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

**BY E-MAIL**

April 26, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Walli:

**Re: Enbridge Gas Inc. (Enbridge Gas)**
**Chatham-Kent Rural Project**
**OEB Staff Interrogatories to Applicant**
**OEB File No. EB-2018-0188**

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to Enbridge Gas and all intervenors.

Enbridge Gas is reminded that its responses to interrogatories are due by May 10, 2019.

Yours truly,

*Original signed by*

Azalyn Manzano
Advisor

**ENBRIDGE GAS INC.**
**CHATHAM-KENT RURAL PROJECT**
**LEAVE TO CONSTRUCT**
**EB-2018-0188**

**OEB STAFF INTERROGATORIES**

## Interrogatory 1

**Ref:** Application, page 28

**Preamble:**

Enbridge Gas Inc. (Enbridge Gas) requests leave to construct approximately 500 kilometers of nominal pipe size (NPS) 12-inch and 13 kilometres of NPS 8-inch natural gas pipeline in the Municipality of Chatham-Kent. Enbridge Gas states that the proposed pipeline will be constructed within road allowances.

**Questions:**

a) Please provide copies of the applicable Municipal Franchise Agreement.

b) Please provide copies of the applicable Certificate of Public Convenience and Necessity.

## Interrogatory 2

**Ref:** Application, pages 7 to 10 and 15 to 20

**Preamble:**

Enbridge Gas states that its proposal for cost recovery of net capital (total capital costs net of the NGGP - now Bill 32 - amount, municipal contribution and capital from future customers) is consistent with the process used in the EB-2016-0013 Leamington Expansion Phase 2.

Enbridge Gas originally contemplated building potential pipelines of 500 m of NPS 12 and 20 km of NPS 8, with an incremental capacity of approximately 75,000 $m^3$/hr in the Chatham-Kent region. Enbridge Gas invited expressions of interest (EOI) from customers referencing a targeted Hourly Allocation Factor (HAF) of $250 to $350 per $m^3$/hr of hourly demand. Enbridge Gas initially received 43 EOI responses from interested parties totaling over 51,000 $m^3$ in hourly demand. Only five customers totaling a capacity of 18,845 $m^3$/hr were able to execute a binding commitment letter by Enbridge Gas' deadline, however, which reduced the anticipated facilities required to the current configuration of 500 m of NPS 12 and 13 km of NPS 8. Enbridge Gas determined the proposed HAF of $287 per $m^3$/hr in the first half of 2018 based on the known parameters at that time, dividing the Net

Capital of $8.6 million by a total capacity of 30,045 $m^3$/hr made available by the project for customers who required in excess of 200 $m^3$/hr at the time of the Natural Gas Grant Program submission. All new customers who require a demand capacity of 200 $m^3$/hr or greater within the Area of Benefit for the project will be allocated the HAF in their economics. Once the incremental capacity of those customers requiring more than 200 $m^3$/hr reaches 31,985 $m^3$/hr, Enbridge Gas will cease to apply the HAF to new loads in the Area of Benefit.

Enbridge Gas forecasts a cumulative large volume demand of 31,895 $m^3$/hr by 2025 in the area serviced by the project, and a total forecasted demand (including small volume) of 35,132 $m^3$/hr by 2025. Six first year contracts (four of which have been executed to date) represent 15,885 $m^3$/hr, which is 50% of the forecasted growth in large volume demand. Another 12,950 $m^3$/hr or 40% is supported by future growth from 2020 to 2024 by two of the six customers. Enbridge Gas states that these customers were proposing either new greenhouse projects or expansions of existing greenhouse operations.

