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**VIA COURIER, RESS and EMAIL**

July 11, 2016

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

**Re: Ontario Energy Board Generic Proceeding  
Natural Gas Community Expansion  
Board File No.: EB-2016-0004  
Enbridge Gas Distribution – Reply Submission**

In accordance with Board's Procedural Order No. 3, attached please find two copies of Enbridge Gas Distribution's Reply Submission.

This submission was filed through the Board's Regulatory Electronic Submission System (RESS). Confirmation of filing is attached to this letter.

Please contact the undersigned if you have any questions.

Yours truly,

[original signed]

Lorraine Chiasson  
Regulatory Coordinator

cc: All parties to EB-2016-0004

**ONTARIO ENERGY BOARD**

Application under the Ontario Energy Board's own motion to consider potential alternative approaches to recover costs of expanding natural gas service to communities that are not currently served

**REPLY SUBMISSIONS OF  
ENBRIDGE GAS DISTRIBUTION INC.****A. Introduction**

The approved Issues List for this proceeding is attached as Schedule B to Procedural Order No. 2. It sets out twelve issues (the Issues) to be addressed in this case. As well, in Procedural Order No. 3, the Ontario Energy Board (OEB, or the Board) sought the views of parties with respect to additional questions that flowed from the evidence provided in the hearing (the Board Questions).

Procedural Order No. 3 provided for all parties to file written submissions by June 20, 2016 and for parties wishing to respond to submissions made by others to file reply submissions by July 11, 2016. In accordance with Procedural Order No. 3, Enbridge Gas Distribution Inc. (Enbridge, or the Company) filed submissions on June 20, 2016 (the Initial Submissions) that addressed each of the Issues and the Board Questions. Enbridge received submissions filed by OEB Staff and by 22 other parties to this proceeding.

These are the reply submissions of Enbridge filed in accordance with Procedural Order No. 3. In response to the submissions filed by others, Enbridge will not repeat its comments, as set out in the Initial Submissions, on the Issues and the Board Questions. Enbridge's position on the Issues and the Board Questions remains as set out in the Initial Submissions. In many instances, Enbridge's position is different from others, as can be seen by comparing the Initial Submissions to the submissions filed by other parties. However, Enbridge is of the view that a detailed discussion of all of the points made in the submissions filed in this proceeding is unlikely to be a useful and efficient way to move the case towards a reasonable framework for expansion of natural gas service to communities that are not currently served with gas (the Community Expansion Framework). Rather, in these reply submissions, Enbridge will address

general aspects or “themes” that have emerged over the course of this proceeding, with a view to assisting the Board in its development of the Community Expansion Framework.

## **B. Themes of the Proceeding**

### **1. Benefits of Community Expansion**

*It is clear that expansion of natural gas distribution to unserved communities will bring substantial benefits to these communities. Many of these benefits are not clearly captured in a feasibility analysis under EBO 188. It is important that the Board’s Community Expansion Framework be structured so that it can take account and give proper credit for public interest considerations favouring community expansion. These include quantifiable and non-quantifiable benefits such as industrial development, increased revenues to governments, local employment and environmental improvements.*

The Board-approved Issues List for this proceeding refers not only to the EBO 188 guidelines, but also to the guidelines that were provided in the Board’s EBO 134 Report.<sup>1</sup> In the EBO 134 Report, the Board referred to a list of public interest considerations that had been presented by OEB Staff. This list included a number of public interest benefits, such as industrial development, alternative fuel considerations, increased revenues to government, local employment, regional development, utility benefits, and so on.<sup>2</sup>

The Board stated in the EBO 134 Report that a three-stage test for evaluation of system expansion projects has considerable merit and it required each utility to develop a three-stage process to aid the Board in its determination of the public interest for particular projects.<sup>3</sup> The elements of the three-stage test are, first, a Discounted Cash Flow (DCF) feasibility analysis, second, a calculation of the present value of all quantifiable benefits not quantified in the first stage net of the subsidy required from existing customers and other quantifiable social costs and, third, consideration of the results of the first two steps together with relevant unquantifiable benefits and costs.<sup>4</sup>

Of course, the Board’s EBO 188 Report shifted the focus, for the purposes of distribution system expansion, to the first step of the three-stage test, thus removing stage two and stage three benefits from the test typically applied to the assessment of distribution system expansion projects. However, by no means did the change to the methodology for assessing distribution

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<sup>1</sup> See Issue 4(c) in the Issues List.

<sup>2</sup> EBO 134 Report of the Board, pp. 20-21, para. 5.3.

<sup>3</sup> EBO 134 Report of the Board, pp. 46, para. 6.72.

<sup>4</sup> EBO 134 Report of the Board, pp. 42-44, paras. 6.57-6.63, further referred to by the Board at p. 46, para. 6.72.

system expansion projects arising from the EBO 188 Report mean that the stage two and stage three benefits of such projects, as recognized in the EBO 134 Report, had disappeared. On the contrary, these benefits not captured in the DCF feasibility analysis continue to be important public interest considerations for distribution system expansion projects.<sup>5</sup> The consideration of stage two and stage three benefits is particularly relevant in this case in the Board's deliberations about whether exemptions or changes to the EBO 188 guidelines are appropriate at this time. In making that determination, there can be no doubt that it is open to the Board to give weight to the stage two and stage three public interest benefits, as it did in the EBO 134 Report.

Parties that argue in favour of adhering to the EBO 188 economic feasibility guidelines<sup>6</sup> have failed to allow for consideration of stage two and stage three benefits in the assessment of projects to extend gas distribution service to unserved communities.<sup>7</sup> As explained below under the "Community Support" heading, there are clear economic, social and environmental benefits associated with expansion of gas distribution to unserved communities. Some of these will not be considered in a feasibility analysis. Enbridge submits that the Community Expansion Framework should be structured to take account of appropriate public interest considerations, including stage two and stage three benefits. This outcome can be accomplished, as seen in Enbridge's proposal, by allowing some specific and limited exemptions or changes to the EBO 188 guidelines. The result of such an approach will be to support the expansion of natural gas distribution to qualifying unserved communities, thereby capturing some of the identified stage two and stage three benefits.

Lowering the threshold Profitability Index (PI) for community expansion projects is an important example of the type of amendments to the EBO 188 economic feasibility guidelines that should be seen as reasonable in order to achieve the stage two and stage three benefits of connecting

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<sup>5</sup> Notwithstanding the reference to EBO 134 in the Board-approved Issues List, BOMA argues, at page 9 of its Submission, that EBO 134 applies to transmission line expansions only and has no relevance to this proceeding, because it does not apply to distribution system pipeline expansions. However, as stated above, the stage 2 and stage 3 benefits were certainly relevant to the discussion of distribution system expansion in the EBO 134 Report and they remain relevant to the Board's consideration of the Issues in this proceeding, regardless of whether, since EBO 188, the Board has been applying the EBO 134 guidelines to distribution system expansion.

