



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0276

UNION GAS LIMITED

Application for approval of final balances and for clearance of certain Demand Side Management deferral and variance accounts into rates

BEFORE: Christine Long
Vice Chair and Presiding Member

Susan Frank
Member

June 23, 2016

1 INTRODUCTION AND SUMMARY

Union Gas Limited (Union) is a major Canadian natural gas storage, transmission and distribution company serving about 1.4 million residential, commercial and industrial customers in communities across northern, southwestern and eastern Ontario.

Union filed an application with the Ontario Energy Board (the OEB) under section 36 of the *Ontario Energy Board Act, 1998* for an order or orders approving the final balances in certain 2014 Demand Side Management (DSM) deferral and variance accounts. Union is also seeking the disposition of the balances in these accounts, and inclusion into rates, within the next available Quarterly Rate Adjustment Mechanism following the OEB's approval.

The accounts for which Union seeks approval and disposition in this application are related to its 2014 DSM activities. The 2014 DSM activities were the activities for the third year of Union's 2012-2014 multi-year DSM plan (EB-2011-0327) and for the second year of Union's 2013-2014 DSM plan for large volume customers (EB-2012-0337), which were premised on the OEB's 2012-2014 DSM Guidelines.¹

The accounts which are the subject of the application and the balances recorded are as follows:

Account	Balance
Demand Side Management Incentive Deferral Account (DSMIDA)	\$8,988,000
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	\$848,000
Demand Side Management Variance Account (DSMVA)	\$1,664,000

The net balance of the DSM accounts is \$11,500,000 to be collected from ratepayers.

Pursuant to the OEB's *Practice Direction on Confidential Filings* (the Practice Direction) Union's application also included a request for certain areas of the two Custom Project Savings Verification (CPSV) reports to remain confidential. Customer names and sensitive commercial information were redacted by Union in these CPSV reports. Union filed redacted versions of the CPSV reports for the public record.

¹ [Demand Side Management Guidelines for Natural Gas Utilities](#), June 30, 2011 (EB-2008-0346)

The OEB approves the final balances in the 2014 DSM deferral and variance accounts, as submitted. The OEB also approves the disposition of the balances in these accounts into rates in Union's October 1, 2016 QRAM application.

2 THE PROCESS

The OEB proceeded by way of a written hearing. In Procedural Order No. 1, the OEB granted intervenor status and cost eligibility to a number of parties. The OEB also scheduled dates for filing interrogatories, responding to interrogatories, and filing final submissions and indicated that the dates established for final submissions would apply unless the OEB orders otherwise.

Procedural Order No.1 also set out the process for the filing of submissions on whether the currently redacted information in the CPSV reports should remain confidential or be made public. In addition, Procedural Order No. 1 stated that Union was to provide confidential versions of the evidence to counsel and consultants for intervenors who have signed and filed with the OEB the form of Declaration and Undertaking from the Practice Direction.

Submissions on confidentiality were filed by the Industrial Gas Users Association (IGUA) and the School Energy Coalition (SEC). IGUA and SEC also each filed additional interrogatories past the due date for interrogatories set out in Procedural No. 1. Due to the submissions received on confidentiality, the OEB issued Procedural Order No. 2 which cancelled the schedule for final submissions and Union's reply submission that were set out in Procedural Order No. 1.

The OEB issued its Decision and Procedural Order No. 3 which set out what information filed by Union was to remain confidential. The OEB also granted intervenors the opportunity to ask additional interrogatories on the confidential CPSV report prepared by Diamond Engineering Company for the verification of large custom projects.

The Decision and Procedural No. 3 also set out the revised schedule for final submissions and Union's reply submission. The OEB received submissions from OEB staff, the Association of Power Producers of Ontario (APPrO), IGUA, London Property Management Association (LPMA), Ontario Greenhouse Vegetable Growers (OGVG), and SEC and a reply submission from Union.

3 DECISION

3.1 DSM DEFERRAL AND VARIANCE ACCOUNTS

The accounts for which Union seeks approval and disposition in this application are related to its 2014 DSM activities. The 2012-2014 DSM Guidelines and Union's 2012-2014 DSM plan outlined the process Union should undertake with respect to stakeholder consultation, monitoring and evaluation for each year of its 2012-2014 DSM plan.

