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December 19, 2019

Sent By Electronic Mail, RESS E-filing, and Courier

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
27-2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2019-0288 – Quarterly Rate Adjustment Mechanism ("QRAM") Application – EPCOR Natural Gas LP ("ENGLP") – Response to Board Staff Interrogatories

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Please find attached ENGLP's responses to OEB staff interrogatories issued by the OEB on December 18, 2019 in the above noted proceeding.

Please feel free to contact me if you have any questions.

Sincerely,

Vince Cooney, P.Eng, MBA
Senior Manager, Regulatory Affairs, Ontario
EPCOR Utilities Inc.
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(647) 730-0013

cc. All intervenors in EB-2018-0336
Arturo Lau, *OEB Staff* (Case Manager)
Susannah Robinson, *EPCOR*

RESPONSES TO ONTARIO ENERGY BOARD STAFF COMMENTS
EPCOR Natural Gas QRAM Application EB-2019-0288
December 17, 2019

1. On page 7 of the evidence, EPCOR Natural Gas has indicated that it has entered into a contract with a local producer for volumes to be purchased as of the later date of November 1, 2019, or the completion of Lagasco and EPCOR Natural Gas facilities.

   a) Is EPCOR seeking OEB approval of the costs consequences of the Lagasco contract effective January 1, 2020?

Response:
EPCOR is not seeking approval of the of the costs consequences of the Lagasco contract effective January 1, 2020 as these costs have been approved in a previous proceeding (EB-2018-0336). ENGLP Aylmer filed its initial 5-year gas supply plan for 2019-2024 dated “December 2018” on January 25, 2019 as part of its EB-2018-0336 rates application evidence.[1]

Page 16 of the approved settlement agreement in EB-2018-0336 for ENGLP’s 2020-2024 rates application confirms that:

> *The Parties agree that ENGLP’s Natural Gas Supply Plan for the 2020 Test Year and subsequent years will be the subject of a separate Board proceeding (EB-2019-0150), which may impact the associated cost consequences of this Settlement Proposal.*

The OEB proceeding referenced above, EB-2019-0150, has only one filed document, the “ENGLP Aylmer Gas Supply Plan: 2019-2022” filed May 8, 2019, pursuant to the *Report of the Board Framework for the Assessment of Distributor Gas Supply Plans* (EB-2017-0129). No further procedural steps were taken by the OEB with respect to the filing of ENGLP’s plan, aside from the letter of July 25, 2019 to all parties with respect to the review of Enbridge Gas’ Supply Plan.[2]

[1] EB-2018-0336, Application and pre-filed evidence at Exhibit 4, Tab 4, Schedule 1.
[2] EB-2019-0137, OEB Letter Re Consultation to Review Natural Gas Supply Plans, dated July 25, 2019.

The settlement also indicated at page 17, and all parties supported that:

> *ENGLP will continue to require locally-sourced natural gas through the time period covered by this Application. ENGLP now deals at arm's-length from local gas producers, and is negotiating pricing (to take effect at the end of September 2020, upon expiry of the existing contract)* ***based on a discount to the Enbridge commodity rate under the M9 Tariff****.* [Emphasis added]

The Board approved the settlement proposal in EB-2018-0336 in its entirety, **including the cost consequences** of ENGLP's Gas Supply Plan[3], and therefore are not subject to OEB approval in the QRAM proceeding. [Emphasis added]

b) If so, why did EPCOR chose to do so in a QRAM proceeding rather than a separate application with longer processing time?

Response:
See response to 1 a) above.

c) Please provide the date at which EPCOR Natural Gas and Lagasco entered into the gas purchase contract.

Response:
October 3, 2019.

d) What facilities are required to procure the natural gas volumes and what is the forecasted cost of the facilities?

Response:
The local production facilities include a pressure regulating, metering station and approximately 1200 metres of pipeline. Refer to Table 1 below.

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[3] EB-2018-0336 Decision and Interim Rate Order dated July 4, 2019, page 4-5

Table 1 – High Level Description of Lakeview Facilities

Description	2019 estimate
Measuring and Regulating Equipment	$138,000
Mains – Plastic (Distribution Plant)	$168,000
Land	$51,000
TOTAL	$357,000

The forecasted cost of the subject facilities of $357,000 was approved in the OEB's Decision and Interim Rate Order for ENGLP's cost of service application for rates effective 2020-2024, issued July 4, 2019.[4] Further details on the previously approved facilities are described in detail as part of ENGLP's EB-2018-0336 Application at Exhibit 2, Tab 3, Schedule 1, pages 15-17, section 3.4.2 "Lakeview Reinforcement Project".

