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VIA COURIER, RESS and EMAIL

August 7, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Ontario Energy Board File No. EB-2017-0319
Enbridge Gas Distribution Inc. ("Enbridge")
Application for Renewable Natural Gas Enabling Program and Geothermal Energy Service Program - Argument-in-Chief

Pursuant to the Board's Procedural Order No. 4 dated July 23, 2018, attached please find Enbridge Gas Distribution's Argument-In-Chief.

This submission was filed through the Board's Regulatory Electronic Submission System and will be available on the Enbridge website at https://www.enbridgegas.com/regulatory-proceedings under the Other Regulatory Proceedings tab.

Please contact the undersigned if you have any questions.

Yours truly,

[original signed}

Lorraine Chiasson
Regulatory Coordinator

cc: All Parties to EB-2017-0319 (via email)

EB-2017-0319

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for an order or orders related to its Renewable Natural Gas Enabling Program and Geothermal Energy Service Program;

AND IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for an order or orders amending or varying the rates charged to customers for the sale, distribution, transmission, and storage of gas commencing as of January 1, 2018.

ENBRIDGE GAS DISTRIBUTION
ARGUMENT-IN-CHIEF RE.
RENEWABLE NATURAL GAS ENABLING PROGRAM

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A. OVERVIEW

1. Renewable Natural Gas (RNG) is an emerging gas supply source that will reduce greenhouse gas (GHG) emissions for those who use natural gas for heating and other purposes. RNG is a cleaner (less carbon intensive) fuel source than conventional natural gas, and it is renewable, because it is produced from organic waste.

2. Carbon reduction remains an important goal in Ontario, even as the Cap and Trade Program is being wound down. The legislation that terminates the Cap and Trade Program also requires the Ontario Government to establish GHG reduction targets and prepare a climate change plan. Additionally, the Federal Government is planning to introduce a clean fuel standard (CFS) that would require that a portion of natural gas supply be comprised of RNG or other lower-carbon components.

3. Although there is currently very little RNG supply in Ontario, there is an active market for RNG in North America, and there is real interest in RNG from Ontario customers. It can be expected that the demand for and usefulness of RNG in Ontario will increase in the coming years.

4. Enbridge Gas Distribution Inc. (Enbridge, or the Company) has proposed a RNG Enabling Program in this Application. The RNG Enabling Program (comprised of RNG Upgrading and RNG Injection Services) is designed to enable the production of RNG in Ontario and facilitate the delivery of RNG to market. There is clear interest from potential market participants in these RNG Enabling Program services.

5. The RNG Upgrading and Injection Services are gas distribution services, and fit within the activities that the Ontario Energy Board (OEB) rate regulates under section 36 of the *OEB Act*. In any event, these are services that promote the use of cleaner energy sources, which are activities that the Company is permitted to pursue under the Minister's Directive from August 2006, which expanded the scope of Enbridge's permitted business activities pursuant to the Undertakings.

6. Enbridge has designed a ratesetting methodology for the RNG Upgrading and Injection Services that will see the customers pay the full cost of the service being provided over the term of their contract. Enbridge will use the principles of EBO 188 to determine the applicable rate (service fee), and will set the rate so that each project is expected to achieve a profitability index (PI) of more than 1.0 over the contract term.

7. While Enbridge's ratesetting approach is designed to return a net sufficiency over the life of each project, there will be years when projects under the RNG Enabling Program produce a deficiency and other years when projects produce a sufficiency. Enbridge will record the annual sufficiency/deficiency for all of the RNG Enabling Program projects in a variance account, to be cleared to ratepayers each year along with other accounts. Over the life of the RNG Enabling Program projects, ratepayers are expected to benefit from an overall net sufficiency.

8. OEB approval of the RNG Enabling Program will allow Enbridge to move ahead with negotiations and enter into contracts with municipalities and other RNG producers to provide infrastructure needed to support RNG production in and for Ontario. This will enable RNG supply to be in place for Enbridge and its ratepayers in future years, which will contribute towards carbon reduction and any CFS requirements.

