



PUBLIC INTEREST ADVOCACY CENTRE  
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

January 22, 2018

VIA E-MAIL

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: EB-2017-0147 – Enbridge Gas Distribution Inc.  
Final Submission of Vulnerable Energy Consumers Coalition (VECC)**

Please find enclosed the Final Submission of Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding. As per Procedural Order No. 2 we have also directed a copy of same to the Applicant as well as their Counsel via e-mail.

Yours truly,

(Original signed)

Ben Segel-Brown  
Counsel for VECC

cc: Enbridge - Andrew Mandyam - [egregulatoryproceedings@enbridge.com](mailto:egregulatoryproceedings@enbridge.com)  
Counsel - Fred Cass - [fcass@airdberlis.com](mailto:fcass@airdberlis.com)

ONTARIO ENERGY BOARD

**Enbridge Gas Distribution Inc. (EGAD)**

**Application for Leave to construct  
Fenelon electricity distribution rates and other changes  
beginning January 1, 2018**

Final Submission  
of the  
Vulnerable Energy Consumers Coalition  
(VECC)

22 January 2018

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**Ben Segel-Brown, Counsel for  
Vulnerable Energy Consumers Coalition**

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## 1.0 Summary of the Submissions

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1. VECC supports the Applicant's proposal.
2. The project will lower fuel costs for the residents of Fenelon Falls, who are disproportionately elderly and low-income. The proposed capital costs are reasonable. Contributions from the Municipality and Ontario Ministry of Infrastructure appropriately shift a significant portion of the costs of the project from low-income consumers to taxpayers better able to afford those costs. In light of the Utility's proposal before the Board to not rebase for the next 10 years (EB-2017-0306/307) Enbridge should, in our submission be invited to confirm that the capital costs and any variance to those costs is only captured upon rebasing.
3. VECC submits that the Board should codify the eligibility criteria and economic requirements for a Community Expansion project. Only Community Expansion projects can apply a system expansion surcharge. In light of the origins of the Community Expansion rules, VECC submit that Community Expansions projects should be defined to cover those situations where the upfront investment hurdle cannot be overcome because the number and nature of consumers makes it impossible to coordinate any supplemental payments via a contribution-in-aid of construction. The profitability index requirements for all expansion projects, whether Community Expansion projects or not, should be standardized so that the residential customer service by Community Expansions are not held to a higher standard than the developers and industrial consumers able to coordinate a contribution-in-aid of construction.
4. Enbridge has stated that a decision beyond February 2018 would impact the construction schedule, economics, and customer capture forecast. Further they stated that for the Project to be in service for the winter of 2018 the latest start date for construction is in April. The extent of this impact would have to be evaluated based on the LTC approval date<sup>1</sup>.
5. We support the Applicant's objective of having gas service available in the affected communities by the winter of 2018-2019.

