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**BY EMAIL**

January 17, 2020

Ms. Christine E. Long  
Board Secretary and Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Enbridge Gas Inc.  
Saugeen First Nation Project  
OEB Staff Submission  
OEB File No. EB-2019-0187**

In accordance with Procedural Order No. 1, please find attached the OEB staff Submission for the above proceeding. This document has been sent to Enbridge Gas Inc. and to all other registered parties to this proceeding.

Enbridge Gas Inc. is reminded that its Reply Submission is due by January 24, 2020.

Yours truly,

*Original Signed By*

Ritchie Murray  
Project Advisor, Supply & Infrastructure

Encl.

c. Enbridge Gas Inc. and all other registered parties to this proceeding



# **Saugeen First Nation Project**

**Enbridge Gas Inc.**

**EB-2019-0187**

**OEB Staff Submission**

**January 17, 2020**

# 1 INTRODUCTION AND SUMMARY

In May 2018, Union Gas Limited (Union Gas) filed a combined leave to construct application for expansion into three communities: Chippewas of the Thames First Nation, Saugeen First Nation, and North Bay<sup>1</sup>. Union Gas was awarded funding to construct facilities in each of the three communities under the former Natural Gas Grant Program (NGGP). The OEB placed the application in abeyance in November 2018 after the NGGP was cancelled.

In January 2019, Union Gas and Enbridge Gas Distribution Inc. amalgamated to become Enbridge Gas Inc. (Enbridge Gas).

In March 2019, Enbridge Gas was awarded funding to construct facilities in each of the three previously named communities under the new Access to Natural Gas Act, 2018 program.

On July 31, 2019, Enbridge Gas withdrew the combined leave to construct application in favour of filing separate applications for each of the projects.

On August 1, 2019, the OEB approved a system expansion surcharge (SES) for the Chippewas of the Thames First Nation portion of the formerly combined project<sup>2</sup>.

On October 17, 2019, Enbridge Gas filed an application for the Saugeen First Nation portion of the previously combined project (Application). Enbridge Gas is seeking leave to construct (LTC) under section 90 of the OEB Act to construct approximately 16 km of NPS 4-inch (NPS 4) pipeline and a pressure regulating station to serve approximately 176 potential customers (Project). The community of Saugeen First Nation is located in Bruce County, along the shoreline of Lake Huron, immediately north of the community of Southampton.

The 10-year forecast growth in Saugeen First Nation could be served using nominal pipe size 2-inch pipe (NPS 2 or minimum sized facilities)<sup>3</sup>. However, Enbridge Gas proposes to install NPS 4-inch pipe (NPS 4) to meet the forecast growth in the decade following the completion of the Project<sup>4</sup>.

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<sup>1</sup> EB-2018-0142

<sup>2</sup> EB-2019-0139, application filed on April 24, 2019

<sup>3</sup> Application, Exhibit B, Tab 1, Schedule 3, page 1

<sup>4</sup> Applicant's response to Pollution Probe interrogatory 7

Enbridge Gas is also seeking section 36 approval of a SES applicable to the Project. In particular, Enbridge is seeking approval of the same SES that was previously approved by the OEB in Union Gas' 2015 Community Expansion Project<sup>5</sup> and the Chippewas of the Thames First Nation Project. This would result in Enbridge applying a \$0.23/m<sup>3</sup> surcharge for up to 40 years to its existing approved rates (as applicable) for all customers in the Saugeen First Nation.

Enbridge Gas is proposing a 10-year rate stability period. During this period, it is OEB staff's understanding that Enbridge Gas will bear the risk of variances in its customer attachment forecast and capital cost overruns<sup>6</sup>. This approach is consistent with the OEB's Decision in the generic proceeding on system expansion (Generic Decision)<sup>7</sup>.

The estimated capital cost of the NPS 4 design is approximately \$3.3 million. The estimated capital cost of the NPS 2 design is approximately \$2.5 million. The results of a discounted cash flow analysis on the NPS 2 design, which accounts for \$1.8 million in government funding through the Access to Natural Gas Act program, shows that the Project has a Profitability Index (PI) of 1.0. Enbridge Gas did not provide a DCF analysis for the NPS 4 option.

Construction of the Project is scheduled to begin in May 2020 with an in-service date of November 2020. Enbridge Gas requests a decision from the OEB no later than February 2020.

OEB staff submits that, for the reasons explained below, unless Enbridge Gas provides more compelling evidence of the need for the proposed upside, the OEB should only approve the NPS 2 pipeline design. Whether the OEB approves the NPS 2 or NPS 4 design, OEB staff submits that the approval be subject to the proposed conditions of approval in Appendix A.

## **2 PROCESS**

Enbridge Gas filed the Application on October 17, 2019. The OEB issued a completeness letter on October 22, 2019, and a Notice of Hearing on November 13, 2019. The intervention period ended on December 2, 2019.

