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VIA COURIER, RESS and EMAIL

December 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

**Re: Union Gas Limited (“Union”)
Ontario Energy Board (“Board”) File No. EB-2015-0179
Expansion of Natural Gas Distribution Application
Enbridge Gas Distribution Inc. (“Enbridge”)
Correspondence - Evidence Description**

In accordance with Procedural Order No. 3 dated December 10, 2015, please find enclosed Evidence Details of Enbridge Gas Distribution Inc. in the above noted proceeding.

Please contact the undersigned if you have any questions.

Yours truly,

(Original Signed)

Joel Denomy
Manager, Regulatory Applications

cc: Mr. F. Cass, Legal Counsel, Aird & Berlis LLP
Mr. C. Ripley, Union Gas Limited (via email)
Mr. C. Keizer, Legal Counsel, Union Gas Limited (via email)
All Interested Parties - EB-2015-0179 (via email)

Evidence Details of Enbridge Gas Distribution Inc. (“Enbridge”)

In Procedural Order No. 3 for the Union Gas EB-2015-0179 (“Community Expansion”) proceeding the Ontario Energy Board (the “Board”) directed parties who have indicated their intention to file evidence in that proceeding must file a detailed description of their evidence on or before December 16, 2015. By letter dated December 7th, 2015 Enbridge informed the Board of its intention to file evidence in Union’s Community Expansion proceeding. Set out below are details of the evidence Enbridge intends to file.

Detailed Evidence Outline

As the Board is aware Union’s Community Expansion application addresses two major issues. First, changes to the OEB’s current economic feasibility guidelines under Section 36 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 Sched B (the “Act”). Provided that these potential changes and tools are accepted by the Board they then would be applied to natural gas community expansion projects that are currently not feasible under the Board’s current economic feasibility guidelines. Second, the specific details of four proposed community expansion projects, including Leave to Construct Applications that are to be considered under Section 90 of the Act, assuming that the relief requested of the Board in the first issue is granted. In Procedural Order No.2 the Board indicated that it would consider Union’s application in a staged manner and address the funding aspects of the proposed expansions first. The evidence Enbridge intends to file will therefore deal with the funding aspects of Enbridge’s Community Expansion proposal.

Enbridge is supportive of much of Union’s proposal with the exception of two elements. Enbridge’s proposal concerning the Board’s current economic feasibility guidelines will offer the Board an alternative approach with respect to the application of the proposed Temporary Expansion Surcharge (“TES”). The other major area of difference pertains to the market and physical characteristics of the communities under consideration by Enbridge for potential community expansion projects.

In order to be of assistance to the Board Enbridge has structured this submission by first setting out the anticipated table of contents for the evidence it intends to file. Each element of that table of contents is then discussed in detail.

Anticipated Table of Contents

- 1) Introduction
- 2) Purpose of Enbridge’s Evidence in this Proceeding
- 3) Elements of Union’s Proposal Supported by Enbridge
- 4) Elements of Union’s Proposal Where Enbridge Proposes an Alternative Approach
 - a) Application of the Temporary Expansion Surcharge (the “TES”) (TES Term)
 - b) Application of the TES (Contract Customers)
- 5) Market Considerations

1) Introduction

The purpose of this section will be to introduce the Board Enbridge's evidence. It will provide an overview of Enbridge's interest in Union's Community Expansion Proceeding and provide a high level explanation of Enbridge's Community Expansion proposal. This section will also provide an overview of the impacts of those proposals on the communities Enbridge has identified as candidates for community expansion.

2) Purpose of Enbridge's Evidence in this Proceeding

The purpose of this section will be to provide the Board with an indication of the aspects of Union's Community Expansion application that are supported by Enbridge, where Enbridge will be seeking an alternative approach relative to the relief sought by Union and the different market conditions Enbridge believes the Board should consider in the determination of changes to the economic feasibility criteria pertaining to natural gas service expansion projects.

3) Elements of Union's Application Supported by Enbridge

This section will detail the following aspects of Union's Community Expansion application that are supported by Enbridge:

- a) The definitions proposed for a Community Expansion Project and, a Small Main Extension Project;
- b) A TES rate for Community Expansion Projects;
- c) An Incremental Tax Equivalent ("ITE") mechanism to collect municipal contributions;
- d) An exemption from E.B.O. 188¹ that would allow individual Community Expansion Projects to proceed at a Profitability Index ("PI") of less than 0.8;
- e) An exemption of Community Expansion Projects from E.B.O. 188 Investment Portfolio and Rolling Project Portfolio requirements;
- f) A capital pass-through mechanism to incorporate the Community Expansion Projects in rates immediately following their in-service dates;
- g) Accounting orders to establish a Community Expansion Capital Pass-through Deferral Account and a Community Expansion Contribution Deferral Account; and
- h) A Temporary Connection Surcharge ("TCS") rate for smaller main extension projects.

¹ E.B.O. 188 – OEB Generic Proceeding Decision that provides the underlying principles for natural gas distribution system expansion.

4) Elements of Union's Application Where Enbridge Proposes an Alternative Approach

This section will highlight the alternative approaches proposed by Enbridge as follows:

- a) Application of the TES: Fixed Term TES vs. Rolling Term TES. Union has proposed that the term of the TES would be for a fixed period of time beginning from the date upon which natural gas service is made available to potential customers located within the bounds of a Community Expansion Project until the expiry of the Term of the TES specific to that Community Expansion Project. For example, if the Term of the TES for a community is five years, a customer that began to take service in the first month in which gas service is available to them would pay the TES for 60 months, whereas a customer that began to take service in the thirteen the month after which gas service is available to them would pay the TES for only 48 months. As in the case of Union, Enbridge proposes a single volume-based TES, however, Enbridge proposes that the TES will be tied to the customer's premise rather than the customer themselves for a set period of time specific to each Community Expansion Project or Small Main Extension Project. The TES would continue to be applicable to service at that premises until the expiry of the Term of the TES applicable to that Community Expansion Project or Small Main Extension Project, regardless of who the customer is, for 5 years or 60 months in this example. By doing so all customers served by the same Community Expansion Project or Small Main Extension Project would contribute to the cost of the project on a proportionally equivalent basis.
- b) Application of TES to potential Contract Rate Customers: Union has proposed that the TES be applied to general service (Rates M1, M2, O1, 10) customers attaching to Community Expansion Projects, where a contribution from customers in excess of \$500 each is required to make a project economically feasible. The TES will apply to all general service customers who attach to the system being constructed until the TES term for the project expires. Union does not intend to make the TES available to contract customers (Rates M4, M5, M7, T1, T2, 20, 100). The rationale being that contract customers have other means to make the necessary contributions. In contrast to Union's position Enbridge proposes that the TES be made available to all customers served by a Community Expansion Project or Small Main Extension Project on the same basis regardless of whether or not their service is subject to a gas distribution service agreement.

5) Market Considerations

The purpose of this section will be to provide details of the markets Enbridge has targeted for its community expansion efforts.

Enbridge currently has forty potential community expansion projects under consideration which include forty-one communities located in southern and eastern Ontario. The economic feasibility of a community expansion project is driven by two significant factors; project cost and the net present value of the revenue stream the project is expected to generate. Project cost is a function of

distance from the existing gas distribution network, number of potential customers, the nature of those potential customers, the geographic density of the customer base and the nature of the terrain that must be traversed to reach these customers. The revenue stream that a project is expected to deliver is a function of the number of potential customers and the nature of those customers in terms of their potential to use natural gas.

The geographic and market characteristics are different from one community to the next and need to be considered in terms what will help to achieve the Province's goal of ensuring that Ontario consumers in communities that currently do not have access to natural gas are able to share in the affordable supplies of natural gas. Based on the Company's best current information the forty communities identified represent 20,590 potential customers and would require a total capital cost of \$817.6 million. The Company's preliminary analysis indicates that these community expansion projects would have unassisted PIs, calculated as per the EBO 188 requirements ranging from 0.23 to as low as 0.09. Adoption of the Enbridge's proposal would increase these PIs to a range of 0.43 to 0.13, however; only two potential projects currently achieve PIs under the proposed changes in excess 0.4. Enbridge will provide more detail with respect to these communities and their associated feasibility assessments in its evidence in this proceeding.

Given the preliminary nature of the Company's cost and revenue forecasts for most of the communities now under consideration there is a reasonable expectation that the estimated capital costs for these projects will be reduced once further field work and detailed estimates are completed. There is also the potential to consider the use of Liquefied Natural Gas ("LNG") or other feasible approaches to supply some of these communities where excessive distance from existing gas mains, or large areas of rocky terrain are driving very high capital cost estimates.

Enbridge looks forward to providing submissions on this evidence outline and other matters at the Pre-Hearing Day scheduled on December 18, 2015.