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VIA COURIER, EMAIL, and RESS

December 10, 2018

Ms. Kirsten Walli
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Enbridge Gas Distribution Inc. ("Enbridge")
Ontario Energy Board ("Board") File No.: EB-2018-0097
Bathurst Pipeline Project – Supplemental Reply Submission**

In accordance with the Board's Procedural Order No. 2 for the above noted proceeding, enclosed please find Enbridge's supplemental reply submission.

Please contact the undersigned if you have any questions.

Sincerely,

(Original Signed)

Bonnie Jean Adams
Regulatory Coordinator

cc: EB-2018-0097 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B) (The "*Act*")

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order granting leave to construct an NPS 12 and NPS 8 natural gas distribution pipeline in the City of Toronto under section 90 of the *Act*.

SUPPLEMENTARY REPLY SUBMISSION OF ENBRIDGE GAS DISTRIBUTION INC.

1. Introduction

The Ontario Energy Board ("**Board**") issued Procedural Order No. 2 in this matter on November 12, 2018. This Order provided for a second round of interrogatories and submissions focusing on the following two items:

(a) The extent to which Enbridge Gas Distribution Inc. ("Enbridge" or the "Company") considered the feasibility of using DSM to defer or reduce the need for the Project; and,

(b) The basis for updating the 2016 Annual Load Growth Forecast of 153 m^3/h to the 2017 forecast of 590 m^3/h.

Ontario Energy Board Staff ("**Board Staff**") and the School Energy Coalition ("**SEC**") filed Supplementary Submissions on December 3, 2018. This is the Supplementary Reply Submission of Enbridge.

2. Need and Support for the Project

In response to the Supplementary Interrogatories received, Enbridge provided the forecasted minimum inlet pressure for 2017/2018 for each station on the network that will be impacted by the Bathurst Reinforcement Project ("**Project**"). Board Staff in its Supplementary Submission note that, even without any future growth, the forecast inlet pressure for at least one of the stations serving the network is operating below an acceptable level.[1]

Board Staff also noted Enbridge's description of the progression of the planning process undertaken in respect of the Project and in particular, as planning advanced, the fact that the 2016 growth forecast did not reflect the entire geographic area that Enbridge determined necessitated the Project and would benefit from it.[2]

As a result of the above, Board Staff submitted: "…that Enbridge has reasonably demonstrated the need for the Project",[3] and that: "OEB staff has no objections to the OEB granting leave to construct the Project."[4]

SEC in its October 22, 2018 submission stated that the schools it represents in the area of influence do not want to find that, due to the lack of a $10 million project, they are without heat on the coldest day of the year.[5] In its Supplementary Submission, SEC notes the risk of a lack of supply in a built up area of the City of Toronto where tens of thousands of customers would be affected. In light of this risk, SEC states that "…it would likely be imprudent to refuse approval of this Project".[6]

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[1] Board Staff Supplementary Submission, December 3, 2018 **("Staff Supp. Sub**."), page 3.
[2] Staff Supp. Sub, page 3.
[3] Staff Supp. Sub., page 5.
[4] Staff Supp. Sub., page 5
[5] SEC Submission October 22, 2018 ("**SEC Sub**".), page 7.
[6] SEC Supplementary Submission dated December 3, 2018 ("**SEC Supp. Sub**".), page 13.

Contrary to the unsupported theories posited by SEC, the evidence clearly confirms that Enbridge relied upon a robust methodology to forecast peak demand growth, inclusive of inputs from the City of Toronto and developers and a third party long term growth forecast specific to the area of influence. Enbridge did not create a load growth forecast methodology just for this Project as SEC appears to imply. It used, as noted in its Interrogatory Responses, the same methodology to forecast load growth for the Bathurst Reinforcement Project as it has and continues to use in respect of other potential projects.[7] This methodology is the subject of continual refinements undertaken over time with the goal of generating the most reliable forecasts. It is as a result of the load growth forecast submitted in this Application and the minimum inlet pressure concern identified that Enbridge determined the Bathurst Reinforcement is needed. There is no evidence to the contrary, and for this reason Board Staff concluded that the Project is needed[8]. Even SEC, in light of such evidence, has recommended that the Board not act imprudently by refusing leave for the Project.