B. DESCRIPTION OF THE RNG ENABLING PROGRAM

9. In this section of the Argument in Chief, Enbridge will provide context for and an overview of the RNG Enabling Program. This is intended to be an overview of the most relevant features; more detail is found in the pre-filed evidence[1], interrogatory responses[2], Technical Conference transcript[3] and undertaking responses[4].

[1] Found at Exhibit B, Tab 1, Schedule 1 (plus Appendices 1 to 12).
[2] Interrogatory Responses were filed on May 17, 2018.
[3] The Technical Conference was held on June 27, 2018 – references to the transcript will be noted as TCTR(pg#).
[4] Undertaking Responses were filed on July 13, 2018.

10. At a high level, the RNG Enabling Program has been designed such that Enbridge can support and help facilitate Ontario RNG production and the injection of RNG into the natural gas distribution system separate and apart from the rate setting implications of including RNG into the Company's gas supply portfolio.[5] The benefit to ratepayers from the RNG Enabling Program is the promotion and assurance of a supply of low-carbon RNG in Ontario, along with a net revenue sufficiency that will be credited to ratepayers.[6]

a. <u>Benefits of RNG</u>

11. RNG is a potential natural gas supply source that offers environmental, economic and waste management benefits. RNG (also referred to as "bio-methane") is refined from biogas produced from organic waste, such as that found on farms, at waste water treatment plants, food processing facilities and in landfills. The process that creates biogas from this waste is called anaerobic digestion.[7]

12. RNG has similar physical properties to conventional natural gas, and with respect to GHG emissions, RNG provides benefits in two forms: (1) emission reduction; and (2) fuel substitution. Emission reduction is achieved by capturing emissions of methane that would otherwise enter the atmosphere from landfills, the decomposition of organic waste and waste water. The fuel substitution benefit results from the displacement of a more traditional fossil fuel, such as conventional natural gas.[8] As such, RNG is an effective means of reducing GHG emissions for those who use natural gas for heating and other purposes.

13. In response to Undertaking JT1.7, Enbridge provided information about the total potential GHG reduction from Ontario RNG production.[9] That response assumes that all RNG would be used in substitution for conventional natural gas and sets out

[5] Exhibit B, Tab 1, Schedule 1, para. 47.
[6] Response to Board Staff Interrogatory #9(a), found at Exhibit I.2.EGDI.STAFF.9.
[7] Exhibit B, Tab 1, Schedule 1, para. 32.
[8] Exhibit B, Tab 1, Schedule 1, para. 34.
[9] Exhibit JT1.7.

the benefits from reduced source emissions, and from reduced natural gas distribution emissions. As can be seen, the potential benefits are very significant.

b. <u>Carbon reduction through RNG remains an important goal</u>

14. Although the new Ontario Government has decided to wind down the Cap and Trade Program, carbon reduction remains an important goal in Ontario.[10] New legislation that was introduced in late July to wind down the Cap and Trade Program confirms that Ontario will continue to have targets for the reduction of GHG emissions and will have a (new) "climate change plan".[11]

15. Additionally, the Federal Government may implement a CFS, which could require that a minimum portion of fuel distributed in the buildings and industrial sectors would be renewable. Assuming that the CFS proceeds as anticipated, natural gas distributors like Enbridge will not be able to satisfy all of their obligations through offsets or market instruments – there will be a requirement for procurement and supply of RNG commodity.[12] The Canadian Gas Association (CGA) is seeking federal funding for RNG activities, to support the growth and development of RNG supply.[13] It can be assumed that only those jurisdictions which have active RNG operations will be able to access such funding.

c. <u>The development of RNG needs encouragement</u>

16. While there is an active market for RNG in North America[14], and a real interest in RNG from Ontario customers[15], the fact is that there is currently very little RNG production and supply in Ontario.[16]

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[10] The importance of carbon reduction was emphasized by the prior Ontario Government, as seen in the Climate Change Action Plan (CCAP) and the 2017 Long Term Energy Plan, and in the Cap and Trade Program – see Exhibit B, Tab 1, Schedule 1, paras. 13-16 and 35.
[11] *Cap and Trade Cancellation Act, 2018* (Bill 4), at sections 3 ("Targets") and 4 ("Climate Change Plan"). The proposed legislation can be found at https://www.ola.org/en/legislative-business/bills/parliament-42/session-1/bill-4#BK7.
[12] TCTR4-6. Details about the current proposals for a Federal Government CFS are set out in "Clean Fuel Standard Regulatory Framework" filed in response to Undertaking JT1.3 (Attachment 1).
[13] TCTR6 and 26.
[14] TCTR4.
[15] TCTR4.

