

January 15, 2020

Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Potential Projects to Expand Access to Natural Gas Distribution
Ontario Energy Board File No. EB-2019-0255**

Following are the submissions of Enbridge Gas Inc. on the Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (Draft Guidelines) issued by the Ontario Energy Board (OEB) on December 19, 2019 which, once finalized, will govern the filings to be provided by expansion project proponents.

General Comments

According to the December 12, 2019 letter from the Minister of Energy, Northern Development and Mines to the OEB, the Ontario government intends for approximately \$130 million to be made available to support new natural gas projects that can reasonably be expected to commence construction between 2021 and 2023. This financial support will be limited to potential natural gas expansion projects that would, under existing policies, be considered uneconomic.

Besides the 2021-2023 construction initiation criteria, the Minister is looking for project proponents to demonstrate a commitment to be held to the project cost, timelines and volumes forecasts as set out in their project proposals.

Enbridge Gas supports the Ontario government's efforts to reduce regulatory burden, increase regulatory efficiency and reduce "red tape". However, the amount of detail that project proponents are expected to provide pursuant to the Draft Guidelines goes beyond what is required to evaluate initial project proposals and expands the filing requirements contrary to the goals of the government's red tape reduction initiative. In Enbridge Gas' view, this is not consistent with the government's stated objective for the OEB to "be mindful of the Government's focus on minimizing regulatory burden for stakeholders"¹.

Enbridge Gas supports increasing the leave to construct (LTC) cost threshold to \$10 million in order to reduce the number of regulatory applications required to the OEB and to reduce regulatory burden and costs to the utilities, ratepayers and the OEB. As noted in more detail below, Enbridge Gas recommends that the OEB address this LTC threshold issue as part of its recommendations to the Minister.

¹ December 12, 2019 letter from the Minister of Energy, Northern Development and Mines to the OEB, page 3

It appears that the OEB has included several elements in the Draft Guidelines that were addressed as part of the review of Common Infrastructure Plans submitted in 2017 to serve the Southern Bruce municipalities. Enbridge Gas does not believe that the same level of detail is required for the OEB to evaluate and report on proposed projects that will be considered by the Minister of Energy, Northern Development and Mines in making a determination on future expansion projects. For example, the only time there should be an element of competition in this process is where multiple competing proposals are submitted to the OEB where none of the proponents hold an existing Certificate of Public Convenience and Necessity (CPCN). In cases where this occurs, the competitive analysis could be undertaken by simply reviewing the financial aid required per customer attachment and the proponent's proposed rates, provided that the economic assessment is based on the EBO 188 guidelines.

Enbridge Gas has seen the recent submissions by other participants in this consultation initiative on the Draft Guidelines. While the Draft Guidelines do not specifically address how natural gas service expansions conform or conflict with government policy commitments to greenhouse gas emission reduction targets (nor should they), Enbridge Gas believes that net greenhouse gas emissions impacts at the end of the tenth year following the availability of gas service in a community could be identified by project proponents (Note: the OEB's EBO 188 system expansion guidelines take into account the expected first ten years of customer additions in a project).

From Enbridge Gas' perspective, the following streamlined list of filing requirements would allow the OEB to gather enough information to evaluate and recommend additional natural gas expansion projects to the Minister pursuant to his letter of December 12, 2019:

1. Brief description of the project.
2. Copies of letters of support from the municipality and / or Indigenous community in which the project is located.
3. Details of Franchise Agreements and Certificates of Public Convenience and Necessity associated with the community in which the project is located.
4. Total project capital cost required to provide gas service and attach customers in the first 10 years following the availability of gas service in the community.
5. Number of potential customers (residential, commercial & industrial).
6. Forecast number customers at the end of the tenth year following the availability of gas service in the community.
7. Proposed rates.
8. Duration of any required System Expansion Surcharge (SES) for the project.
9. Project Profitability Index ("Project PI") without financial aid.
10. Amount of financial aid required in order to achieve Project PI of 1.0.
11. Average amount of financial aid required per customer attachment in order to achieve Project PI of 1.0.
12. Estimated average annual energy cost saving per customer at the end of the tenth year following the availability of gas service in the community.
13. Net greenhouse gas emissions impact at the end of the tenth year following the availability of gas service in the community.
14. Proposed construction start date.
15. Proposed date of first service connection.

