achieve exemplary results.

This policy direction is in direct contradiction to Ontario's Long Term Energy Plan and the Ministry of Energy Directive to the Board, which reaffirmed the Government's commitment to promoting conservation first and enabling DSM.

It is further contrary to the Guiding Principles outlined in Section 3.0 of the Draft Framework. This policy change will lead to lost conservation opportunities and higher natural gas usage, and associated customer bills, than would have been achieved under a DSM incentive which strongly rewards exemplary performance.

The Board should continue to encourage and reward leadership in the development and delivery of DSM programs rather than compliance.

Union's detailed submission on the Draft Framework and Draft Guidelines are provided below. Union's submissions follow the format of these documents and the sections are labeled accordingly.

**2015 Transition DSM Plan**

Union notes the DSM Framework did not contemplate how the natural gas utilities are to bridge the period between the end of the current DSM Plans in December 2014 and the approval of the multi-year DSM Plans.

The Board's timeline for the Final DSM Framework and Guidelines will not provide for an approved multi-year DSM Plan prior to 2015. To ensure program continuity for its customers, Union will seek approval for a one year 2015 Transitional DSM Plan ("2015 Transition Plan") prior to the end of 2014. Union will meet with stakeholders to discuss its proposal for the 2015 Transition Plan. It will be filed under the new Draft DSM Framework and will assume the DSM incentive structure will be consistent with that proposed by Union in Section 6.0 below. To provide for regulatory efficiency the 2015 Transition Plan will be largely consistent with Union's DSM Plan in 2014; however, incremental budget and program requirements will be considered to ensure it represents an appropriate transition to the multi-year DSM Plan.

In the event the DSM incentive is not maintained, Union would need to reassess its level of DSM activity in relation to the DSM incentive.

Since there is no approved DSM Plan in place for 2015, in its 2015 Rates application (EB-2014-0271) Union proposed to include a DSM budget of $32.588 million in rates. This represents an increase of $0.538 million based on an inflation factor of 1.68% multiplied by the DSM budget of $32.049 million included in 2014 rates. Any budget true up will be dealt with in the Demand Side Management Variance Account ("DSMVA").

Union requests the Board initiate an expedited approval process to be followed for the 2015 Transition Plan. It is Union's expectation that it will be able to recover its prudently incurred costs prior to Board approval in respect to DSM for 2015.

# UNION'S SUBMISSION ON THE DRAFT REPORT OF THE BOARD – DSM FRAMEWORK FOR NATURAL GAS DISTRIBUTORS

## Section 1.2 Scope of this Report

Union supports the recognition in the Draft Framework that the DSM targets, budget, DSM incentive and programs are interrelated.

Union recommends the following approach for establishing these central DSM components:

- The Board defines an acceptable budget range in the DSM Framework, given the Ministry of Energy Directive to the Board and the policy objectives, that results in acceptable rate impacts;
- The Board restores a DSM incentive structure that appropriately motivates Union to strive for exemplary results; and,
- The utilities, informed by the Board's budget range, incentive structure, policy guidance in the final DSM Framework/DSM Guidelines and with stakeholder consultation, undertake the iterative detailed analysis required to develop the program requirements, annual targets and budgets for the multi-year DSM Plans.

This approach is consistent with the effective process used by the Board for the 2012 – 2014 DSM Plans. It balances the need to provide an appropriate level of direction and regulatory efficiency while allowing the gas utilities the required flexibility to leverage their expertise in designing robust programs.

The considerations for this process and Union's position are discussed in more detail in the sections that follow.

**Section 1.5 Jurisdictional Review**

While the information provided by Concentric Energy Advisors, Inc. ("Concentric") serves as a reference point, the Board should not use the report as the primary basis to establish the DSM Framework elements. As recognized by the Board, results and comparisons of this nature must inherently be viewed with the understanding there are differences between jurisdictions and limitations in ensuring data accuracy. For example, when comparing the 2012 program budget data between jurisdictions in Table 8[1] the Ontario value of $29.9 million as presented by Concentric is clearly not representative of the program budgets of Union and Enbridge Gas Distribution.

Due to data constraints, the legislative and regulatory context, differing levels of DSM maturity and differences in market and customer characteristics, results should be viewed with caution, and as indicative rather than definitive.

Within this context, Union has expanded Chart 5 from the Concentric report to include the leading jurisdictions that were the primary focus of the study. Union has charted the 2012 annual DSM savings provided in Table 2 and 3[2] in relation to actual budget expenditure[3] as opposed to the budget as provided by Concentric, as it represents the actual as opposed to planned activity within the jurisdiction.

[1] Concentric Energy Advisors. Review of Demand Side Management (DSM) Framework for Natural Gas Distributors – Supplemental Report. September 15, 2014. Page 10

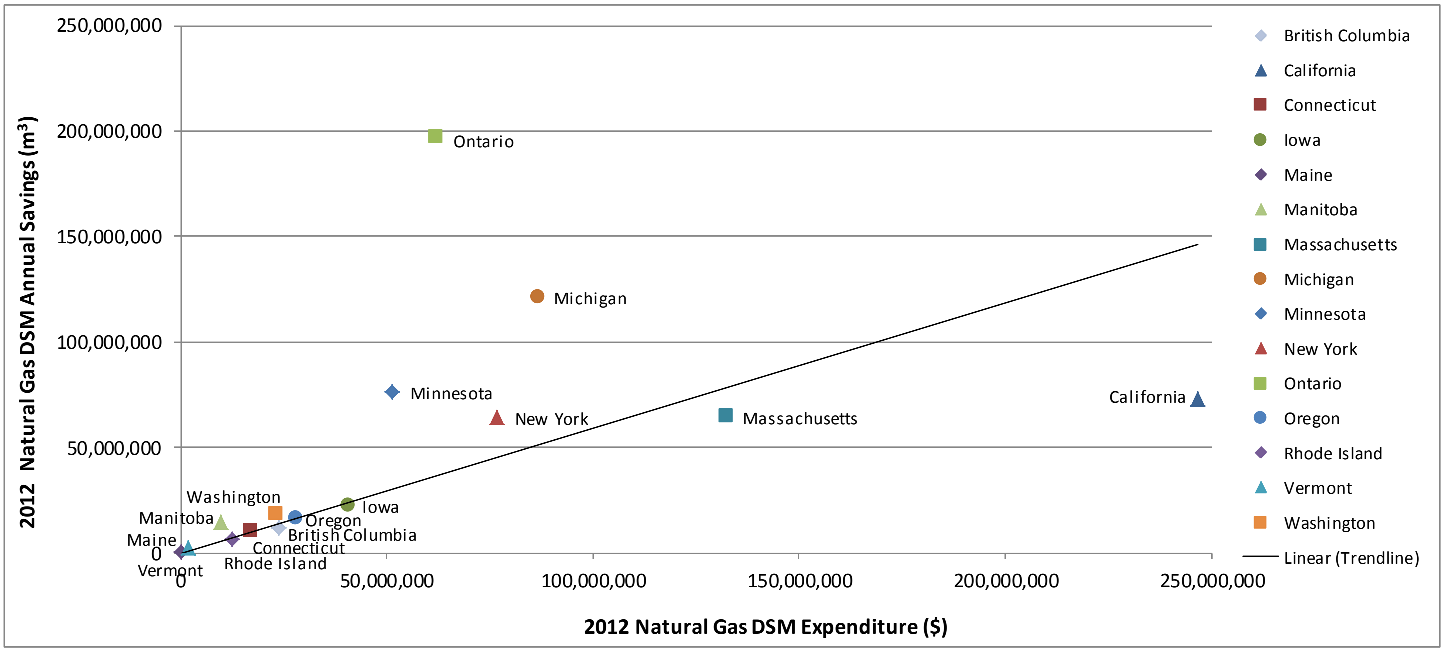
[2] Concentric Energy Advisors. Review of Demand Side Management (DSM) Framework for Natural Gas Distributors – Supplemental Report. September 15, 2014. Page 5 and 6.

[3] 2012 Program Administrator Efficiency Expenditure by State sourced from American Gas Association Natural Gas Efficiency Programs Brief – Investments and Savings Impacts 2012 Program Year. March 2014. Appendix C, Page 31.

British Columbia 2012/2013 Natural Gas Program Administrator Efficiency Expenditure sourced from the Fortis BC Energy Utilities 2012 Energy Efficiency and Conservation Annual Report. March 28, 2013.Table 2-2, Page 10.

