

# Elson Advocacy

January 17, 2020

**BY COURIER (2 COPIES) AND RESS**

**Ms. Christine Long**

Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto, Ontario M4P 1E4

Dear Ms. Long:

**Re: EB-2019-0137 – Comments on Board Staff Report re 5 Year Gas Supply Plan**

I am writing on behalf of Environmental Defence to provide comments on the Board Staff Report on Enbridge's 5-Year Gas Supply Plan. Environmental Defence provides these comments as a leading environmental organization with deep knowledge and expertise in demand side management (DSM) and integrated resource planning (IRP). Environmental Defence has serious concerns with the supply plan process because it risks skewing future leave to construct applications in favour of unwarranted fossil fuel infrastructure spending to the detriment of natural gas customers.

This risk is highlighted by the \$200 million pipeline Enbridge wants to build in Hamilton.<sup>1</sup> Enbridge is using the Supply Plan to justify the need for this project.<sup>2</sup> This is highly problematic because the Supply Plan does not consider DSM in its supply options analysis and is not subject to any kind of adjudication process.

To avoid unreasonably promoting gas infrastructure spending, Environmental Defence asks that future plans:

1. Discuss potential infrastructure projects driven by the supply plan;
2. Identify Enbridge's financial interests in the supply options considered in the plan;
3. Include DSM as one of the options in the supply options analysis; and
4. Acknowledge that the supply plan is not binding on the Board or Board Staff in future proceedings.

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<sup>1</sup> EB-2019-0159 (the "Hamilton Pipeline").

<sup>2</sup> EB-2019-0159, Exhibit A, Tab 6, pp. 7-15.

## **Provide detail on potential infrastructure projects driven by the supply plan**

Enbridge's Supply Plan should identify and discuss the infrastructure projects that may be driven by the Supply Plan. This is an important consideration when the Board and parties are reviewing the plan.

Identifying future projects will highlight for Board Staff when Enbridge has a direct financial interest in an aspect of the supply plan. Enbridge only earns profit from infrastructure projects.<sup>3</sup> It earns no profits from buying and selling gas for its customers.<sup>4</sup> Enbridge has no financial stake in many gas supply decisions because it merely acts as a flow-through.<sup>5</sup> However, where a supply plan decision will be a driver for an infrastructure investment, in whole or in part, Enbridge has a major financial stake and bias in favour of the option on which it earns a return. Where this is the case, Board Staff and stakeholders will want to review Enbridge's proposed solutions much more carefully. It is important that Enbridge describe infrastructure projects driven by the supply plan so Board Staff and parties will know when additional scrutiny is required.

The Hamilton Pipeline provides a good example.<sup>6</sup> The Supply Plan describes how Enbridge contracted for 165,000 Gj/d in new capacity from the Dawn Hub to meet a purported supply shortfall.<sup>7</sup> The Supply Plan also includes a landed cost analysis for this new capacity.<sup>8</sup> However, the Supply Plan does not mention that this supply option entails a \$200 million pipeline on which Enbridge will earn a significant profit.<sup>9</sup> There is no reference to this planned pipeline anywhere in the Supply Plan even though Enbridge knew that it intended to build the pipeline at the time.<sup>10</sup> Enbridge was preparing its environmental assessment for the pipeline in 2018, which is long before May of 2019 when the Supply Plan was published.<sup>11</sup>

The Supply Plan states that "EGI's preferred planning strategy to eliminate the design day asset shortfall is to procure a peaking service for each year over the five year period."<sup>12</sup> This "peaking service" entails additional new capacity on Enbridge's own pipeline, which requires the \$200 million Hamilton Pipeline to be built.<sup>13</sup> This should have been identified.

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<sup>3</sup> OEB, *Handbook for Utility Rate Applications*, October 13, 2016.

<sup>4</sup> OEB, *Framework for the Assessment of Distributor Gas Supply Plans*, EB-2017-0129, October 25, 2018, p. 4.

<sup>5</sup> *Ibid.*

<sup>6</sup> EB-2019-0159.

