

**Ontario Energy Board**



**EB-2014-0134**

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# **Report of the Board**

**Demand Side Management Framework for  
Natural Gas Distributors (2015-2020)**

December 22, 2014

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## 1.0 INTRODUCTION

The Ontario Energy Board (the “Board”) is committed to ensuring that natural gas customers have access to useful and appropriate programs that help them conserve energy and that benefit the natural gas system. The government’s 2013 Long Term Energy Plan<sup>1</sup> (the “LTEP”) underlines the importance of natural gas Demand Side Management (“DSM”) programs in Ontario.

On March 31, 2014, the Minister of Energy directed the Board to develop a new framework for natural gas DSM. Gas utilities will use this framework as they prepare to apply for approval of their new DSM plans for 2015 to 2020.

The Board’s new DSM framework is designed to reduce natural gas consumption throughout Ontario, and includes the Board’s policies on all elements of the gas utilities’ DSM activities. The DSM framework covers the same time period of the Conservation First framework for electricity, which was developed by the Ontario Power Authority (“OPA”)<sup>2</sup> and the electricity distributors. The Board believes this will encourage greater alignment, coordination and integration between the natural gas and electricity sector’s energy conservation efforts. The ultimate goal is to ensure that resource savings are achieved in an efficient manner and that customers receive the greatest and most meaningful opportunities to lower their bill by reducing consumption.

### 1.1 Background

The Board is the regulator of Ontario’s natural gas sector. We approve and fix just and reasonable rates for the transmission and distribution of natural gas<sup>3</sup>. There are close to 3.5 million natural gas customers in Ontario, made up of both low-volume customers, such as residential and small commercial, and large-volume customers, such as industrial enterprises. In total, this amounts to about 26.1B m<sup>3</sup> of total natural gas sales in 2013 between Enbridge Gas Distribution Inc. (“Enbridge”), Union Gas Limited (“Union”) and Natural Resource Gas Limited (“NRG”).

E.B.O. 169-III Report of the Board, July 23, 1993, established the original regulatory framework for natural gas DSM programs. The Board has been promoting DSM and

<sup>1</sup> Achieving Balance, Ontario’s Long-Term Energy Plan, December 2013

<sup>2</sup> References to the OPA throughout this report should be considered to be references to the Independent Electricity System Operator (“IESO”) for activities on and after January 1, 2015.

<sup>3</sup> The three rate regulated distributors are Enbridge Gas Distribution Inc., Union Gas Limited and Natural Resource Gas Limited. Two municipally owned gas companies (City of Kitchener and City of Kingston) are not rate regulated by the Board.

approving natural gas DSM plans for the gas utilities ever since. The E.B.O 169-III Report remained in place as a set of guidelines that the two main gas utilities, Union and Enbridge, followed until 2006.

In 2006, the Board conducted a generic proceeding<sup>4</sup> (the “2006 Generic Proceeding”) to address a number of issues related to gas utility DSM activities. The Board’s Decisions in the 2006 Generic Proceeding were issued in three phases and addressed all the elements that the gas utilities were expected to include in their DSM plans from 2007 to 2009.

The Board undertook a review of the DSM framework before issuing the 2012 DSM Guidelines on June 30, 2011<sup>5</sup>. The 2012 DSM Guidelines took into consideration the *Green Energy and Green Economy Act, 2009*, which was enacted as the 2012 DSM Guidelines were being developed. The gas utilities used the 2012 DSM Guidelines, which included both general policy direction and detailed technical guidance, as the basis for developing their DSM plans for 2012 to 2014. These plans were approved by the Board.

The March 2014 directive to the Board from the Minister of Energy (the “Conservation Directive”) requires the Board to develop a new DSM framework that meets specific government objectives. It includes policies on all key elements that will be funded through the distribution rates of the gas utilities, providing guidance to the gas utilities as they develop their 2015 to 2020 DSM plans. While conforming to the DSM framework contributes to a streamlined approval process, gas utilities can propose alternatives in their plans, but they must present the evidence and rationale for any proposed alternative and clearly show how the public interest is enhanced.

The Board will ultimately decide on the final elements and specific components of the gas utilities’ new multi-year DSM plans through an application by the gas utilities for distribution rates under Section 36 of the *Ontario Energy Board Act, 1998* (the “Act”).

When the Board announced the consultation process for the new DSM framework on April 10, 2014, we said we would review the framework governing gas utilities’ DSM activities. As part of the first stage of the review process, the Board convened a small DSM Working Group, made up of key stakeholders representing consumer, environmental and gas utility perspectives. The materials from this working group are

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<sup>4</sup> DSM Generic Proceeding, EB-2006-0021

<sup>5</sup> Demand Side Management Guidelines for Natural Gas Distributors, EB-2008-0346, June 30, 2011

posted on the [Board's website](#), including letters and studies<sup>6</sup> filed with the Board by interested parties.

The Board also prepared a jurisdictional review<sup>7</sup> of how the main elements of the DSM framework compare to other leading jurisdictions, which contributed to the options included in the draft framework.

The Board issued its Draft Report on September 15, 2014 and requested input from all interested stakeholders so that their views could be considered in the final DSM framework. We received thorough and meaningful comments from 24 stakeholders representing consumer, environmental and ratepayer groups, industry participants, private companies and individuals, as well as both Enbridge and Union. The sections that follow, which discuss the specific elements of the framework, include a general summary of the comments received from parties.

## 1.2 Term

To be successful, DSM programs need to be effective, flexible and sustained across Ontario. Customers need long-term access to natural gas energy efficiency and conservation programs. The DSM framework has the flexibility to allow gas utilities to adapt and change with the market, the stability to ensure programs remain in place so customers can participate, and provides the continuity to manage DSM programs in a changing environment. As outlined in the Conservation Directive, the term of the DSM framework is six years, from January 1, 2015 to December 31, 2020, with a mid-term review completed by June 1, 2018.

## 1.3 Mid-Term Review

The mid-term review will allow the Board to assess the gas utilities' performance, and the appropriateness of the long-term DSM targets. The review will examine annual metrics, budget levels, impact on customer rates and shareholder incentives. The mid-term review will ensure that the DSM framework is reasonable and contributing to effective natural gas conservation programs to Ontario customers, while achieving annual and long-term targets for reduced consumption.

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<sup>6</sup> Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities, Toronto Atmospheric Fund, August 11, 2014

<sup>7</sup> *Review of Demand Side Management Framework for Natural Gas Distributors, Supplemental Report*, Concentric Energy Advisors, Inc., September 15, 2014

The mid-term review will further provide the Board with an opportunity to review the gas utilities' progress towards implementing priorities outlined in the Conservation Directive, LTEP and DSM framework. It will also allow the Board to consider the DSM framework relative to the overall energy conservation landscape, including any new or revised government direction. The DSM framework's June 1, 2018 mid-term review coincides with the mid-term review of the electricity Conservation First framework.

The Board may also consider it appropriate to provide guidance on the nature of the gas utilities' DSM activities beyond 2020. It may be appropriate to extend the framework at the mid-term review to maintain a multi-year DSM framework and ensure continuity and certainty for both market participants and the gas utilities. The Board and all interested parties will have a better understanding of these issues closer to the mid-term review.

The mid-term review will be informed by a study of achievable potential for natural gas efficiency in Ontario to be completed by June 1, 2016. More details on the scope, timing and nature of the mid-term review will be provided at a later date.

#### 1.4 Purpose of DSM

A number of objectives in the Act guide the Board in carrying out its natural gas responsibilities. One of the objectives is: "To promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances<sup>8</sup>." The Board will fulfil its mandate by balancing the various objectives in the public interest.

As outlined in the LTEP, the Ministry of Energy is committed to working with the Board to incorporate the government's policy of putting "conservation first" into distributor planning processes for both electricity and natural gas utilities<sup>9</sup>. The LTEP also states that the government is committed to promoting a co-ordinated approach to conservation and will encourage collaboration of conservation efforts among electricity and natural gas utilities. The Conservation Directive further echoes the commitment outlined in the LTEP and requires the Board to establish a DSM policy framework that includes:

- A six-year term with a mid-term review,
- Enabling the achievement of all cost-effective DSM and more closely aligning natural gas DSM and electricity Conservation and Demand Management ("CDM") efforts, as far as is appropriate and reasonable,

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<sup>8</sup> *Ontario Energy Board Act, 1998*, S.O. 1998, chapter 15 (Schedule B), section 2, paragraph 5

<sup>9</sup> *Achieving Balance, Ontario's Long-Term Energy Plan*, December 2013, Conservation First, Pg. 21

- Coordinating and integrating DSM and CDM programs (including low-income programs), where appropriate,
- Reviewing and publishing verified or audited DSM results on an annual basis,
- Completing an achievable potential study by June 1, 2016,
- Inclusion of activities to reduce natural gas consumption, and
- Addressing lost revenue from DSM programs.

Since the Board's first substantive DSM policy was introduced over 20 years ago, the effort has evolved over time and the annual savings have continued to grow as the gas utilities incorporated DSM into their core business.

As we introduce a new framework, it's important to reflect on why the Board believes that DSM is important and to consider what we are trying to achieve by providing ratepayer-funded DSM programs. There are many benefits of DSM, but the Board's approval to fund such programs through natural gas distribution rates must be within the scope of the Board's legislative mandate. The Board believes that ratepayer funded DSM programs should focus on the following goals:

- i. **Assist consumers in managing their energy bills through the reduction of natural gas consumption.** Customers who participate in the DSM programs should see a decrease in their energy bills.
- ii. **Promote energy conservation and energy efficiency to create a culture of conservation.** DSM programs should advance conservation and energy efficiency, beyond the program participants, to the broader public in Ontario.
- iii. **Avoid costs related to future natural gas infrastructure investment, including improving the load factor of natural gas systems.** Gas utilities are expected to consider DSM initiatives in the context of infrastructure planning so that reducing demand for natural gas also helps avoid or defer future infrastructure costs. This is consistent with the government policy of "Conservation First."

By promoting energy conservation and energy efficiency, the Board will enable the gas utilities to use ratepayer dollars to provide natural gas conservation opportunities for customers in Ontario. The Board believes this to be a valuable endeavour as conserving natural gas has the direct benefit of helping customers mitigate and manage their natural gas bill. However, not all customers will participate in a program. Therefore, the delivery of DSM programs adds to the cost of their current energy services. In

establishing the DSM framework, the Board has considered both the benefits of DSM, as well as the cost impact on natural gas bills to all customers.

## 1.5 DSM Framework Components

The sections below summarize the major elements of the DSM framework. The gas utilities should develop their new multi-year DSM plans based on the guidance provided within each section.

- ❖ [Guiding Principles](#)
- ❖ [DSM Targets](#)
- ❖ [DSM Budgets](#)
- ❖ [Shareholder Incentive](#)
- ❖ [Program Types](#)
- ❖ [Program Evaluation](#)
- ❖ [Input Assumptions](#)
- ❖ [Cost Effectiveness Screening](#)
- ❖ [Avoided Supply Costs](#)
- ❖ [Deferral and Variance Accounts – Recovery and Disposition of DSM Amounts](#)
- ❖ [Integration and Coordination of DSM and CDM Programs](#)
- ❖ [Future Infrastructure Planning Activities](#)
- ❖ [Stakeholder Consultation](#)
- ❖ [Implementation and Transition](#)

In addition to the DSM framework, the Board has provided a companion document, the Filing Guidelines to the DSM Framework (the “DSM Guidelines”). It provides technical guidance the gas utilities should reference when preparing their DSM plans. The DSM Guidelines are intended to provide a common understanding of key elements of DSM activities.

## 2.0 GUIDING PRINCIPLES

The Board has outlined a list of guiding principles below which it expects will help the gas utilities when designing individual programs, developing their multi-year DSM strategies and assessing the appropriateness of their overall DSM plans for 2015 to 2020. It may also be used in reviewing and approving proposals put forth by the gas utilities in their multi-year DSM plans.

Parties provided various comments with respect to the guiding principles listed below. The Board has slightly updated the list of principles to reflect the helpful suggestions

which enhance and clarify the guidance and direction for the gas utilities' new multi-year DSM plans. There was a general consensus on all principles except for Guiding Principle #2, which is discussed below.

One general theme of some parties' comments focused on the inclusion of the qualification that rate impacts from DSM activities must be reasonable. It was noted by some parties that Guiding Principle #2 should be edited to only direct the "achievement of all cost-effective DSM" and remove any reference to rate impacts. Parties were concerned that including the provision of rate impact reasonableness as part of the principle may temper the possible natural gas savings and overall level of activity proposed by the gas utilities. It was suggested that the Board not include this language within a guiding principle, but rather incorporate the consideration of resulting rate impacts during the Board's review of the proposals put forth by the gas utilities, as the Board has always done.

The Conservation Directive clearly includes the provision of ensuring the reasonableness of achieving all-cost effective DSM in Section 4(ii). Further, the direction introducing Section 4 of the Conservation Directive provides that the Board establish a DSM policy framework with regard to such other factors as the Board considers appropriate. As an economic regulator, the Board is tasked with ensuring the costs and resulting impacts of those costs are reasonable. The gas utilities' DSM activities are no different from other rate funded activities undertaken by both electricity and gas distributors. The Board's review of the proposals put forth by the gas utilities must include a consideration of how the costs to fund natural gas conservation programs impact participants and non-participants in the DSM programs.

Guiding principles for the DSM framework:

**1. Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.**

The administration costs for delivering DSM programs and participant incentives should be equal to or lower than the capital investments and/or the purchase of natural gas costs calculated on a life-cycle basis and expressed on a \$/m<sup>3</sup> of natural gas saved or supplied, respectively.

**2. Achieve all cost-effective DSM that result in a reasonable rate impact.**

The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the cost-effective DSM available in its franchise area, having regard to

the Board's guidance that the costs required to do so result in reasonable rate impacts for customers.<sup>10</sup> Cost-effectiveness is defined in Section 9.

**3. Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies.**

Gas utilities should pursue coordination and integration in designing, promoting and delivering DSM programs with the OPA as well as with electricity distributors, where appropriate and possible, to increase overall efficiency, reduce delivery costs, and maximize program impacts.

**4. Gas utilities will be able to recover costs and lost revenues from DSM programs.**

Gas utilities will be allowed to recover spending associated with the administration and delivery of DSM programs, lost revenues and shareholder incentive amounts, subject to any specific alternative approach such as a pay-for-performance funding/incentive mechanism.

**5. Design programs so that they achieve high customer participation levels.**

Programs should be designed to remove financial, information and other barriers in the market place to increase take-up of DSM programs. Gas utility DSM plans should allow as many natural gas consumers as reasonably possible the opportunity to participate and share in the benefits of DSM.<sup>11</sup>

**6. Minimize lost opportunities when implementing energy efficient upgrades.**

DSM programs should pursue opportunities such as replacement of equipment with long lives that, if not undertaken during the current planning period, will no longer be available or will be substantially more expensive to implement in a subsequent planning period.

**7. Ensure low-income programs are accessible across the province.**

Low-income programs should be screened at lower thresholds than other programs, as determined by the Board, and be available across the province.

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<sup>10</sup> The Board wants to ensure that the costs recovered from those customers who cannot participate in a DSM program is reasonable.

<sup>11</sup> This should not restrict programs targeted at specific customer groups or segments of the market where high levels of natural gas savings potential exist, however narrow that group/segment may be.

**8. Programs should be designed to pursue long-term energy savings.**

Programs should pursue DSM opportunities with long lives that produce long-term energy savings, such as thermal envelope improvements (e.g., wall and attic insulation). Emphasis should be placed on a comprehensive assessment of energy savings opportunities using a “whole home” or “whole facility” approach to foster coordination and integration of electricity and natural gas conservation programs.

**9. Shareholder incentives will be commensurate with performance and efficient use of funds.**

The amount of shareholder incentive will depend on meeting or exceeding the DSM targets, including natural gas savings targets, and will take into consideration the relative difficulty in achieving other goals the Board expects the gas utilities to achieve (e.g., programs that deliver long-term savings, accessible low-income programs, integration and coordination with electricity conservation programs, conservation first in infrastructure planning, etc.); and,

**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 pursue DSM opportunities where the impact of the overall costs of DSM is equal to or lower than the avoided costs of the infrastructure investment.

The sections that follow discuss the specific components that will make up the gas utilities’ new multi-year DSM plans.

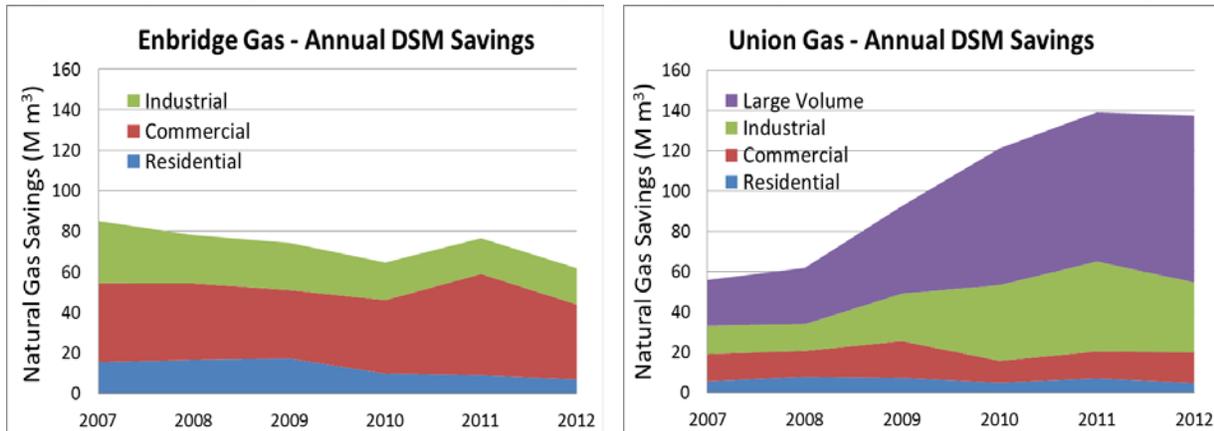
**3.0 DSM TARGETS**

DSM targets are the performance standards that the gas utilities will strive to achieve, both annually and throughout the term of the DSM framework. Currently, annual DSM targets are proposed by the gas utilities for each program type based on the amount of natural gas savings and program activity available within the budget parameters established by the Board. The targets are then subject to the Board’s adjudicative process and ultimately approved by the Board.

The graphs below show the annual natural gas savings achieved by both Enbridge and Union since 2002. It can be seen that while both gas utilities have realized significant gas savings, Enbridge has done so through a relatively proportional mix between its

three main customer groups while Union has leveraged industrial savings. It can also be seen that both utilities saw declining annual results in 2012, and Enbridge's have been trending slightly lower over the past 5 years.

**Figure 1 (Enbridge Annual DSM Savings) & Figure 2 (Union Annual DSM Savings)<sup>12</sup>**



The gas utilities have effectively managed their DSM efforts to regularly meet and at times exceed their annual DSM targets. The Board is of the view that the development of long-term natural gas savings targets for 2020 will help ensure that the gas utilities' annual efforts are focussed on achieving a longer-term goal that will get the most value from DSM expenditures, increase the overall efficiency of the natural gas system and provide customers with tangible ways to better manage their energy bills.

The Draft Report included two options for how targets could be established: either the Board establishes long-term natural gas savings targets and communicates these targets to the gas utilities to inform the development of their multi-year DSM plans; or, the gas utilities propose both long-term targets and annual targets as part of their multi-year DSM plan applications. The Board indicated that regardless of the option, long-term natural gas savings target should be included in the new multi-year plans to help guide the gas utilities' overall DSM activities. Further, the annual savings targets should be challenging, yet reasonable and based on the following: an updated analysis of the level of natural gas energy efficiency potential available in Ontario; market opportunities; past DSM program experience; new innovations; and, industry capacity to deliver expanded DSM offerings. A summary of the comments received from parties on these options and the Board's conclusions follows.

<sup>12</sup> Annual gas savings from large volume customers are for visual purposes only. Large volume customers for Union Gas Limited are defined as those from customers in the following classes: Rate T1, Rate T2 and Rate 100.

### 3.1 Stakeholder Comments

Stakeholders were nearly unanimous in their support of having the gas utilities include proposed annual natural gas savings targets and other performance metrics in their multi-year DSM plans. Stakeholders noted that the gas utilities possess the necessary information needed to establish reasonable targets that properly reflect current natural gas energy efficiency potential in their service territories. Stakeholders also noted that the gas utilities have extensive program experience and an understanding of future program opportunities, the necessary market knowledge of industry capacity and program deployment strategy to propose challenging annual natural gas savings targets and other performance metrics for the Board's consideration.