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<sup>5</sup> EB-2015-0179

<sup>6</sup> Application Exhibit B, Tab 1, Schedule 1, page 6 and Applicant's responses to Pollution Probe interrogatory 4 d)

<sup>7</sup> EB-2016-0004

Procedural Order No. 1 was issued on December 11, 2019. Pollution Probe was granted intervenor status and is eligible to apply for cost awards. The Procedural Order provided for interrogatories and submissions on the Application. OEB staff and Pollution Probe filed written interrogatories by December 20, 2019. Enbridge Gas filed interrogatory responses on January 10, 2020.

Enbridge Gas' reply submission is due by January 24, 2020.

## **3 SUBMISSIONS**

### **3.1 Key Concern**

OEB staff's key concern with the Application is that Enbridge Gas has not justified the need for, the capital cost of, or provided sufficient information on the allocation and recovery of the costs of the proposed pipeline upsize. OEB staff submits that the OEB should only approve the construction of the minimum sized facilities (i.e., NPS 2) because the need for the upsize has not been demonstrated. Including the costs of the upsize would reduce the Project's PI below 1.0, and Enbridge's proposal to pass the costs of the upsize onto its overall customer base has not been sufficiently justified.

#### **3.1.1 Need for Upsize**

Enbridge Gas explained that it could serve the 10-year forecast growth in Saugeen First Nation using NPS 2 pipeline. Enbridge Gas clarified that the proposed NPS 4 pipeline is sized to meet the forecast growth in the decade following the completion of the Project<sup>8</sup>. Enbridge Gas says the incremental forecast growth would primarily occur within the Project area<sup>9</sup>, with some occurring outside the Project area and in particular the community of Southampton<sup>10</sup>. Enbridge Gas states that if the pipe is installed as NPS 2, there would be very limited capacity for any future growth on the system<sup>11</sup>.

The OEB has indicated that applicants should provide the OEB "with a forecast of growth to support the upsizing of any pipelines, as well as information on the longer-term plans for supply to an area in order to provide context for individual projects."<sup>12</sup> Enbridge Gas did not provide this information in its application or through the interrogatory process. OEB staff submits that this information is especially necessary in

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<sup>8</sup> Applicant's response to Pollution Probe interrogatory 7

<sup>9</sup> Applicant's response to Pollution Probe interrogatory 2 a)-c)

<sup>10</sup> Application, Exhibit B, Tab 1, Schedule 3, page 1

<sup>11</sup> Applicant's response to Pollution Probe interrogatory 7

<sup>12</sup> EB-2017-0180, Union Gas Limited, Greater Sudbury LTC, Decision and Order issued on September 28, 2017

this case, where the cost of the upsize is significant relative to the total cost of the project.

### 3.1.2 Cost of the Upsize

OEB staff notes that the cost of the proposed upsize as a percentage of total project capital cost is high in comparison to other recent cases of upsizing. Table 1, below, provides a summary of recent projects that included an upsize component. On average, the cost to upsize a project is about 2% of the total project cost. The cost to upsize the Project is about 24% of the total project cost. Enbridge Gas did not provide evidence to explain why the cost of this particular upsize is so high.

Table 1: Summary of Recent “Upsize” Projects

Docket	Applicant	Project Name	Total Capital Cost (\$ millions)	Length (km)	NPS # upsized to NPS #	Capital Cost of Upsize (\$ millions)	Cost of Upsize as % of Total Capital Cost
EB-2019-0187	Enbridge	Saugeen FN	\$ 3.30	16	2 to 4	\$ 0.777	24%
EB-2017-0180	Enbridge	Greater Sudbury	\$ 74.0	20	10 to 12	\$ 1.50	2.0%
EB-2018-0188	Enbridge	Chatham-Kent Rural	\$ 19.1	13	6 to 8	\$ 0.500	2.6%
EB-2019-0172	Enbridge	Windsor Reinf.	\$ 106.80	64	4 to 6	\$ 1.30	1.2%
<b>Average of Comparator Projects</b>				<b>32</b>		<b>\$ 1.10</b>	<b>2.0%</b>

Given the material difference between the proposed upsize and other recent cases of upsizing, OEB staff submits that a more robust justification for the cost of the upsize is required including a long-term customer addition forecast, community development plan, the results of a network analysis report, and evidence of how DSM had been considered as an alternative to the upsize<sup>13</sup>.

### 3.1.3 Allocation and Recovery of the Costs of the Upsize

Enbridge Gas proposes that the new customers of Saugeen First Nation would pay for the cost of the minimum sized facilities require to serve them (i.e., the NPS 2-inch pipeline). Enbridge Gas says that the incremental cost associated with upsizing the pipeline from NPS 2 to NPS 4 would be included in Enbridge Gas’s rate base and recovered in rates as part of its next rebasing proceeding, stating that the costs allocation would also be part of that review<sup>14</sup>. OEB staff is unclear on whether Enbridge Gas intends to recover the incremental cost of the upsize from all customers or some other allocation. However, OEB staff understands that the incremental costs of the upsize would not be borne by customers of Saugeen First Nation as this would lower

