2000 – 10423 101 St NW, Edmonton, AB
T5H 0E8 Canada
epcor.com

January 25, 2018

VIA RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EPCOR Southern Bruce Gas Inc. Written Submission
South Bruce Expansion CIP Proposals EB-2016-0137 | EB-2016-0138 | EB-2016-0139

Pursuant to Procedural Order No. 9, please find enclosed EPCOR Southern Bruce Gas Inc.'s written submission.

If you require any further information, please do not hesitate to contact me.

Sincerely,

Britt Tan
Legal Counsel
EPCOR Utilities Inc.
btan@epcor.com
(780) 412-3998

EPCOR SOUTHERN BRUCE GAS INC.

EB-2016-0137 | EB-2016-0138 | EB-2016-0139

FINAL WRITTEN SUBMISSION
South Bruce Expansion Project

Procedural Order No. 9

Filed: January 25, 2018

Summary

1. EPCOR Southern Bruce Gas Inc. (“EPCOR”) is a corporation incorporated under the laws of the Province of Ontario and is an indirect wholly-owned subsidiary of EPCOR Utilities Inc. (“EUI”) which is wholly-owned by the City of Edmonton. EUI, through wholly-owned subsidiaries, builds, owns and operates electrical transmission and distribution networks, natural gas distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems and networks in Canada and the United States. Using a multi-utility approach to create synergies, EUI drives economic benefits for communities in which it operates. EUI’s natural gas portfolio is growing and includes the recently acquired gas distribution system of Natural Resource Gas Limited located in southwestern Ontario, and a natural gas distribution and transmission utility near Houston, Texas, together providing service to approximately 13,000 connections.

2. EPCOR is committed to investing in the Ontario natural gas market and providing an alternative for natural gas expansion communities in a market where the two incumbents are merging.[1] Even without a merger, the lack of a competitive mindset in the market is apparent when examining the list of potential expansion projects that Enbridge Gas Distribution Inc. (“EGD”) [2] and Union Gas Limited (“Union”)[3] filed with the Ontario Energy Board (the “Board” or “OEB”) in advance of the Board’s generic hearing in EB-2016-0004. Of the 68 projects proposed by the incumbents, there was no overlap or competition in each other’s traditional service areas. In the Board’s Decision in EB-2016-0004, the Board recognized the benefits of facilitating competition between natural gas providers: “Competing utility companies would be incented to provide rates favourable to customers in order to be selected as the preferred proponent of the expansion project.”[4] The competitive Common Infrastructure Plan (“CIP”) process initiated by the Board has demonstrated that competition can maximize value for ratepayers, as proponents have accepted revenue requirement, volume, and conversion risks. EPCOR believes that the competition-driven direction of the Board is strengthened by EPCOR’s presence as an alternative natural gas provider in Ontario. Aligned with the Province’s commitment to the continued expansion of its natural gas

---

[1] EB-2017-0306, Enbridge Gas Distribution Inc. (“EGD”) and Union Gas Limited (“Union”) MAAD Application, dated November 2, 2017.
[2] EB-2016-0004, EGD Evidence, dated March 21, 2016, page 15 of 36.
[3] EB-2015-0179, Union IRR Community Expansion Revised, dated December 15, 2015, Exhibit B.LPMA.13, Attachment 1.
[4] EB-2016-0004, Ontario Energy Board Decision with Reasons dated November 17, 2016, Section 6, page 20 (“Generic Proceeding Decision”.

distribution system, EPCOR intends to establish itself as a competitive and innovative option for communities participating in this expansion.

3. The CIP process set out three key metrics to be considered in the Board's determination of the successful proponent: i) cumulative revenue requirement per unit of volume ("rate per m^3"); ii) customer years; and iii) cumulative volume, all over the 10-year rate stability period. These three metrics reflect a proposal's impact to ratepayers and encourage developing plans that include innovation, creativity, and risk allocation that realizes system benefits. Other secondary metrics are less useful in ranking the competitive proposals. As an example, revenue requirement in isolation of volume only calculates costs, without measuring the associated benefits.