Enbridge employs highly qualified and experienced expert system planners and engineers whose primary objective is to ensure that natural gas service continues to be delivered on a safe and reliable basis. The evidence filed in this proceeding is based upon the best available information and the thoughtful determination of these professionals. Enbridge submits that undertaking an internet search and looking at a few development projects (which SEC admits were selected at random)[9], is no substitute for the carefully constructed standards, procedures and expertise underpinning the Company's approach to operating and maintaining the distribution system for which it is responsible.

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[7] Enbridge's Interrogatory Response to Board Staff No. 18.
[8] Staff Supp. Sub., page 5
[9] SEC Supp. Sub., pp. 7-8

3. SEC's Proposed Penalty is Unwarranted

Despite the evidentiary record confirming the need for the Project, SEC, for the first time in its Supplemental Submission, suggests that the Project should be approved on the condition that Enbridge be denied the ability to earn a return on its investment until the Company meets some entirely new, undefined standard on an undetermined date. Before turning to the numerous regulatory and legal reasons why this proposal should be denied, it is appropriate to note the procedural prejudice resulting from this proposal being made at such a late stage in this proceeding. By leaving this proposal so late, the Company is foreclosed from filing evidence about the impropriety and impact of such a proposal and Board Staff are denied the opportunity to so much as comment. Proposals of such a nature should have been put to the Company in SEC's first round of interrogatories. This would have allowed the Company to respond with evidence and for Board Staff to provide its comments. Enbridge submits that it is procedurally unfair for such a proposal to be raised at so late a stage in the proceeding and for this reason alone it should not be considered.

The above being said, Enbridge is compelled to respond and note that what SEC proposes is both inconsistent with the regulatory compact and contrary to the statutory provisions that deal with penalties in the *Ontario Energy Board Act*, 1998 ("***Act***").

The record shows that the Bathurst Reinforcement Project is needed. Board Staff accept this and SEC is similarly unwilling to accept the risk as a ratepayer representative that gas service might be compromised if the Project does not proceed. The parties to this proceeding therefore favour the Board granting leave for the Project. To then deny the Company the ability to earn a return on its investment, in a situation where its actions have been confirmed in evidence as being prudent, is contrary to the fundamental principles of the regulatory compact which allows a utility to earn a reasonable return on its investment.

It should be recalled that Enbridge has responsibility for gas distribution within its franchise area in a safe and reliable manner. If it does not meet the required standard of care to ratepayers by undertaking necessary replacements and reinforcements on a timely and prudent basis, it is Enbridge that is exposed. To deny a utility a return on a needed infrastructure investment would set a precedent which Enbridge submits would act as a disincentive to all utilities responding to future infrastructure and forecasting needs in a timely manner. SEC's proposal is therefore inconsistent with both good utility practice and the public interest.

Enbridge further submits that SEC's proposal, if accepted, would constitute a penalty to Enbridge's shareholder which would be contrary to the statutory process set out in the *Act* for such matters and would, under the circumstances, be procedurally unfair. There can be no question that the provisions of Part VII.1, "Compliance" of the *Act*, have not been met. Not only has there been no due process, there has not even been the suggestion of a contravention of an enforceable provision. Solely from a procedural perspective, SEC's proposal must fail.

Board Staff state that: "Given the lead time required to fully implement a geo-targeted DSM program (ICF says a minimum of five years is required), it is doubtful whether DSM could have been implemented in this case in time to accommodate Enbridge's projected new attachments even if the updated information had ultimately confirmed ICF's conclusion that DSM is cost effective."[10] SEC appears to have ultimately accepted this and thus it submitted that the Board should accept the evidence of Enbridge that there is no available alternative to the Project and

[10] Staff Supp. Sub., page 4

that leave to construct should be granted[11]. Given the above, to subsequently penalize shareholders would be unprecedented. In this regard we note that SEC offered no citations where economic regulators anywhere have imposed such a penalty on a utility in circumstances where a complainant cannot even identify the regulatory requirement that has allegedly been breached, let alone demonstrate how it was breached.

