EB-2019-0183

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an Order or Orders approving a new firm transportation service for gas distributors under the Rate M17 rate class, effective December 1, 2019;

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an Order or Orders modifying the applicability of the existing Rate M9 and Rate T3 rate schedules for existing gas distributors;

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Municipality of West Grey and the Township of Chatsworth; and

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an Order or Orders approving the form of various land agreements.

EVIDENCE OF

EPCOR NATURAL GAS LIMITED PARTNERSHIP ("ENGLP")

January 10, 2020

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1. Executive Summary

EPCOR Natural Gas Limited Partnership ("**ENGLP**") has significant concerns with Enbridge Gas' ("**Enbridge**") proposed new M17 service for new distribution companies, as well as the proposed changes to the availability provisions of its existing distributor services, M9 and T3. ENGLP requires service from Enbridge to be able to serve the Southern Bruce Municipalities (as herein defined).

ENGLP submits this evidence to assist the OEB in understanding ENGLP's concerns and ENGLP's views regarding the implications for ENGLP (and others) of: (a) the new proposed M17 service; and (b) the proposed changes to the availability provisions of the existing M9 and T3 services.

The significant areas of concern addressed in this evidence relate to: (a) the need for ENGLP to pay a capital contribution for the proposed facilities, (b) the application of the economic test used to determine any such contribution, and (c) certain terms and conditions of the proposed M17 service (including Enbridge's proposal to preclude ENGLP from accessing the existing M9 or T3 service (currently available to ENGLP) and requiring ENGLP to take the M17 service.

With respect to the need for ENGLP to pay a capital contribution and the application of the economic test used to determine such contribution, this evidence highlights that:

- Enbridge's proposal to have ENGLP pay a contribution in aid of construction ("**CIAC**") of $5.34 million for ENGLP's share of the incremental facilities has not been applied in compliance with EBO 134, nor has it been applied consistently in comparison with other transmission related expansion projects.
- Enbridge's charge to ENGLP of $4.02 million for the meter station costs is not consistent with Enbridge's past practices and the proposal to charge a customer-specific monthly charge for the meter station is neither appropriate nor consistently applied.
- The determination of the expansion capacity required to serve ENGLP may be overstated as a result of existing capacity in the system being preferentially allotted to meet an internal community expansion project.

With respect to the terms and conditions of the proposed M17 service:

- Should the Board approve Enbridge's proposed new rate M17 (and proposed modifications to the existing M9 and T3 services), ENGLP will be excluded from accessing the current approved M9 and T3 services and will be required to take the M17 service, which has terms and conditions that are problematic because they exclude any daily balancing provisions (or an appropriate daily balancing arrangement).
- The proposed M17 service requires ENGLP to contract for a market-based balancing service outside the purview of regulation, despite the fact that Enbridge is the only entity that can provide a daily balancing service.

In addition to detailing the concerns with Enbridge's proposed M17 service in this proceeding, ENGLP will also discuss an alternative that it proposed to Enbridge in an attempt to reach, in ENGLP's view, a more balanced solution. In essence, was prepared to consider a 'modified' T3 service whereby the cost base storage embedded in the T3 service would be replaced with market-based storage costs.

2. Introduction

On July 11, 2019, the Ontario Energy Board ("**OEB**") approved ENGLP's municipal franchise agreements with each of the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron Kinloss ("**Southern Bruce Municipalities**") and the County of Bruce, for a twenty year term[1]. ENGLP also received approval from the OEB under section 90(1) of the *Ontario Energy Board Act, 1998* ("**OEB Act**") for an order granting leave to construct natural gas pipelines and the associated facilities to serve the Southern Bruce Municipalities. ENGLP's facilities to serve the Southern Bruce Municipalities will commence at an interconnection with Enbridge facilities at Dornoch, Ontario.

ENGLP has made significant commitments and investments to provide gas distribution service to the Southern Bruce Municipalities. ENGLP has already constructed approximately 57 km of the proposed 60 km of NPS 8 high pressure gas pipeline. ENGLP has also paid $4.02 million to Enbridge for the metering and related interconnection facilities at Dornoch. As soon as conditions permit in the spring of 2020, ENGLP plans to complete the remaining NPS 8 high pressure system to bring natural gas to the Bruce Energy Centre ("**BEC**"), with service to the customers in the BEC to commence immediately thereafter. ENGLP plans to continue to expand service to the communities of Kincardine and Tiverton in 2020 and to commence servicing residential and commercial customers during the summer of 2020.

[1] EB-2018-0263

On August 29, 2019, Enbridge filed an application to seek the OEB's approval, *inter alia*, for a new firm transportation service to be offered under a new M17 rate class to serve ENGLP, to modify the availability provisions of its existing M9 and T3 transportation services, and for approval to construct additional natural gas pipelines and facilities to increase the capacity of its Owen Sound System (the "Application"). The capacity addition of the Owen Sound System is largely required to meet Enbridge's internal projected system growth requirements as well as a portion of ENGLP's 10th year growth projections for the Southern Bruce area (i.e., full system build-out by year 10). ENGLP's remaining capacity requirements will be met utilizing existing capacity in the Owen Sound System.

ENGLP has continued to work in good faith with Enbridge on the necessary commercial arrangements between the two utilities. This includes having executed agreements related to funding the construction of the meter station at Dornoch and long term transportation contracts to obtain transmission capacity to Dornoch. Discussions are also ongoing regarding contracting for market storage related to seasonal and daily balancing requirements. Some of these agreements are subject to OEB approval of the proposed M17 rate.

Since all the gas required to service this region must be transported by Enbridge, it is important that the conditions of service between Enbridge and ENGLP be approved in time to allow service to commence in a timely fashion. If the OEB has not reached a

decision on the Application, service could potentially be commenced under one of the existing OEB approved M9 or T3 services.