## 2.0 The Project

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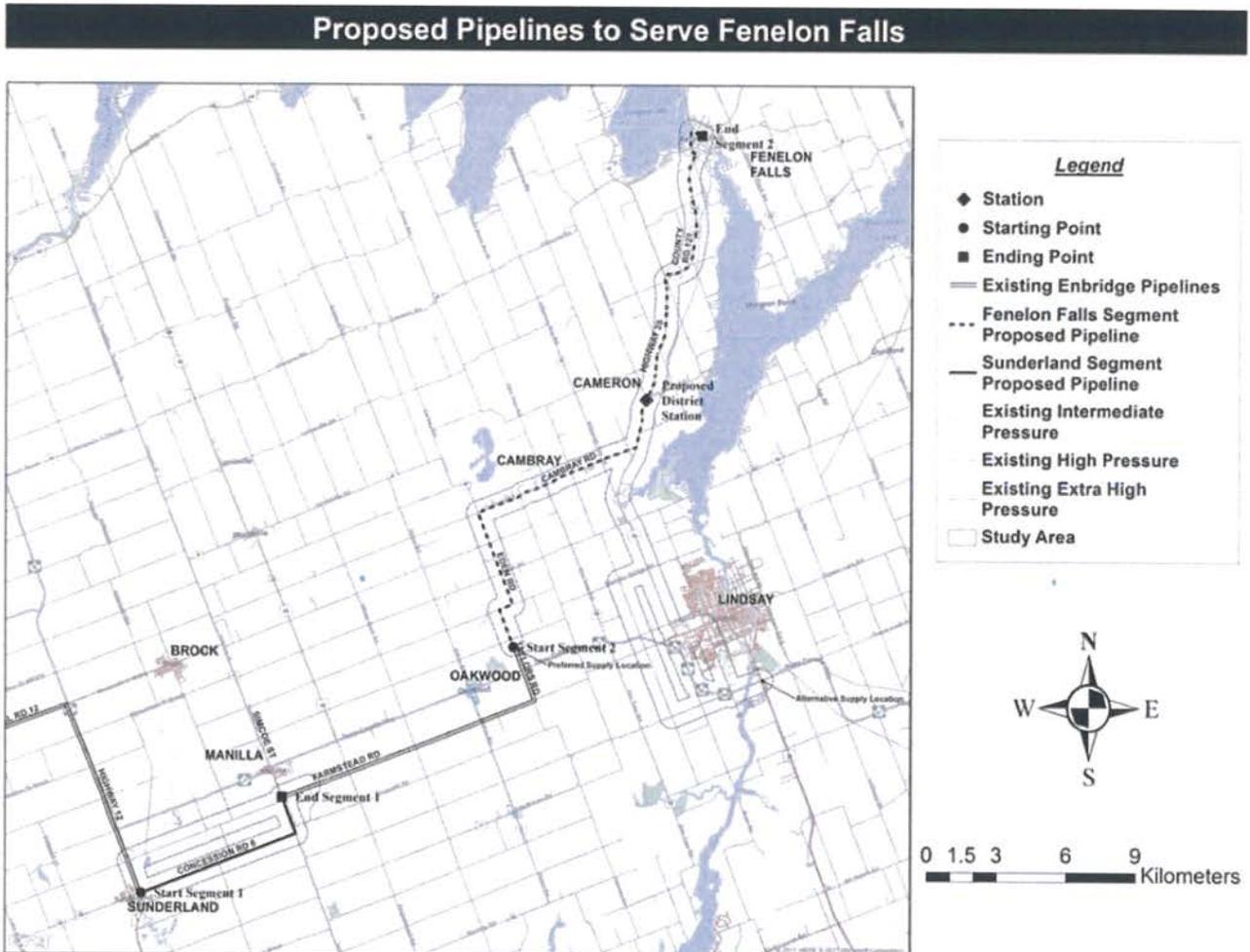
6. The Fenelon Project is comprised of two segments; the Sunderland reinforcement segment which will be constructed within the Township of Brock and the City of Kawartha Lakes; and the Fenelon Falls Segment of distribution pipeline which will be constructed entirely within the City of Kawartha Lakes. The project will also serve

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<sup>1</sup> !.C.EGDI.VECC.9 / 1.C.EGDI.STAFF.5

customers in the hamlets of Cameron and Cambray which lie along the Sunderland Segment.<sup>2</sup>

7. The nearest current natural gas pipeline is located approximately 9.4 km away from Cambray on Taylor's Road. The Sunderland Segment, which will tie into this pipeline, consists of approximately 8 kilometres of NPS 6 inch steel pipeline plus ancillary facilities. The Sunderland reinforcement is designed to ensure sufficient incremental capacity to serve the projected Fenelon Falls customer additions from 2019 to 2028 inclusive. It will add 3000 m<sup>3</sup>/h of additional capacity to the distribution system. All of the incremental capacity will be utilized by the Fenelon Falls expansion.<sup>3</sup> The map below shows the pipeline route.



Source: I.C.EGDI.STAFF.2

<sup>2</sup> I.D.B.EGDI.STAFF.12

<sup>3</sup> Exhibit B, Tab 1, Schedule 1, and Exhibit I.A-C.EGDI.STAFF.6

*Project costs*

8. The project includes two distinct categories of cost. The first are the upfront capital costs of \$23 million for the building of the transmission and reinforcement mains as outlined in the table below.<sup>4</sup> These costs include a 10% contingency. The second category is the cost of attaching customers over the 10 year period of \$23,823,493. Making the total estimated capital cost of the project \$46,878,981.

TOTAL ESTIMATED PROJECT COST

<u>Item</u>	<u>Project Estimate (\$)</u>
1.0 Material Cost	2,579,787
2.0 Labour and Construction Cost	16,581,601
3.0 External Costs (Geotechnical, Environmental, Surveying, External Engineering, Insurance)	1,401,180
4.0 Station Cost	60,000
<b>Project Subtotal</b>	<b>20,622,568</b>
5.0 Contingency	2,062,257
6.0 Interest During Construction	370,663
<b>Total Project Costs</b>	<b>23,055,488</b>

*Customer attachment forecast*

9. The customer attachment projections are shown in the table below. The customer forecast was supported by survey data which explored the likelihood of conversion to natural gas.<sup>5</sup> The customer forecast assumes that 75% of existing homes and business will convert to natural gas within 10 years.
10. Enbridge has undertaken a rigorous analysis of the potential for customer attachments which included an outside party undertaking community engagement.

