PUBLIC INTEREST ADVOCACY CENTRE
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EPCOR Natural Gas Limited Partnership

EB-2018-0336

Application for approval to change gas distribution rates and other charges
Effective January 1, 2020 to December 31, 2024

Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

August 30, 2019

On behalf of the
Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
613-562-4002
piac@piac.ca

1.1 VECC has reviewed the arguments of Board staff (Staff Submission August 29, 2019). We are substantively in agreement with their submissions. Staff has provided an articulate summary of the history of the system integrity (pressure) issues of NRG/ENGLP, the relevant Board decisions and the subsequent actions of the Utility. We will not repeat these submissions and substantively agree with Staff's conclusions.

1.2 In our view the Board should draw a distinction in finding imprudence in the actions of the Utility in addressing the pressing system integrity and gas cost issues and the matter of whether the projects are used and useful. In our submission the issue is whether the Utility appropriately prioritized competing investment needs. We hold they did not. However the Putnam-Culloden and Springwater pipelines remain used and useful parts of the Utility's assets to service customers. What is not evident is whether these projects could have been delayed in order to address the system integrity and natural gas cost premiums that the Board had identified as concerns to be addressed. The Utility has failed to make its case that the projects undertaken had a greater priority than the clear issues the Board had identified as being of priority.

1.3 To the questions of Staff and VECC pursuing this matter ENGLP responded with supposition and because it does not know what motivated the prior owner. For example, at 1-Staff-2 (Phase 2) ENGLP is asked why the provision of additional gas supply at the Bradley station did not impact the concurrent SNC-Lavalin system integrity study. ENGLP provides in part this response:

> *In any event, ENGLP cannot confirm that NRG did not at any time engage SNC-Lavalin to complete additional modeling and to revise its study based on the additional supply that Union Gas Limited would provide at the Bradley Station. ENGLP believes that, based on the revision to the NRG filing and the SNC-Lavalin Study, additional modeling was likely done.*

1.4 Throughout the responses to the Phase 2 interrogatories there are many "*NRG may have believed*[1]" type of statements. All of which is to say the current owners and management do not why certain investments were made in light of the SNC-Lavalin Study by the prior owners and management. We submit that this both an inadequate and irrelevant response. The Board has a number of times articulated the principle that rate regulation should remain indifferent to different ownership. It is the Applicant's duty to prove its case and a change in ownership cannot serve as an excuse for not living up that principle. In any event ownership and management of a utility are two different things. In purchasing NRG ENGLP inherited both ownership of assets and management of the same. That includes both future benefits and liabilities for past behaviour.

[1] See for example the response to 1-Staff-5 (Phase 2)

1.5 In this case, as articulated by Board Staff, the Applicant has simply failed to make the case that the Putnam Station–Culloden Line and Springwater Road pipeline were responsive to the Board's direction. It is not evident that the Utility made best efforts to address the premium gas prices being paid by its ratepayers. The new owner cannot adequately explain why this is so. Though we observe that during this time their remained an inherent conflict due to the affiliated relationship between the utility and the gas supplier.

1.6 Had the Utility proceeded with the original application EB-2016-0236, then the matter might have been resolved in the manner that has occurred. But we cannot know that now. That application was filed in August of 2016 and included a system integrity study, a gas market study and the capital plan that presumably addressed both. The Applicant choose to withdraw that application in order to complete its transaction with EPCOR. We said at that time and repeat now, that any risk or cost associated with proceeding in that manner rests with the Utility regardless of who owns it.

1.7 As described by Board staff the investments at Bradley Station (Union Gas Station - $402,639 and the associated Bradley Station to Wilson pipeline - $748,383) were made on the basis of urgent need for gas supply. As such it is clear they needed to be undertaken at the time and as a priority. It is not clear that Putnam to Culloden ($498,922) and Springwater Road ($265,015) pipelines were priority projects in addressing either system pressure issues or addressing the issue of the need to purchase natural gas a premium price. The objectives of these projects appear to be improving system reliability[2]. With respect to these latter projects the Applicant has not made its case for the prioritization of these investments.

Furthermore the Applicant cannot explain the significant variance in the projects and project costs from estimates provided in the EB-2016-0236 application. VECC asked ENGLP to explain the difference in the Springwater Road estimate of 25k in the SNC-Lavalin study and the $265,015 actually spent on the project. The response was:

> *The Springwater Road pipeline extension, as both described in the SNC study and as constructed, included the installation of approximately 3.5 km of 4 inch PE pipe. The estimated project cost of $25,000 included in EB-2016-0236 equates to a cost of approximately $7 per meter. The cost of the pipe alone, currently more than $25 per meter, would have exceeded this estimate. ENGLP has been unable to determine the basis of the estimate provided by NRG. However, we can advise that $265,015 represents the 2020 net book value (rate base) of the actual project cost incurred to complete the pipeline.*[3]

1.8 We accept that the original estimate appears inordinately low. However the fact remains that the Applicant cannot adequately respond to questions as to why recommendations in the SNC-Lavalin report were either not undertaken or were completed at significantly different

[2] See 1-Staff-6, par. D)

[3] 1-VECC-1 (Phase 2). Other discrepancies between the SNC-Lavalin Recommendation and the actual projects undertaken are shown at 1-VECC-3 (Phase 2)

cost than identified in that study. Again, it is our submission that the Board should not give weight a response which basically says "*we don't know what they did*." This is a single utility not two. The continuity of management and their keeping of appropriate records was part of the due diligence of the purchaser.

1.9 All the projects completed may be used or useful even though it is more difficult time to conclude costs are reasonable in light of these past studies. In any event the question in this case is whether they represent the appropriate priority of projects undertaken in the face of system pressure issues and the Board's concerns about the purchase of premium gas from what was then an affiliate company. We conclude that the Utility did not address the Board's concern and that failure enriched the then affiliate of the Utility at the expense of its ratepayers.

2.0 In our submission the remedy to be applied should be based on the opportunity cost of the premium priced natural gas. ENGLP has calculated the premium gas price differential at $127,200 annually from 2013 to 2018[4]. Since the Board had provided ample warning as to its concerns it is our view that the presumption should be that the premium price for gas was eliminated with the implementation of new rates in the fall of 2016. The period between the proposed implantation date of that application (EB-2016-0236 and October 1, 2016) and this application (January 1, 2020) is $2^{1/4}$ years. We calculate the amount of the gas cost premium as $413,400 for that period without including interest or inflation adjustments.

2.1 In our submission the Board should impute an adjustment to rate base of approximately $400k to compensate ratepayers for the extra costs of gas. To best match the premium costs to the ratepayers (i.e. minimize intergenerational inequities) the adjustment should be made so as to recover this amount over the term of the 5 year term of the rate plan

2.1 The combined cost of the two "sub-optimal" projects is $763,937. Based on the weighted cost of capital of 5.86% the undepreciated annual value of this investment is approximately $44k. We have not undertaken a detailed analysis (and invite the Applicant to do so in their responding argument), but if that is our assumption is roughly correct the even if the entire invested amount is removed from rate base customers would not receive the full amount of their overpayment over the next 5 year rate plan period. Therefore it seems reasonable that that both the Putnam-Culloden and Springwater pipeline project capital costs should be removed from rate base for the purpose of calculating 2020 rates and in perpetuity.

VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred cost

-ALL OF WHICH IS RESPECTFULLY SUBMITTED -

[4] 1-Staff-4 Phase 2 and 4-Staff-42