<sup>6</sup> BOMA, for example, has argued, at page 5 of its Submission for rigid adherence to the EBO 188 guidelines.

<sup>7</sup> South Bruce, for example, has argued for consideration of broader public interest factors, including stage two and stage three benefits.

new communities. Taking this step will result in modest additional costs to other ratepayers<sup>8</sup>, while providing important benefits to newly connected communities and to Ontario as a whole. Contrary to what others have argued<sup>9</sup>, there is no policy or regulatory barrier against the “subsidies” that would be paid by existing ratepayers to support community expansion projects that would otherwise be uneconomic.<sup>10</sup> The fact that the current EBO 188 guidelines allow projects with a PI of 0.8 to proceed shows that exactly this sort of subsidy already exists (albeit to a lesser degree). Additionally, the current ratemaking structure already effectively includes “subsidies” from those customers who are less costly to serve which offset the higher cost of service for other customers.

Assuming that some level of “subsidy” from existing ratepayers is appropriate to support community expansion, the approach advocated by Enbridge (which is similar to what Union Gas has proposed) is less expensive for ratepayers than EPCOR’s proposed “expansion reserve”. If the Board were to accept both Enbridge’s proposal in this proceeding and Union’s EB-2015-0179 proposal, the maximum combined ratepayer subsidy in the largest subsidy years for Enbridge and Union would be less than the \$50 million annual subsidy to be paid into and expansion reserve by all current gas customers under EPCOR’s proposal.<sup>11</sup>

## **2. Community Support**

*There is strong and widespread support from communities across Ontario to receive natural gas service. Leaders from those communities, coming from all parts of Ontario and including First Nations, presented compelling evidence about the economic, social and business benefits they will gain from having access to natural gas. This community support underlines the importance of the OEB approving a Community Expansion Framework like the one proposed by Enbridge that will support and accelerate the expansion of gas distribution to unserved communities.*

The widespread and enthusiastic support from unserved communities to receive the benefits of natural gas service as soon as possible can be seen in letters, written evidence, testimony and post-hearing filings. The intense level of interest has been driven by the Ontario Government’s clear objective to expand natural gas distribution to unserved areas. As discussed below (under

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<sup>8</sup> Evidence of Enbridge Gas Distribution, p. 32, para. 95. The suggestion in the Ontario Geothermal Association First Round Submissions that the ratepayer impact would be around 7% is greatly exaggerated. Enbridge’s evidence shows a maximum customer impact of \$12.11 per year – see Evidence of Enbridge Gas Distribution, p. 32, para. 95.

<sup>9</sup> See for example, First Round Submissions of the Ontario Geothermal Association at sections 1.2.1 and 2.2.5.

<sup>10</sup> This topic is also addressed in the OEB Staff Submissions at pp. 8-9.

<sup>11</sup> EPCOR’s expansion reserve cost of \$50 million per year is described at Ex.S4.EPCOR.Board Staff.8(i). Enbridge’s maximum “subsidy” is \$26 million (\$12.11 per customer \* 2.15 million customers) and Union’s maximum subsidy is \$13 million (EB-2015-0179, Union Evidence, page 40).

the heading “Cap and Trade/Greenhouse Gas Emissions”), the Government’s support for expansion of gas distribution has not wavered, even after the release of the Climate Change Action Plan.

The Board heard live evidence from many different community groups during this proceeding. Importantly, these are not perspectives that are often presented as live testimony in OEB hearings. Usually, the testimony at a hearing comes from applicants and experts. It’s rare to have directly impacted parties appear to describe the impact and importance of a proceeding to those parties. The fact that so many community groups who will be directly impacted by this proceeding chose to attend and testify before the Board speaks to the importance of the issues. While the stories told by the various witnesses were different, the theme was similar: access to natural gas would be a huge benefit to their communities.

At the Pre-Hearing Conference, the Board received in-person presentations from a large number of communities across Ontario, each of which spoke to the importance of expanding natural gas distribution to unserved areas.<sup>12</sup> Among the key messages conveyed by the representatives of these communities is that natural gas service will bring new business and employment, and will provide greatly needed cost savings for residents, municipalities and business.

During the oral hearing, representatives of Anwaatin Inc. (representing numerous First Nations and related entities) spoke about the need to address the “energy poverty” faced disproportionately by First Nations in Ontario.<sup>13</sup> As explained by former Grand Chief Larry Sault, First Nations communities without access to natural gas rely on very expensive (and sometimes unreliable) electric heat, which often must be supplemented by wood heating. This exacerbates the poverty that already exists for families in these First Nations communities, and causes air quality issues (with related health concerns). The Anwaatin witnesses explained the benefits that will follow from access to natural gas. These include critically needed cost savings, opportunities to pursue economic development opportunities, air quality improvements and a means to make better use of renewable generation (since it can displace much of the electricity needed for non-heating purposes).

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<sup>12</sup> The communities that appeared are Norfolk County, Sioux Lookout, East Ferris, Astorville, Perth East and Edwardsburgh Cardinal – see Pre-Hearing Conference Tr.8-48.

<sup>13</sup> The Anwaatin testimony is found at 1Tr.64-81, and Exhibit K1.2 (the Slide Presentation).

Testimony was also presented at the hearing by representatives of municipal governments that are members of the Northeastern Ontario Associated Chambers of Commerce (NOACC).<sup>14</sup> Speaking on behalf of communities that do not currently have natural gas service (such as Schreiber, Terrace Bay, Marathon, Manitouwadge and Wawa), the pre-filed evidence<sup>15</sup> and testimony from these witnesses describes their ongoing efforts to bring natural gas service to their communities and the problems encountered to date. The clear evidence from NOACC is that if these efforts to bring natural gas service to their communities succeed, there will be very significant economic benefits to the residents and businesses of the region.

Finally, the Mayors of three municipalities in South Bruce (Kincardine, Arran-Enderslie and Erin Kinloss) described the benefits that would accrue to their communities from access to natural gas.<sup>16</sup> These include significant savings for residents, which is particularly needed for low-income families, and the prospect of attracting and retaining more industry and business in the region.

The record in this proceeding also includes letters of support from a large number of communities across Ontario.<sup>17</sup> Many of these letters of support go to great lengths to describe the reasons why natural gas expansion is important. Among other things, the letters of support speak to the respective communities' longstanding efforts to obtain natural gas service, and the anticipated benefits to residents and businesses that would result. These benefits include reductions to high electricity heating costs, improvements in reliability and opportunities to attract new businesses.<sup>18</sup>

In contrast to the clear and widespread support for expansion of natural gas distribution to unserved communities, Environmental Defence argues that the impacts of a new Community

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<sup>14</sup> The NOACC testimony is found at 4Tr2-8.

<sup>15</sup> Evidence of the NOACC Coalition, filed March 21, 2016.

<sup>16</sup> The South Bruce testimony is found at 3Tr.142-150.

<sup>17</sup> Among these communities are Township of Warwick, Wawa (as representative of the Advancing Northwestern Economic Development Through Energy Competitiveness Group (ANEDTEC)), Wellington County (on behalf of the Western Ontario Wardens' Caucus (WOWC)), Dutton/Dunwich, Township of Perth East, Township of Severn, Township of Hornepayne, Norfolk County, Township of Oro-Medonte, Township of Edwardsburgh Cardinal, MoCreebec Eeyoud, Municipality of East Ferris, Scugog Island, Nation Municipality, Township of Huron-Kinloss, Township of Sioux Narrows-Nestor Falls, Milverton, Sioux Lookout, North Stormont, Clarington, Township of Muskoka Lakes, Township of Madawaska Valley, Saugeen Shores, Township of Prince, Hastings Highlands, Township of Uxbridge and Trent Hills. The letters of support can be found at the Board's webdrawer for this proceeding.

<sup>18</sup> See, for example, the letter from ANEDTEC at

[http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/517748/view/ANEDTEC\\_Municipality%20of%20Wawa\\_IntrvRQST\\_20160222.PDF](http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/517748/view/ANEDTEC_Municipality%20of%20Wawa_IntrvRQST_20160222.PDF)

Expansion Framework would be minimal.<sup>19</sup> The assertion is the Framework would only assist a very small number of customers who do not have natural gas service. That submission misses the point. There is no debate that it will never be feasible to connect some Ontario consumers to natural gas. This proceeding is focused on creating a Community Expansion Framework that will facilitate connection of those who can reasonably be connected. That is what Enbridge's proposal aims to accomplish. A successful Community Expansion Framework would be one that strikes an appropriate balance in facilitating the connection of as many as possible of the potential number of customers in the communities included in the Enbridge and Union proposals.<sup>20</sup>

In this proceeding, electricity customers who want to have the option of receiving natural gas service have spoken loudly. The Government has already signaled the importance of expanding natural gas distribution. It is important that the OEB create a Community Expansion Framework that will support and accelerate the expansion of gas distribution to unserved communities. Enbridge's proposal accomplishes this goal in a balanced and responsible fashion.

### **3. Flexibility in the EBO 188 Guidelines**

*Expansion of natural gas distribution to unserved communities is a clear goal of the Government and the OEB. This goal cannot be accomplished without some changes to the EBO 188 Guidelines. Enbridge's proposal sets out specific and limited exemptions or changes to the EBO 188 guidelines, to fulfil the Province's goal, while striking a reasonable and practical balance between the interests of existing customers and those of prospective customers in currently unserved communities.*

On February 17, 2015, the Ontario Minister of Energy wrote to the Chair of the OEB to "encourage the Board to continue to move forward on a timely basis on its plans to examine opportunities to facilitate access to natural gas services to more communities".<sup>21</sup> In this letter, the Minister asked the Board to examine its oversight of the natural gas sector and to assess what options may exist to facilitate connecting more communities to natural gas.

The Minister's request that the Board assess "options" to facilitate connecting more communities to natural gas was broadly-stated and did not place any limitations on the options that might be addressed by the Board. Given that a primary area of the Board's "oversight of

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<sup>19</sup> Submissions of Environmental Defence at p. 1.

<sup>20</sup> 19,805 for Union (EB-2015-0179 Union pre-filed evidence, Table 3) and 20,490 for Enbridge (Evidence of Enbridge Gas Distribution, p. 16, Table 2).

<sup>21</sup> The Minister's letter can be found at EB-2015-0179, Ex. A, Tab 1, App. A, p. 1.



the natural gas sector” is the approval of rates for the distribution of gas, it is difficult to imagine that, in its request that the Board assess “options”, the Minister was not expecting the Board to consider how its jurisdiction to approve just and reasonable distribution rates can be exercised in a manner that facilitates the connection of more communities to natural gas. Of course, the policy or mechanism currently used by the Board to balance system expansion with just and reasonable rate-making is the EBO 188 guidelines. In short, one can readily conclude that the Minister’s letter to the Board leads directly to consideration of potential modifications to the EBO 188 guidelines.

Some parties argue that the Minister’s letter was not a direction, but instead was only a suggestion or request, and that this somehow means that the Board should opt to make few or no changes to the current EBO 188 framework.<sup>22</sup> That does not fit with other statements from the Government. For example, the conclusion to Minister’s letter states that “I appreciate your continued support to ensure the rational expansion of the natural gas transmission and distribution system for all Ontarians”. Clearly, that outcome cannot be accomplished without changes to the existing EBO 188 framework. Otherwise, the communities seeking natural gas expansion would already be connected.

It certainly seems to be the case that the Board understood the Minister’s letter to lead in the direction of potential modifications to the EBO 188 guidelines. Following receipt of the Minister’s letter, the Board issued its own letter, dated February 18, 2015 to applicants and potential applicants for expansion of natural gas distribution.<sup>23</sup> As stated above, the Board’s letter began by referring to 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 affordable supplies of gas. The Board said that, in order to facilitate access to natural gas for rural and remote communities and businesses, it was inviting parties to make proposals and that, in this context, the Board said it was aware that “regulatory flexibility” may be required. Even more specifically in relation to EBO 188, the Board went on to indicate in the letter that it was cognizant that “the specific requirements of EBO 188 may require some flexibility to expand access to natural gas for communities that are not currently served”.

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<sup>22</sup> See, for example, Submissions of Environmental Defence at pp. 6-7.