Given the way the system has developed over time, customer growth and the declining well supply in the south, low system pressures in the south of the system have become a concern. To continue to ensure safe and reliable service to existing customers in the area, and support ongoing development and access to natural gas, reinforcement of the system was required, and system modelling completed by Cornerstone Energy Services showed materially lower operating pressures in the south of the system during periods of peak demand.

e) Will EPCOR Natural Gas customers pay for the cost of the facilities that are required to procure natural gas from Lagasco?

Response:
As described in response to Staff-1(d) these facilities have been approved for inclusion in ENGLP's rate base for 2020.

2. EPCOR Natural Gas has entered into a contract with Lagasco for a firm contract demand of 1,200 GJ per day. The gas purchase contract expires on October 31, 2024.

    a) EPCOR Natural Gas has provided limited information on the gas purchase contract and how it impact the gas supply portfolio and gas supply mix. Will EPCOR Natural Gas provide an updated gas supply plan in a future

[4] EB-2018-0336, Settlement Agreement, page 6, Issue 2(a), dated June 10, 2019.

rates proceeding? If yes, please provide the timeline for filing an updated gas supply plan.

Response:
Regarding OEB staff's preamble, ENGLP may purchase up to the specified Contract Demand each day. The actual amount purchased by ENGLP in any day will vary based on local market demand.

ENGLP will provide an updated gas supply plan in its next cost of service rates proceeding. The next cost of service application will be for rates effective January 1, 2025 and will be filed prior to December 31, 2023.

Additionally, as noted in response to Staff-1(a) ENGLP will file an annual update to the five-year gas supply plan that was filed on May 8, 2019 (EB-2019-0150)[5] on or before May 1, 2020 as prescribed by the OEB and set out in the *Report of the Board Framework for the Assessment of Distributor Gas Supply Plans* (EB-2017-0129).

b) Please explain the rationale for the contracted quantity of 1,200 GJ per day.

Response:
ENGLP arrived at a figure of 1,200 GJ/day to meet system integrity requirements and to meet the needs and interests of its current and future ratepayers.

The Cornerstone Energy Services Study (Cornerstone Study) filed in the EB-2018-0336 proceeding[6] identified that as the Aylmer system continues to grow, new supplies of 1030 m3/hr (~900 GJ/day) would be required to address the low pressure problems and meet future growth requirements. ENGLP also makes reference to the 1030 m3/hr figure in its May 8, 2019 Gas Supply Plan.[7]

On January 30, 2019 the ENGLP area experienced severe weather conditions resulting in unacceptably low system pressures in the south and ENGLP

[5] An earlier version of the gas supply plan dated December 2018 appears in the EB-2018-0336 Application and pre-filed evidence at Exhibit 4, Tab 4, Schedule 1 "EPCOR Aylmer Gas Supply Plan".
[6] EB-2018-0336 Application and Evidence, Exhibit 2, Tab 3, Schedule 2.
[7] EB-2019-0150, ENGLP Aylmer Gas Supply Plan: 2019-2022, dated May 8, 2019, at page 5.

exceeded its existing contract demand by about 33,241 m3/d or about 1,293 GJ/d. This further confirmed that both incremental peak day volumes of gas were and are required and ENGLP would rather increase the volumes received from the local producer if possible.

c) Please explain how the contract quantity from Lagasco impacts EPCOR Natural Gas' gas supply plan that was provided in the rates application (EB-2018-0336) and system integrity issues that EPCOR Natural Gas has experienced in parts of the system.

Response:
The (Lagasco) Lakeview Reinforcement Project was discussed in significant detail in the Gas Supply Plans filed in the EB-2018-0336 rates case, and in the May 8, 2019 filing.

ENGLP's consultant GSA Energy indicated that there was significant economic depletion in the remaining production life of NRG Corp wells (now 2661031 Ontario Inc., a subsidiary of Lagasco).[8] ENGLP further identified the Lakeview reinforcement project as a means of bringing significant new gas supply into the southeast area of the system and in order to ensure that customers in that area continued to receive reliable service.[9]

Prior to the imminent completion of the Lakeview Reinforcement Project, ENGLP had no points of supply to the south of its franchise border, and no points of supply to the west. In 2018, Lagasco, an independent local producer expressed interest in tying in incremental lake gas and delivering ENGLP this gas in the south of the system which provided ENGLP with additional supply and a way to potentially navigate reliance on NRG Corp. gas.[10]

From a system integrity perspective, and for appreciation of relative scale, the contract quantity (1,200GJ/day) which ENGLP may take from Lagasco is over 11 times the quantity of gas which ENGLP is forecast to consume in 2019, i.e. approximately 11.5 million m^3 vs. 1,225,359 m^3.[11]

[8] EB-2019-0150, Gas Supply Plan, dated May 8, 2019, at page 21-22.
[9] Supra.
[10] Supra, at page 8, paragraph 5.
[11] Application, Schedule 3, "Composition and Cost of Gas Supply Source"

Ratepayers stand to benefit considerably from the elimination of the purchase of "premium priced gas", effective October 1, 2020, and from the Lagasco contract which provides 1,200 GJ/day at a 5% discount to system gas from Enbridge Gas.