Finally, SEC's proposal is premised on a hypothesis which is not supported in fact. There is, therefore, no record which supports the imposition of a penalty. As is discussed further below, Enbridge has been and continues to be responsive to the Board's requirements in respect of natural gas integrated resource planning ("**IRP**"), but important regulatory policy issues remain to be considered and dealt with by the Board before major cost commitments are made on behalf of ratepayers. To impose a penalty on a utility for not unilaterally taking steps which ratepayers and the Board may or may not in time view as being appropriate is wholly unwarranted and should not be seriously considered.

4. Ancillary Matters

Enbridge noted earlier that this leave to construct proceeding ("**LTC**") is not the appropriate venue to address the broader policy issues that remain to be considered by stakeholders and the Board regarding the use of DSM or other low carbon solutions to defer infrastructure builds. Board Staff agree.[12] This being said, given the mischaracterizations and unsupported assertions made by SEC, Enbridge is compelled to respond further in respect of such matters.

[11] SEC Supp. Sub, page 14.
[12] Staff Supp. Sub., page 5.

(a) Inaccuracies Raised by SEC which Require Correction

In the course of laying out its assertions within its Supplemental Submission SEC has submitted to the Board statements which are factually inaccurate. Enbridge wishes to correct these errors to insure that the Board has an accurate record.

On page 5 of its Supplemental Submission SEC states "…before having the new load forecast, Enbridge had already decided that ICF was wrong, and didn't investigate further." This statement is incorrect. At no time has Enbridge ever indicated that it found fault with the ICF study or declared ICF to be "wrong". As outlined in this Submission and in Exhibit I.EGDI.STAFF.18, at the time of approving the Project for more detailed planning the Company was in no position to delay addressing a known need within its system in the hopes that the IRP Report found alternatives which were technically possible and cost-effective. As well, for an alternative to be considered, it would have to be one that required no additional data, required no policy direction from the Board, and could be implemented in a very short period of time. In retrospect, none of these realities proved to be the case even after receiving the IRP Report. This demonstrates the prudence of Enbridge's actions in proceeding with the Project.

On page 9 SEC stated that when Enbridge assesses the cost-effectiveness of traditional, broad-based DSM, "No value is given in that test to displacement of new infrastructure. Any infrastructure displacement is effectively free." This statement is incorrect. Enbridge explicitly includes the avoided cost of infrastructure which is passively deferred through the cumulative effects of DSM on its system over time by way of a "distribution adder" to avoided costs in its TRC plus testing. This adder was first included within the Company's cost-effectiveness testing in EB-2015-0049 on the recommendations of a study completed by Navigant Consulting Ltd. and filed as Exhibit C, Tab 1, Schedule 4 in the above noted proceeding.

(b) Integrated Resource Planning and Geo-Targeted DSM

Enbridge, as directed by the Board, continues to investigate IRP, including geo-targeted DSM, and works towards its implementation. At this time, as stated in Enbridge's Reply Submission of November 6, 2018, the Company recommends the initiation of a standalone consultation to consider the numerous technical and policy questions raised by ICF in its IRP Report that must be settled in order to implement geo-targeted DSM and other alternatives to infrastructure projects. SEC in its submissions attempts to narrate a timeline of IRP's consideration by the Board[13,14] that misconstrues the actual course of events in order to argue that Enbridge is at a minimum resistant to, and at worst proactively working against, the implementation of IRP. This argument is erroneous, and warrants a review of the timeline of events leading up to consideration of IRP within this proceeding.

On December 22, 2014 the Board released its *Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020)* with associated filing guidelines ("DSM Framework") in EB-2014-0134. The Board expressed an expectation that future LTC applications would include consideration of DSM as an alternative to infrastructure projects. SEC included a quote from the DSM Framework but it omitted the following direction from the Board regarding IRP:

> The Board is also of the view that the gas utilities should each conduct a study, completed as soon as possible and no later than in time to inform the mid-term review of the DSM Framework. The studies should be based on a consistent

[13] SEC Sub. pp. 2,3,5
[14] SEC Supp. Sub. pp. 2-5

> methodology to <u>determine the appropriate role that DSM may serve in future system planning efforts</u>. As part of the multi-year DSM plan applications, the gas utilities should include a preliminary scope of the study it plans to conduct and propose a preliminary transition plan that outlines <u>how the gas utility plans to begin to include DSM as part of its future infrastructure planning efforts</u>. p.36 [emphasis added]

In the above reference the Board instructs the utilities to conduct an IRP study "to determine the appropriate role that DSM may serve in future system planning efforts." Said another way, one critical purpose of the Board-ordered IRP study was to determine whether or not DSM could practically play a role in infrastructure planning, and if so what that role should be. It is also important to note that the Board requested a transition plan outlining how the utilities would "begin to include DSM as part of [their] future infrastructure planning efforts."

