Ontario Energy Board | Commission de l'énergie de l'Ontario

Ontario

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

South Bruce Expansion Applications

Applications to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with natural gas distribution services

PROCEDURAL ORDER NO. 10

February 22, 2018

EPCOR Southern Bruce Gas Inc. (EPCOR) filed applications with the Ontario Energy Board (OEB) on March 24, 2016 under sections 8 and 9 of the *Municipal Franchises Act*, R.S.O. 1990, c. M.55, seeking approval for its franchise agreements with and Certificates of Public Convenience and Necessity for the Municipality of Arran-Elderslie, Municipality of Kincardine and the Township of Huron-Kinloss ("the South Bruce Expansion Applications"). Procedural Order No. 1, which was issued on January 5, 2017, directed other parties interested in serving the areas covered by the South Bruce Expansion Applications to notify the OEB of their interest. Union Gas Limited (Union Gas) filed a letter dated January 19, 2017 notifying the OEB of its interest in serving the areas covered by the South Bruce Expansion Applications.

Through procedural orders, the OEB determined that it would hear the applications to serve the areas in two phases. In the first phase, the OEB would consider submissions on certain preliminary issues, and in the second phase, the OEB would select either EPCOR or Union Gas as the successful proponent. The OEB then established a Common Infrastructure Plan (CIP) as the basis for determining proponents' revenue requirements.

In accordance with the Decision on Preliminary Issues and Procedural Order No. 8 (Decision and P.O. 8), which was issued on August 22, 2017, both EPCOR and Union

Gas filed proposals to serve the area covered by the South Bruce applications on October 16, 2017.

In Procedural Order No. 9 (P.O. 9), which was issued on December 7, 2017, the OEB determined that it would be assisted by limited interrogatories to clarify certain aspects of the proposals, and invited parties to submit any other interrogatories that parties believed to be absolutely necessary in assisting the OEB in its deliberations. The OEB issued a final list of interrogatories for both EPCOR and Union Gas on December 22, 2017.

In P.O. 9, the OEB also made provision for a round of submissions from all parties, to be filed on January 25, 2018. The OEB has reviewed the submissions and determined that EPCOR should be allowed to provide explanations for potential anomalies identified by parties in EPCOR's submissions and interrogatory responses.

Industrial Volumes

Several of the CIP criteria and other metrics take into account volume. These include the net present value (NPV) of the 10-year revenue requirement per m^3 ($\$/m^3$). As Greenfield Global Inc. (Greenfield) notes in its submission, industrial volumes are particularly significant, "making up 54% of Union's and 63% of EPCOR's volume estimates"[1] and therefore cannot be ignored. Both Union Gas and Greenfield have identified what appear to be inconsistencies in volume forecasts between EPCOR's CIP proposal and its subsequent interrogatory responses. Two of the more material examples are discussed below.

1. While the two proponents used a common approach to forecasting residential and commercial volumes, parties have identified a number of inconsistencies in their approaches to forecasting industrial volumes.[2] Through interrogatories, the OEB attempted to better align the proponents' industrial volume forecasting approaches and test the materiality of any differences. Union Gas noted in its submission that when EPCOR adopted a normalized annual consumption (NAC) approach to answer its interrogatories (rather than the contract volume approach taken in its CIP proposal), EPCOR's industrial volumes dropped by 28%[3]. However, Union Gas estimated that the reduction could reasonably have been expected to be as

[1] Greenfield Global Inc. Submissions. January 25, 2018. Page 8, paragraph 21.
[2] Union Gas identified this issue in a letter to the OEB on October 25, 2017. In response, in December 2017, the OEB asked a series of interrogatories to both proponents that were intended clarify issues and obtain additional information.
[3] Union Gas Limited. Submissions. January 25, 2018. Page 8, paragraph 21.

much as 60%. The OEB would like EPCOR to explain its calculations and why the reduction is not greater.

2. EPCOR's CIP proposal specified a NPV of 10-year revenue requirement per unit of volume value of $0.1766/m^3$ based on forecasted industrial volumes of 2 million m^3/year (18.3 million m^3 over 110 months) under a boiler-based HVAC scenario[4]. This was prior to EPCOR being required to re-calculate its CIP criteria based on NAC, so this value is still based on contract demand. In the same table in their CIP proposal, EPCOR shows an alternative scenario where EPCOR forecasts 8.25 million m^3/year (75.6 million m^3 over 110 months) under a Co-Gen HVAC (CHP) scenario. The CHP scenario forecasts an incremental volume of 57 million m^3 more over 110 months than the boiler-based HVAC scenario, which would still have been calculated based on contract demand. The table is reproduced below.

Description	Under Existing CIP Application with Boiler based HVAC	Based on Co-Gen HVAC with Electricity Generation at existing Facility	Based on Expanded Facility with Co-Gen
Volumes of Natural Gas Consumed m^3/year	2,000,000	8,250,000	12,500,000
Impact to $/m^3$ on this CIP Application	0%	-3%	-8%
Resulting $/m^3$ on this CIP Application	0.1766	0.1710	0.1623
MW of Electricity Produced	0.0 MWe	3.3 MWe	5.0 MWe
MW of Thermal Energy Produced	2.5 MWth	5.0 MWth	7.5 MWth

However, as Union Gas points out, in EPCOR's IR response 5[5], EPCOR specifically says that EPCOR's CIP proposal includes the volume, capacity and costs of "industrial fuel switching to support energy loads in addition to heating" (emphasis added). Union Gas points out that this is inconsistent with the boiler-based only scenario in EPCOR's original CIP. Union Gas alleges that these two scenarios are not equivalent. The OEB notes that proponents were not to alter the substance of their CIP proposals except as required to answer interrogatories. The OEB would like EPCOR to confirm whether or not an additional source of volumes (i.e., fuel switching) was included in its interrogatory response beyond what was included in its CIP proposal.