17. There is, however, significant RNG resource potential in Ontario.[17] There are many potential sources and suppliers of RNG[18], but they are currently not able to get that supply to market.

18. RNG producers have come to Enbridge seeking a service to assist them in getting RNG to market.[19] It can be expected that the RNG Enabling Service will support the growth of RNG production in Ontario.

19. Facilitating the development of RNG production in Ontario will encourage RNG supply and potential price competition, which will benefit Ontario and ratepayers by contributing to GHG reductions and meeting the requirements of a future CFS.[20] Taking steps to facilitate RNG supply now will allow Ontario participants the opportunity to access potential future funding available to support a CFS – where Ontario has no meaningful RNG facilities, that funding will likely be directed instead to jurisdictions such as British Columbia and Quebec which already have RNG supply and facilities in place.[21]

d. The RNG Enabling Services

20. In order to encourage RNG production in Ontario, Enbridge sees that it can play an important role as a facilitator that can assist RNG producers in the process of upgrading raw untreated biogas into pipeline quality RNG and then injecting and transporting that gas to market. These roles require new facilities. The new facilities will provide producers with conditioning and upgrading service, and will enable the

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[16] There is only one RNG production facility operating in Ontario with the capability to deliver pipeline quality RNG into the province's gas delivery system – see response to CBA Interrogatory #2(a), at Exhibit I.1.EGDI.CBA.2. See also TCTR 76-77.
[17] Exhibit B, Tab 1, Schedule 1, paras. 38 to 39.
[18] Enbridge believes that up to 37 RNG production facilities could be operating by 2025 - see response to Board Staff Interrogatory #7(d), at Exhibit I.1.EGDI.STAFF.7.
[19] Exhibit B, Tab 1, Schedule 1, paras. 43 to 44. See also TCTR 160-163.
[20] See response to APPrO Interrogatory #2(d), at Exhibit I.1.EGDI.APPRO.2.
[21] TCTR6.

producers' RNG (the upgraded biogas) to be injected into the Company's distribution pipelines to be transported to consumers.[22]

21. Through the RNG Enabling Program, Enbridge proposes to offer two services to RNG producers.[23] These services will enable producers to inject pipeline quality RNG into the gas distribution pipelines. The two services that Enbridge is proposing are: (1) a Biogas Conditioning and Upgrading Service (Upgrading Service), and (2) RNG Injection Service (Injection Service). The Upgrading Service is complementary to the Injection Service whereas the Injection Service can be stand alone.[24]

22. Under the Upgrading Service, producers will contract with Enbridge to plan, design, procure, construct, own, operate and maintain biogas conditioning and upgrading equipment on the producer's premises. The Upgrading Service will ensure the biogas is treated for safe injection into the distribution pipelines. This is the process of converting the raw biogas to RNG (bio-methane), and encompasses the removal of the impurities such as carbon dioxide, hydrogen sulfide, nitrogen, and other impurities. Once the conditioning is complete, the upgraded gas has the same physical properties as traditional pipeline gas.[25]

23. Under the Injection Service, Enbridge will build the pipeline attaching the producer to the broader distribution system, odourize the bio-methane, measure the gas volumes and energy content of the gas, manage pressures and ensure that the gas meets required specifications. Enbridge will inject the RNG into the distribution pipelines. Once the RNG is in the Company's gas distribution pipelines, Enbridge will enable the movement of that gas to a terminal location of the producer's choice through the various service offerings Enbridge provides its customers today.[26]

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[22] Exhibit B, Tab 1, Schedule 1, para. 44.
[23] Enbridge's pre-filed evidence includes a diagram depicting the specific services offered – see Figure 1 at Exhibit B, Tab 1, Schedule 1, page 15.
[24] Exhibit B, Tab 1, Schedule 1, para. 48.
[25] Exhibit B, Tab 1, Schedule 1, para. 49.
[26] Exhibit B, Tab 1, Schedule 1, para. 50.