Enbridge Gas completed an economic analysis for each large volume customer to assess capital costs and to determine the required contract term, contribution in aid to construct (CIAC) and/or Incremental Demand Charge Premium. If a customer is unable to achieve a profitability index (PI) of 1.0 within a 20 year contract term, Enbridge Gas has offered the option to either pay the CIAC, or to pay a flat incremental demand charge premium in excess of the regular monthly charges. Enbridge Gas also offered an option for customers to only contract for their 2019 demands and amend their contracts in the future, when the customer is ready to commit to the higher hourly requirement. Enbridge Gas states that the customer then runs the risk of their required capacity already being utilized by another customer, in which case they would be allocated their share of any costs of Enbridge Gas expanding further. To date, Enbridge Gas states that the customers with expansion plans have elected to contract only for their initial demands.

Enbridge Gas noted that the DCF analysis, which includes distribution capital for projected customer additions, shows a PI of 1.03 and a Net Present Value of $425,000 using a revenue horizon of 20 years.

**Questions:**

a) What is the current capacity of the local distribution network, and how much incremental capacity does the proposed project add? If the incremental capacity of the proposed project is larger than the forecasted demand of 35,132 $m^3$/hr, please explain why Enbridge Gas only intends to recover the cost of the project from customers making up the forecasted demand of 35,132 $m^3$/hr.

b) Please explain how Enbridge Gas determined the appropriate calculations for the HAF:

i. Please explain the difference in total capacity forecasted for large industrial customers at 31,985 $m^3$/hr as compared to the total capacity of 30,045 $m^3$/hr used to calculate the HAF of $287/$m^3$/hr.
ii. Please explain why the HAF would not be recalculated to take the extra 1,940 $m^3$/hr into account, and discuss what impact a recalculation of the HAF would have.
iii. Please explain why it is appropriate to only apply the HAF up to a specific forecasted demand (30,045 $m^3$/hr), with additional large volume customers not having to contribute?
iv. Has Enbridge Gas considered providing a true-up/rebate to the customers who take up their original forecast demand, should additional growth materialize? Why or why not?
v. Please explain why it is appropriate, in Enbridge's view, to not have the required contract customers committing to future volumes at this time, and yet be committing ratepayer dollars.

c) Please explain the Incremental Demand Charge Premium and how it would apply to customers who choose this option. Please provide an illustrative example.

d) Please explain how Enbridge Gas calculated the forecasted revenues used in the DCF analysis. Please provide the assumptions used in the revenue forecast (including the incremental volumes by rate class and the rates used in the analysis). Please also discuss whether Enbridge Gas included any revenues from interruptible services in the revenue forecast, and explain why or why not.

e) Please explain the derivation of the incremental capital used in the DCF analysis, including years 1, 2 and 6.

f) Please explain why CIAC payments may be required when the DCF analysis shows a PI of 1.03 in the absence of capital contributions.

g) Please explain the proposed accounting treatment for any CIAC payments collected related to this project. Please contrast this proposed approach to the treatment applied to capital contributions required to make a typical expansion project financially feasible.

h) Please explain the proposed accounting treatment for any government contributions related to this project.

i) Please explain the proposed accounting treatment for any Incremental Demand Charge Premium related to this project.

j) Please provide generic copies, including the terms and conditions, for the proposed long-term contracts and/or Letter of Agreement that Enbridge Gas will require customers to sign in order to avoid or reduce CIAC payments. Please identify any differences between these contracts/Letters of Agreement and those filed in EB-2016-0013.

k) Please discuss whether Minimum Annual Volume (MAV) requirements will be established by Enbridge Gas in each customer's contract. If so, please discuss how the MAV requirement will be set by Enbridge Gas. If not, are customers granted the option to set their own MAV or are there no MAV requirements?

l) How many of the executed long-term contracts of Letters of Agreement include a CIAC payment and/or an Incremental Demand Charge Premium as opposed to relying entirely on a MAV for one or more years? If any, please explain what factors did or may have led to the inclusion of a CIAC and or an Incremental Demand Charge Premium.

m) Please provide a range for: (i) the duration of the contracts signed; and (ii) the contracted MAV (if applicable).

n) Please provide an update on the status of any contract negotiations that have not yet been executed.