<sup>4</sup> Exhibit E, Tab 2, Schedule 1, page 1

<sup>5</sup> Exhibit B, Tab 1, Schedule 1, page 20-21

11. Furthermore Enbridge has indicated that it will be taking active steps, including working with local HVAC contractors to encourage the early adoption of natural gas. In our submission given all these facts the Board can take some comfort that the forecast of attachments is reasonable.<sup>6</sup> Having said that we do note that the forecast of new construction would appear optimistic at 50% growth of residential dwellings over the 10 year period.

**Table 2: Projected Customer Additions for the Project**

Fenelon Falls Customer Additions	Potential Customers	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
<b>Conversions</b>												
Residential Units (Singles, Semis, Towns)	1,370	110	274	274	137	55	41	41	41	27	27	1,027
Residential Cumulative		110	384	658	795	850	891	932	973	1,000	1,027	
Commercial Units	155	12	31	31	15	6	5	5	5	3	3	116
Commercial Cumulative		12	43	74	89	95	100	105	110	113	116	
Industrial	1	1	0	0	0	0	0	0	0	0	0	1
Industrial Cumulative		1	1	1	1	1	1	1	1	1	1	
<b>Total</b>	<b>1,526</b>	<b>123</b>	<b>305</b>	<b>305</b>	<b>152</b>	<b>61</b>	<b>46</b>	<b>46</b>	<b>46</b>	<b>30</b>	<b>30</b>	<b>1,144</b>
<b>Total Cumulative</b>		<b>123</b>	<b>428</b>	<b>733</b>	<b>885</b>	<b>946</b>	<b>992</b>	<b>1,038</b>	<b>1,084</b>	<b>1,114</b>	<b>1,144</b>	
<b>New Construction</b>												
Residential Units (Singles, Semis, Towns)	760	0	38	76	152	152	114	114	38	38	38	760
Residential Cumulative		0	38	114	266	418	532	646	684	722	760	
Apartment Units (Mid-rise, High Density)	16	0	1	2	3	3	2	2	1	1	1	16
Apartment Cumulative		0	1	3	6	9	11	13	14	15	16	
<b>Total</b>	<b>776</b>	<b>0</b>	<b>39</b>	<b>78</b>	<b>155</b>	<b>155</b>	<b>116</b>	<b>116</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>776</b>
<b>Total Cumulative</b>		<b>0</b>	<b>39</b>	<b>117</b>	<b>272</b>	<b>427</b>	<b>543</b>	<b>659</b>	<b>698</b>	<b>737</b>	<b>776</b>	
<b>Total</b>												
Residential Units (Singles, Semis, Towns)	2,130	110	312	350	289	207	155	155	79	65	65	1,787
Residential Cumulative		110	422	772	1,061	1,268	1,423	1,578	1,657	1,722	1,787	
Commercial Units (Commercial, Apartment)	171	12	32	33	18	9	7	7	6	4	4	132
Commercial Cumulative		12	44	77	95	104	111	118	124	128	132	
Industrial	1	1	0	0	0	0	0	0	0	0	0	1
Industrial Cumulative		1	1	1	1	1	1	1	1	1	1	
<b>Total</b>	<b>2,302</b>	<b>123</b>	<b>344</b>	<b>383</b>	<b>307</b>	<b>216</b>	<b>162</b>	<b>162</b>	<b>85</b>	<b>69</b>	<b>69</b>	<b>1,920</b>
<b>Total Cumulative</b>		<b>123</b>	<b>467</b>	<b>850</b>	<b>1,157</b>	<b>1,373</b>	<b>1,535</b>	<b>1,697</b>	<b>1,782</b>	<b>1,851</b>	<b>1,920</b>	

12. The proposed project ("Fenelon Project") will serve a potential of 2,302 customers. The capital costs are estimated at \$46,878,981.<sup>7</sup> Without supplemental revenues the project has a PI of 0.27 as shown in the table below.<sup>8</sup>

<sup>6</sup> See for example the response to I.B.EGDI.Staff.10

<sup>7</sup> Exhibit B, Tab 1, Schedule 1, page 16

<sup>8</sup> Exhibit F, Tab 1, Schedule 1, page 5

13. Because the project has a term of 40 years, the final SES payment of \$0.23 per cubic metre per month would normally be the end of 2058. The net present value of the SES is \$27,947,885. The SES charge is the same as that approved by the Board for Union Gas in EB-2015-0179.
14. The SES charge is the same as that proposed and accepted by the Board for Union Gas' Community Expansion projects in EB-2017-0179. Enbridge has also undertaken sensitivity analysis to test the robustness of the charge under conditions of declining average use.<sup>9</sup>