24. The Injection Service will be mandatory for all RNG producers seeking to move RNG using Enbridge's distribution pipelines. The injection of RNG is no different from the injection of other pipeline quality gas into Enbridge's distribution pipelines – this is a service and activity that is exclusively offered by the utility. The Company must be in a position to control the volumes of gas including RNG volumes entering its gas distribution pipelines in order to ensure safe and reliable operations.[27]

25. The Upgrading Service will be optional, because this is an activity that could potentially be done by RNG producers. However, Enbridge's work in this area has revealed that RNG producers are generally not able or interested in performing their own upgrading service. Those RNG producers who have shown an interest in performing the upgrading services typically have the expertise to do so. This is not the case for many potential producers, such as municipalities who own landfill and wastewater treatment facilities. Taking all of this into account, Enbridge is offering the Upgrading Service on an optional basis, as an "enabling" program that will help support the development of an Ontario RNG market.[28]

26. Enbridge will enter into contracts with each customer for the provision of the RNG Enabling Program services, similar to the approach used currently for new large volume contract customers. The items to be addressed in the contracts include design, location, construction, operation, timing and costs of the required upgrading and injection facilities and related services. While the specific contents of each contract will be different (to reflect the details of the relevant facilities), the form of the contracts will be common or similar for all RNG producers receiving Upgrading and/or Injection Service.[29] Enbridge has provided a *pro forma* version of the contracts that will be completed for the RNG Enabling Services.[30]

[27] Further details about the reasons why the RNG Injection Service is a mandatory utility service are set out in response to Board Staff Interrogatory #1(c), found at Exhibit I.1.EGDI.STAFF.1.
[28] Response to Undertaking JT1.8, at Exhibit JT1.8.
[29] Exhibit B, Tab 1, Schedule 1, para. 51.
[30] See Attachment 1 to the response to Board Staff Interrogatory #6, found at Exhibit I.1.EGDI.STAFF.6.

27. There are several items to highlight in respect of the contracts for the provision of the RNG Enabling Program services:

    a. As described in more detail below, the contracts with RNG producers will include separate rates (service fees) for each of the Upgrading and Injection Services, with such rates being designed to recover all of the costs associated with each service. While the rates for each project will be different, the methodology used to determine the rates will be common to all projects.[31]

    b. The final rate included in each contract will be based on actual costs of the associated Upgrading and Injection facilities, to be updated at the time that the project is completed.[32]

    c. The term of each contract will be negotiated with the RNG producer, and is expected to match the economic life of the associated project (RNG feedstock). The rates under the contract will take account of the term of the specific contract, to ensure that all costs will be recovered over the negotiated term.[33]

    d. Customers will provide security to cover their payment obligations where appropriate, as is the case for other new large volume contract customers.[34]

e. <u>The Ratesetting Methodology</u>

28. As noted, under the RNG Enabling Program, the RNG producer will pay separate rates (service fees) for each of the Upgrading and Injection Services. The rates to be paid will be levelized (constant) fees over the term of the contract, so that the customers will have cost certainty, which is an important factor to enable and facilitate RNG production in Ontario.[35]

29. The rates will be determined using well-established OEB guidelines to ensure that the full costs of each specific project will be recovered over the term of the contract associated with that project. Each rate (service fee) will be derived from a discounted cash flow (DCF) analysis. The DCF analysis will be based on the principles and parameters set out in the OEB's EBO 188 feasibility guideline. The

[31] Exhibit B, Tab 1, Schedule 1, para. 54.
[32] TCTR182.
[33] Exhibit B, Tab 1, Schedule 1, para. 55.
[34] TCTR194-197 and response to Undertaking JT1.15, found at Exhibit T1.5.
[35] TCTR22.

rate (service fee) for each service (Upgrading or Injection) will be site specific and set so as to recover operating and maintenance costs, depreciation, utility's return on investment, and taxes while achieving a PI of 1.0 plus a "safety factor" over the term of the contract.[36] For each contract for RNG Enabling Services, Enbridge will ensure that a PI of 1.0 "plus a safety factor" equates to a PI of 1.02 or greater.