It is clear that the Board recognized the need to comprehensively understand IRP through completion of a robust study prior to full scale implementation. It is also clear that the Board expected the utilities to put a transition plan in place to manage this complex, first-of-its-kind change in infrastructure planning. The Board requested that these matters be brought forward within the 2015-2020 DSM Plan and Mid-Term Review submissions so that it could review the subject matter, opine on the appropriate path forward if needed, and issue any necessary directions and/or approvals. It is unclear to the Company how any party would expect a prudent utility to simply start implementing IRP initiatives as of December 2014 as SEC suggests[15] prior to completion of the above noted steps that were mandated by the Board.

[15] SEC Supp. Sub., p.12

SEC's timeline of events fails to note that it was not until January 20, 2016 that the Board issued its Decision and Order ("**Decision**") regarding Enbridge's 2015-2020 DSM Plan, which included the Board's views regarding IRP materials filed by the gas utilities[16]. The Decision includes the following direction:

> "…Enbridge and Union to work jointly on the preparation of a proposed transition plan that outlines how to include DSM as part of future infrastructure planning activities. The utilities are to follow the outline prepared by Enbridge, and should consider the enhancements suggested by the intervenors and expert witnesses. The transition plan should be filed as part of the mid-term review."[17]

The Decision provided important direction to the utilities with regard to IRP exploration and implementation. First, there was no rejection of Enbridge's proposed scope for the IRP study. Second, the Board directed the gas utilities to file transition plans in the DSM Mid-Term Review. This both confirmed the appropriateness of the IRP study scope of work and signaled the Board's intent to review the transition plan during the DSM Mid-Term Review. It is unclear to Enbridge how SEC expects that the Company should have proceeded in early 2016 to implement a transition plan which had not yet been developed let alone been reviewed by the Board. Having received clear direction from the Board, both gas utilities proceeded to conduct a competitive procurement process which ultimately selected ICF as the successful proponent in the latter half of 2016 to complete the IRP study.

In August, 2017 the Bathurst Reinforcement Project was internally approved to proceed, triggering more detailed planning efforts and ultimately the submission of this LTC Application.

[16] EB-2015-0029/0049 Decision and Order
[17] Decision page 84

As noted in Exhibit I.EGDI.STAFF.18, at that time the Company had identified the need to address growth and low inlet pressures within the Project area but had not received the results of the IRP Report. At the time the Project was approved, the Company's experts and its long-used approaches to safely operating its system indicated the need to develop a solution. Enbridge was not in a position to ignore those experts and approaches in the hope of a positive result on all fronts in the IRP Report. In retrospect, Enbridge's decision making was prudent, as the IRP Report identified a number of important matters that must be addressed prior to implementing IRP[18], and the study's authors would later confirm that the Project could not be deferred cost-effectively through geo-targeted DSM in any event[19]. This is something that Board Staff accepts.[20]

On January 15, 2018 the detailed executive summary of the IRP Report was filed in the DSM Mid-Term Review (EB-2017-0127/0128) together with a transition plan as directed by the Board. It was the Company's expectation at that time that output from the DSM Mid-Term Review would include feedback on the IRP Report, consideration of the gas utilities' transition plans, and direction regarding next steps. This expectation is all the more reasonable given the important matters identified within the IRP Report which require further analysis and determination by the Board. The Board's report on the DSM Mid-Term Review[21] responding to the IRP study among other matters was issued on November 29, 2018; well past the August 1, 2018 filing date of this Application.

