July 8, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0305 – Enbridge Gas Inc. – 2019 Rate Adjustment

We are representing the Consumers Council of Canada in the above-referenced proceeding. Please find, attached, our final argument. We apologize for the late filing of this submission.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Enbridge Gas, Regulatory Affairs
All Parties

FINAL ARGUMENT OF THE CONSMERS COUNCIL OF CANADA

EB-2018-0305

ENBRIDGE GAS INC. – 2019 RATES

On December 14, 2018 Enbridge Gas Distribution Inc. ("EGI") filed an Application with the Ontario Energy Board ("OEB") for an order approving rates for its EGI, Union North and Union South rate zones effective January 1, 2019. This is the first annual rate-setting application following the amalgamation of EGI and Union Gas Limited ("Union") effective January 1, 2019. The Application is filed pursuant to the OEB's Decision dated August 30, 2018 approving that amalgamation and the rate-setting framework for the period 2019-2023 ("MADDs Decision").

EGI is seeking approval of the following:

- An annual rate change determined by a price cap index ("PCI") formula comprised of an inflation factor, productivity factor and a stretch factor;
- Average use/normalized average consumption adjustments for each rate zones in accordance with the applicable Board-approved methodologies;
- One-time base rate adjustments approved in the MADDs decision including an adjustment to align the Incremental Capital Module ("ICM") threshold calculation in the Union rate zone with the capital investment that can be supported by rates.
- ICM funding for four projects: the Don River Replacement project; The Sudbury Replacement project; the Kingsville Reinforcement project; and the Stratford Reinforcement project[1].

These are the submissions of the Consumers Council of Canada ("Council") regarding EGI's Application. The Council has had an opportunity to review the detailed submissions of London Property Management Association ("LPMA") regarding EGI's proposals. The Council is generally supportive of the arguments advanced by LPMA. We summarize those key positions below:

- EGI is proposing to use a PCI index of .72% to derive the Union zone ICM threshold. EGI's proposal uses an average of the PCI used to increase rates since Union's last rebasing. This is inconsistent with the approved policy for calculating ICM thresholds, which uses the current year PCI. In this case it is 1.07%. In the MADDs Decision the OEB determined that the ICM amount would be based on the policy established for the electric distributors.

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[1] EGI Argument in Chief, filed June 17, 2019

Therefore, the OEB should reject EGI's proposal to use .72% and approve 1.07 % as the basis of determining the threshold.

- EGI is proposing to recover the revenue requirement associated with the capital pass-through projects from Union's 2014-2018 IRM term as a component of base rates rather than a Y-factor adjustment.[2] This is not consistent with the MADDs Decision as it represents a partial rebasing of rates. The OEB established four base rate adjustments in that decision and determined that a requirement to rebase certain elements upon amalgamation would be contrary to a rebasing period.[3] The result of this change is to increase rates by $46 million over the period 2020-2023. The OEB should reject EGI's proposal and continue with the accounts as approved in the MADDs Decision.

- The ICM rate riders should be based on approved costs of the projects (as approved in the leave to construct proceedings).

- The Don River project should not be approved as an ICM as it represents a project that should be considered part of a typical annual program, one of the key criteria for ICM approval. In addition the amounts to be recovered through the IRM term are not material as defined by EGD rate zone materiality threshold of $1.5 million.

- EGI has failed to establish the need for an ICM for the Kingsville project. The OEB's Filing Requirements for Distribution Rate Applications – 2018 Edition for 2019 Rate Applications (dated July 12, 2018) requires that with respect to ICMs the LDCs are required to provide evidence that the incremental revenue requested will not be recovered through other means (e.g. it is not in full or in part, included in base rates or being funded by the expansion of service to include new customers an other load growth.) The evidence in this case is that the project is needed to respond to increasing natural gas demand in the Kingsville-Leamington area in 2019[4]. Those revenues were not taken into account in the calculation of the net incremental revenue requirement.

- EGI has failed to establish the need for an ICM for the Stratford project. The annual revenue requirement of this project is below the materiality threshold for both the Union rate zone ($4 million) and EGI as a combined entity ($5.5 million). In addition, EGI has not established that this project is outside of its normal capital spending. EGI undertakes reinforcement

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[2] AIC, p. 6
[3] EB-207-0303/0307, Decision with Reasons, dated
[4] Ex. B1/T2/S1/pp. 25-26)

projects on an ongoing basis to both serve existing customers and provide service to new customers.

- The Sudbury project does not qualify as an ICM for 2019. It is a project that went into service in 2018. EGI is requesting special treatment for this project on the basis that it falls between qualifying for incremental rate treatment under Union's 2015-2018 capital pass-through mechanism and qualifying for incremental rate treatment under the ICM.[5] This is function of two different rate plans being in place. If the project does not qualify under either rate plan it should not be given special treatment. In addition, the Sudbury project is about system reinforcement, which EGI undertakes on an ongoing basis to serve its existing customers and to provide service to new customers. This type of ongoing project does not qualify for ICM treatment on this basis alone.

- EGI has included incremental O&M costs as part of its ICM amounts. This is contrary to OEB ICM policy and should be rejected.

The Council has specific submissions to make with respect to the changes to Enbridge Gas Distribution's ("EGD") connection policy. In August 2015 EGD changed its policy and started to determine a customer Profitability Index for all infill customers. The rationale for the new approach was to ensure that the company's investment portfolio achieves a PI of greater than 1. The incremental revenue resulting from this change is approximately $8 million per year[6].

The Council does not accept that the policy should have changed in the absence of OEB approval. The Council is of the view that the rules around such a fundamental service, connecting to a monopoly system, should be subject to OEB approval. If EGI wants to change the policy the OEB must undertake a review of the policy and determine if it is appropriate. This is to ensure the interests of residential consumers are sufficiently protected. EGD should revert back to its prior policy and if EGI wants to change it, it can apply to do so upon rebasing.

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[5] AIC, p. 17
[6] Ex. JT1.11