4. With the completion of the interrogatory process, EPCOR submits that the Board now has clear, directly comparable metrics with which to make its decision. Both Union and EPCOR have provided metrics using revenue requirement and volume calculations adjusted for ten calendar years, as well as normalized average consumption as a measure of volume for all customers:

Comparison Criteria[5]

Metric	Unit	EPCOR Value	Union Value
Cumulative Revenue Requirement per Unit of Volume	$\$/m^3$	0.2209	0.2444
Customer Years	# Years	42,569	54,171
Cumulative Volume	10^3m^3	342,187	286,910

5. EPCOR believes that the first of the three metrics listed above (i.e., the rate per m^3 metric) should be considered by the Board as the primary metric when ranking the proposals as this metric is most indicative of the level of competition between the two parties and also of the economic benefit to the ratepayer.

Introduction

6. EPCOR is of the view that its proposal is superior to Union's proposal for the following reasons:

[5] EB-2016-0137/0138/0139, EPCOR Correspondence re Summary Table of Metrics, dated January 22, 2018.

- *Municipal Needs and Support*: EPCOR has worked closely with the Southern Bruce municipalities since early 2015 to develop a system that directly meets their stated needs of an affordable system that encourages economic development in the region.
- *Lowest Rate*: EPCOR's proposal has a lower effective rate per m^3 than Union Gas' proposal, thereby enabling the ratepayer to enjoy the maximum economic benefits of natural gas. This low rate also increases the potential for conversion, further increasing the economic benefit to the region.
- *Value Added Initiatives*: EPCOR has introduced additional value added initiatives that have the potential to bring increased economic benefits to the region.
- *Achievable Plan*: EPCOR has developed an achievable plan through the use of aggressive, but realistic market penetration forecasts and timelines. EPCOR has also reduced the risk of construction cost overruns by working with a major engineering, procurement, construction firm in an innovative manner that has resulted in a fixed price proposal.

Municipal Needs and Support

7. EPCOR has demonstrated its commitment to investing in the Ontario natural gas market by providing a competitive alternative for a natural gas expansion project since early 2015 (almost three years ago) when it competed (along with Union) in the municipality driven request for proposals for the franchise rights to distribute natural gas to three Southern Bruce municipalities (the Municipality of Arran-Elderslie, the Municipality of Kincardine, and the Township of Huron-Kinloss). Based on the selection of EPCOR by the Southern Bruce municipalities as the preferred distributor, EPCOR entered into municipal franchise agreements with each of the three municipalities for the distribution of natural gas and sought Board approval for the franchise agreements on March 24, 2016.[6]

8. EPCOR has continued to work with the municipalities over the last 30 months to develop the Southern Bruce natural gas project which has supported the development of a cost competitive

[6] Generic Proceeding Decision, page 13.

proposal that minimizes long-term risks to ratepayers through the assumption of risk by EPCOR, targets key sizeable agricultural and commercial customers, and leverages EPCOR's experience and innovative solutions to serve the communities' specific goals. EPCOR has continued to engage in ongoing consultation with the communities and various project stakeholders through a variety of activities which include: holding three open houses; regular updates in open meetings of municipal council through 2017; and establishing a full-time presence in the communities by opening a resident office in June 2017 to serve as a focal point for stakeholder communication.

9. An example of the benefits of working closely with the municipalities is demonstrated in the areas proposed to be covered by EPCOR's system. In Union's Corrected Interrogatory Responses, Union identifies a number of market areas it forecasts it will service that are not included in EPCOR's CIP.[7] EPCOR previously investigated the areas noted by Union and while a cursory review of a Google map may suggest that these areas should be included in initial system rollout, EPCOR conducted further due diligence on these areas through customer surveys, discussions with municipal officials and information gathered from its local resource in Southern Bruce. Ultimately, as a result of this due diligence, EPCOR determined that these areas should be excluded from its CIP. For the most part, these areas are composed of seasonal homes whose volumes will likely be lower than the agreed upon CIP common assumptions, and owners are less likely to convert to natural gas as the homes are generally unused in the winter months. Additionally, they are located on private roads with access potentially challenged by congested underground infrastructure that would result in higher costs. Excluding these homes helps to ensure the metrics provided to the Board are realizable and realistic, and to protect ratepayers from potential unexpected rate increases post rate stability period. EPCOR's system will serve neighbourhoods adjacent to these areas, and if it is determined there is sufficient demand, EPCOR may service these areas in the future. The decision to exclude these areas is therefore based not merely on "detached" customer surveys or other methods, but also on the considerable time and effort that EPCOR has invested in better understanding the gas distribution needs and possibilities in the area over the last few years.