3. Enbridge's Proposal to Charge ENGLP a CIAC under EBO 134 is not Appropriate

Enbridge is proposing to charge ENGLP a contribution in aid of construction (**CAIC**) in an amount of $5.34 million in order to provide increased capacity in the Owen Sound System to service ENGLP[2]. ENGLP is of the view that this charge is not appropriate because Enbridge has neither applied the EBO 134 test in compliance with EBO 134, nor in a manner that is consistent with how EBO 134 has been applied by Enbridge in similar situations.

a) Compliance with the EBO 134 Test

Enbridge states that it has applied the EBO 134 economic test to calculate the CIAC that it is proposing to levy on ENGLP in connection with the Owen Sound System expansion.[3] Enbridge further states that the basis for the proposed CIAC charge is as follows: "Enbridge submits that the CIAC proposed is an appropriate mechanism to ensure that Enbridge Gas' existing rate payers are not harmed by payment of an undue subsidy."[4]

Section 7.29 of EBO 134 states that:

> *"The Board finds that a contribution in-aid-of construction should be required for those projects where the sole purpose is to supply gas into a new area and*

[2] Exhibit D Tab 2 Schedule 3 paragraph 8
[3] *Ibid,* para. 2.
[4] Ibid, paragraph 5.

where the evaluation process demonstrates an undue burden on existing customers." *[emphasis added]*

Based on section 7.29, EBO 134 requires a two-step test be performed before a CIAC can be levied. Firstly, the expansion must be solely to serve a new area. Secondly, there must be an evaluation of the impact of the expansion on existing customers and it must be shown that the impact results in an undue burden on existing customers.

By requiring a $5.34 million CIAC from ENGLP, Enbridge appears to deviate from the Board's EBO 134 requirement. In response to Exhibit I.Staff.13b) Enbridge states that the CIAC being charged to ENGLP is to more closely align with the principle of cost causation by having customer(s) pay their proportionate share of the costs where possible. This approach ignores the first step in the EBO 134 test and emphasizes the second step, except Enbridge does not detail how the expansion actually results in an undue impact such that ENGLP should be required to pay a CIAC. Meanwhile, it appears that Enbridge's other EBO 134 expansion projects with similar project economics and greater rate impact on customers (as detailed in **Tables 1 and 2** below) did not represent an undue burden.

In response to Exhibit I.EPCOR.3b) Enbridge indicates that its key determinant to charging a CIAC under EBO 134 is "*whether there is a specific customer driving the need or timing of a project.*" ENGLP does not agree that its demand was the sole driver for either the need or the timing of the expansion. ENGLP has requested a peak hourly

load of 10,648 m^3/h[5] and its portion of the expansion capacity represents merely 18%[6] of the incremental capacity being constructed. This means that 82% of the capacity is being driven by Enbridge's own internal market growth requirements. In fact, even though a substantial part of the proposed Owen Sound Line expansion facilities are situated north of the proposed delivery point to ENGLP at Dornoch (i.e. downstream of the Dornoch take-off), Enbridge suggests that "*The entire project serves the combined needs of ENGLP and Enbridge infranchise load growth on the Owen Sound System, as any growth affects the entire system*."[7]

b) <u>Inconsistent Application of the EBO 134 Test</u>

In an interrogatory to Enbridge, ENGLP inquired as to how Enbridge applied the EBO 134 test for expansion facilities and whether the test was being applied by Enbridge consistently. More specifically, ENGLP asked in Exhibit I.EPCOR.3 c) for certain information related to Dawn-Parkway and "Other Transmission" project expansions over the last 10 years. In its response, Enbridge did not include any examples of recent Dawn-Parkway expansion projects on the grounds that Dawn-Parkway expansion project comparisons were irrelevant. Enbridge provided only one example of an Other Transmission project that relied on the EBO 134 economic test, indicating that "*Enbridge Gas has made all reasonable efforts to assemble the requested information in the time permitted by Procedural Order 1.*"

[5] Exhibit D Tab 2 paragraph 8.
[6] Exhibit I.EPCOR.21) v)
[7] Exhibit I.EPCOR.2h)

ENGLP surveyed the OEB's website to identify both Dawn-Parkway expansion projects and Other Transmission projects undertaken by Enbridge in the Union South Rate Zone in the last 10 years, which relied on the EBO 134 economic test. These additional projects identified by ENGLP are illustrated in **Table 1** (below). For comparison, the single Other Transmission project that relied on EBO 134, which was provided by Enbridge in Exhibit I. EPCORP.3c) has been extracted from the interrogatory response and is illustrated in **Table 2** (below), as all other projects referenced in Enbridge's interrogatory response, relied on the EBO 188 economic test (not the EBO 134 economic test).

Table 1 ECPOR Identified EBO 134 Projects (Source: OEB website)

Project	Case #	Board Decision	Estimated Capital Costs ($m)	Economic Test	Stage 1 PI	CIAC Paid	Stage 2&3 Economics Relied on	Comments
Kingsville Transmission	EB-2018-0013	2018-9-20	$105.7	EBO 134	0.44	No	Yes	not available
Panhandle Expansion	EB-2016-0186	2017-02-23	$264.5	EBO 134	0.19	No	Yes	Rate impacts Residential = 1.2% M4 Commercial 5.8%
Dawn-Parkway Several Compressor Stations	EB-2015-0200	2015-12-22	$622.5	EBO 134	0.43	No	Yes	not available
Dawn-Parkway 2016 Expansion	EB-2014-0261	2015-4-30	$415.7	EBO 134	0.38	No	Yes	not available
Dawn-Parkway Expansion	EB-2012-0451 EB-2012-0433 EB-2013-0074	2014-1-30	$423	EBO 134	0.71[8]	No	Yes	PI Excludes gas cost savings, otherwise 1.46 with savings