Manitoba Natural Gas Program Administrator Efficiency Expenditure sourced from Manitoba Hydro 2012 – 2013 Power Smart Annual Review. May 13, 2014. Exhibit E.7. The savings and costs are reported as annual 2012/2013 results.

**Chart 1: 2012 Natural Gas Annual Savings vs. Budget Expenditure**




While there are limitations to the comparability of the data, it is clear Ontario is driving exemplary DSM results in a very cost effective manner. The natural gas DSM Framework in Ontario should focus on ensuring continuation of the accomplishments achieved to-date and continued evolution of the successful DSM model in this province, as opposed to a focus on bringing Ontario in-line with other jurisdictions based on limited information and context.

**Section 2.0 TERM**

Union supports the Board's proposal to establish a six year DSM Framework. This term will provide the stability required to engage in long-term planning and aligns with the Conservation Demand Management ("CDM") framework for electric utilities to facilitate collaboration.

**Section 2.1 Mid-Term Review**

Union supports the inclusion of the mid-term review as proposed by the Board. This process should be structured to provide for a Board Decision by June 1, 2018 to allow an opportunity to implement changes, if required. This may include an incremental plan, informed by Union's experience over the first three years of the new DSM Framework, the efficiency potential study to be completed by June 1, 2016 and consideration of DSM in relation to infrastructure planning.

## Section 3.0 GUIDING PRINCIPLES

Union supports the Board's inclusion of guiding principles to provide direction for consideration. However, with respect to principle 1, Union is unclear as to the intent of the guiding principle in relation to principle 2 and principle 10. Union recommends removing principle 1 and replacing it with clarifications of principles 2 and 10. Union recommends the following wording:

> **2. Achieve all cost-effective DSM that results in a reasonable rate impact.**
> The gas utility's overall DSM portfolio should aim to achieve all the cost-effective DSM available in its franchise area, having regard to the Board's guidance with respect to DSM budget, and that the costs required to do so result in reasonable rate impacts for customers. Cost-effectiveness is defined as the portfolio meeting a Societal Cost Test screening of 1.0.
>
> **10. Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels.**
> DSM should be one of the options considered when developing both regional and local infrastructure plans. Infrastructure investments may be avoided or deferred through targeted reductions in the demand for natural gas. The utilities should consider funding DSM where the DSM cost impact is equal to or lower than the avoided cost of the infrastructure investment.

Union's specific feedback on cost-effectiveness and infrastructure planning in relation to DSM are provided in Union's submission to the Draft Framework Sections 8.2 and 11 and to the Draft Guidelines Section 2.2, respectively below.

In addition to the guiding principles outlined, Union believes the Board should emphasize the importance of comprehensive program support as a guiding principle for the DSM Plans. Union recommends the Board include the following Guiding Principle:

**Ensure comprehensive program support**

Programs should be designed to support efficiency opportunities in a comprehensive manner within a customer's home or business.

## Section 4.0 DSM TARGETS

Union supports the continuation of the current weighted scorecard approach to measure DSM results, and achievement of the DSM incentive based on the annual scorecard results.

A long-term target that is similar to the six-year electricity targets should not be used to set the annual targets. The process to establish long-term targets in the CDM process was driven by the specific requirements of the sector. As the electricity sector is subject to generation constraints, the six-year targets are aligned with the generation requirements of the province. This is not the case for the natural gas sector.

Rather, the annual targets proposed by the gas utilities should be used to set a directional long-term target if it is required by the Board. The annual targets would be established in an iterative bottom-up manner based on the suite of program offerings proposed by Union in its multi-year DSM Plan application. A long-term target would therefore be confirmed in the multi-year DSM Plan proceeding based on the annual targets approved by the Board.

Should the Board wish to establish a directional long-term target for reporting purposes, based on the Board-approved annual targets, natural gas persisting savings results can be reported on an annual basis in addition to the annual scorecard results.

**Section 4.5 Request for Comment**

1) *Is a total reduction equal to 5% of average annual gas sales from 2011 to 2013, attributable to DSM programs, a reasonable amount for the gas utilities to be expected to achieve in 2020 (consisting of savings in 2020 and savings from 2015 to 2019 persisting in 2020)?*

   Given the interrelated nature of targets, budgets, DSM incentive and programs, Union is not in a position to comment on whether this percentage reduction is reasonable in isolation. Union does not believe it is appropriate to set a target in isolation of the budget, incentive and programs.

2) *Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?*

   The natural gas utilities should propose targets, including a directional long-term natural gas savings target where required for reporting purposes, in the DSM Plan application. This is consistent with the effective process in the 2012 – 2014 DSM Guidelines. The gas utilities are in the best position to propose targets based on their experience. The targets will be developed in an iterative process in-line with the budget and programs, with regard for the DSM incentive structure. After targets are tested in the DSM Plan regulatory process, the Board's Decision will reflect appropriate annual targets and the associated directional long-term target.

   The jurisdictional review completed by Concentric and the most recent achievable potential studies will not provide the Board with the required information to establish a provisional long-term target as proposed under Option 2.

   Although the information provided by Concentric serves as a reference point, as outlined in Union's submission in Section 1.5 above, comparisons of this nature are fraught with data limitations and do not take into account differences in program maturity or policy objectives. The DSM targets in Ontario should instead focus on the market and requirements within this province.

While Union believes an efficiency potential study provides a comprehensive assessment of technical and economic potential, and can serve as a reference for achievable potential, it represents a point in time based on a set of inputs and should not form the formulaic basis upon which to base the targets. Union's most recent efficiency potential study was conducted in 2008 with an economic update in 2011. It does not reflect Union's program experience, or any new information outside of the scope of the economic update, since 2008.

Instead of undertaking an efficiency potential study in preparation for the new DSM Framework, Union is taking an iterative bottom-up approach to establishing targets. This approach allows the assessment to layer in the policy guidance on program types and key priorities within the Board's Framework and Guidelines as they are confirmed. This approach also allows program design to be a critical component in considering the achievable potential for program offerings.

By contrast, while efficiency potential studies have some programmatic focus, the scope is generally limited to identifying cost effective efficiency measures or informing budgets based on the high-level promotion and customer incentive assumptions of the study. For example, the 2008 study assessed cost-effectiveness based on measure-level Total Resource Cost ("TRC"), with an environmental adder (i.e to reflect a value for avoided carbon dioxide emissions), assumed that certain measures would be bundled and delivered together and included assumed values for customer incentive levels and program costs, but otherwise did not contemplate program design requirements. The assumptions in the study have a significant impact on the budget and achievable potential, but are not aligned with current cost-effectiveness screening practices, program objectives or program design. For example, the barriers and associated requirements of single-family low-income program design were not considered in the study and resulting assessment of achievable potential for the residential market.

Given the new 2015 – 2020 DSM Framework represents an opportunity to evolve and adjust Union's portfolio of program offerings, and with the knowledge of the Ministry's request to complete a study by June 1, 2016, Union has approached the assessment in a bottom-up iterative manner as opposed to through a top-down efficiency potential study. The efficiency potential study to be completed in 2016 will be used within the mid-term review process to test the directional long-term target, established based on the goals approved in the annual balanced scorecards of the utilities, to confirm whether any changes are required.

3) *What information, other than what is listed above, should the utilities/Board consider when developing the long-term targets?*

In addition to the most recent efficiency potential studies, experience to-date and projected market opportunities and constraints, when developing targets Union will consider: the Board's guidance within the DSM Framework and Guidelines, the outcomes of its iterative bottom-up assessment process, the budget, and input received through stakeholder consultation.

4) *Is the proposal for developing provisional long-term targets to guide the gas utilities in building their DSM Plans, with the final long-term targets determined through the hearing process, an effective manner to develop and approve realistic targets?*

Union does not believe this approach is effective. The annual targets should serve to guide the directional long term target, where required for reporting purposes, as opposed to a top-down long-term target guiding the DSM Plans. A bottom-up build of the targets allows for an iterative development process informed by the elements noted in 3) above as the basis for Union's target setting. This method was effective for the 2012 – 2014 DSM Plans and should be continued.

As an example, the long-term target as contemplated would not provide effective guidance to reflect the Board's guiding principle of long-term savings. In the 2020 long-term target as proposed, the annual savings of a measure with a 20 year effective useful life installed in 2020 would be treated on the same basis as the savings from a project with a one-year effective useful life installed in the same program year. By contrast, the flexibility afforded in the annual scorecard measurement approach allows programs, and associated targets, to be designed based on the objectives of the programs and DSM portfolio. This would in turn be reflected in a directional long-term target established for reporting purposes.

5) *Is there a different method in which long-term targets could be developed that the Board should consider?*

Union has provided its recommended method in the response to 4) above.