<sup>13</sup> As required by the OEB in its Decision and Order in EB-2014-0134 - A New DSM Framework for Natural Gas Distributors

<sup>14</sup> Applicant’s response to OEB staff interrogatory 4 b)

the PI to a value of less than 1.0. OEB staff notes that recovering the cost of an upsize from all ratepayers is an approach that has been approved by the OEB in past proceedings<sup>15</sup>. OEB submits that this approach makes sense, from a cost causality perspective if the benefits of the upsize flows to customers at large – for example, if the upsize provides broad system reinforcement. However, OEB staff does not believe that this approach has been justified in this case because the evidence suggests that the need for any upsize is primarily driven by the customers in the Saugeen First Nation (i.e, the customers of the Project) and not by Enbridge's customers at large.

### **3.1.4 Summary of Submission on Upsize**

Although OEB staff submits that, as explained below, the need for the minimum sized facilities has been established, Enbridge Gas has not justified the need for, the capital cost of, or provided adequate evidence on how the costs of the upsize would be allocated and subsequently recovered in rates. OEB staff submits that the OEB should only approve the NPS 2 design of the Project. In the alternative, Enbridge Gas could provide additional evidence to justify the proposed upsize, and to further elaborate on the forecast need and the justification for the upsizing costs to be recovered from all ratepayers, if in fact this is the proposal. Depending on the evidence filed, the OEB may have to make provision for additional process to test that evidence.

OEB staff notes that other future alternatives to the proposed upsize to accommodate potential further load growth after ten years could include a pressure increase and construction of a system reinforcement. OEB staff submits that this could be more prudent as the incremental cost of the upsize is significant.

## **3.2 Leave to Construct**

### **3.2.1 Project Need**

OEB staff submits that the need for the Project has been demonstrated. OEB staff submits that the proposed Project has the potential to increase energy options and reduce energy costs for local consumers, reduce carbon emissions, and may help to improve the local economy of the Saugeen First Nation.

Enbridge Gas states that First Nation officials, residents, and business owners in the Saugeen First Nation north of Southampton in the Bruce County have requested natural gas service from Enbridge Gas. Potential natural gas customers of the Project currently

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<sup>15</sup> E.g., EB-2017-0180, Union Gas Limited, Greater Sudbury LTC, Decision and Order issued on September 28, 2017

rely on propane, fuel oil, wood and electricity to meet their energy needs<sup>16</sup>. Compared to these fuels, natural gas is a less expensive<sup>17</sup> and, in some cases, a lower carbon energy source<sup>18</sup>. The proposed rates including the SES allow for annual savings when converting a typical home from competing primary fuel types<sup>19</sup>.

The Saugeen First Nation has a population of 1,883 with 805 people living on the reserve. There are 146 existing residential premises and 30 existing commercial establishments that could be served with natural gas.

Based on discussions with the Saugeen First Nation, Enbridge Gas has assumed 100% of all Band-owned buildings will attach over the first 2 years of the Project.

Enbridge Gas' customer attachment forecast is provided in Table 2, below.

Table 2: 10-Year Customer Connection Forecast

Classification	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total	Ultimate Potential	Total Attachments % Potential
Residential Conversion - Privately Owned	16	14	7	5	3	3	3	3	3	3	60	141	43%
Residential Conversion - Band Owned	3	2	0	0	0	0	0	0	0	0	5	5	100%
Small Commercial - Privately Owned	2	2	1	1	0	0	0	0	0	0	6	12	50%
Small Commercial - Band Owned	9	9	0	0	0	0	0	0	0	0	18	18	100%
<b>Total</b>	<b>30</b>	<b>27</b>	<b>8</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>89</b>	<b>176</b>	<b>51%</b>

### 3.2.2 Proposed Facilities and Alternatives

OEB staff has no issues or concerns with Enbridge Gas' proposed minimum facilities, its assessment of alternative routings, or its rationale for selecting the preferred routing. OEB staff however submits that Enbridge Gas has not sufficiently justified the need for the proposed upsize.

The proposed facilities would connect to Enbridge Gas' Port Elgin / Southampton high-pressure pipeline system at a point south of the Saugeen First Nation. A distribution regulating station is proposed to be installed at the corner of Bruce Road 17 and B Line. A proposed NPS 4 pipeline would be installed north along B Line to the Saugeen First Nation, where it will travel east and west to serve the Saugeen First Nation. The total pipeline length is approximately 16 kilometers.

<sup>16</sup> Applicant's response to Pollution Probe interrogatory 2 (Attachment 1, page 3)

<sup>17</sup> Ibid.

<sup>18</sup> Application, Exhibit B, Tab 2, Schedule 3, page 1

<sup>19</sup> Application, Exhibit B, Tab 1, Schedule 1, page 2



Alternative routings for the proposed pipelines were considered. The preferred route was selected as the most direct and cost-effective route that offers the most customer connections, minimizes environmental and socio-economic impacts, and that connects to an existing pipeline at a location with enough capacity to supply the community<sup>20</sup>.

