EB-2019-0137

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch. B, as amended;

AND IN THE MATTER OF a consultation by the Board with respect to Enbridge Gas 2020-2024 Gas Supply Plan

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Comments of

Energy Probe Research Foundation

October 21, 2019

EB-2019-0137 Enbridge Gas Inc
2020-2024 Gas Supply Plan
Consultation and Stakeholder Conference
Energy Probe Submissions

Background

By letter dated July 25, 2019, the Board announced a Consultation on the Enbridge Gas Supply Plan.

Written Questions from Stakeholders on the Proposed Plan were filed on September 15, 2019.

Following the Conference Stakeholders were provided an opportunity to provide their comments on the following:

1. **To assess whether Enbridge successfully balanced the Board's Guiding Principles of cost effectiveness, reliability and public policy;**
2. **To assess whether Enbridge's Gas Supply Plan (GSP) balances the Principles in a way that is appropriate for customers.**

Stakeholder Consultation/Conference September 23/24, 2019

<u>Background to and Format of the Consultation and Stakeholder Conference</u>

Following submission of Written Questions on the proposed Plan, most stakeholders expected that Enbridge would provide additional technical information and data as well as more support for the key Decisions that resulted in the Plan

Stakeholders were disappointed in this regard, since no additional information was added in response to the written questions, for example via Addenda to the Plan.

The Enbridge Panel were knowledgeable in certain areas, such as gas supply planning, but not in others, notably the customer and demand forecast.

This resulted in a focus on the supply side, rather than having a Panel dealing with both demand and supply.

Regulatory Considerations

The OEB Framework for development and filing of gas supply plans does not allow for discovery. This is particularly problematic, since following the amalgamation of Union Gas and Enbridge Gas Distribution, there have been no proceedings to examine either the gas demand forecast, or gas supply, storage and transportation contracts.

Enbridge counsel indicated that it was the Company's understanding that since there will not be any cost of service proceedings until rebasing 5 years from now, the opportunity for discovery on gas supply and demand forecast would be the annual deferral account proceeding, leave-to-construct applications and approval of material new gas supply contracts.

Missing Information – GSP Demand Scenarios

Since EGI is regulated under a post-amalgamation incentive regulation plan, ***detailed*** recent data on actual and forecast of demand were not available in the GSP. If trends in declining General Service Normalized Average Use per customer (NAC) were to continue this will affect forecast 5-year total and peak demand reflected in the Plan for both EGD and Union.

Recent evidence filed in EB-2019-0xxx (EGD) and EB-2019-0XXX suggests that the trend in NAC may not be decreasing. In 2018 both EGD and Union Rate Zone General Service classes show higher than historic consumption. EGI has no explanation for this change (price, conservation or other factors?). Given the imposition of the Carbon Tax on natural gas the expectation would be that GS Demand would reduce further in 2018.

Energy Probe believes that the linkage between the Gas Supply Strategy and Demand in the GSP is WEAK. Like the Supply Scenarios, Demand Scenarios are required that directly link to the Supply and Transportation Portfolios in the GSP.

Demand Forecast

Annual gas demand during the period of GSP is based on the econometric regression models that the two legacy companies have used in recent rate proceedings

These models rely largely on historic data and the models for the Union and Enbridge Rate Zones have differences in the inputs and coefficients. Stakeholders have concerns about the Normalized Average Use per Customer (NAC) Models for the residential and commercial rate classes. These concerns resulted in settlement agreements for a best practice review of the methodology.
This has been deferred until rebasing. We suggest this is not appropriate and work should be done to update and align the modelling for all rate zones

Meanwhile the GSP assumes that declining NAC trends continue[1] , while peak day demand (based on heating degree days and the peak day criterion)[2] is still forecast to increase for each rate zone.[3] The Company cannot explain this disconnect, given its forecast of flat or decreasing annual demand.[4]
The requirement for supply side assets (transportation/delivery capacity) is based on forecast demand.

Meeting Peak Day Demand

Fortunately, the current approach to meet peak day demand is to plan for redundancy, and also have peak day purchased gas available at Market Prices. EGI calls this "flexibility". However, this is due to uncertainty in total and peak day demand forecasts. And has significant risk and costs
We have suggested that the average use models be updated and demand scenarios developed to better inform the GSP.

The legacy companies had differences both in their definitions of peak day and in their peak day Strategy

- Union Gas met peak day demand with supply from contracted pipeline supply, storage withdrawals and shut off of all interruptible customers. Peaking supplies at Dawn met any deficiency.
- Enbridge Gas Distribution met peak day demand with supply from contracted pipeline supply, storage withdrawals and shut off of 75% of interruptible customers. Peaking

[1] GSP Section 4.1, pages 30-32 and Table 2; Section 9.2
[2] Ibid 1 and Table 1 Section 9.1, page 64
[3] Section 4.2, pages 35-37, Figure 20; Table 4 and Avg. Day demand Table 14
[4] Tr. Vol 1 Page 60 line 10

supplies were purchased to meet load, even though some interruptible customers were receiving gas.