o) Please confirm that as a result of the use of MAVs in the contracting for the incremental capacity made available by this project, Enbridge Gas is 100% protected from the risk of a revenue shortfall from customers as a result of reduced annual volumes (whether as a result of customer specific operational issues or changes, conservation measures engaged in by the customer either on their own or in conjunction with Enbridge Gas, the weather sensitivity of the load, etc.), while at the same time Enbridge Gas benefits from any revenue as a result of increased volumes.

p) When Enbridge Gas engages a customer that has a multiyear obligation as is proposed in this application in a Demand Side Management activity that has the effect of reducing the customer's annual consumption below the MAV embedded in its contract, does Enbridge Gas allow the customer to adjust its contract terms going forward in order to reflect the impact of the DSM activity?

q) If a customer falls below their MAV in some years and exceeds their MAV in other years such that, in aggregate, they meet the total volumes in the contract, can the customer avoid charges related to failing to meet their MAV in some years using "credit" for exceeding their MAV in other years?

r) Of the long-term contracts and Letters of Agreement that have been entered into, how many of them included MAVs that Enbridge Gas believes materially exceed the annual volumes that the relevant customer will expect to consume in a "weather normal" year?

s) Please confirm that in the event a customer has to terminate or materially curtail its consumption during the term of its long-term contract or Letter of Agreement, Enbridge Gas can make the unused capacity available to a new customer. If so, does the contracting for that capacity differ from the contracting of the capacity in the first instance?

t) Does Enbridge Gas intend to adjust the terms of long-term contracts and Letters of Agreement to reflect the actual construction costs (i.e. adjusting the allocation of costs to each customer and the resulting MAV requirements)? Why or why not?

u) OEB staff would like to better understand how the long-term contract eliminates or reduces the CIAC payment:

   i. Please confirm that if a customer does not sign a contract they will be required to pay their entire portion of the project cost in a CIAC payment. Also please indicate whether this would be paid as a lump sum payment or if Enbridge Gas plans to offer payment flexibility.
   ii. Please explain the relationship between long-term contracting and the required CIAC payment. Please provide a table that includes a number of examples (along with supporting calculations) that use a set of assumptions (e.g. rate class, contracted capacity, contracted volumes, load factor, etc.) to depict the CIAC payment required if a customer does not sign a contract, or signs a 1-year, 5-year, 10-year or 20-year contract. Please clearly indicate the assumptions made. Please also provide the total cost to the customer (including both the CIAC payment and the distribution charges) under these scenarios.
   iii. Please explain the perceived benefits and disadvantages, from a customer's standpoint, of paying for the service by means of a CIAC, or option to sign a contract of 1 year, 5 years, 10 years or 20 years (with a reduced or eliminated CIAC) with Enbridge Gas.
   iv. If a customer opted for a 5-year contract with Enbridge Gas, what happens at the expiry of the contract?

v) Does Enbridge Gas intend to sell any interruptible capacity created by the project, and will Enbridge Gas apply these revenues to the contracts held by customers to potentially reduce their contract terms?

w) Does Enbridge Gas intend to request Incremental Capital Module treatment for this project? Why or why not?

x) Please discuss how Enbridge Gas intends to carry the cost of the project until it can recover costs from all forecasted demand. Please also discuss how Enbridge Gas intends to recover the incremental cost of the project and whether there will be any cross subsidization in the event that actual demand falls short of the forecast. Please discuss whether existing ratepayers are essentially paying for the HAFs yet to be paid for, until the demand materializes.

y) Please explain the potential impacts for ratepayers associated with the risks of:

   i. Demand being materially less than forecast
   ii. Demand materializing slower than forecast
   iii. An insufficient number of large volume customers with demand volumes over 200 $m^3$/hr signing up and contributing to the remaining Net Capital
   iv. Contract terminations by large volume customers

z) Please comment on the potential risks of a lack of diversity in the load customers in the area.