<sup>23</sup> [http://www.ontarioenergyboard.ca/oeb/ Documents/Documents/OEB\\_Letter\\_Gas\\_Expansion\\_20150218.pdf](http://www.ontarioenergyboard.ca/oeb/ Documents/Documents/OEB_Letter_Gas_Expansion_20150218.pdf)

Enbridge submits that the Province's objective of facilitating the connection of more communities to natural gas can indeed be achieved by means of limited and particular areas of flexibility in the application of the EBO 188 guidelines. This can be seen from Enbridge's proposal for the Community Expansion Framework. Enbridge has proposed that all system expansion projects within the definition of a community expansion project be grouped into a separate rolling project portfolio called the Community Expansion Portfolio and that the Community Expansion Portfolio be managed such that its PI would be maintained at a level of 0.5 or higher.<sup>24</sup> In order to give effect to Enbridge's proposal, the only exemptions or changes to the EBO 188 guidelines put forward by Enbridge are the exemption of projects in the Community Expansion Portfolio from a minimum project PI of 0.8, the exclusion of projects in the Community Expansion Portfolio from Enbridge's EBO 188 Rolling Project Portfolio and the exclusion of those projects from Enbridge's EBO 188 Investment Project portfolio.<sup>25</sup>

With these specific and limited exemptions or changes to the EBO 188 guidelines, Enbridge's proposal fulfills the Province's goal of facilitating access to natural gas for communities that are not currently served with gas, while striking a reasonable and practical balance between the interests of existing customers and those of prospective customers in currently unserved communities.

In its efforts to develop a balanced approach, Enbridge has included in its proposal a number of elements that are intended to reduce impacts on existing customers. These include the System Expansion Surcharge to be recovered from new customers in Community Expansion Portfolio projects<sup>26</sup>, the Incremental Tax Equivalent (ITE) mechanism to collect municipal contributions<sup>27</sup> and the treatment of surcharge funds as part of general revenue, rather than as Contributions in Aid of Construction, in order to reduce the portion of revenue requirement contributed by customers.<sup>28</sup> In its submissions, OEB Staff refers to interrogatory responses and oral evidence that explain the benefit to ratepayers, by way of a lower revenue requirement, when ITE contributions are treated as revenue and OEB Staff supports the positions of Enbridge and Union in this regard.<sup>29</sup>

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<sup>24</sup> Evidence of Enbridge Gas Distribution, p. 23, para. 70.

<sup>25</sup> Evidence of Enbridge Gas Distribution, p. 24, paras. 71-75.

<sup>26</sup> Evidence of Enbridge Gas Distribution, pp. 21-22, paras. 61-63.

<sup>27</sup> Evidence of Enbridge Gas Distribution, pp. 22-23, paras. 64-67.

<sup>28</sup> Evidence of Enbridge Gas Distribution, pp. 21-22, para. 62.

<sup>29</sup> OEB Staff Submission at p. 21.

In contrast, BOMA argues that the surcharges proposed by Enbridge and Union should be treated as contributions in aid of construction.<sup>30</sup> It is not clear why an intervenor that apparently is concerned about the interests of customers of the gas distribution utilities would object to an element of Enbridge's proposal that has the effect of reducing customer impacts of expansion to unserved communities. This is particularly so in a proceeding such as this where the objective is to consider "options" for connecting more communities to gas service: it is surely not conducive to a full consideration of options when an intervenor concerned about the interest of gas distribution customers simply chooses to reject a proposal that would reduce impacts on customers.

Still on the topic of Enbridge's proposal, OEB Staff questions whether the "penetration rate" or customer capture numbers assumed by Enbridge for community expansions are too high.<sup>31</sup> The Company believes that its forecasts are conservative, based on customer survey information received for five potential expansion communities.<sup>32</sup> Indeed, OEB Staff's own argument which notes that customers in new communities will benefit greatly from natural gas service also supports an expectation that the "penetration rate" will be quite high. In any event, Enbridge's Leave to Construct applications to be filed in support of community expansion projects will contain updated customer attachment forecasts. The evidence shows that Enbridge's accuracy of forecasting customer attachments in Leave to Construct Applications has been very good.<sup>33</sup>

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<sup>30</sup> BOMA Submission at pp. 23-24.

<sup>31</sup> OEB Staff Submission at pp. 35-37

<sup>32</sup> Board Staff is not correct when they state that Enbridge's forecasts are based on results from surveys of only two communities. Enbridge's market survey included five potential expansion communities; Fenelon Falls, Kinburn-Fitzroy Harbour, Galetta, Eganville and Cambray. This was done to get a broader sample across the Central and Eastern parts of the Company's service area. Enbridge filed the Ipsos Public Affairs customer survey report at Ex.S3.EGDI.SEC.6, Attachment. As seen at page 28 of that document, 85% of residents indicated that they are likely (very likely or somewhat likely) to convert to natural gas, even after learning about the estimated costs associated with conversion.

<sup>33</sup> Ex.J3.11.

#### **4. Competition between Utilities and New Entrants and Cross-Utility Subsidies**

*There are significant potential issues around permitting competition for franchise agreements to connect new communities. Among these are the inefficiency associated with having each competing utility undertake its own time-consuming and expensive cost estimate of the costs of connection. The fact that the largest customer in South Bruce is questioning the outcomes from the competitive process that has been held is a good reminder that any competitive bidding process needs to be thorough and subject to detailed, well-considered requirements.*

*It is not at all clear that the Board has jurisdiction to approve a Community Expansion Framework where customers of one utility would subsidize the connection of customers of another utility. What is clear is that such a tool is not needed in order to fulfil the Province's goal of connecting more communities. Enbridge's proposal provides the basis for an effective and balanced Community Expansion Framework that does not require cross-utility subsidies.*

##### **(a) Competition for Franchise Agreements**

In theory, it may seem desirable to have existing gas distributors and new entrants compete for franchises from municipalities that do not currently have access to natural gas service. In practice, though, the concept of competition for franchise agreements presents many challenges. In light of these challenges, there is good reason to question the practicality of any process that is based on a competition for franchises to provide access to gas for communities that are not currently served. Further, even if the perceived value of a competitive process is seen to out-weigh the practical challenges, it is nonetheless clear that the competitive process would need to be thorough and subject to detailed and carefully-constructed requirements in order to overcome the issues with such a process.

To take just one example of the challenges arising from a competitive process, a problematic issue is the role of cost estimates in the selection of a successful bidder for the provision of gas service to an unserved community. Obviously, a comparison of the capital cost estimates of competing bidders would be an important factor in the evaluation of proposals to expand gas service to an unserved community. The importance of assessing the capital costs of competing proposals is addressed, for example, in the argument of GreenField Specialty Alcohols Inc. (GreenField),<sup>34</sup> and Northern Cross Energy Limited (NCEL) says that "lowest capital cost is typically a dominant criterion, if not the dominant criterion" in a competitive process conducted by a body representing the public.<sup>35</sup>

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<sup>34</sup> GreenField Final Argument, at p. 10, para. 20, and p. 13, para. 27.