[4] EPCOR Southern Bruce Gas Inc. CIP Proposal. October 16, 2017. Page 38, paragraph 20.
[5] EPCOR Southern Bruce Gas Inc. Interrogatory Responses. January 11, 2018. IRR 5, page 9.

Union Gas and Greenfield both noted that the difference in EPCOR's 110 month CIP estimate of cumulative 10-year contract (capacity) volumes for industrial customers with and without CHP is about 57 million m^3. Additionally, Greenfield also points out that EPCOR's cumulative 10-year volume estimate for CHP (57 million m^3) is nearly identical to the difference in cumulative 10-year industrial volume estimates between EPCOR and Union Gas (58 million m^3). In accordance with the definition of "cumulative volume" in the OEB Staff Progress Report and for consistency with the approach taken by Union Gas, EPCOR was asked by the OEB in IR 5 to adopt a NAC approach to calculating industrial volumes over 120 months. The change from a contract (capacity) approach to a NAC approach would be expected to materially reduce EPCOR's industrial volumes. Union Gas and Greenfield questioned the unexpected result of two different scenarios (i.e., with and without CHP) both leading to almost identical results (i.e., 58 million m^3 is about the same as 57 million m^3, respectively). Greenfield further noted that, with the exception of the CHP facility, EPCOR and Union Gas serve the same three industrial customers. Therefore, any difference between EPCOR and Union Gas' industrial volumes must be associated with the CHP facility.

Cumulative 10 year volume	**EPCOR**	**Union**
Contract w/industrials	428 million m^3	N/A
NAC including industrials	342 million m^3 (A)	287 million m^3 (C)
NAC without industrials	128 million m^3 (B)	131 million m^3 (D)
Industrial volume (A-B or C-D)	214 million m^3 (E)	156 million m^3 (F)
Difference between EPCOR & Union industrial volumes (E-F)	58 million m^3	

The OEB would like EPCOR to explain the 58 million m^3 higher forecasted industrial demand.

Revenue Requirement

Several of the CIP criteria and other metrics take into account revenue requirement and volumes. These include the NPV of the 10-year revenue requirement and the NPV of the 10-year revenue requirement per m^3 ($/$m^3$).

Although the proponents agreed to use a ten year rate stability period, they selected different start and end dates for the collection of revenues within the ten years. As a result, EPCOR's revenue requirement in its CIP proposal were calculated over 110 months while Union Gas' was calculated over 120 months. To test the materiality of the difference, the OEB issued interrogatories that instructed each proponent to recalculate their revenue requirement over the other proponent's timeframe (i.e., EPCOR to calculate over 120 months and Union Gas over 110 months).

Union Gas noted that when EPCOR calculated its NPV of the 10-year revenue requirement for 110 months in its CIP proposal, the requirement for the final 12 months was $9.9 million[6] (or an average of $825,000/month). Union Gas further noted that when EPCOR calculated its NPV of the 10-year revenue requirement for 120 months, the requirement for the final 10 months was $0.8 million (or an average of $80,000/month).

Union Gas asserts that the increase of $0.8 million for the last ten months appears disproportionately low relative to that of the previous 12 months. EPCOR's evidence provided no explanation for why the increase appears relatively small. The OEB would like EPCOR to provide an explanation of this apparent inconsistency.

In summary, the OEB has the following clarifying interrogatories for EPCOR:

- Please explain why the reduction in EPCOR's industrial volumes is 28% and not greater after adopting a NAC approach.

- Please confirm whether or not an additional source of volumes (i.e., fuel switching) was included in EPCOR's interrogatory response 2b (when EPCOR recalculated its original CIP cumulative 10-year volume over 110 months using a NAC approach) beyond what was included in its CIP proposal.

- Please explain the 58 million m^3 higher forecasted industrial demand difference between Union and EPCOR, following EPCOR's adoption of the NAC approach.

- Please explain the relatively small $0.8 million increase in the last ten months of EPCOR's recalculated NPV of the 10-year revenue requirement for 120 months.

It is necessary to make provision for the following matters related to this proceeding. Further procedural orders may be issued by the OEB.

[6] Union Gas Limited. Submissions. January 25, 2018. Page 9, paragraph 26.

IT IS THEREFORE ORDERED THAT:

1. EPCOR Southern Bruce Gas Inc. shall file with the OEB complete written responses to the OEB's clarifying interrogatories by **March 2, 2018**.

All filings to the OEB must quote the file numbers, EB-2016-0137 | EB-2016-0138 | EB-2016-0139, be made in searchable / unrestricted PDF format electronically through the OEB's web portal at https://www.pes.ontarioenergyboard.ca/eservice/. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Registrar at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Azalyn Manzano at Azalyn.Manzano@oeb.ca and OEB Counsel, Michael Millar at Michael.Millar@oeb.ca.

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DATED at Toronto, **February 22, 2018**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary