

DSM FOR ONTARIO NATURAL GAS LDCs

PRINCIPLES AND PRACTICES

Introduction and Summary

**A Joint Utility Submission by:
Enbridge Gas Distribution &
Union Gas**



uniongas

A Duke Energy Company



INTRODUCTION AND SUMMARY

The following evidence defines and describes a “Made in Ontario” regulatory framework for delivering Demand Side Management (“DSM”) programs to the gas-consuming customers of the Province. In the opinion of the Utilities (Enbridge Gas Distribution Inc. (“EGDI”) and Union Gas Limited (“Union”) jointly referred to as the (“Utilities)), the proposed framework presents a principled, rational, consistent, efficient and transparent approach.

The proposed framework features the following essential elements:

- Multi-year budgets and plans presented “up-front” by the respective utilities for the Ontario Energy Board’s (“Board”) approval.
- A new Shared Savings Mechanism (“SSM”) which provides an accelerating financial incentive from the first unit of net savings.
- Elimination of often contentious targets or pivot points.
- No mandated or minimum spending levels.
- A more focused and logical market transformation role for the Utilities.
- A “DSM Handbook”, which will facilitate rules-based, streamlined regulation, where ‘rules of engagement’ are available in advance to facilitate decision making by the Utilities and avoid potential “paralysis by analysis” after the fact.
- Prescribed timelines for publication of annual results, independent audit of the results and presentation to the Board for its review and approval, all within 12 months of year-end.

The Utilities note that past DSM-related proceedings have sometimes been unduly long and inefficient. Hearings have included lengthy debates over the merits of an annual vs. multi-year DSM plan, subjective recommendations for

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budgetary spending and performance targets, and the methodology of reward mechanisms and levels. When such issues are ultimately settled in the form of rulings by the Board, the debates then switch to implementation issues, including historical vs. current measurement metrics, attribution and free-rider values, and audit results. As a result, DSM incentives are often volatile and awarded years after the fact.

The Utilities note that “it takes two to tango”, and the Utilities, as well as all other parties, bear their share of responsibility for the deficiencies of the current process. But in our view, these debates are also symptomatic of a DSM regime that currently lacks adequate guidelines, rules, and rigour. The process to date comes with a large opportunity cost, with too much attention devoted to the regulatory process at the expense of being able to devote more effort to designing and executing DSM initiatives.

In order to address these fundamental weaknesses, the Utilities have developed two items for the Board’s consideration. First, as mentioned above, a joint utility “DSM Handbook” is provided as Exhibit B, Tab 3, Schedule 1. It is formatted in a manner similar to that developed for use by the electric distribution companies. The Utilities put the DSM Handbook forward for the Board’s consideration and approval for use by natural gas utilities in the future. The Utilities believe it is critical to the future successful delivery of DSM for the Board to make its approval of the DSM Handbook binding on all parties. The Utilities have drafted the DSM Handbook to assist the Board in its effort to approve a regulatory framework which optimizes benefits to ratepayers and minimizes regulatory burden and the associated costs.

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Second, the Utilities have developed a set of Principles which provide the foundation for their proposal. In the Utilities' view, the Board's adoption of these principles is appropriate for any approach governing DSM activities carried out by an investor-owned regulated utility in the Province, as it is in the best interests of shareholders and customers alike.

The following is a summary of the primary Principles which are captured in the remainder of the Utilities' evidence.

1. It is logical and appropriate for utilities to develop and deliver DSM programs. These activities are justified because:
 - Conservation is important to many of our customers;
 - The Utilities already serve the vast majority of Ontario gas-consuming residents and businesses;
 - The Utilities are the most experienced DSM providers in the Ontario market, with a long and enviable track record; and
 - The Utilities possess a mature and well-developed delivery infrastructure designed to meet customers' needs.
2. The core activity of an investor-owned gas utility is to deliver gas through its pipes to its customers. Therefore, DSM incentives must be meaningful and adequately compensate the gas utility for diverting attention from, and eroding, its core business.
3. DSM mechanisms should not introduce incremental financial risk to the utility. Incentives should be:
 - Reasonably predictable and relatively stable; and
 - Approved in a timely fashion.

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4. DSM parameters should not be arbitrary.
5. DSM plans should be multi-year to facilitate planning, streamline regulation, and enhance the effectiveness of programs.
6. Budgets devoted to DSM must be consistent with customer and business needs. That is, DSM budgets are not developed in isolation, but rather as part of an overall revenue requirement presented to the Board for its approval.
7. DSM should be governed by an efficient and transparent regulatory framework and be:
 - rules based; and
 - independently audited.

If adopted by the Board, the Utilities believe that their recommended principles and framework will:

- meet the DSM needs of the Utilities' customers;
- provide an appropriate and sustainable financial incentive mechanism which will encourage the Utilities to optimize societal benefits achieved from any level of DSM spending;
- provide a sustainable business model that enables the Utilities to pursue DSM while managing their business and financial risks; and
- streamline and enhance continuity in the regulatory process governing DSM initiatives by:
 - locking in framework assumptions upfront;
 - instituting multi-year planning, approvals and execution of DSM Programs;

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- defining uniform Board-approved rules which will eliminate the lengthy and often counter-productive debates over assumptions and parameters that are often ambiguous, arbitrary or imprecise; and
- eliminating endless debates over theoretical budget levels and arbitrary performance targets.

The Utilities believe that the approach outlined above and detailed in the following evidence defines and describes a “Made in Ontario” regulatory framework that represents a principled, logical, consistent, efficient and transparent approach for DSM.