<sup>35</sup> Argument-in-Chief of NCEL at p. 20.

In order to come up with a good estimate of the capital costs of constructing the infrastructure needed to expand gas service to an unserved community, it is necessary for the project proponent to spend (in relative terms when weighed against the magnitude of the project) considerable time and money developing a proposal that takes into account project circumstances such as site conditions, the location of expected customer additions and the length of the required pipelines and then estimating the costs of constructing the required facilities. On the one hand, it is not an efficient use of funds for a number of different gas utilities each to spend a significant amount of money studying the costs of a particular community expansion project when only one of those utilities will actually be given the franchise allowing it to serve the community. On the other hand, it is likely that there will be little value in a competitive process if the project proponents have not spent the time and money required to come up with robust estimates of the capital costs of their proposals. Unfortunately, the perverse result could be that the competing proponent with the least robust capital cost estimate is chosen as the successful proponent because its cost estimate is materially lower than more robust estimates from other bidders.

Perhaps the most useful outcome of the process undertaken by South Bruce, and supported by EPCOR, is that it provides an actual example of how a competitive process can go wrong. Some of the shortcomings in the South Bruce approach are discussed in the arguments filed by NCEL<sup>36</sup> and GreenField.<sup>37</sup> Indeed, given that GreenField's demand represents more than 50% of the demand for natural gas in the Kincardine, Arran-Elderslie, Huron-Kinloss service area,<sup>38</sup> its concerns about the South Bruce bidding process are, in and of themselves, a very strong indicator that the process went awry.

GreenField has made submissions<sup>39</sup> about the "standardization of information and required disclosures"<sup>40</sup> for the purposes of a competitive selection process. While Enbridge does not necessarily agree with the detailed proposals made by GreenField, these points confirm the broader proposition that a competitive bidding process will not be fair and effective unless it is thorough and subject to detailed and carefully-constructed requirements. Even at that, Enbridge's submission, as discussed above, is that there remain significant practical issues with

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<sup>36</sup> Argument-in-Chief of NCEL: see, for example, pp. 1-5 and pp. 15-20.

<sup>37</sup> GreenField Final Argument at pp. 2-3 and 10-18.

<sup>38</sup> GreenField Final Argument at p. 1, para. 4.

<sup>39</sup> GreenField Final Argument at pp. 10-14.

<sup>40</sup> GreenField Final Argument at p. 13, para. 27.

the concept of competitive bidding for franchise agreements to provide access to gas service to currently unserved communities.

(b) Board Jurisdiction

There have been extensive and divergent submissions in this proceeding on the issue raised by the Board about whether it has the legal authority to establish a framework whereby the customers of one utility subsidize expansion undertaken by another distributor into communities that do not have natural gas service.<sup>41</sup> In the Initial Submissions, Enbridge presented arguments which, in its view, lead to the conclusion that the Board does not have jurisdiction to establish and allocate a cross-utility subsidy, referred to in this case as an expansion reserve or fund.<sup>42</sup> For the reasons set out in the Initial Submissions, Enbridge stands by the conclusion that the Board does not have jurisdiction to establish an expansion reserve, but, in any event, Enbridge notes that, at a minimum, the submissions filed in this proceeding have raised considerable uncertainty about the Board's jurisdiction in this regard.

The OEB Staff Submission illustrates that any conclusion in support of the Board's jurisdiction to establish an expansion reserve is fraught with uncertainty. OEB Staff comes to the conclusion that "the OEB likely does have the jurisdiction to create some form of expansion fund that creates subsidies between utilities and their ratepayers".<sup>43</sup> However, OEB Staff actually lays out a path of reasoning that leads to the opposite conclusion, namely, that the Board has no such jurisdiction. OEB Staff argues that there is a point at which an explicit transfer of wealth of this sort ceases to be just and reasonable; it argues that the explicit legislative provision for rural and remote rate assistance for electricity customers suggests that the Board does not have "carte blanche" to create these types of programs in the absence of specific empowering legislation; and it argues that the OEB is primarily an economic regulator, while a program under which costs do not follow benefits is more in the nature of a social program.<sup>44</sup> All of these arguments lead to a conclusion that the Board does not have jurisdiction to establish a cross-subsidy between utilities.

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<sup>41</sup> Issue 2 in the Board-approved Issues List.

<sup>42</sup> Initial Submissions at pp. 2-3, paras. 8-9.

<sup>43</sup> OEB Staff Submission at p. 13.

<sup>44</sup> OEB Staff Submission at p. 14.

Even as it submits that the Board has jurisdiction to create “some form of expansion fund”, OEB Staff cautions that “there are likely jurisdictional limits on how far such a program could go”.<sup>45</sup> Further in support of the proposition that it is within the jurisdiction of the Board to establish cross-subsidies between utilities, OEB Staff says it is doubtful that a bill paying customer cares whether a cross subsidy is going to another customer of their utility or a different utility.<sup>46</sup> Clearly, though, the extent to which a customer cares about whether a subsidy goes to customers of a different utility has nothing to do with the legal issue of whether the Board has the jurisdiction to create such a cross-utility subsidy.

Enbridge submits that the arguments made by OEB Staff actually support Enbridge’s conclusion that the Board does not have jurisdiction to establish a cross-utility subsidy, or expansion fund. Further, the uncertainty associated with arguments in support of the Board’s jurisdiction is itself a reason for the Board to avoid cross-utility subsidies in the Community Expansion Framework. As the Enbridge proposal has shown, the Board can implement a balanced and effective Community Expansion Framework that does not give rise to any doubt or uncertainty about the jurisdiction of the Board to do so and that does not require any amendment to the governing legislation.<sup>47</sup> Enbridge submits that the Board need not and should not consider a Community Expansion Framework that, at a minimum, raises doubt or uncertainty about the Board’s jurisdiction when the Board has before it a reasonable proposal from Enbridge that is not subject to any such doubt or uncertainty.

(c) Merits of Cross-Utility Subsidies

As pointed out by OEB Staff,<sup>48</sup> the Issues include whether the Board “can” require cross-utility subsidies (jurisdiction)<sup>49</sup> and, if so, whether the Board “should” exercise such authority (merits of the approach).<sup>50</sup> Enbridge agrees with OEB Staff’s submission<sup>51</sup> that cross-utility subsidies are not necessary in order to fulfill the Province’s goal of facilitating connection of more communities to natural gas:

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<sup>45</sup> OEB Staff Submission at p. 13.