Enbridge Gas states that the design specifications are in accordance with the *Ontario Regulations 210/01* under the *Technical Standards and Safety Act 2000, Oil and Gas Pipeline Systems*. This is the regulation governing the installation of pipelines in the Province of Ontario. Enbridge Gas filed a letter from the Technical Standards and Safety Authority (TSSA) dated July 10, 2019, that confirms that the “technical information of the project ... [is] in compliance to the requirements of applicable standard CSA Z662-15 and of Oil and Gas Code Adoption Document, FS-238-18.”<sup>21</sup>

### 3.2.3 Project Economics

OEB staff submits that Enbridge Gas has properly assessed the economic feasibility of the NPS 2 design for the Project and that it is feasible. Assuming the OEB approves Enbridge Gas’ proposal for an SES and a 10-year rate stability period, OEB staff has no concerns with the project economics.

#### *Rate Stability Period*

OEB staff supports Enbridge Gas’ proposal to implement a 10-year rate stability period during which it will assume risks associated with the customer forecast and capital overruns. This is consistent with the Generic Decision and a number of subsequent community expansion projects<sup>22</sup>.

In the Generic Decision<sup>23</sup>, the OEB said:

[T]he rate stability feature of the framework introduces a discipline that significantly reduces the need to scrutinize a proponent’s projected revenues. As the rates will be stand-alone and designed to cover the costs of the proposed expansion the existing customers will be held harmless. Overstated costs would lead to overstated rates and where there is competition for the approval, a proponent will risk not being chosen. Where there is no competition, a proponent

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<sup>20</sup> Application, Exhibit B, Tab 2, Schedule 11, page 5

<sup>21</sup> Applicant’s response to OEB staff interrogatory 5

<sup>22</sup> E.g., EB-2017-0147, Enbridge Gas, Fenelon Falls Project; EB-2017-0261, Enbridge Gas, Scugog Island Project; EB-2018-0263, EPCOR, South Bruce Project

<sup>23</sup> EB-2016-00004, Decision and Order in the Generic Proceeding on Community Expansion, issued November 17, 2016, pages 20-21

will still be incented to have as low a rate as it can afford to encourage customers to connect and provide the return on the proponent's investment during the rate stability period. The proponent will also have to obtain approval to adjust rates beyond the rate stability period.

The use of a rate stability period is particularly valuable in this case given the uncertainty associated with Enbridge Gas' customer attachment forecast. Enbridge Gas completed a door-to-door questionnaire to assess the market potential of the Saugeen First Nation. Of the 126 potential privately owned residential dwellings in the Saugeen First Nation, a total of 32 completed the door-to-door questionnaire. The results suggest that 43% of the total dwellings are interested in obtaining natural gas service, and Enbridge Gas forecasts 30 customers in the first year and 89 customers by year 10 of the project.

OEB staff notes that the margin of error associated with a sample size of 32 out of a population of 126 is plus or minus 15 percentage points, 19 times out of 20<sup>24</sup>. OEB staff submits that a larger sample size could have resulted in a more accurate assessment of the market potential. However, as Enbridge Gas is proposing to bear the risk related to customer attachment forecasts, OEB staff is satisfied that the risk of lower than forecast attachments will not be placed on ratepayers during the rate stability period.

### *Estimated Capital Costs*

OEB staff notes that the overall unit cost to complete the pipeline is low compared to other recent expansion projects. A higher unit rate – one that is more in line with other recent projects – would result in a higher capital cost for the Project that would reduce its PI. The evidence does not provide an explanation for why the unit costs are relatively low. Regardless of the reasons for this, OEB staff submits that ratepayers are protected by OEB policy relating to community expansion projects.

The total estimated 10-year capital cost for the Project is approximately \$3.3 million (including the cost of the upside). This cost includes all pipeline and station costs of \$2.9 million and the cost of services of \$382,000 for the first 10 years of the Project. The budgeted contingency of \$264,666 represents approximately 10% of the capital cost net of interest during construction and service costs. The estimated capital cost of the project in year one is approximately \$3.08 million (see Table 3, below).

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<sup>24</sup> <https://www.surveysystem.com/sscalc.htm>

Table 3: Total Estimated Capital Costs, Year 1

Total Materials	\$135,163
Total Contract Costs	\$2,113,149
Total Company Costs	\$141,750
Miscellaneous (X-Ray, Construction Survey, Lands)	\$178,295
Station Labour and Materials	\$68,816
Contingency	\$264,666
Interest During Construction	\$31,434
Service Costs	\$143,101
<b>Total Estimated Capital Costs</b>	<b>\$3,076,374</b>

The Project has been awarded government funding up to \$1.8 million through Ontario’s Access to Natural Gas Act, 2018 program resulting in a net capital investment by Enbridge Gas of \$1.5 million over the 10 years.