*Economic evaluation*

Fenelon Falls  
Economic Feasibility  
Parameters and Results

Col. 1	Col. 2		
Line No.	Description		
<b>FEASIBILITY PARAMETERS</b>			
1.	Discount Rate	5.41%	
2.	CCA Rate	6.00%	
3.	Tax Rate	26.50%	
4.	Project Revenue Horizon (Years)	40	
5.	Annual Volumes (m <sup>3</sup> )	9,438,800	
6.	Annual Distribution Revenues	\$1,115,344	
7.	Annual System Expansion Surcharge (SES)	\$2,170,924	
8.	Annual Incremental Tax Equivalent (ITE)	\$87,244	
9.	Annual O&M	(\$154,318)	
10.	Capital Investment	(\$46,878,981)	
Working Capital			
11.	O&M (Lead days)	(10.00)	
12.	Commodity (Lag days)	2.08	
<b>FEASIBILITY RESULTS</b>			
		<u>NPV *</u>	<u>PI **</u>
13.	Economic Feasibility excluding SES, ITE & Government Grant	(\$31,674,068)	0.27
14.	Economic Feasibility including SES & ITE	(\$10,655,308)	0.75
15.	Economic Feasibility including SES, ITE & Government Grant	\$0	1.00
16.	Government Grant Required Based on Feasibility Analysis	\$12,329,795	

*Notes:*

- 1- "Distribution Revenue" and "SES" are based on fully effective volumes at the end of the 10 year attachment horizon
- 2- The annual "ITE" is the average annual amount for the 10 year ITE term

<sup>9</sup> Exhibit I.B.EGDI.CCC.2

15. In our submission the use of a constant value for the SES charge is desirable both from a practical perspective (eliminating multiple riders among various Community Expansion Projects) and for reasons of transparency. The 0.23 SES charge allows communities considering natural gas service to impute the value of known rate rider used in other communities. While we do not think this precludes other values for the SES in different situations we think the Board should encourage standardization where and when possible.
16. VECC also supports Enbridge's proposal to implement the SES as a long-term rate rider. The rider should, in our submission, be approved for the rate stabilization period (10 years) and thereafter require a renewal application to the Board (for a period to be proposed by the Utility). We also believe that any new SES (i.e. for a new Community Expansion project) should require explicit Board approval. Likewise for the rate stabilization period. It is our understanding that this is Enbridge's proposes the same.
17. Enbridge has also negotiated an Incremental Tax equivalent payment (ITE). The ITE results in the forgoing of municipal taxes for a period of 10 years. The present value of the ITE is \$649,068. Had the municipal payment been made in a lump sum (i.e. paid with a one or two year period) then, in our view, the appropriate treatment would be to account for the payment as a contribution-in-aid of construction. Since the ITE is paid out over a long period of time we believe it is appropriate to treat the tax benefit as a revenue stream in the economic evaluation.
18. The Utility Applied for Ontario Ministry of Infrastructure funding under the Natural Gas Grant Program of \$12,329,795. Enbridge has stated that it has been informed as to the awarding of grants on nine community expansion grant applications that it made. However, the Utility has been asked by the Ministry of Infrastructure not to reveal which grants (and the amounts) had been awarded.
19. We note that Enbridge has stated that it would withdraw the application if it was not successful at receiving a grant.<sup>10</sup> The implication is that Enbridge has been awarded a grant for this project though for what amount remains unclear. Having said that Enbridge also states that "*the full grant amount of \$12.6 million is required for management approval*".<sup>11</sup> We think it clear that Enbridge will receive the expected grant monies. What is not clear is how the amount of \$12.3 million was determined. Given the grant monies offset the SES charge (either in terms of the rate or the period over which it is charged) this government contribution lowers rates for consumers, a larger grant would be preferable.

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<sup>10</sup> Exhibit B, Tab 1, Schedule 1, page 16 & I.B.EGDI.Staff.9

<sup>11</sup> Exhibit I.B.EGDI.VECC.7

20. VECC has tested a number of the parameters used by Enbridge (see VECC interrogatory number 10<sup>12</sup>) and submits that the Utility's discount rate, annual volume and OM&A expenses used in the model are reasonable.
21. With respect to over or under spending of the forecast capital costs Enbridge has said:
- Any variances in capital costs for a project would therefore be captured in a subsequent rate rebasing application which could occur prior to the end of the ten year term of the RSP [Rate Stabilization Period]. Enbridge will bear the cost of actual capital expenditures until the impacts of a project are included in a future rate application for Board review and approval. All customers will bear the risk of prudently incurred capital costs being higher than forecast and the benefit of capital costs being lower than forecast.*<sup>13</sup>
22. As a practical matter the variance capital costs is likely to be minimal. More germane is the Applicant's proposal in EB-2017-206/307 to delay next rebasing period for a period of 10 years. If this is granted then it would appear that the project would not be explicitly recognized in rates until 2029. Under the Utilities amalgamation rate proposal project revenues would be notionally captured through the earning sharing mechanism.