30. Under this approach, the determination of the rate (service fees) for Upgrading and Injection Services will be site specific and based on the fully allocated costs associated with the services and required facilities in each particular instance.[37] Enbridge's pre-filed evidence includes a hypothetical example for a single RNG production facility to illustrate how the rates (service fees) for the Company's RNG Upgrading and RNG Injection Services are to be determined.[38] The resulting rate (service fee) would be included in the contract with the RNG producer.

31. In this Application, Enbridge is requesting approval of the ratesetting methodology that will be used to derive and set the rates (service fees) to be charged for the RNG Upgrading and RNG Injection Services. The ratesetting methodology is described in high-level terms in the draft Rate Schedules that have been filed for Rate 400 (Upgrading Service) and Rate 401 (Injection Service).[39] Enbridge will apply this ratesetting methodology within the contract for each new RNG Enabling Service customer. Stated differently, Enbridge is not seeking approval of each customer-specific rate or contract for its RNG Enabling Service customers, but instead requests approval of the ratesetting methodology to be used for all such Rate 400 and Rate 401 customers in the future.

[36] Exhibit B, Tab 1, Schedule 1, para. 54.
[37] Exhibit B, Tab 1, Schedule 1, para. 56.
[38] See Tables 2 and 3 in the pre-filed evidence for examples of the Upgrading and Injection Service Rates (Exhibit B, Tab 1, Schedule 1, pages 19-20). Details of the calculations and assumptions contained in Tables 2 and 3 are set out in Appendices 5 and 7 and a sample revenue requirement calculation for each service is set out in Appendices 6 and 8.
[39] The Rate Schedules are filed at Exhibit B, Tab 1, Schedule 1, Appendices 9 and 10.

f. Variance Account treatment

32. Enbridge's ratesetting methodology, which will set the PI for each RNG Enabling Program project to be greater than 1.0, is intended to result in a net sufficiency over the life of each project. However, because Enbridge will use a levelized (constant) fee over each contract term, there will be years when there will be a sufficiency and other years when there will be a deficiency for a particular project.

33. Enbridge proposes that the annual differences between revenues and revenue requirement (deficiency/sufficiency) will be recorded within a variance account, to be cleared periodically to ratepayers.[40] Over the life of the RNG Enabling Program projects, ratepayers will benefit from an overall net sufficiency.

34. This approach is intended to ensure that any net sufficiency is credited to ratepayers – without variance account treatment, any such benefit would be retained by Enbridge.

35. Examples of the amounts to be recorded in the variance account each year related to sample upgrading and injection facilities are set out in the Appendices to the pre-filed evidence.[41] These Appendices make clear that there would be a net sufficiency over the life of each project.[42]

36. Enbridge's pre-filed evidence proposed that the annual sufficiency/deficiency amounts would be recorded within the Greenhouse Gas Emissions Compliance Obligation-Customer-Related Variance Account (GHG-Customer VA) and be periodically cleared to ratepayers.[43] At this time, with the ongoing wind-down of the Cap and Trade Program, it is not clear whether and how long the GHG-Customer VA will continue. In the event that the GHG-Customer VA is discontinued, Enbridge

[40] Exhibit B, Tab 1, Schedule 1, para. 30.
[41] The annual sufficiency/deficiency amounts for sample Upgrading and Injection projects are found at Exhibit B, Tab 1, Schedule 1, Appendix 6 (line 18) and Appendix 8 (line 18). The total annual sufficiency/deficiency amounts will depend on the number and nature and timing of RNG Enabling Service projects.
[42] See Exhibit B, Tab 1, Schedule 1, Appendix 5 (page 2, line 12) and Appendix 7 (page 2, line 8)
[43] Exhibit B, Tab 1, Schedule 1, para. 30.