For purposes of system integrity, the OEB had previously allowed the former Natural Resources Gas (NRG), now ENGLP, to recover from ratepayers a maximum annual quantity of 1.0 million cubic meters of natural gas at a premium to market prices.[12] Any additional quantities beyond 1.0 million cubic meters purchased would be eligible for recovery at current market rates that would be determined as per the QRAM methodology.[13]

3. The commodity rate for the gas purchased from Lagasco is based on the Enbridge Gas total gas supply commodity charge. In addition to the commodity price, EPCOR Natural Gas will pay Lagasco a delivery charge and a demand charge for the delivery of gas into the distribution system up to 1,200 GJ per day. These charges will be equal to the corresponding charges paid to Enbridge Gas under the M9 rate schedule, adjusted for the relative difference in the heat content of the gas delivered.

   a) Please confirm if EPCOR Natural Gas will pay an additional charge (delivery and demand charges) over the gas supply commodity charge identified on page 8 (\$0.134040 per m^3) that is based on Enbridge Gas's QRAM application in EB-2019-0273. If yes, please provide the delivery and demand charges separately and identify the reference in the QRAM application.

Response:
Confirmed. Please refer to Schedule 1, page 8 of the Application and pre-filed evidence, as well as response to Staff-1(a), and the attached Schedule 6B.

Delivery and demand charges are pass-through costs captured by the approved PGTVA reference price (and any variances to these costs through the PGTVA), and are not captured in detail in the application. The charges can be computed as follows.

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[12] EB-2010-0018, Phase 2 Decision and Order, dated May 17, 2012, at page 9.
[13] Supra.

Table 2 – Monthly Demand Charge

	Item	Quantity or rate	Note
(1)	Contracted Demand	1,200 GJ/day	per Application
(2)	M9 Monthly Demand Charge	$0.243598 /m3	per Enbridge M9 rate, as applied
(3)	M9 Delivery Rate	0.1271 cents/m3	Per Enbridge M9 rate, as applied
(4)	Average Enbridge Heat Content	38.98 MJ/m3	per Enbridge application
(5)	Average Lagasco Heat Content	38.00 MJ/m3	per contract
(6)	Monthly Demand Charge (/GJ)	$6.24931 /GJ	(2) x 1000 / (4)
(7)	**Monthly Demand Charge ($/month)**	**$7,499.17**	**(1) x (6)**

Total Monthly Delivery Charge Rate
= M9 Delivery Rate * (1/100) * Enbridge Heat Content
= 0.1271*0.01*(38.00/38.98)
= 0.1239 cents/m3

b) What will be the total charge per m^3 that will be paid to Lagasco for the period January to December 2020 inclusive of all charges? Please provide a table with a breakdown.

Response:
Refer to attached Schedule 6B. The total charges for delivery are $89,990.03 and for demand are $11,340.53. Across forecast volumes of 9,152,630 m3, the total charge (non-commodity) is $0.0107112, or approximately 1.07 cents per m3.

c) Why has EPCOR Natural Gas proposed to pay a delivery and demand charge considering that the gas will be sourced within the franchise area?

Response:
With respect to delivery charges, whether or not gas is sourced within or outside the franchise area, in contract, a supplier will typically incur both the expense and risk associated with the delivery of gas to a “Point of Delivery” on the distributor’s

distribution system through the supplier's pipelines and associated facilities. Lagasco is subject to such provision in its gas sales contract with ENGLP.

ENGLP pays a demand charge because it allows EPCOR to ask for and Lagasco to be contractually obligated to deliver a firm quantity of gas. This arrangement provides for certainty of supply and reliability of supply for ENGLP's ratepayers in its franchise area.

4. The evidence states (page 8) that EPCOR Natural Gas assesses its contract demand with Enbridge Gas annually, to take effect November 1. The evidence further notes that it would be imprudent for EPCOR Natural Gas to renegotiate a lower contract demand prior to November 1 and possibly find itself in an unauthorized overrun position. Once EPCOR Natural Gas has some operational experience with Local Production (C), it will then be in a position to review its contract demand with Enbridge Gas.

   a) Please provide the annual contracted demand with Enbridge Gas under M9.