Stakeholders noted that implementing 2020 natural gas savings goals can be helpful, but that specific Board direction needs to be provided to ensure that the gas utilities' efforts are not inappropriately focused on achieving shorter term savings solely to meet a 2020 natural gas savings goal. Further, stakeholders were in general agreement that the 2020 natural gas savings targets could reasonably be different for each gas utility due to differences in their potential gas savings, and both geographic and customer composition. Stakeholders were also in general agreement that the 2020 natural gas savings goals should be a function of the annual savings targets to ensure that the 2020 goals properly reflect the gas utilities multi-year DSM plans.

With respect to continuing the use of a weighted scorecard that includes natural gas savings and other program performance-related metrics, all stakeholders who commented on this item supported continuing the use of a weighted scorecard approach to performance management.

Additionally, it was suggested that the gas utilities provide DSM target sensitivity analysis. The sensitivity analysis would show the interaction between increased and decreased budget levels and the effect this has on the achievable level of natural gas savings (both annual and lifetime). It was also suggested that the gas utilities continue to include a lifetime net savings metric in their performance scorecard to ensure their efforts are appropriately focused on those energy savings that will remain in place for the greatest amount of time.

### 3.2 Board Conclusions

The Board is of the view that the gas utilities should develop and propose both annual performance targets (natural gas savings and other appropriate program-activity related metrics included within annual weighted scorecards), as well as longer-term goals,

including natural gas savings targets to be met by December 31, 2020. Annual targets and long-term goals are central in ensuring that effort is directed towards the appropriate activities and that the gas utilities efficiently conduct their business. The Board is of the view that the natural gas utilities possess a significant amount of relevant and critical information that will allow them to appropriately develop and propose performance targets for the Board's consideration as part of their multi-year DSM plan applications. The Board expects that the gas utilities will rely on their most recent achievable potential studies, experience-to-date and projected market opportunities and constraints to inform the development of their annual and long-term natural gas savings targets. The Board agrees that DSM target sensitivity analysis, which shows the relation of various natural gas savings levels at differing budget amounts, will be helpful in reviewing and assessing the overall multi-year DSM plans proposed by the gas utilities and expects this information to be included in the multi-year plan.

The Board continues to support the inclusion of longer-term natural gas savings targets in each gas utility multi-year DSM plan. These longer-term targets will allow the gas utilities and other key stakeholders to assess and review performance over the course of multiple years to ensure that the gas utilities are transitioning their activities in the areas that will return the greatest benefits and help customers realize the most significant natural gas reductions and bill savings.

For the annual targets and metrics, the Board continues to be of the view that the gas utilities should incorporate multiple performance metrics using a weighted scorecard approach into their DSM plans. The performance scorecards should include metrics for both total net annual and lifetime (cumulative) natural gas savings. The scorecards should also include other performance metrics that will motivate the gas utilities to undertake the appropriate activities that result in sustained, long-term results and reduced natural gas consumption levels to ultimately lower overall costs to the natural gas system.

Three levels of achievement should be provided on the scorecard(s) for each metric: one at each 75%, 100% (target), and 150%. To ensure that the gas utilities do not inappropriately dedicate resources to achieve shorter term savings results so that the 2020 goal is achieved, more focus and weight should be allocated to lifetime net savings, as these savings will produce the greatest benefit to customers and the overall natural gas system.

The Board expects the gas utilities to include metrics that reflect the key priorities outlined in Section 4.2 – Budgets. These priority areas should receive an appropriate amount of attention, particularly early in the new multi-year DSM plan period, so that

material advancements are made in the near future and maintained throughout the course of the 6-year framework and beyond. The gas utilities should allocate an appropriate portion of the shareholder incentive amount to these key priority areas to help drive activity. The shareholder incentive is discussed further in Section 5 below. The Board expects the gas utilities will develop and propose balanced scorecards that appropriately direct the utilities' efforts to achieve significant long-term natural gas savings as well as address other key priorities outlined in the DSM framework.

Proposed targets should be filed for approval as part of the gas utilities' applications for distribution rates to fund their DSM plans. There are a number of factors for the Board to consider in setting DSM targets. The Board expects that as part of the application process, the setting of targets will be an issue excluded from a settlement with parties. The Board therefore expects to hold a hearing with respect to approval of the multi-year DSM plans. This of course does not preclude the utilities from undertaking appropriate stakeholdering of their plans.

Each year, the Board will assess the gas utilities' overall performance based on their actual achievements, as conveyed through the annual final evaluation and audit process, in relation to the various annual targets approved by the Board. Shareholder incentives will be based on the achievement of the annual scorecard metrics and be rewarded to each gas utility annually.

#### **4.0 DSM BUDGETS**

In order to fund the costs of administering and delivering DSM programs, including marketing efforts, financial incentives to participants, and educating consumers, long-term and annual DSM budgets must be developed that will enable the achievement of DSM targets over the duration of the DSM framework (i.e., 2015 to 2020).

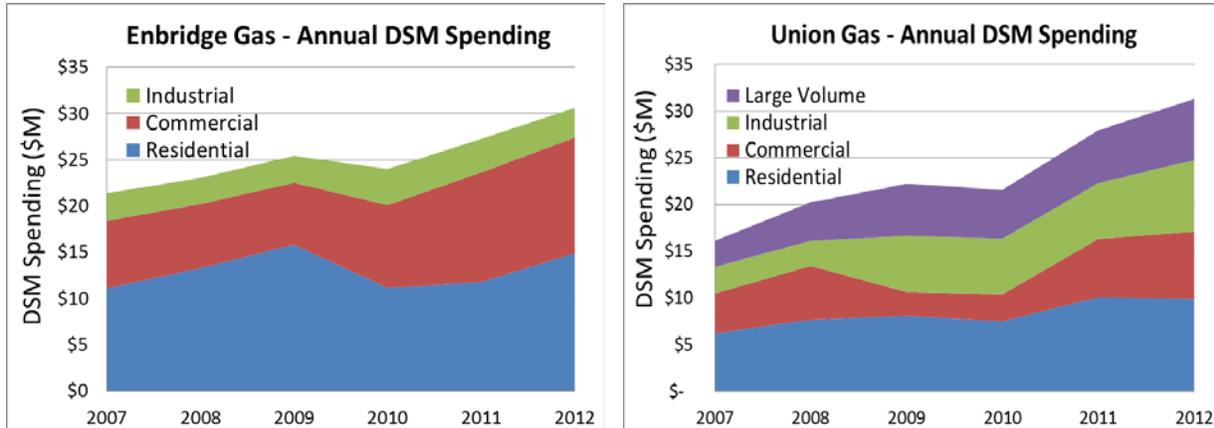
In the 2012 DSM Guidelines, the Board provided guidance to the gas utilities regarding the expected upper limit of the annual DSM budgets, which for 2011 was \$28.1 million for Enbridge and \$27.4 million for Union. Based on the Board's direction, the gas utilities developed their 2012 to 2014 DSM plans and respective annual targets based on an upper limit of the budget in 2014 being \$32.8 million for Enbridge and \$32.2 million for Union<sup>13</sup>.

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<sup>13</sup> The annual DSM budgets were subject to annual escalations for the previous year's Gross Domestic Product Implicit Price Index ("GDP-IP") and could be increased if the gas utilities' low-income programs were expanded.

The gas utilities' DSM spending since 2002 is shown in the graphs below. It can be seen that both Enbridge and Union spent approximately the same amount of ratepayer funding on DSM in 2012. It can further be seen that spending levels on program types differ between the two utilities with Enbridge dedicating a larger portion of its ratepayer funding to residential and commercial customers while Union dedicated close to half of its budget to larger customers, those in the industrial and large volume rate classes.

**Figure 3 (Enbridge DSM Expenditures) & Figure 4 (Union DSM Expenditures<sup>14</sup>)**



As part of the Draft Report, the Board provided two options for comment related to how future budgets would be established. The first option proposed was similar to the direction provided as part of the 2012 DSM Guidelines, where the Board would establish a budget guideline for the gas utilities to follow. The second option proposed was to have the gas utilities propose annual budgets within their multi-year DSM plans commensurate with the activities required to achieve the long-term DSM targets.

The Board acknowledges that DSM targets and DSM budgets are closely related. In order to have a reasonable expectation that a particular target is attainable, a corresponding budget that has appropriately taken the targeted level of activity into account is necessary. It is important to consider the impacts both targets and budgets have on each other. In the event that the budget is not sufficient, the targeted goals may be inappropriate and overall results will be less than expected.

Following the application by the gas utilities for approval of their multi-year DSM plans, the Board will review and assess the appropriateness of the proposed budget amounts relative to the natural gas savings targets (both the annual and long-term goal). Additionally, the Board's consideration of appropriate budget and target levels will also

<sup>14</sup> Annual gas savings from large volume customers are for visual purposes only. Large volume customers for Union Gas Limited are defined as those from customers in the following classes: Rate T1, Rate T2 and Rate 100.

include the resulting impact that budgeted DSM expenditures have on distribution rates. Ultimately, distribution customers are responsible for financially supporting all DSM activities in Ontario. Although some of these customers will participate in the programs offered by the gas utilities and benefit from the natural gas savings, a large majority of customers will not participate for a number of reasons. Many elements of DSM programs that offer the greatest opportunity to realize long-term natural gas savings (and bill reductions) are related to the installation of energy efficient products, such as a furnace or insulation. The opportunity to install one of these more significant items will not be present for the majority of customers in the gas utilities' service territories. As a result of this, the many customers who do not participate in any DSM program end up cross-subsidizing, through natural gas distribution rates, energy efficiency upgrades for those customers who do participate. Because of this, the Board must be mindful of the overall impact additional costs have on all customers (both participants in DSM programs and non-participants).

The LTEP and Conservation Directive discuss the importance of the Board aligning natural gas DSM efforts with electricity CDM efforts and to implement the government's policy of putting conservation first in electricity distributor and natural gas distributor infrastructure planning processes at the regional and local levels. The goal of doing so is to avoid or defer infrastructure investments through targeted reductions in the demand for natural gas. However, it is important to note that one major difference between the electricity and natural gas sectors in Ontario is where the energy resources are sourced. A large portion of the electricity needed for the province is generated within Ontario. This differs from the natural gas needed by the province, which is sourced from outside of Ontario, other than that which is available in storage. Therefore, the ultimate goals of electricity CDM and natural gas DSM have differences. Electricity CDM can be related directly to a reduction in the need for future generation and the associated infrastructure.