requests that the annual sufficiency/deficiency amounts associated with the RNG Enabling Program be recorded in a new RNG Enabling Program Variance Account.[44]

C. THE ISSUES

37. In Procedural Order No. 2, the OEB set out the Issues List for this proceeding. The Issues List relates to both the RNG Enabling Program and the Geothermal Energy Services Program. The following subsections of this Argument in Chief address those issues that are relevant to the RNG Enabling Program.

a. Issue 1 – Utility Business Activities *(Should the new business activity – RNG Enabling Program – be considered as part of the utility's regulated business?)*

38. As described below, the RNG Enabling Program is a permitted utility activity for Enbridge Gas Distribution. The OEB has jurisdiction to set rates for this activity under section 36 of the *OEB Act*.[45]

39. Enbridge's Undertakings to the Lieutenant Governor in Council (LGIC) set out the scope of activities that the Company may carry out within the utility.[46] Under the heading "Restriction on Business Activities", the Undertakings indicate that "[Enbridge] shall not, except through an affiliate or affiliates, carry on any business activity other than the transmission, distribution or storage of gas, without the prior approval of the Board."[47]

40. The activities associated with the RNG Enabling Program are properly characterized as "distribution" of gas. For these purposes, it should be noted that the definition of

[44] TCTR4-5. Existing balances in the GHG-Customer VA would also be transferred to the new account.
[45] Section 36, *Ontario Energy Board Act, 1998* (OEB Act).
[46] Enbridge's Undertakings, dated December 9, 1998, are included at Appendix 1 to Exhibit B, Tab 1, Schedule 1.
[47] See section 2.0 of the Undertakings.

"gas" in the *OEB Act* includes "natural gas", "substitute natural gas", "synthetic gas", "manufactured gas" or "any mixture of any of them".[48]

41. The *OEB Act* does not define "distribution" in relation to natural gas, but it does indicate that a "gas distributor" means a person who delivers gas to a consumer (and indicates that "distribute" and "distribution" have corresponding meanings).[49]

42. The activity of distributing gas to a consumer includes accepting gas into the distribution system and ensuring that the gas entering the distribution system meets applicable codes and standards. In the case of RNG, this includes both the Upgrading and Injection Services.

43. The upgrading activity does not take place until Enbridge takes custody of the raw untreated biogas (which is "gas" under the *OEB Act*). The result of the activity is to take the raw untreated biogas and upgrade the gas to pipeline standard, so that it can be comingled with other gas and used by customers. All the customers who use the RNG Upgrading Service will also use the RNG Injection Service (since the RNG Upgrading Service will not be offered on a standalone basis). The RNG Injection Service will facilitate the introduction of RNG volumes into the Company's system so that the RNG can be transported to a location of the customer's choice. Separately and together, these activities are properly seen as distribution activities.

44. The fact that the RNG Upgrading Service could be offered by a party other than Enbridge does not change this characterization. This is no different from other utility activities such as natural gas compression and piping on customer properties that are offered by Enbridge and also offered by third parties.[50] When performed by Enbridge, those activities are distribution activities because they are connected to the broader distribution system. Customers will have the choice about whether to obtain RNG Upgrading Service from Enbridge or to procure that service themselves.

[48] See section 3 of the OEB Act, which includes definitions of words and phrases used in the statute. See also TCTR166-167.
[49] See section 3 of the OEB Act.
[50] TCTR167-169.

Many potential customers have indicated that they will want Enbridge to provide the service.

45. Given that both aspects of the RNG Enabling Program are properly characterized as "distribution" of gas, there should be no doubt that the OEB has jurisdiction to approve the rates (service fees) associated with these services. Section 36 of the OEB Act clearly permits the Board to approve rates for the "distribution" of gas.

46. In the event that the OEB determines that either or both aspects of the RNG Enabling Program are not "distribution" services, it is still open for Enbridge to include these activities within the utility. The Minister's Directives that were issued in 2006 and 2009 expanded the scope of Enbridge's permitted business activities under the Undertakings, to allow Enbridge to include certain categories of activity beyond the storage, distribution and sale of gas within the utility.[51]

47. The 2006 Minister's Directive is most relevant to the RNG Enabling Program. This Directive indicates that the business activity restrictions in the Undertakings do not apply in respect of the provision of services by Enbridge that would assist the Government of Ontario is achieving its goals in energy conservation, including services related to "the promotion of cleaner energy sources, including alternative energy sources and renewable energy sources".[52]

48. Enbridge's RNG Enabling Program will provide services to RNG producers that will promote the production and enable the use of RNG in Ontario. As described earlier, RNG is a cleaner energy source, as compared to conventional natural gas. The promotion and use of low carbon alternatives has been and will continue to be a goal of the Government of Ontario. Even without Cap and Trade, the Government of Ontario is expected to continue to promote the reduction of GHG emissions and the

[51] The 2006 and 2009 Minister's Directives are included at Appendix 1 to Exhibit B, Tab 1, Schedule 1.
[52] This specific item is found on the first page of the 2006 Minister's Directive, filed at Exhibit B, Tab 1, Schedule 1, Appendix 1, page 12 of 13.

adoption of carbon reduction strategies.[53] Taken these factors together, it is fair to conclude that the 2006 Minister's Directive allows that the RNG Enabling Program can be operated within the utility, even if the program is not characterized as a distribution activity.

49. In response to Energy Probe Interrogatory #2, Enbridge has explained how the OEB has jurisdiction to approve rates for the RNG Enabling Program even if it is not viewed to be a distribution activity.[54] As explained in that response, the OEB has interpreted its ratesetting jurisdiction under section 36 of the *OEB Act* broadly, taking into account the objectives under the *OEB Act* and public policy.

b. <u>Issues 2.1 and 2.2 – Service Fees</u> *(Are the methodologies to set services fees for the RNG Enabling Program – Upgrading Service and Injection Service reasonable and appropriate?)*

50. Enbridge believes that the methodology proposed to set services fees for the RNG Enabling Program – Upgrading Service and Injection Service is reasonable and appropriate.

51. Enbridge is using long-standing regulatory constructs that have been approved by the OEB as the basis on which the rates (service fees) for which the RNG Enabling Services are to be determined. As explained earlier, Enbridge will follow the EBO 188 methodology to determine the revenue requirement for each project. The revenue requirement will be converted into levelized rates that will be charged each year of the contract in order to achieve the expected PI of 1.02 or greater. Under this approach, all costs (plus an additional safety margin) will be recovered over the term of the contract for each service.

52. Enbridge plans to use the same ratesetting methodology for both RNG Upgrading (Rate 400) and RNG Injection (Rate 401). Enbridge is seeking approval of this ratesetting methodology in this proceeding. Once approved, Enbridge will apply this

[53] *Cap and Trade Cancellation Act, 2018* (Bill 4), at section 3 ("Targets") and section 4 ("Climate Change Plan").
[54] Response to Energy Probe Interrogatory #2, at Exhibit I.2.EGDI.EP.2.

methodology to all RNG Enabling Program projects. As is the case with other contract rates (such as Rate 125), Enbridge will not be seeking individual approvals of customer-specific levelized rates for RNG Enabling Program projects.

c. <u>Issue 2.4: Terms and Conditions</u> *(What are the appropriate terms and conditions of the RNG Enabling Program – Upgrading Service, and RNG Enabling Program – Injection Service?)*

53. The high-level terms and conditions associated with the RNG Upgrading Service and Injection Service are set out in the proposed Rate Schedules for Rates 400 and 401.[55] Enbridge is seeking approval of those rate schedules in this proceeding.

54. As described above, Enbridge will negotiate project-specific contracts with each RNG Enabling Program service recipient. These contracts will be similar in scope and content to those entered into with new large volume contract customers.[56] Enbridge is not seeking approvals of the forms of contracts to be used.