[7] EB-2016-0137/0138/0139, Union Gas Corrected Interrogatory Responses dated January 12, 2018, Exhibit I. Union 1, corrected page 3 of 3, Table 2 ("Union Corrected IRRs").

10. EPCOR has also been in discussions with large volume industrial customers to reflect their needs in the overall development plan. Additionally, to deliver a customer-focused proposal, EPCOR identified the importance of agricultural members of the communities and gave special consideration to potential routing and development to best service these customers.

Lowest Rate

11. In developing the CIP process, the OEB accepted, and the proponents have agreed that the appropriate[8] parameters are, the following three comparison criteria:[9]
    - \$/m3,
    - number of customer years, and
    - cumulative volume.

12. While the parties' CIP submissions initially had alternative views as to the time period (calendar years versus project years), and measurement (capacity versus normalized average consumption for industrial customers) of volumes, those views have been reconciled in the parties' responses to the Board's interrogatories. EPCOR believes these comparison criteria are now directly comparable, continue to be the appropriate parameters to rank the proposals, and reflect the competitive framework on which the process has been based. Further, EPCOR is of the view that when ranking the relative importance of these three criteria, the parameter that is most supportive of the Board's, municipalities' and customers' objectives is the effective unit rate to deliver natural gas to the customer (rate per m^3). This is the criteria that best demonstrates the ability of the successful proponent to deliver the economic benefits of natural gas to the customer. While the 'Revenue Requirement' and 'Customer Years' comparison criteria and the other remaining metrics requested by the Board in its interrogatories may assist the Board in understanding the two proposals, they do not allow the Board to undertake an apples-to-apples comparison as they vary largely due to dependent, metric-specific assumptions that differ between proposals. In addition, EPCOR believes that metrics which do not consider the system in aggregate, such as those excluding industrial customers, should be given significantly less weight by the Board as they do not reflect the benefits each party's proposal may generate for the region.

[8] EB-2016-0137/0138/0139, Ontario Energy Board Decision on Preliminary Issues and Procedural Order No. 8, page 3, Agreed upon Parameters ("Procedural Order 8").
[9] Procedural Order 8, page 4, Comparison Criteria.

13. The table below sets out the three comparison criteria calculated by EPCOR and Union. These criteria are directly comparable as revenue requirement and volume calculations have been adjusted for ten calendar years, and normalized average consumption is the measure of volume for all customers:

Comparison Criteria[10]

Metric	Unit	EPCOR Value	Union Value
Cumulative Revenue Requirement per Unit of Volume	$\$/m^3$	0.2209	0.2444
Customer Years	# Years	42,569	54,171
Cumulative Volume	10^3m^3	342,187	286,910

14. A comparison of these metrics clearly demonstrates that EPCOR's proposal <u>will result in the lowest effective unit rate</u> to deliver natural gas to customers ($0.2209/m^3 versus $0.2444/m^3), almost 10% less than the unit rate provided by Union. The cumulative 10-year revenue requirement per unit of volume represents the best proxy for the ultimate rate that will be charged to customers.

15. In Union's more recent submissions to the Board it appears to now be placing less weight on the rate impacts of competitive proposals to serve new areas and more weight on revenue requirement. This is in sharp contrast to the principle previously advanced by Union and Enbridge, and agreed to by the Board, that lowest unit rate was critical to evaluating system expansions:

> "The OEB agrees with the submissions of Union and Enbridge that information regarding proposed rates and resulting rate impacts are critical to evaluate any expansion proposal."[11]

16. This is supported by the Board's rate-setting jurisdiction, which dictates that it is the resultant rates that must be just and reasonable, and therefore the ultimate focus of the Board's attention.

17. EPCOR confirms it is committed to the effective rate of $0.2209/m^3.

18. EPCOR's Customer Years are lower than the value included by Union. However, given EPCOR's lower cost to deliver gas and that the parties' systems will be built out over essentially the same

[10] EB-2016-0137/0138/0139, EPCOR Correspondence re Summary Table of Metrics, dated January 22, 2018.
[11] Generic Proceeding Decision, page 28.

area, EPCOR may achieve superior penetration rates to Union's proposal. Moreover, Customer Years in and of itself is not directly reflective of the competitive nature of the proposals, nor is this measure a principle of traditional ratemaking. Volumes consumed by customers during the actual time that customers are on line is a more reflective metric to calculate rates and will quantitatively determine the competitive nature of the proposals.