In the Ontario electricity sector, almost all the financial risk with respect to new infrastructure (e.g., generation, transmission and distribution) is borne by Ontario ratepayers, either by way of regulation or long-term commitments by the OPA. Accordingly, avoiding infrastructure investments for electricity generation has a direct impact on the costs borne by consumers. By comparison, in the natural gas sector, deferral of natural gas infrastructure in Ontario through DSM relates only to pipes and related assets (including storage), since the supply of natural gas comes from outside of the province. Therefore, while all the financial risk with respect to transmission, distribution and some storage of natural gas are borne by Ontario ratepayers, this is not true with respect to the commodity, other than with relevant long-term transportation and supply contracts entered into by the distributor. This is an important factor for the

Board in considering the alignment of DSM and CDM efforts, especially with respect to the absolute costs that are appropriate for natural gas DSM efforts.

#### 4.1 Stakeholder Comments

The gas utilities requested that the Board provide an acceptable budget range that reflects the Conservation Directive and the objectives of DSM. Further, they noted that this guidance should include the level of DSM budget that will result in reasonable rate impacts, but allow the gas utilities enough flexibility to meet their annual targets and long-term goals.

Stakeholders and the gas utilities generally agreed that the Board should allow the gas utilities to develop and propose annual budgets which were informed by their DSM target analysis to ensure that all savings opportunities were effectively being addressed. Many stakeholders, including the environmental representatives, did not feel that budget guidance from the Board was necessary and that budgets should be driven by the overall gas savings available to each gas utility. Some stakeholders, however, appreciated the benefit of the Board providing guidance for acceptable budget amounts in order to allow for a more efficient process in developing and analyzing the gas utilities' new multi-year DSM plans.

Stakeholders were in general agreement that it was not appropriate for the Board to establish DSM budgets as a percentage of gas utility distribution revenues. Neither did stakeholders believe it was appropriate to compare DSM budget amounts to other jurisdictions or Ontario's electricity conservation budget amounts as each utility and jurisdiction have distinct and unique opportunities and variables that must be considered.

Several stakeholders provided suggested budget parameters, but focused these suggestions on the long-term, or 6-year, budgets as opposed to annual budget guidance. These stakeholders noted that by providing more general guidance on overall budgets for the 6-year framework, the gas utilities will have the flexibility to adjust annual budgets according to its proposed suite of programs and avoid any detrimental issues associated with ramping up activities, such as doing so too fast and potentially inefficiently or doing so too slow and possibly missing opportunities. One stakeholder suggested that the Board established the overall 6-year framework budget guideline at a similar aggregate level to the gas utilities' 2014 budgets, increased for 15%, which the Board has found to be a reasonable level of additional spending in the past.

Overall, many stakeholders were of the view that annual DSM spending was likely to increase in order to achieve a greater level of natural gas savings, although there were some stakeholders who cautioned that increased spending must be supported by evidence that clearly displayed the incremental benefits the additional expenditures will produce.

## 4.2 Board Conclusions

The Board's objectives with respect to natural gas include the requirement to protect the interests of consumers with respect to prices, reliability and quality of gas service. The Board also has an objective to promote energy conservation and energy efficiency, but doing so having regard to the consumer's economic circumstances. In approving any budget amount, it is necessary for the Board to consider the rate impacts, or overall cost impacts, to customers, as all DSM costs are recovered through distribution rates. As noted earlier, since all customers share the total cost of DSM activities undertaken by the gas utilities, the Board must be mindful of the cost impacts to the non-participating customers. Many customers in all rate classes will likely not participate in a DSM program over the course of the new DSM framework. This is due to a number of reasons, including the inherent limits of DSM programs, primarily driven by the lack of opportunities a customer has to upgrade space or water heating systems. Although non-participating customers will enjoy some of the non-energy benefits that result from the program, including environmental benefits, the Board is centrally concerned with two factors that must be balanced: ensuring the gas utilities have sufficient funding available to pursue all cost-effective natural gas savings in their franchise areas and that the costs to undertake such efforts are reasonable for those customers who will not participate in a program.

Therefore, the Board has determined that for DSM activities between 2015 and 2020, the gas utilities' annual DSM budgets should be guided by the simple principle that DSM costs (inclusive of both DSM budget amounts and shareholder incentive amounts<sup>15</sup>) for a typical residential customer of each gas utility should be no greater than approximately \$2.00/month. The current bill impact for a typical residential customer is just under \$1.00/month. The budget guidance for the new multi-year DSM plans is in the order of double the cost impacts to residential customers from the 2012 to 2014 DSM period. Based on a \$2.00/month cost impact to a typical residential customer and considering the general historic program mix and the relative size of each utility, the Board has estimated total annual DSM amounts of \$85M for Enbridge and \$70M for

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<sup>15</sup> Shareholder Incentives are further discussed in Section 5 below.

Union (these amounts are inclusive of the maximum annual shareholder incentive<sup>16</sup>). The Board is therefore establishing this as the maximum budget guideline for the new framework. NRG is encouraged to prepare and file a DSM plan with Board. Given that this is a new activity for NRG, the Board concludes that it should start initially with a DSM budget lower than a budget based on NRG's relative size to EGD and Union, and a bill impact for residential customers more in line with EGD and Union's from the previous framework.<sup>17</sup> This can be reviewed at the time of the mid-term review.

To reach the annual budget levels of \$75M for EGD and \$60M for Union (exclusive of maximum annual shareholder incentive), utilities will need to propose cost-effective DSM plans with results in gas savings, benefits to customers, program participation and implementation of key priorities (outlined in Section 6.2 below) commensurate with the proposed spending. The Board expects that the multi-year DSM plan applications will propose a plan to phase in increases to the annual budget amounts. While the program mix going forward has not been prescribed, the Board is of the view that a bill impact of \$2.00/month for a typical residential customer, combined with the total budget amounts discussed above, provides a reasonable guideline for the gas utilities to prepare their DSM plans. The Board notes that this is a guideline, and the utilities can propose alternative budgets for approval by the Board, appropriately supported by evidence.

The budget amounts outlined above assume a general program mix where 40% of ratepayer funding for DSM activities is dedicated to the residential class. The gas utilities should ensure that overall cost increases to all other rate classes are generally proportional with the guidance outlined relative to residential customers, and that any proposed increases are reasonable and supported by significant benefits, including both natural gas savings and prospective bill reductions for customers. The gas utilities should include a forecast of the number of participants (customers, not measures installed) for each proposed program in each year. For each program proposed by the gas utilities, they should also include anticipated overall cost impacts (budget and shareholder incentive) for a typical customer in each rate class, and projected monthly and annual bill reductions for a typical participant and the overall costs borne by a typical non-participating customer.

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<sup>16</sup> This is made up of maximum annual budgets of \$74.5M for EGD and \$59.5M for Union with maximum annual incentives equal to \$10.45M for EGD and Union.

<sup>17</sup> The Board does not have historic DSM information for NRG. A budget based on NRG's relative size to both EGD and Union would be \$0.35M, and therefore the budget for NRG would be expected to be lower than this. NRG will be expected to fully support any application for rate funding to support DSM activities similar to that which is expected of both EGD and Union.

The final annual DSM budgets will be dependent on potential cost-effective natural gas savings, program mix, market opportunities and the cost to acquire additional savings acknowledging that some efforts are more costly for a variety of reasons (e.g., maturity level of program, cost of energy efficiency technologies with long-lives, low-income programs, etc.). DSM budgets will be driven by the gas utilities' ability to increase activity and address the key priorities discussed below, including delivering tailored service to those customers who have already increased their efficiency levels but can continue to realize savings, increasing operational efficiency improvements, and incorporating behavioural changes into program offerings.

The Board expects the gas utilities to develop innovative DSM programs over the course of the new DSM framework. DSM budgets should be used to continue to transition programs from those which offer and focus on short-term benefits to primarily pursuing long-term natural gas savings. The gas utilities should leverage their internal expertise to provide value-added support and technical guidance to customers. The Board is of the view that the areas noted above have the ability to provide long-term benefits and tangible bill reductions for participating customers. The Board expects the gas utilities' DSM budgets to enable the delivery of results in the key priorities outlined in Section 6.

As noted above, rate and cost impacts for all customers across all classes must be reasonable and a central point of consideration by the gas utilities as they develop their multi-year DSM plans. The Board expects that the gas utilities will provide clear evidence that shows how the proposed DSM expenditures will achieve significant natural gas savings and help customers realize tangible bill reductions.

The Board will approve final annual DSM budgets as part of the hearing on the multi-year DSM plan applications filed by the gas utilities. It is expected that, similar to targets, budgets will not be open to a formal settlement amongst the parties so that the Board has the opportunity to consider all aspects regarding budgets through the hearing. Ultimately, the Board will be responsible for determining the manner and method of approving all elements of the gas utilities' multi-year DSM plan applications through the hearing process.

## **5.0 SHAREHOLDER INCENTIVE**

Natural gas utilities are not licensed by the Board. They operate under franchise agreements with the municipalities they serve. Therefore, there is no licence condition mandating that the gas utilities undertake DSM activities. These activities therefore remain a voluntary business function. This differs in comparison to the electricity sector.

The electricity distribution companies throughout Ontario have been required, through licence conditions, to achieve certain targets through energy conservation programs to their customers. Between 2015 and 2020, the licence condition will require that electricity distributors make CDM programs available to their customers. Enbridge and Union are subject to undertakings that restrict their business activities to the transmission, distribution, and storage of natural gas. However, directives to the Board in 2006 dispensed with the undertakings in relation to certain matters, including the provision of services related to the promotion of natural gas conservation.

To effectively motivate the gas utilities to both actively and efficiently pursue DSM savings and to recognize exemplary performance, the Board considers it appropriate to continue making a shareholder incentive available. The current shareholder incentive amount has evolved from rewarding the gas utilities with a portion of the overall economic benefits produced by DSM programs during the 2006 Generic DSM proceeding term (2007-2011). As part of the 2012 DSM Guidelines period (2012-2014), the Board transitioned the incentive structure from strictly providing the gas utilities with a portion of the overall economic benefits produced by its DSM programs (or a TRC-based incentive mechanism), to a scorecard approach that allowed the gas utilities to be rewarded for undertaking other important activities, such as an increase in the delivery of long-life energy efficiency measures. The total amount available to the gas utilities has steadily increased along with overall budgets and natural gas savings levels. As part of the 2012-2014 DSM plan filings, budget increases allowed for larger low-income program offerings for both gas utilities, increasing the maximum performance incentive to \$10.45 million for achieving 150% of the DSM targets. The incentive for meeting 100% of the target was \$4.2 million.

The Draft Report asked stakeholders to comment on three shareholder incentive structures. One option established the maximum shareholder incentive available to the gas utilities as a percentage of the DSM budget with the total maximum incentive being equal to 15% of the DSM budget. The second option proposed that the gas utilities be incented through a pay-for-performance funding and incentive mechanism where both budget recovery and shareholder incentive payments would be included in one single rate (\$/m<sup>3</sup>) and paid to the gas utility based on final net natural gas savings. Finally, separate from the two central performance incentive structures (i.e., percentage of budget and pay-for-performance), the Board sought comment on the appropriateness of a cost efficiency incentive, in addition to the traditional shareholder incentive, to reward a gas utility for achieving its scorecard targets using less ratepayer funding than it had budgeted.

## 5.1 Stakeholder Comments

Most stakeholders did not feel that any major changes were required to the shareholder incentive amount or structure. Stakeholders generally agreed that the incentive structure and amount included in the 2012 DSM Guidelines has made DSM a vital and important part of the gas utilities' business and resulted in very strong annual and long-term results. The stakeholders who were of the view that the current incentive amounts were appropriate cautioned the Board on lowering the total amount concerned it may lead to DSM becoming a lower priority with the gas utilities. It was also noted that the current shareholder incentive amounts have not resulted in undue rate impacts on customers.

This view was not shared by all stakeholders. Some stakeholders stated that the absolute amount was very attractive and that the Board should consider whether or not it is necessary to continue to provide an annual bonus of greater than \$10M to motivate the gas utilities to deliver natural gas conservation programs to their customers.

Most stakeholders strongly opposed the Board linking the shareholder incentive to the approved DSM budget, noting that this will motivate the gas utilities to increase projected spending in order to also increase their maximum incentive amount, even though increased spending may not be warranted.

All stakeholders agreed that the shareholder incentive should be allocated to various metrics in the performance scorecard relative to a program's benefits, the degree of effort for the particular metric, ingenuity and creativity, with the largest portion of the incentive being allocated to the most difficult to achieve goals and objectives which will provide the greatest overall benefits.

Several parties offered suggestions for new incentive structures, inclusive of dollar amounts. Suggestions ranged from absolute dollar amounts available annually and allocated across the scorecard, similar to what is currently provided to the gas utilities, to scenarios where the incentive is linked to budget up until a certain point, after which an absolute dollar amount provides the total incentive available, based on actual results.

Most stakeholders were of the view that although a pay-for-performance structure might provide benefits, including efficient program delivery and the pursuit of significant natural gas savings totals, further research and analysis would need to be conducted to ensure this funding/incentive structure is appropriate for the gas utilities and will result in the intended benefits and achievement of the appropriate results.

Stakeholders generally agreed that a cost efficiency incentive was appropriate and that it be introduced as part of the DSM framework.

## 5.2 Board Conclusions

The Board will make an annual shareholder incentive available to each Enbridge and Union that is equal to a total annual maximum of \$10.45 million<sup>18</sup>. This amount represents the approximate shareholder incentive amount that was available to the companies at the start of the current the current DSM framework<sup>19</sup>. The shareholder incentive amount will not be a function of the gas utilities' DSM budget. The incentive amount available will not increase or decrease relative to approved DSM budgets, and is not to be increased annually for inflation. Additionally, although DSM budgets may differ between Enbridge and Union depending on program mix and program expenditures relative to the DSM cost guideline discussed above, the annual maximum shareholder incentive will be the same for both utilities. The Board is of the view that the same shareholder incentive amount is appropriate for both gas utilities because the Board expects both utilities to propose significant natural gas savings targets of similar proportion and extend DSM program offerings to as many customers as possible. The Board feels it is reasonable to expect that both gas utilities can achieve similar natural gas savings. Union has been able to achieve significantly greater natural gas savings than Enbridge with very similar budget levels<sup>20</sup>. The Board also expects that the level of difficulty to reach the annual DSM targets will require a similar level of effort. The geographic makeup of each gas utility service territory and potential gas savings opportunities will ensure that each undertakes a significant amount of activity during the new DSM term.

In order to earn the maximum annual shareholder incentive, the gas utilities will be expected to propose both challenging natural gas savings targets and address the key priorities outlined in Section 6.2. The incentive payment is ultimately commensurate with results. In order to earn the maximum annual incentive, the gas utilities will need to meet 150% of their targets.

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<sup>18</sup> If NRG files a DSM plan with the Board, the Board will provide details on available shareholder incentive amounts at that time. The shareholder incentive for NRG will be commensurate with its targeted level of achievement and proportional to its size relative to EGD and Union.

<sup>19</sup> The gas utilities 2012 shareholder incentive amount was equal to \$10.45M. This amount has subsequently been increased due to inflation in 2013 and 2014.

<sup>20</sup> Even after removing the natural gas savings attributable to Union's large volume DSM program, Union has still achieved more natural gas savings than Enbridge as shown in the gas utilities' annual DSM reports.

As discussed in the Section 3 – Targets, the gas utilities are expected to allocate the total shareholder incentive amount across their performance scorecard. The gas utilities should submit a weighted performance scorecard considering the following:

- a) Allocate the large majority of the maximum shareholder incentive amount to programs that will achieve significant lifetime natural gas savings;
- b) Allocate the total maximum shareholder incentive amount to various programs based on the budgeted amounts for each program; and,
- c) Allocate an appropriate portion of the maximum shareholder incentive amount (e.g., 10%) to the performance metrics that will encourage and achieve the Board’s key priorities outlined in Section 6.1 of the framework<sup>21</sup>,

The gas utilities will be expected to propose a balanced scorecard allocation of the maximum performance incentive amount as part of their multi-year DSM plan applications for the Board and interested parties to review. Ultimately, the Board will approve the final scorecard weighting.

As discussed in Section 3 – Targets, three levels of achievement should be provided on the scorecard(s) for each metric: one at each 75%, 100% (target), and 150%. To encourage performance beyond the 100% target level, a pivot point should be introduced at the 100% level. More specifically, 40% of the maximum shareholder incentive available (or \$4.2 million) should be provided for performance achieving a scorecard weighted score of 100%, with the remaining 60% (or \$6.3 million) available for performance at 150% and for achievement of targets for priority programs.

The incentive amount should be capped at the scorecard weighted score of 150%. The maximum incentive amount allocated to each type of DSM program should equal the sum of the maximum incentive amounts available for achieving weighted scores of 150% or above on all the scorecards. Incentive amounts paid to the gas utilities should generally be allocated to rate classes in proportion to the amount actually spent on each rate class. However, the gas utilities are able to propose other allocation proposals to be considered by the Board that more appropriately address the particular program or metric included in the performance scorecard. These incentive amounts should be tracked in a deferral account as further described in Section 11.

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<sup>21</sup> The Board understands that some of these priorities may not directly results in significant natural gas savings; however, the Board is of the view that these programs help advance other program offerings and encourage a culture of conservation.

## **Cost-Efficiency Incentive**

The Board will also make a cost-efficiency incentive available to the gas utilities. In the event that a gas utility is able to meet its overall annual natural gas savings target, the gas utility may choose to roll-forward and use any remaining approved DSM budget amounts in the following year with no subsequent impact on the approved targets for the following year. The funds carried forward would be in addition to the approved budget level for the following year and enable the gas utility to work towards achieving the following year's annual target with the benefit of incremental funds. This is a significant benefit, as the gas utilities are afforded greater flexibility and resources to achieve established target levels if they can efficiently produce results.

The key with a cost-efficiency incentive is to ensure it works in tandem with the performance incentive, as opposed to conflicting with the performance incentive. The main goal of administering and delivering energy efficiency programs is to achieve energy efficiency gains and energy savings in the market place. It is also important to achieve this goal by using the least amount of ratepayer dollars. The Board is of the view that the shareholder incentive should be structured so that the gas utilities' main incentive is related to achieving its annual targets. In the event the gas utility does not achieve its annual target, it is unable to carry forward any unspent DSM budget amounts into the following year. The Board will consider what, if anything should be done with "unused" funds at the end of 2020.

## **Pay-for-Performance**

The Board expects that the gas utilities will begin to investigate how a pay-for-performance mechanism, which combines both the cost recovery and shareholder incentive amounts into one standard rate for all cubic meters of natural gas saved ( $\$/m^3$ ), can be introduced into the multi-year DSM plans. The Board is of the view that this type of funding and incentive structure can provide both increased incentives to the gas utilities as well as a greater amount of verified natural gas savings and bill reductions for customers. The gas utilities should include a proposal in their multi-year DSM plans for how they plan to analyze pay-for-performance designed programs and the general structure of the mechanism for the Board to consider. This is an area which will benefit from a better understand of the opportunities and challenges that are present. The Board expects to consider this option further at the mid-term review.

The Board expects that the shareholder incentive structure outlined above will continue to be a motivating factor in the gas utilities' pursuit of significant natural gas savings, energy conservation awareness throughout Ontario, and bill reductions for customers

over the course of the new DSM framework period. The Board will review all shareholder incentive components at the mid-term review to ensure they are producing the anticipated and expected results and have helped to appropriately align the efforts of the gas utilities with the guiding principles and key priorities outlined in the framework.

## 6.0 PROGRAM TYPES

The Board expects that DSM programs will enable a reduction in both consumption levels and overall demand for natural gas. Additionally, DSM programs should help make customers more aware of their energy usage trends and behaviours and offer advice and opportunities about how to be more efficient.

### 6.1 Stakeholder Comments

The Board sought comments from stakeholders on the appropriateness of the framework's key priorities and the programs discussed in the Draft DSM Guidelines.

It was noted by a number of parties that the Board's guidance with respect to low-income program offerings should be updated to reflect the most recent low-income working group eligibility criteria and program elements, including offering the program to the private rental market. The Board has updated the DSM Guidelines to ensure that the gas utilities develop consistent program details that will be used by both the gas utilities and the electricity distributors.

The Board specifically requested stakeholders to comment on whether the low-income budget remained appropriate. All stakeholders agreed that the DSM budget for low-income programs should not be reduced from its current levels. Most parties supported the continued expansion of low-income offerings to allow a greater number of participants in the program.

The Board also requested that parties comment on the appropriateness of the gas utilities continuing to offer programs to their large volume customers. Both Enbridge and Union noted that these customers continue to participate in their large volume program offerings and that they value the service provided by the gas utility. They recommended that the Board continue to allow the gas utilities to propose programs for large volume customers and that they be approved on their merits. Most other stakeholders generally agreed that programs for large volume customers should not be mandatory, but that the gas utilities be allowed to propose programs for these customers that are approved on their merits.

Two stakeholders, both representatives of large volume customers, who did not feel that programs for large volume customers should be mandatory, recommended that the Board consider providing an opportunity for large volume customers to “opt-out” from, or not be required to help fund, a gas utility DSM program for large volume customers. They noted that the principle that ratepayer funded DSM should not be mandatory for large volume customers protects large volume customers as a class, but does not address a customer-specific issue where it was argued that many of these customers are self-motivated and have made significant energy efficiency investments on their own. These stakeholders noted that large volume customers do not need or desire a mandatory ratepayer funded DSM program and that in the event a customer believes that utility or third party expertise is helpful, that be provided outside of a rate funded DSM program.

## 6.2 Board Conclusions

As discussed in Section 4.2 – Budgets, the Board expects the gas utilities’ multi-year DSM plans will enable the delivery of results in the areas which have been identified as key priorities in the LTEP, Conservation Directive and by the Board.

Key priorities identified in the LTEP and Conservation Directive:

- a) Implement DSM programs that can help reduce and/or defer future infrastructure investments;
- b) development of new and innovative programs, including flexibility to allow for on-bill financing options;
- c) increase collaboration and integration of natural gas DSM programs and electricity CDM programs; and
- d) expand the delivery of low-income offerings across the province.

The Board identified priorities:

- e) implement DSM programs that are evidence-based and rely on detailed customer data; and,
- f) ensure that programs take a holistic-approach and identify and target all energy saving opportunities throughout a customer’s home or business.

It is important that the gas utilities' multi-year DSM plans focus on activities that will achieve a greater amount of long-term natural gas savings, better help participating customers manage their overall usage and ultimately their bills, and consider the guiding principles from Section xx and key priorities outlined above. The Board has provided a specific discussion of program types in the DSM Guidelines in Section 6.0. The gas utilities are expected to collaborate and integrate natural gas DSM program offerings across all sectors with Province-Wide Distributor and/or Local Distributor CDM programs throughout the course of the DSM framework period. As part of the multi-year DSM plans filed by the gas utilities, the Board expects that the gas utilities will include a discussion of the areas where programs have been coordinated and/or integrated with Province-Wide Distributor and/or Local Distributor, program aspects that have the potential to be integrated in the future and any barriers that have restricted the program from being coordinated and integrated with an electricity CDM program.

Additionally, the gas utilities DSM portfolios should include programs that are specifically designed to address customer groups with significant barriers to entry (e.g., small business customers). DSM portfolios should also include programs targeted to customers who are already very invested in energy efficiency and where more complex or customer-specific options are necessary.

The Board is of the view that rate funded DSM programs for large volume customers should not be mandated as these customers are sophisticated and typically competitively motivated to ensure their systems are efficient. The small number of customers in these classes further heightens the issues of one customer subsidizing business improvements of another. If a gas utility, in consultation with its large volume customers, determines that there is substantial interest in the gas utility providing expertise and a value-added service to help improve the energy efficiency levels of these customers' facilities, the gas utilities are able to propose a fee-for-service program which the Board will approve on its merits. The primary focus of any program proposed for large volume customers should be offering technical expertise, including conducting facility audits, advice for operational improvements, or engineering studies as opposed to capital incentives. Specifically, the gas utilities can propose a fee-for-service DSM programs to the customers in those classes identified as large volume rate classes in the table below. As can be seen in the table below, there is a very limited number of customers in these rate classes.

**Table 1 – Large Volume Rate Classes**

Enbridge Gas Distribution Inc.				
Rate Class	No. of Customers	2013 Annual Volumes (m <sup>3</sup> ) <sup>22</sup>	Percent of Total Annual Volumes <sup>21</sup>	Description of Rate Class
<b>Rate 125</b>	5	n/a	n/a	For applicants who use the EGD network to transport a specified maximum daily volume of natural gas that is not less than 600,000 m <sup>3</sup> .

Union Gas Limited				
Rate Class	No. of Customers <sup>23</sup>	2013 Annual Volumes (m <sup>3</sup> ) <sup>24</sup>	Percent of Total Annual Volumes	Description of Rate Class
<b>Rate T1</b>	38	452,838,193	3%	Rate T1 is a contract rate for customers in Union's southern operations area who actively manage their own storage services, have an aggregated Firm Daily Contracted Demand up to 140,870 m <sup>3</sup> and who consume a minimum of 2.5 million m <sup>3</sup> of natural gas each year. Customers in this rate class include manufacturing plants, chemical plants, large food processors/greenhouses and small specialty steel plants.
<b>Rate T2</b>	22	4,241,475,463	30%	Rate T2 is a contract rate for customers in Union's southern operations area who actively manage their own storage services and require a minimum aggregated Firm Daily Contract Demand of at least 140,870 m <sup>3</sup> . Customers in this class include large power (cogeneration), large steel, large petrochemical plants and a large feedstock plant.
<b>Rate 100</b>	14	1,926,579,498	14%	For large commercial and industrial customers who have signed a Northern Distribution contract for firm natural gas delivery with Union Gas. These customers are typically large manufacturers requiring a very large volume of natural gas for industrial processes – such as steel, pulp and paper and mining. These customers, located in our northern and eastern operation areas, require a minimum consumption of 100,000 m <sup>3</sup> of natural gas or more each day. These customers must maintain a 70% load factor over the course of a year.

The fee-for-service program would be different than the current large volume program approved by the Board. Rate funding recoverable from all customers in the large

<sup>22</sup> Rate 125 is made up of power generators who are billed on contract demand as opposed to actual throughput.

<sup>23</sup> As per EB-2014-0145, Exhibit A, Tab 2, Appendix A, Schedule 10

<sup>24</sup> As per EB-2014-0145, Exhibit A, Tab 2, Appendix A, Schedule 6

volume rate classes for a fee-for-service program can only be used for portfolio level administration costs, restricted to utility staff, marketing and evaluation activities. Any additional funding to support customer-specific deliverables, including facility audits, engineering reports or technology upgrades would need to be provided directly from the participating customer. The gas utilities may charge interested customers an appropriate fee to recover the cost of the energy efficiency consulting service it can provide. The Board expects that the gas utilities, with many years delivering DSM programs and an established expertise, as well as experienced DSM staff, can operate at a highly efficient level to source and acquire the opportunities available. In order to motivate the gas utilities to seek out these possibilities, the Board will enable the gas utilities to claim the verified gas savings that result from the fee-for-service large volume program. Achievement of the targets in these areas may result in a performance incentive. The performance incentive earned in relation to the fee-for-service large volume program will be recovered in the same manner as the gas utilities have traditionally recovered amounts. The Board feels that this approach strikes an appropriate balance by substantially reducing the cross-subsidization issues of large volume customers given the relatively small number of customers in the rate classes while maintaining the potential for considerable natural gas savings from large volume customers.

## **7.0 PROGRAM EVALUATION**

Evaluation, Measurement and Verification (“EM&V”) is the process of undertaking studies and activities aimed at assessing the impacts (e.g., natural gas savings) and effectiveness of an energy efficiency program on its participants and/or the market. Monitoring and EM&V also provides the opportunity to identify ways in which a program can be changed or refined to improve its performance. It is important to ensure proper EM&V studies are being undertaken to enable the pursuit of cost-effective DSM programs. Moreover, EM&V of DSM activities is important to support the Board’s review and approval of prudent DSM spending, and requests to recover lost revenues and shareholder incentive amounts claimed by the gas utilities.

Traditionally, the evaluation process related to DSM programs has been a function that the gas utilities have managed, with input from key stakeholders included throughout the process. The Board sought stakeholder comment related to the Board taking on a larger role in the program evaluation process.

## 7.1 Stakeholder Comments

Both Enbridge and Union supported the Board's recommended position and noted that they would work collaboratively with the Board to ensure that final results from the evaluation process were reliable.

Most stakeholders did not support the Board's recommended approach to taking on a larger role in the program evaluation process. Some stakeholders questioned the appropriateness of the Board being involved in the process prior to the completion of evaluations and final results being filed. Other stakeholders did not feel it necessary for the Board to be involved in the process, noting that the process is one which has evolved over the course of a number of years and has developed into a robust, cooperative and technical process that has produced good, reliable results on a consistent basis.

## 7.2 Board Conclusions

The Board is of the view that it is in the best position to coordinate the evaluation process throughout the DSM framework period (i.e., 2015 to 2020). A process coordinated by the Board, in collaboration with the gas utilities, and supported by stakeholders with technical expertise, will be one that results in a thorough evaluation of DSM programs in an efficient manner.

By taking on a larger role in the EM&V process, the Board will consult and seek expert opinion from both the gas utilities and stakeholders as appropriate. In addition, the Board expects to provide input on evaluation methodologies and help ensure that the operational characteristics of the programs will generate the data required to undertake robust and accurate evaluations. The Board will contribute in the annual evaluation process to confirm that the program impacts have been appropriately identified and to verify that programs have resulted in the intended benefits and to inform future program design and delivery.

In addition to the annual evaluations of program results, which will be published every year, the Board will conduct multi-year impact assessments of selective gas utility DSM programs on a periodic basis (e.g., every three years). The impact assessments will analyze program data which span multiple program years and investigate the success and actual effects of the programs in the marketplace, looking at areas such as whether energy efficiency measures were actually installed, stayed installed and if they have had the intended effect of reducing overall consumption levels. These periodic assessments will not have retroactive impacts and will not be related to the annual evaluation and

audit process, rather, they may be used to help inform and assist the gas utilities' future program design and delivery.

The results from the DSM program evaluations are expected to feed back to the screening and evaluation process of DSM programs by taking into account the free ridership rates, spillover effects, attribution of benefits and persistence of savings. The technical details of these adjustment factors are discussed in greater detail in the DSM Guidelines in Section 7.0.

## **8.0 INPUT ASSUMPTIONS**

In order to effectively estimate the amount of energy savings achieved through the delivery and implementation of DSM programs, the gas utilities rely on a set of approved engineering assumptions that represent the best available information regarding various characteristics of an energy efficient technology (e.g., life cycle, energy usage level, gas savings, etc.). Energy efficiency assumptions are included in the calculations conducted by gas utilities to determine which programs produce more benefits (amount of dollars avoided that would have been needed to purchase natural gas had the DSM program not be active) than costs (the cost of the DSM program). When benefits are greater than costs, a program is deemed to be cost-effective.

In the Draft Report, the Board sought comments from stakeholders on increasing its role with respect to developing and updating natural gas DSM input assumptions. The Board proposed to coordinate the process of annually updating the common list of input assumptions.

### **8.1 Stakeholder Comments**

The gas utilities were supportive of the Board participating and leading the coordination of the annual process to update the common list of input assumptions. The gas utilities offered to provide support where the Board determined it necessary and appropriate. Most stakeholders were generally less supportive of the Board taking a more active role in annually updating the list of input assumptions. These stakeholders noted that the current process is effective. The process that resulted from the 2012-2014 multi-year DSM plans requires periodic meetings of a small team made up of gas utility representatives, key stakeholders and third party experts to discuss, propose, test and reach consensus on required and appropriate updates to the input assumptions list. The final updates are annually presented to the Board through an application by the gas utilities.

## 8.2 Board Conclusions

The Board will increase its role and coordinate the process of annually updating the list of natural gas input assumptions. The Board will ensure that an appropriate process is developed that includes the gas utilities, external experts and key stakeholder involvement, ensuring objective, evidence-based updates are applied to the list of input assumptions. The list of input assumptions provides confidence in both the cost effectiveness screening and final evaluation results where assumptions are required. The Board will evaluate where it is appropriate to align the natural gas DSM input assumption list with the electricity CDM input assumptions list to enable the greatest amount of collaboration and integration of both natural gas DSM and electricity CDM programs. The Board's role will align with its mandate to work in the public interest for such an important component of the DSM framework. Technical details of how the Board proposes to undertake annually updating the input assumptions list are included in the DSM Guidelines in Section 8.0.

## 9.0 COST-EFFECTIVENESS SCREENING

In order to determine which DSM programs should continue as part of the gas utilities' DSM plans, the gas utilities assess their programs using a process to calculate and test the cost-effectiveness of delivering a program. As part of the Draft Report, the Board sought stakeholder comment on the appropriateness of using the Total Resource Cost ("TRC") test and Program Administrator Cost ("PAC") test to calculate cost-effectiveness and screen potential DSM programs.

The TRC test measures the energy related benefits and costs of DSM programs experienced by both the gas utility system and program participant for as long as those benefits and costs persist. The PAC test measures the gas utilities' avoided costs and the costs of DSM programs experienced by the gas utility system. The Board suggested that the TRC test be used as the primary cost-effectiveness test and that the gas utilities can use the PAC test as a secondary reference tool, assisting with prioritizing which programs deliver the most effective results.

### 9.1 Stakeholder Comments

Almost all stakeholders shared the same view that the gas utilities should use a more robust test than the TRC test. Many stakeholders noted that the traditional TRC test does not appropriately account for and quantify the additional DSM program benefits, such as non-energy benefits, including environmental benefits, societal benefits, utility benefits and other participant benefits (e.g., improving comfort, increased property

value, amongst others). Many stakeholders recommended the Board either include non-energy benefits as part of the TRC test calculation or adopt the Societal Cost (“SC”) test as the primary cost-effectiveness screening test. The SC test quantifies and values additional benefits outside of only the avoided natural gas supply costs which are considered in the TRC test. Stakeholders recommended that both the TRC and PAC tests be used as secondary reference tools to provide a better understanding of the cost-effectiveness of each potential DSM program.

Some stakeholders also suggested that the cost-effectiveness threshold for low-income program offerings be lowered from the current threshold of 0.7 to ensure that the gas utilities do not miss any opportunities to achieve natural gas savings and deliver valuable programs to low-income customers.

## 9.2 Board Conclusions

On October 23, 2014, the Minister of Energy amended his Conservation First directive to the OPA and made it mandatory that electricity distributor CDM programs are screened using the TRC test and “include a 15% adder to account for the non-energy benefits associated with the electricity CDM programs, such as environmental, economic and social benefits.” To effectively align natural gas DSM programs with electricity CDM programs and take into consideration government objectives outlined in the Conservation Directive to the OPA, the Board has concluded that the same approach should be used for screening DSM programs.

The Board will adopt an enhanced TRC test, or the “TRC-Plus” test, which the gas utilities should use to screen all potential DSM programs when developing their multi-year DSM plans. The gas utilities should directly apply a 15% non-energy benefit adder to the benefit side of the TRC test calculation. The gas utilities are able to apply for approval of low-income programs with cost-effectiveness results lower than the current 0.7 threshold using the TRC-Plus test. These programs will be approved on their merits.

The gas utilities should also incorporate the PAC test as a secondary cost-effectiveness reference tool to help better inform which programs should be proposed. The gas utilities should include all the available cost-effectiveness test results for each proposed program in their multi-year DSM plan applications. Technical details of DSM program screening, including the TRC-Plus and PAC test calculations are outlined in Section 9.0 of the DSM Guidelines.

## **10.0 AVOIDED SUPPLY COSTS**

Successful implementation of DSM programs should ultimately lead to the gas utilities avoiding costs related to not having to purchase, or provide, an extra unit of natural gas. Avoided costs will also result from reduced demand for other resources such as electricity, heating fuel oil, propane or water through DSM programs. Avoided supply costs should be a consideration when conducting cost effectiveness calculations of potential DSM programs. As outlined in Section 13 below, the gas utilities should discuss how they consider avoided supply costs when conducting their infrastructure planning for future capital projects. Details are provided within the DSM Guidelines in Section 10.0.

## **11.0 DEFERRAL AND VARIANCE ACCOUNTS: RECOVERY AND DISPOSITION OF DSM AMOUNTS**

The Conservation Directive requires the Board to have regard to ensuring that lost revenues are not a disincentive to the gas utilities for undertaking DSM activities. The Board will continue with a Lost Revenue Adjustment Mechanism Variance Account for this purpose. Details of this account and other DSM deferral and variance accounts are documented in Section 11.0 of the DSM Guidelines.

## **12.0 INTEGRATION & COORDINATION OF NATURAL GAS DSM AND ELECTRICITY CDM PROGRAMS**

The natural gas utilities should pursue coordinated and integrated programs with electricity distributors and/or the OPA to achieve efficiencies and convenient, integrated programs for customers. Combining efforts in key program areas should allow greater possibilities for an increase in total combined energy savings and reduced program delivery and administration costs.

Coordination usually takes place at the design stage of a program whereas integration is typically done at the delivery stage of the program. Coordination efforts should ensure, amongst other things, consistent program design including areas such as definition of goals, customer screening criteria, marketing, training, customer rebates and metrics. Integration should normally achieve consistency in delivery services of a program, which in most instances will result in a delivery agent providing both electricity and natural gas offerings to a customer at the same time.

The Board expects that coordinated and integrated energy conservation and energy efficiency programs are a primary consideration when the gas utilities are designing and developing all program offerings. The Board is of the view that this will ensure the efficient use of program costs, enhance the reach of all programs to a greater number of customers, ensure that customers receive the same information regarding energy conservation and energy efficiency upgrades, achieve efficiencies in customer participation and allow for greater possibilities to transform the market.

Some strategic program areas that may be beneficial for the gas utilities to pursue coordinated and integrated efforts with electricity CDM programs include the design and delivery of low-income and market transformation programs, mass market programs, and home/building retrofits that will result in long-term savings. These are examples of programs that can benefit from consistent messaging and program details. Another example where coordination is beneficial is with respect to the input assumptions list. Ensuring that both gas utilities and electricity distributors are using the same set of assumptions will allow program benefits to be calculated consistently and shared following collaborative program efforts.

As a result of the intended benefits discussed above, the Board expects that the gas utilities will provide specific evidence showing how the elements of each of their proposed programs can be integrated with electricity CDM programs and coordinated with electricity distributors and/or the OPA. For consistency purposes, the Board will liaise with the OPA to address integrating and coordinating electricity CDM programs with natural gas DSM programs and govern the gas utilities future DSM offerings accordingly.

### **13.0 FUTURE INFRASTRUCTURE PLANNING ACTIVITIES**

As part of all applications for leave to construct future infrastructure projects, the gas utilities must provide evidence of how DSM has been considered as an alternative at the preliminary stage of project development.

In order for the gas utilities to fully assess future distribution and transmission system needs, and to appropriately serve their customers in the most reliable and cost-effective manner, the Board is of the view that DSM should be considered when developing both regional and local infrastructure plans. This is consistent with the direction outlined in the LTEP and the Conservation Directive, which state that the Board shall take steps it considers appropriate towards implementing the government's policy of putting conservation first in electricity distributor and gas distributor infrastructure planning processes at the regional and local levels, where cost-effective and consistent with

maintaining appropriate levels of reliability. The Board expects the gas utilities to consider the role of DSM in reducing and/or deferring future infrastructure investments far enough in advance of the infrastructure replacement or upgrade so that DSM can reasonably be considered as a possible alternative. If a gas utility identifies DSM as a practical alternative to a future infrastructure investment project, it may apply to the Board for incremental funds to administer a specific DSM program in that area where a system constraint has been identified.

The Board is also of the view that the gas utilities should each conduct a study, completed as soon as possible and no later than in time to inform the mid-term review of the DSM framework. The studies should be based on a consistent methodology to determine the appropriate role that DSM may serve in future system planning efforts. As part of the multi-year DSM plan applications, the gas utilities should include a preliminary scope of the study it plans to conduct and propose a preliminary transition plan that outlines how the gas utility plans to begin to include DSM as part of its future infrastructure planning efforts.

## **14.0 STAKEHOLDER CONSULTATION**

Consistent with the Board's consumer-centric approach, the gas utilities are expected to engage their stakeholders and conduct meaningful consultations to gather input and feedback on prospective DSM programs and other relevant areas of their multi-year DSM plans. The Board will not mandate the nature of this consultation, but will expect details to be provided in any application for approval of multi-year DSM plans.