55. Enbridge's position is that the terms and conditions set out in the Rate Schedules and the individual service contracts are fair and appropriate and provide appropriate protection to the Company, service recipients and other ratepayers.

d. <u>Issue 3.1: Variance Accounts</u> *(Is the proposal to include the annual sufficiency / deficiency of the RNG Enabling Programs within the Cap and Trade Compliance Obligation Variance Accounts reasonable and appropriate? and Issue 3.2: Is the disposition methodology appropriate?)*

56. The use of a levelized rate for the RNG Enabling Programs will result in deficiencies some years and sufficiencies in other years. On an overall basis, there is an expected sufficiency for each project (and for the RNG Enabling Program as a whole).

57. Enbridge's proposal is that the annual sufficiency/deficiency associated with the projects under the RNG Enabling Programs will be recorded in a variance account

[55] The Rate Schedules are filed at Exhibit B, Tab 1, Schedule 1, Appendices 9 and 10.
[56] An example of the form of contract that will be used for the RNG Enabling Services has been produced in response to Board Staff Interrogatory #6.

for annual disposition to ratepayers. The application of a PI for each project that is set to greater than 1.0 is intended to protect ratepayers against the risk of having to pay for a net deficiency over the contract term for any particular project. The fact that there will be a portfolio of projects provides further protection that ratepayers will benefit on the whole from the RNG Enabling Program, even in the event that there is a net deficiency from a particular project.

58. As indicated above, this approach is designed to ensure that ratepayers will receive the expected net benefit from each RNG Enabling Program project. If there was no variance account treatment for the net revenues for each project, then all variances (cumulating to an expected net sufficiency) would accrue to Enbridge rather than to ratepayers.

59. Additionally, it should be noted that the RNG Enabling Program is designed to facilitate the development of the RNG market in Ontario, which will benefit Enbridge ratepayers and Ontarians. Available RNG supply in Ontario will allow Enbridge to meet CFS requirements more cost-effectively (thereby benefitting customers), and will contribute to reduced GHG emissions in the Province.

60. Initially, Enbridge proposes to use the GHG-Customer VA to record the annual sufficiency/deficiency amount for the RNG Enabling Program. However, given that this account may not exist indefinitely into the future, it may be necessary to have a new RNG Enabling Program Variance Account created at a later date, and to transfer any existing balances to that account.

61. Where amounts are cleared from the GHG-Customer VA, Enbridge proposes to use the disposition methodology that has already been established.[57]

62. Enbridge believes that it would be appropriate for the disposition methodology for the new RNG Enabling Program Variance Account to be determined at the time

[57] Response to Board Staff Interrogatory #16(e), filed at Exhibit I.4.EGDI.STAFF.16.

when the account is established, or alternatively when the account is first brought forward for disposition.

e. <u>Issue 4.1: Aboriginal or Treaty Rights</u> *(Are any Aboriginal or treaty rights impacted by this application? If so, what Aboriginal or treaty rights? and Issue 4.2: To the extent any Aboriginal or treaty rights are potentially impacted, has the duty to consult been adequately discharged with respect to these rights?)*

63. Enbridge is not aware that there are Aboriginal rights or treaty rights impacted by the relief sought in the RNG Enabling Program Application, but would be pleased to respond to any issues raised in submissions from Board Staff and Intervenors.

64. Enbridge will address any Aboriginal rights and treaty rights that arise in relation to specific RNG Enabling Program projects as those projects are proposed and proceed.

E. REQUESTED RELIEF

65. In relation to the RNG Enabling Program, Enbridge respectfully requests OEB approval of the following items:

    a. The ratesetting methodology to be applied to determine rates (service fees) for the RNG Upgrading and RNG Injection Services;

    b. The Rate 400 and Rate 401 Rate Schedules; and

    c. The use of the GHG-Customer Variance Account (and a future new RNG Enabling Program Variance Account) to record and recover annual sufficiency/deficiency amounts associated with the RNG Enabling Program.

All of which is respectfully submitted this 7th day of August 2018.

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