<sup>7</sup> EB-2019-0137, Enbridge, *5 Year Gas Supply Plan*, May 1, 2019, pp. 40 & 79 (125,000 Gj/d for the Enbridge Rate Zone and 40,000 Gj/d for the Union Rate Zone).

<sup>8</sup> EB-2019-0137, Enbridge, *5 Year Gas Supply Plan*, May 1, 2019, Appendix D & I.

<sup>9</sup> EB-2019-0159, Exhibit A, Tab 6, pp. 4 & 8.

<sup>10</sup> EB-2019-0137, Enbridge, *5 Year Gas Supply Plan*, May 1, 2019.

<sup>11</sup> Stantec, *Dawn-Parkway System Expansion: Kirkwall-Hamilton Pipeline Section: Environmental Report*, Prepared for Enbridge Gas Inc., June 21, 2019 ([https://www.uniongas.com/-/media/projects/kirkwall-hamilton/kirkwall-hamilton-envrpt\\_mainbody.pdf?la=en&hash=56C7BC86070BB7F272C6612E8F8E6A11D4D87634](https://www.uniongas.com/-/media/projects/kirkwall-hamilton/kirkwall-hamilton-envrpt_mainbody.pdf?la=en&hash=56C7BC86070BB7F272C6612E8F8E6A11D4D87634)), pp. 2.4 & 3.1.

<sup>12</sup> EB-2019-0137, Enbridge, *5 Year Gas Supply Plan*, May 1, 2019, p. 48

<sup>13</sup> EB-2019-0137, Enbridge, *5 Year Gas Supply Plan*, May 1, 2019, Appendix D (Note the reference to the selected NCOS option as being "Peaking").

In the future, Enbridge should provide detailed and clear information on supply-plan-driven projects such as this.

### **Identify Enbridge’s financial interests in the supply options considered in the plan**

Enbridge would earn a significant profit on the \$200 Hamilton Pipeline if it is approved. In contrast, Enbridge would earn no profit if it secured gas supply from Western Canada via the TransCanada Mainline instead of building a new pipeline. The Supply Plan selects the option that involves significant profits for Enbridge. This should be made explicit in the Supply Plan.

In the future, Enbridge should be required to estimate the financial impact of different supply options on Enbridge’s estimated return.

### **Include DSM as one of the options in the supply options analysis**

Future supply plans should include DSM as one of the options in the supply options analysis. As it currently stands, there is no Board process that examines DSM as an alternative to gas supply contracts or compares DSM to other gas supply options. In particular, the DSM plan processes focus on the cost-effectiveness of DSM programs and the IRP processes focus on DSM as an alternative to infrastructure. None of them consider DSM from a gas supply planning perspective.

For example, none of the other Board processes quantify the benefit of DSM as an equivalent to a low-cost long-term fixed-price contract. DSM is like a fixed-price gas supply contract because it achieves gas savings for many years out in the future over the lifetime of the measures (e.g. 15 years). The cost of those gas savings is the initial cost of the DSM measure and does not fluctuate over time. If a certain amount of gas will be saved each year for 15 years, the customer is fully protected from gas and carbon price increases during that period for those cubic metres. In other words, DSM is an inexpensive hedge against rising gas and carbon prices.<sup>14</sup>

A fixed-price gas supply contract brings significant benefits, such as security of supply and price stability. Those benefits can be quantified. Unfortunately, these hedging benefits are not being quantified or accounted for when it comes to DSM. Considering DSM in supply plans would remedy this and ensure that the supply planning benefits of DSM are accounted for.

DSM also lowers the price of gas for all customers. By reducing demand, it reduces the market-clearing price paid by everyone.<sup>15</sup> This “price suppression” effect is clearly an important supply planning consideration.

Although DSM funding is not approved via the supply plan process, that is no reason to ignore DSM in the supply plan process. No funding is approved in the supply plan process. That is

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<sup>14</sup> Energy Futures Group, *Mid-Term Review Stakeholder Meeting Presentation*, September 6, 2018, p. 7 ([LINK](#)).

