DR QUINN & ASSOCIATES LTD.

VIA E-MAIL

January 18, 2020

Ontario Energy Board
Attn: Board Secretary
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto ON M4P 1E4

RE: EB-2019-0137 Staff Draft Report – Consultation to Review Natural Gas Supply Plans
FRPO Submissions

We are writing on behalf of The Federation of rental housing providers in Ontario ("FRPO") in response to the Board's letter of December 19, 2019 in the above subject pr0ceeding. We recognize that this is the first 5-year LDC gas supply review and as such, we would trust that improvements can be made as result of the experience gained in this proceeding. In the attached submission, FRPO will provide submission on an over-arching matter of Board approval followed by our views on specific aspects of the Boards staff's Draft Report.

Respectfully Submitted on Behalf of FRPO,

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Principal
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c. Interested Parties – EB-2019-0137

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PROCEDURAL CONCERN

Approval of Gas Supply Costs Still Not Clear

As we advanced in our comments at the stakeholder sessions[1], we still do not understand at what juncture the utility presents its gas supply costs with supporting evidence for the Board's approval. While we have examined the history on this issue in preparation for this submission, for efficiency, we support and adopt the submissions of TransCanada Pipelines on the chronology and the lack of clarity at this point[2].

To emphasize this point, we need only look back a month ago to the QRAM proceeding for the first quarter 2020 gas supply commodity costs[3]. Given our concerns in this evolutionary period, we reviewed the evidence provided by EGI to scrutinize their support for increases in their commodity and transportation related costs. In that proceeding, we tried to understand increases in the Nexus component of transportation over the last couple of years. While EGI provided some information and quite a number of references, we were unable to see evidence that they had informed the Board about these cost increases over time.

As a result, we submitted the recommendation that the rates be established on an interim basis to allow an improved discovery opportunity in the on-going rates proceeding[4]. Instead, the rates received final approval based upon the misapprehension that ratepayers were protected as a result of the Nexus rates being regulated[5]. In fact, the transportation rates are a result of a negotiation between EGI and the pipeline that is a joint venture owned in part by its parent[6]. We respectfully submit that presentation of evidence to the Board, along with the appropriate amount of time for discovery and submissions would enhance the approval process for commodity and transportation rates.

[1] Transcript_Consultation_Volume 1_20190923, pages 23-26
[2] TCPL Comments 20200117
[3] EB-2019-0273
[4] EB-2019-0194
[5] EB-2019-0273 Decision and Order, page 4
[6] EB-2015-0166 Application for Pre-Approval of the Cost Consequences of the Nexus Pipeline.

COMMENTS ON BOARD STAFF DRAFT REPORT

Better Information is Needed to Assess a Balance of the Guiding Principles

As noted above, we respect that as the initial Supply Plan and presentation, much can be learned. We further respect that EGI checked a number of the boxes in terms of required content as directed by the Board. However, in our view, an assessment of balance[7] cannot be determined without additional information, understanding and especially costs. Further, staff makes some sweeping conclusions in the areas of historic Board decisions which warrant more reasoning behind their conclusions.

We trust the submissions below will assist staff understand some of our concerns for consideration of the final report. Very importantly, our respectful request is that staff ensure that all aspects of the record are available to the Board in its determination of the next step(s).

Supply at Niagara is a Viable, Low-Cost Source that Comes with Environmental Benefits

FRPO has long advocated for additional supply from Niagara as being in the public interest. Currently, Niagara based supply meets 24% of EGD rate zone annual requirements[8] and 4% of Union rate zone requirements[9]. During the stakeholder presentation, EGI voiced its reluctance to contract for more gas at Niagara due to lack of suppliers impacting liquidity. It has long been the position of Union Gas that the location is not liquid enough[10], in spite of the fact that EGD contracted for approximately 10 times the amount that Union did. In its Draft Report, Board staff accepted their reasoning.