**Section 5.0 BUDGETS**

To provide policy guidance and regulatory efficiency, the Board should define an acceptable budget range in the Framework to reflect the Ministry of Energy Directive to the Board and the objectives of DSM. This will provide the level of DSM budget the Board believes is appropriate and will result in reasonable rate impacts, pending Union's DSM Plan application and evidence. This is consistent with the clear budget direction provided in the 2012 – 2014 DSM Guidelines, which was effective in establishing guidance for the utilities and all parties.

Informed by the Board's budget range, the natural gas utilities should have the flexibility to propose annual DSM budgets, and the budget allocation, in their DSM Plan applications.

The mid-term review will be the opportunity to review any changes to the budget that are above and beyond the range defined by the Board in the Framework. At that point, it will be determined whether an incremental plan is appropriate, informed by factors such as Union's experience over the first three years of the new DSM Framework, the efficiency potential study to be completed by June 1, 2016 and consideration of DSM in relation to infrastructure planning.

**Section 5.4 Request for Comment**

1) *Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?*

   As stated in Section 5.0 above, Union believes the Board should define an acceptable budget range.

2) *If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?*

   Union supports a budget increase in the DSM Framework relative to the 2014 DSM budget. A Board-proposed range for Union that is in line with the level of magnitude of the Board's proposal would be appropriate. The mid-term review will be the opportunity to review any changes to the budget that are above and beyond the range defined by the Board in the Framework.

3) *What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?*

   In addition to the considerations outlined, such as rate impact, consideration should be given to: the Board's policy objectives, current spending levels of the Ontario natural gas utilities, program experience to-date and market considerations of the natural gas utilities' franchise areas.

4) *Is there a different method to establish budgets that the Board should consider?*

   Please see the response to 1) above.

**Section 6.0 SHAREHOLDER INCENTIVE**

The current DSM incentive structure has been fundamental in driving the focus required to attain the strong energy conservation results achieved in the current DSM Framework.

To continue "to effectively motivate the gas utilities to both actively and efficiently pursue DSM savings and to recognize exemplary performance"[4], the Board's stated intent for the shareholder incentive, the central elements of the current proven reward structure need to be restored. Specifically, the level of DSM incentive should not be reduced, the 40:60 ratio below and above the target should be restored, and the DSM incentive should continue to have a relationship to the approved DSM budget. Union has provided its submissions on each of these principles, followed by its proposal for the DSM incentive, below.

**1. DSM incentive level at the 100% target and upper band should not be reduced**

To be effective, the DSM incentive must be large enough to maintain senior management attention on DSM. At the current budget level, the current DSM incentive has ensured business focus and served to appropriately motivate the natural gas utilities. The current incentive levels, adjusted annually for inflation, should serve as the minimum amounts for the next DSM Framework.

The priority of DSM for Union will not remain at the current level if the DSM incentive decreases. In discussing its DSM incentive proposal, the Board states:

> *"The level of historic shareholder incentives has resulted in DSM becoming a priority with the gas utilities and has achieved the desired shifts in behaviour with the gas utilities offering DSM programs to their customer throughout the province. As the historic performance incentive model resulted in the desired results of making DSM a priority for the gas utilities, the Board is considering options for how to develop a performance incentive structure for the future of natural gas DSM that will be sustainable and strike an appropriate balance between incenting the gas utilities to continue to pursue DSM opportunities and providing a fair rate of return for doing so, while taking into consideration the Board's requirement to approve a just and reasonable rate.[5]"*

[4] Draft DSM Framework, Section 6.0, Page 24.
[5] Draft DSM Framework, Section 6.2, Page 26 – 27.

Union supports the Board's statement that the DSM incentive structure has resulted in DSM becoming a priority with the gas utilities. The incentive level has been fundamental to the current level of priority and associated level of focus placed on DSM by the gas utilities. However, it would be inappropriate to conclude that the behaviour and priority demonstrated under the current DSM incentive structure will persist if the incentive structure is materially reduced. As a regulated investor-owned utility, Union's senior management ensures priorities are aligned with company requirements, objectives and shareholder value.

Given the 2014 DSM budget of $32 million, the current upper band DSM incentive level of $10.8 million represents approximately 2% of Union's earnings before interest, taxes, depreciation and amortization ("EBITDA"), a key financial metric against which Union is measured.  The proposed upper band level of $4.8 million (for a consistent budget value) represents approximately 1% of Union's EBITDA. The Board proposed decrease in the value of the DSM incentive would shift its importance in relation to other priorities, and be accompanied by an equivalent reduction in focus. The priority of DSM today will not be consistent with the priority tomorrow if the value proposition is changed.

**2. The 40:60 DSM incentive ratio below and above the target should be restored**

The current DSM Framework provides for 40% of the available DSM incentive at target, and the remaining 60% of the available DSM incentive for achievement beyond the target to the upper band. This structure was intended "to encourage performance beyond the 100% target level".[6]

The reward structure proposed in the Draft DSM Framework effectively reverses this relationship: 67% of the DSM incentive is available for achievement at target, with the remaining 33% available for achievement beyond the target.

Under the Board-proposed structure Union would no longer be appropriately motivated to continue to exceed the 100% target. The Board-proposed reward structure is not aligned with

[6] EB-2008-0346, DSM Guidelines for Natural Gas Utilities, June 30, 2011, Section 11, Page 32.

encouraging and motivating the gas utilities to achieve the Guiding Principles outlined in Section 3.0 of the Draft Framework. It will not lead to the achievement of all cost-effective DSM outlined in principle 2. It would also detract from minimizing lost opportunities and pursuing long-term energy savings as contemplated in principles 6 and 8. This is in direct contradiction to the Government's recent policy direction.

**3. DSM incentive should continue to have a relationship to the approved DSM budget**

Union believes the DSM incentive should continue to have a relationship to the budget. An increase in the level of DSM activity and requirements should be reflected in an increase to the DSM incentive. The Board has recognized this relationship is appropriate within the term of the Framework (i.e. under Option 1 the DSM incentive scales in relation to the budget), but relative to the existing Framework has reduced the total DSM incentive available in relation to the budget. For example under the Board's proposal in Option 1:

- the upper band DSM incentive would be reduced by 56% relative to the existing Framework for a consistent budget level[7]; and
- the DSM incentive level at the upper band would decline from the current $10.8 million to $6.9 million where the annual budget is increased by 45% (from $32 million to $46 million)

The jurisdictional scan completed by Concentric was included within Section 6 as a reference which informed the Board's proposed incentive structure. While information from other jurisdictions as provided by Concentric is a frame of reference, it should not serve as the primary basis to establish the DSM incentive level.

There is often material variance depending on what elements are being compared across jurisdictions, and how the data is reported. For example, the Toronto Atmospheric Fund

[7] 15% of 2014 DSM budget of $32.0 million = $4.8 million. This represents a 56% reduction in relation to the current 2014 DSM incentive of $10.8 million.

Performance Incentive Issue Paper[8] found that while the current available DSM incentive may be higher than states such as Massachusetts and Michigan when expressed as a percentage of the DSM budget, Union's current incentive available is lower when normalized to each jurisdiction's annual gas sales. Concentric found the same was true when comparing Union's DSM incentive to that of Rhode Island and Connecticut on this basis – Union's incentive was lower when normalized for sales[9].

Comparing the appropriateness of the DSM incentive as a percentage of the DSM budget alone provides a very limited picture as it does not take into consideration differences in Ontario relative to other jurisdictions. It also does not consider how effective the DSM incentive is at driving results, or put the incentive value available to the utility in context in relation to the net financial benefits experienced by ratepayers. For example, Union's 2012 DSM incentive as a percentage of net benefits is materially lower than the average reported for states that establish the DSM incentive value, and report it, as a share of net benefits. Union's 2012 DSM incentive represented 4% of net economic benefits[10], while the average maximum incentive that may be earned in states which have a shared benefits mechanism was found to be approximately 11%.[11] It would be inappropriate to conclude the current DSM incentive levels available for Union should be reduced on the basis of a jurisdictional scan provided by Concentric.

The DSM incentive must be structured based on the policy objectives of Ontario, and within the broader context of the behaviours the Board is seeking.