Findings

Union's application for approval of its 2014 DSM accounts followed the same approach used in the approved 2013 DSM accounts application. Union engaged external contractors to evaluate the custom projects and an auditor to review Union's 2014 DSM results. Union's Audit Committee endorsed the calculations in the Auditor's Report.

In submissions from SEC and OEB staff, the level of the 2014 Union's DSM Incentive Deferral Account of \$8,988,000 and Union's DSM Variance Account of \$1,664,000 were accepted. According to OEB staff the lack of a new boiler baseline study would have little to no impact on Union's shareholder incentive amount as savings from boilers only represents 1.1% of overall savings. LPMA expressed no issues with any of the account balances or with the recovery period.

OEB staff did not support Union receiving approval for its entire Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) of \$848,000. OEB staff submitted that the high free ridership rate related to Union's Large Volume program has not been adequately lowered in Union's submission. SEC and IGUA supported the OEB staff position. APPrO proposed that 100% of the steam leak repairs be eliminated. Evergreen Economics, the Auditor retained by Union found that there was insufficient record keeping related to customers' maintenance practices, and therefore reduced the savings for steam leak projects by 50%. The objections raised by the parties related to the issue of free ridership associated with steam leak repairs. The OEB notes that Evergreen Economics applied its expert judgement in reducing the savings by 50%. The OEB accepts the judgement of Evergreen Economics and will not order a further reduction to the LRAMVA balance.

Accordingly the OEB approves the net balance of \$11,500,000 as requested in these DSM accounts for collection from ratepayers.

Several submissions related to an issue that was also examined and a decision rendered as part of the 2015-2020 DSM Plan Approval. The issue of free ridership and

short payback periods was raised by SEC, IGUA, APPrO, OGVG and OEB staff. Steam leaks, steam trap repairs and condensate leaks received considerable attention as they often resulted in paybacks of less than one year and addressed known safety issues. SEC questioned if the self-directed large customer programs had sufficiently challenging saving objectives resulting in a poor utilization of DSM program amounts. Finally the OEB staff submission recommended that Union address the free ridership issue when it is designing its commercial and industrial programs. The OEB notes that the 2015-2020 DSM Plan Decision and Order dealt with the concern about free ridership and a related study is underway. As such, the OEB will make no further comments on the issue in this decision.

Recommendations for future treatment of DSM deferral and variance were also made by several parties.

- OEB staff recommended that savings should not be claimed for projects with insufficient baseline documentation.
- SEC recommended that the OEB order OEB Staff, through the Evaluation Contractor, to review the sampling methodology to ensure that it produces a useful and representative sample.
- SEC proposed that the OEB order OEB Staff, through the Evaluation Contractor, to carry out a value-for money audit of the Union DSM programs, to be completed in time for the mid-term review of the gas utilities' 2015-2020 plans. Union noted that the OEB recently had a three-week hearing on Union's DSM programs during the 2015-2020 Plan Period making this suggestion duplicative and disproportionate.
- IGUA expressed the importance of the prompt completion of the ongoing net to gross study and urged a full inquiry into the results of that work for the 2015 program year DSM variance and deferral accounts applications.
- OGVG questioned the need for ongoing participation by contract class customers in Union DSM programs given historical DSM spending.

The OEB notes that the 2015-2020 DSM Plan Decision and Order dealt with these recommendations and work is often underway. The Evaluation Contractor will also be looking for ways to improve the effectiveness of DSM evaluations. The OEB sees no need to make any additional decisions on the basis of these recommendations.

Finally a few new requests were made by the parties.

OGVG asks the Board to “confirm that contract customers have the option as a right (as opposed to at the discretion of Union) to pay DSM amounts owing to Union as a result of the clearance of DSM related accounts over time if they so desire”. Union indicated

that “subject to constraints of proportionality and commercial reasonableness, Union does not object to customers having the right to pay, over time”. The OEB sees no need to make a finding given this response by Union.

OGVG expressed concern that Union may be double recovering amounts from contract classes related to reduced volumes resulting from DSM. The charge against individual customers for falling below their contracted for minimum annual volumes (MAVs), and also seen as recovered through the Lost Revenue Adjustment Mechanism (LRAM). Union indicated that the MAV and LRAM amounts have different functions and the MAV is in response to a benefit negotiated with the customer. There is no evidence presented in this proceeding to demonstrate a double counting. It seems more appropriate that this issue be raised at the next cost of service proceeding.