#### *Routing*

23. VECC has no specific submission with respect to the proposed routing. We note that the Applicant appears to have negotiated the needed easements and permits.<sup>14</sup> However, in our review of the evidence we found no reasons to object to the Utilities' preferred route.
24. VECC has no submissions with respect to the Indigenous Consultation Report.<sup>15</sup> We only note that Enbridge has indicated there are no known impediments arising from issues related to First Nations.<sup>16</sup>

### 3.0 Reporting

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25. Enbridge has committed to reporting on its community expansion projects at its annual Stakeholder Day meeting or other such similar venue. At these meetings it will provide the following information:
- the budgeted and actual capital costs, both at a gross level, and net of any Aid-to-Construction, as of a project's in-service date;

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<sup>12</sup> I.F.EGDI.VECC.10

<sup>13</sup> Exhibit B, Tab 1, Schedule 1, page 13

<sup>14</sup> See for example, I.G.EGDI.STAFF.7

<sup>15</sup> Enbridge did further consultations with indigenous groups -see Exhibit H, Tab 1, Schedule 1

<sup>16</sup> Exhibit I.H.EGDI.STAFF.1

- the cumulative forecasted customer and actual customer attachments for the duration of a project's ten year customer addition forecast period; and
  - the project profitability index (PI).<sup>17</sup>
26. The Utility has also committed to an annual evaluation of community expansion projects to determine if a project has reached a PI of 1 prior to the final (i.e. 40<sup>th</sup>) year of the economic evaluation period. Irrespective of the evaluation customers will not continue paying the SES past the 40<sup>th</sup> year, but may be relieved of the charge earlier.<sup>18</sup>
27. It is also our understanding that Enbridge intends to report on all (future) community expansion projects in a like manner and that the continuation of the SES charge will be considered annually in these reports.<sup>19</sup>
28. VECC supports the reporting proposal of Enbridge.

## 4.0 Definition of a Community Expansion Project

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29. "Community Expansion" projects should be clearly defined and Community Expansion projects should no longer be held to a higher standard than projects funded by contribution-in-aid of construction.
30. In response to a Board staff interrogatory Enbridge stated that the Board Decision in EB-2016-004 did not define what constitutes a "community expansion" project.<sup>20</sup> We agree. And we think it important to have such a definition. Enbridge offered up their own definition:
- A natural gas system expansion project which will provide first time natural gas system access where a minimum of 50 potential customers already exist, for which economic feasibility guidelines derive a Profitability Index ("PI") of less than 1.0; or
  - Small Main Extension: All other forms of distribution system expansion which provide first time natural gas system access to customers where fewer than 50 potential customers in homes and business already exist and where the PI for the project is less than 1.0; and
  - A natural gas system expansion project meeting either of the two definitions above that requires the SES and potentially other financing mechanisms in order for project economics to attain a PI of 1.0.<sup>21</sup>