[8] Toronto Atmospheric Fund, 2014 OEB Gas DSM Framework Issue Paper: Performance Incentives. July 30, 2014, Table 3, Page 38.
[9] Concentric Energy Advisors, Review of DSM Framework for Natural Gas Distributors Supplemental Report. September 15, 2014. Table 16, Page 21.
[10] Based on Union's post-audit results reported in the Final Demand Side Management 2012 Annual Report dated October 22, 2013. Net financial benefit to ratepayers calculated as $232.2 million (net TRC) - $8.2 million (Union's DSM incentive) = $223.9 million. Therefore percentage of net financial benefits to ratepayers = 96% ($223.9 million / $232.2 million) and percentage of net financial benefits to Union = 4% ($8.2 million / $232.2 million).
[11] American Council for an Energy-Efficient Economy. Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency, January 2011, Page 11.

Within the context provided above, Union proposes the DSM incentive structure in Table 1 below. This structure maintains overall consistency with the current successful DSM incentive model in both the level of DSM incentive and continued relationship to the budget. In addition, it maintains the 40:60 ratio between the DSM incentive available between the lower band and target, and the target and upper band to motivate performance beyond the 100% target level. For clarity, Union has provided the resulting DSM incentive calculation under the Board's proposed $46.3 million budget level as an illustrative example in the table.

**Table 1: Union Gas DSM Incentive Proposal at Lower Band, Target and Upper Band**

| DSM Incentive Level | DSM Incentive Calculated as the Greater of: | | Illustrative Example: Union Gas DSM Incentive Value Under Board Budget Proposal |
|---|---|---|---|
| | 2014 DSM Incentive (escalated annually for inflation) | Calculation | |
| Lower Band DSM Incentive | $0 | 0% of budget | $0 million |
| Target DSM Incentive | $4.3 million | 10% of budget | $4.6 million |
| Upper Band DSM Incentive | $10.8 million | 25% of budget | $11.6 million |

The DSM incentive would be linearly interpolated between the lower band and target, and the target and upper band.

The structure in Table 1 strikes an appropriate balance between continued focus on achieving exemplary DSM results and ratepayer impact. The difference between the current DSM incentive structure and the incentive structure proposed by the Board at the upper band is approximately $0.20 per month[12] for the average residential customer. This is far less than the level of bill reductions experienced in Union's franchise area through exemplary DSM results.

[12] Estimated using the differential between upper band value of $10.8 million and $4.8 million.

Customers received 96%[13] of the net financial benefits from DSM under the current DSM incentive structure in 2012. Under no other sharing structure are benefits so weighted in favour of ratepayers. The Board's proposal would reduce the financial benefit to Union, but in doing so would also reduce the benefits to customers through lower energy savings. By maintaining the fundamental elements of the current DSM incentive structure, Union's proposal in Table 1 ensures the natural gas utilities will continue to be appropriately motivated to generate exemplary DSM results and maximize ratepayer value within the approved DSM budget and programs.

Consistent with the approach in the 2012 – 2014 DSM Guidelines, scorecard metric flexibility should be maintained in the DSM Framework as follows:

- The DSM Framework should not dictate the lower band or upper band relationship to the target.
- Scorecard metric results will be interpolated above the upper band level using the 100% target and upper band (with symmetrical treatment below the lower band with metric results interpolated using the lower band and 100% target). This structure will ensure the utilities are driven to continue to aggressively pursue opportunities which prove to be very successful. It also ensures the utilities must focus on all scorecard objectives as individual metrics can result in a negative metric score if the utility underachieves in a program area.
- Metric levels should be proposed in the multi-year DSM Plan based on the appropriate range given the nature of the metric being measured.

[13] Based on Union's post-audit results reported in the Final Demand Side Management 2012 Annual Report dated October 22, 2013. Net economic benefits to ratepayers calculated as $232.2 million (net TRC) - $8.2 million (Union's DSM incentive) = $223.9 million. Therefore percentage of net financial benefits to ratepayers = 96% $223.9 million / $232.2 million) and percentage of net financial benefits to Union = 4% ($8.2 million / $232.2 million).

**Section 6.5 Request for Comment**

1) *Is the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020?*

   The proposed DSM incentive is neither sufficient nor appropriate. It represents a significant decrease in the potential DSM incentive for maximizing DSM results.

   As shown in Table 6 in the Draft Framework, the current DSM incentives have driven the desired behaviours of the natural gas utilities to aggressively pursue DSM goals and to exceed the targets. This incentive structure was established to ensure the natural gas utilities were appropriately motivated to drive exemplary results. The DSM incentive structure should continue to build on the success of this proven model. Please see Union's DSM incentive proposal in section 6.0 above.

2) *Is it appropriate to tie the maximum incentive amount to the DSM budget?*

   Union supports a continued relationship to the budget. Please see Union's DSM incentive proposal in Section 6.0 above.

3) *If you do not agree the incentive amount should be tied to the DSM budget, please provide details for how the maximum incentive amount should be calculated.*

   Union strongly urges the Board to restore the fundamental elements of the current DSM incentive structure that have a proven track record of effectively motivating the utilities to achieve exemplary results in the DSM Framework. Please see Union's proposal in Section 6.0 above.

4) *If you do not agree that the Board should administer a cost-efficiency incentive, provide the rationale for this position and what issues the Board should consider.*

   Union agrees with the Board's proposal.

5) *What other aspects should the Board consider when developing the shareholder incentive? Why?*

In developing the DSM incentive, the following should be considered in addition to the budget:

- Alignment with policy objectives of the Government of Ontario and the Board;
- Recognition of the behaviour the DSM incentive is intended to motivate;
- Reflective of utility activity, effort and results; and,
- Results in a reasonable rate impact for customers.

Union's proposal outlined in Section 6.0 above represents an appropriate balance of these considerations. It builds on the success achieved in the current framework recognizing the increased requirements of DSM as programs expand and evolve while ensuring an acceptable ratepayer impact. Under the Board's $46.3 million budget proposal for Union, the DSM incentive available relative to the 2014 DSM incentive level is displayed in Table 2 below. Within this structure the DSM incentive is increased at a modest rate in comparison to the potential increase in the budget.

**Table 2: Illustrative Percentage Change in Union's DSM Incentive Between the 2014 Level and Union's 2015-2020 Proposal**

| Item | 2014 ($million) (a) | 2015 – 2020 Annual Proposal ($million) (b) | Percentage Change (%) (b-a)/a |
|---|---|---|---|
| DSM Budget | $32.0 | $46.3[1] | 45% |
| DSM Incentive at target | $4.3 | $4.6 | 7% |
| DSM Incentive at upper band | $10.8 | $11.6 | 7% |

[1]The Board-proposed $46.3 million included for illustrative purposes.

6) *Is a pay-for-performance funding/incentive model appropriate?*

A pay for performance model is not appropriate for the gas utility DSM costs or performance incentive amounts. This proposal would result in:

- An inappropriate risk structure for Union for the voluntary provision of DSM. The utilities should have no disincentive to aggressively pursue DSM.
- Misalignment between the Board's policy direction and basis for DSM incentive. In the DSM Framework, the Board has confirmed its continued view that results should be based on multiple performance metrics using a weighted scorecard approach. Programs are measured by metrics based on the objectives of the programs, which are not solely based on $m^3$ savings. This is a primary distinction from the CDM framework, which measures results based solely on kWh, where a pay-for-performance model has been made available.
- A change in focus to least risk as opposed to innovation and the objectives for DSM. It would create an incentive for Union to focus on short term program elements that will maximize savings immediately as opposed to program elements such as educational and benchmarking initiatives that may not lead to immediate participation but promote a culture of conservation both with participants and non-participants

## Section 7.0 PROGRAM TYPES

## Section 7.1 Request for Comment

1) *Should the Board consider other program options in addition to those listed in the draft DSM Framework and draft DSM Guidelines? If yes, please outline which programs are appropriate and why.*

While Union is supportive of directional guidance to the natural gas utilities to communicate priority areas for consideration and assessment, Union does not believe the priorities should be characterized as "essential elements to be included in the gas utilities' DSM Plan" in Section 7.0. The DSM programs should be developed and brought forward by the natural gas utilities informed by their experience to-date, stakeholder consultation, market opportunities and constraints, the budget, and the Board's overall policy guidance within the DSM Framework and Guidelines.

2) *What level of funding is appropriate for low-income programs relative to the overall DSM budget?*

The level of funding should not be reduced for low-income DSM. The specific funding level for each year should be brought forward by the natural gas utilities in their DSM Plan with associated evidence as appropriate.

3) *Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?*

Both gas utilities should be permitted to offer programs for larger volume customers. The programs should be assessed based on their merits for inclusion in the DSM portfolio. Programs for Large Volume Customers are further discussed in Union's response to section 2.5 of the Draft Guidelines, below.