## Interrogatory 3

**Ref:** Application, pages 10, 16 and 17

**Preamble:**

Enbridge Gas forecasts a cumulative forecasted small volume demand growth of 3,237 $m^3$/hr by 2025 and non-specific large volume growth of 3,060 $m^3$/hr in 2024. Enbridge Gas states that it would not be practical to apply the HAF to small volume customers, nor will it be applying the equivalent of a system expansion surcharge (SES) as the area being served by the project is not a new community.

**Questions:**

a) Please provide Enbridge Gas' ten-year forecast by rate class for small volume and non-specific large volume growth for the area and discuss how this growth was identified.

b) Please explain why it would not be practical to apply the HAF to small volume customers.

c) Will this project serve any community expansions? If so, please explain why it would not be appropriate to charge these communities an SES.

d) Please explain how the $2 million "capital to be recovered from future customers" described in the Hourly Allocation Determination table was calculated. Please confirm if this capital is to be recovered from the small volume and non-specific large volume customers in Enbridge Gas' forecast, and if any of these customers would be required to pay a CIAC.

e) Please discuss whether residential customers in the area are essentially being subsidized by large volume customers.

## Interrogatory 4

**Ref:** Application, page 13
Schedule 8, pages 10 to 15

**Preamble:**

Enbridge Gas listed a number of alternatives to the proposed project that were considered in its Facilities Business Plan (FBP) for the Chatham-Kent area.

**Questions:**

a) Please provide cost estimates for all of the alternatives to the proposed facilities identified in the FBP.

b) Does the proposed project displace the need for any future distribution system investment elsewhere in Enbridge Gas' system? If so, please provide an estimate of the avoided cost.

c) What timelines would have been required to deploy the geo-targeted DSM programs that Enbridge Gas considered? What timelines would have been required to achieve the full impact of the DSM programs?

## Interrogatory 5

**Ref:** Schedule 12

**Preamble:**

Enbridge Gas estimates the total Pipeline and Equipment cost to be approximately $2.1 million and the Construction and Labour costs to be approximately $14.3 million. There is a 15% contingency applied to the project sub-total.

**Questions:**

a) Please explain how the updated estimate for the Construction and Labour Cost was determined.

b) Please compare the total capital cost of the project to three or more comparable projects completed by Enbridge Gas in the last five years. Indicate the length, diameter, location and year of construction for each of the projects.

## Interrogatory 6

**Ref:** Application, pages 22 to 23
Schedules 18a and 18b
Schedule 25

**Preamble:**

Enbridge Gas states that the preferred route is within the road allowance. Enbridge Gas also states that it has obtained options for temporary land use from directly affected landowners on the Bear Line Section, and will continue efforts to obtain the outstanding rights for the Base Line Section. Enbridge Gas has also obtained 2.62 acres of fee simple land for the proposed stations.

According to section 97 of the *Ontario Energy Board Act, 1998* (OEB Act), "In an application under section 90, 91 or 92, leave to construct shall not be granted until the applicant satisfies the Board that it has offered or will offer to each owner of land affected by the approved route or location an agreement in a form approved by the Board." Enbridge Gas has requested approval of the temporary land use agreement it will offer to affected landowners as part of the application.

**Questions:**

a) What is the current status and prospect of negotiations with all the landowners of properties where TLUs are needed?

b) Please provide a table that lists all permits and approvals that are required to complete the construction of the project, including a description of the purpose or need for each permit and the status of each permit/approval application.

c) Please confirm whether the form of temporary land use agreement filed as part of the application has been previously approved by the OEB. If so, please provide the OEB case number and project name in which these forms of easement agreement were last used.

**Interrogatory 7**

**Ref:** Schedule 21

**Preamble:**

Copies of the Environmental Reports were submitted to the Ontario Pipeline Coordination Committee (OPCC) on February 8, 2018 and June 1, 2018. Enbridge Gas provided a summary of the comments received to date regarding the ER as well as Enbridge Gas' responses. Enbridge Gas also filed an updated version of the summary of comments on March 14, 2019.

