

DSM Evaluation in a Gas Utility Pre and Post Deregulation

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BACKGROUND

Enbridge Consumers Gas is the largest natural gas distribution utility in Canada, serving one and a half million customers in the southern Ontario franchise area. In 1985, the gas industry in Ontario began a gradual process of deregulation, under the direction of the regulator, the Ontario Energy Board (OEB). Beginning with the introduction of competition in retail marketing, the industry has moved from a cost-of-service model to performance-based regulation. In the context of this phased deregulation, the OEB also mandated the gas utilities to deliver demand management programs, beginning in 1995. As a result of these developments, Enbridge Consumers Gas has changed from a full-service gas utility, which offered limited DSM programs to a distribution utility where DSM is seen as a core business activity, accounting for a \$4.8 million shareholder incentive in 1999.

IMPACT OF DEREGULATION ON DSM EVALUATION

This change has had a profound effect on the company's approach to the evaluation of DSM programs. Initially, evaluation focussed on tracking results and costs in order to improve program design. In the post-deregulation environment, the company receives a shareholder incentive for exceeding the DSM target in any year. The incentive is calculated as 35% of the value of the net societal benefits resulting from DSM savings over and above the OEB approved target. Much of the evaluation effort is now focussed on validating the shareholder incentive calculation.

Pre-deregulation, DSM programs were implemented through a "stand-alone" department. In the competitive environment, DSM is fully integrated with the utility's marketing function. DSM programs are seen to offer value to customers and help position the company to benefit from added load opportunities.

The company's DSM plans are filed with the regulator as part of the annual Rate Case. Traditionally, stakeholders presented their views to the regulator as intervenors at the Rate Hearing. The company has worked closely with the DSM stakeholders to develop a collaborative process for reviewing DSM plans and evaluation results before the Hearing. Representatives from consumer groups, industry associations and environmental organizations meet several times a year to consult with the company. Through this consultative process the DSM component of several recent rate cases has been settled in the pre-hearing discussions, thereby reducing hearing time and the company's regulatory costs.

The DSM planning and evaluation process continues to evolve through collaboration with the intervenors. An independent audit is now conducted to verify the evaluation report and incentive calculation and, this year, the intervenors themselves will help to select the independent auditor. Looking to the future, DSM evaluation will adapt again as the company moves to implement performance-based regulation in every aspect of the utility's business.