

June 1, 2018

BY COURIER & RESS

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: EB-2017-0129 -Draft Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans - Comments of Union Gas Limited**

The Ontario Energy Board (“OEB”) issued for comment a Draft Report of the OEB: A Framework for the Assessment of the Distributor Gas Supply Plans on April 12, 2018. Please find enclosed the comments of Union Gas Limited (“Union”) on the Draft Report.

Should you have any questions on the above or would like to discuss in more detail, please contact me at 519-436-5473.

Yours truly,

*[original signed by]*

Karen Hockin  
Manager, Regulatory Initiatives

Encl.

cc: Crawford Smith, Torys

## **UNION GAS LIMITED SUBMISSION**

### **Comments on the Draft Report of the Ontario Energy Board – Framework for the Assessment of Distributor Gas Supply Plans**

This submission provides the comments for consideration of Union Gas Limited (“Union”) in response to the Draft Report of the Ontario Energy Board (“the Board” or “OEB”) on the Framework for the Assessment of Distributor Gas Supply Plans (“Framework” or “Draft Report”) dated April 12, 2018.

In terms of background, the Board launched an initiative on March 16, 2017 to “update the regulatory approach to the gas supply planning process and inject greater transparency, accountability and measurement to ensure that consumers are getting value for their money.”<sup>1</sup>

In addition to outlining Union’s understanding of aspects of the Framework, this submission will provide comments on the following:

- guiding principles, strategic measures and criteria
- the assessment process, and
- considerations for implementation

#### **Overview**

Union strives to provide an appropriately balanced gas supply plan (“the plan”) that ensures customers receive secure, diverse gas supply at a prudently incurred cost. Union supports the Board’s initiative and is committed to continue to evaluate and act on opportunities to improve communication of the plan.

In reviewing the Framework, it is Union’s understanding that:

- the purpose of the Framework is to provide a process for overall review and assessment of the plan by the Board;
- a gas supply plan review will occur once every five years and will establish the five year baseline gas supply plan;
- an annual update to the baseline gas supply plan will be provided on a similar timeline as currently exists (i.e. September/October submission);
- the five year baseline gas supply plan will not require the distributors to identify or telegraph specific asset purchases that may impact market behaviour;
- the Framework is designed to recognize the uniqueness of each distributor in terms of its geography, customer base, and asset mix;
- the Framework is designed to complement other applications, and is not intended to overlap with those applications or other OEB initiatives;
- the cost consequences of the plan will continue to be approved through separate processes such as QRAM;

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<sup>1</sup> EB-2017-0129 OEB invitation to comment letter dated April 12, 2018

- changes to Board approved policies (i.e. weather methodology) will not be made through the gas supply plan review but will be made through separate regulatory processes;
- rate adjustments are intended to follow established rate setting processes;
- public policy refers to federal and provincial government mandates and initiatives;
- if external consultation is required for the implementation or compliance with the Framework, those costs will be subject to deferral treatment; and,
- if Union acts in accordance with the gas supply plan, and under circumstances consistent with what is outlined in the gas supply plan, the Board will deem cost consequences prudent at the time of disposition.

Union has provided comments based on its current gas supply planning process. Union and Enbridge Gas Distribution (“EGD”) currently operate as two separate utilities. This submission does not assume amalgamation. Union notes that the Framework includes no references to the applications submitted by Union and EGD requesting approval of amalgamation and a rate setting mechanism (EB-2017-0306/0307)<sup>2</sup> currently before the Board. Union submits it is premature to address the amalgamation proceeding in the Framework, however Union encourages the Board to consider the impact of amalgamation when contemplating implementation timelines for the new Framework process given the potential implications. Union provides additional comments on implementation later in this submission.

### **Key Recommendations:**

In reviewing the Draft Report, Union identified the following key recommendations for the Board to consider when finalizing the Framework:

- establish an implementation timeline, once the Framework is issued, that meets the distributors’ planning requirements ;
- clarity is required within the Framework to establish Board expectations on rate predictability; recognizing both the importance for consumers and also the market-based environment Union operates in;
- public policy as defined within Section 3.1 of the Framework should remain broad, not focusing only on specific examples associated with current public policy; and,
- include all gas supply plan related submissions in the gas supply plan review process.