OEB staff submits that the unit costs of the Project are less than half the average unit cost of other comparable community expansion projects, and that the contingency is slightly less than average (see Table 4, below). A higher unit rate – one that is more in line with other recent projects – would result in a higher capital cost for the Project that would reduce its PI. As noted, there is a relatively low level of contingency that could be used to absorb any capital cost overruns. The evidence does not provide an explanation for why the unit costs and contingency are relatively low for the Project. However, to the extent that Enbridge Gas’s estimates are accurate, lower costs are favorable. To the extent that Enbridge Gas’s estimates are understated, ratepayers are protected by OEB policy relating to community expansion projects.

Consistent with the Generic Decision and subsequent community expansion projects<sup>25</sup>, Enbridge Gas would bear the risks associated with capital overruns during the 10-year rate stability period. The OEB has indicated that capital cost overruns for community expansion projects could be brought forward by the applicant for possible inclusion in rate base at the time applicant applied to include the costs in rate base. Enbridge Gas

<sup>25</sup> E.g., EB-2015-0179 (2015 Community Expansion to 1. Kettle and Stony Point First Nation and Lambton Shores; 2. Milverton, Rostock and Warburg; 3. Prince Township ; and 4. the Delaware Nation of Moraviantown First Nation), EB-2017-0147 (Fenelon Falls), EB-2017-0261 (Scugog Island), and EB-2018-0263 (South Bruce)

says it expects that the same will hold true for the Saugeen First Nation Expansion Project<sup>26</sup>. OEB staff supports this approach.

Table 4: Cost Comparison of Recent Community Expansion Projects

Docket	Applicant	Project Name	Capital Cost (\$ millions)	Contingency	Length (km)	Diameter (inches)	\$ / m	Comparison of \$ / m
<b>EB-2019-0187</b>	<b>Enbridge</b>	<b>Saugeen FN</b>	<b>\$ 3.30</b>	<b>10%</b>	<b>16</b>	<b>4</b>	<b>\$ 206</b>	<b>--</b>
EB-2017-0147	Enbridge	Fenelon Falls	\$ 23.10	10%	37	4, 6, 8	\$ 623	202%
EB-2017-0261	Enbridge	Scugog Island	\$ 3.45	10%	7	4	\$ 493	139%
EB-2018-0226	Enbridge	Georgian Sands	\$ 5.77	20%	14	6, 8	\$ 401	94%
EB-2018-0263	EPCOR	South Bruce	\$ 87.10	5%	245	2, 4, 6, 8	\$ 356	73%
EB-2018-0329	Marathon	North Shore	\$ 43.95	24%	117	4, 6	\$ 377	83%
<b>Average of Comparator Projects</b>				<b>14%</b>	<b>84</b>		<b>\$ 450</b>	<b>118%</b>

OEB staff submits that, among other things, Enbridge Gas should be required to report on and explain any cost over runs and its contingency usage at that time. As discussed below, OEB staff asked Enbridge Gas to comment on a proposed set of conditions of approval. However, the proposed conditions did not include a requirement to report on contingency usage. Therefore, OEB staff proposes a revision to proposed condition of approval #5 such that it includes a requirement to report on contingency. The revised set of proposed conditions of approval are provided in Appendix A to this submission.

### *Economic Feasibility*

Enbridge Gas completed a discounted cash flow (DCF) analysis of the Project. To the extent that Enbridge Gas customer addition forecast is accurate, the results show that the project has a net present value of \$0 and a PI of 1.0 when using the NPS 2 design. The DCF analysis was based on the following assumptions:

- a) The new customers of Saugeen First Nation will only pay for the cost of the minimum sized facilities require to serve them, i.e., the NPS 2 pipeline
- b) A SES of \$0.23/m<sup>3</sup> for up to 40 years (further discussed below)
- c) \$1.8 million in government funding
- d) Payments in Lieu of Taxes of \$4,774 per year for a period of 10 years

As previously stated, OEB submits that the OEB should approve the minimum sized facilities, so that a PI of 1.0 is achieved.

<sup>26</sup> Applicant's response to Pollution Probe interrogatory 4 d

### 3.2.4 Environmental Issues

OEB staff has no environmental concerns with the proposed Project.

An Environment Protection Plan (EPP) for the Project was prepared by Enbridge Gas' Environmental Planning Department. Enbridge Gas states that the EPP was prepared to meet the intent of the OEB's *Environmental Guidelines for Location, Construction and Operation of Hydrocarbon Pipelines and Facilities in Ontario* (7<sup>th</sup> Edition, 2016).

The results of the EPP indicate that the environmental and socio-economic effects associated with construction of the Project are generally short-term in nature and minimal. No significant cumulative effects are anticipated as long as the mitigation measures listed in the EPP (including measures described in the Natural Heritage Study) are followed. Enbridge Gas says it will ensure that the recommendations in the EPP are followed.

#### *OPCC Review*

Enbridge Gas circulated a copy of the Environmental Protection Plan to the Ontario Pipeline Coordinating Committee (OPCC) in April, 2019. A summary of comments received by Enbridge Gas prior to filing the Application and the corresponding responses to the OPCC are provided in evidence<sup>27</sup>. Enbridge Gas states that there have been no communications with the OPCC since the Application was filed with the OEB and there are no outstanding OPCC related concerns<sup>28</sup>.