<sup>17</sup> Exhibit B, Tab 1, Schedule 1, page 17

<sup>18</sup> Exhibit I.B.EGDI.STAFF.3

<sup>19</sup> Exhibit I.B.EGDI.VECC.5

<sup>20</sup> Exhibit I B.EGDI.Staff.8

<sup>21</sup> Exhibit B, Schedule 1, pages 3-4

31. While we think Enbridge`s definition is helpful – but not correct. We also submit, as we did in EB-2015-0179 that a proper and clearly defined definition of what constitutes “community expansion eligible” project is important. In VECC’s argument in EB-2015-0179 was on the interaction between the existing EBO 188 policies and the new Community Expansion policies. We do not intend to repeat those arguments in their entirety however it is clear that the issue of what constitutes a community expansion project remains unclear even to the utility (and Board staff who asked questions on the definition). And we do think it important that the Board bring some clarity to the issue.
32. The practical implications of the appropriate definition were made clear by Enbridge in which it stated:
- a) The practical effect of a project not meeting the proposed definition of a Community Expansion Project would be that the System Expansion Surcharge would not be applicable to potential customers that would be served by such a project. In an instance where a project does not meet the proposed definition of a Community Expansion Project it will be treated in the same manner as any other expansion project. The project would have to meet the requirements of the EBO 188 guidelines and if required a contribution in aid of construction would be requested.*
- b) The purpose of this definition is to stipulate under what circumstances the Company may offer the System Expansion Surcharge to potential customer(s) as an alternative to a lump sum one time contribution in aid of construction payment. In order to meet the proposed definition of a Community Expansion Project a requirement is that existing potential customers must be present.<sup>22</sup>*
33. Enbridge recognizes, as do we, that the difference between the policies comes down to the applicability of the SES and the CIAC. The practical difficulty, in the absence of different rate raising vehicle like the SES rate rider, was how to collect a CIAC from a potential diverse population of individual (residential) customers. This proved to be an insurmountable impediment to those communities with large residential populations (over 50 in the Utilities’ proposals) who would only realize economic value in converting to natural gas if the contribution payments were spread over a long period of time. VECC submits that “Community Expansion” projects should be defined to cover those circumstances where an SES is necessary to overcome coordination or financing issues associated with service to numerous residential customers.
34. However, the definition also results in differences in the profitability index requirements which must be met. A “Community” project would be required to meet a PI of 1.0 and a similar or identical “EBO” 188 project would only need to meet a PI of 0.8. This means that customers in the former will pay more (via the SES charge) than a like customer in the latter. This favours industrial consumers and developers who have the coordination and financing to pay a CIAC contribution. It disadvantages residential consumers who

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<sup>22</sup> Exhibit I.B.EGDI.CCC.1

nevertheless bear the cost of revenue shortfalls associated with project involving a CIAC contribution. That this is not just a theoretical issue can be demonstrated by reference to a past leave-to-construct project – Red Lake.

35. As we noted in EB-2015-0179 the Board had in the past allowed the Utility discretion to put in its portfolio projects with contribution-in-aid of construction, but with a P.I. of less than 1.0. That is, a project might be approved if it reached a PI of between 0.8 and 1.0. A project could, under the EBO 188 guidelines, meet the 0.8 threshold by means of a contribution-in-aid of construction (CIAC).
36. The discretion of the utility to proceed with projects below a P.I. of 1.0 (but above 0.80) was noted by the Board specifically in the Decision of EB-2011-0040/41/42. In this case Union Gas applied for a project to serve both GoldCorp Mine and the community of Red Lake Ontario. It was in some fashion the first community expansion project before the Board. In Phase I a 58km NPS8 and NPS 4 inch pipeline was to be built to an industrial customer -Goldcorp. Phase two of the project was a 46km “main extension” pipeline to be built to serve the communities in and around Red Lake Ontario . In Phase I Goldcorp, presumably acting in its own economic interest, agreed to a CIAC to bring the Phase I portion of the project to a PI of 1.0. In speaking to Phase II, – the 46 km main extension and the distribution system to serve the community of Red the Board stated:

*Union has used a P.I. of 1 in its analysis of the capital contribution required for Phase II. The Board notes that the gas utilities have some discretion under E.B.O. 188 to determine the economic feasibility of individual expansions projects while maintaining a positive investment portfolio. Under E.B.O. 188 a P.I. of 1 is not required for attaching new communities and the minimum profitability threshold for individual projects of this nature may be a P.I. of 0.8.<sup>23</sup>*

37. The Board recognized the ability under EBO 188 to included projects with a PI of less than 1.0, but more than 0.8 including any **main extensions**. The Board’s decision in EB-2016-0004 did not change the policies of EBO 188.
38. This is not just VECC’s interpretation, but Enbridge’s as well. In response to our question on the rules apply to the existing EBO 188 portfolio Enbridge states:

*I. The minimum PI for a project to be included in the IP is 0.8.*

*II. The minimum PI is established pursuant to the EBO 188 guidelines. The project PI is first calculated. Then if the minimum PI is not attained the capital contribution amount is determined by calculating the capital contribution amount needed to bring the project PI up to the minimum Project PI. If the capital contribution is paid the project would proceed with an effective lower capital cost based on the minimum acceptable PI.*

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<sup>23</sup> Decision with Reasons EB-2011-0040/41/42, July 25, 2011, page 37

*III. For projects requiring a capital contribution the Company requires that this contribution be paid prior to the project being built either by the customer or developer.*

*IV. All relevant costs are considered in evaluating a project feasibility **including main extension and/or reinforcement costs and the project is included in the investment portfolio as per the prescribed EBO 188 criteria.** (emphasis added)<sup>24</sup>*

39. That is, EBO 188 and Community Expansion projects can both include main extensions – whatever that rather ambiguous terms means.