In the Board’s April 12, 2018 letter issuing the Draft Report for comment, the Board also indicated it would be assisted by comments on the following two questions:

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<sup>2</sup> EB-2017-0306/0307 – MAAD application seeking approval to effect the amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited, under Section 43(1) of the *Ontario Energy Board Act, 1998*, and Rate Setting Mechanism application.

- 1) Are the criteria for assessing gas supply plans appropriate for that purpose? Are there additional criteria that should be applied?

Union does not see the need at this time for any additional gas supply plan criteria as laid out in the Framework. Union will continue to work with the OEB as experience and lessons are learned that may provide insight into aspects of the Framework that can be further enhanced and strengthened. Further comments on criteria are included below.

- 2) Is the review process set out in the Draft Report optimal? Are there any issues in terms of how that process relates to other OEB processes?

Union supports the Board's proposed process for review of the gas supply plan; however, the process should be modified to allow distributors the opportunity to comment on written comments submitted by stakeholders to increase clarity where applicable.

Regarding how the process relates to other OEB processes, it is Union's understanding that the Framework is designed to complement other applications, and is not intended to overlap with those applications or other OEB initiatives. As such, the cost consequences of the plan will continue to be approved through separate processes such as QRAM, and changes to Board approved policies (i.e. weather methodology) will be made through separate regulatory processes. Specific exceptions are detailed below.

Union's specific comments by section of the Framework are outlined below.

### **Section 3 – Framework**

#### **3.1. Guiding Principles and Measures**

In substance, Union supports the Board's proposed guiding principles and strategic measures as stated in the Framework. Union would like to provide a few wording changes and contextual comments to achieve better alignment with current gas supply planning principles and those discussed during the Technical Working Group session held on June 15, 2017.

The Board's proposed guiding principles are:

1. Cost Effectiveness
2. Reliability and Security of Supply
3. Public Policy

The Board's four strategic measures are:

1. Rate Predictability
2. Diversity
3. Flexibility
4. Continuous Improvement

Union's gas supply portfolio is guided by a set of principles that are designed to ensure customers receive secure, diverse gas supply at a prudently incurred cost. Union's principles<sup>3</sup> include the following:

- Ensure secure and reliable gas supply to Union's service territory at a reasonable cost;
- Minimize risk by diversifying contract terms, supply basins and upstream pipelines;
- Encourage new sources of supply as well as new infrastructure to Union's service territory;
- Meet planned peak day and seasonal gas delivery requirements; and,
- Deliver gas to various receipt points on Union's system to maintain system integrity.

When reviewing the Board's guiding principles, in particular the "cost effectiveness" principle, Union highlights that it is important to consider the additional wording provided in the Framework which reads:

*For clarity, cost effectiveness does not mean the 'lowest cost', reliability does not mean 'reliable at any cost' and support for government policy does not mean 'support at any cost' or 'any level of reliability'. Rather the intent is to strike a balanced approach to the benefit of consumers. Distributors are required to demonstrate that their Gas Supply Plan balances the principles in a way that is prudent and appropriate for consumers.*

This additional wording is key to understanding how the guiding principles and strategic measures apply to gas supply planning. The overall Board objective in relation to gas supply is to protect the interests of consumers with respect to prices and the reliability and quality of gas service<sup>4</sup>. In order for Union to achieve the Board objective the gas supply plan must appropriately balance both the guiding principles and strategic measures as outlined in the Framework.

To recognize the impact that achieving balance has on cost, Union proposes the following wording be adopted for the cost effectiveness guiding principle;

**Cost-effectiveness** - cost effectiveness is achieved by appropriately balancing the principles and strategic measures of reliability and security of supply, public policy, rate predictability, diversity, flexibility and continuous improvement, and in executing the supply plan to achieve those requirements in an economically efficient manner.

The Framework outlines four strategic measures: Rate Predictability, Diversity, Flexibility and Continuous Improvement. Both Diversity and Flexibility are already addressed in Union's gas supply planning principles. Union provides the following comments on the two remaining measures: Rate Predictability and Continuous Improvement.