Table 2 Enbridge Identified EBO 134 Projects *(Source: EBO 134 only excerpts from Table 1 Exhibit I.EPCOR.3c)*

Project	Case #	Board Decision	Estimated Capital Costs ($m)	Economic Test	Stage 1 PI	CIAC Paid	Stage 2&3 Economics Relied on	Comments
Stratford Reinforcement	EB-2018-0306	2018-03-28	$28.5	EBO 134	0.29	No	Yes	

[8] EB-2013-0074 Section 9 page 4

To the extent that the local Enbridge market area is growing, as it is, any customer that utilizes the remaining system capacity will trigger an expansion to meet such growth requirements. While Enbridge has informed ENGLP that it requires additional capacity to meet ENGLP's 10th year demand projection that is in excess of what is currently available in the existing Owen Sound System, in reality, Enbridge's own growth contributed in a significant way to the scope and scale of the Owen Sound System expansion. ENGLP notes that the projects listed in Table 1 included customer growth that triggered the reinforcements, yet no CIAC was requested from any of these customers (also see section c) below).

Since ENGLP will be serving a new franchise area, ENGLP's demand will be phased in over time as the facilities will be constructed over several years and as customers choose to connect[9]. The peak hourly load of 10,648 m^3/h requested represents ENGLP's forecasted peak demand in the 10th year of its rate stability period. ENGLP offered to phase its contractual commitment in over time to more closely match its forecasted demand build up, which may have allowed Enbridge to phase in the requirement for reinforcement. Enbridge and ENGLP were unable to agree on this approach.

Enbridge also noted in its response to Exhibit I.EPCOR.3b) "The Dawn-Parkway system is not comparable to the Project as additional capacity on the Dawn-Parkway system increases the liquidity of the Dawn trading hub, creating long-term economic benefits to

[9] EB-2018-0264 Exhibit 3 Tab 2 Schedule 2

customers." ENGLP has reviewed EBO 134 and has not found any OEB directive for treating the economics of expanding the Dawn-Parkway system any different than any other transmission project subject to EBO 134. If the Enbridge policy is to exempt customers from paying a CIAC because an incremental demand at Dawn hub increases the liquidity, then ENGLP can similarly claim an exemption as its increase in demand at Dawn will also proportionately increase liquidity.

c) Comments Regarding Enbridge's Application of EBO 134

Enbridge appears to have limited the economic analysis for the ENGLP Owen Sound Line expansion capacity to a Stage 1 economic test which triggered the need for a CIAC. Enbridge then completed the full 3-stage economic analysis to justify the remaining expansion capacity for its internal growth. The Stage 1 PI for Enbridge's Other Transmission internal expansion capacity is 0.31[10]. Since the PI is less that 1.0 for this other expansion capacity, the result is that all customer rates that get allocated a portion of the Other Transmission costs will increase, including Rate M17 customers. Enbridge confirmed that this will occur when the Owen Sound reinforcement costs are included at the next rebasing in 2024[11]. The implication of this approach is that ENGLP is required to fully pay for the expansion capacity that ENGLP requires, but also is required to contribute its proportionate share of all Other Transmission projects that have a PI < 1.0.

[10] Exhibit D Tab 2 Schedule 3
[11] Exhibit I.EPCOR.2f)

ENGLP notes in contrast, that a 3-stage economic test analysis is offered to Dawn-Parkway expansion capacity contracted by customers in Eastern Ontario, Quebec and the Northeast US[12]. Yet the Owen Sound Line expansion economic analysis was limited to a Stage 1 economic analysis under EBO 134 and the additional economic benefits of the project were not considered. This single stage test results in ENGLP being required to pay a CIAC of $5.34 million.

In order to understand what would constitute an undue subsidy, Enbridge was specifically asked about the threshold test used to determine what constituted an undue subsidy[13]. Enbridge did not directly respond to the question, but referred to the response to Exhibit I.Staff.2b) *[sic, ENGLP believes the cross reference should have been Exhibit I.Staff.13b)]* which simply refers to timing and cost causality.

Enbridge was also asked about the impact if the CIAC was not charged to ENGLP but rather recovered the $5.34 million in proposed CIAC from all customers. In response to an ENGLP interrogatory Enbridge noted that the PI of the project declined from 0.31[14] to 0.30[15]. Also, in response to an ENGLP interrogatory asking for the annual impact to a Union South residential if the CIAC was not recovered from ENGLP, Enbridge noted that the bill impact would be $0.12, which represents less than 0.1% of their annual bill.[16]

[12] Examples include but not limited to EB-2013-0074 Section 7 and EB-2104-0261 Exhibit A Tab 7
[13] Exhibit I.EPCOR.2g)i
[14] Exhibit D Tab 2 Schedule 3 paragraph 10
[15] Exhibit I.EPCOR.2d)
[16] Exhibit I.EPCOR.2 j)

In interrogatory I.Staff.12, Enbridge was asked to provide examples of other infrastructure projects wherein Enbridge completed an economic analysis on the basis of EBO 134 that required a CIAC from a customer. In response, Enbridge referenced its Stelco Lake Erie Works (LEW) Reinforcement Program (EBLO 249), constructed by Union Gas, that resulted in the customer paying a CIAC to improve the PI of the project. This project was approved some time ago by the OEB, on February 14, 1996.

