



# **ONTARIO ENERGY BOARD**

## **OEB STAFF SUBMISSION ON DRAFT ISSUES LIST**

**Enbridge Gas Inc. 2019 Rates Application  
EB-2018-0305**

**February 28, 2019**

## 1. Background

Enbridge Gas Distribution Inc. (Enbridge Gas) and Union Gas Limited (Union Gas) filed an application in November 2017 with the Ontario Energy Board (OEB) under section 43(1) of the *Ontario Energy Board Act, 1998* (the OEB Act), for approval to effect the amalgamation of Enbridge Gas and Union Gas into a single company, and for approval of a rate-setting mechanism and associated parameters for the deferred rebasing period effective January 1, 2019.

The OEB issued its decision on August 30, 2018 approving the amalgamation and rate-setting mechanism for 2019 to 2023. Enbridge Gas Inc. (the amalgamated company) filed a complete application with the OEB on December 14, 2018 under section 36(1) of the OEB Act seeking approval for changes to its natural gas rates effective January 1, 2019. On December 3, 2018, the OEB declared the current rates of Enbridge Gas to be interim effective January 1, 2019 until the OEB issues a final rate order in this matter.

The OEB issued Procedural Order No. 1 on February 22, 2019 inviting submissions on the draft issues list provided in the application. OEB staff in this submission has provided commentary on the draft issues list and suggested certain changes to it. For all other issues that are described in the draft issues list, OEB staff has no proposed changes and submits that they should be adopted in the final issues list for the proceeding.

## 2. Draft Issues List

### Customer Connection Policy

The draft issues list is provided in Exhibit A1/Tab 6/ Schedule 1. It covers most of the pertinent issues that are before the OEB for consideration. However, OEB staff believes that certain issues should be revised and some other issues should be added.

In its Conditions of Service for the Enbridge Gas Distribution rate zone, Enbridge Gas notes that to connect an applicant (customer) to the distribution system, Enbridge Gas completes a construction estimate to assess the costs associated with the installation and that applicants may be required to pay a contribution in aid of construction (CIAC) as the share of the costs to make the installation financially feasible.

In response to an OEB staff interrogatory, Enbridge Gas indicated that prior to 2015, Enbridge Gas Distribution provided a threshold of 20 meters for standard residential service connections and customers were required to pay the appropriate CIAC when the service length exceeded the threshold.<sup>1</sup> Since 2015, it has refined its approach to determine the Profitability Index (PI) for each infill customer. The CIAC amount for residential infill customers is now determined by individually estimating the revenue allowance and the service cost estimate, which is typically a regionally tailored estimate based on historical data from similar services in the same area. The amount of service cost in excess of the revenue allowance is the CIAC amount which is recovered from customers before service installation. The PI of each customer connection is brought to 1.0 under this scenario. A PI of 1.0 would mean that the projected revenues over a certain number of years on a Net Present Value basis are equal to the project costs.

Enbridge Gas made these changes during its Custom IR period and this change has not been examined by the OEB in any proceeding. OEB staff is of the view that the existing rates and costs of Enbridge Gas include the costs to connect customers under the previous Enbridge Gas policy that was in effect when Enbridge Gas Distribution (the former utility) last rebased in 2014. OEB staff therefore recommends that the change in customer connection policy should be an issue in this proceeding. OEB staff recommends the following wording to describe the issue:

**Is Enbridge Gas' customer connection policy of calculating the Profitability Index for every individual infill customer for the Enbridge Gas Distribution rate zone and requiring a contribution in aid of construction (CIAC) appropriate and in accordance with the OEB's E.B.O. 188 guidelines?**

#### Utility System Plan and Asset Management Plans

In support of the 2019 Incremental Capital Module (ICM) funding request, Enbridge Gas has filed a Utility System Plan (USP) and an Asset Management Plan (AMP) for the period 2019 to 2028 for each of the Enbridge Gas Distribution and Union Gas rate zones. Although the OEB does not explicitly approve the USP and five-year spending plans, in OEB staff's view, the ICM funding request should be viewed in light of the overall spending and pacing of investments proposed in the USP.

OEB staff is not proposing a comprehensive review of the USP and AMPs wherein each project is reviewed, rather it is a review that gives due consideration to a number of factors in order to support the ICM funding request. OEB staff further notes that

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<sup>1</sup> Response to staff interrogatory #3, EB-2018-0131

Enbridge Gas has committed to filing an updated consolidated USP in its 2021 rate application. OEB staff therefore recommends adding issues that describe the factors that the OEB should consider with respect to the ICM funding request and that may be used potentially for any ICM requests for 2020 rates as well. In addition, since this is the first USP of the applicant, the investment planning process also should be reviewed.

