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VIA RESS AND COURIER

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
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Dear Ms. Walli:

Re: EB-2018-0263 – EPCOR Natural Gas Limited Partnership (EPCOR) Southern Bruce Leave to Construct Application.

Industrial Gas Users Association (IGUA) Written Submissions.

As noted in our April 16, 2019 letter on behalf of IGUA seeking intervenor status in this proceeding, two of the large industrial gas users represented by IGUA anticipate direct services from the instant expansion project. As such, IGUA supports EPCOR's application for leave to construct the project.

As indicated in EPCOR's interrogatory responses herein, many key issues regarding rates for, and terms and conditions of service in, the expansion areas remain to be reviewed and resolved through EPCOR's companion rates application [EB-2018-0264]. IGUA intends to be an active participant in that proceeding.

For the purposes of the instant application, in providing leave to EPCOR to construct the proposed project, IGUA submits that the Board should;

1. Provide leave to construct despite contracts with large customers not having been executed to date, and without requiring that such contracts be executed prior to the commencement of construction, given the lack of any certainty pending review of the rates for, and terms and conditions of, the new gas delivery service.

2. Include the standard financial reporting conditions in its approval, despite the 10 year fixed rate guarantee and attachment forecast risk being absorbed by EPCOR.

Timing of large customer contract execution.

EPCOR's evidence is that it expects contractual discussions with industrial customers in its service area to be concluded prior to construction start[1], though such discussions have not yet concluded.[2] Outstanding issues in these discussions include terms and conditions of service and applicable future rates.[3]

Rates and terms and conditions of service are central considerations for determination by affected industrial customers for whether they are prepared to make commitments to anchor this gas system community expansion. Significant outstanding issues exist regarding EPCOR's upstream arrangements with Enbridge Gas which will, in turn, have material consequence for both the nature of services that EPCOR can provide, in particular to its largest customers, and the price that customers would pay for such services[4], and thus for the economics of long-term commitment by industrial customers in the area to gas service from EPCOR.

In these circumstances, IGUA submits that contract customers should not be expected to execute contracts committing to services the nature and cost of which are not sufficiently defined to support such commitment. Unlike the case in pre-existing service territories on pre-existing gas systems, there is little if any predictability in respect of the final form of EPCOR's services and associated, rate class specific, pricing.

While IGUA continues to support EPCOR's application for leave to construct, in the current circumstances it is EPCOR that must take the risk in respect of the attachment of large, anchor contract customers, at least pending greater certainty on the nature of, and cost associated with, services for those contract customers. Execution of customer contracts should not be a pre-condition, in this circumstance, to the granting of leave to construct, or to the commencement of construction.

Appropriateness of financial reporting.

In considering the draft Conditions of Service proposed by OEB Staff, EPCOR has proposed deletion of reporting requirements in conditions 4 and 5 related to project costs, on the basis that EPCOR is taking the financial risk on the capital cost of the project, such that any capital variances over the course of construction will have no impact on revenue requirement.[5]

IGUA has three concerns about this position.

First, in particular in this context of construction cost, and associated recovery, pre-approval, it is important for customers to be sure that EPCOR spends enough on its project, such that resulting service will be robust and reliable in the long-term. It is submitted that the public interest in not only

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[1] Ex. A/T3/S1/p.4, para. 13.
[2] IRR IGUA.1, part (c).
[3] IRR IGUA.1, parts (d) and (f).
[4] IRR IGUA.3.
[5] IRR OEB.21.

cost effective but reliable and safe service commends OEB oversight of actual project expenditures, even if there is no immediate rate risk associated with these expenditures.

Second, shortcuts taken now could lead to incremental capital expenditures later, following expiry of the 10 year fixed rate plan, at which time EPCOR anticipates that it will transition to a traditional cost of service rate.[6] As such, risks arising from imprudent underspending now might well impact rates later.

To be clear, IGUA is not suggesting that EPCOR has in any way provided any indication that it would "cut corners" in building out its new distribution system. Nonetheless, for the reasons articulated above, OEB oversight of actual project spending remains appropriate.

IGUA's third concern relates to EPCOR's evidence that it will seek to pass through to consumers, within the rate stability period committed to, cost increases resulting from *"timelines for OEB decision which have subsequently directly impacted its construction schedule"*.[7] While consideration of those impacts and proposed pass through to customers is a matter for EPCOR's rate application, information related to actual construction costs and timing could be important to subsequent consideration of any allowance for such pass through.

Conclusion.

IGUA has also noted that the economic analysis which EPCOR has submitted in support of its leave to construct request allocates the $22 million in government funding for the project against the capital costs that service the entire expected customer base.[8] EPCOR has specifically confirmed that the depreciation and return on assets funded by the legislated subsidiary are to be deducted from its pre-approved revenue requirement over the rate stability period.[9] (IGUA assumes that will remain the case following the rate stability period, given EPCOR's response to IGUA.4.) As such, the economic analysis supporting this application assumes that all EPCOR customers will benefit from that funding.

[6] IRR IGUA.4, part (c).
[7] IRR OEB.11.
[8] IRR IGUA.4, part (b).
[9] IRR OEB.8.

On this basis, and subject to the two recommendations discussed above, IGUA and its directly affected members support the granting of EPCOR's application for leave to construct.

Yours truly,

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