40. In responding to VECC's arguments in EB-2015-0179 the Board stated:

*VECC on the other hand has argued that the proposed projects fall within the policies of E.B.O. 188 and they should be included in Union's investment portfolio. VECC has argued that all the proposed projects are contiguous to Union's current serving territory. In other words, the projects are eligible to be at a PI of 0.8 to 1.0 as per the existing E.B.O. 188 guidelines. VECC submitted that the OEB should order Union to recalculate the SES at the mid-point PI of 0.90 and incorporate these projects into its investment portfolio.*

*VECC has argued that the projects are contiguous to Union's current distribution system. This is incorrect as the projects are not normal distribution system expansion projects such as providing service to a new subdivision. Further, in many subdivision projects, the developer charges new buyers for providing utility and other services that reflects the contribution in aid-of-construction charged by the utilities. **All the proposed projects require installation of a main** and are not economically feasible under the current guidelines. If the projects would fit under the current guidelines or the expansion customers would be willing to make the required capital contribution, Union would have already expanded into the communities. **It was clear in the Generic Proceeding that these projects required a different approach and subsidy from existing customers was not appropriate as the benefits to the new community expansion customers of converting to natural gas far outweigh the costs to serve them.** Setting a PI of 0.9 would require a subsidy from existing customers. (emphasis added)<sup>25</sup>*

41. The first part of the Board's understanding of what constitutes a community expansion project is that, unlike what is believed to be the case for EBO 188 projects, community projects include a "main extensions." However, as noted above we do not think it factually correct. It is clear that EBO 188 do include "main extensions". It is also clear that the term "main extension" is rather ambiguous and can mean different things in different projects.

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<sup>24</sup> Exhibit I.B.EGDI.VECC.2

<sup>25</sup> Decision with Reasons EB-2015-0179, August 10, 2017, page 13

42. It is our understanding that any number of projects (either Enbridge or Union) with “main extensions” would have been included in the existing “EBO 188” portfolios of projects. And nothing has precluded some of these projects being included with PI evaluations of less than 1.0 but more than 0.8.
43. We highlight the term ‘main extension’ because there is no clear definition of what that means. The term is ambiguous as shown by the response to a VECC request for Enbridge to define the term:

*Reinforcement Pipeline:*

*Is additional piping upstream of a system expansion project which is required to provide additional capacity to serve the gas demand requirements of new customers associated with that system expansion project.*

*Main extension pipelines:*

*Is the term used for a section of pipeline which is constructed to connect a new project area (or a community) with an existing gas main in order to provide gas distribution service to the new customers in that project area. These pipelines feed into the distribution pipelines laid within the new project area.*

*Distribution pipelines:*

*Are the pipelines which connect new customers in the streets encompassed in a defined project area. “Distribution pipelines” are generally fed from the “main extension pipelines” and are smaller in diameter than the latter.<sup>26</sup>*

44. Generally, pipes are described by the nominal diameter size (NPS 2 through 48) or by their pressure characteristics (high, intermediate or low pressure). It is also the case that a “distribution system” may include pipes of varying size and pressure. In this project Enbridge has identified three types of mains – transmissions mains (\$16.3m), Reinforcement Mains (\$6.7m) and Distribution mains (\$10.5m).<sup>27</sup>
45. Nor can a “main” be simply characterized by its length of run or the number of customers that are directly serviced from that pipe. For example it is possible for pipes of high or intermediate pressure to serve large customers. It is also possible for a high pressure pipe of some length that ultimately services a large number of customers to serve a single or few large customers along its length. All such pipelines can be described interchangeably as “main extensions” or “distribution” pipelines. In this project the “main” Sunderland pipe is tapped along the path to serve the communities of Cambray and Cameron.

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<sup>26</sup> Exhibit I.A.EGDI.VECC.1

<sup>27</sup> Exhibit F, Tab 1, Schedule 1, page 4

46. The Board's decision EB-2015-0179 also notes that these Community Expansion projects are not like subdivision projects. We agree with this and put the question to Enbridge as to the difference to which they responded in part:

*However a large subdivision project differs from a Community Expansion Project in that the developer is a single large customer. In the case of a large subdivision project a contribution is assessed based on feasibility criteria as prescribed in EBO 188 and, if needed, developers are required to make an upfront contribution to achieve a project PI as required by EBO 188.<sup>28</sup>*