4 IMPLEMENTATION

The allocation methodology of the DSM deferral and variance account balances to rate classes proposed by Union is consistent with the methodology approved by the OEB in Union's 2013 disposition of DSM deferral and variance accounts proceeding².

The allocation methodology proposed by Union is summarized as follows:

- LRAMVA – amount is allocated to contract rate classes in proportion to the margin reduction attributable to DSM activities.
- DSMVA – amounts are allocated rate classes in proportion to the actual DSM spending by rate class in 2014, with the exception of low-income spending which is allocated in proportion to the most recent OEB-approved distribution revenue by rate class. This methodology is consistent with the methodology approved by the OEB in the 2012-2014 DSM plan Settlement Agreement.
- DSMIDA – amounts are allocated to rate classes in proportion to the actual DSM spending by rate class in 2014 for scorecards where Union has achieved a DSM Incentive. This methodology is also consistent with the methodology approved by the OEB in the 2012-2014 DSM plan Settlement Agreement.

The disposition of the allocated account balances is also consistent with the approach approved by the OEB in Union's 2013 disposition of DSM deferral and variance accounts proceeding³.

For general service Rate M1, Rate M2, Rate 01 and Rate 10 customers Union proposes to dispose of the net 2014 DSM deferral and variance account balances prospectively over a six-month period beginning in the first available QRAM following OEB approval.

For in-franchise contract rate classes, Union proposes to dispose of the net 2014 DSM deferral and variance account balances as a one-time adjustment with the first available QRAM following OEB approval.

The following table shows the allocation of the 2014 deferral and variance account balances by rate class:

Rate Class	LRAM (\$000)	DSMVA (\$000)	DSMIDA (\$000)	Total (\$000)
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² EB-2014-0273

³ EB-2014-0273

Union North	Rate 01	-	(559)	940	381
	Rate 10		43	369	412
	Rate 20	46	407	375	828
	Rate 100	81	(342)	-	(261)
	Rate 25	-	-	-	-
Union South	M1	-	1,173	3,656	4,830
	M2	-	846	1,939	2,782
	M4	179	864	725	1,769
	M5A	485	(962)	493	16
	M7	38	714	490	1,242
	M9	-	-	-	-
	M10	-	-	-	-
	T1	10	(748)	-	(738)
	T2	9	231	-	240
	T3	-	-	-	-
	Total	\$848	\$1,664	\$8,988	\$11,500

Findings

The allocation of deferral and variance account balances is consistent with the treatment in prior years and there has been no party expressing concern with the approach utilized. This allocation to rate classes is necessary to support the recovery over a six-month period and to make the one-time adjustment to the rate classes at the October 1, 2016 QRAM update. The OEB approves the recovery from the rate classes as presented in the above table.

Union filed its application with the OEB for clearance of its deferral and variance account balances on December 9, 2015, a full month after Enbridge Gas Distribution Inc. (Enbridge) filed its application⁴. Enbridge was unable to process the OEB approved deferral and variance account balances in time for its July 1, 2016 QRAM application. The OEB determined that Enbridge would not be eligible for interest for the July 1, 2016-September 30, 2016 period. Union is also unable to meet the deadline for the July 1, 2016 QRAM application to have the accounts cleared. A significant factor in not meeting the deadline was the late filing date of the application. Accordingly, the OEB will not allow Union to collect interest on the deferral and variance account balances from July 1, 2016 to September 30, 2016.

⁴ EB-2015-0267

5 ORDER

THE BOARD ORDERS THAT:

1. The deferral and variance account balances are approved as filed.
2. The deferral and variance account balances shall be allocated to the various customer rate classes pursuant to this Decision and Order.
3. The allocated amounts shall be recovered prospectively over a six-month period for general service Rate M1, Rate M2, Rate 01 and Rate 10 customers and for in-contract rate classes as a one-time adjustment to rates starting in Union's October 1, 2016 QRAM application.
4. Union is not eligible for interest on the DSM deferral and variance account balances from July 1, 2016 to September 30, 2016.
5. Intervenors shall file with the OEB, and forward to Union, their respective cost claims by **July 7, 2016**.
6. Union shall file with the OEB, and forward to intervenors, any objections to the claimed costs by **July 21, 2016**.
7. Intervenors shall file with the OEB, and forward to Union, any responses to any objections for cost claims by **July 28, 2016**.
8. Union shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto June 23, 2016

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary