RP-2002-0133 1

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, 2
S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Enbridge Gas 3
Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates for the sale, distribution, transmission and storage of gas for its 2003 fiscal year.

BEFORE: 4

Bob Betts 5
Presiding Member

George A. Dominy 6
Member

7

PARTIAL DECISION WITH REASONS

August 19, 2003 8

TABLE OF CONTENTS

APPENDICES 11

1 INTRODUCTION 13

1.1 The Application and Proceeding 14

Enbridge Gas Distribution Inc.("EGDI", the "Company" or the "Applicant") filed an application dated September 2, 2002 (the "Application") with the Ontario Energy Board (the "Board") under section 36 of the Ontario Energy Board Act, 1998 (the "Act"), for an order or orders approving or fixing just and reasonable rates for the sale, distribution, transmission, and storage of gas for EGDI's 2003 fiscal year commencing October 1, 2002 ("2003 Test Year" or the "Test Year"). The Board assigned file number RP-2002-0133 to the Application. 15

This Partial Decision deals with the Demand Side Management ("DSM") issues raised in the Application. They include the following: 16

Issue 9.1 Enbridge Gas Distribution Inc.'s DSM Plan for the 2003 Test Year, including the O&M budget and the volume target. 17

Issue 9.2 Review of the Shared Savings Mechanism (SSM) incentive scheme. 18

Issue 9.3 Review of the proposed new framework for DSM for the 2003 Test Year and beyond, including the requested one-time budget amount of $790,000. 19

Issue 9.4 Review of the DSM Consultative Process. 20

Issue 9.5 Review of the DSM Audit Process. 21

Issue 9.6 Recovery of SSM and LRAM for 2000 and 2001 (subject of the December 2002 SSM ADR Settlement Conference) 22

All the remaining issues will be dealt with in a separate Decision to be released at a later date. 23

<u>Participants and their Representatives</u> 24

Below is a list of parties and their representatives that participated in the DSM issues. 25

26

Board Counsel and Staff	Pat Moran, Colin Schuch, Suzanne Tong
Enbridge Gas Distribution Inc.	Dennis O'Leary, Helen Newland, Marika Hare, Tom Ladanyi
Canadian Manufacturers & Exporters ("CME")	Bruce MacOdrum, Malcolm Rowan
Green Energy Coalition and the Canadian Institute for Environmental Law and Policy (collectively "GEC")	David Poch, Kai Millyard
The Ontario Association of School Business Officials (the "Schools")	Tom Brett
Consumers' Association of Canada ("CAC")	Robert Warren, Julie Girvan
Vulnerable Energy Consumers Coalition ("VECC")	Susan Lott, Judy Kwik
Pollution Probe Foundation ("Pollution Probe")	Murray Klippenstein, Jack Gibbons
Industrial Gas Users Association ("IGUA")	Vince De Rose, Peter Thompson
Ontario Public School Boards' Association ("School Boards")	Jay Shepherd, John Bell, Danielle Young
Energy Probe Research Foundation ("Energy Probe")	Mark Mattson, Craig Parry, Tom Adams, David MacIntosh

Witnesses 27

The following Company employees appeared as witnesses at the oral hearing: 28

29

Susan Clinesmith	Manager, Business Market Programs
Cathy Hanlon	Manager, Residential, Commercial and New Construction Market Programs
Norman Ryckman	Manager, Utility Planning and Evaluation
Patricia Squires	Manager, DSM and Program Evaluation

In addition, the Company called the following witnesses: 30

Ann Wilson	President, Cum Pane Consulting	31
Judy Simon	Vice-President, IndEco Strategic Consulting Inc.	
Todd Williams	Navigant Consulting Ltd. (Toronto)	
David Heeney	President, IndEco Strategic Consulting Inc.	

CME called the following witness: 32

Malcolm Rowan	Rowan & Associates Inc.	33

Energy Probe called the following witness: 34

Norman Rubin	Senior Policy Analyst, Energy Probe	35

IGUA called the following witness: 36

Peter Fournier	President, IGUA	37

GEC called the following witness: 38

Chris Neme	Director of Planning & Evaluation, Vermont Energy Investment Corporation	39

The Company filed written argument on May 6, 2003, intervenors filed written arguments on May 9, 2003 and the Company filed its reply argument on May 16, 2003. 40

1.2 Submissions and Exhibits 41

42

Copies of the evidence, exhibits, arguments, and transcripts of the proceeding are available for review at the Board's offices.

While the Board has considered the full record in the proceeding, the Board has summarized it only to the extent necessary to provide context for its findings. 43

For the convenience of readers the Board has included in appendix C a glossary of terms used in discussing DSM programs. 44

2 DEMAND SIDE MANAGEMENT 45

2.1 Background 46

The Board determined the original regulatory framework for utility sponsored DSM programs through guidelines established in its EBO 169-III Report of the Board dated July 23, 1993. In response to the directives of the Board in the EBO 169-III Report, the Company filed DSM Plans annually since its 1995 Test Year rate case, EBRO 487. The Company's DSM Plans followed a set of DSM objectives and principles that were established in the EBRO 487 proceeding. Although the objectives and principles have evolved somewhat to reflect changing market and industry conditions, they remain essentially unchanged from those expressed in the 1995 DSM Plan. 47

Since EBRO 487, the Board had the opportunity to review the Company's DSM program annually through the rate proceeding. However, subsequent to its 1999 Test Year rate case, EBRO 497, the Company has been able to reach a complete settlement with stakeholders in respect of DSM issues each year until the current proceeding. As a result, the current proceeding is the first occasion the Board has considered EGDI's DSM program in an oral proceeding since EBRO 497. 48

The Company's DSM framework includes a DSM program plan that incorporates volume targets and an O&M budget, three financial mechanisms - Lost Revenue Adjustment Mechanism ("LRAM"), Shared Savings Mechanism ("SSM"), and DSM Variance Account ("DSMVA") and processes for obtaining stakeholder input - DSM consultative and an Audit Sub-committee. 49

The LRAM is a mechanism that allows adjustment for lost margins, when the Company's DSM programs are more successful during the period after rates were set, than was planned in setting those rates. The mechanism also allows for recovery by ratepayers of margins received by the Company if the programs are less successful. The LRAM is a revenue neutral mechanism that is designed to keep the utility indifferent to the level of DSM that is achieved. 50

A Shared Savings Mechanism is designed to provide an incentive to a utility to aggressively pursue DSM savings. The current SSM for EGDI is based on the savings target established in the DSM plan. The incentive for exceeding the target for gas savings is calculated in accordance with the following formula: 51

Incentive = X percent * eligible amount 52

where: 53

- the value of the eligible amount is equal to the difference between the value of the actual net benefits and the pivot point for the fiscal year; 54

- the value of the actual net benefits for the fiscal year is equal to the net present value of 55 resource benefits based on the Total Resource Cost ("TRC") Test using the Company's actual performance for the fiscal year; and

- the value of the pivot point for the fiscal year is equal to the net present value of resource 56 benefits, based on the TRC Test, using the EGDI's DSM plan and budget, approved in a rate setting proceeding, for each fiscal year.

Initially the percentage for the calculation of the incentive was set at 35 percent. In response to higher gas 57 commodity costs the percentage was reduced to 20 percent for the 2002 Test Year. The SSM was symmetric in that the utility was subject to a penalty if the savings target was not met. The SSM Variance Account ("SSMVA") captures the actual amount of the shareholder incentive earned by the Company related to the DSM programs.

The DSMVA was established to record the difference between actual and forecast DSM operating 58 expenditures. Generally, a cap was in place to allow the Company to exceed the forecast DSM budget by a certain percentage. The Company was required to obtain the Board's authorization before accumulating amounts beyond the approved cap. In RP-2001-0032, the DSMVA could be used only when the Company met its savings targets. In addition, the DSMVA was restricted to variable costs.

2.2 The December Proposal 59

In the RP-2001-0032 proceeding dealing with the Company's fiscal 2002 rates application, the Board 60 decided to establish a settlement conference for clearance of the balances recorded in the 2000 SSM Variance Accounts and LRAM accounts. A partial settlement covering the clearance of the balances for both 2000 and 2001 SSMVA and LRAM accounts was reached amongst some of the parties and was filed with the Board on December 23, 2002 (the "December Proposal"). The Board subsequently decided to include Issue 9.6 recovery of Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM") for 2000 and 2001 in the current proceeding. A copy of the December Proposal is attached as Appendix A to this Partial Decision with Reasons.

2.3 The March Proposal 61

A settlement proposal was filed with the Board on March 14, 2003 which included a partial settlement on 62 Issues 9.1 to 9.5 (the "March Proposal"). This partial settlement represented an agreement reached amongst some of the parties. The pertinent sections of the March Proposal is attached as Appendix B to this Partial Decision with Reasons.

2.4 Overview of the Board's Decision 63

The Board has considered the evidence in this proceeding and has decided as follows: 64

- The Board accepts the December Proposal; 65

- the Board accepts the March Proposal with the following comments: 66

    - the results of the Company's study into the custom project free rider rate be reviewed in the DSM Consultative and be considered for implementation in 2004. 67

    - the Board is not convinced that the Company needs the Board's approval of the protocols for the Consultative and the Audit Process. 68

The Board's reasons for reaching the above conclusions are set out below. The Board has structured its Decision in the following manner: first, to address the recovery of the balances in the SSMVA and LRAM for 2000 and 2001 (the December Proposal); second, to address the 2003 DSM Plan (the March Proposal); and third, to provide direction with respect to a DSM framework for the future. 69

3 RECOVERY OF SSM AND LRAM FOR 2000 AND 2001 70

3.1 December Proposal 71

The clearance of the 2000 SSM and LRAM Deferral Accounts was originally the subject of the RP-2001-0032 proceeding. Parties agreed through the settlement process in that proceeding to defer consideration of the final balances until a number of technical issues were resolved and the independent audit process had been completed. The Board accepted this proposal and in December 2002 a further settlement conference was convened which resulted in the December Proposal to clear the balances not only in the 2000 accounts but also in the 2001 accounts. 72

The parties signing the December Proposal were: the Company, CAC, GEC, IGUA, Pollution Probe, and VECC (the "Agreeing Parties"). CME and Energy Probe were opposed to the proposal. 73

Originally, the Company's 2000 SSM pre-audit claim was $9.4 million. Subsequent to the 2000 Audit, the Company revised its post-audit claim to $6.5 million. The Company also proposed to recover from ratepayers a total of $186,546 from the 2000 LRAM. In addition, the Company's 2001 SSM pre-audit claim was $13.6 million. 74

The Agreeing Parties proposed the following disposition of variance accounts: $3.5 million from the fiscal 2000 SSMVA, $186,546 from the fiscal 2000 LRAM, $4.6 million from the fiscal 2001 SSMVA, and $15,736 from the fiscal 2001 LRAM. On the SSMVA, the Agreeing Parties also agreed on an allocation to rate classes 1, 6, 100, and 145 as shown in Appendix A, page 8. 75

The Agreeing Parties also agreed that the findings, recommendations and conclusions of the Independent Auditor in respect of the Draft DSM Monitoring and Evaluation Report for fiscal 2001 would have no effect on the amounts that parties agreed would be cleared from the 2001 SSMVA and 2001 LRAM. Instead, such findings, recommendations and conclusions would be used to assist the Company and other parties in program planning in future years. 76

<u>Position of the Parties</u> 77

The Agreeing Parties indicated that the December Proposal represented a compromise and was intended to get past a number of divisive issues and focus on the future. They argued that the December Proposal is reasonable as it uses the findings of the 2000 SSM audit to assess the 2001 SSM claim, includes a substantial decrease in the Company's SSM claim, and has the potential benefit of limiting the retroactive impact of the 2001 SSM claim. There was no agreement in the December Proposal on the underlying program assumptions or the application of those assumptions. 78

CME and Energy Probe opposed the December Proposal. 79

CME was of the view that the audit findings from the 2000 Audit on the custom free rider rate should be applied to the actual volumetric target in that year. CME proposed that a penalty of $69,262 should be charged to the Company which would reflect the use of a custom project free rider rate of 49 percent. CME argued that the Board should not clear the 2001 SSMVA prior to the completion of an audit. Custom projects are designed to address specific and unique issues of a specific business, plant, building, facility or other structure of the firm. These projects adopt a total energy solutions approach. Free riders are DSM program participants who would have implemented the program's efficiency measure(s) even if there were no program offered by the Company. 80

Energy Probe expressed concern on the method used to resolve the audit finding that the custom project free rider rate was significantly higher than the free rider rate that was assumed in the fiscal 2000 DSM budget. 81

Energy Probe submitted that the findings of an audit should be applied to the year being audited, as in business practice. Energy Probe indicated that there are three ways in which the Board can apply the audit findings to the SSM formula. The three approaches were referred to as: no/yes, yes/yes, and no/no: 82

- no/yes - the budget values remain unchanged and the actual results are corrected based upon the findings of the audit. 83

- yes/yes - retroactively revise the target budget values to conform with the audit results. The audit findings are treated as adjustments. 84

- no/no - the actual tabulated results revealed by evaluation and audit are ignored, and values are entered at their targeted budget values. The audit findings are treated as "learnings" to be applied to future programs and ignored in the current year being audited. 85

Energy Probe submitted that the "no/yes" approach is especially appropriate for custom projects where the Applicant can control or influence the resulting level of free ridership through its implementation activities. In addition, Energy Probe was of the view that the RP-1999-0001 Settlement Proposal demonstrated that the parties to the agreement had unanimously agreed on an approach that was fundamentally "no/yes" except for four named variables, which were to be "tuned out" from any impact on the SSM calculation by revision of the pivot point, to yes/yes. 86

In Energy Probe's view, the "yes/yes" approach is symmetrical and is particularly appropriate to prescriptive, largely residential programs where the Applicant has little control over free riders and is executing a program whose details have been agreed to and approved in advance. 87

Energy Probe stated that the application of any other scheme than no/yes for custom project free 88 ridership, especially no/no and yes/yes, the symmetrical schemes, would create perverse incentives. In either, the Company would normally receive extra SSMVA payments in return for increasing its free riders and could be penalized for decreasing free riders.

The Company was of the view that the "no/no" approach to retroactive changes in input assumptions is the only appropriate approach, for four important reasons: 89

- It is the only fair approach. 90

- It is the only approach that is consistent with the intended purpose of the SSM. 91

- It is the approach most consistent with the intent of the parties to the RP-1999-0001 Settlement Proposal, to the extent that an intent can be determined from a document that is ambiguous in many ways. 92

- It is not inconsistent with the Audit Report, in any way, for the simple reason that the Auditor specifically declined to make any recommendation on the retroactivity issue; i.e., whether changes should be applied retroactively or on a go-forward basis. 93

The Company argued that the "no/no" is the fairest approach because it is the only approach that ensures the Company will be neither penalized nor rewarded through the SSM, on the basis of information that was not known or not available when the budget benefits were set and during the fiscal year in which the DSM programs were delivered. 94

In advocating the "no/no" approach to the treatment of new assumptions, the Company stated it is not suggesting that incorrect, inappropriate, or outdated assumptions should never be changed. However, the Company did not accept that the overall free rider rate in custom projects is in the Auditor's suggested range of 45 to 52 percent as the Company had doubts about the Auditor's approach in conducting the review. In the Company's view, the appropriate rate is in the order of 30 percent. 95

The Company argued that the "no/yes" approach could result in the perverse effect of incenting intervenors to advocate an artificially low free rider rate and incenting the Company to seek an artificially high free rider rate. 96

GEC submitted that to penalize the Company approximately $14 million ($4.5 million for each of 2000, 2001 and 2002) for a matter that was beyond their knowledge at the time, a surprise to all concerned and inadequately anticipated in the prior agreement, would be unfair and would increase regulatory uncertainty to the point of eliminating the future effectiveness of the DSM incentive. 97

GEC noted that Mr. Neme commented that free ridership is generally not controllable within the rate year. He also noted that free ridership is difficult to quantify for truly custom measures, and that custom free riders are not easily identifiable after the fact, let alone screened out before the fact, when potential 98 participants are aware that an incentive may be available.

The Company argued that the screening of free riders at the delivery stage is problematic. Determining who is, and who is not, and to what degree a participant is considered a free rider is a subjective exercise. The Company noted that Mr. Neme called the suggestion that the Company pre-screen for free riders "foolhardy". 99

The Company further submitted that there is no evidence that the Company actively recruits free riders. In addition, with the exception of Mr. Rubin, witness of Energy Probe, no intervenor has suggested that the Company actively recruits free riders. Moreover, approximately one third of the Company's custom projects in fiscal 2000 were initiated by contractors and not by the Company itself. Lastly, the evidence of the Company's witness, Ms. Squires, indicated clearly that contrary to the suggestion of some intervenors, the Company does not reward its sales staff for recruiting free riders. 100

IGUA submitted that the agreed upon allocation of the settled amounts to rate classes in the December Proposal is reasonable, appropriate and consistent with the Board approved allocation methodology for clearance of SSM claims. 101

With respect to the amount for the allocation of SSMVA, Energy Probe indicated that the December Proposal fails to follow the direction provided by EBRO 497-01 that stated "... the eligible amount for each fiscal year will be allocated ... in the same proportions as the actual net benefits are allocated to each such rate class for the purposes of the DSM plan for the fiscal year". Furthermore, Energy Probe pointed out that commercial/ industrial ratepayers received significant DSM benefits and therefore should be called upon to pay a significant fraction of the SSMVA clearance, far above their portion agreed to in the December Proposal. Energy Probe submitted that the only ratio that allocates actual delivered benefits is 65 percent to residential ratepayers and 35 percent to commercial/ industrial ratepayers. 102

The Company was of the view that Energy Probe was incorrect that the December Proposal deviates from the prescribed methodology. The Company stated that the allocation based on the TRC amounts and SSM claim resulting from the December Proposal was consistent with the prescribed methodology. 103

Both CME and Energy Probe opposed clearing the 2001 SSMVA and LRAM prior to a completed audit. 104

In response, the Company was of the view that the proposed $4.6 million is significantly lower than the Company's 2001 SSM Claim of $13.7 million. This difference is sufficiently large to give the Board a large measure of confidence that the audit results of the Company's 2001 audit DSM program will not result in an amount that is less than $4.6 million. In the Company's view, the 2001 audit is unlikely to uncover significant findings. 105

Energy Probe recommended that the Board direct that the same principles that the Board adopts for 2000 and 2001 SSMVA and LRAM be utilized to settle the 2002 SSMVA and LRAM claims. 106

Board Findings 107

The Board notes that the custom project free rider rate was the major source of the difference in the SSM claims. The major concern was on the method used to resolve the audit finding that the custom project free rider rate was significantly higher than the free rider rate that was assumed in the fiscal 2000 DSM budget. 108

The Board questions the degree to which the Company can manage free rider participation to achieve higher SSM benefits as suggested by some intervenors. The Board believes the adjustment claimed by CME and Energy Probe is not justified by this argument. In the Board's view, in order for the existing SSM to function as an effective incentive mechanism, it is important to establish certainty, before the fact, in the expected performance upon which the Company would be evaluated. The Board concludes that the "no/yes" approach is not appropriate for the 2000 SSM claim as it penalizes the Company for a matter that was beyond its knowledge at the time. 109

In the Board's assessment, the December Proposal has resulted in a reasonable compromise position on the SSMVA and LRAM clearance amounts for 2000 and 2001. While the Board is concerned that the independent audit of the 2001 DSM results has not been completed, this concern has been reduced by the significant reduction in the 2001 SSM claim demonstrated in the December Proposal. The Board is prepared to accept the December Proposal as a final settlement to this matter regardless of the outcome of the 2001 audit. The Board expects the Company to take account of the findings in the 2001 audit to assist program planning in future years. 110

While the Board was not persuaded to change the allocation methodology agreed to in the December Proposal for the 2000 and 2001 SSM and LRAM claims, the Board expects the Company to provide a clear justification of the allocation among rate classes for the 2002 claims. 111

4 DSM PLAN FOR 2003 112

4.1 Introduction 113

In its pre-filed evidence, the Company proposed the following for its 2003 DSM Plan: a volumetric 114
savings target of 85 million cubic metres supported by a total O&M budget for DSM of $13.6 million which included $790,000 for developing a new DSM framework (approximately $12.8 million without this expenditure). The 85 million cubic metre volume target was based on an assumption of a 10 percent free rider rate for custom projects. The Company also proposed to continue the LRAM unchanged and implement a revised DSM incentive mechanism. The Company's positions have been subsequently amended to reflect the agreement reached amongst some of the parties in the March Proposal.

The March Proposal addressed issues with regard to the Company's DSM Plan for 2003. Parties to this 115
settlement proposal include: the Company, GEC, HVAC, Pollution Probe, and the Schools. Energy Probe was a party to this proposal with the exception of the issue regarding the DSM Audit Process (these parties are collectively referred to as the "Agreeing Parties"). CME, CAC, VECC and IGUA did not agree with the settlement (the "Opposing Parties").

Generally speaking, the Opposing Parties take the position that the Board must review and determine all 116
matters pertaining to the Company's DSM initiatives for the 2003 Test Year and beyond.

The issues to be considered with regard to the DSM Plan for 2003 include: 117

- Volume target, O&M budget and DSMVA; 118
- DSM incentive mechanism; 119
- One-time budget for the development of a new DSM framework; 120
- DSM Consultative and Audit Process; and 121
- LRAM. 122

4.2 Volume Target, O&M Budget and DSMVA 123

In the March Proposal, the Agreeing Parties accepted a volume target of 72.5 million cubic metres 124
assuming a custom project free rider rate of 30 percent with a $10.55 million O&M budget. The proposal indicated that this volume target is equivalent to the Company's original proposed volume target of 84.9

million cubic metres assuming a free rider rate of 10 percent for custom projects. In addition, a budget of $300,000 was proposed to enhance DSM evaluation and tracking, thus resulting in a total budget of $10.85 million. Moreover, the March proposal provided that the Company would not be subject to a penalty if it failed to achieve its volume target.

The Agreeing Parties proposed a 2003 DSMVA that will serve three functions: 125

- to record the difference between the DSM O&M budget of $10.9 million for rate setting purpose and the Board approved DSM budget; 126

- to record any amount approved by the Board for the one-time budget for the development of a new DSM framework (see section 4.4); and 127

- to record the difference between actual and Board-approved forecast DSM operating expenditures. To the extent that the Company exceeds its volume target for the year, the Company will have access to an amount up to 20 percent of its Board approved O&M budget. The agreement that recovery of cost overruns would be limited to costs incurred to exceed the volume targets was conditional on EGDI not being subject to a penalty if it failed to meet its volume target. 128

<u>Positions of the Parties</u> 129

The Company originally proposed a $12.8 million budget (excluding the proposed one-time budget for the development of a new DSM framework) in its pre-filed evidence. In agreeing to the March Proposal, the Company reduced the proposed budget to $10.85 million. The Company commented that the proposed volume target does not differ from the volume target originally proposed by the Company in its pre-filed evidence. The change in target volumes reflects the removal of anticipated gas savings with the higher free rider rate being used for custom projects. 130

The Company submitted that its volume target represents a fair and sustainable level of DSM activity. The Company explained that the growth rate of its DSM results has slowed in recent years. This in part, was caused by the saturation of one significant, inexpensive residential program. Further, rising costs coupled with a shift in emphasis towards longer, market transformation-type programs in both the Business and Mass Markets all support the fact that it is becoming increasingly difficult to deliver the same results as in previous years. In the Company's view, an adjustment to the volumetric target due to a higher free rider rate does not reflect any changes to program delivery effort. 131

The Company indicated that the formulaic approach used by the parties to develop the proposed budget, when updated with the Company's actual gas savings for fiscal 2002 (lower actual gas savings than forecast), would have generated an O&M budget of approximately $11.50 million. The Company argued that if the actual gas savings volumes had been known at the time of the settlement conference, the same methodology would have resulted in a higher budget of about $650,000. The Company submitted that this confirms the tightness of the proposed budget. 132

133

While the Company stated it does not withdraw from the proposed budget of $10.85 million, it invited other parties to comment on the appropriateness of the Board approving an O&M budget of $11.50 million given that the Company's actual gas savings for fiscal 2002 was not available at the time of the drafting of the March Proposal.

134

GEC commented that while Mr. Neme's preference was for a higher volume target supported by a higher O&M budget, the proposed volume target in the March Proposal is constrained by the budget agreed to and in its view achievement will remain a challenge for the Company. GEC noted that its acceptance of the lower volume target for 2003 was in recognition of the interests of consumers in constraining DSM spending. However, GEC continued to hold the view that there remains a large untapped potential for cost-effective DSM. GEC urged the Board to indicate its support for enhanced efforts in future DSM filings and encourage a much higher volume target with an appropriate budget for 2004 and beyond.

135

GEC noted that as inexpensive opportunities for DSM are saturated it is reasonable to expect that the cost of DSM will rise. GEC commented that market transformation initiatives tend to be more costly up front although they are more cost-effective over the long run. The formulaic approach used to develop the proposed budget does not recognize this.

136

In response to the Company's request that parties comment on whether a higher DSM budget should be set given that the 2002 actual volumes are lower than the volumes assumed in the development of the proposed budget, GEC commented that without detailed knowledge of the deviation it was not in a position to consider whether a different budget level should be approved.

137

Pollution Probe submitted that the proposed volume target and budget in the March Proposal represented a substantially more efficient DSM program than that originally brought forward by the Company in that the volume target was maintained but the budget was reduced by 14 percent. However, in light of the Company's updated evidence on 2002 DSM program results, Pollution Probe submitted that a DSM O&M budget of $11.50 million would be appropriate.

138

Pollution Probe supported the continuation of the DSMVA in 2003, arguing that the DSMVA is a prerequisite for ensuring the Company has the opportunity to earn a DSM shareholder incentive and recover its prudently incurred costs of exceeding its DSM volume target.

139

School Boards supported the March Proposal and submitted that there should be no adjustment to the budget to reflect the revised 2002 DSM program performance data. School Boards argued that it was too late in the fiscal year for such an adjustment to be effective since the Company's plan had already been established within the $10.85 million budget. School Boards also supported the continuation of the DSMVA as outlined in the March Proposal noting that, in order to clear the account, the Company will have to demonstrate that any additional funds it used achieved cost-effective DSM benefits.

140

CME supported a $10.55 million budget to achieve a volume target of 84.9 million cubic metres assuming a 10 percent free-rider rate for custom projects or a $9.01 million budget to achieve a volume target of 72.5 million cubic metres assuming a 30 percent free-rider rate for custom projects. CME did not accept the Company's position that the 72.5 million cubic metres volume target assuming a 30 percent free-rider rate for custom projects "would be the same level of effort with the same level of dollars to achieve fewer volumes". CME also supported the proposed $300,000 dollar budget to enhance DSM evaluation and tracking.

141

With respect to the DSMVA, CME is of the view that the 2003 DSMVA, if required at all, should be based only on variable program cost of $7.44 million, arguing that there was no evidence that additional fixed costs would be incurred if additional variable program costs were required. CME also submitted that the Company should not access the DSMVA unless the target was met whether or not there is a penalty provision. CME further submitted that, should the Company make use of funds through the DSMVA over and above the budget, then the volume target (pivot point) for an incentive mechanism should be increased proportionately.

142

VECC submitted it had no issues with regard to the volume target, O&M budget and DSMVA set out in the March Proposal but wanted to ensure that in agreeing to the tie-in of the DSMVA to penalty conditions that might be related to an incentive mechanism, its acceptance of the settlement on this issue should not be construed as implicit acceptance of a shared savings mechanism based on the TRC.

143

VECC questioned the proposed one-time expenditure of $300,000 for enhanced DSM tracking, arguing that the amount covers not only incremental work but also incorporates an element of continuous business improvement. VECC submitted that the amount should be set at $100,000.

144

IGUA was of the view that if the Company is no longer exposed to a penalty for failing to meet its DSM volume targets, then it should be forced to achieve the highest volume target supported by the evidence currently before the Board. On this basis, IGUA argued for a volume target of 85 million cubic metres.

145

IGUA was very concerned about the continuing increase in the Company's O&M budget in DSM and its impact on rates. The DSM budget has almost doubled since 1999. IGUA submitted that if the Board sets the volume target at 85 million cubic metres, then IGUA does not object to the O&M budget of $10.85 million. IGUA urged the Board to not only reject any request for an O&M budget greater than $10.85 million, but also to comment on the appropriateness of Enbridge making a request which is not in keeping with the text of the March Proposal on which it relies.

146

With respect to the DSMVA, IGUA submitted that the Board should refuse to approve the 20 percent increase in the O&M budget through the DSMVA. IGUA argued that to have a Board-approved budget with a 20 percent overage allowance undermines the purpose of the budget. If the Company exceeds its Board-approved target and seeks recovery from ratepayers, then it should come forward to the Board and demonstrate the prudence of those overages. If the Board concludes that the Company should receive pre-approval to exceed its budget through the DSMVA, then that contingency amount should be no more than 10 percent of the O&M budget.

147

CAC argued that the Board had not been provided with a basis upon which to objectively determine whether the volume target is appropriate. CAC noted that key components of the DSM formula, namely the budget, the volume and the SSM, are interrelated. Given that the Company has consistently exceeded its volume targets, CAC submitted that the target should be set at 85 million cubic metres. CAC noted that if the Board accepts the SSM formula proposed in the March Proposal, setting the volume target at a high level will ensure that any incentive reflects extraordinary efforts by the Company, rather than simply a routine achievement.

148

CAC commented that the existence of the DSMVA has given the Company the ability to spend 20 percent more than its budget on DSM activities. CAC did not support the continuance of the account and believed a better approach is to set an annual fixed DSM budget, arguing that to the extent that the Company can manage its costs it benefits, and if the budget is exceeded a shareholder contribution is appropriate. CAC stated that the Company's original evidence supported the elimination of the DSMVA. CAC noted that to eliminate the DSMVA part way through the fiscal year may result in some unfairness since the Company may have planned its expenditures based on the existence of the account. Therefore, as a compromise for 2003, CAC was prepared to accept a budget of $10.85 million with a contingency of 10 percent built into that amount. CAC submitted that the Board should approve a budget of $11.9 million for 2003 and eliminate the DSMVA.

149

Board Findings

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For rate making purpose for 2003, the Board included an O&M budget for DSM of $10.9 million. However, there was no agreement among parties on the actual budget.

151

The Board recognizes that the estimation of a volume target and an O&M budget for DSM are linked. The Board also accepts the revision to the volume target from 84.9 million cubic metres to 72.5 million cubic metres results from the use of a higher free rider rate assumptions for custom projects. The Board notes that the budget resulting from the March Proposal has been reduced but effectively the activity level has been maintained. The Board interprets the March Proposal as requiring the Company to be more effective and efficient in the operation of its DSM programs. The Board therefore accepts the O&M budget of $10.55 million and the volume target of 72.5 million cubic metres assuming a custom project free rider rate of 30 percent.

152

The Board also accepts the $300,000 expenditures for DSM evaluation and tracking, setting the total O&M budget to $10.85 million.

153

Some intervenors expressed concerns regarding the appropriateness of not subjecting the Company to a penalty if it underachieved the target volume savings. In the Board's view, when a volume target is established, there is an expectation that the Company will try its best to achieve and to exceed the Board-approved target subject to review and oversight by intervenors and the Board. If the Company is not able to attain those targets with its best efforts, no penalty should be applied to the Company. However, the Board would be particularly concerned if the Company regularly under-achieved the Board-approved volume target.

154

The Board notes that the March Proposal allows the Company to utilize up to 20 percent additional funds for its DSM programs provided that such expenditures lead to the Company exceeding its target. Further, the Board notes that any such expenditure recorded in the DSMVA will be subject to review for cost-effectiveness before it is cleared. The Board also accepts CAC’s position that there would be a degree of unfairness by eliminating the DSMVA part way through the fiscal year. Therefore, the Board is prepared to retain the DSMVA on the terms defined in the March Proposal for 2003.

The Board notes that the Agreeing Parties to the March Proposal were not in agreement with regard to making an adjustment to the DSM O&M budget to reflect the revised 2002 actual performance data on gas savings. In accepting the settlement proposal with the no-penalty provision, the Board is not prepared to increase the budget. 155

4.3 DSM Incentive Mechanism 156

A Shared Savings Mechanism ("SSM") is designed to provide an incentive to a utility to aggressively pursue DSM savings. The current SSM for EGDI is based on the savings target established in the DSM plan. The incentive for exceeding the target for gas savings is calculated in accordance with the following formula: 157

Incentive = X percent * the eligible amount 158

where: 159

- the value of the eligible amount is equal to the difference between the value of the actual net benefits and the pivot point for the fiscal year; 160
- the value of the actual net benefits for the fiscal year is equal to the net present value of resource benefits based on the Total Resource Cost ("TRC") Test using the Company’s actual performance for the fiscal year; and 161
- the value of the pivot point for the fiscal year is equal to the net present value of resource benefits, based on the TRC Test, using EGDI’s DSM plan and budget, approved in a rate setting proceeding, for each fiscal year. 162

Initially the percentage for the calculation of the incentive was set at 35 percent. In response to higher gas commodity costs the percentage was reduced to 20 percent for the 2002 Test Year. The SSM was symmetric in that the utility was subject to a penalty if the savings target was not met. The SSM Variance Account ("SSMVA") captures the actual amount of the shareholder incentive earned by the Company related to the DSM programs. 163

In the current application EGDI proposed that the SSM be revised to "more effectively incent the Company without overburdening company officials and intervenors with quantitative analysis and administrative details". 164

165

The Company brought forward a proposal developed by IndEco Strategic Consulting Inc. and Navigant Consulting Ltd. The consultants stated that the incentive mechanism was designed to address the following principles:

- risks and rewards should not be too high; 166

- the target ought to have meaning, and should encourage incremental savings near the target; 167

- the mechanism should encourage the utility to invest in DSM; and the incentive mechanism should reflect the benefits created. 168

In addition, they recommended that the mechanism should be simple to calculate and understand. 169

Key elements of the proposed mechanism were: 170

- an incentive of 10 percent of the DSM budget if the Company achieved or exceeded its gas volume savings target; plus 171

- a variable incentive for exceeding the target based on 12 percent of the actual TRC benefits obtained prorated by the degree to which EGDI's gas volume savings exceeded its gas volume saving target. The pro-rata adjustment would be calculated as: 172

Pro-rata adjustment = ((actual m^3/ budget m^3)-1)/(actual m^3/ budget m^3) 173

In the March Proposal, the Company and the Agreeing Parties agreed to reduce the incentive rate and eliminate a penalty if the Company fails to achieve its DSM TRC target. They proposed the following SSM incentive formula for 2003: 174

- for the first 10 percent of TRC savings over budget, the reward would be 18 percent of the savings; 175

- for the next 10 percent of TRC savings over budget, the reward would be 15 percent of the savings; 176

- for the third 10 percent of TRC savings over budget, the reward would be 12 percent of the savings; 177

- for the fourth 10 percent of TRC savings over budget, the reward would be 9 percent of the savings; and 178

- for all TRC savings that are in excess of 40 percent greater than the budget, the reward would be 6 percent of those savings. 179

Further, the Agreeing Parties agreed that alternative shareholder incentive proposals for 2004 and beyond, that may address market transformation, cost effectiveness and administrative ease should be examined through the DSM Consultative. 180

The Agreeing Parties also settled on certain parameters and methods regarding the calculation of the TRC savings underlying the proposed SSM incentive. These can be found on page 68 - 71 of the March Proposal in Appendix B. Some of the elements are: 181

- for both budget and actual TRC benefits avoided gas costs will remain fixed at their original budget values; 182

- for budget TRC benefit calculations all the input values will remain fixed at the values used in the volume budget approved by the Board except where there was a clear error in budget numbers; 183

- for all programs, actual TRC benefits will be calculated using actual values for participants and utility program costs; 184

- for prescriptive programs, actual TRC benefits will be calculated using the budget values for annual unit savings for measures, measure life times, customer incremental costs and free rider rates; 185

- for custom programs, actual TRC benefits will always be calculated using actual values for annual unit savings and customer incremental costs. The measure life times for commonly used commercial, industrial, agricultural and multi-family measures to be used for both the budget and the actual TRC net benefits calculation, are listed in Table 1 in the March Proposal (Appendix B, page 70). For measures not identified, actual measure life times estimated for a particular application will be used in calculating actual TRC benefits; 186

- for 2003 only, a 30 percent free rider rate will be used as the actual free rider rate for custom projects; 187

- the Company will complete its research into the free rider rate for custom projects and will work with the Consultative to develop a methodology for establishing actual free rider rates for custom projects in 2004 and subsequent years; 188

- the results of evaluation studies and other new information that becomes available after 189

Board approval of a DSM plan will be used to adjust the input values for the next year plan.

The Company is seeking Board approval of the following six principles to guide the development of an alternative shareholder incentive mechanism for 2004 and beyond: 190

1) the incentive mechanism should encourage the Company to continue to expand its DSM programs; 191

2) there should be a reward for meeting the target; 192

3) the incentive should be based on the results achieved for ratepayers; 193

4) risks and rewards should not be too high; 194

5) if EGDI invests its own shareholder money in DSM, the return for DSM initiatives should be higher than for gas distribution alone; and 195

6) the incentive mechanism should be transparent and straightforward. 196

The Company is also seeking Board approval of the SSM incentive formula and the methodology for calculating TRC savings as outlined in the March Proposal, for application in 2003. 197

<u>Positions of the Parties</u> 198

The Company continued to advocate the notion of an incentive scheme. The Company noted that in the three fully evaluated years (1999, 2000, 2001) since the time the SSM was implemented, the Company's DSM volumetric results have surpassed their targets and this represented an achievement never reached before the SSM was in place. In the Company's view, it is clear that incentive mechanisms for DSM were effective. The Company also pointed out that no party was opposed to an incentive mechanism. 199

The Company highlighted Mr. Williams' evidence that there is a fundamental rationale for an incentive scheme for DSM, that being the need to make DSM a desirable activity for a utility traditionally focussed on increasing sales and revenues. In Mr. William's view, there was some tension between the core activities of the utility and DSM. As a result, DSM must compete with other core activities of the Company. 200

The Company also relied on Mr. Neme's testimony who explained the importance of an incentive in a similar way: 201

202

"The purpose of the SSM, or any other reward mechanism ... is to induce the company to get enough of the senior management's attention at the company to invest in capturing as much of the efficiency potential that's out there as is reasonable, because it has such enormous benefits to consumers on the one hand, but on the other hand ... there are kind of inherent barriers, cultural and otherwise, within utilities to pursuing efficiency that effectively reduces their throughput." (Argument in Chief, page 12)

In the Company's original pre-filed evidence, the Company filed a consultant's report providing recommendations to improve the current DSM-framework. In this report, the consultant stated that Enbridge was concerned about the complexity associated with the calculation of the SSM and the controversy surrounding the magnitude of the rewards it produces. In particular, the Company found it difficult and time-consuming to calculate a TRC at the target and at the actual DSM savings level achieved. Program managers found that the focus on the SSM detracts from efforts to find savings opportunities due to the heavy emphasis on evaluation that the SSM has generated. 203

The Company noted that the intent of the SSM is to create a performance incentive environment where the Company will be rewarded for achieving greater TRC benefits as a result of factors that it can influence, but not have the incentive fluctuate as a result of factors that are beyond its control. The Company relied on Mr. Neme's evidence recognizing that a clearly laid-out set of rules will prevent extended negotiation and hearing time on the same topic in future. The Company requested that the Board approve the proposed methodology for the calculation of TRC savings in the March Proposal. 204

GEC and Pollution Probe submitted that the role of SSM has been a resounding success. After the establishment of the SSM incentive, the Company significantly over-achieved its DSM targets in 1999, 2000 and 2001. Both parties submitted that the proposed new formula and the proposed defined clearance protocol should ease parties' concerns regarding the uncertainty in the use of the TRC. GEC also submitted that maintenance of an incentive while alternatives are considered is vital to the Board's statutory mandate to promote DSM. 205

CME opposed an SSM incentive based on the TRC methodology as it is subjective, imprecise and complex. If the Board determines that a DSM SSM incentive is required for 2003, CME supported one that is based on a rate of return equivalent. 206

VECC had concerns regarding the use of the TRC as the basis of, or partial basis of the Company's reward in an incentive mechanism and therefore, as a cost basis for distribution system rates. In VECC's view, the TRC would only apply in an Integrated Resource Planning context (the context under EBO 169-III) whereas the Company's DSM is in an unbundled context. Therefore, the consideration in this case should be to base the financial reward on distribution system benefits (i.e, distribution system avoided costs). 207

IGUA was not opposed to an incentive approach to regulating the utility, it remained concerned about achieving an appropriate incentive. In IGUA's view, the incentive created by the SSM model proposed in the March Proposal will produce excessive payments to the Company and is unfair to ratepayers. IGUA submitted the Company will face little or no financial risk as a result of the SSM mechanism proposed under the March Proposal. 208

209

CAC argued that the Company's proposed SSM is not supported by any evidence that would allow the Board to conclude that the proposed level of incentive is either necessary to achieve a particular result or appropriate in light of the risks (or the absence of the risks) associated with DSM programs. The absence of evidence is particularly worrisome in that the Board is forced to rely on the Company's own assertion that it needs this level of incentive to perform.

210

CAC submitted that it is important to put the Company's DSM results into context. The Company attributed all of its success in DSM to the existence of the SSM, but it would seem equally reasonable to conclude that some or all of that success is attributable to the increases in the O&M budget.

211

CAC was troubled by the absolute amounts of the SSM payments and by those amounts when compared to the O&M expenditures on DSM. CAC submitted that the SSM payments are far higher than any normal return would warrant, and are way out of proportion to the level of risk involved. CAC argued that these level of returns are unacceptable.

212

The IGUA proposal

213

IGUA submitted that DSM expenditures are O&M expenditures. An incentive payment based on an application of the allowed equity return to the total DSM budget produces about twice as much profit or gain when compared to an investment in rate base that is fully depreciated in one year. Such an incentive amounts to twice as much as the utility owners could realize from investments in utility rate base and such a return is, in IGUA's view, extremely reasonable. IGUA requested that the Board set the Company's DSM reward at an amount no greater than the Board approved equity percentage return as applied to the Company's DSM expenditure. Under this proposal, the Company's shareholders face no risks with respect to the DSM costs.

214

Parties' position on the IGUA proposal

215

Pollution Probe argued that the IGUA proposal links the Company's shareholder incentive (i.e. SSM reward) to the level of DSM spending. This approach would give the Company an incentive to gold plate its DSM programs and is thus perverse and inappropriate.

216

GEC noted that Mr. Neme commented on the IGUA proposal indicating that "... the purpose of the SSM is very different from the purpose of the rate of return on equity". In addition, incentives that are based on the O&M budget provide a perverse incentive to increase budget regardless of cost-effectiveness. Furthermore, the reduced reward expectation would likely save customers far less in SSM payments than it would cost in foregone DSM benefits.

217

Energy Probe viewed this proposal as misusing the concept of rate of return on equity, since there is no equity here, and will have the effect of improperly incenting the Company to maximize its budget rather than maximize its gas savings.

218

CAC supported the IGUA proposal since the Company has not demonstrated that in pursuing DSM it faces risks that are any higher than the risks it faces through its distribution investments. CAC also pointed out that this approach would not equate DSM with utility equity investments. This approach merely acknowledged that if there were no DSM programs, the Company could spend the money elsewhere. CAC was advocating this approach as an interim step in the absence of a more comprehensive review of incentive mechanisms.

In response to the arguments from some intervenors suggesting that linking the incentive reward to the 219 DSM expenditures would create a "perverse incentive to the company to increase spending for the sake of increasing spending", IGUA pointed out that there is a regulatory process that acts as a check and balance to the Company's spending.

<u>SSM for the future</u> 220

GEC submitted that the record in this proceeding is not an adequate basis for determination of a specific 221 SSM for the future. It supported the Company's six principles and its request for more general guidance from the Board for utility DSM. GEC suggested the following guiding principles:

- DSM offers significant benefits to society and continued expansion of cost-effective 222 DSM efforts should be encouraged through the use of shareholder incentives.

- DSM budgets, targets and incentives should support a growing level of benefits to 223 customers and society recognizing the large untapped potential for cost-effective energy efficiency.

- DSM programs should be available to all customer groups. 224

- DSM programs and incentives should encourage avoidance of lost efficiency 225 opportunities and should encourage market transformation.

- DSM budgets should allow for ongoing research and evaluation to increase customer 226 benefits and refine cost-effectiveness.

- Consultation and audit supervision should be conducted in a manner that avoids 227 micro-management while encouraging continued improvement in program design and minimization of hearing costs.

Mr. Rubin, Energy Probe's witness, believed that the proposal in the March Proposal goes a long way to 228 eliminating perverse incentives and reducing some of the complexities inherent in the Company's original proposal. However, this proposal still includes reliance upon the TRC budgets, a process which has been clearly shown to be problematic. In addition, Mr. Rubin was of the view that the proposed SSM is still extremely complex with its multiple incentive levels and is therefore not transparent to the Ontario residential ratepayers or the public at large. The complex multi-level incentive structure prevents the Company from knowing in advance what level it faces for creating an additional unit of savings. Mr. Rubin suggested that greater transparency should be an objective of the Board and submitted that a performance incentive whose rewards are unpredictably related to performance is not optimally designed.

229

Mr. Rubin suggested that it is more appropriate to devise an SSM that eliminates the annual negotiated target-setting exercise entirely, in favour of a more simplified, linear, transparent and "self-regulating" mechanism. Under this scheme the Company would receive a fixed share of all TRC benefits generated as an SSM , and would cover its DSM costs out of that SSM. Mr. Rubin recommended that the Board direct the DSM Consultative Group to devise an SSM for fiscal 2004 and beyond that eliminates the annual negotiated target-setting exercise entirely, in favour of a more transparent, linear and "self-regulating" mechanism. Further, the Consultative Group should be directed to devise rules for the treatment of avoided costs as a special variable.

230

Mr. Rubin was of the view that this proposal would avoid the undue weight on setting the TRC target in the current SSM formula. In addition, this approach could also eliminate the current complexity in the evaluation and audit process created by "symmetry" and "reciprocity". This could introduce the discipline and efficiency of PBR into DSM spending.

231

Mr. Neme, GEC's witness observed that the Energy Probe proposal will result in a higher risk factor to the Company since the ability to recover the O&M budget is uncertain. Hence, the Company would require a higher SSM reward. In addition, the TRC target negotiation would not be avoided since renegotiating the reward rate would inevitably be based on a discussion of past TRC performance and future expectations.

232

GEC relied on Mr. Neme's evidence that the clearance rules in the Energy Probe proposal would be somewhat simplified because there will only be one computation for the actuals and not for the budget. However, this also means that the stakes associated with the evaluation and audit would be much higher since the SSM reward would be considerably higher to cover the O&M cost and the risk premium.

233

GEC submitted that similar to the proposed SSM, the Energy Probe proposal does not address market transformation. GEC was of the view that while the Energy Probe proposal warranted further exploration, it is not ripe for endorsement in either specific or general terms.

234

While VECC believed that the distributor's DSM incentive ought to be based on distribution system benefits, VECC commented that the required information is not available. Therefore, as an interim measure, VECC put forth an approach that is based on the Company's distribution rate that might be considered for 2004 or until such time as the distribution system avoided costs are available. The incentive would be based on the volumes that the Company did not have to distribute as a result of its DSM activities. The incentive is an enhanced return component in the gas distribution savings if the Company meets or exceeds the target DSM volume. VECC asked the Board to direct the Company to determine the system benefits so that a SSM based on distribution system benefits can be developed.

235

GEC submitted that any proposal that supported an incentive based on distribution system savings rather than total customer savings would place form ahead of substance and should be rejected. Billing savings including commodity savings are legitimate policy objectives of DSM. The TRC test measures total net ratepayers savings and the largest component of the TRC is avoided customer gas costs. While it is possible to construct a DSM incentive based upon system savings excluding participant gas savings the approach would likely be sub-optimal. Either system savings are proportional to gas costs avoided, in which case the restructured incentive would entail a distinction without a difference, or more likely, since there is no correlation between the cost of storage, transportation or pipe and commodity costs, basing an incentive on distribution savings alone would ignore the primary customer interest in DSM, and would skew program efforts away from maximizing customer value.

236

Board Findings

237

The Board notes that many parties generally agreed to the fact that the current SSM formula requires an overhaul. However, the Board also notes that no party was opposed to an incentive mechanism going forward.

238

The Board notes that since the introduction of the SSM in EBRO 497-01, the evidence suggested that the SSM currently in place appears to have some degree of success in incenting the Company to pursue DSM programs. In recognition of the greater emphasis that is being placed in energy efficiency in the new legislation, the Board is satisfied that an incentive mechanism should carry forward.

239

In general parties acknowledged the problem of subjectivity and complexity in the use of TRC in the current SSM formula. The Board shares intervenors' concerns regarding the complexity of the use of TRC. In the Board's view, an incentive mechanism should be simple and transparent to the public. While the Board recognizes that the TRC is an industry-accepted methodology in measuring the benefits of utility DSM programs, there may be a more direct and simple design of an incentive mechanism that would avoid the inherent subjectivity and complexity of the TRC Test.

240

The Board has considered the IGUA proposal. The Board is of the view that the argument to equate the DSM incentive rewards with the rate of return on equity is not appropriate. In the Board's view, the DSM programs face risks that are different from core utility operations and it would be inappropriate to use a factor such as that currently used in determining utility rate of return on equity.

241

The Board accepts the modified SSM proposal and the methodology for calculating TRC savings as outlined in the March Proposal for 2003.

242

The Board recognizes that there may not be sufficient time to develop a new shareholder incentive mechanism for 2004. The Board is prepared to accept the continuation of the methodology for 2003 and 2004 with one modification that the results of the Company's study into the custom project free rider rate be reviewed in the DSM Consultative and be considered for implementation in 2004.

243

The Board has considered the six principles proposed by the Company to guide the development of an alternative shareholder incentive mechanism for 2004 and beyond. The Board agrees that the incentive mechanism should encourage the Company to continue to expand its DSM programs; the incentive should be based on the results achieved for ratepayers; risks and rewards should not be too high; and the incentive mechanism should be transparent and straightforward.

The Board is of the view that the other two principles, namely that there should be a reward for meeting 244 the target, and if EGDI invests its own shareholder money in DSM, the return for DSM initiatives should be higher than for gas distribution alone, can be judged only within the totality of a DSM program presented for Board consideration.

In the Board's view, the proposed SSM is a step forward to address the flaws in the current SSM formula; 245 however, the Board believes a more complete review of DSM incentive mechanism is required as discussed in section 5.

4.4 One-Time Budget for a New DSM Framework 246

The Company initially proposed a one-time budget totalling $790,000 to carry out the following activities 247 to assist in the development of a DSM framework going forward. This budget was reduced to $600,000 under the March Proposal.

The budget was comprised of the following components: 248

249

	Original Proposal	March Proposal
Development of a new and refined DSM incentive mechanism	$75,000	$50,000
A study of North American DSM processes and results	$50,000	$30,000
Development of end-use market information repository	$500,000	$500,000
Develop Terms of Reference and Operating Procedures for DSM Consultative (See section 4.5)	$50,000	-
Independent DSM meeting facilitator (See section 4.5)	$40,000	$20,000
Develop DSM Evaluation Policy (See section 4.5)	$50,000	-
Develop Independent Audit Protocol (See section 4.5)	$25,000	-
TOTAL	$790,000	$600,000

Position of the Parties 250

The Company submitted that there is a need for refinement to the DSM framework, a need for the 251 development and collection of end-use market data and for a study of North American DSM processes.

Pollution Probe submitted that the Board should approve the total proposed budget of $600,000. In Pollution Probe's view, these proposed expenditures are prerequisite for growing the Company's DSM programs and achieving greater customer bill reductions. 252

CME was of the view that any additional expenditures for O&M consulting services are unnecessary and a waste of ratepayers money. 253

The Company responded to CME's argument indicating that to describe the proposed studies as "a waste of ratepayers' money" is equivalent to advocating that a business eliminate all future research and development. 254

Development of a new and refined DSM incentive mechanism ($50,000) 255

The Company noted the SSM or incentive mechanism has been the catalyst for much of the DSM related change in the last few years. This mechanism is in need of re-design to more effectively incent the Company without overburdening employees and intervenors with quantitative analysis and administrative details. The Company submitted that much of the $50,000 proposed budget has already been spent to develop the incentive mechanism proposal included in the pre-filed evidence. 256

GEC, Pollution and School Boards supported the Company's position. 257

IGUA and CAC were concerned that the Company is seeking to recover the costs of a report which recommended an incentive mechanism that the Company is not seeking to implement. Hence, both parties submitted that these costs should not be approved by the Board. 258

A study of North American DSM processes and results ($30,000) 259

The Company proposed $30,000 to conduct a study of North American DSM processes. The study would explore the practices, learnings and funding mechanisms utilized at other utilities. The Company indicated the results of this study will put the Company's DSM performance into perspective. Recognizing that there will be some limitations to the comparison of other jurisdictions (and between gas and electricity), the Company was of the view that such a comparison will be helpful in setting appropriate DSM targets and budgets. 260

GEC supported the proposed budget and noted that it will inform discussions of volume, budget scale and process. 261

IGUA, School Boards and Pollution Probe supported the proposed budget. 262

CME noted that the Company provided no evidence to suggest that an analysis of other North American utilities would improve DSM target and budget setting process. 263

Development of end-use market information repository ($500,000) 264

The Company is seeking approval of a $500,000 budget for the development and collection of end-use market data for the purpose of identifying new opportunities for program development and enhancements, including consideration of benefits of DSM program on low income ratepayers. The data will be used to enhance the budget and target setting process to provide valuation information that will inform program design. The Company was of the view that the requested budget relief is critical for program enhancements and development. 265

GEC supported the $500,000 proposed budget. GEC was of the view that the proposed study would generate information that is fundamental in the future planning of the Company's DSM programs. GEC noted that the development of enhanced market information will be particularly valuable in determining DSM potential and developing DSM programs that can cost-effectively respond to these opportunities. 266

Pollution Probe supported the Company's position. 267

CME was of the view that the collection or analysis of market data of other utilities will not improve the Company's target and budget process. 268

VECC encouraged the Board to direct the Company to explore potential partnering on the formation of the end-use repository to minimize costs and avoid duplication of efforts. VECC recommended that the Board approve a lesser amount of $300,000 for this study. 269

IGUA and CAC submitted that such a study is inappropriate or premature until the regulatory framework for the 2004 Test Year and beyond is fully developed as the value of the data would depend upon the long-term framework for DSM programs of the Company and other utilities. Both CAC and IGUA submitted that the Board should direct the Company to further explore the possibility of partnering with other entities in this endeavour. 270

School Boards did not support the proposed amount as a one-time budget. In its view, the development of an end-use database is essential to the proper operation of DSM programs and will have long-term value. Hence, the amount should be considered as a capital cost. School Boards further submitted that in the current fiscal environment, a special emphasis on the municipalities, universities, schools and hospitals would be appropriate. School Boards asked that the Board direct the Company to specifically consider this in the development of the database. 271

In its reply argument, the Company submitted that School Boards has confused an expenditure on the development of hardware and software required to create a data base (which is an appropriate capital expenditure) with expenditures which will be, to a large measure, made to third party consultants who will undertake the research into DSM activities. 272

The Company anticipated that partnering with Union Gas would result in an even more extensive and 273 beneficial study with Union Gas contributing an equal amount rather than reducing costs as argued by intervenors.

274 ***Independent DSM meeting facilitator ($20,000)***

275 CME opposed any additional O&M consulting expenditures

276 GEC, Pollution Probe, School Boards supported the proposed budget.

277 VECC, IGUA and CAC did not oppose to the proposed budget.

278 **Board Findings**

279 The Board is convinced that a review of the DSM framework is required and therefore the Board is of the view that the proposed studies will help the Company, stakeholders and the Board in addressing DSM issues in the future.

280 It is the Board’s understanding that any amount approved for the one-time budget referred to in this section will be recorded in the DSMVA. The Board therefore expects that prior to the clearance of the balance in the DSMVA, the Company will justify the expenditures that have been made.

281 The Board accepts the Company’s proposal of a one-time budget of $600,000. With regard to the $500,000 amount in the budget for the development and collection of end-use market information, the Board expects the Company to explore partnership opportunities and to seek input from stakeholders in developing the Terms of Reference for the proposed work.

282

4.5 DSM Consultative and Audit Process

283 In the pre-filed evidence, the Company indicated that since the introduction of the SSM and the success of the Company in surpassing its targets in Fiscal 1999 and 2000, there has been an increased focus on the process of DSM evaluation, and a new requirement to conduct an independent audit of evaluation results each year. A negative consequence of this increased focus on evaluation and audit has been to effectively move the "ownership" of the evaluation and audit decisions from the Company to the DSM Consultative group and/ or the Audit Subcommittee. The difficulty in achieving consensus among the competing stakeholder interests has led to process delays.

284 The original function of the DSM Consultative was described in the EBRO 485 Alternative Dispute Resolution ("ADR") agreement as follows:

285 > "Consumers Gas will consult with the appropriate interested parties in an effective

> manner to obtain meaningful input related to each of the major steps of the DSM planning process before irreversible decisions relating to them are made. The parties, however acknowledge that since Consumers Gas will be held accountable for the development and implementation of its DSM plans, Consumers Gas has the freedom to pursue its efforts in the manner which it deems most appropriate" (EBRO 485 Decision with Reasons, pp.80-81, para. 10b)

The Company was of the view that the EBRO 485 ADR agreement provided that the DSM Consultative 286 would act as an advisory body and would offer input and advice to the Company on program design and delivery, recognizing that the Company would retain decision-making power and accountability for its actions.

However, since the introduction of the SSM, the role and function of the DSM Consultative has changed 287 dramatically. The DSM Consultative has evolved into a decision-making body, focussed on the details of program tracking and evaluation, with participation effectively limited to a small sub-set of the larger group due to the highly analytical nature of the work they are involved in. Evaluation decisions, and decisions related to the independent audit, have effectively been removed from the hands of the Company and placed under the direction of a sub-committee of the DSM Consultative. The Company was of the view that the group's original, valuable function as an advisory body to advance program design and delivery concepts has been all but lost. In addition, cost award claims from DSM Consultative participants have more than tripled since 1999, primarily to fund the increased intervenor costs related to participation in evaluation and audit related activities.

To improve the functionality and provide clarity of purpose to the DSM Consultative process, the 288 Company proposed a budget of $50,000 to develop a written terms of reference and a set of standard operating procedures to reinforce the role of the Consultative as an advisory, rather than a decision-making body. The terms of reference and operating procedures will be submitted to the Board for approval. In addition, an independent facilitator will be retained for a budget of $40,000 to lead quarterly Consultative meetings and ensure that the process is consistent with the Consultative's terms of reference.

Regarding the Audit Process, the Company proposed a budget of $50,000 to develop a standardized DSM 289 Evaluation Policy for:

- program/ portfolio tracking and documentation; 290
- annual evaluation report methodology, content and timing; and 291
- processes for implementing the findings of evaluation studies as they pertain to program 292 assumptions.

The Company also proposed a budget of $25,000 to develop a standard Audit Protocol. This protocol 293 will:

- Document the goals and objectives of the audit; 294

- Specify that the audit will be conducted by an auditor chosen by and reporting to the Company; 295

- Describe the role of the Consultative as providing advice on the choice of the auditor and the conduct of the audit; and 296

- Standardize the schedule and the reporting and documentation procedures for the audit. 297

All of the proposed costs associated with the above initiatives (a total of $165,000) would be one-time costs and were included in the one-time budget of $790,000 set out in section 4.4. In the March Proposal, the Company reduced these aggregate costs to $20,000. 298

The Agreeing Parties also proposed a protocol for each of the processes to impose discipline for future meetings and to affirm the advisory nature of these processes. Details of these protocols are filed under Appendix B pages 73 to 77. 299

<u>Position of the Parties</u> 300

Parties in general agreed that both the DSM Consultative and the Audit Committee processes had become frustrating and inefficient. The Agreeing Parties were of the view that the protocols are a positive recognition of the past difficulties and a practical attempt to ensure that the recent improved experience in the new 2001 Audit Committee can be continued. 301

VECC indicated that the Board's acceptance of the EBRO 485 settlement agreement has already defined the role of the consultative as an effort to obtain meaningful input related to DSM. However, as seen in the evidence of this proceeding, the consultative was unable to reach consensus or substantial consensus on DSM matters. Therefore, in VECC's view, the Board's explicit approval of a set of protocols, whether those included in the March Proposal or a similar set developed by the Board, would reaffirm its view in this area. In addition, to move the consultative process along, the objective of the consultative process should be to reach early consensus, and in the absence of new evidence, the issues upon which consensus is reached should be reflected in the ADR agreement. 302

CME supported the development of a set of standard operating procedures. However, it did not agree that the DSM Consultative should, in all cases, be advisory. As such, CME did not support an Audit Protocol that would turn the Audit Committee into an advisory body. In CME's view, the DSM Audit Committee is a decision-making body by definition. The Audit Committee should have a decision-making role in the following three activities: determining the audit terms of reference, auditor selection, and auditor oversight. Having an Audit Committee without these decision-making powers (i.e. only advisory in nature) would be contrary to the concept of an independent audit. 303

School Boards was of the view that it is not appropriate for the Board to get involved in how meetings are run, and similar day-to-day operational matters (i.e. micro-management). School Boards submitted that it is sufficient for the Board to express its support for the principles contained in the protocol, without endorsing its details in a Board decision. 304

Both IGUA and CAC submitted that the central cause of the problems in these processes is the transformation of the DSM Consultative and Audit Committee from advisory bodies to decision-making entities. Both parties supported the concept that the DSM Consultative and Audit Committee should be limited to the original purpose and provide only an advisory function to advance program design and delivery concepts. In addition, both parties argued that the Company has the ability to impose discipline on the DSM Consultative or Audit process by imposing controls on the recoverable costs. In their views, consensus should not be a stated purpose for either the DSM Consultative or the Audit Committee. They suggested that the proposed protocols are both unnecessary and inappropriate. Both parties submitted that the proposed protocol will not solve the fundamental problems of the processes. 305

With respect to the Audit process, Energy Probe submitted that the Board should ensure that future audits are independently supervised like the fiscal 2000 audit and the Board should insist on a timely resolution of each year's DSM evaluation and audit activities so that important lessons learned in the evaluation and audit process may be incorporated into the DSM process of future years as quickly as possible. 306

CAC submitted that the only approach to ensuring that the audit is truly independent is to remove the process from the Consultative and have the Board assume the audit responsibility. The Board, as part of its regulatory function, can develop the terms of reference for an independent audit, select the auditor and oversee the process. Given the Board's authority to ultimately approve the amounts recovered through an SSM and an LRAM, CAC was of the view that this new role would not be inconsistent with that authority. CAC submitted that to leave the current process in place only sustains what has become micro-management of the Company's DSM activities. 307

Pollution Probe submitted that the proposed Audit Committee's election procedure included in the proposed protocol should be approved since it will permit a majority of the non-utility members of the DSM Consultative to elect Audit Committee members who they believe will act in a professional and responsible manner. 308

CME submitted that the selection process of the fiscal 2001 Audit Committee was flawed. CME argued that the fiscal 2001 Audit Committee members, who are also signatories to the December Partial Settlement Proposal, appeared to be already predisposed to the outcome and were bound by the terms of the December Partial Settlement Proposal. 309

Regarding the voting structures of the audit process, Energy Probe supported the one non-utility member, one vote model. 310

<u>Board Findings</u> 311

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From the evidence presented at the hearing, it is clear to the Board that the consultative and audit processes to review the Company's 2000 and 2001 DSM results did not operate in a way that was efficient and effective and has probably resulted in larger than necessary cost awards.

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The Board's acceptance of the EBRO 485 Settlement Agreement has clearly established the DSM Consultative to be an advisory body in nature. The Board continues to be of this view.

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The Board recognizes that achievement of consensus can be of great benefit. That being said, the Board also recognizes that the current regulatory environment holds the Company ultimately responsible for the acceptability and effectiveness of its DSM programs. While the Board encourages consensus in the Consultative, it expects the Company to obtain meaningful advice and decide when achievement of complete consensus is impractical from either a time or expense point of view.

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The Board is concerned with the slow delivery of monitoring & evaluation reports and audit reports. For results of the consultative and audit processes to be effective, these reports must be available on a timely basis.

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The Board is of the view that the proposed protocols are reasonable, and that the Company can adopt these protocols. However, the Board is not convinced that its approval of the protocols is necessary. In fact approval by the Board of such protocols could imply a requirement to obtain Board approvals to change the protocols, this would be contrary to the Board's view that the responsibility and accountability for the consultative is borne by the Company.

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Participants in these processes are expected to behave in a professional manner and treat other participants with courtesy and respect. Behavioural problems in these processes, which were alluded to in this proceeding, should not be an issue before of the Board.

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4.6 Lost Revenue Adjustment Mechanism (LRAM)

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In the pre-filed evidence, the Company proposed that the LRAM continue.

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Position of the Parties

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GEC supported the continuation of LRAM.

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CME urged the Board to eliminate LRAM for three reasons:

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- The Company could not claim lost revenue when it lost a customer. Accordingly, it should not gain by virtue of reduced load arising from its DSM activities.

- The Company could not claim LRAM if an organization other than the Company were the designated DSM service provider. 324

- The Company could not claim LRAM as a result of energy efficiency programs now initiated by others. Given this, there is no logic for the Company to claim LRAM just because it is the designated DSM service provider. 325

CME further argued that in other jurisdictions, LRAM is the exception and not the rule. 326

In response, the Company argued that CME's submission should be disregarded because the elimination of LRAM was not an issue before the Board and no evidence on the matter was introduced. 327

Board Findings 328

The Board notes that the March Proposal did not specifically address the Company's proposal on LRAM in 2003. Also, there were limited submissions on this issue. 329

The Board is of the view that the existing LRAM should continue while the parties assess the need for an LRAM under a revised DSM framework. 330

5 DSM PLAN FOR THE FUTURE 331

5.1 DSM Plan for 2004 332

Based on the Company's application under RP-2003-0048, it is the Board's understanding that the DSM 333 Plan for 2004 will be dealt with as part of that proceeding. However, the Board also recognizes that the Company has proposed in this proceeding to conduct further significant consulting work on the development of a revised DSM framework going forward. Given the limited time remaining prior to the commencement of fiscal year 2004, the Board directs that the DSM framework proposed and approved for fiscal 2003 be carried forward to fiscal 2004 with only minor changes if required.

5.2 DSM Plan for 2005 and beyond 334

The Board notes that the Company's DSM program has been in place since 1995 (EBRO 487). Although 335 the objectives and principles have evolved somewhat to reflect changing market and industry conditions, they remain essentially unchanged from those expressed in the 1995 DSM plan. As the market and industry environment continues to evolve, and given concerns raised in recent years regarding the level of rewards generated by the current incentive mechanism, the Board is of the view that it is timely to review and update the DSM framework to reflect recent experience.

While the Board is faced with questions surrounding a customized DSM framework for EGDI, it is aware 336 that there is a different framework established for Union Gas and there are plans to review a DSM framework for the electricity sector. The evidence in this hearing leads the Board to conclude that the DSM framework for all entities within its jurisdiction needs to be reviewed on a broader basis. Some of the issues that need to be addressed are: determination of who should be providing DSM activities; identification of the relative roles of utilities, energy service providers and others; establishment of common DSM principles across the energy sectors; evaluation of the need and level of incentives required to support DSM objectives; the treatment of DSM within a PBR framework; and improved understandability, transparency and administrative ease. The Board believes joint effort by all parties would be helpful in establishing common principles and policies.

The Board has initiated such a generic approach to DSM as announced on August 12,2003. The Board 337 trusts that the Company will offer its significant experience to the process.

Further, the Board would expect EGDI to guide itself in the spending of approved DSM development 338 funds such that the results would be of value to the overall review.

The Board is hopeful that the generic approach will provide guidance for the development of the EGDI 339 DSM program for 2005, and beyond. Notwithstanding that generic approach, the Board expects the Company to make application for a 2005 DSM program with its 2005 rates application, taking into account the state of DSM framework development at that time.

DATED at Toronto, August 19, 2003 340

George A. Dominy
Member
Signed on behalf of the panel

341

A The December Agreement

This document is not available electronically. The document is available in the OEB Public File Room.

B March Proposal

This document is not available electronically. The document is available in the OEB Public File Room.

C Glossary of terms

Glossary of Terms 346

Avoided Cost - 347

The total supply-side costs that are not incurred, or deferred into the future, as a result of the implementation of a DSM program. Avoided costs are usually taken to be the full marginal or incremental costs of supply that will be avoided. 348

Cost-Effectiveness Tests - 349

Tests which compare the costs and benefits of a program. Such tests include the Societal Cost Test, the Total Resource Cost Test, the Rate Impact Measure Test, the Utility Test, and the Participant Test. 350

Customer Class - 351

A group of customers with similar characteristics, such as economic activity or demand level, typically served under the same rate schedule. 352

Customer Incentive - 353

Cash or non-cash payment offered to customers to encourage participation in a DSM program. 354

Custom Projects - 355

They are projects designed to address specific and unique issues of a specific business, plant, building, facility or other structure of the firm. These projects adopt a total energy solutions approach. 356

Deferral Account - 357

An account established by a utility, with regulatory approval, to record differences between estimated and actual charges (or credits) relating to a current accounting period; for disposition in a future accounting period or periods. 358

Demand-Side Management (DSM) - 359

Actions taken by a utility or other agency which are expected to influence the amount or timing 360 of a customer’s energy consumption.

Discounted Cash Flow (DCF) Analysis - 361

A financial evaluation methodology that accounts for the time value of money through the application of an appropriate discount rate to a project’s forecast costs and benefits/ revenues. Typically used for long-term projects. 362

DSM Activity/ Measure - 363

An action taken by customers to alter the amount or timing of their energy consumption. 364

DSM Plan - 365

A strategic plan which sets objectives for, and directs and controls the implementation, monitoring and improvement of a utility’s preferred DSM portfolio. 366

DSM Portfolio - 367

A group of DSM programs which have been selected and combined in order to achieve the objectives of a utility’s DSM plan. 368

DSM Program - 369

An organized collection of related DSM activities or measures which a utility may use to affect the amount and timing of a customer’s energy consumption. 370

DSM Strategy- 371

The combination of a portfolio of DSM programs and its implementation plan which a utility intends to employ in order to achieve its DSM objectives. 372

Energy Service Company (ESCO) - 373

An organization that contracts with energy users, landlords and/or utilities to evaluate, design, install and monitor capital and operating improvements in an existing building facility or industrial process, to reduce energy and operating costs over a contract period. ESCOs typically finance the costs of these improvements and receive payment by sharing in the resultant energy and operating savings. 374

Energy Services - 375

1. (End-User) The comfort, lifestyle or industrial production capability an end-user obtains through the use of an energy form. 376

2. (Utility) The storage, transmission and distribution of natural gas and any other services provided by the utility as part of the delivery of natural gas to its customers. 377

Fixed Costs - 378

Costs that remain relatively constant and do not tend to vary with throughput. For example, interest expense, depreciation charges and property taxes (Also see **Variable Costs**). 379

Free Riders - 380

DSM participants who would have implemented the program's efficiency measure(s) even if there were no program offered by the Company. 381

Incentive - 382

See **Customer Incentive**or **Utility Incentive**. 383

Industrial Sector - 384

The group of non-residential, non-commercial customers that provide products, including agriculture, construction, mining, and manufactured goods and services. 385

Integrated Resource Planning (IRP) - 386

A planning method for use by natural gas and electric utilities whereby expected demand for energy services is met by the least costly mix of demand-side and supply-side programs and strategies. Sometimes referred to as **Least-Cost Planning.** 387

Least Cost Planning - 388

A synonym for Integrated Resource Planning. 389

Local Distribution Company (LDC) - 390

A natural gas utility which sells and/or delivers gas to end users in a specific franchise area or 391
areas.

Lost Revenue Adjustment Mechanism (LRAM) - 392

A technique which allows the utility to recover, in its rates, the revenue loss associated with a 393
specific DSM program or set of programs.

Net Rate Impact - 394

The overall change in the customer's per unit cost of an energy form due to the introduction of a 395
proposed DSM program, portfolio or plan.

Net Societal Benefit - 396

The aggregate impact on society of an activity, taking into account all effects on the economy, 397
environment and society (both quantitative and qualitative).

Participation Rate - 398

The ratio of the number of actual program participants to the total number of participants eligible 399
to partake in the program.

Penalty - 400

A regulatory mechanism that disciplines a utility for not achieving a specified target. 401

Penetration - 402

A measure of the level of customer acceptance or market share for a particular service, product or 403
program, expressed relative to the total potential market.

Pilot Programs - 404

A trial or experimental program to test customer acceptance and program potential, before 405
deciding whether to commit to the full implementation of a DSM program.

Revenue Adjustment Mechanism - 406

A usually symmetric technique which allows the utility to include, in its rates, the revenue loss or 407
gain associated with a specific DSM program or set of programs. (See also **Lost Revenue Adjustment Mechanism**)

Shared Savings Mechanism - 408

A regulatory incentive to the utility's shareholders whereby they are allowed to retain a portion of 409
the net dollar benefit from a DSM program or set of programs.

Societal Cost Test - 410

An evaluation of the costs and/or benefits accruing to society as a whole, due to an activity. 411

Societal Impact - 412

The total impact of an activity on the economy, the environment, and society as a whole. 413

Throughput - 414

The total volume of natural gas consumption or utility gas sales which occurs in a specified time 415
frame, usually measured annually.

Total Resource Cost Test - 416

An evaluation which incorporates all of the costs and benefits included in the Societal Cost Test 417
with the exception of externalities.

User-Pay - 418

The principle which requires beneficiaries of a program, service or facility to pay their 419
proportionate share of the total cost of the program, service or facility.

Utility Costs- 420

Costs incurred by a utility in a given year for the operation of a DSM program or portfolio. 421
Includes administration costs.

Utility Incentive- 422

A regulatory measure which rewards a utility when it achieves a specified target. Also referred to as a shareholder incentive. 423

Variable Costs - 424

Costs that vary proportionally with throughput. (Also see **Fixed Costs**) 425