It is the Company's view that the above timeline does not describe a resistant entity or one that refuses to take IRP seriously as asserted by SEC. Quite the contrary; the above narrative

[18] Exhibit I.EGDI.SEC.1 Attachment 1, pp.3-5
[19] Exhibit I.EGDI.STAFF.20 Attachment 20
[20] Staff Supp. Sub., page 5.
[21] The *Report of the Ontario Energy Board: Mid-Term Review of the Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*, November 29, 2018, ("**Mid-Term Report**")

demonstrates the behaviour of a utility operating in accordance with the direction of its regulator to prudently investigate a practice which is new to North America to ensure that future implementation is successful. The tone of SEC's bold assertions implies the practice of deferring natural gas infrastructure projects through geo-targeted DSM is commonplace. In reality, the evidence in this proceeding clearly demonstrates that this is not the case. This reality is evidenced on numerous occasions by ICF in quotes including but not limited to those below:

> "…there is no relevant precedent for, or evidence of natural gas utilities consideration of the impact of broad based DSM, geo-targeted DSM or dedicated [demand reduction] programs impact on facilities planning."[22]
>
> "ICF was also unable to identify any natural gas utilities outside of Ontario that explicitly consider the impact of DSM programs on peak hour or peak day demand."[23]
>
> "Gas utilities in other jurisdictions expressed concerns about the reliability of the DSM impacts as an infrastructure investment alternative due to lack of information…"[24]
>
> "Planning staff at the utilities with whom ICF spoke expressed concerns related to leveraging DSM to defer infrastructure investments."[25]
>
> "ICF's review of existing DSM programs at North American gas utilities in other jurisdictions found that no activity has been undertaken that was designed to [defer] transmission and distributor costs using targeted DSM or [demand reduction]."[26]

The IRP Report, the first of its kind to Enbridge's knowledge, covers a significant breadth of material and contains pages of technical requirements and policy questions which must be addressed to enable IRP. Enbridge is concerned that SEC does not acknowledge the importance of these policy questions. To provide an example of the importance of these matters, Enbridge explores below an issue raised by SEC which ICF identified as requiring

[22] Exhibit I.EGDI.SEC.1 Attachment 1, p.6
[23] Ibid
[24] Ibid
[25] Ibid, p.7
[26] Ibid., p.40

additional investigation and decision making prior to IRP implementation: cost-effectiveness testing in support of geo-targeted DSM programming.

SEC notes that ICF's analysis does not account for other economic benefits which are likely to be realized through the implementation of a geo-targeted DSM alternative; namely avoided energy costs[27]. SEC quotes ICF saying: "How various savings would be valued in an IRP context will require additional analysis"[28]. SEC refers to this assumption as "A common error, but it is still an error"[29]. In this instance it is SEC that is in error. The appropriate framework for assessing cost-effectiveness in this context must be decided by the Board in order for the gas utilities to be able to differentiate between acceptable and unacceptable costs associated with such IRP activities.

To explore this point SEC creates a hypothetical scenario where there is a geo-targeted DSM alternative which comes at a cost of $5 million per year for 10 years with a net present value of $35 million. SEC goes on to state that with a cost-effectiveness TRC plus ratio of a mere 0.80 the net present value of the unaccounted for benefits would reduce the effective cost of the DSM alternative to a net present value of $7 million; lower than the cost of the Project.[30] SEC later uses this analysis to support the conclusion that "…DSM is in fact a viable option to displace the Bathurst Reinforcement Project. All it requires is a correction of the erroneous cost-effectiveness assumption in the ICF Study…"[31]

The problems with this hypothetical are numerous. First, Enbridge notes that none of the figures provided by SEC are supported by evidence or referenced. It is unclear where the 0.80

[27] SEC Supp. Sub., page 9.
[28] Exhibit I.EGDI.STAFF.13 Attachment 1, p.ES-26
[29] SEC Supp. Sub., p.9
[30] SEC Supp. Sub., page 10.
[31] Ibid, p.12

TRC ratio comes from just as it is unclear where the $5 million per year DSM expenditure figure is sourced. Further, while SEC provides an approximate net present value figure it is unclear whether and how SEC has appropriately considered the impact of inflation on the program's ability to achieve results given that the $5 million expended in the tenth year of the program would accomplish considerably less than the $5 million expended within the first year. There is no basis for SEC or any other party to conclude that "…DSM is in fact a viable option…"[32] on the basis of an illustration with no substantiation and a questionable methodology.