In reviewing the Stelco LEW application, ENGLP notes important characteristics of the Stelco LEW Program that are fundamentally different than the Owen Sound Line Reinforcement Project:

- "*The project was being constructed exclusively to meet the additional requirements of Stelco LEW".*[17] *"No new customers are planned to be served directly off the new pipeline sections."*[18]*;* This contrasts to the Owen Sound Line Expansion Project where 82% of the capacity is being added for Enbridge's internal customer growth.
- *The CIAC charged only increased the project PI to 0.96*[19]. In contrast, Enbridge is proposing to increase the PI for that portion of the facilities used to serve ENGLP to 1.0.
- *The PI was calculated over a 15 year term despite the contract only being 5 years*[20] *in length.* In the case of ENGLP's project economics, no credit has been

[17] EBLO 249 Section 1 paragraph 3
[18] Ibid. Response to Staff Interrogatory 1
[19] Ibid. Section 1 paragraph 4
[20] Ibid. Response to Staff Interrogatory 5

similarly provided in the economics for the continuation of ENGLP's industrial related consumption beyond the initial 15 year contract term commitment, *and*

- *The requirement to pay any CIAC, only covered the costs associated with the development of the underground pipeline and excluded recovery of the $2.844 million in costs required to rebuild the meter station*. In ENGLP's case, ENGLP has had to fully pay for all the meter station costs directly independent of the EBO 134 economic test. In other words, ENGLP is getting no "benefit" in the CIAC calculation for paying the amounts for the meter station.

d) <u>Other Community Expansion Projects</u>

ENGLP notes that on October 17, 2019, Enbridge filed its Saugeen First Nation Community Expansion Project application ("**Saugeen Project**") [21]. The proposed in-service date for this project is the Fall of 2020[22]. The timing of the in-service date for this Saugeen Project is the same as the proposed in-service date for the Owen Sound System Expansion[23], and after the proposed in-service of ENGLP's proposed facilities to serve Southern Bruce.

As can be seen from **Figure 1** and the application, the Saugeen Project connects to existing facilities on Bruce Road 17 that also pass through Tara to feed

[21] EB-2019-0187
[22] Ibid. Cover letter
[23] Exhibit A Tab 3 Schedule 1 paragraph 13

Southampton. **Figure 2** illustrates that the Owen Sound Line, and Enbridge's proposed expansion services the pipeline lateral feeding Tara and Southampton.