#### *Archeology Report*

OEB staff notes that the Archaeological Assessment work for the project is on-going<sup>29</sup>. OEB staff further notes that one of the standard condition of approvals discussed below requires Enbridge Gas to obtain all necessary permits, authorizations and approvals.

Enbridge Gas states that it retained a licensed Archaeologist to complete an Archaeological Assessment for the Project. The Archaeological Assessment Report was submitted to the Ministry of Tourism, Culture and Sport (MTCS) on January 30, 2019 and approval was received on March 12, 2019. An update to the report was later submitted to the MTCS and is currently under review<sup>30</sup>. A third update to the report was

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<sup>27</sup> Application, Exhibit B, Tab 2, Schedule 12, page 1

<sup>28</sup> Applicant's response to OEB staff interrogatory 7

<sup>29</sup> Application, Exhibit B, Tab 1, Schedule 7, page 3

<sup>30</sup> Applicant's response to OEB staff interrogatory 6

submitted to the MTCS on November 4, 2019 and Ministry approval was received on November 15, 2019<sup>31</sup>.

### **3.2.5 Indigenous Consultation**

OEB staff has no issues with respect to Indigenous consultation.

The Ministry of Energy, Northern Development and Mines (MENDM) delegated to Enbridge Gas the procedural aspects of the Crown's Duty to Consult. In a letter dated June 28, 2019, the MENDM indicated that Enbridge Gas' consultation activities with respect to the Project are satisfactory<sup>32</sup>.

Enbridge Gas has received support for the Project from the Saugeen First Nation in the form of a Band Council Resolution<sup>33</sup>.

### **3.2.6 Land Matters**

OEB staff has no issues with respect to land matters.

The proposed pipelines and the pressure regulating station are located within existing road allowance. As a result, Enbridge Gas does not foresee the need for any land purchases, or permanent or temporary easements.

### **3.2.7 Other Permits and Approvals**

Enbridge Gas has applied for a Section 28 (2) permit from Indigenous and Northern Affairs Canada (INAC) to install the Proposed Facilities within the Saugeen First Nation. The process involves the Saugeen First Nation land manager drafting the permit based on negotiations with Enbridge Gas<sup>34</sup>. Enbridge Gas states that consultations with the Saugeen First Nation are ongoing, and that it is currently unaware of any issue that would impede the issuance of this Section 28 (2) permit<sup>35</sup>.

Enbridge Gas reported that a number of other permits and approvals are pending, including: two municipal consents, one Ministry of Transportation permit, one archaeological approval, and a number of watercourse and regulated area crossings<sup>36</sup>.

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<sup>31</sup> Applicant's response to OEB staff interrogatory 6

<sup>32</sup> Application, Exhibit B, Tab 2, Schedule 14

<sup>33</sup> Application, Exhibit B, Tab 2, Schedule 3

<sup>34</sup> Applicant's response to OEB staff interrogatory 2

<sup>35</sup> Ibid.

<sup>36</sup> Applicant's response to OEB staff interrogatory 6

Enbridge Gas states that all permits and approvals will be obtained in the first quarter of 2020 prior to construction<sup>37</sup>.

### **3.2.8 Energy Efficiency**

Pollution Probe posed a number of interrogatories to Enbridge Gas that related to energy efficiency. OEB staff is satisfied with Enbridge Gas' approach to energy conservation in respect of the Project.

The Application does not mention energy efficiency opportunities or programs related to the Project. Notwithstanding that the Application includes a proposal to upsize a pipeline to address future growth but did not provide evidence with respect to DSM (as previously discussed), OEB staff submits that it is not unusual for an application to expand to an area in which there are no existing customers to not address energy efficiency. For one reason, any customers that convert would be expected to install new high efficiency appliances. For another, the customers would be subject to the utility's existing (and future) energy efficiency programs. These two points were confirmed by Enbridge Gas<sup>38</sup>.

Enbridge Gas also confirmed that its approach to planning the Project accounted for changes in gas use resulting from historical implementation of DSM measures, as well as other factors such as improved building codes, and higher energy efficiency standards for natural gas equipment<sup>39</sup>.

Enbridge Gas stated that it is planning to hold another Open House for the Project, at which time energy efficiency (i.e., DSM) can be "addressed"<sup>40</sup>. OEB staff interprets this to mean that Enbridge Gas will proactively highlight and discuss current and future energy efficiency opportunities with attendees of the open house. If Enbridge Gas is proposing some other action, it should clarify in its reply submission.

### **3.2.9 Conditions of Approval**

The OEB Act permits the OEB, when making an order, to "impose such conditions as it considers proper."<sup>41</sup> OEB staff asked Enbridge Gas to comment on a set of proposed conditions of approval. Enbridge Gas responded that it reviewed the proposed conditions of approval and has no changes to recommend<sup>42</sup>.