From the evidence it is not possible to determine if post-amalgamation, there is any change to either the demand forecast or the peak day demand forecast methodology for the Union and Enbridge Rate zones.

For example:

- The Average Use per Customer models
- The Heating Degree Day Forecast
- The Peak Day Demand forecast.

> MR. STEVENS: So what Enbridge has done is it has read and responded to the framework. The framework is clear that the OEB expects the distributors to use its OEB-approved methodology for demand forecasting when preparing a gas supply plan. So that is from page 8.
>
> So for Enbridge to take the step of moving ahead and preparing a demand forecast based on some prospective combined methodology would be at odds with the plan until we have Board approval.[5]

If there have been material changes to the demand forecast EGI should provide complete documentation to the Board and Stakeholders.

If not, the Board should be concerned that the Demand and Peak Day Forecast methodology is outdated and does not connect into the Plan to provide a proper basis for the proposed significant increases in supply side transportation and storage assets in the Gas Supply Plan.

Customers should not pay for assets that are not needed to meet demand or be at risk for inadequate resources to meet demand. However, it appears that Enbridge operates with a significant Design Day "Safety Margin". At present the default is peaking supplies delivered at Dawn at market prices. It also makes no sense to buy expensive peaking gas while interruptible customers in the Enbridge Rate Zone are consuming gas. Non-compliance (one strike) should result in interruptible customers being required to firm up, not just pay a penalty.

<u>Storage</u>

[5] Tr. Vol 1 Pages 66/67

Storage is critical to the gas supply plan. It provides seasonal supply at lower prices and operational security and reliability.

The Rate zones each have Regulated Storage allocations that are based on the legacy NGEIR Decision, not current operational needs.

The NGEIR Allocations:

- 100PJ of regulated storage for the Union Rate Zone of which ~11 PJ is excess to needs;
- 99.4 PJ of regulated storage for the Enbridge Rate Zone.

The balance relative to franchise needs is 26.4 of Market Storage of which ~11 PJ is Union Rate Zone excess.

Post amalgamation the Board has continued to accept the legacy NGEIR storage allocations and pricing regime. This makes no sense. The regulated storage assets are a common asset just as is the Dawn-Parkway transportation system.

> MR. LeBLANC: So the OEB decision, page 51, says:
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> > "During the deferral rebasing period the OEB accepts the applicant's proposal to continue to purchase market-based storage services to meet the needs of legacy EGD in-franchise customers."
>
> So it is our intention -- so we have built storage and storage assets with the underlying parameters that it would be sold into the open market and made those decisions based on those things.
>
> That was laid out in some of the MAADs transcript and, therefore, we feel that those assets should continue to be market-based.
>
> MR. LADANYI: So I understand you are more or less agreeing with me. Essentially it was Enbridge's proposal to continue doing this, which was opposed by most parties who were in that proceeding, and the OEB sided in its decision with Enbridge?
>
> MR. LeBLANC: I agree.

Regardless of the nominal market transaction, Enbridge is contracting with itself to procure the Union rate zone excess storage for the Enbridge rate zone. The shareholder is also getting a 10% fee.

EGI is not doing the same for Dawn-Parkway transportation.

If the Board is unwilling to review this matter and correct the inequity, then we suggest the following options:

1. Excess Union Rate Zone storage be ***assigned*** to the Enbridge Rate zone at the regulated price $/PJ for EGD, and

2. The revenue generated in excess of regulated rates be recorded in a deferral account for future disposition when the issue is resolved.

In the latter case, if the Board still finds that the appropriate cost to Enbridge zone customers is at Market, then a credit to Union rate zone customers would be made without a shareholder fee.

A plain reading of the NGEIR Decision does not indicate how any over/underuse of the Assigned Regulated storage of the Union and Enbridge Rate Zones is to be dealt with.

Union adopted the Market Approach to excess storage when Union and EGD were separate Companies

Energy Probe fundamentally disagrees that any of the excess Union rate zone regulated storage should be marketed.

As Mr. Quinn noted

> MR. QUINN: I don't want to cut off Mr. Ladanyi at all, but, Mr. LeBlanc, I respect that you may not have been around for STAR and are relatively new to the Union legacy territory. But we're talking about the 100 pJs, the 100 pJs was built decades ago.
>
> It wasn't built to take that storage to market. It was a decision of the Board that the 100 pJs gets set aside for in-franchise purposes and, to the extent that there is excess, then that space can be sold at market based rates for the benefit of in-franchise customers and the company.
>
> MR. LeBLANC: Yes, sorry, I agree with that. I was maybe focussed on the wrong point of Mr. Ladanyi's question.