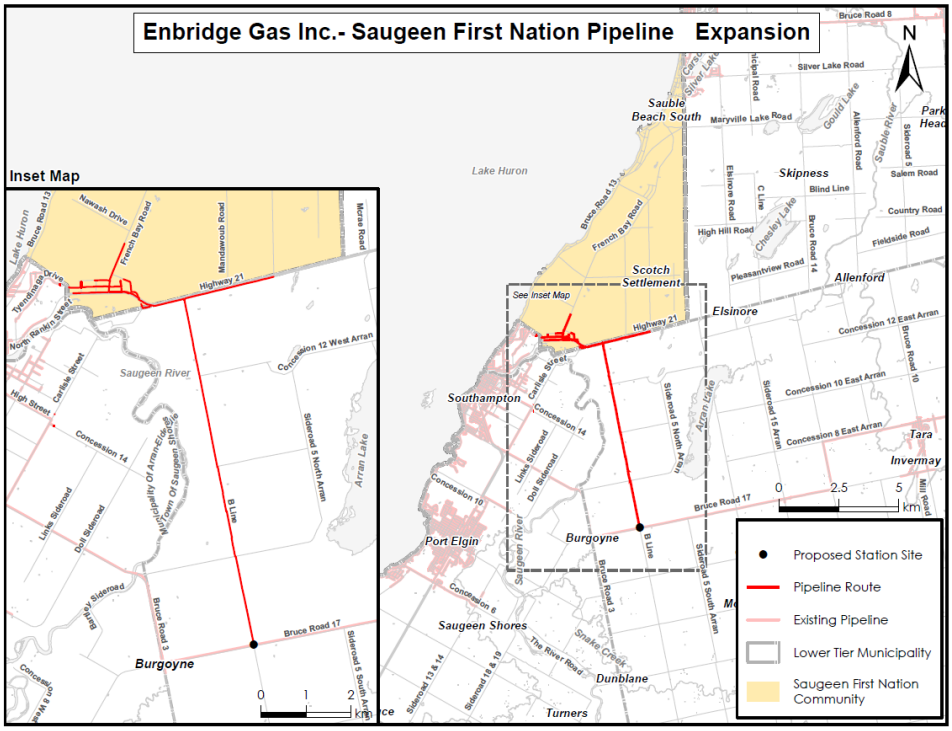

Figure 1 Saugeen Project

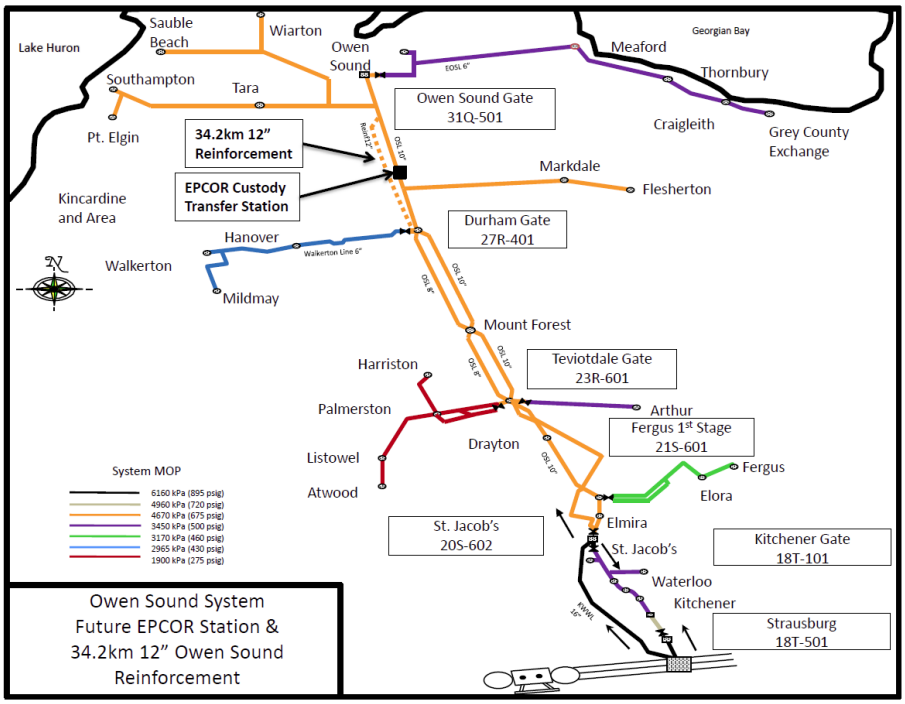

Figure 2 Owen Sound System Expansion

It was noted earlier that 82% of the capacity addition in the Owen Sound System Expansion is required to meet Enbridge's internal growth requirements. It appears that the Saugeen Project may form part of Enbridge's growth requirements. It is noted in Enbridge's application for the Saugeen Project[24], that no provisions have been made to reflect the incremental costs associated with increasing the capacity of the Owen Sound System in the economics of the Saugeen Project despite these projects having the same in-service dates. Enbridge is silent on any upstream Owen Sound capacity details in the Saugeen Project application. As discussed earlier this may be because Enbridge's past practices of not allocating the incremental costs of

[24] EB-2019-0187 Exhibit B Tab 2 Schedules 5a and 5b

Other Transmission to expansion projects, but rather recovers these costs from all rate classes.

Alternatively, this outcome may be the result of Enbridge simply reserving the limited existing capacity in the Owen Sound System for the Saugeen Project, despite ENGLP asking for sufficient capacity to meet its Southern Bruce requirements as early as October 1, 2015[25]. If the latter, then there is an element of unfairness in Enbridge preferentially reserving the capacity for the Saugeen Project despite its not having any signed contracts with any customers and later application date for its leave to construct (LTC) facility approval, as compared to ENGLP's LTC approval application on August 20, 2018[26].

If in fact Enbridge has reserved the capacity for the Saugeen Project in priority to ENGLP's request, despite its lack of OEB approval of the Saugeen Project facilities, the implication is that the 3,848 m^3/h[27] of amount of the expansion capacity required to service ENGLP's total capacity request, and the related CIAC, is overstated.

[25] EB-2018-0244 Exhibit B.EPCOR.1b)
[26] EB-2018-0263
[27] Exhibit I.EPCOR.4c)

4. Enbridge's Requirement to Have ENGLP Pay for the Meter Station is Inconsistent with Past Practices

ENGLP has been required to enter into an agreement with Enbridge to cover the full cost of Enbridge's meter station and related facilities at Dornoch before Enbridge would commence any substantial work on the meter station. ENGLP has paid Enbridge $4.02 million[28] to date to cover these costs.

Enbridge indicates that the proposed M17 service includes a monthly charge which "*primarily include the revenue requirement for the rate base net of any contribution in aid of construction ("CIAC"), and O&M costs associated with the customer station".*[29]

Enbridge further indicates that this charge "is consistent with [its] rate design for other in-franchise and ex-franchise services with customer-specific station"[30]. ENGLP cannot comment on all of Enbridge's past practices with respect to customer specific stations. However, a recent example clearly suggests that Enbridge has not consistently applied this practice.

Prior to the Enbridge and Union Gas amalgamation, Union received approval to construct a variety of new facilities at its Parkway site, including a new Union-Enbridge interconnection which included a new measurement station and related facilities estimated at $19.2 million[31]. These meter station costs form part of the overall $203.1

[28] Exhibit I.EPCOR.5a)
[29] Exhibit B Tab 1 Schedule 3 paragraph 3
[30] Ibid
[31] EB-2012-0433 Schedule 11-1

million[32] in total project capital costs of all the proposed facilities. Similar to the Dornoch station, the meter station at the Union-Enbridge interconnection was a customer-specific station used to deliver gas to the westerly terminus of Segment A of Enbridge's recent GTA reinforcement project. No other customers receive gas at this meter station[33]. This $19.2 million meter station was proposed as a customer-specific station, and in fact continues to be a customer-specific meter station. All gas transported to this location is delivered solely to Enbridge, much like the gas being delivered to the Dornoch station will be solely to ENGLP.

The Union-Enbridge Parkway meter station costs were not recovered through some form of up-front contribution or an ongoing customer specific rate that recovered the cost solely from the interconnecting customer. Rather the revenue requirement related to the total capital costs, including the cost of the meter station, as well as the related annual O&M expenses, were allocated to Union's Dawn-Parkway Easterly Transmission Charge and recovered in all rates that were subject to an allocation of the Union-Parkway Easterly Transportation Charge[34].

[32] Ibid

[33] The fact that Enbridge now offers third party transportation services on Segment A in no way detracts from this station being a 'customer-specific' station. While it is acknowledged that Enbridge was prepared to offer wholesale transportation services to third parties, no other customer was in a position to utilize this meter station; such as TransCanada, at the time of the OEB's decision to approve the Union-Enbridge meter station, TransCanada had no approval to construct the necessary King's North pipeline to transport gas from the easterly terminus Segment A and Enbridge was fully at risk for the entire capacity associated with Segment A, even if the TransCanada never received authorization to interconnect to the easterly end of Segment A (EB-2012-0451 Decision section 4.2

[34] EB-2012-0433 Schedules 12-1 and Schedule 12-2

The proposed M17 rate provides for a distance-based demand charge using this Dawn-Parkway Easterly Transmission Charge[35]. The implication is that the M17 charge will include cost recovery of a share of the Union-Enbridge customer specific meter capital and O&M costs at Parkway. Based on this, it seems that Enbridge has not followed a consistent policy in the recovery of meter station costs in connecting to other distributors.