## Section 8.0 PROGRAM EVALUATION

Union supports adjustments to the process where they will ensure the Board has confidence in the level of information needed for regulatory efficiency throughout the term of DSM Framework. Union is concerned that the current process has not provided the Board and all stakeholders with the confidence and perceived transparency to provide for this regulatory efficiency. This was experienced in Union's 2012 Deferral disposition proceeding (EB-2013-0109) where the final 2011 DSM audit, filed with consensus between Union and its Evaluation and Audit Committee appointed by the Consultative, was contested. Despite a robust audit process with stakeholder consensus, concerns were raised with the verification and audit, and the Board lacked full confidence in the final audited results. In the end, the Board found the 2011 TRC amount for Union's custom DSM projects should be reduced by 25%, resulting in a reduction in the SSM incentive of $1.6 million. Union further believes it is critical to ensure there is no perception of bias or undue influence in the process. While Union maintains this has not been the case, a perception of bias or lack of transparency impacts confidence.

The natural gas utilities require a consistent and stable regulatory process to ensure the DSM incentive can factor into the company's value on energy efficiency against competing priorities in a meaningful way. Stakeholder engagement in this process provides the opportunity for input on evaluation work and key program features. This process should be structured to instill confidence in the evaluation and audit process, as well as the accuracy of results.

In establishing the process, the Board should provide for clear and enforceable roles, responsibilities and timelines. The appropriate process step to complete each stage must be clearly defined, and streamlined to reduce regulatory burden for the Board and all parties while providing transparency and confidence. More clearly defined responsibilities and timelines would help Union meet important deadlines, such as the Reporting and Recordkeeping Requirement to file its prior year's audit results with the Board by June 30. This has not been the case in recent years. Union has not yet been able to complete the 2013 audit process with stakeholders and file its final 2013 results.

For example, the Board could establish milestone dates that all parties are required to meet through the audit process, such as the Draft DSM Annual report (also referred to as the Draft Evaluation Report) being completed by March 15, the Final Auditor's report completed by June 15 and the Final DSM Annual report completed by June 30.

Should the Board take a large role in evaluation, verification, and the audit, Union has outlined the recommended structure it believes would meet the objectives of the Board, the natural gas utilities and all stakeholders in its responses to Draft Guidelines section 4 below.

**Section 8.1 Input Assumptions**

Union agrees with the Board's proposal and has no comment on this section of the Draft Framework.

**Section 8.2 Screening**

Union does not support the Board's proposal that TRC should continue to be the test used to screen DSM at the program level.

The appropriate test to screen the DSM portfolio is the Societal Cost Test ("SCT"). The SCT addresses the question of whether the utility, province and society as a whole are better off due to the DSM portfolio through a comparison of society's costs of energy efficiency to resource savings and non-energy benefits. It is structurally similar to the TRC test, however it is a more comprehensive assessment which includes all benefits (participant, utility, societal) in the cost effectiveness assessment to ensure beneficial programs from a societal perspective are not excluded from the DSM portfolio. For example, it ensures there is a value placed on the reduction of greenhouse gas emissions, which is aligned with the provincial government's policy objectives. The fundamental problem with the TRC as currently applied is that it restricts benefits to avoided costs associated with the reduction of natural gas, electricity and water ignoring the non-energy benefits associated with the program. The Board has recognized a list of these potential non-energy benefits in the Draft Framework, however it has proposed to set their value to zero for all programs aside from Low-Income (where a reduced screening threshold is proposed). SCT screening will ensure consistent treatment of non-energy benefits across Union's programs.

The inclusion of non-energy benefits is critical as they can be significant. They are also often a fundamental component of market acceptance and the value customers place on the associated efficiency upgrades. To asymmetrically include all costs but exclude consideration of these benefits would unfairly bias decisions against DSM opportunities and result in a DSM portfolio that is not established in the best interests of customers and the province as a whole.

It is important to select the appropriate screening methodology to ensure valuable program offerings are not precluded from the DSM portfolio and to ensure the gas utilities can align with the Board's policy objectives to incorporate greater focus on elements such as education and benchmarking. These activities support the goal of creating a culture of conservation beyond program participants to the broader public in Ontario, however the cost effectiveness of Union's DSM portfolio will be reduced.

Even prior to this impact to cost effectiveness, Union's current programs, such as the Low-income program, are constrained under TRC cost effectiveness. While Union seeks to ensure a comprehensive program which provides for broad access across its franchise area and maximizes savings within each low-income home and multi-family building treated, ultimately the TRC acts as a constraint to these objectives. For example, Union had to reduce focus on targeting low-TRC custom opportunities in social and assisted multi-family buildings in 2013 to maintain a program TRC of 0.78 on a pre-audit basis[14]. This impairs Union's ability to ensure a holistic approach within a building, and creates lost opportunities for conservation.

TRC is also a significant factor in Union's Residential program. Home Reno Rebate, Union's comprehensive home retrofit offering which supports upgrades to insulation, water and space heating measures does not screen positive under TRC. The value for non-energy benefits such as increased property value and comfort, which can be a significant factors in a home owner's decision making process to participate in the program, are not included in the cost effectiveness assessment of the offering currently under TRC. As Union continues to reduce focus on its residential basic measure Energy Savings Kit offering, which is cost effective on a TRC basis, and increase emphasis on Home Reno Rebate over the course of the existing Framework the pressure on the Residential Program's cost effectiveness increases. Union strives to ensure programs are available to all sectors of the market, but continued TRC screening on a program level limits Union's ability to provide a holistic residential program. Residential ratepayers in Rate M1 and Rate 01 bear a significant portion of overall DSM costs, and Union strongly

[14] 2013 Audit is in progress.

believes it would be inappropriate to limit their access to comprehensive program support based on the restrictive program level TRC methodology in the Draft Framework. The use of the SCT is more appropriate to ensure all benefits and costs are factored into the decisions which shape Union's DSM portfolio.

While non-energy benefits should be considered in the SCT in a manner which allows differentiation between programs where practical, the costs and complexities in the assessment must be considered. An assessment of non-energy benefits, particularly non-monetary benefits, provides an approximation as opposed to a definitive value. Therefore, screening should occur at the portfolio level as opposed to program level. This ensures programs at the margin, or those for which the costs of measuring a category of non-energy benefits to a greater level of accuracy are deemed to outweigh the incremental value, are not screened out of the DSM portfolio. Union will file the values for non-energy benefits with appropriate evidence in its DSM Plan.

The TRC and Program Administrator Cost ("PAC") tests still have value. These tests can serve as an additional reference for consideration at both the program and portfolio level, however it is the SCT at a portfolio level that should be established in the DSM Framework as the appropriate approach to DSM screening.

**Section 8.3 Avoided Supply Costs**

Union agrees with the Board's proposal and has no comment on this section of the Draft Framework.

**Section 9.0 DEFERRAL AND VARIANCE ACCOUNTS**

Union agrees with the Board's proposal and has no comment on this section of the Draft Framework

**Section 10.0 INTEGRATION AND COORDINATION OF DSM AND ELECTRICITY CONSERVATION PROGRAMS**

Union supports the coordination and integration of DSM and CDM programs where appropriate to improve the customer experience and drive efficiency.

Union would like to participate in the delivery of CDM, however, given the combination of a fully allocated costing structure and 50/50 net revenue sharing mechanism in the 2012-2014 DSM Plan, has been unable to do so fully. In order to effectively participate in CDM, changes are needed. Union will outline its approach to coordination and integration of DSM and CDM in its DSM Plan application.

## Section 11.0 FUTURE INFRASTRUCTURE PLANNING ACTIVITIES

Currently, Union's DSM programs are focused on reducing customers' annual natural gas consumption requirements. The impact of Union's DSM activity for its customers is embedded in the forecasts that underpin design day and peak hourly requirements. Union will study the potential for DSM to avoid or defer infrastructure investment, and the appropriate methodology (if applicable) for including DSM as a component of Integrated Resource Planning.

Union plans to complete this study before the mid-term review to determine the appropriate role that DSM may be able to serve in future system planning efforts. Until the results of the study are available, it is premature to consider the potential adjustments for DSM and the long-term system planning processes. It is only after the study is completed that Union will be able to provide evidence of how DSM has been considered (if applicable) as part of leave to construct applications made with the Board.

## Section 12.0 STAKEHOLDER CONSULTATION

Union supports the Boards proposal regarding the continued value of stakeholder consultation and involvement.