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<sup>37</sup> Applicant's response to Pollution Probe interrogatory 6

<sup>38</sup> Applicant's response to OEB staff interrogatory 9

<sup>39</sup> Applicant's response to Pollution Probe interrogatory 2

<sup>40</sup> Ibid.

<sup>41</sup> OEB Act, s. 23

<sup>42</sup> Applicant's response to OEB staff interrogatory 10

Pollution Probe asked Enbridge Gas to comment on three additional proposed conditions of approval<sup>43</sup>. The additional conditions would require Enbridge Gas to report conservation related information as part of the final monitoring report, which is typically filed with the OEB no later than fifteen months after the in-service date of the project. Specifically, the conditions would require Enbridge Gas to:

1. Include a summary of all customers connected and those expected to be connected by customer type, including a variance explanation if these differ from the forecast included in the Application
2. Provide a summary of all DSM marketing activities provided to consumers in this community and a summary of uptake on those programs
3. Provide a copy of the completed report to all parties of this proceeding

Enbridge Gas responded that it did not believe that the additional conditions are required, but that it “will comply with all Conditions of Approval as mandated by the OEB in its Decision with Reasons specific to this proceeding.”<sup>44</sup>

OEB staff agrees that the conditions are not required. First, Enbridge Gas has already agreed to provide annual reporting on its community expansion projects at its annual stakeholder meetings, and that reporting includes budgeted and actual capital costs, cumulative actual and forecasted customer attachments and project PI<sup>45</sup>. Second, the required information would be provided at 15 months post-construction or about one and a half years into the 10-year customer connection horizon. It may be premature at that stage to report on such things as the uptake of DSM programs. In any event, this information is already provided by Enbridge (at an aggregate level) in its annual DSM reports. Finally, because information on customer additions and DSM uptake are already reported by Enbridge Gas in other forums, it would create unnecessary administrative burden to also report them for this (and presumably all future) LTC application.

In the proposed conditions of approval that were reviewed by Enbridge Gas, OEB staff inadvertently did not note who the OEB’s designated representative would be for this application. The proposed conditions also did not include a requirement for Enbridge Gas to furnish the OEB’s designated representative with all reasonable assistance for ascertaining whether Enbridge Gas has complied with these conditions of approval. Therefore, OEB staff proposes two additional conditions, which appear in the revised

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<sup>43</sup> Pollution Probe interrogatory 8

<sup>44</sup> Applicant’s response to Pollution Probe interrogatory 8

<sup>45</sup> OEB’s Decision and Order in EB-2017-0147, Enbridge Gas, Fenelon Falls and charge a System Expansion Surcharge, issued March 1, 2018



set of proposed conditions of approval that are provided in Appendix A to this submission. The addition of these two conditions is consistent with the conditions of approval that were imposed by the OEB in a number of recent LTC decisions.

### **3.3 System Expansion Surcharge**

OEB staff submits that Enbridge Gas' request for a SES for the Project should be approved because it is merely the extension of a previously approved SES with all the same terms and conditions<sup>46</sup>.

Enbridge Gas is seeking approval to extend to the Project the SES that was previously approved by the OEB in Union Gas' 2015 Community Expansion Project (2015 Project)<sup>47</sup> and Enbridge Gas' 2019 Chippewas FN Community Expansion Project<sup>48</sup>.

The use of a SES will allow customers in the Project area to contribute a portion of their fuel savings to the feasibility of the Project. If approved, and in accordance with the Generic Decision and the 2015 Project:

- Enbridge Gas would apply a \$0.23/m<sup>3</sup> surcharge for up to 40 years to its existing approved rates (as applicable) and charge it to all customers in the Project area
- Every general service customer who connects to the system would be subject to the SES from the date of their connection until the end of the term, which is the end of the calendar year required for the Project to meet a P.I. of 1.0 (in this case it is anticipated to be year 40)
- At the end of the term, the SES would be terminated for every customer attached to the Project, regardless of when the customer connected to the Project
- Enbridge Gas would show the SES as a separate line on the customer's monthly bill
- Enbridge Gas would treat the SES as revenue
- If a home or business is sold, Enbridge would charge the SES to the new owner for the balance of the original SES term
- Enbridge Gas would apply the SES to any future short main extensions off the Project; however if the balance of the original term is insufficient to achieve a PI =

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<sup>46</sup> Applicant's response to OEB staff interrogatory 1 a)

<sup>47</sup> EB-2015-0179 for service to 1. Kettle and Stony Point First Nation and Lambton Shores; 2. Milverton, Rostock and Warburg; 3. Prince Township ; and 4. the Delaware Nation of Moraviantown First Nation. Construction of the project is complete and customers are currently paying the SES.

<sup>48</sup> EB-2019-0139. Construction of the project is complete and customers are currently paying the SES.