The Board has outlined various options earlier in this report where its involvement in various functions related to the DSM framework will be expanded. Although the Board's role will be increased, primarily with respect to oversight related to the evaluation process and annual updates to the input assumptions list, the Board continues to see the direct involvement of all key stakeholders, notably the gas utilities and intervenors with the required expertise, to be critical and necessary to ensure all elements of the gas utilities' multi-year DSM plans are considered during the program development, approval and evaluation stages.

## **15.0 IMPLEMENTATION AND TRANSITION**

Implementing a new multi-year DSM plan will require sufficient time for the gas utilities to consider the direction provided in this framework and fully develop their overall portfolio and specific programs. The Board wants to ensure that the multi-year DSM plan applications that are submitted by the gas utilities are robust and that the companies have been afforded a reasonable amount of time to develop an internal

strategy, consult with stakeholders and prepare a meaningful multi-year DSM plan for the Board to consider. The Board provides guidance below regarding the timelines related to the development and filing of the gas utilities' new multi-year DSM plans.

### 15.1 DSM Activities in 2015

The gas utilities should roll-forward their 2014 DSM plans, including all programs and parameters (i.e., budget, targets, incentive structure) into 2015. Both Enbridge and Union requested that their 2014 activities be rolled-forward into 2015 to help facilitate a smooth evolution into the new DSM framework.

The Board agrees this is appropriate and will allow the gas utilities to fully consider the new DSM framework and appropriately develop their DSM portfolio and suite of programs that will make up their new multi-year plans. The gas utilities should increase their budgets, targets and shareholder incentive amounts in the same manner as they have done throughout the current DSM framework (i.e., 2013 updates to 2014 should now apply as 2014 updates to 2015). The Board expects the gas utilities' new multi-year DSM plans will fully address the guiding principles and key priorities outlined in the framework.

Currently, DSM amounts have already been approved and are included in rates for both Enbridge and Union<sup>25</sup>. If necessary, the gas utilities may modify their current suite of programs and re-allocate funds between approved programs up to a maximum of 30% of the approved annual DSM budget for an individual DSM program. Additionally, the gas utilities may increase overall spending by up to 15%, consistent with the Board's guidance as part of the gas utilities' current, approved DSM plans, and use these additional funds to begin to incorporate and address the guiding principles and key priorities outlined in the DSM framework. If a gas utility incurs DSM spending greater than that which has been previously approved, it should track these expenditures in the DSM variance account for clearance in a future proceeding.

### 15.2 Multi-Year DSM Plan Applications

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<sup>25</sup> 2015 DSM amounts were approved by the Board as part of EGD's 2014-2018 Custom IR Rate Application (EB-2012-0459). EGD has subsequently updated its 2015 DSM budget amounts as part of its 2015 rate application (EB-2014-0276). 2015 DSM amounts were approved by the Board as part of Union's 2014-2018 rate application, EB-2013-0202. Union has subsequently updated its 2015 DSM budget amounts as part of its 2015 rate application (EB-2014-0271).

The Board expects that the gas utilities will file complete multi-year DSM plans that provide the proposed details of their DSM activities between 2015 and 2020 on or before April 1, 2015. The gas utilities should coordinate the filing of their multi-year DSM plans so they are submitted at or around the same time. The Board expects to hear the two applications in a combined proceeding due to the similar nature of the requests, the importance of regulatory efficiency and to respect resource constraints many parties are operating within, including the Board, intervenors, and the gas utilities.

Further details, including the information the gas utilities are required to include with any application are included in the DSM Guidelines at Section 14.1.

## APPENDIX A – Summary of Board Conclusions<sup>26</sup>

SECTION - #	BOARD CONCLUSIONS
TARGETS – 3.0	The gas utilities should develop and propose both annual performance targets (natural gas savings and other appropriate program-activity related metrics, included within annual weighted scorecards) as well as longer-term natural gas savings targets to be met by December 31, 2020.
BUDGETS – 4.0	The gas utilities’ annual DSM budgets should be guided by the principle that DSM costs (inclusive of both DSM budget amounts and shareholder incentive amounts) for a typical residential customer of each gas utility should be \$2.00/month. Based on a \$2.00/month cost impact to a typical residential customer and considering the general historic program mix and the relative size of each utility, the Board has estimated total annual DSM amounts may reach \$85M for Enbridge and \$70M for Union (these amounts are inclusive of the maximum annual shareholder incentive). The budget guidance for the new multi-year DSM plans is in the order of double the cost impacts to residential customers from the 2012 to 2014 DSM period.
SHAREHOLDER INCENTIVE – 5.0	<p>The Board will make an annual shareholder incentive available to both Enbridge and Union that is equal to a total annual maximum of \$10.45 million. The incentive amount available will not increase or decrease relative to approved DSM budgets, and is not to be increased annually for inflation. If NRG files a DSM plan with the Board, the Board will provide details on available shareholder incentive amounts at that time. The shareholder incentive for NRG will be commensurate with its targeted level of achievement and proportional to its size relative to EGD and Union.</p> <p>The Board will also make a cost-efficiency incentive available. In the event that a gas utility is able to meet all of its annual natural gas savings targets (i.e., 100% in all natural gas savings scorecard metrics), the gas utility may choose to roll-forward and use any remaining approved DSM budget amounts to be used in the following year with no subsequent impact on the approved targets for the following year. There will be no impact on future year targets if the cost-efficiency incentive is earned.</p>
PROGRAM TYPES – 6.0	<p>The gas utilities’ multi-year DSM plans should enable the delivery of results in the areas which have been identified as key priorities in the LTEP, Conservation Directive and by the Board (Section 4.2). It is important that the gas utilities’ multi-year DSM plans focus on activities that will achieve a greater amount of long-term natural gas savings, better help participating customers manage their overall usage and ultimately their bills, and consider the guiding principles (Section 2).</p> <p>The Board is of the view that rate funded DSM programs for large volume customers should not be mandated. If a gas utility, in consultation with its large volume customers, determines that there is substantial interest in the gas utility providing expertise and a value-added service to help improve the energy efficiency levels of these customers’ facilities, the gas utilities are able to propose a fee-for-service program which the Board will approve on its merits. The primary focus of any program proposed for large volume customers should be offering technical expertise, including conducting facility audits, advice for operational improvements, or engineering studies as opposed to capital incentives. Specifically, the gas utilities can propose a fee-for-service DSM programs to the customers in rate classes identified as large volume rate classes (EGD: Rate 125; Union: Rate T1, Rate T2, Rate 100). Under this type of program, ratepayer funding will only be used to provide recovery for administrative related costs (e.g., utility staff, overheads, evaluation, etc.) and any shareholder incentive amounts earned. Any additional energy efficiency consulting services, audit reports and capital investments must be</p>

<sup>26</sup> These conclusions are a high-level summary of those provided in detail throughout the body of the DSM framework above. To ensure proper context and guidance is provided, please refer to the detailed sections above.

SECTION - #	BOARD CONCLUSIONS
	<p>provided by the participating customers directly. The gas utilities may charge interested customers an appropriate fee to recover the cost of the energy efficiency consulting service it can provide. In order to motivate the gas utilities to seek out these possibilities, the Board will enable the gas utilities to claim the verified gas savings that result from the fee-for-service large volume program. Achievement of the targets in these areas may result in a performance incentive. The performance incentive earned in relation to the fee-for-service large volume program will be recovered in the same manner as the gas utilities have traditionally recovered amounts.</p>
<p>PROGRAM EVALUATION – 7.0</p>	<p>The Board will coordinate the evaluation process throughout the DSM framework period (i.e., 2015 to 2020). The Board, in collaboration with the gas utilities, and with the technical expertise and support of stakeholders, will ensure results are continued to be produced in a thorough and efficient manner. The Board expects to provide input on evaluation methodologies and help ensure that the operational characteristics considered will generate the data required to undertake robust and accurate evaluations.</p>
<p>INPUT ASSUMPTIONS – 8.0</p>	<p>The Board will increase its role and coordinate the process of annually updating the list of natural gas input assumptions. The Board will ensure that an appropriate process is developed that includes the gas utilities, external experts and key stakeholder involvement, ensuring objective, evidence-based updates are applied to the list of input assumptions. The Board will evaluate where it is appropriate to align the natural gas DSM input assumption list with the electricity CDM input assumptions list to enable the greatest amount of collaboration and integration of both natural gas DSM and electricity CDM programs.</p>
<p>COST EFFECTIVENESS SCREENING – 9.0</p>	<p>The Board will adopt an enhanced TRC test, or the “TRC-Plus” test, which the gas utilities should use to screen all potential DSM programs when developing their multi-year DSM plans. The gas utilities should directly apply a 15% non-energy benefit adder to the benefit side of the TRC test calculation. The gas utilities are able to apply for approval of low-income programs with cost-effectiveness results lower than the current 0.7 threshold. These programs will be approved on their merits. The gas utilities should also incorporate the PAC test as a secondary cost-effectiveness reference tool to help better inform which programs should be proposed. The gas utilities should include all the available cost-effectiveness test results for each proposed program in their multi-year DSM plan applications.</p>
<p>INTEGRATION &amp; CO-ORDINATION WITH CDM – 12.0</p>	<p>The natural gas utilities should pursue coordinated and integrated programs with electricity distributors and/or the OPA to achieve efficiencies and convenient, integrated programs for customers. The Board expects that coordinated and integrated energy conservation and energy efficiency programs are a primary consideration when the gas utilities are designing and developing all program offerings. The Board expects that the gas utilities will provide specific evidence showing how the elements of each of their proposed programs can be integrated with electricity CDM programs and coordinated with electricity distributors and/or the OPA.</p>
<p>FUTURE INFRASTRUCTURE PLANNING – 13.0</p>	<p>As part of all applications for leave to construct future infrastructure projects, the gas utilities must provide evidence of how DSM has been considered as an alternative at the preliminary stage of project development. The Board is of the view that DSM should be considered when developing both regional and local infrastructure plans. The Board expects the gas utilities to consider the role of DSM in reducing and/or deferring future infrastructure investments far enough in advance of the infrastructure replacement or upgrade so that DSM can reasonably be considered as a possible alternative. If a gas utility identifies DSM as a practical alternative to a future infrastructure investment project, it may apply to the Board for incremental funds to administer a specific DSM program. The Board is also of the view that the gas utilities should each conduct a study, completed as soon as possible and no later than in time to inform the mid-term review of the DSM framework. The studies should be based on a consistent methodology to determine the appropriate role that DSM may serve in future system planning efforts.</p>