**UNION'S SUBMISSION ON THE DRAFT FILING GUIDELINES TO THE DEMAND SIDE MANAGEMENT FRAMEWORK FOR NATURAL GAS DISTRIBUTORS**

## Section 2.0 PROGRAM TYPES

Union believes the design of natural gas DSM programs and the DSM portfolio should be informed by the Guiding Principles outlined in Section 3.0 of the DSM Framework and the DSM Guidelines, however the natural gas utilities should ultimately have the flexibility to determine the programs for their DSM Plans.

The impact on cost effectiveness for these activities, and associated impact on program budget and targets, will be outlined in Union's DSM Plan. It is anticipated that the costs associated with the priority areas identified by the Board will outpace any incremental savings generated, leading to a lower overall cost effectiveness for Union's DSM portfolio.

For example, increased educational and benchmarking activities address the awareness barrier for customers but do not necessarily generate direct and substantial resource savings within the given program year. The specific program offerings, outcomes of the policy objectives in the Final Guidelines, and balance achieved between the Board's objectives, will be reflected in Union's DSM Plan.

## Section 2.1 DSM Programs with Long-Term Natural Gas Savings

Union will develop its DSM Plan with consideration to the Board's program priorities and has no comment on this section of the Draft Guidelines.

## Section 2.2 Infrastructure Planning Related Programs

Union supports the need to study the potential for DSM to defer or postpone capital investments. The results of this study will determine whether DSM programs to address infrastructure planning at the regional and/or local level are appropriate, and potential implications for Union's long-term system planning process. However, until the study is conducted it is premature to consider the impact on DSM or Union's system planning processes.

Union will indicate how it intends to study Integrated Resource Planning in its DSM Plan filing.

**Section 2.3 Coordination and Integration with Electricity CDM Programs**

Union supports the coordination and integration of DSM and CDM programs where appropriate to improve the customer experience and drive efficiency. Union will continue to work with the Ontario Power Authority and electricity distributors to ensure opportunities for collaboration and integration are identified, investigated and implemented where beneficial.

**Section 2.4 Pilot Programs**

Union supports the inclusion of Pilot programs as an opportunity for the utility to advance technologies, methodologies and market strategies. Union does not support the inclusion of a pay-for-performance funding/incentive recovery model.

**Section 2.5 Programs for Large Volume Customers**

Union supports the Board's view that programs designed for large volume customers should be specified as not mandatory for the utilities to provide, with the understanding that "once the distributor decides to provide for such programs, the entire class is responsible for paying for those programs."[15]

Within an environment of competing production demands, limited resources and low commodity prices for natural gas, it is important to continually ensure energy-efficiency remains a priority for large volume customers. In addition, while technical resources are a core component of Union's program, Union does not support the Board dictating the primary focus for specific programs in the Guidelines. While the Guidelines provide policy guidance and the information

[15] EB-2012-0337, Union's 2013-2014 Large Volume DSM Plan, Decision and Order, March 19, 2013

the gas utilities should take into consideration, the gas utilities should ultimately have the flexibility to bring forward the specific program elements they believe are appropriate in the DSM Plan applications.

**Section 2.6 Low-Income Programs**

Union is generally supportive of the direction for low-income programs, with the following comments:

- Section 1c): The Draft Guidelines indicate that low-income programs should require no upfront cost to the low-income energy consumer. Union is concerned that this requirement may preclude Union from supporting:
  - Single-family low-income initiatives that support the full incremental cost of an efficiency upgrade, where the base case cost is borne by the low-income energy consumer regardless of program participation
  - Multi-family low-income initiatives that support a percentage of the full cost of an efficiency upgrade, where the remaining percentage of costs is borne by the low-income multi-family building owner

  Union therefore recommends c) be adjusted to:

  c) Within the single-family market, require no upfront incremental cost to the low-income energy consumer and result in an improvement in energy efficiency within the consumer's residence;

  d) Within the multi-family market, require multi-family building owners to absorb a percentage of the costs related to an efficiency upgrade that will benefit their low-income tenants; and

  Section 1 d) would then become 1 e).

- Low-Income Program Eligibility Criteria: For clarity, the eligibility of private low-income, multi-residential buildings should be included throughout this section in tandem with social and/or assisted housing.

**Section 2.7 Market Transformation Programs**

Union supports the continuation of market transformation programs. As noted in the Draft Guidelines, market transformation programs should be reviewed on a case-by-case basis based on their merits. The natural gas utilities should be permitted to propose a range of potential programs for consideration and not be directed to limit participation in this type of program in the DSM Guidelines.

**Section 2.8 Program and Portfolio Design**

Union supports the recognition in the Draft Guidelines that sufficient flexibility is required to ensure the natural gas utilities can continuously react and adapt to current and anticipated market developments.

**Section 3.0 INPUT ASSUMPTIONS, SCREENING & AVOIDED COSTS**

**Section 3.1 Input Assumptions**

In outlining specific savings relative to a frame of reference, Union recommends the Board outline the decision types and their respective definitions in the DSM Guidelines as follows for clarity.

- **Early Replacement:** A measure category where operable equipment is replaced by a higher efficiency alternative (this category is termed as advancement within the Draft Guidelines).
- **Natural Replacement:** A measure category where the equipment is replaced on failure.
- **New Construction:** Efficiency measures in new construction or major renovations, whose baseline would be code.
- **Retrofit:** A measure category that includes the addition of an efficiency measure to an existing facility that does not currently exist such as insulation or controls upgrade.

For Lost Revenue Adjustment Mechanism ("LRAM") amounts, Union supports the evaluation of results based on the best available information as this mechanism is intended to be an accurate true-up of lost volumes experienced in the preceding program year.

For determining DSM incentive amounts, Union opposes retroactive changes to results based on best available information as this mechanism is intended to measure the utilities' achievement relative to Board-approved targets.

It is only appropriate to adjust inputs and adjustment factors on a prospective basis when the results of evaluation studies are confirmed. This process would ensure the utility is not over or under rewarded on a retroactive basis for information not available at the time when results were achieved.

Targets are established based on the information known by all parties at the time they are established. The retroactive application of all input assumptions and adjustment factors in the Board's proposal effectively changes the goal posts after the game. It is Union's position that the utility should not be penalized or unduly rewarded for performance relative to the target based on information that was not known to the utility at the time the target was confirmed and programs were designed and delivered. Applying retroactive input assumptions is also not consistent with the policy of the majority of US jurisdictions – 81% apply input assumption changes on a go-forward basis only.[16]

Under the Board's proposal, evaluation which impacts the utility savings claims will be managed by the Board. While the natural gas utilities would be stakeholders in this process, the Board will manage the timeline and process for impact evaluation, and determine when milestones, information and final results are confirmed and communicated to stakeholders. Union would react to new information as it becomes available, within a timeframe which ensures customer commitments are honoured and avoids market disruption. However, it is not reasonable to

[16] American Council for an Energy-Efficient Economy, A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs, February 2012, Page 28.

retroactively apply potential new information from a Board-led process to Union's results in a prior period.

The Board should adjust the Framework to a best available "going forward" approach that would update input assumptions and adjustment factors, for the purpose of determining incentive amounts, as they are confirmed with an appropriate three month transition window to mitigate market disruption and honour customer and contracting commitments. To illustrate, if a new input assumption is confirmed and communicated January 1, the new input assumption will be used from three months following the point it is confirmed for the remainder of the year. From January 1 to April 1, however, the results toward achievement of the scorecard targets would be based on the input assumption that was known prior to the change. This approach would serve to provide assurance to the Board and stakeholders that the utility will, in response to changing input assumptions and adjustment factors confirmed by the Board, adjust its program design focus to the extent reasonable based on the most accurate information available. Finally, Union notes that using best available information on a going forward basis would be consistent with the Board's well-established practice in respect of prudence reviews. There, decisions made by management are assessed based on the information available at the time; not through the application of hindsight.

**Section 3.2 Screening Tests**

Union supports the recognition in the Draft Guidelines that market transformation and pilot programs are not amenable to a mechanistic screening approach and should instead be reviewed on a case by case basis. Union believes this is true of all programs.

Therefore, Union does not support the following statement, which should be removed:

> "Among the programs amenable to a mechanistic screening approach, the natural gas utilities may only apply for approval of programs that are cost effective as determined by the particular screening test."

It is further inconsistent with section 3.2.3, which states:

> "The TRC threshold test should be normally 1.0 for all programs amenable to this [TRC] screening test, except for low-income programs. However, the Board understands that some programs, although beneficial when reviewed from a broader perspective, may not pass a cost-effectiveness screening threshold of 1.0. The Board will consider these programs on a case-by-case basis. To recognize that all programs may not pass the TRC test, the utility should ensure its overall DSM portfolio has a TRC ratio of 1.0 or greater. Further, since low-income natural gas DSM programs may result in important benefits not captured by the TRC test, these programs should be screened using a lower threshold value of 0.70 instead."