With respect to the financial / economic analysis required to determine the amount of financial aid required to achieve Project PIs of 1.0, all supporting calculations should be completed using the criteria and formula set out in Appendix B to the EBO 188 Report of the Board. In addition, the vehicle to gather this information should be condensed into a standardized two- or three-page form that would be straight forward for the project proponents to complete and would help to expedite the OEB's task of evaluating the proposals in order to develop its recommendations to the Minister.

Enbridge Gas recommends that the final guidelines provide clarity with respect to the application of SES revenues. The original 2017 Natural Gas Grant Program Guidelines stated the following with respect to determining financial need:

"If it is economical to expand natural gas access in the area (i.e., the distributor or suppliers' anticipated revenues are sufficient to cover the expansion costs), the project should proceed without assistance from the Grant Program. This calculation must utilize stand-alone rates or surcharges made available under the Ontario Energy Board's recent decision on the framework for natural gas expansion in Ontario (more information is available under "EB-2016-0004" at www.ontarioenergyboard.ca)."² (emphasis added).

Enbridge Gas interprets the 2017 Natural Gas Grant Program Guidelines to mean that the economic feasibility analysis for each proposed project would include the full 40 years of SES revenue before determining whether grant funding was required.

The final guidelines established by the OEB from the current consultation process need to explicitly explain whether the full 40 years of SES revenue needs to be included in the determination of Project PI and the required contribution in aid of construction (CIAC) amounts for service expansion projects.

90 Day Period to Submit Project Proposals

In its December 19, 2019 letter outlining the consultation on draft guidelines for potential projects to expand access to natural gas distribution, the OEB indicates that it anticipates finalizing these Guidelines in early 2020, with a view to allowing a period of 90 days within which interested project proponents may then file their information with the OEB.

This 90-day window for submissions was identified as a minimum in the Minister's December 12, 2019 letter with the submissions timeframe being a function of when the final guidelines are released and how long the OEB will need to evaluate proposed projects and make its submission to the Minister by August 31, 2020.

Given the Minister's expectation that the OEB will provide its recommendations no later than August 31, 2020 on which projects should receive consideration for Natural Gas Grant Program funding, Enbridge Gas recommends that as much time as possible be provided to project proponents to prepare their submissions. The OEB will need to determine in advance how much time it believes it will need to review submissions from project proponents and establish a specific date for when project proposals need to be submitted to the OEB.

² Natural Gas Grant Program – 2017 Program Guidelines, page 3

Certificate Rights Issue

In his December 12, 2019 letter to the OEB, the Minister listed several issues that the OEB should consider during its consultation including the treatment of proposals submitted by existing holders of Certificates of Public Convenience and Necessity:

- *“If a proposed project is in an area where a Certificate of Public Convenience and Necessity exists, the proponent must be the Certificate holder unless the Certificate holder does not propose a project for the area.”*

In its December 19, 2019 consultation initiation letter, the OEB indicates that it would be assisted by comments from interested parties on which of the following two approaches is preferred in order to address the Certificates rights issue identified by the Minister:

- *Require Certificate holders to confirm in writing, immediately following finalization of the Guidelines, the Certificate areas for which they intend to bring forward a proposed project in response to the OEB’s call for information.*

Enbridge Gas Comment:

This approach would effectively only apply to Enbridge Gas since other project proponents that currently have relatively few Certificates in place would participate in a very limited way at this stage since they wouldn’t already hold Certificates for many of their target service areas.

This approach would also result in Enbridge Gas having to finalize its list of target service expansion areas immediately after the final guidelines are issued. This would be a significant undertaking given the potential number of projects that may be brought forward that would need to be completed in a short period of time.

- *Allow interested project proponents to bring forward proposed projects in areas for which they do not have a Certificate, on the understanding that if the Certificate holder brings forward a proposed project for that area the OEB will not include the project proposed by the non-Certificate holder in its review unless the project proposed by the Certificate holder does not comply with the Guidelines. In that case, information filed by the non-Certificate holder will not be posted on the OEB’s website.*

Enbridge Gas Comment:

This alternative approach appears to be more in keeping with the matter of existing Certificate holders as outlined in the Minister’s letter of December 12, 2019 and should be adopted as part of the OEB’s guidelines.

Leave to Construct Threshold

A leave to construct (LTC) application would be required for projects that exceed one or more of the LTC thresholds. Thresholds for a LTC application are currently based on factors such as projected cost (\$2 million) and pipe size (12"). The cost threshold of \$2 million has been used for leave to construct applications since at least 1994 and does not recognize the increase in construction costs over time. Other jurisdictions (e.g., British Columbia), LTC thresholds are \$15 - \$20 million. The small pipe size means that smaller community and reliability projects require an extensive OEB regulatory process. This constraint will serve to limit the number of community expansion projects that could be initiated before the end of 2023.