19. EPCOR's cumulative normalized average consumption volume is 19% higher than Union's (342,187 10^3m^3 versus 286,910 10^3m^3). This reflects some of the value added initiatives as detailed below. EPCOR confirms it is committed to the volumes resulting from attaching the forecasted number, and classes of customers.

20. EPCOR submits that it is the effective unit rate per m^3 that each proponent is committing to, as proponents cannot commit to realized attachments as this is dependent on actual customer decisions to convert. When compared to Union's proposal, EPCOR's lower rate per m^3 with prudent forecasted customer attachments has a much higher likelihood of materializing. This translates into reduced ratepayer risk following the rate stability period, as well as greater market penetration during the rate stability period.

21. In Procedural Order No. 8, when addressing the potential for cross-subsidization of new expansion customers by existing customers, the Board confirmed the following standalone principle as a fundamental principle of regulatory ratemaking: "The OEB reaffirms the principle of fully allocated costs as set out in the Generic Decision, which prevents cross-subsidization of new expansion customers by current ratepayers."[12] In Union's Corrected Interrogatory Response[13] it states that derived OM&A costs are based on Union's 2013 OEB-approved fully allocated cost study (the "2013 Cost Study"). EPCOR understands that the 2013 Cost Study is based on cost causation and allocation as it relates to mature service areas. Southern Bruce is an expansion area with a customer base starting at zero; achieving forecasted customer attachment rates will require aggressive expenditures in customer pursuit, marketing, staffing, advertising, and administrative costs necessary to coordinate activities. If Union is relying on a cost allocation study that reflects a mature system, it is not clear if these incremental expansion costs will be allocated to new

[12] Procedural Order 8, page 8, OM&A Costing Methodology.
[13] Union Corrected IRRs, Exhibit I. Union.6, page 1 of 1.

customers. Not separately tracking and fully allocating these incremental costs will result in existing ratepayers subsidizing new customers.

22. Of note is that Union confirms that its derived distribution costs include "OM&A costs [that] include distribution, general operating and engineering, sales and marketing and customer accounting costs." [14] In the 2013 Cost Study, the Revenue Requirement for Distribution Customers[15] is broken down into a number of categories, including Administrative and General which does not appear to be included in Union's response. This cost category includes Administrative, Insurance, and Employee Benefits[16]. In the 2013 Cost Study, these costs ($88,128,000) made up 41% of total Operating Expenses ($212,431,000)[17].

Value Added Initiatives

23. EPCOR's CIP identified a number of innovative value added initiatives that were generated while working with the municipalities and individual customers.[18] These include the potential of multi-utility synergies on fibre and water partnerships which will benefit the ratepayers and taxpayers of the communities. These are examples of the innovation and creativity that EPCOR strives for. EPCOR draws on its extensive multi-utility experience in many jurisdictions in both Canada and the United States, to offer these progressive cost reduction strategies to lower both delivery rates and municipal tax rates. EPCOR is not aware of the incumbent utilities offering these types of synergies in their proposed community expansion projects or in the balance of their existing operations. The business model employed in expanding into new communities will drive EPCOR to seek out additional innovation solutions.

24. EPCOR also identified fuel switching as another value added initiative in its CIP.[19] These innovations drive additional volumes which are reflected in the rate per m^3 forecasted by EPCOR

[14] Union Corrected IRRs, Exhibit I. Union.6, page 1 of 1.
[15] EB-2011-0210, Union Evidence, dated November 23, 2011, Exhibit G3, Tab 2, Schedule 21, page 1 of 3.
[16] EB-2011-0210, Union Evidence, dated November 23, 2011, Exhibit G3, Tab 3, Schedule 1, page 15 of 16.
[17] EB-2011-0210, Union Evidence, dated November 23, 2011, Exhibit G3, Tab 2, Schedule 21, page 1 of 3.
[18] EB-2016-0137/0138/0139, EPCOR CIP Submission, dated October 18, 2017, Tab 7, pages 32 to 41 ("EPCOR CIP").
[19] EB-2016-0137/0138/0139, EPCOR Interrogatory Responses, dated January 11, 2018, page 9 ("EPCOR IRRs").

and demonstrate EPCOR's commitment to maximize the economic benefits of natural gas to the region.