Union supports the Board's clarification in Section 3.2.3 that the DSM portfolio is the appropriate level to consider a mechanistic screening approach. While cost effectiveness should be reported at the program level to inform the Board and all stakeholders, it is inappropriate to screen individual programs solely on the basis of the mechanistic cost-effectiveness results. This aligns with the recognition in Section 3.2.3 that all programs must be considered on their merits. This is further aligned with the priority elements included in the DSM Guidelines, which have a focus on initiatives that will reduce the cost effectiveness of individual programs as outlined in Union's submission on the Draft Guidelines Section 2.0 above.

The appropriate test to screen the DSM portfolio is the Societal Cost Test ("SCT"). Please see Union's submission in response to the Draft Framework Section 8.2 above. This section outlines the limitations of the TRC, and restrictions it has imposed on Union's low-income program to-date. The 0.7 TRC for low-income programs proposed by the Board impairs Union's ability to ensure deep and comprehensive building treatment. While certain retrofits may not be cost-effective on a TRC basis, they can provide significant financial and non-financial value for low-income homeowners and tenants. At a minimum, the Board should reduce the guideline screening threshold for low-income to 0.5 and ensure that low-income programs, and programs as a whole, not meeting a screening threshold can be considered on a case-by-case basis based on the merits of the program.

**Section 3.2.1 Net Equipment Costs**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 3.2.2 Program Costs**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 3.2.3 TRC Test Calculation**

As outlined in section 3.2 above, the appropriate test to screen the DSM portfolio is the SCT. Cost effectiveness can be reported at the program and portfolio level however a screening threshold at the program level is not appropriate. The TRC test can be reported as a component of this process to provide a multi-perspective approach to inform the Board and all stakeholders in the case-by-case basis for considering program value.

**Section 3.2.4 PAC Test Calculation**

As outlined in section 3.2 above, the appropriate test to screen the DSM portfolio is the SCT. Cost effectiveness can be reported at the program and portfolio level however a screening threshold at the program level is not appropriate. The PAC test can be reported as a component of this process to provide a multi-perspective approach to inform the Board and all stakeholders in the case-by-case basis for considering program value.

**Section 3.3 Avoided Costs**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

### Section 3.4 Discount Rate

A societal discount rate should be used to calculate the net present value of the stream of future benefits under the SCT. This is standard practice for the SCT[17], and should be reflected in the DSM Guidelines. The use of a societal discount rate would also ensure parity with the CDM Framework in development, where a 4% societal discount rate is used.

### Section 3.5 Prioritization of Programs

Union supports the Board's position that a flexible prioritization approach should be used to take into account the iterative nature of DSM program design. This prioritization approach will consider the guidance provided in the DSM Framework, DSM Guidelines, cost-effectiveness test results, Union's experience, projected market opportunities and constraints, and information from stakeholders and customers. Union notes that while the PAC is emphasized in this section of the Draft Guidelines, a high SCT score should be the primary cost effectiveness test used to prioritize (as opposed to screen out) initiatives at the program level. Union therefore recommends the following adjustments to this section:

- Original in Draft:
    - "To the extent that not all candidate programs that have passed the screening tests can be undertaken due to resources or rate impact considerations …"
- Proposed for Final:
    - "To the extent that not all candidate programs that would lead to a cost-effective DSM portfolio can be undertaken due to resources or rate impact considerations..."
- Original in Draft:
    - "Programs that have a high PAC score"
- Proposed for Final:
    - "Programs that have a high SCT score"

[17] California Standard Practice Manual: Economic Analysis of Demand-Side Management Programs and Projects. July 2002. Page 18

As outlined in the DSM Framework response section 6.5 (response to question 6) and section 4.5 above, Union does not believe a pay-for-performance cost recovery mechanism or a long-term target established as a top-down guide for annual targets are appropriate.

## Section 4.0 PROGRAM EVALUATION

Given the interrelationship of the Board's evaluation and audit process proposal, Union has combined it's submissions to Section 4.1 and 4.1.3 below.

## Section 4.1 Evaluation Process / 4.1.3 Independent Third Party Audit

The Board has outlined changes to the evaluation and audit process based on what it believes will provide the required confidence to ensure regulatory efficiency and provide for a stable and predictable regulatory process for all stakeholders. Ensuring credibility in the evaluation, verification and audit is critical to instill confidence and stability, and remove uncertainty for the Board, stakeholders and the utilities. Clarity and predictability will further ensure DSM results, and any associated DSM incentive, can factor into the company's value on energy efficiency against competing priorities in a meaningful way.

If the Board determines that a greater level of involvement in the evaluation and audit process is required to meet these objectives, the role of the Board, the Auditor, the utilities and stakeholders must be clearly defined to ensure transparency and clarity in accountabilities.

In establishing the process, the Board should provide for clear and enforceable roles and responsibilities. Union has provided accountability and governance recommendations in relation to the Board's proposal below.

***Audit and Verification***

| | |
|---|---|
| Stakeholder Engagement | The audit process should provide for the continuation of audit committees for Union and Enbridge respectively, which includes representation from the utility and intervenors, elected to represent the Consultative. The Board, or its representative, would chair the committee and resolve areas where consensus cannot be reached.<br><br>This process should be structured to provide sufficient opportunity for input, and the transparency required to instill confidence in the accuracy of audited results. The intervenor members on the committee will be accountable for representing the Consultative as a whole, and ensuring the perspective of Consultative members is brought to the attention of the Committee as required throughout the process.<br><br>In establishing the accountabilities and process for the audit committees, the Board should ensure the timelines align with reporting requirements.<br><br>The Board, or its representative, would chair the audit committee to ensure all deadlines are met, the scope of the audit is appropriate and policy guidance is provided to the Auditor as required. |
| Auditor Selection | The audit committee would select the list of potential auditors by consensus. The Board, or its representative, would select the auditor from this list with input from the committee. In making its selection, the Board should ensure the Auditor has the requisite experience in all markets, including the industrial market. |
| Verification | The Auditor would hire the verification firms and have management oversight over all verification studies conducted annually to confirm the program year's results, with input from the audit committee.<br><br>This includes the custom project savings verification, as well as additional third party verification work such as Union's Energy Savings Kit annual verification. |
| Customer Interaction | The utilities would be accountable for facilitating interaction/scheduling with customers throughout the verification process, as required, to ensure efficiency as they have trusted customer relationships. |
| Data Transfer | The utilities would provide information to the Auditor and committee, as required. |
| Review and Comment on Draft Audit Report | All audit committee members would be accountable for reviewing the draft audit report and providing feedback within the established timeframe. |
| Final Audit Report | The Auditor will finalize the Audit Report and file with the Board. The final confirmed report will be provided to the audit committee by the Board. |
| Clearance of Accounts | The utilities will use the final Audit Report results when they file for disposition of their respective deferral and variance accounts with the Board. |

***Impact Evaluation***

| | |
|---|---|
| Impact Evaluation | The Board, or its representative, would lead all impact evaluation for the purpose of confirming results based on the confirmed priorities. For example, this would include updates to input assumptions and adjustment factors such as free ridership, spillover, and persistence, as required. |
| Stakeholder Engagement | The impact evaluation process should provide for the continuation of a single joint Union/Enbridge evaluation committee, which includes representation from the utilities, independent evaluation experts and intervenors, elected to represent the Consultative. The Board, or its representative, would chair the committee and resolve areas where consensus cannot be reached.<br><br>This process should be structured to provide sufficient opportunity for input, and the transparency required to instill confidence in the accuracy of impact evaluation results. The intervenor members on the committee will be accountable for representing the Consultative as a whole, and ensuring the perspective of Consultative members is brought to the attention of the Committee as required throughout the process.<br><br>In establishing the accountabilities and process for the evaluation committee, the Board should ensure the timelines align with reporting requirements and ensures efficiency. |
| Establish Annual Impact Evaluation Priorities | On a rolling annual basis, the impact evaluation priorities for the year will be confirmed. The priorities will be informed by the Auditor's final Audit Report recommendations, Board-approved Evaluation Plans and the input provided by committee members. The committee will seek consensus on the prioritized list, however the final determination rests with the Board, or its representative. Projects may be re-prioritized during the year as required. |
| Impact Evaluation Firm Selection | The evaluation committee should seek to select the firms by consensus, however the final determination rests with the Board, or its representative. |
| Input into Impact Evaluation Methodology/Scope | All committee members will have input into the scope and design of impact evaluation studies. The committee will seek consensus, however the final determination rests with the Board, or its representative. |
| Customer Interaction | The utilities would be accountable for facilitating interaction/scheduling with customers throughout the impact evaluation process, as required, to ensure efficiency as they have trusted customer relationships. |
| Data Transfer | The utilities would provide information to the evaluator(s) and committee, as required. |
| Final Evaluation Reports | Final Evaluation Reports will be provided to the Board for confirmation, as well as the committee. The utilities will utilize all final evaluation results on a best available "going forward" approach for measurement of their annual results as outlined in Draft Guidelines Section 3.1 above. |

***Program/Process Evaluation***

The utilities should continue to have accountability for program and process evaluation. These studies will provide constructive guidance on program implementation and/or market characteristics to inform program design and delivery. In contrast to impact evaluation, which would be led by the Board, these evaluation studies will not have a direct relationship to the numerical impact of the programs for the purpose of confirming program impacts/results for the achievement of targets.