Increasing the LTC cost threshold to \$10 million and the LTC pipe size threshold to 16 inches would reduce the number of regulatory applications required to the OEB and result in reduced regulatory burden and costs to the utilities, ratepayers and the OEB, and is consistent with the government's red tape reduction initiative. While there would be a reduction in the number of LTC applications to the OEB, project proponents would still remain governed by environmental safeguards, the need for land use permits, Indigenous and landowner consultations, etc.

Enbridge Gas recommends that the OEB address the LTC threshold issues as part of its recommendations to the Minister.

Comments on Specific Draft Guidelines

With respect to the specific Draft Guidelines, Enbridge Gas provides the following comments.

Part II – Description of Proponent's Technical Expertise and Financial Capability

2.2 Describe the proponent's financial capability to develop, construct, operate and maintain a natural gas distribution system, and provide the following:

- *Current credit rating of the proponent, its parent or associated companies.*
- *Financial statements for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information. If the proponent does not have financial statements (because it is a new entrant), the proponent is instead to provide pro forma financial statements for two years along with notes or business plans explaining the assumptions used in preparing the pro forma statements, where the documents must be signed by at least one key individual.*
- *If the proponent needs to raise additional debt or equity to finance the proposed project, evidence of the proponent's ability to access the debt and equity markets.*

Enbridge Gas believes that any information provided related to a project proponent's financial capability should only need to be submitted one time for all community expansion proposals presented by that proponent.

Part III – Description of and Support for Project

3.5 Provide the proposed schedule for construction including the start date, all major milestones (with any phases) and the projected in-service date.

The Minister is looking for a list of feasible projects on which project proponents intend to commence construction between 2021 and 2023. Enbridge Gas does not believe that information beyond the date of construction being initiated and the estimated date of providing service will be readily available for submission to the OEB to conduct its initial evaluation of proposed projects. Specifics of additional phases of construction process are not identified until later in the planning process.

3.6 Provide letter(s) from the Band Council(s) and/or local government, as applicable, stating support for the project, including details of any commitment to financial support.

While it is reasonable to expect project proponents to make every effort to have local support for proposed expansion projects, Enbridge Gas believes that this support may not be available for all proposed projects in time for the OEB's initial review of the projects.

Part IV – Cost of Project

4.2 Provide the annual and total forecast of capital costs (including any forecast of upstream reinforcement costs) of the project over the rate stability period. Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD. For interest during construction, the proponent is to use the OEB-prescribed interest rate for construction work in progress (CWIP).

Given that the Minister is looking for project proponents to demonstrate a commitment to be held to total project costs, Enbridge Gas does not believe that details of project costs over the rate stability period are needed by the OEB at this stage. The net present value of the total cost of the project (as is currently required pursuant to the EBO 188 guidelines) should be sufficient for the OEB's evaluation of any project.

4.3 Provide the annual and total fully allocated forecast of OM&A costs of the project over the rate stability period. Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD.

Given that the Minister is looking for project proponents to demonstrate a commitment to be held to total project costs, Enbridge Gas does not believe that details of project-related costs over the rate stability period are needed by the OEB at this stage. The net present value of the total net revenue of the project over the 40-year feasibility test period (as is currently required pursuant to the EBO 188 guidelines) should be sufficient for the OEB's evaluation of any project. The OM&A costs, inflation rates etc. included in the economic assessment of each project should be the same as those that would be included in the projects economic feasibility test as prescribed in the EBO 188 guidelines, not the annual and total fully allocated forecast of OM&A costs of the project.

4.4 Provide the total annual forecast revenue requirement of the project over the rate stability period. The total annual revenue requirement should identify OM&A costs (including taxes and depreciation, and an explanation of the depreciation rates used), and cost of capital (including capital structure, return on equity, long-term debt rate and short-term debt rate).

Enbridge Gas does not believe that this information is relevant to the assessment of the viability of an expansion project. This information is implicit in the PI calculation of a project and the resulting CIAC that might be required to meet the EBO 188 feasibility test requirement for it. In economic terms, what is relevant is the CIAC required (the grant amount) per forecast customer addition for a project.

Part V – Section 36.2 Funding

5.2 Provide the section 36.2 funding amount per customer number served in year 5 and in year 10 of the project, if the project has a 10-year rate stability period. If the project's rate stability period is greater than 10 years, provide the section 36.2 funding amount per customer number served at the mid-point and end-point of the projects' rate stability period.