However, it is important to consider the difference between the various components of the plan. Liquidity is important if multiple transactions are expected throughout the

[7] Draft Staff_Review of EGI 5-year GSP_20191219 page 31
[8] EGI_SUB_5 Year Gas Supply Plan 20190501, Table 5
[9] EGI_SUB_5 Year Gas Supply Plan 20190501, Table 24
[10] Transcript_Consultation_Volume 1_20190923, page 157, lines 11-16

year and the utility wants to rely upon a liquid market with numerous suppliers to ensure the best transaction value for frequent trades associated with balancing. But it is important to remember that the utility does not have to balance at every location and frankly has long touted the benefits of the liquidity at Dawn. In other words, the Niagara deliveries can be maintained as part of the baseload for the utility without a need to transact throughout the year. To the extent that the utility needs to transact to balance its annual supply, that can be done at Dawn as the utility is doing as part of its overall gas supply program today. This approach allows Niagara to be a low-cost part of the portfolio and Dawn is the location that allows for flexibility. In our view, that is one of the merits of building a portfolio with diverse locations for supply.

Further, providing gas from Niagara to Kirkwall provides system benefits not unlike deliveries to Parkway have for the Union system for decades. That benefit is not considered in the decision making of the gas supply group[11]. However, this benefit could contribute to reducing the need for additional builds on the Dawn Parkway system providing the environmental benefit of avoided construction of pipe and the risk of stranded assets. While integrated resource planning has been highlighted as a utility requirement on the demand side management side, we believe additional efforts ought to be considered as part of gas supply planning.

Accountability for Impact of Non-Interruption should be Considered

Interruptible customers receive a benefit for providing demand relief to the system during peak consumption periods. There was considerable discussion at the stakeholder presentation regarding EGI's utilization for planning purposes of 75% of their customers being interrupted when an interruption is called. In retrospect, we did not ask the question whether that was 75% of volume which needs to be understood. FRPO appreciates that Board staff recognized an omission in the comments of EGI and have recommended inclusion of this issue in the rebasing proceeding.

[11] Transcript_Consultation_Volume 2_20190924, page 4, line 25 to page 5, line 4

We, however, believe that EGI should be accountable now to report to the Board the steps that can be taken during the rebasing period as part of the annual review. We submit this request to the Board given that Enbridge Gas Distribution made commitments to the Board as part of its system reliability proceeding[12]. At that time, EGD stated that they had experienced 65 to 85% compliance[13]. We respectfully submit that the company has had almost ten years to bring about improvement and need not be given another five years with costs being borne by the rest of ratepayers.

Third-party Peaking Services are a Viable and Valuable Component of an Economic Plan

Utilities have relied upon peaking services as an integral part of a sound gas supply plan. Board staff's Draft Report comments on concerns raised regarding reduction to this aspect of the plan.

> *Equinor commented that Enbridge should have purchased third-party delivered services instead of long-term firm transportation services. It is OEB staff's understanding that Enbridge is proposing to limit its level of discretionary service in the EGD rate zone to two percent of total deliveries because it has the ability to over-deliver on its firm transportation contracts by up to two percent before incurring penalties. Therefore in the event that its delivered service fails to deliver, Enbridge can manage the shortfall. OEB staff is of the view that this approach is appropriate as it mitigates any transportation interruption risks and may also result in greater flexibility (because Enbridge's firm transportation portfolio and the associated balancing provisions may provide greater flexibility over third-party owned firm transportation).*

However, the position that eliminating third-party peaking services is appropriate is diametrically opposed to the idea of a diverse portfolio given that the portfolio is

[12] EB-2010-0231 Exhibit C, Tab 1, Schedule 1, pages 12-13
[13] EB-2010-0231 Exhibit D, Tab 2, Schedule 1, Attachment 1, page 5 of 6

composed of almost 98% firm transportation. In fact, the evidence from the company states:

> *Taking into consideration the analysis above, EGI's preferred planning strategy to eliminate the design day asset shortfall projected in the Enbridge EDA is the same as was recommended for the Enbridge CDA; procuring peaking service for each year over the five year period.*

Further, the position that eliminating these third-party services mitigates transportation interruption risks[14] is not based upon sound understanding of gas transportation. In creating a balanced and prudent portfolio, the utility will ensure the financial integrity of its counterparties[15]. Further if these counterparties are providing peaking services, the utility would ensure that the counterparty is financially responsible for any costs associated with their inability to deliver to meet their contractual obligation. Even if the gas does not arrive on the day requested, the utility would use its operator balancing agreement with the pipeline to provide the additional gas creating a charge to the utility. The peaking service contract would ensure that the charge could be passed on to the 3rd party providing the peaking service.