Second, it is important to note that the TRC plus test does not incorporate the cost of DSM incentives paid to customers in order to reduce their consumption[33]; amounts which constitute the majority of DSM budgets. Thus what the illustration fails to note is that ratepayers would continue to pay the $50 million in DSM costs over 10 years (converted to a net present value of about $35 million by SEC) in rates regardless of the purported benefits. As well, it should be recalled that the avoided energy costs in this instance benefit solely those customers located within the program's geographic area that are willing and able to participate. All ratepayers in Enbridge's franchise area would be required to pay the full $50 million to enable these direct financial benefits (i.e. bill savings) for a select few.

Third, while the TRC plus test is generally used and accepted by the Board as the standardized test for broad-based DSM, there has been no detailed review and testing to conclude that the TRC plus test is appropriate for geo-targeted DSM. Concerns about its use and issues that need to be considered by the Board include:

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[32] SEC Supp. Sub., page 12
[33] EB-2014-0134 Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p.29

i. By ignoring customer incentives the TRC plus test ignores a significant budget item. When weighing a geo-targeted DSM alternative against an infrastructure expenditure, this results in an apples to oranges comparison.

ii. It appears agreed upon by both ICF[34] and SEC[35] that incentives need to be larger in a geo-targeted context than a broad-based DSM context. This change in parameters is highly problematic for the TRC plus test, as incentives could be increased tenfold without showing any negative impact on the cost-effectiveness of the DSM programming when compared against infrastructure investment.

iii. In a broad-based DSM context all ratepayers will over time have access to the benefits of DSM programming. Geo-targeted DSM is an entirely different scenario in which all ratepayers are required to transfer funds to a small subset of ratepayers in the form of higher-than-normal DSM incentives. This is a new form of cross subsidization which, as noted above, has not been reviewed in any detail in order to reach any informed conclusions. One would think that this issue warrants a substantive review by ratepayers' representatives and the Board.

iv. Unlike infrastructure projects that deliver predetermined results with certainty, DSM to a material extent is reliant upon human behaviour. This means that there will always be some degree of uncertainty associated with DSM programs' ability to offset or delay the need for a project. To reduce risk there will need to be a sizable contingency included in DSM programming, likely resulting in the pursuit of savings that are much greater than the minimum required so as to avoid the risk of underachievement. What the appropriate level of overdesign is remains an outstanding issue, as does the appropriate

[34] Exhibit I.EGDI.SEC.1 Attachment 1, p.44
[35] SEC Supplemental Submission, p.11

manner in which to value the certainty of an infrastructure investment when compared to the uncertainty associated with a geo-targeted DSM alternative.

It seems likely that SEC appreciates the above, thus the footnote: "For geo-targeted DSM, a utility may prefer to use the Program Administrator Cost Test (PACT). For these purposes, that would not matter, because Enbridge DSM programs have high ratios for that test too."[36] This additional commentary further demonstrates the limitations of the illustration provided by SEC.

First, SEC has highlighted what ICF itself has highlighted; that the appropriate cost-effectiveness test for assessing geo-targeted DSM has not been established. Selecting whatever test a utility "prefers" is no substitution for the careful consideration and direction of the Board.

Second, SEC has drawn the incorrect assumption that cost-effectiveness ratios applicable to franchise-wide, broad-based DSM programs which are available to all ratepayers can be applied to a geo-targeted DSM program in which a much larger proportion of a small subset of ratepayers must be incented to participate. Even putting aside ICF's conclusion that geo-targeted programs would be more expensive than broad-based DSM, in a geo-targeted area the finite number of potential retrofit participants decreases at the rate of market penetration for the program in that area; a rate which must necessarily be high in order to defer the need for infrastructure. As a result the cost to attract further participants from a declining pool is likely to increase materially over the years at a pace not likely seen by programs available to all ratepayers across a utility's franchise area.

[36] SEC Supp. Sub., p.10

None of the discussion above is meant to imply that ICF or the Company have all the answers. Quite the contrary, the IRP Report identifies numerous critical questions which must be answered prior to meaningfully implementing IRP. The Company believes this would best be addressed through a standalone process before the Board.

(c) The Practical Realities

Another issue not addressed by SEC is the appropriateness of exceeding the $2 per month threshold for DSM spending for a typical residential customer established in the DSM Framework[37]. It should be recalled that this threshold limit was re-affirmed by the Board in the recently released Mid-Term Report[38]. This at a minimum appears to be an issue that needs to be addressed by the Board having a complete record with the views of all stakeholders before material amounts are expended by the Company.