**Question:**

Please file any further updates on the comments (in tabular format) that Enbridge Gas has received as part of the OPCC review. Include the dates of communication, the issues and concerns identified by the parties, as well as

Enbridge Gas' responses and actions to address these issues and concerns.

**Interrogatory 8**

**Ref:** Application, page 1

**Preamble:**

Enbridge Gas applied for leave to construct facilities under section 90(1) and 97 of the OEB Act.

**Questions:**

OEB staff has prepared the following draft Conditions of Approval. If Enbridge Gas does not agree to any of the draft conditions of approval noted below, please identify the specific conditions that Enbridge Gas disagrees with and explain why.

For conditions in respect of which Enbridge Gas would like to recommend changes, please provide the proposed changes.

**Draft**
**Leave to Construct Conditions of Approval**
**Application under Section 90 and 97 of the OEB Act**
**Enbridge Gas Inc.**
**EB-2018-0188**

1. Enbridge Gas Inc. (Enbridge Gas) shall construct the facilities and restore the land in accordance with the OEB's Decision and Order in EB-2018-0188 and these Conditions of Approval.

2. (a) Authorization for leave to construct shall terminate 18 months after the decision is issued, unless construction has commenced prior to that date.

   (b) Enbridge Gas shall give the OEB notice in writing:

   i. Of the commencement of construction, at least ten days prior to the date construction commences
   ii. Of the planned in-service date, at least ten days prior to the date the facilities go into service
   iii. Of the date on which construction was completed, no later than 10 days following the completion of construction
   iv. of the in-service date, no later than 10 days after the facilities go into service

3. Enbridge Gas shall implement all the recommendations of the Environmental Report filed in the proceeding, and all the recommendations and directives identified by the Ontario Pipeline Coordinating Committee review.

4. Enbridge Gas shall advise the OEB of any proposed change to OEB-approved construction or restoration procedures. Except in an emergency, Enbridge Gas shall not make any such change without prior notice to and written approval of the OEB. In the event of an emergency, the OEB shall be informed immediately after the fact.

5. Concurrent with the final monitoring report referred to in Condition 6(b), Enbridge Gas shall file a Post Construction Financial Report, which shall indicate the actual capital costs of the project and shall provide an explanation for any significant variances from the cost estimates filed in this proceeding. Enbridge Gas shall also file a copy of the Post Construction Financial Report in the proceeding where the actual capital costs of the project are proposed to be included in rate base or any proceeding where Enbridge Gas proposes to start collecting revenues associated with the project, whichever is earlier.

6. Both during and after construction, Enbridge Gas shall monitor the impacts of construction, and shall file with the OEB one paper copy and one electronic (searchable PDF) version of each of the following reports:

   a) a post construction report, within three months of the in-service date, which shall:

   i. Provide a certification, by a senior executive of the company, of

Enbridge Gas' adherence to Condition 1

ii. Describe any impacts and outstanding concerns identified during construction

iii. Describe the actions taken or planned to be taken to prevent or mitigate any identified impacts of construction

iv. Include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions

v. Provide a certification, by a senior executive of the company, that the company has obtained all other approvals, permits, licences, and certificates required to construct, operate and maintain the proposed project

b) a final monitoring report, no later than fifteen months after the in-service date, or, where the deadline falls between December 1 and May 31, the following June 1, which shall:

i. Provide a certification, by a senior executive of the company, of Enbridge Gas' adherence to Condition 3

ii. Describe the condition of any rehabilitated land

iii. Describe the effectiveness of any actions taken to prevent or mitigate any identified impacts of construction

iv. Include the results of analyses and monitoring programs and any recommendations arising therefrom

v. Include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions

7. Enbridge Gas shall designate one of its employees as project manager who will be responsible for the fulfillment of these conditions, and shall provide the employee's name and contact information to the OEB and to all the appropriate landowners as well clearly posted on the construction site.

8. The OEB's designated representative for the purpose of these of Approval shall be the OEB's Manager of Supply and Infrastructure.