January 22, 2018

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

Dear Ms. Walli:

Re: EB-2017-0147 – Enbridge Gas Distribution Inc. – Fenelon Falls Community Expansion

These are the final submissions of the Consumers Council of Canada (The "Council") with respect to the application by Enbridge Gas Distribution Inc. ("EGDI") to the Ontario Energy Board ("Board" or "OEB") for approval of the Fenelon Falls Project.

The Council has three submissions to make with respect the requested approval by EGDI.

UNIFORMITY IN THE TREATMENT OF COMMUNITY EXPANSIONS ACROSS DISTRIBUTORS:

The Council respectfully submits that it is appropriate for the framework for the approval of expansions projects to be uniform across utilities. To that end the Council asked EGDI about the Board's Decision in Union Gas Limited's ("Union") community expansion proceeding, and whether it would accept a similar framework. It appears from EGDI's response at Exhibit I.B.EGDI.CCC.3 that it would accept a similar framework, citing the material difference between its proposal and the Board's decision in EB-2015-0179 and confirming that it would accept the approach in the Board's decision:

> The Company notes the Board stated in its EB-2015-0179 Decision that it would consider a revised DCF analysis for the projects in question and determine the appropriate revenue recovery methodology following the end of a ten-year period of time. An excerpt from the aforementioned Decision is provided below:
>
> > The OEB agrees with this approach and will require Union to provide a revised DCF calculation based on actuals after the 10-year forecast risk period is over in the event that Union seeks to recover any revenue requirement shortfall. The OEB will determine the appropriate revenue recovery methodology at that time.

> Enbridge accepts this approach.

Accordingly, the Council respectfully submits, it would be appropriate for the Board to provide for a similar process as the one prescribed for Union in the EB-2015-0179 Decision. EGDI would be required to provide a revised DCF calculation based on actuals after the 10-year forecast risk period is over in the event that Union seeks to recover any revenue requirement shortfall. The Council notes that while the quoted text from the decision does not make it clear, both EGDI and Union propose to take on the forecast risk over the first 10 years of any project, and that the process by which the Board reviews a revised DCF calculation and considers whether the relevant distributor can recover any revenue requirement shortfall refers to any shortfall outside the initial 10 year period.

THE REQUIREMENT THAT EACH INSTANCE OF A PROPOSED SES CHARGE BE APPROVED BY THE BOARD:

EGDI notes in Exhibit I.B.EGDI.CCC.3 that:

> The only other significant difference the Company is aware of in terms of the economic aspects of this application and Union's EB-2015-0179 application is the Company's request to have the System Expansion Surcharge ("SES") established in the form of a Rate Rider that can be applied to future system expansion projects without making a separate application to the Board under Section 36 of the OEB Act for every instance where the SES could be employed.

The Council understands the attractiveness of having access to an SES charge that the company can apply to any "qualifying" project without Board approval. However, the Council is concerned that without the obligation to present a robust economic analysis to the Board demonstrating that a proposed project requires funding outside of base rates in order to make it viable, the availability of a standing SES charge may become overused by distributors, who, without having to have an SES approved in each instance, may resort to an SES for projects where, upon more careful consideration of the economics of the project, an SES may not be required.

In other words, the Council submits that the need to have an SES charge approved, in both quantum and term, in each case a distributor wishes an SES to be imposed, acts as the mechanism that protects potential new customers from individually over-contributing to a proposed project. For these reasons the Council respectfully submits that, as it would appear to be the case for Union, the expectation would be that a distributor seek approval of a proposed SES charge on a project by project basis.

THE DISTRIBUTOR SHOULD EITHER BEAR THE RISK OF DECLINING AVERAGE USE ON SES REVENUE OR TRANSFER THAT RISK TO NEW CUSTOMERS BY USING A FIXED SES CHARGE:

Finally, the Council is concerned that, as a result of using a volumetric based SES charge over a term of up to 40 years, the impact of declining average use may result in material under-recovery of revenue from expansion customers relative to the assumed revenue underpinning EGDI's economic analysis of expansion projects. As illustrated in EGDI's response in Exhibit I.B.EGDI.CCC.2:

> Yes, Enbridge performed limited sensitivity analyses with respect to the application of a volumetric based System Expansion Surcharge ("SES"). The Company tested the SES of $0.23 / m3 being applied for 40 years with average use declining by 2.5% per year for the first eight years of the analysis. With respect to the Fenelon Falls project the result was that the required contribution in aid of construction would increase by $5.8 million from $16.8 million. Enbridge does not believe that this presents a significant concern in that it is expected that the future potential impact of declining average use will flow through to customers, including those customers then paying the SES, through the Company's base rates.

The Council understands EGDI's response to mean that even a small decline in average use over the first 8 years of the proposed term of a volumetric based SES can create a material shortfall in SES revenue relative to the forecast SES revenue underpinning the economic analysis that justifies the viability of the proposed project, with the materiality of the shortfall increasing with the length of the proposed SES term. EGDI goes on to explain that the shortfall, as the Council understands, would be borne by all customers through increases to EGDI's base rates.

While the Council can agree that the effect of declining average use may not be of concern to EGDI, since any shortfall in SES revenue could be recoverable by EGDI through increases to base rates (subject to Board review as discussed under Issue 1), it remains a concern, the Council respectfully submits, to existing customers. The recovery of any such shortfall in base rates is, essentially, a subsidy from existing to expansion customers, the creation of which is contrary to the Board's Decision in the generic Community Expansion Decision.

The question is whether it is appropriate for existing customers to bear the full risk of declining average use in connection with the use of a volumetric based SES, or whether the risk should be borne by:

a) the distributor, through the imputation of revenue from the SES charge throughout the proposed SES term rather then only for the proposed 10 year forecast period, or

b) new expansion customers, most easily through the use of a fixed rather then a volumetric SES charge.

In the Council's view the company should either bear the risk associated with using a volumetric based SES charge by imputing revenue from the SES for each customer charged the SES for the term of the proposed SES[1], or, alternatively, seek approval of a fixed SES charge that is, by its nature, immune to declining average use. In this way the company remains responsible for protecting its existing customers from the costs of the proposed expansion, while retaining the flexibility to take on the risk associated with declining average or pass that risk onto its new customers as it sees fit. The Council recognizes that this specific issue was not raised in the Union proceeding, but is of the view that it is important to now flag the issue, as the impact, particularly for larger projects undertaken by any distributor, could be significant.

Yours truly,

Julie E. Girvan

Julie E. Girvan

Cc: All parties

[1] EGDI's proposal is to bear the forecast risk for the full SES revenue for the first 10 years of a proposed project; what the Council is proposing here is that, in addition to the review of the revised DCF analysis after the 10 year period in connection with any proposed recovery of any shortfall in revenue going forward, distributors who impose a volumetric based SES charge instead of a fixed SES charge should bear the risk associated with declining volumes throughout the term of the SES, while shortfalls associated with customer attachments, for example, would remain subject to the Board's review of the revised DCF analysis.