Response:
Firm Contract Demand with Enbridge Gas for system gas is 208,429 m^3/day. In addition to system gas demand, ENGLP has an additional 13,366 m3/day of Contract Demand is allocated to ENGLP's direct purchase customers.

   b) EPCOR Natural Gas has provided the historical and forecast volumes for 2019 and 2020 in schedules 3 and 6 respectively. The 2019 volumes purchased from Enbridge Gas in 2019 is approximately 27 million cubic metres. This is forecasted to drop to approximately 20 million cubic metres in 2020 (schedule 6). However, EPCOR Natural Gas in its evidence has not proposed to review its contract demand with Enbridge Gas. Please explain the discrepancy in the body of the evidence (page 8) and the drop in forecasted volumes in schedule 6.

Response:
At page 8 of its Application ENGLP has indicated that it will reassess its contract demand ahead of its regular opportunity to adjust Contract Demand, e.g. November 1, 2020. ENGLP is required to provide security of supply to its

customers and ENGLP has determined it imprudent to alter its Contract Demand as it could result in a potential shortfall of supply to the system, resulting in significant reliability issues without any material corresponding benefit to ratepayers.

Please also refer to response to Staff-2(b) where ENGLP discussed that due to severe weather on January 30, 2019 it exceeded its Contract Demand by about 33,241 m3/d or about 1,293 GJ/d.

c) Why has EPCOR Natural Gas forecasted procuring lower volumes from Enbridge Gas in 2020 as compared to 2019?

Response:
ENGLP has assumed a one-for-one displacement of Enbridge Gas Inc. commodity by the lower priced Local Production (C). This is also responsive to OEB Staff's question in part (a) regarding the discrepancy in the drop in volumes in the evidence when compared to the schedules.

5. In schedule 6 of the evidence, EPCOR Natural Gas has shown purchases from Local Production (B) of approximately 60,000 cubic metres per month from October to December 2020.

a) Please identify the seller under Local Production (B).

Response:
The seller under Local Production (B) is 2661031 Ontario Inc., and this company is a wholly owned subsidiary of Lagasco Inc.

b) Why does EPCOR Natural Gas require additional volumes from Local Production (B) when it has entered into a gas purchase contract with Lagasco?

Response:
ENGLP entered into a contract with NRG Corp. (whose assets are now owned by 2661031 Ontario Inc.) with respect to well production whose initial term ends on September 30, 2020. Upon expiry, EPCOR has the option to request extensions of the Term. As the proposed pricing is at the then current Tranche B price, or

the Dawn Reference Price, the pricing for this production may be more favourable than other sources of supply. Therefore, for purposes of the QRAM submission, EPCOR assumed we extended the contract. ENGLP erroneously assumed extension of the contract at the M9 supply rate of $13.4040 cents/m3 as opposed to the Dawn Reference Price.

In addition, system reliability is increased by the incremental supply in this area.

c) Please explain why the unit price is changing from 11.8187 cents/cubic metre to 13.4040 cents per cubic metre starting in October 2020 for Local Production (B)?

Response:

ENGLP incorrectly applied the Enbridge Gas Inc. system gas price applicable to M9 customers (13.4040 cents/m3) instead of the Dawn reference price (11.8187 cents/m3) for “Tranche (B)” pricing. As the impact of correcting this error is immaterial ($2,851.39), ENGLP respectfully requests that it not be required to re-file the application.

EPCOR NATURAL GAS LIMITED PARTNERSHIP

COST OF GAS FOR DELIVERY AND DEMAND CHARGES

PROJECTED TWELVE MONTH FORWARD PERIOD - JANUARY, 2020 to DECEMBER, 2020

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20		**Total**
Volumes (m3)														
Local Production C	750,000	750,000	750,000	750,000	700,000	700,000	300,000	600,000	947,368	978,947	947,368	978,947		9,152,630
Price $/m3														
Demand - $/m3/month	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	0.243598	(1)	
Delivery - $/m3	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	0.001239	(2)	
Price $/GJ														
Demand - $/GJ/month	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931	6.24931		
Delivery - $/GJ	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787	0.031787		
Costs ($'s)														**Total Annual Costs (3)**
Demand	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	7,499.17	**$**	**89,990.03**
Delivery	929.28	929.28	929.28	929.28	867.33	867.33	371.71	743.43	1,173.83	1,212.96	1,173.83	1,212.96	**$**	**11,340.53**

Notes:

(1) The Demand Charges owing for any Month will be determined by dividing the M9 Monthly Demand Charge by the Enbridge Heat Content and multiplying the product by the Contract Der

(2) The Delivery Charges owing in any Month will be determined by dividing the sum of the M9 Delivery Commodity Charge, and the Delivery Price Adjustment, by the Enbridge Heat Conter

The resulting amount will then be multiplied by the Gas Purchased in such month.

(3) Any difference in the forecast and actual costs of transportation are captured through the Purchased Gas Transportation Variance Account.