<sup>46</sup> *Ibid.*

<sup>47</sup> At page 14 of its Submission, OEB Staff says that, if the Board were inclined to consider an “aggressive expansion fund”, then changes to the legislation that specifically authorize that activity “would be welcome”. Of course, any form of cross-subsidy between gas distribution utilities can be seen as an “aggressive” expansion fund.

<sup>48</sup> OEB Staff Submission at p. 15.

<sup>49</sup> Issue 2 in the Issues List.

<sup>50</sup> Issue 3 in the Issues List.

<sup>51</sup> OEB Staff Submission at p. 15.

Enbridge does not agree with the concept of a cross-utility subsidy or expansion reserve as proposed by EPCOR.<sup>52</sup> According to EPCOR's proposal, the ratepayers of the incumbent utilities who will contribute to such fund will never get their contribution back in the future. As such, EPCOR's cross-utility subsidy proposal is a one-way flow of funds from existing customers of one utility to new customers of another utility. On the other hand, the mechanism proposed by Enbridge and Union requires a short-term subsidy that would largely be paid back to existing ratepayers over time through rates paid by customers in the newly connected communities.<sup>53</sup>

Enbridge does agree with OEB Staff's submissions regarding the significant administrative efforts and additional financial costs that would be associated with the creation, management and allocation of an expansion reserve or fund.<sup>54</sup> Of course, all else being equal, the effect of implementing a process to collect, manage, allocate and account for an expansion reserve would be to add another layer of expense to the costs of expanding gas service to currently unserved communities. Enbridge submits that the creation of this additional layer of costs does not have economic merit.

Enbridge's proposal in this proceeding provides the basis for an effective and balanced Community Expansion Framework that does not require cross-utility subsidies.

## **5. Capital Pass-Through Risk and Return on Investment**

*The OEB should allow for the recovery of the revenue requirement for any community expansion projects completed prior to the end of Enbridge's and Union's current Custom IR plans. Further the Board should allow for the recovery of the associated revenue requirement in any ratemaking model that may be approved by the Board in the future.*

In response to Issue #7, many parties have agreed that Enbridge and Union should be permitted to recover the capital and operating costs associated with community expansion projects during the current incentive regulation (IR) term that runs until the end of 2018.<sup>55</sup> This recognizes the fact that Enbridge's current Custom IR plan does not provide for recovery of

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<sup>52</sup> Argument of EPCOR at pp. 21-22.

<sup>53</sup> Evidence of Enbridge Gas Distribution. p. 32 and Table 9.

<sup>54</sup> *Ibid.*

<sup>55</sup> See, for example, OEB Staff Submission at p. 19; FRPO First Round Submissions at p. 9; Written Submissions of IGUA at p. 22.



either the capital or operating costs associated with the potential community expansion projects referenced in its evidence.<sup>56</sup>

There are important flaws in the arguments from those parties who assert that Enbridge should have to absorb the costs of community expansion projects until the end of the Custom IR term.<sup>57</sup>

These parties fail to properly account for the fact that Enbridge foresaw the possibility of a community expansion program at the time of filing the Custom IR plan, but opted to expressly exclude the associated costs from forecasts of Allowed Revenue because of uncertainty about the timing and amount of the costs. Instead, Enbridge indicated that its community expansion proposal would be addressed in a future proceeding which could include a request for Y-factor treatment for costs.<sup>58</sup> No party objected to this planned approach.

If Enbridge and Union are not permitted to recover costs of community expansion until 2019, it is very likely that the utilities will wait to move ahead with this important initiative. It is not reasonable to expect the utilities to invest significant capital in projects on which they will not earn any return. A delay of several years in proceeding with community expansion will frustrate the Government's objective of expanding natural gas service to unserved communities. It will certainly frustrate the many communities who are petitioning the OEB to facilitate prompt action in connecting their communities to natural gas. Such an approach will also provide an unfair advantage to new entrants, who will not have to wait until 2019 to include any new community connections in their rate base and operating costs.

The circumstances described above clearly support Enbridge's proposal for Y-factor treatment of these costs during the Custom IR term so that the Company can quickly commit the capital required to pursue these community expansion projects.

## **6. Cap and Trade/Greenhouse Gas Emissions**

*The expansion of natural gas distribution to unserved communities will have a positive impact on greenhouse gas (GHG) emissions, in addition to the economic and social benefits that will result for families and businesses in those communities. The Cap and Trade System is not a barrier to expanding natural gas distribution to unserved communities. Enbridge's proposal for*

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<sup>56</sup> See responses to Ex.S3.EGDI.BSTAFF.7 and Ex.S3.EGDI.BOMA.12.

<sup>57</sup> See, for example, Submission of BOMA at pp. 24-25; Submissions of LMPA at p.24; and Final Argument of SEC at pp.48-50.

<sup>58</sup> See, for example, EB-2012-0459, Exhibit TCU1.9.

*a Community Expansion Framework is aligned with Government policy which continues to promote the expansion of natural gas distribution to unserved communities.*

Ontario's Cap and Trade system is expected to result in reduced GHG emissions. The approval of a Community Expansion Framework to facilitate expansion of natural gas distribution to unserved communities will contribute to reducing GHG emissions and will assist in meeting the Province's GHG reductions targets. Currently, residents and businesses in unserved communities rely in large part on oil and propane for heating. There is no doubt that the GHG emissions associated with natural gas are significantly lower than for other fossil fuels. Even where natural gas would displace electricity as the heating source for residents in newly connected communities, this may not result in significant changes to GHG emissions because much of the electricity production at times when space heating is in demand comes from natural gas fired generators.<sup>59</sup> Both Enbridge and Union have provided evidence indicating that in total there would be meaningful GHG reductions resulting from the connection of the proposed natural gas community expansion projects.<sup>60</sup>

Enbridge agrees with OEB Staff that where the OEB is satisfied that expansion of natural gas distribution to unserved communities will reduce GHG emissions, then there is no need to examine whether alternatives would provide further GHG emission reductions.<sup>61</sup> Contrary to the suggestion from the Ontario Geothermal Association (OGA)<sup>62</sup>, there is no need for any sort of "threshold condition" that gas utilities prepare and obtain approval of a Climate Change Action Plan "compliance strategy" before proceeding with any new projects under a Community Expansion Framework. It is already clear that these projects are net positive from a GHG emissions perspective (without even taking into account the broader social and economic broader benefits that will accrue). As stated by OEB Staff, "a net reduction in GHG emissions is a sufficient test in this proceeding to evaluate the impact of a proposed cap and trade program on any alternate framework established to support expansion of natural gas".<sup>63</sup>

This Community Expansion Framework process arose in response to clear direction in the Ontario Government's 2013 Long Term Energy Plan that unserved communities should have

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<sup>59</sup> See Ex.S3.EGDI.OGA.4 and 4Tr.49-51.

<sup>60</sup> See Ex.S3.EGDI.ED.2 and Ex.S15.Union.BOMA.74.

<sup>61</sup> For the same reasons as articulated by OEB Staff, Enbridge disagrees with the suggestion from Environmental Defence (see pp. 7-9) that any application under a Community Expansion Framework must establish that it is preferable to alternatives (including conservation and geothermal).

<sup>62</sup> First Round Submissions of Ontario Geothermal Association at pp. 33-34.

<sup>63</sup> OEB Staff Submission at pp. 34-35.

access to natural gas. As stated in the first sentence of the OEB's February 18, 2015 letter that initiated this Community Expansion Framework process, "[t]he Provincial Government has set out a goal of ensuring that Ontario consumers in communities that currently do not have access to natural gas are able to share in affordable supplies of natural gas."<sup>64</sup> Despite what others may argue<sup>65</sup>, the Government's support for expansion of access to natural gas has not wavered. After the release of the Climate Change Action Plan, the Government has confirmed its support for expansion of access to natural gas to unserved communities.<sup>66</sup> The Climate Change Action Plan confirms that "no one will have to stop using gas in their home".<sup>67</sup> Natural gas will continue to play a very central role in Ontario's energy system. Enbridge has identified some of the ways that it plans to work co-operatively with the Government to achieve GHG reduction targets, while maintaining the important role for natural gas as an efficient and price effective energy source.<sup>68</sup> These include adding renewable natural gas to the Company's gas supply, continued demand side management activities, conversion of transportation markets from diesel to compressed natural gas, and investing in innovation and other clean technologies, such as combined heat and power and district energy.<sup>69</sup>

Some parties argue that Cap and Trade will make natural gas more expensive, and therefore a less attractive option for consumers in unserved communities.<sup>70</sup> The facts do not support this. Even with the Cap and Trade system in place, natural gas will retain a significant price advantage over alternative fuels.<sup>71</sup> It is not at all clear that the OGA is accurate when it claims that geothermal is a better option than natural gas.<sup>72</sup> The Canadian GeoExchange Coalition

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<sup>64</sup> <http://www.ontarioenergyboard.ca/oeb/ Documents/Documents/OEB Letter Gas Expansion 20150218.pdf>

<sup>65</sup> See, for example, First Round Submissions of the Ontario Geothermal Association, at pp. 25- 28.

<sup>66</sup> This commitment was confirmed as recently as June 8, 2016, at the time when the Climate Change Action Plan was released - <https://news.ontario.ca/ene/en/2016/06/climate-change-action-plan-and-renewable-natural-gas.html>

<sup>67</sup> Climate Change Action Plan, at p. 7 –

[http://www.applications.ene.gov.on.ca/ccap/products/CCAP\\_ENGLISH.pdf](http://www.applications.ene.gov.on.ca/ccap/products/CCAP_ENGLISH.pdf)). Note that Premier Wynne has also plainly stated that any suggestion that the use of natural gas will be "phased out" for buildings in Ontario is wrong - see, for example, <http://www.cbc.ca/news/canada/toronto/wynne-natural-gas-heating-1.3602752>.

<sup>68</sup> Evidence of Enbridge Gas Distribution, pp. 10-12, paras. 34-39.

<sup>69</sup> See, for example, 1Tr.12-13 and 4Tr.72-74.

<sup>70</sup> See, for example, Submissions of Environmental Defence at p. 3.

<sup>71</sup> Enbridge has estimated that even with carbon priced at \$200/tonne, the price advantage over other fuels "stays pretty wide" – 1Tr.196.

<sup>72</sup> First Round Submissions of the Ontario Geothermal Association, at pp. 28-29.

indicates that “extending the natural gas pipeline to rural communities in Ontario is a positive step towards improving Ontario’s carbon footprint”.<sup>73</sup>

Enbridge’s experience is that the market typically adopts the lowest price options<sup>74</sup>, meaning that even with Cap and Trade customers will choose natural gas as their fuel source if it is available. This will be the case even where the alternative is electricity – as pointed out by OEB Staff, the energy savings for a customer converting from electricity to natural gas will be slightly less under the Cap and Trade system, but the savings will still be significant and the conversion rates are unlikely to be impacted.<sup>75</sup>

## 7. LNG

*Community expansion projects should be planned and executed in the most economic fashion. In some cases, this may include the transportation of LNG to a local distribution system rather than extension of existing pipelines. The Board’s Community Expansion Framework should accommodate this option. Enbridge’s proposal sets out a practical way that this can be done.*

Enbridge’s evidence explains the benefits of serving some remote communities with liquefied natural gas (LNG) supplied to a local distribution system, rather than constructing a connection to the Company’s current distribution network.<sup>76</sup> The Company’s analysis shows that in cases where the capital costs of new transmission mains constitute disproportionate amounts of total project costs, LNG may provide a more economically attractive solution.

Enbridge’s proposal includes community expansion projects that would be served by LNG. For those projects, the capital costs that would be considered in assessing project feasibility would include the estimated capital cost of the required LNG decanting, odorization and injection facilities required to transition the LNG back into a gaseous state so that it can then be delivered to customers via a typical natural gas distribution system. Importantly, this approach eliminates the estimated capital cost for new or upsized transmission mains necessary to serve these communities. The result of this approach is that the LNG assets listed above would become part of the utility rate base once the project went into service.

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<sup>73</sup>Letter from Canadian GeoExchange Coalition to the OEB, dated March 31, 2016: [http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/522861/view/Canadian%20Geo%20Coalition\(CGC\)\\_ltr%20of%20comments\\_20160404.PDF](http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/522861/view/Canadian%20Geo%20Coalition(CGC)_ltr%20of%20comments_20160404.PDF).

<sup>74</sup> 1Tr.196.

<sup>75</sup> OEB Staff Submission at p. 35.

<sup>76</sup> Evidence of Enbridge Gas Distribution, pp. 17 and 26-30.

Enbridge's proposal also indicates that the cost of LNG to supply the newly served communities would be included in the Company's overall gas supply costs, to be recovered from all ratepayers. Specifically, the costs associated with the procurement and liquefaction of natural gas and trucking to the community's LNG facility are proposed by Enbridge to be a part of the Company's gas supply plan. These costs are similar to gas procurement and transportation costs (which are included as gas supply costs) and should be treated as such.