1.0 for the short main extension, then Enbridge Gas may extend the term or else require a capital contribution

- Enbridge Gas would provide a 10-year rate stability period during which Enbridge Gas would bear the risk of variances in its customer attachment forecast, capital cost overruns and any associated variances in revenue requirement

OEB staff notes that in its Decision with Reasons for the 2015 Project, the OEB indicated that it will require Enbridge Gas to provide a revised DCF calculation and PI based on actual project cost and revenues after the 10-year forecast risk period is over in the event that Enbridge Gas seeks to recover any revenue requirement shortfall, and that the OEB stated that it would determine the appropriate revenue recovery methodology at that time<sup>49</sup>. OEB staff submits that the same approach should be adopted in the current case.

## 4 CONCLUSION

In OEB staff's view, the Project has potential to benefit the Saugeen First Nation by increasing energy options for local consumers, reducing energy costs for local consumers, reducing carbon emissions, and may help to improve the local economy of the Saugeen First Nation. OEB staff submits that, unless Enbridge Gas provides more compelling evidence of the need for the proposed upsize, the OEB should only approve the NPS 2 pipeline design. Whether the OEB approves the NPS 2 or NPS 4 design, OEB staff submits that the approval be subject to the proposed conditions of approval in Appendix A.

OEB staff is satisfied that that the project is needed but that only the minimum sized facilities are justified.

OEB staff is satisfied that the use of an SES is appropriate to help make the Project economically feasible. OEB staff submits that the use of a 10-year rate stability period addresses risk associated with the customer attachment forecast and capital cost overruns.

OEB staff is satisfied that environmental, Indigenous consultation and land matters have been adequately addressed to date.

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<sup>49</sup> Applicant's response to OEB staff interrogatory 1 b)

Finally, OEB staff submits that the approach to energy efficiency proposed by Enbridge Gas' for this community is appropriate.

*All of which is respectfully submitted.*

## **Appendix A**

**Enbridge Gas Inc.  
Saugeen First Nation Project  
OEB Act Sections 36 Rates and 90 Leave to Construct**

**PROPOSED CONDITIONS OF APPROVAL**

1. Enbridge Gas Inc. (Enbridge Gas) shall construct the facilities and restore the land in accordance with the OEB's Decision and Order in EB-2019-0187 and these Conditions of Approval.
2. (a) Authorization for leave to construct shall terminate 12 months after the decision is issued, unless construction has commenced prior to that date.  
(b) Enbridge Gas shall give the OEB notice in writing:
  - i. of the commencement of construction, at least ten days prior to the date construction commences;
  - ii. of the planned in-service date, at least ten days prior to the date the facilities go into service;
  - iii. of the date on which construction was completed, no later than 10 days following the completion of construction; and
  - iv. of the in-service date, no later than 10 days after the facilities go into service.
3. Enbridge Gas shall implement all the recommendations of the Environmental Report filed in the proceeding, and all the recommendations and directives identified by the Ontario Pipeline Coordinating Committee review.
4. Enbridge Gas shall advise the OEB of any proposed change to OEB-approved construction or restoration procedures. Except in an emergency, Enbridge shall not make any such change without prior notice to and written approval of the OEB. In the event of an emergency, the OEB shall be informed immediately after the fact.
5. Enbridge Gas shall file, in the proceeding where the actual capital costs of the project are proposed to be included in rate base, a Post Construction Financial Report, which shall indicate the actual capital costs of the project and shall provide an explanation for any significant variances from the cost estimates filed in this proceeding, including contingency usage.
6. Both during and after construction, Enbridge Gas shall monitor the impacts of construction, and shall file with the OEB one paper copy and one electronic (searchable PDF) version of each of the following reports:
  - (a) A post construction report, within three months of the in-service date, which shall:

- i. provide a certification, by a senior executive of the company, of Enbridge Gas' adherence to Condition 1;
- ii. describe any impacts and outstanding concerns identified during construction;
- iii. describe the actions taken or planned to be taken to prevent or mitigate any identified impacts of construction;
- iv. include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions; and
- v. provide a certification, by a senior executive of the company, that the company has obtained all other approvals, permits, licenses, and certificates required to construct, operate and maintain the proposed project.

(b) A final monitoring report, no later than fifteen months after the in-service date, or, where the deadline falls between December 1 and May 31, the following June 1, which shall:

- i. provide a certification, by a senior executive of the company, of Enbridge Gas' adherence to Condition 3;
- ii. describe the condition of any rehabilitated land;
- iii. describe the effectiveness of any actions taken to prevent or mitigate any identified impacts of construction;
- iv. include the results of analyses and monitoring programs and any recommendations arising therefrom; and
- v. include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received; a description of the complaint; any actions taken to address the complaint; and the rationale for taking such actions.

7. Enbridge Gas shall designate one of its employees as project manager who will be responsible for the fulfillment of these conditions, and shall provide the employee's name and contact information to the OEB and to all the appropriate landowners, and shall clearly post the project manager's contact information in a prominent place at the construction site.

The OEB's designated representative for the purposes of these Conditions of Approval shall be the OEB's Manager of Natural Gas (or the Manager of any OEB successor department that oversees leave to construct applications).