There are also a number of other customer specific interconnections at the east end of its Dawn-Parkway system including connections at Kirkwall (i.e. Union-TransCanada), Parkway (Union-TransCanada) and Lisgar (Union-Enbridge) where ENGLP was unable to find any reference to these customers having paid a contribution to offset the capital, nor any customer specific charge included in the approved transportation rates to allow Enbridge to recover the revenue requirement associated with the capital and operating costs directly from the interconnecting party. If that is the case, the revenue requirements associated with these customer-specific customer stations are also recovered in the Dawn-Parkway Easterly Transmission Charge.

ENGLP believes that the M17 rate design is therefore flawed in that it duplicates the recovery of the revenue requirement associated with metering costs. The Dawn-Parkway Easterly Transmission Charge, which forms the basis of the M17 transportation rate, already includes recovery of the revenue requirement associated with capital and operating costs of metering at interconnects, yet Enbridge is also

[35] Exhibit B Tab 1 Schedule 3 paragraph 6

seeking to require ENGLP to pay the upfront capital costs of the Dornoch meter station and related interconnect facilities (or include the revenue requirement associated with the capital costs of the meter station in the Monthly Charge) as well as separately pay for the Dornoch O&M costs through the proposed Monthly Charge.

5. Imbalances

a) Introduction

The purpose of this portion of ENGLP's evidence is to demonstrate that as the gas transporter, Enbridge is the only party able to provide the necessary daily balancing of ENGLP's gas volumes, and further that Enbridge's rate design already includes the recovery of balancing related charges in rates.

Unlike existing Enbridge services, including M9 and T3, Enbridge's proposed Rate M17 does not include any daily balancing entitlements. Each day, the volumes consumed at Dornoch (i.e., receipts at Dornoch) must equal ENGLP's deliveries to Enbridge at Dawn. This is problematic in that its is virtually impossible to have these two quantities precisely match on any day and to have any entity other than Enbridge have knowledge of, and accommodate, the mismatched volumes.

Enbridge currently provides this daily balancing function to its other customers and recovers the costs of doing so via the Dawn-Parkway Easterly Transmission Charge, which forms the basis of the M17 rate.

At Exhibit I.EPCOR.7c) ENGLP asked Enbridge to confirm that Enbridge is the only party that can provide the daily balancing service.

Question

Please confirm that under the terms of a M17 contract with a gas distribution customer, that once the gas is nominated to be delivered to Enbridge at a receipt point that until Enbridge delivers the gas at the delivery point, there are no other service providers that can provide a daily

balancing service to manage any differences between gas nominated to Enbridge and the actual gas consumption at the delivery point.

Response

EPCOR has the option to contract for storage balancing services from Enbridge Gas, an agent or marketer to balance differences between nominated and actual gas consumption at the receipt point.

ENGLP disagrees with this response, for reasons explained below.

b) <u>The Nature of ENGLP's Demand</u>

ENGLP's aggregate load profile has the same similarities as other natural gas distributors. ENGLP will provide gas to customers that have both heat sensitive and non-heat sensitive loads. The aggregate demand of these customers will therefore vary on a continuous basis throughout any particular day, and day-to-day, based on changing weather patterns, economic and financial factors, and a myriad of other consumption decisions made by its customers. As with any distribution utility, ENGLP will make its best efforts to forecast the aggregate volume of these customers (including any volumes for direct purchase customers) and nominate these volumes for transportation by Enbridge to Dornoch in the Timely North American Energy Standard Board ("**NAESB**") nomination window. However, it is impossible to precisely predict the aggregate consumption behaviour of all customers in any day.

c) Nomination, Acceptance and Scheduling of Transportation Volumes

Table 3 shown below is taken from Enbridge's Union Gas website[36] and illustrates Enbridge's proposed nomination windows available to M17 shippers (based on the terms and conditions of Enbridge's proposed Rate M17). Note that all times are Central Time Clock (CCT). A gas day is a 24 hour period commencing at 9:00 CCT am one day and finishes at 9:00 am CCT the following day. Although there are five daily NAESB nomination windows, only the Timely nomination window is firm. Once gas is nominated by a shipper, Enbridge will confirm that the volumes are consistent with the contractual rights, ensure that there are no system upset conditions that prevent normal flows, and if applicable, confirm with any upstream or downstream interconnecting pipelines that similar nominations have been made, and confirm title transfers or any other actions necessary to ensure that gas can flow as nominated. After these checks have been made, Enbridge will accept the nomination, and schedule the volumes for delivery the next gas day. Barring any physical upstream system failures, the volume of gas received by Enbridge on behalf of a shipper should equal the volumes nominated and scheduled for delivery. Any variations in aggregate receipts between interconnecting pipelines are managed though load balancing agreements between the pipelines.

[36] https://www.uniongas.com/storage-and-transportation/resources/additional-info/nomination-table

Nomination Window	Nomination Deadline	Effective Hours	Elapsed Hours	Hours Remaining
0900 Timely	*1:30 pm*	*9:00 am*	*0*	*24*
0900 Evening	6:00 pm	9:00 am	0	24
1400 ID1	10:00 am	2:00 pm	5	19
1800 ID2	2:30 pm	6:00 pm	9	15
2200 ID3	7:00 pm	10:00 pm	13	11

Table 3 Nomination Windows

Only the Timely nomination window is firm; the remaining four nomination windows are interruptible to the shipper that contracted for the underlying capacity. If capacity is not nominated in the Timely nomination window, then Enbridge has the right to resell the primary shipper's capacity. Once sold, it is no longer accessible to the primary shipper for the balance of the gas day.

Even if capacity that was not nominated in the Timely window has not been resold, and the shipper wishes to use the capacity there may be limitations due to the market being illiquid at other nomination windows.

d) <u>What would be a Daily Imbalance for ENGLP?</u>

For a gas day, a daily imbalance is the difference between i) the volumes nominated accepted, scheduled and received by Enbridge, and ii) the actual volumes measured and redelivered by Enbridge to ENGLP at Dornoch. The volumes delivered by Enbridge at Dornoch on any day will represent the aggregate Southern Bruce consumption for

that day. Since it is impossible to forecast the precise requirements of customers, there will always be a daily imbalance, despite ENGLP's best efforts.

e) How are Imbalances Volumes Determined?