Programs that involve home or building weatherization are expensive. There is no evidence to substantiate SEC's claim that a $2,800 incentive[39] alone to a homeowner will in and of itself generate the level of savings required. Similarly, $15,000 for an entire high rise building[40] seems unlikely to achieve the significantly higher market penetration rates likely required to defer infrastructure. SEC however makes it seem like the necessary gas savings are a virtual certainty with such limited funding. It is nearly certain a much greater amount per household will be required. In this regard, ICF noted that while their working assumption in the IRP Report was that geo-targeted DSM would likely cost up to twice the cost of broad-based DSM "…the actual increase in costs [is] unknown."[41]

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[37] EB-2014-0134 DSM Framework page 17
[38] Mid-Term Report, page 13
[39] SEC Supp. Sub., page 11
[40] SEC Supp. Sub., page 11
[41] Exhibit I.EGDI.SEC.1 Attachment 1, pages 26 and 45

It should be acknowledged however that even at such modest incentive levels the gross dollar amount could be large. Using SEC's math of 68,000 homes and an incentive of only $2,800 per house, the cost of such a program to all hypothetical participants is in excess of $190 million. While the Company would not expect 100% participation, it is reasonable to anticipate higher participation rates in a geo-targeted program with a fixed number of potential participants than a broad-based program given the noticeably higher incentives offered and the requirement for participation rates high enough to defer infrastructure investments. Even at a 25% participation rate this illustration would require nearly $48 million in incentives alone.

SEC also draws the simplistic conclusion that where homes and high-rises were built prior to 1981, there are many older residential buildings that could benefit from increased efficiencies[42]. While it may be true as a general statement that older buildings could benefit from such work, the age and condition of the housing stock could be such that for any material savings to be achieved an investment of significantly more than $2,800 per house is required. Installing new energy efficient windows in a house that has no insulation would have virtually no effect. Conversely, if the area has already undergone a substantial degree of upgrading, which in some parts of Toronto has already occurred given the age and size of the housing stock, then the potential for participants declines on a relative basis. The point is that it cannot simply be assumed by looking at ward area statistics, as SEC has done[43], that sufficient DSM potential exists. Enbridge believes that it will likely be necessary to undertake a separate and more detailed potential study on each geographical area in question prior to, and as a first step in, delivering geo-targeted DSM programming.

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[42] SEC Supp. Sub, page 11.
[43] SEC Supp. Sub., page 11

SEC's assertions regarding Enbridge's exploration and implementation of IRP are in sharp contrast to Board Staff, who expressed their understanding that IRP in Ontario is an evolving issue which is not best evaluated in isolation within this LTC Application. Board Staff note that "…the recently released Mid-Term Review Report indicates that case studies and data analysis should continue in order to better understand how DSM can be included within the natural gas utilities' infrastructure planning processes."[44] How DSM and other low carbon solutions should be included in infrastructure planning remains a broader policy issue which must still be addressed and requires further analysis. This view is consistent with one of the primary conclusions of the IRP Report that additional information and analysis would be critical to advancing IRP[45].

5. Conclusion

Enbridge submits that the record in this proceeding supports the Board finding that there is need for the Project from the perspective of both future peak load growth projections and as a result of current system limitations that need to be addressed. Board Staff accept that the Project is needed and they do not express concerns about the forecast cost of the Project given the Company's agreement with the draft conditions of approval[46]. Importantly, Board Staff also accept that DSM is not a viable cost effective alternative to the Project[47]. Enbridge submits that there is no basis to conclude otherwise. While SEC may be impatient with the speed at which IRP is undertaken in Ontario, recognizing the nascent nature of such activities in North America by gas utilities and all of the issues and concerns which exist, it is appropriate and in the best interests of ratepayers that the Company proceed as it has been; prudently.

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[44] Staff Supp. Sub. p.5
[45] Exhibit I.EGDI.SEC.1 Attachment 1, p.4
[46] Staff Supp. Sub., pages 2/3
[47] Staff Supp. Sub., page 5

All of which is respectfully submitted the 10th day of December, 2018

(Original Signed)

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Dennis M. O’Leary
Counsel to Enbridge Gas Distribution Inc.