The gas utilities are in the best position to manage evaluation studies that have the objective of improving program effectiveness as they are ultimately responsible and accountable for their programs. This will allow them the opportunity to prioritize needs based on potential impact, and build on experience to date to continually react and adapt based on lessons learned.

***Research***

The utilities should continue to have accountability for research. This will allow the utilities to investigate potential new program offerings, market approaches or measure opportunities to ensure continued innovation. This includes the planned research into Integrated Resource Planning prior to the mid-term review. Union and Enbridge would continue to collaborate on research initiatives to ensure efficiency and alignment, where appropriate. In the case of potential new measures, research would ultimately be brought to the joint evaluation committee for review.

### Section 4.1.1 Evaluation Plan

Union supports the inclusion of an Evaluation Plan as a component of the DSM Plan filing. The Evaluation Plan represents a formalized document which will outline the data Union will capture for its programs, the evaluation and verification approach to confirm savings claims, as well as additional recommended evaluation to be considered and prioritized over the term of the framework to enhance the program’s effectiveness.

Board approval of the Evaluation Plan will ensure alignment between the Board and all parties for the monitoring and Evaluation, Measurement and Verification ("EM&V") requirements for the programs at the front end of the process. It will provide clarity to all parties for the information which will be captured and available, as well as how programs will be evaluated. This will serve as the basis for the confirmation of program results, which should be conducted on a consistent basis with the Evaluation Plan approved by the Board and updated as required throughout the term of the framework.

The Evaluation Plans would be a key input to the Board should it take on the management of the impact evaluation, verification and audit functions in the Framework.

**Section 4.1.2 Draft Evaluation Report**

Union agrees with the Board's proposal. In the event the management of impact evaluation and verification is managed by the Board, as per the proposal in the Draft Guidelines, the following sentence in this section should be amended as follows for clarity:

> "The natural gas utilities should include, as an appendix to their Draft Evaluation Report, the verifications studies provided by ~~their~~ third party evaluators, and any other relevant research and evaluation documents."

**Section 4.1.4 Finalization of the Audit & Evaluation Report**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 4.2 Adjustment Factors for Screening and Results Evaluation**

While Union supports the Board's proposal that the natural gas utilities should continuously react to new information when it is available, within an appropriate transition timeframe, the retroactive application of adjustment factors is not appropriate. Union instead supports the best available "going forward" approach described in Union's submission on the Draft Guidelines Section 3.1 above.

### Section 4.2.1 Free Ridership and Spillover Effects

Free ridership and spillover should be treated consistently for approval purposes, as they are opposite effects of the same nature. The frequency of these studies will be determined through the annual evaluation prioritization process, with regard for budget and program considerations. This is consistent with the current process.

An assessment of free ridership and spillover must take into account the information for the jurisdiction, program design and delivery information. These factors must be considered when determining whether a common or differentiated free ridership and/or spillover rate is applied for the natural gas utilities.

### Section 4.2.2 Attribution

**Attribution of Benefits Between Rate-Regulated Natural Gas Utilities and Rate-Regulated Electricity Distributors**

Union agrees with Board's proposal and has no comment on this section of the Draft Guidelines.

**Attribution of Benefits Between Rate-Regulated Natural Gas Utilities and Other Parties**

Union supports attribution of $m^3$ savings based on the partnership agreement between parties, guided by the principle of financial contribution as outlined below. Union does not agree with the requirement to file program share budget information when a partnership agreement is established before the program is launched. Partnership agreements, and appropriate allocation of results, should be reviewed by the Auditor during the annual DSM Audit. This would reduce administrative requirements for the Board while providing reassurance that the appropriate results have been claimed.

The percentage of $m^3$ savings Union is entitled to claim with the Board should be based on the percentage of the overall NPV of resource savings generated by the initiative using Union's avoided costs, as opposed to the percentage of natural gas savings alone. Union's financial contribution generates all resource savings that result from the program, not just natural gas. This approach recognizes the full resource savings value of a program to participants and ensures partnerships with non-regulated entities are not discouraged.

As an illustrative example, where Union contributes 30% of the program's costs and the natural gas savings account for 50%[18] of the resource benefits generated based on Union's avoided costs, Union should be entitled to claim 60%[19] of the gas savings in the absence of a partnership agreement, or 100%[20] before an explanation for incremental savings claimed is required where a partnership agreement is established.

**Section 4.2.3 Persistence**

While persistence is an important factor in measuring a program's true impact on savings, the trade-off between accuracy and costs associated with developing persistence factors must be considered. The level of research into persistence factors should be weighed against other evaluation priorities, taking budget limitations and customer and market considerations into account. This is consistent with the current process.

In defining the approach, it is important to ensure persistence is not approached in a manner which double-counts impacts or ignores market realities. For example:

- The scenario around a program participant implementing the measure on its own is a case of early replacement as per the definition provided in the Draft Guidelines Section 3.1 above.
- Considerations of technical degradation in confirming effective useful life and base case as opposed to a separate persistence factor

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[18] Natural Gas Savings % of Resource Savings = (NPV of natural gas benefits generated, based on Union's avoided costs) / (NPV of all resource benefits generated, based on Union's avoided costs). As an illustrative example if the NPV of natural gas avoided costs is $50 and the total NPV of all avoided costs generated is $100, the natural gas savings % of resource savings = 50%.

[19] Program $m^3$ Savings Claimed = (% of Dollars Spent) /(% Natural Gas resource savings relative to total financial resource savings). In this example the calculation is 30%/50% = 60%

[20] % Program $m^3$ Savings Claimed = (% of Dollars Spent + 20%, as per the Guidelines) / % Natural Gas resource savings relative to total financial resource savings). In this example the calculation is (30% + 20%)/50% = 100%

- Challenges in accurately tracing equipment where a customer had closed down a process, as any equipment installed through the Union DSM program may have been sold to another facility
- Stability of Union's large commercial and industrial market over the long term

Union will provide the approach to persistence for its programs in the Evaluation Plan for Board approval.

**Section 5.0 ACCOUNTING TREATMENT: RECOVERY AND DISPOSITION OF DSM ACCOUNTS**

Union agrees with the Board's proposals; however it should be clarified in the Guidelines that the recovery and disposition of DSM related amounts (i.e. DSMVA, DSMIDA, LRAM) are not based on the actual amount of natural gas savings in relation to the long-term target – this reference to the long-term target should be removed from this section.

**Section 5.1 Revenue Allocation**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 5.2 Demand Side Management Variance Account ("DSMVA")**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 5.3 Lost Revenue Adjustment Mechanism Variance Account ("LRAM")**

Union agrees with the Board's proposal, however Union notes that in its 2014-2018 IRM (established in EB-2013-0202), the LRAM is only applicable to the contract rate classes. This section of the Guidelines should be adjusted accordingly.

**Section 5.4 DSM Incentive Deferral Account ("DSMIDA")**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 5.5 Carbon Dioxide Offset Credits Deferral Account**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 5.6 DSM Activities Not Funded Through Distribution Rates**

Union is unclear what the Board is referencing in its proposal in this section of the Draft Guidelines. As such, Union neither agrees nor disagrees with the Board's proposal.

**Section 6.0 FILING REQUIREMENTS**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.

**Section 6.1 Filing of Multi-year DSM Plan**

Union agrees with the Board's proposal. Union will work with Enbridge to coordinate the filing date for the DSM Plan.

**Section 6.2 Annual Reporting**

Union agrees with the Board's proposal and has no comment on this section of the Draft Guidelines.