Enbridge is responsible for custody transfer measurement at Dornoch[37] and these volumes must be used to determine the imbalance. Enbridge will measure the volumes delivered at the end of a gas day and advise ENGLP by 2:00 EST[38] (1:00 pm CCT), or approximately 4 hours after the end of the gas day. Therefore, the gas imbalance for any day can only be determined after the end of a gas day.

By way of example,

- ENGLP will nominate its volumes for gas day D_1 in the Timely nomination window by 1:30 pm CCT the day prior D_0,
- By 1:30 pm CCT during gas day D_1 ENGLP will be required to nominate its flow for gas day D_2,
- At approximately 1:00 pm CCT during gas day D_2 ENGLP will receive the imbalance information from Enbridge for gas day D_1. The earliest it can take action to remedy this gas day D_1 imbalance on a firm basis is in the Timely nomination window for gas day D_3 which occurs approximately 30 minutes after having received the imbalance information,

[37] Exhibit C Tab 1 Schedule 1 page 7 of 17 clause 1
[38] Exhibit I.EPCOR.7f)

- Similarly, the imbalance for gas day D_2 will only be known several hours after the end of that gas day and flow adjustments can be made commencing with gas day D_4,
- And the cycle continues.

Several things are self evident from this example:

- ENGLP's daily imbalance will only be known to ENGLP 4 hours after the close of any gas day,
- The imbalance exists while the gas is in the sole possession of Enbridge,
- The daily imbalance cannot be retroactively changed as it is only possible for ENGLP (or any third party) to remedy the imbalance on a prospective basis. This opportunity will occur on firm basis on the second day after the day in which the imbalance occurs. Therefore, even if ENGLP went to an agent or marketer to seek balancing services, they too must abide by the required NAESB nomination windows and cannot cure an imbalance for a gas day that has already ended,
- The proposed M17 transportation agreement between ENGLP and Enbridge does not allow for an imbalance to exist.

The conclusion is evident; ENGLP cannot be expected to precisely balance the receipts and deliveries under the M17 service and only Enbridge can offer a daily imbalance service under the M17 contract.

f) How Can Enbridge Offer an Imbalance Service?

Any ENGLP imbalance volume will "exist" on the Enbridge system, along with all other customers' daily imbalance volumes. Imbalances would first be cured (by Enbridge) by first offsetting all positive with negative imbalances, this is simply an accounting exercise to get the net imbalance. It is only the net imbalance that must be physically managed by Enbridge on any system, not each individual imbalance that may exist on such system. Within certain limits, pressure in the pipeline system naturally and continuously adjusts throughout the day to accommodate some level of net imbalance. This change in pressure increases or decreases line pack, effectively creating some level of storage in the pipeline. For example, if less gas was delivered to all points than the total gas received, pressure in the pipeline would increase (subject to the system's maximum allowable operating pressure or MAOP limitations) and vice versa. To the extent that changes in line pack were not sufficient to manage the collective imbalance, Enbridge would have to access operational "system integrity" storage to inject or withdraw certain volumes to balance the system. These injections or withdrawals can be performed by the operator throughout the day in response to system pressure signals and are all internal to its operation and not subject to any limitations otherwise imposed on a shipper under the NAESB nomination windows.

g) Union South Uses System Integrity Storage Space to Manage Imbalances

Enbridge utilizes 9.5 PJ of cost-based storage space in the Union South Rate Zone to facilitate its operational requirements, including reserving certain storage capacity for transmission customers balancing requirements, as illustrated below:

"*As an integrated storage and transmission system operator Union requires system integrity space to support the integrity of the system as a whole and provide the provision of service to all customers. It provides reserve capacity and allows for the operational balancing necessary to manage all of the services Union offers and ensures the integrity of Union's storage, transmission and distribution systems.*"[39] *[Emphasis added]*

These operational requirements include 1.1 PJ for System Line Pack and 0.9 PJ for OBA/LBA imbalances[40]. The System Line Pack storage is defined as "*Swings in system line pack due to unexpected upsets and unplanned system demands may result in the necessity to withdraw from storage to replenish line pack on Union's Dawn-Parkway, Panhandle and Sarnia systems*,"[41] OBA/LBA Imbalances are defined as "*Operational balancing agreement ("OBA") and load balancing agreement ("LBA") imbalances occur daily at various receipt and delivery points on Union's system. To the extent that*

[39] EB-2011-0210 Exhibit D1 Tab 9
[40] Ibid
[41] Ibid

OBA/LBA imbalances draft Union's system on any given day an equivalent volume of storage is required to balance supplies and demands on Union's system."[42]

It is clear from the above-noted evidence that Enbridge reserves a certain amount storage to manage potential daily imbalances for all of its services/customers. A portion of these system integrity storage costs are allocated to transmission rate classes[43]. However, Enbridge is proposing to prevent M17 customers from accessing these balancing services afforded to other services (e.g., their Dawn-Parkway M12 service).