<sup>15</sup> EB-2015-0029/49, Direct Testimony of Paul Chernick, Corrected August 12, 2015 ([LINK](#)); Tim Woolf, Synapse Energy, *Benefit-Cost Analysis for Distributed Energy Resources, Prepared for the Advanced Energy Economy Institute*, September 22, 2014, p. 22 ([LINK](#)).

equally true for the cost recovery of supply contracts and for infrastructure projects needed to carry out the supply plan. It is no reason to exclude DSM.

DSM should be considered in the supply plan process to better inform other processes. This is consistent with the Board's supply plan framework, which states that "information provided in the gas supply plan will be used to inform other gas supply-related applications submitted to the OEB."<sup>16</sup> For example, the analysis of DSM from a supply planning perspective would help inform the consideration of alternatives in future leave to construct applications for pipelines driven by the Supply Plan.

Again, the Hamilton Pipeline provides a good example.<sup>17</sup> The application justifies the pipeline using the Supply Plan even though the Supply Plan does not analyze DSM as a supply option. If the Supply Plan did consider DSM as an equivalent to a low-cost fixed-price supply contract, perhaps it would have come to a different conclusion. Perhaps DSM would be a better option because it is extremely cost-effective and results in lower gas bills. Or perhaps DSM would be a better option when combined with interim supply from other sources, such as inexpensive supply from Niagara. But even if the Supply Plan conclusions remained the same, the analysis could inform future proceedings.

The Board mandated integrated resource planning almost 30 years ago.<sup>18</sup> Since that time, the Board has reiterated in numerous cases that IRP is a mandatory requirement.<sup>19</sup> Although the focus has been on implementing cost-effective DSM to avoid infrastructure costs, DSM is also able to reduce commodity price risks, avoid commodity costs, and reduce commodity prices. It is important to consider this in the supply planning process and to bring the knowledge and expertise of supply planners to bear on this issue as an input to other processes.

### **Acknowledge that the supply plan is not binding on the Board or Board Staff**

The Supply Plan and Board Report should explicitly acknowledge that the supply plan is not binding on the Board or in future proceedings. Again, the Hamilton Pipeline illustrates why this is important. The Supply Plan concludes that there is a shortfall and that the best way to address that shortfall is by procuring new pipeline capacity from the Dawn Hub. These are key contested issues in the Hamilton Pipeline leave to construct application because the pipeline application is based on these conclusions.

It should be made clear that the Board Report should not be interpreted as accepting these conclusions as they have not yet been tested in an adjudicative process. Board Staff should be free to question and challenge these conclusions in the leave to construct application hearing after reviewing the relevant evidence if they believe it is appropriate to do so.

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<sup>16</sup> OEB, *Framework for the Assessment of Distributor Gas Supply Plans*, EB-2017-0129, October 25, 2018, p. 15.

<sup>17</sup> EB-2019-0159.

<sup>18</sup> ERBO 462, Decision and Order, April 9, 1990 (Union Gas Rates); EBO 169-III, *Report of the Board on the Demand-Side Management Aspects of Gas Integrated Resource Planning*, July 23, 1993, pp. 1-4.

<sup>19</sup> OEB, *Decision in EB-2012-0451/0433, January 30, 2014*, p. 46-47 (GTA Pipeline); OEB, *DSM Framework*, December 22, 2014, p. 35-36; OEB, *Mid-Term Review of the Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*, November 29, 2018, pp. 20-21.

**Conclusion**

Integrated resource planning protects the interests of consumers by ensuring that the least-cost option is selected. It results in lower gas bills. The recommendations made above are meant to move toward integrated resource gas supply planning, and thus benefit consumers. We therefore request that the Board incorporate these suggestions into its final report for action in future supply plans and annual updates.

Yours truly,

A handwritten signature in blue ink, appearing to read 'K. Elson', written over a horizontal line.

Kent Elson

cc: Participants in the above consultation process