With respect to Rate Predictability Union recognizes the importance customers place on rate predictability. The gas supply planning process provides a level of rate stability by diversifying commodity and transportation purchases by supplier, geographical location, contract terms and length, and by utilizing storage assets.

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<sup>3</sup> As filed in Union's 2018 Rates proceeding (EB-2017-0087)

<sup>4</sup> Section 2 of the *Ontario Energy Board Act, 1998* - Board Objectives – Gas

From a commodity perspective, it is difficult to achieve rate predictably for a market-based commodity like natural gas that is subject to fluctuations in regional and North American supply and demand as well as weather volatility. The desire for rate predictability has been explored in several proceedings and has been achieved primarily through the QRAM process and equal billing plans offered by the utility<sup>5</sup>.

In terms of Continuous Improvement, Union has continued to enhance its gas supply planning processes and practices over time including such improvements as the Dawn Reference Price changes<sup>6</sup>. However, Union notes that gas supply planning is a mature process and as a result, Union expects there are fewer opportunities for significant enhancements. Union will continue to evaluate and act on opportunities to improve in accordance with the guiding principles.

### **3.2 Gas Supply Plan Criteria**

This section of the Framework sets out the criteria to be used by the OEB to evaluate a distributor's plan to assess whether it meets the guiding principles and delivers value to the customer. The criteria are:

- 1) Demand Forecast Analysis
- 2) Supply Option Analysis
- 3) Performance Metrics
- 4) Risk Mitigation Strategy
- 5) Achieving Public Policy Objectives
- 6) Procurement Process and Policy
- 7) Current and Future Market Trends and Analysis

Comments on criteria 1 through 5 are provided below. Union has no comments on the Procurement Process and Policy criteria, or on the Current and Future Market Trend and Analysis criteria which is currently included in the gas supply memorandum.

#### **3.2.1. Demand Forecast Analysis**

The Framework indicates that the OEB will assess whether the distributor has demonstrated it has considered the appropriate factors that could affect demand forecasts.

Union's plan will include documentation and provide analysis of the demand forecast that is used as an input into the gas supply plan. The demand forecast is not subject to Board approval as part of the Framework.

#### **3.2.2. Supply Option Analysis**

The Framework outlines the information that distributors are to provide to effectively demonstrate that its respective plan has considered a variety of options, best and worst case scenarios, and their impact on consumers.

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<sup>5</sup> EB-2007-0606/EB-2007-0615, July 31, 2008 Decision, pp 15-17.

<sup>6</sup> Changes approved in Dawn Reference Price and North T-Service application (EB-2015-0181)

Union notes that a portion of the supply option analysis is already submitted as part of Union's annual deferral disposition proceeding. Union proposes that the transportation contracting analysis be moved out of the deferral disposition proceeding and be included as part of the annual gas supply plan update in support of the Framework.

In addition, the Framework should clearly state that the Board's intent of the Framework is a review, not an approval, of the gas supply plan. As a result, rate adjustments will remain part of a separate application process.

### **3.2.3. Performance Metrics**

The Framework indicates it is expected the distributor will develop performance metrics that reflect the principles and criteria the OEB has established in order to demonstrate how the principles have been achieved.

Union supports this approach as distributors are best positioned to develop the metrics. It is Union's position that the assessment of the plan should be based on whether the plan achieves an appropriate balance between the guiding principles and strategic measures as outlined in Section 3.1 of the Framework. The criteria as outlined in Section 3.2 of the Framework represent analysis and considerations that should be included in the communication of the plan to enable that assessment.

For clarity, the word "criteria" should be replaced with the word "measure" in the sentence at the beginning of the performance metric section, to read: *"It is expected that a distributor will develop performance metrics that reflect the principles and ~~criteria~~ measures the OEB has established, in order to demonstrate how the principles have been achieved."*

Union currently does not have gas supply planning performance metrics similar to those outlined in the Framework. When developing metrics, consideration should be given to ensure the established metrics create balance amongst gas supply planning principles and strategic measures in support of the Board's objective of a balanced approach to the benefit of consumers.<sup>7</sup>

Union proposes that the performance metrics be included as part of the first five year gas supply plan review as detailed later in this submission.

