



Ontario Energy Board

Commission de l'énergie de l'Ontario

Existing DSM Framework for Natural Gas Distributors

LEAP Conservation Working Group
June 25, 2009

Evolution of Demand Side Management (DSM) in Natural Gas Industry

- Original regulatory framework established by the Board in 1993
- Union Gas and Enbridge have been filing DSM plans since 1995
- In the 2006 DSM Generic Proceeding - after extensive input and agreement on major issues among stakeholders - the Board approved:
 - New rules for DSM initiatives of natural gas distributors
 - A list of DSM technologies and input assumptions
 - Utility avoided costs
 - A Lost Revenue Adjustment Mechanism (LRAM) for distributors
 - Initial DSM targets, budgets and utility incentives and formulaic approaches for setting annual DSM targets, budgets and utility incentives for the years 2008 and 2009
 - A process for stakeholder consultation and annual evaluation and audit of results
- Three-year (2007-2009) DSM plans for Union and Enbridge were approved
- In April 2009, the Board extended the current DSM framework to 2010 (excluding the low income component)



Existing DSM Framework - Major Elements

- Total Resource Cost (TRC) test is used for screening all measures and programs
 - TRC = Avoided resource costs (i.e. gas, electricity, water) **minus** cost of equipment and the distributor program costs
- Aggregate DSM budgets have been established
- Performance targets based on TRC net savings have been set for all resource acquisition programs
- Separate targets (metrics) have been set for market transformation programs
- Shareholder financial incentives have been established relative to the targets above

Existing DSM Framework – Budgets

- DSM Budgets
 - DSM budgets for 2007:
 - \$17 million (Union) escalating at 10% annually
 - \$22 million (Enbridge) escalating 5% annually
 - DSM budgets for 2010 as recently submitted by gas distributors:
 - \$20.9 million (Union)
 - \$23.8 million (Enbridge)
 - For 2010 (as directed by the Board) budgets for low income programs are not included
- Programs for Low-income Energy Consumers
(Based on the existing framework and shown for illustration purposes only)
 - 14% of residential DSM program budget
 - \$1.7million (Union)
 - \$1.6 million (Enbridge)

Existing DSM Framework - Targets

- Targets are based on TRC Net Savings:
- TRC Net Savings Targets for 2007 were established at the following levels:
 - Enbridge: \$150 million
 - Union: \$188 million
- TRC target for 2010 will be based on the three year average of TRC Net
- Savings for 2007, 2008 and 2009 times an escalation factor specific to each utility as it has been determined by the Board.
- Separate targets are set annually for market transformation programs

Existing DSM Framework – Shareholder Financial Incentives

- Reward structure is a non-linear function relative to TRC net savings (payouts begin at 25% of target, ramping up to a max of 125%)
- Incentive was capped at \$8,500,000 in 2007 adjusted annually by the CPI
- For both utilities, the following would apply for the determination of the shareholder financial incentive:
 - Up to 25% of the annual target, a total payout of \$225,000
 - Up to 50% of the annual target, a total payout of \$675,000
 - Up to 75% of the annual target, a total payout of \$2,250,000
 - Up to 100% of the annual target, a total payout of \$4,750,000
 - Up to 125% of the annual target, a total payout of \$7,250,000
 - In excess of 125% of the annual target, a total that is capped at no more than \$8,500,000.
- Separate shareholder financial incentives have been established for market transformation programs

Recent Developments

- The Green Energy and Green Economy Act (GEA) has been proclaimed; regulations will follow
- The Board is reviewing 2010 DSM Plans filed by Union & Enbridge (excluding low income programs)
- For 2010, gas distributors will be required to submit separate DSM plans for low-income energy consumers
- The Board will review the DSM Framework before issuing guidelines for beyond 2010