Enbridge's proposal is expected to allow for the connection of new communities that would not otherwise receive natural gas service. The inclusion of an "LNG option" minimizes the impacts (subsidies) on existing customers. As seen in Table 6 of Enbridge's pre-filed evidence, as many as 19 of the 39 potential community expansion projects that the Company has identified may be more economically served with LNG rather than pipeline extensions.<sup>77</sup> In each of those cases, the total subsidy from existing customers is reduced with an LNG solution, even when the cost of LNG supply is included.

OEB Staff objects to Enbridge's proposal to include the cost of LNG supplies in the gas costs recoverable from all customers, stating that only those who receive LNG service should pay for LNG supply costs.<sup>78</sup> OEB Staff's position is contrary to the manner in which gas costs are typically calculated. All system gas ratepayers pay based on the average cost of all sources of natural gas acquired to serve all of the Company's customers, including the transportation costs associated with the gas supply. If LNG comprised part of the Company's gas supply portfolio for any other purpose (for example as supplemental supply in place of system reinforcement or to replace storage requirements for peak shaving), then it would be included in gas costs. The same approach should apply here - where the most economic way to supply a community is with LNG, then the LNG supply costs should be included as part of the Company's overall gas costs.

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<sup>77</sup> Evidence of Enbridge Gas Distribution, p. 29.

<sup>78</sup> See OEB Staff Submission at p. 19.

## **8. Alternatives for a Community Expansion Framework**

*Enbridge has presented the Board with an innovative proposal for a framework that addresses the Issues identified in the EB-2016-0004 Issues List. Enbridge's proposal has been explained and tested in written questions and testimony. The Board should give much greater weight to proposals like Enbridge's that have been fully explored through this generic proceeding, as compared to proposals now advocated by other parties for the first time in their written submissions.*

Certain arguments in this proceeding put forward proposals for specific changes to the EBO 188 guidelines that were not supported by an evidentiary filing.<sup>79</sup> The problem with these proposals for changes to the EBO 188 guidelines made during the argument phase of the proceeding is that they do not have an adequate evidentiary foundation for the Board to find that they are likely to be effective in facilitating access to gas service for more Ontario communities. The proposals were not presented in the hearing, meaning that they could not be tested and compared.

Enbridge's proposal for a Community Expansion Portfolio was explained in pre-filed evidence, it was supported by the oral testimony of Enbridge's witnesses and it was tested during cross-examination at the hearing. Of course, this can also be said of proposals made by other parties, such as Union. However, Enbridge submits that proposals made in argument, that have not been supported by written and oral evidence or tested on cross-examination, stand on a very different footing (if, indeed, it can be said that they have any evidentiary footing at all). Enbridge submits that the Board cannot assume, without an adequate evidentiary foundation, that proposals made in argument will actually fulfill the purpose for which they are put forward, or that they will advance the Province's goal of expanding access to natural gas service.

### **C. Enbridge's Proposal can become the Board's Community Expansion Framework**

In this proceeding, Enbridge has provided an appropriate evidentiary foundation for a proposal to expand natural gas distribution to unserved communities. Enbridge's proposal strikes a balance between the interests of existing customers and prospective customers. Enbridge's proposal has been shown during this proceeding to be a practical and effective means of fulfilling the Government's and the Board's goal of expanding access to gas service. Taking this into account, it's clear that Enbridge's proposal can form the basis for the Community Expansion Framework to be created through this proceeding.

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<sup>79</sup> See, for example, OEB Staff Submission at p. 19; CPA Submissions at paras. 89-105; Submissions of Environmental Defence at paras. 5-10; Submissions of London Property Management Association at p. 31; and First Round Submissions of the Ontario Geothermal Association at section 4.

More particularly, the following features of Enbridge's proposal can and should be incorporated into the Community Expansion Framework:

- i. rather than addressing the issue of expansion to unserved communities by attempting to fine-tune the EBO 188 guidelines, meet the issue directly by creating a new portfolio of projects, the Community Expansion Portfolio;<sup>80</sup>
- ii. set parameters for the Community Expansion Portfolio so that it will be effective in facilitating community expansion while balancing the interests of prospective customers and existing customers (*i.e.*, no PI threshold, but the overall Community Expansion Portfolio to be managed to a PI of 0.5);<sup>81</sup>
- iii. exclude the projects in the Community Expansion Portfolio from the Rolling Project Portfolio and the Investment Project Portfolio under EBO 188, so that the creation of the Community Expansion Portfolio to facilitate expansion to unserved communities will not affect how the EBO 188 guidelines apply to other system expansion projects;<sup>82</sup>
- iv. include elements that are intended to reduce impacts on existing customers such as the System Expansion Surcharge to be recovered from new customers in Community Expansion Portfolio projects,<sup>83</sup> the Incremental Tax Equivalent (ITE) mechanism to collect municipal contributions<sup>84</sup> and the treatment of surcharge funds as part of general revenue, rather than as Contributions in Aid of Construction, in order to reduce the portion of revenue requirement contributed by customers;<sup>85</sup>
- v. facilitate community expansion projects that will use LNG under an approach where the estimated capital costs of project (and ultimate rate base value) includes the cost of the required LNG decanting, odorization and injection facilities required to transition the LNG back into a gaseous state and where LNG gas supply costs become part of the Company's overall gas supply costs;<sup>86</sup> and
- vi. permit the assets associated with community expansion projects to be added to utility rate base as the projects are completed, whether or not the utility is in the middle of an IR term.<sup>87</sup>

The Company's proposal strikes a reasonable balance between the interests of existing customers and those potential customers located in remote communities. If approved as the Board's Community Expansion Framework, Enbridge's proposal would meet the Government's goal of expanding natural gas distribution to unserved communities in a rational way.

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<sup>80</sup> Evidence of Enbridge Gas Distribution, p. 23, paras. 68-70.

<sup>81</sup> Evidence of Enbridge Gas Distribution, pp. 23-24, paras. 68-71.

<sup>82</sup> Evidence of Enbridge Gas Distribution, p. 24, paras. 72-75.

<sup>83</sup> Evidence of Enbridge Gas Distribution, pp. 21-22, paras. 61-63.

<sup>84</sup> Evidence of Enbridge Gas Distribution, pp. 22-23, paras. 64-67.

<sup>85</sup> Evidence of Enbridge Gas Distribution, pp. 21-22, para. 62.

<sup>86</sup> Evidence of Enbridge Gas Distribution, pp. 28-30, paras. 84-89.

<sup>87</sup> Evidence of Enbridge Gas Distribution, p. 25, paras. 76-77.