### **3.2.4. Risk Mitigation Strategy**

The Framework states *"Distributors will articulate their approach by including a suite of scenarios that describe the envelope of plan forecasts based on worst and best cases, in addition to their selected option(s). This, accompanied by commensurate price forecasts for customers can describe the range of realistic outcomes."*

There are multiple inputs to the gas supply plan that need to be considered when generating scenario analysis. Depending on the nature of the scenario analysis being performed, Union may require the

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<sup>7</sup> Framework , p. 6

services of an external consultant to determine the impact of specific scenarios and as noted earlier Union expects the associated costs will be subject to deferral treatment.

### **3.2.5. Achieving Public Policy Objectives**

#### Emissions Requirement

The Framework indicates,

*“A key public policy goal that distributors are required to comply with is the reduction of GHG emissions. Distributors are required to comply with the provinces Climate Change Mitigation and Low-carbon Economy Act, 2016.”* (Section 3.2.5 at p 10)

Union notes that the Climate Change Mitigation and Low-carbon Economy Act (“the Act”) does not specifically require distributors to reduce GHG emissions and the Framework wording should acknowledge this. The wording should be changed in the final Framework to reflect that the Act requires distributors to report and purchase compliance instruments for customer and facility related emissions, and the Board’s Regulatory Framework for the Assessment of Natural Gas Utilities’ Cap and Trade Activities (EB-2015-0363) includes abatement as a compliance option.

#### Responsiveness to Public Policy

Union has and will continue to be responsive to public policy.

The following are just two examples of Union’s commitment to adhere to the public policy goal of i) increasing the presence of Renewable Natural Gas (“RNG”) in Ontario as outlined in the Ontario Energy Minister Glenn Thibeault’s December 16, 2016 letter to the Board, and ii) the commitment to expand natural gas access in rural and northern community areas.

In EB-2011-0242/0283, Union and EGD each filed an application with the OEB seeking an order or orders approving or fixing rates for the sale of natural gas that includes the cost consequences of the purchase of bio-methane.

Union recently issued a Request for Proposal for the procurement of RNG, in accordance with the Government of Ontario Long Term Energy Plan and is ready to procure RNG as discussed in Union’s 2018 Cap-and-Trade Compliance Plan<sup>8</sup>. As discussed in the Framework, the inclusion of RNG in the gas supply portfolio should be addressed in the context of the gas supply plan reviews.

Union recognizes the important role of GHG abatement across the province to meet GHG emission reduction targets and the important role that it plays in supporting the achievement of GHG reduction targets. Therefore, Union’s 2018 Cap-and-Trade Compliance Plan<sup>9</sup> has expanded consideration of customer and facility-related GHG abatement.

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<sup>8</sup> EB-2017-0255 Union’s 2018 Cap-and-Trade Compliance Plan

<sup>9</sup> EB-2017-0255 Union’s 2018 Cap-and-Trade Compliance Plan



In addition, Union has been actively working with all levels of government in order to bring secure, reliable and affordable natural gas to unserved communities within Ontario through community expansion proceedings and government funding programs. Several community expansion projects have been filed and approved by the Board regarding this initiative.

#### Broader Definition

Public Policy as defined by Section 3.1 of the Framework is very specific to the current public policy environment. However, public policy changes over time. Union submits the definition needs to be broadened to reflect this reality and to highlight current public policy as examples only. Public policy should not include proposed policy initiatives, only public policy in effect.

In addition to the climate change mitigation example related to RNG provided in the Framework, Union has proposed mechanisms (i.e. the Abatement Construct and Low Carbon Initiative Fund) to accelerate the advancement (investigation, evaluation and development) of new and emerging energy efficiency abatement opportunities to the stage of commercial-viability over the long-term<sup>10</sup>. Implementation of these opportunities in the future could result in adjustments to the demand forecast or supply options and as a result will be addressed in the gas supply plan reviews. The Framework will need to be flexible to deal with new technologies and other public policies as they arise.

