

ONTARIO ENERGY BOARD STAFF INTERROGATORIES

2020-2024 Rates Application Phase 2 Evidence

EPCOR Natural Gas LP

EB-2018-0336

August 8, 2019

1.Staff.1

Ref: Response to VECC Interrogatory (IR) #10

In response to VECC IR#10, EPCOR Natural Gas LP (EPCOR Natural Gas) indicated that average annual spending for Main Additions for 2015 through 2018 was impacted by larger, more costly system reinforcement projects completed by NRG in 2016 and 2017.

Please explain what EPCOR Natural Gas means by “costly” in its IR response.

1.Staff.2

Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.5

The SNC-Lavalin study in its draft report of March 2016, recommended projects to address pressure issues experienced in the northeast and southwest of the system. However, these recommendations arose before it was known that Union Gas Limited would provide additional gas supply at the Bradley station and therefore the report (a) recommended projects to address these pressure issues outside of the context of this new higher pressure gas supply, and (b) made different conclusions with respect to the value of certain projects it evaluated and highlighted than may have been reached in the context of this new gas supply.

Please explain as to why SNC-Lavalin did not revise its study based on the additional supplies that Union Gas Limited would provide at the Bradley Station.

1.Staff.3**Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.7**

The evidence states that due to supply and system limitations, the utility's challenges are not only associated with obtaining adequate supply but also with getting the supply to where it is needed in the system. As a result, the system has experienced system integrity issues in the form of low pressure in various parts of the system for a number of years.

Please identify all areas of the system with low pressure. If possible, please provide a map identifying the low pressure areas.

1.Staff.4**Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.9 and EB-2016-0236, Exhibit 1, Tab 1, Schedule 3, p.2 and Exhibit 2, Tab 1, Schedule 1, pgs.1-2**

In its Phase 2 evidence, EPCOR Natural Gas noted that the OEB granted Natural Resource Gas Ltd.'s (NRG, the predecessor utility) request to withdraw its failure to serve application based on NRG's assurances that the supply agreement with Union Gas Limited and the facilities proposed to be constructed would resolve the system integrity and volume issues raised in the application.

In NRG's 2016 rates application (EB-2016-0236), NRG identified the capital projects to support the upgrades to the Bradley Station and noted that these projects were being undertaken to address system integrity issues.

- a) Please explain why NRG in its 2016 rates application requested recovery of 1.5 million cubic metres of natural gas purchased from NRG Corp. at a premium price in quantities that was 50% higher than before.
- b) Please outline the projects undertaken by NRG to reduce reliance on purchase of premium priced gas from NRG Corp.
- c) In the OEB's Phase 2 Decision and Order (EB-2010-0018) dated May 17, 2012, the OEB on page 8 noted, "The issue before the Board is not so much the fact that it is inappropriate to purchase gas from a related company but rather that the pricing mechanism being sought by NRG seems to demonstrate that NRG Corp. exercises market power within the utility's franchise area....The Board is concerned that NRG's customers would pay significantly higher than market rates for what could be a material portion of their gas supply."

Please provide evidence in NRG's rates application (EB-2016-0236) wherein NRG has made attempts to address the OEB's concerns and provide all capital projects undertaken by NRG to address the concerns and reduce the market power exercised by the former NRG Corp. through the pricing of locally produced gas.

- d) Did NRG establish a link between the system integrity projects that it proposed to implement in its 2016 rates application and the purchase of system integrity gas from NRG Corp.? If no, why not?
- e) Please explain how NRG prioritized capital projects to address system integrity in light of the OEB's Phase 2 Decision and Order in EB-2010-0018.

1.Staff.5

Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.10

The evidence indicates that SNC-Lavalin completed the majority of the study and associated modeling work in 2015, prior to when Union Gas Limited and NRG reached agreement on a solution for additional gas supply. SNC-Lavalin's draft report of March 2016 identified the same pressure issues but the recommendations included in the report differ from what NRG implemented with the four system integrity projects.

- a) Please confirm that NRG did not adopt the recommendations of the SNC-Lavalin study.
- b) Did NRG undertake any other study to support the four system integrity projects that it completed in 2016 and 2017? If no, why not?
- c) Please describe EPCOR Natural Gas' understanding of why the OEB ordered NRG to complete an independent system integrity study.

1.Staff.6

Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.12

The evidence notes that the Putnam x Culloden pipeline also looped the pipeline along Culloden line, thereby improving operational flexibility and reliability. If a break or leak were to occur along this stretch of main, the flow of gas can be isolated locally at the leak and customers can be back-fed from the other direction, minimizing the number of customers impacted. This benefit would not have been achieved with SNC's recommendation.

The evidence further notes, "Accordingly, the solution implemented by NRG reflected more foresight and avoided a suboptimal investment for ratepayers since by

implementing the Putnam x Culloden pipeline, NRG was able to address the existing issues at Brownsville, ensure access to gas for new connections in the northeast area and increase reliability in the area”.

- a) The evidence states that SNC-Lavalin study did not examine the Putnam x Culloden pipeline. Why did SNC-Lavalin not examine the proposed pipeline from Putnam Station to the Culloden Line?
- b) What does the evidence mean by, “This benefit would not have been achieved with SNC’s recommendation”?
- c) The benefits outlined in the evidence seem to indicate that it is a relief line (customers can be back-fed from the other direction) and refers to future benefits (ensure access to gas for new connections). What system integrity benefits did the Putnam x Culloden pipeline provide?
- d) What does the evidence mean by, “The solution implemented by NRG reflected more foresight and avoided a suboptimal investment”?

1.Staff.7

Ref: EPCOR Natural Gas Evidence of August 1, 2019, p.31

EPCOR Natural Gas provided a map of its franchise area and identified the four system integrity projects that are subject of this application (Phase 2). Please provide a similar map that identifies the four system integrity projects and the low pressure areas identified in the SNC-Lavalin study.