Achievable Plan

25. *Extensive Experience and Realistic Metrics.* In successfully expanding its utility business, EPCOR has extensive experience in developing aggressive but realistic expansion plans, implementing projects under tight cost and time constraints, and meeting the objective of regulators in multiple jurisdictions. [20] EPCOR's extensive experience, as detailed in its CIP, provides clear evidence that EPCOR can economically develop, obtain regulatory approval for, safely operate, and market the system to customers in a manner that optimizes the benefits to the ratepayers. EPCOR is of the view that its CIP presents the Board with a plan that maximizes the economic benefits to the region and protects the ratepayer in the long term by incorporating the most realistic assumptions and forecasts. As a result, EPCOR's plan has the best chance of successful implementation which will allow ratepayers to achieve the benefits of conversion to natural gas.

26. *Market Penetration Rates*. As detailed above, EPCOR's work with the Southern Bruce municipalities and potential customers has allowed it to put forward an aggressive but realistic and achievable market size and attachment rate. This minimizes the post rate stability period risks to be borne by the ratepayers when rates are adjusted to a cost of service framework that will reflect actual attachment rates.

27. *Industrial Customers.* EPCOR has been in discussions with potential industrial customers to determine their interest in attaching to a natural gas system. While EPCOR expects several industrial customers to enter into long term contracts for capacity, EPCOR's view is that it is premature to enter into agreements in advance of confirming costing details that will be finalized in the Leave to Construct ("LTC") application. The terms and conditions of a customer agreement will be subject to a number of elements, including a study to establish appropriate rates by rate class and approval by the Board.

[20] EPCOR CIP, Tab 3, page 10 of 41 – Figure 3 demonstrates EPCOR's success in expanding its business in competitive situations.

28. *Full OM&A cost*. EPCOR's forecasted revenue requirement includes OM&A costs that respect the standalone principle. Accordingly, EPCOR can confirm that implementation of its CIP will not result in cross-subsidization from existing ratepayers. This principle of standalone OM&A costs will be reflected in EPCOR's LTC should EPCOR be the successful proponent.

29. *Realistic Schedule*. EPCOR provided an estimate of 100 days as a timeline for submission of the LTC application to the Board.[21] This timeline for a fully compliant application allows for mandatory processes, including the 30 day notice for open houses for public consultation, incorporation of the feedback into a finalized Environmental Report ("ER"), and 42 days for the Ontario Pipeline Coordinating Committee ("OPCC") to review the ER. While EPCOR previously held three open houses, given EPCOR's commitment to stakeholder consultation, EPCOR intends to host a second round of open houses to allow stakeholders to provide further input into EPCOR's final plan. EPCOR has also held preliminary discussions with municipal officials regarding rights of way, and to date, there have been no concerns raised regarding EPCOR's proposal. EPCOR submits that the marginally shorter time period proposed by Union Gas to file its LTC application is immaterial in terms of the timely development of the distribution system and ultimate 2019 in-service date.

30. On October 13, 2016, the Board issued a Handbook for Utility Rate Applications to outline the key principles and expectations the Board will apply when reviewing rate applications. The Board had proposed an increase in customer focus and a shift away from cost recovery to long-term value for money. EPCOR believes that its proposal meets both goals – customer focus and value for money – by focusing on key service areas, targeted customer opportunities, community-specific needs, and incorporating innovation that provides a net benefit to the system. It is the embodiment of these principles outlined by the Board that resulted in EPCOR offering a more competitive submission with further benefits likely to be derived from the communities working on other long-term value added initiatives. The preference of the community for EPCOR's proposal has been clearly stated throughout this competitive process. In EPCOR's view, the Board's emphasis on customer focus lends great weight to the EPCOR proposal.

[21] EPCOR IRRs, page 9.

31. EPCOR submits that with the clear and comparable metrics presented to the Board by both parties, EPCOR's proposal offers the greatest value to ratepayers. EPCOR's proposal is realistic, achievable, provides ratepayers with the lowest effective rate per m^3, and above all, is customer focused.