Union notes that the gas supply plan is not the driver of initiatives which respond to public policy. As outlined above, Union has multiple avenues in responding to public policy such as community expansion, and carbon abatement opportunities. The plan, where appropriate, supports these initiatives while striving to balance the guiding principles and strategic measures in a way that is cost effective and appropriate for customers.

#### **4.1. Plan Submission**

Union proposes that Board Staff work with the natural gas distributors to determine an appropriate implementation timeline. The following is a list of considerations that need to be addressed:

- For the most part, the analysis requested is similar to work currently performed, however some items are new. For example the three year historical comparison, the establishment of performance metrics, determining specific bill impacts, certain scenario analysis and the detailed stakeholder meeting are new requirements. Once the Framework is finalized, Union will need to complete a detailed review of the changes required and will need sufficient time to plan and implement those changes.
- As noted earlier, consideration should be given to the implication on the timeline as it relates to the amalgamation of Union and EGD. The effective date should allow enough time to develop a combined gas supply plan that addresses the Framework.

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<sup>10</sup> EB-2017-0255 Union's 2018 Cap-and-Trade Compliance Plan

- Gas supply plans and the review of the plans should include full year actual information. For example, if the gas supply plan is to be filed in October, before the gas year starts, a full year of actual information for the prior gas year will not be available. It is important that comparisons of performance vs. the plan not be done using partial year information.

#### A proposed implementation timeline

The planning process has already commenced for the 2018/19 gas year. Executive approval is expected in July. The Framework is in the draft comment stage and it is uncertain as to when the final Framework will be released. As a result, it is not practical to implement any changes from this Framework for the upcoming gas year 2018/19.

The amalgamation of Union and EGD will require sufficient time and resources to implement integrated processes for gas supply. Therefore, Union proposes to prepare a 2019/20 combined gas supply plan incorporating the Framework to the extent possible. Performing a detailed review of the 2019/20 combined gas supply plan to establish a five year baseline would be premature.

The first five year gas supply plan prepared for submission and review under the Framework would be for 2020/21. This plan would establish a solid five year baseline gas supply plan that meets the requirements of the Framework.

As outlined in the side-by-side comparison document in the Distributor Gas Supply Planning Consultation (EB-2015-0238), while not materially different in overall approach, there are significant differences within the details of the gas supply plans. While a combined gas supply will be prepared for gas year 2020/21, harmonization will only occur as appropriate.

The proposed phased-in approach is proposed as follows:

Phase 1: 2018/19 – No change to current process or gas supply memorandum filing (Union and EGD file separately)

Phase 2: 2019/20 – File combined gas supply memorandum to cover Union South, Union North and EGD Zones

Phase 3: 2020/21 – File five year combined gas supply plan to commence the review process

Phase 4: 2021/22 – File annual combined gas supply plan update

#### **4.2. Stakeholder Engagement**

Union supports the Board's proposed process for review of the gas supply plan. However, the process should be modified to allow distributors the opportunity to comment on written comments submitted by stakeholders to increase clarity where applicable. Union understands the importance of consumer feedback and will continue with the development of a plan that protects the interests of consumers with respect to price and the reliability and quality of gas service.

## **Section 5 – Links to other Applications**

Union’s understanding is there will be no specific changes to the current processes followed for other applications listed in section 5 as a result of this Framework, building on regulatory efficiency and utilizing existing processes and procedures. Two exceptions are the gas supply memorandum and the upstream transportation information which will no longer be filed in the rate application and annual deferral proceeding, respectively. They will now be filed within the gas supply plan review process.

## **Appendix**

Union proposes the following edits within the appendix.

1. Appendix 1.2, point 2, should read “Supply Option Analysis”
2. Appendix 1.2, point 5, remove reference to “Renewable Natural Gas” consistent with Union’s comments in section 3.2.5

The following are suggested terminology revisions throughout the Draft Report.

1. For consistency and clarity, when “reliability” is mentioned in the document, it should read “reliability and security of supply” consistent with the guiding principles
2. When continuous improvement is mentioned in the document, it should read “continuously evaluated and act on opportunities for improvement of their plans” consistent with the wording of the strategic measure.