Until total Enbridge Gas requirements are met, there is *no excess regulated EGI Storage*.

The analogy is the allocation of Dawn Trafalgar transportation capacity to the Enbridge Rate Zone.

Board Staff should flag this Regulated Storage issue in its Submission

<u>Transportation</u>

In-Franchise Transmission should be integrated and operated as a single system by one or more interconnected Control Rooms. The rates charged should be common distance-based rates.

The Plan has a notable missing component - the future requirement for incremental in-franchise transmission capacity.

The Community Expansion Program has identified certain required expansions of transmission capacity. Otherwise, the Plan has not provided any indication of in-franchise transmission requirements and whether these will be met by reinforcement or compression.

Particularly critical is the Dawn Parkway System and interconnected in-franchise transmission capacity.

The Plan must better inform and provide the basis (need) for future LTC Applications.

Upstream transportation should be rationalized as part of a single transportation plan that ensures adequate capacity (long haul and short haul) on upstream pipelines to the franchise. Contracts should be reviewed and decisions on path(s) should follow the Guiding Principles and then the terms amended, consistent with the Plan. Long term contracts (e.g. NEXUS) may be a constraint to be managed.

<u>Upstream Gas Supply and Transportation Procurement Contracts</u>

Energy Probe has no expertise in detailed gas supply planning and leaves comments to FRPO and Mr. Quinn on behalf of intervenors. However, Energy Probe has concerns about Enbridge's process that allows it to not select the lowest cost option.[6]

MR. LADANYI: So when I look at the numbers there in the column that says landed cost, can you tell me -- you got these numbers. How do we reach a conclusion that you made the right decision?

MS. LIBERTY: So landed costs, I will just remind folks that is only one factor in our decision making. So there is not a lot of other factors that tie to the guiding principles like reliability and security of supply.

For the specific Ojibway points, we may not necessarily choose the lowest cost option because of the requirement to land a minimum of 60,000 dJs a day to the Ojibway point. So I think that is most important and represents the security of supply.

But in terms how we calculated a landed cost, that would be very similar to the equation that I shared in yesterday's presentation.

MR. LADANYI: So when I look at -- maybe I am not reading this right, but when I look at panhandle on column A and then I check over to the numbers for panhandle landed cost, they don't seem to be the lowest cost necessarily.

MS. LIBERTY: They were not the lowest cost, that is correct.

MR. LADANYI: But there were some other factors that you made a decision on?

[6] Tr. Vol.2, September 24, 2019, pages 62-63

MS. LIBERTY: Yes. Our decision is based on looking at all of the guiding principles; cost is just one of those. We look at relight, security of supply and for the specific Ojibway point, we need the gas landing at Ojibway on our system.

MR. LADANYI: So just the final point here. You get the numbers and then you do some kind of qualitative discussion about it. Who does that?

MS. LIBERTY: We do.

MR. LADANYI: Like you two?

MS. LIBERTY: Yes. We will consult other folks in our operations department if there's a requirement to land gas obviously at a specific point.

But the one who does -- the group that does the analysis and the evaluation of the alternatives, that is my team.

MR. LADANYI: Okay. Thank you.

The process does not seem objective and it is not clear why the OEB should have confidence in it.

Third Party and Affiliate Transactions

We have a major concern about affiliate transactions in the procurement of Upstream Supply and Transportation Portfolio.

One of the ***Guiding Principles*** should include that consistent with the Affiliate Relations Code (ARC) self-dealing is not preferred and transactions with affiliate counterparties requires an additional level of scrutiny on the evaluation checklist.

In practice, that would require that If two gas supply or transportation offers are close, based on the 5 elements in the evaluation, then preference should be given to third parties, especially if price is a determinant. EGI should maintain and file annually information on all Gas Supply and Transportation Contracts in its portfolio and the renewal and procurement of contracts. Transparency is important, due to the integrated nature of the assets and the ownership of these.
We suggest that the Board Staff Compliance Group be designated to review the Annual Contract filing and that it should also be available on the Board web site (with any confidentiality considerations taken into account).

Summary

Energy Probe suggests Board Staff include the following in their submission:

Requirements for Gas Supply Plan Evolution

Integration of Demand and Peak Day Forecasts. Additional Scenario Analysis

Requirements for incremental In-Franchise Transmission Capacity

Integration of Upstream Supply and Transportation

Affiliate Transactions

Integration/Pricing of In-Franchise Storage

Integration of Operational Plans –SENDOUT

These enhancements should be provided *during the term of the Plan.*

Waiting until Rebasing is not an appropriate strategy and should be rejected by the Board.

Respectfully Submitted the 21st Day of October 2019

On Behalf of Energy Probe Research Foundation

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