As described above, the underlying storage assets required to provide receipt and delivery balancing are being allocated to transmission services. Enbridge is proposing to exclude Rate M17 customers from having access to these services even though the revenue requirement associated with the provision of these services is included in the Dawn-Parkway Easterly Transmission Charge which forms the basis for the M17 rate design.

h) M17 Contractual Requirements

Contract M17001 as found in Exhibit I.EPCOR.10 Attachment 1 states:

> *2.02 Accounting for Transportation Services: All quantities of gas handled by Enbridge shall be accounted for on a daily basis.*

[42] Ibid
[43] EB-2011-0210 Exhibit G3 Tab 5 Schedule 23 page 6

The following is an excerpt from Exhibit C Tab Schedule 1 pages 15-16 of the application:

> *10. The parties hereto recognize that with respect to Transportation Services, on any day, receipts of gas by Union and deliveries of gas by Union may not always be exactly equal, but each party shall cooperate with the other in order to balance as nearly as possible the quantities transacted on a daily basis, and any imbalances arising shall be allocated, as applicable, to: (i) the firm contract handling daily imbalances entered into by Shipper pursuant to Schedule "A", Article XXI, Section 2.a, or (ii) the agreement entered into by Shipper pursuant to the requirement stated in Shipper's associated precedent agreement*

The proposed M17 service is a 'transportation' only service and excludes any seasonal or daily balancing service[44]. Clause 2.02 of the M17 contract makes it clear that all quantities of gas must be accounted for on a daily basis, rather than some other time period, so imbalances are determined for each gas day. ENGLP is required therefore to enter into a daily balancing storage service with Enbridge that is market-based and beyond the purview of regulation, despite the fact that they have allocated a certain amount of storage space to manage these net imbalances that cannot be otherwise managed through changes in line pack. Since the M17 contract itself does not allow for any imbalances to exist, a balancing service is mandatory, and it can only be provided by Enbridge. Negotiation of a market-based daily balancing storage arrangement with

[44] Exhibit I.EPCOR.6a)

Enbridge under Rate M17 raises two concerns for ENGLP: (a) being subject to unregulated monopoly pricing; and (b) having no guarantee of renewal rights for ENGLP for such service (which to date, Enbridge has refused to provide).

6. Changes to the Initial M17 Service

Enbridge previously filed for approval of an initial M17 service in EB-2018-0244, but subsequently withdrew the application. Enbridge states that subsequent to the withdrawal of the initial M17 application, it had ongoing discussions with ENGLP resulting in "*changes to the Rate M17 service designed to better meet the needs of EPCOR*"[45]. ENGLP would like to highlight both its concerns with the initial M17 service, and with the proposed M17 service in this Application, which continues to not meet ENGLP's needs.

The initial M17 rate application included a load balancing agreement (LBA) that Enbridge advised was consistent with the LBA offered under the Rate M12 for other gas distributors[46]. This LBA provided for a tiered fee structure for both daily operating imbalances and cumulative imbalances and was modelled directly from the TransCanada LBA model. There was no fee for the first tier of daily imbalance (2,111 GJs) or of cumulative imbalance (4,221 GJs). Subsequent tiers of imbalance beyond these levels resulted in increased fees based on a percentage of TransCanada Pipeline firm transportation tolls to move gas from Empress to KPUC EDA (Kingston delivery

[45] Exhibit A Tab 3 Schedule 1 paragraph 12
[46] EB-2018-0244 Exhibit A Tab 1 page 8

point - currently approximately $1.48/GJ[47]). ENGLP understands that the rationale for TransCanada to include Empress to KPUC EDA transportation charge in its LBA fee, was to reflect TransCanada's costs of transporting gas from storage that it had contracted for in the Province of Alberta to the market area having the imbalance.

ENGLP had two main concerns with the initial M17 service (including the LBA). First, the initial M17 service required daily nominations for volumes to be delivered at Dornoch. ENGLP preferred a bundled transportation service similar to existing distributor services with even daily gas supply deliveries throughout the year which would obviate the need for daily nominations. Second, the imbalance fees above the first tier were not cost-based and were based solely on TransCanada's rate to provide such a service on TransCanada's system and had no relationship to Enbridge's actual costs of providing this service on its system.

Enbridge introduced the market-based balancing service in lieu of the LBA which they indicated would no longer require daily nominations. However, the revised M17 market-based balancing service does not practically alleviate the need for daily nominations as ENGLP essentially must nominate each day, to ensure that the limited inventory limits are not exceeded which would trigger high cost overrun fees.

As earlier noted, even if ENGLP is able to enter into an initial market-based balancing agreement with Enbridge, the rate is not subject to regulatory approval and there is no certainty that Enbridge will offer such a service on an ongoing basis.

[47] http://www.tccustomerexpress.com/2767.html

As noted in the preceding pages, ENGLP continues to have significant concerns with the proposed lack of daily balancing provisions in the proposed (updated) M17 service in this Application:

- Having access to some form of balancing under the proposed M17 agreement is an essential element of a transportation service and only available from Enbridge,
- Enbridge is only providing access to a market-based balancing service that is beyond the purview of regulation.
- There is no certainty that a mutually agreeable balancing agreement can be entered into initially, nor continue to be available through the full term of the proposed M17 agreement (including any extensions),
- The underlying rate design for the M17 relies on a proportionate charge of the Dawn-Parkway and Other Transmission systems that includes cost recovery for load balancing.

Because of these factors, ENGLP believes that balancing provisions must be an integral part of the regulated Rate M17 service and that the service must be cost-based and subject to regulatory approval. The M17 service as proposed, simply does not reasonably meet ENGLP's needs.

7. Alternatives to M17

While ENGLP did not agree with the changes to the availability provisions of the existing M9 and T3 services, in an effort to find a solution that was reasonably suitable to both

parties, ENGLP indicated that it was prepared to consider a ‘modified’ T3 service whereby the cost base storage embedded in the T3 service would be replaced with market-based storage costs. The key points under such an arrangement would include:

- ENGLP would contract for a firm daily contract quantity whereby firm gas would be delivered to Enbridge at Dawn 365 days a year, effectively providing its own commodity requirements. This would be based on the projected annual load for the following year divided by 365,
- ENGLP agreed that its storage requirements under the modified T3 service would be market based.
- Enbridge in turn would provide daily load balancing as it does with the T3 service

Enbridge rejected this proposal.