Enbridge Gas believes that funding amounts per customer should be based on the CIAC required to meet the EBO 188 feasibility test requirement divided by the forecast number of customers in the tenth year after the project is in service. This would be consistent with both a ten-year rate stability period and the EBO 188 guideline that allows for the inclusion of customer additions, costs and revenues associated with the first ten years of a distribution system expansion project's economic life. The five year or halfway figures do not appear to be relevant to an evaluation of project proposals.

5.3 Provide section 36.2 funding amount per volume (m³) in year 5 and year 10 of the project, if the project has a 10-year rate stability period. If the project's rate stability period is greater than 10 years, provide the section 36.2 funding amount per volume (m³) at the mid-point and end-point of the project's rate stability period.

Enbridge Gas does not believe that this information is relevant for the ranking of potential projects if all project proponents use the same annual volume for the mass market. If this type of information is to be provided, it should be as of the tenth year after gas service is available (see comments under section 5.2 above).

Part VI – Distribution Charge

6.1 Provide the estimated amount that the proponent proposes to recover from customers on an annual basis (inclusive of any system expansion surcharge) in the form of an estimated annual distribution charge inclusive of fixed and variable charges over the rate stability period that would be applied to all new customers.

Enbridge Gas believes that the CIAC per customer (the grant amount) required to achieve the required project PI for the project are the key pieces of information needed to allow the OEB to conduct its review of proposed projects. The annual amounts recovered by a project proponent are implicit in the PI calculation provided that it is calculated pursuant to the EBO 188 guidelines.

Part VII – Profitability Index / Benefit to Cost Ratio

7.1 Provide the expected Profitability Index (PI) of the project, inclusive of the proposed section 36.2 funding. Provide supporting documentation in the form of an itemization of costs and revenues. The project should meet the OEB's PI of 1.0. The PI calculation is to include all proposed section 36.2 funding, proposed system expansion surcharges, capital contributions and municipal tax holidays or other municipal financial support.

While Enbridge Gas agrees that the expected unassisted PI should be provided for each proposed project, there is no need for detailed supporting documentation at this point of project

evaluation. Based on Enbridge Gas' understanding, the PI of these projects, inclusive of the proposed section 36.2 funding, should always be equal to 1.0. Provided that the EBO 188 guidelines are followed, the assisted PI calculations will include all proposed section 36.2 funding (effectively a CIAC), proposed system expansion surcharges, capital contributions and municipal tax relief or any other municipal financial support.

7.2 Provide the expected PI of the project without the proposed section 36.2 funding. Provide supporting documentation in the form of an itemization of costs and revenues. The PI calculation is to include proposed system expansion surcharges, capital contributions and municipal tax holidays or other municipal financial support.

While Enbridge Gas agrees that the expected PI should be provided for each proposed project, there does not appear to be a need for detailed supporting documentation for a project ranking exercise provided that the project proponent warrants that this figure has been calculated as per the EBO 188 guidelines.

Part VIII – OEB Approvals

8.1 Identify any OEB approvals that will be required for the project (Leave to Construct, Certificate of Public Convenience and Necessity, Municipal Franchise Agreement, etc.).

At this stage of a project's development, it would be difficult to identify required approvals beyond a leave to construct (LTC), a CPCN and a franchise agreement. A project proponent would not typically be aware of other permits / approvals required from municipalities, conservation authorities, MTO, etc. for a project until they are much closer to the construction phase of a project.

As noted above, a LTC application would be required for projects that exceed one or more of the LTC thresholds. Increasing the LTC cost threshold to \$10 million and the LTC pipe size threshold to 16 inches would reduce the number of regulatory applications required to the OEB and result in reduced regulatory burden and costs to the utilities, ratepayers and the OEB, and is consistent with the government's red tape reduction initiative.

Based on the language of Ontario Regulation 24/19 for non-LTC projects, some other form of OEB approval will presumably be required. Enbridge Gas assumes that this would be the addition of the applicable System Expansion Surcharge (SES) to the applicable rate rider or rate schedules for each respective community expansion project.

8.2 For OEB approvals identified in section 8.1, provide a schedule for applying for them and the date by which each of these approvals is required to meet the proposed in-service date.

Enbridge Gas believes that this can only be done to the extent that a project proponent is aware of what approvals will be required at the time project proposals are submitted to the OEB.

Should you have any questions on this submission, please do not hesitate to contact me.

Yours truly,

[Original Signed By]

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