47. That is, what distinguishes a "Community Expansion" project from many other expansion projects is whether the services are to newly developed properties and whether the service is put in as part of an agreement with a property developer, not a technological difference in the type of investment being made.
48. Allowing projects with a PI less than 1.0 mean that there will be subsidies between customers. The other objection by the Board to VECC's EB-2015-0179 argument appears to be the belief that neither community expansion nor EBO projects contain subsidies. But this is not correct. With respect this panel of the Board has misunderstood the EBO 188 portfolio policy. Subsidies exist between both new customers within the portfolio but also between customers of the portfolio and existing customers.
49. This is because the EBO 188 investment portfolio includes projects with PIs both below (up to 0.8) and above 1.0 (projects of precisely 1.0 being only serendipitous). Therefore there must be subsidies between customers within the portfolio. But there are also subsidies between customers within the portfolio and existing customers. This is because the both Utilities operate their portfolios on the basis of an aggregate value greater than 1.0. That being the case subsidies flow from the portfolio to existing ratepayers - and we might add to the benefit of the utility's shareholders.
50. So if it is established that cross-subsidies both inter and intra the EBO 188 policies what does this matter to the new Community Expansion customers? What matters is that both Utilities (and now one) hold Community Expansion customers to a higher standard. These customers must finance their service to an economic evaluation of PI 1.0. Conversely customers fortunate to find themselves able to contribute to a project through a CIAC (like in Red Lake) can find themselves able to have to only finance their contribution to an evaluation of 0.80 PI.
51. Is that fair? We think not. A fair and reasonable policy would treat like customers in like circumstances the same. As it stands now those customers who are able to avail themselves to the SES vehicle will be charged more than those who find themselves within the portfolio but at a PI of less than 1.0

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<sup>28</sup> I.B.EGDI.VECC.4

52. Clearly the CIAC was virtually useless in adding revenue in any project with multiple customers - especially where the customers had yet to make a commitment to the proposed service. The SES on the other hand provides a practical and attractive way for potential customers to finance projects which have long-run benefits. This matching revenue-to-cost mechanism is the real innovation of the Community Expansion policy. It should not, in our submission, become a means of discriminating against like situated customers.
53. When comparing the Board's Community Expansion Policy to the pre-existing EBO 188 policy Enbridge had this to say:
- a) Other than the requirement that a Community Expansion Project meet a project profitability index of 1.0, eligibility for inclusion of a Community Expansion Project in the investment portfolio is no different than any other expansion project.*
- b) This project does not fail to meet Enbridge's current policy for inclusion in the investment portfolio. Absent the additional financing mechanisms (the SES, ITE and grant monies) the project would not achieve a PI of 0.8 as required by the Board's EBO 188 Guideline and as such fail to meet the current policy for inclusion in the investment portfolio.<sup>29</sup>*
54. The answer as it stands today seems to be nothing more than – these are community projects because they are, well nothing more than projects that were not done previously under the EBO 188 policy. That is, in our view, hardly a satisfactory definition for a policy which will cost potential ratepayers millions of dollars in SES surcharges and put at risk existing ratepayers for these projects should the utilities projection not come to fruition.
55. **In our submission and with respect, what seems to be misunderstood is that every “Community Expansion Project” must also be in fact part of the EBO 188 (rolling or investment) portfolio.** That is, there are not two investment portfolios only one. Existing ratepayers are at risk for the projects put into the EBO 188 portfolios – whether they have PIs above 1.0 or below.
56. In VECC's submission the Board needs to clarify the application of the EBO 188 PI criteria as it applies to Community Expansion Projects. To our knowledge the Board has not ordered that there be two investment portfolios – one for EBO 188 projects and another for Community Expansion Projects. But if there were then one would have to ask why one includes projects with PIs at 0.8 and above while the other only includes projects with PIs above 1.0.
57. As it stands the only differentiating factor between an EBO 188 project and a Community Expansion project is the application of a CIAC for the former and an SES in

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<sup>29</sup> I.B.EGDI.VECC.3

the latter. That is, nothing except the practicalities, which prohibit a community from using a CIAC payment to improve the financial attractiveness of a gas service extension. Likewise nothing precludes this same community from seeking government assistance or providing the Utility with a property tax discount. Yet in that case it would appear that the community might need only to bring these additional revenues up to the point of a 0.8 PI. Yet, if the same community is labelled "Community Expansion" and avails itself to the SES rather than a CIAC it must provide these additional revenues to the level of a PI of 1.0. We do not understand how this can be fair or just and reasonable and especially in light of the fact that CIAC projects are more likely to those with large volume customers attaching. As such residential ratepayers are likely to be subsidizing large volume customers..

58. In our submission the Board should require the Utility to explain for any project to be included in its investment portfolio why it cannot be included with a PI evaluation of more than 0.8 but less than 1.0.

## 5.0 Costs Incurred

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59. VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**