The 2% that has been used as a maximum benchmark is based upon no penalty charges from the upstream pipeline. In an extreme case where the counterparty providing peaking services goes bankrupt, it is still economically prudent to have incurred a small penalty charge then the annual demand charge associated with getting from transport for 365 days if the service only has to cover a one-day event. This is an example of judging an approach to be cost effective when the judgement is not fully informed by details nor underlying costs.

[14] Draft Staff_Review of EGI 5-year GSP_20191219 page 35
[15] Draft Staff_Review of EGI 5-year GSP_20191219 page 35

Historic Decisions of the Board ought to Reviewed in the Context of Today's Market

We are very concerned with the seemingly dismissive conclusions provided by Board staff in relation to stakeholder concerns regarding the appropriateness of NGEIR and STAR in context of Ontario today.

Despite concerns raised by multiple parties, in staff's summary of positions, it provides that:

> *Enbridge commented that had the OEB wished for Enbridge to address items related to the NGEIR decision or STAR during the deferred basing term, then the OEB's Decision and Order regarding the amalgamation of EGD and Union would have indicated that.*

Board staff has appropriately captured what EGI asserted in its reply to parties' concerns. But the fact is the Board indicated that these policies "were outside the scope of the proceeding"[16]. For staff to go further and extrapolate its own suppositions from information the Board has not opined on in that proceeding or their own assessment of the market without reference to evidence in this proceeding is inappropriate if the Board is not given the arguments on both sides from which to drawn its own conclusions.

In dismissing NGEIR, Staff puts together a reference from a utility-sponsored report filed in the Merger proceeding with its own interpretation to state that it is not convinced that the merger impacted the competitive storage market[17]. Yet, staff provides no basis for the conclusion in the evidentiary record in this proceeding. This conclusion is made in spite of the EGI's witness stating that in their experience that once the storage cost is coupled with transportation, it is significantly more expensive than Ontario alternatives.[18]

In dismissing the call to review STAR as not necessary, staff provides a link to transportation capacity availability. Further, staff assumes that since no complaints of

[16] EB-2017-0306/0307 Decision, page 48
[17] Draft Staff_Review of EGI 5-year GSP_20191219 page 39
[18] Transcript_Consultation_Volume 2_20190924, page 34, lines 10-20

transportation withholding have been lodged against the utility, no withholding is occurring[19]. While we were aware of the posting of transportation capacity and cannot accept their simple conclusion on transportation, our point was about storage and storage deliverability[20].

Without repeating our submission in its entirety, the storage operational status lights are used to provide market participants information on the ability of the utility to accept discretionary services that use injection or withdrawal. This capability is tied to the amount of gas in storage at the given time of year and other factors such as nominated gas. However, as provided in our submission, there is no reporting on amount of gas in storage and no criteria to inform the market when the light may change. Given the utility's virtual monopoly position in providing services for the Ontario market as a result of the merger, the Board ought to be concerned with reporting to ensure that this position is not being abused.

FRPO respectfully requests that staff ensure that the Board is fully informed on the party's positions on these issues in presenting the final report to the Board.

CONCLUSION

FRPO thanks the Board for the opportunity to comment on the Board staff report. We commend staff and EGI for its roles in developing a process for the review of gas supply. We trust that our comments, along with those of others will assist the Board in evolving the process in the public interest.

[19] Draft Staff_Review of EGI 5-year GSP_20191219 page 39
[20] FRPO_Comments_20191021 Section 3 b)