Given that the potential ICM projects are subject to a leave to construct application where the need and costs have been or will be reviewed, the question is whether a comprehensive review of the ICM projects is required in this proceeding. OEB staff has provided a list of factors to be considered which has been adapted from the Alectra Utilities 2018 rate application.<sup>2</sup> Parties in their reply can suggest if any of the factors should be excluded.

Of the four projects requested for ICM funding, the updated costs of three projects (NPS 30 Don River Replacement, Sudbury Pipeline Replacement and Kingsville Reinforcement) have exceeded the original budgeted amounts approved in the leave to construct applications. It is not clear whether the prudence review of the variance in the revised versus budgeted costs should be addressed in the current application. If the prudence review for the updated budgeted amounts is addressed in this application, the appropriate issue needs to be added. If the prudence review is not addressed in this application, then the appropriate capital variance account would need to be established in this proceeding so that the variance between actual versus budgeted capital costs can be reviewed in a future rebasing or deferral account disposition proceeding. OEB staff recommends that, considering that this is the first ICM request of the applicant which also deals with a project that has gone into service in 2018 (Sudbury Replacement), the prudence review of the variance should be addressed in this application.

OEB staff therefore proposes that the following three issues should be added:

- 1. Is the level of planned capital expenditures proposed in the ICMS appropriate and is the rationale for planning, prioritization and pacing choices appropriate and adequately explained, and should the level of expenditures be approved by the OEB, giving due consideration to:**
  - a. customer feedback and preferences**
  - b. productivity**
  - c. compatibility with historical expenditures**
  - d. compatibility with applicable benchmarks**
  - e. reliability and service quality**
  - f. impact on distribution rates**

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<sup>2</sup> Decision on Issues List and Interim Rates and Procedural Order No. 3, EB-2017-0024, November 17, 2017

- g. impact on OM&A spending**
- h. government-mandated obligations**
- i. the objectives of Enbridge Gas and its customers**
- j. the overall Utility System Plan (USP) and the Asset Management Plans (AMP)**

- 2. Is the USP and AMP planning process appropriate?**
  
- 3. Are the revised costs of the following ICM projects appropriate?**
  - a) NPS 30 Don River Replacement**
  - b) Sudbury Replacement Project**
  - c) Kingsville Reinforcement Project**

### Gas Supply Plan

In its application, Enbridge Gas is seeking OEB approval of the cost consequences of the Enbridge Gas Distribution 2019 Gas Supply Plan and associated gas cost forecast for 2019. At the same time, Enbridge Gas has filed the Union Gas rate zones 2018/19 Gas Supply Plan for information purposes only. The cost consequences of the Gas Supply Plan for the Union Gas rate zones for 2019 are subject to treatment within established deferral and variance accounts and are reviewed through the OEB-approved Quarterly Rate Adjustment Mechanism (QRAM) process. The draft issues list does not specifically state whether the cost consequences of the Enbridge Gas Distribution 2019 Gas Supply Plan are appropriate. OEB staff suggests that this issue should be clearly identified.

As noted above, the Gas Supply Plan of Union Gas has been filed for information purposes and the cost consequences are reviewed through the QRAM process which is essentially mechanical in nature with a short review process. OEB staff is of the opinion that like Enbridge Gas Distribution, the cost consequences of the gas supply for the Union Gas rate zone should also be reviewed and approved outside the QRAM process. OEB staff notes that the OEB has recently initiated a consultation to consider the merits of moving to a single natural gas rate application that will review both delivery related and commodity related rates for each rate-regulated natural gas distributor.<sup>3</sup> If this change is implemented, the gas supply plan cost consequences will be reviewed in the annual rate application for both legacy utility rate zones. OEB staff is of the opinion that the OEB should wait for the outcome of the consultation before considering how to

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<sup>3</sup> OEB Letter to all parties, EB-2017-0257, January 17, 2019

approach the review of the cost consequences of the integrated gas supply plan for Enbridge Gas.

Based on the above discussion, OEB recommends the addition of the following issue:

**Are the cost consequences of the Enbridge Gas Distribution rate zone 2019 Gas Supply Plan and associated gas cost forecast for 2019 appropriate?**

– All of which is respectfully submitted –