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February 7, 2020

Sent by Electronic Mail, Courier and RESS Electronic Filing

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
27-2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: EB-2019-0183: EPCOR Natural Gas Limited Partnership (ENGLP) Response to Written Interrogatories on Evidence Filed Regarding the Enbridge Gas Inc. (Enbridge) Owen Sound Reinforcement Project Leave to Construct & Rate M17 Application

In accordance with the Ontario Energy Board's (OEB) Procedural Order No. 2, please find attached interrogatory responses to OEB Staff, Enbridge, Energy Probe Research Foundation and Federation of Rental-housing Providers of Ontario, regarding the above-noted proceeding.

If you have any questions, please contact the undersigned.

Sincerely,

[Original signed by]

Daniela O'Callaghan
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EPCOR Utilities Inc.
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(780) 412-4081

Enclosure

cc: All parties to EB-2019-0183

Staff.1

Reference: **Elenchus Research Associates Inc. evidence, pp. 2-3**

Preamble: Elenchus Research Associates Inc. (Elenchus) in its evidence notes that the end result is that the proposed terms and conditions for Rate M17 will force new distributors to contract storage for daily balancing from Enbridge Gas Inc. (Enbridge) at unregulated rates, although competitive alternatives are not available in the market.

Request:

(a) Please confirm that daily load balancing services are not available from third parties in Ontario.

(b) Is ENGLP aware of any other gas distributors or large customers of Enbridge that are receiving this service from Enbridge at unregulated rates?

Responses:

(a) Elenchus is not aware of any third-party companies offering daily load balancing services in Ontario that can be integrated with a distributor's transportation service.

(b) ENGLP is aware that Enbridge (formerly Union Gas) introduced two new load shaping market-based services (Upstream Pipeline Balancing Service – UPBS, and Downstream Pipeline Balancing Service – DBPS) specifically designed to meet the short notice and intra-day needs of power generators downstream of Union as an add-on to an existing M12 contract. The UPBS service was intended to allow power generators downstream of Union to deliver gas to Union at Dawn on an evenly hourly basis throughout the day but receive all nominated volumes in as little as 4 hours. The DPBS service was intended to bridge the gap between Union's limited number of nominations under its M12 service and TransCanada's more frequent nomination service under its FT-SN service. However, these services do not eliminate the imbalance that can occur at the end of a gas day and any imbalances are addressed under the terms of the underlying M12 contract.

In the Union South Rate Zone, the M9 and T3 services, available for embedded distributors, includes an integral daily load balancing service. Elenchus understands that these services are contracted by ENGLP (Aylmer), Six Nations and the City of Kitchener. Similarly, Enbridge also provides an integral daily load balancing to its large volume customers under its T1, and T2 rate schedule.

In the Enbridge Gas Rate Zone, Enbridge also provides certain daily load balancing services to its Rate 125 Extra Large Volume Firm Distribution Service customers. In addition, Enbridge provides a bundled service, which includes daily load balancing, to any distributor outside its franchise area pursuant to its Rate 200 Wholesale Service.

Staff.2

Reference: **Elenchus Research Associates Inc. evidence, p. 4**

Preamble: Elenchus in its evidence notes that the tilt in the playing field cannot be completely eliminated unless a core element of the Ontario Energy Board's Natural Gas Electricity Interface Review (NGEIR) Decision of November 7, 2006, is supplemented to allow new distributors to be allocated cost-based storage on the same basis as an existing distributor would be allocated cost-based storage to serve the same community. The evidence further submits that it would be inconsistent with the core conclusions of the NGEIR decision "that long-term consumer protection in terms of price, reliability and quality of service is best achieved through thriving competition for the competitive elements of the storage market and effective regulation of the non-competitive elements of the market" to refine the NGEIR decision to reflect the evolution of the Ontario natural gas sector.

Request:

(a) Is EPCOR Natural Gas Limited Partnership (ENGLP) suggesting a review of the determinations made in the NGEIR decision including the provision of cost-based storage services? If yes, please describe the specific elements of the NGEIR decision that should be reviewed according to ENGLP.

Responses:

(a) No. The suggestion is that to be consistent with NGEIR principles, a decision to require new distributors to rely on market-priced storage for daily load balancing (end of day balancing) should be based on a finding of fact that the market for the required daily load balancing (operational flexibility) service is workably competitive and that pricing will be constrained by competitive market forces.

Staff.3

Reference: **Elenchus Research Associates Inc. evidence, p. 14**

Preamble: The evidence states that the storage requirements of new distributors serving previously unserved communities in Ontario was not explicitly addressed in the NGEIR decision, nor did the decision address the availability of competitive options for specific storage-based services such as daily load balancing for operational flexibility. It follows that if the storage services required for the daily load balance to support operational flexibility are not available on a competitive basis, the principles and precedents established by the NGEIR decision would require that those storage services should be subject to regulation that protects consumers.

The OEB issued the NGEIR decision on November 7, 2006. In December 2006, the OEB received three Notices of Motion. In a decision issued on May 22, 2007, the OEB determined that three of the matters raised met the test for review. One of the matters was the decision regarding additional storage requirements for Union's in-franchise gas-fired generator customers. In its submission on the Motion (EB-2006-0322 and EB-2006-0340), the Association of Power Producers of Ontario (APPrO) argued that in-franchise generation customers have no access to competitive alternatives for the high deliverability storage to be made available and therefore this monopoly service should be regulated. In its decision on the motion (July 30, 2007), the OEB reiterated that competition in storage services will be sufficient to protect the public interest. The OEB rejected the assertion that because there was a settlement on the allocation of standard deliverability storage space, there is no competitive alternative to the associated high deliverability storage from that space. The OEB further noted:

> *The Board agrees that when a party contracts for a service from a supplier it may well be unable to acquire a component of that service from other suppliers; that is axiomatic. However, what is relevant*

> *is whether there are, or will be, competitive alternatives for the service as a whole. For gas-fired power generators, the service they require is intra-day balancing. The record in the NGEIR proceeding is clear that competitive alternatives will be developed for this service and that power generators and others will be able to access these services.* (p.13)

Request:

(a) Based on the above findings, does ENGLP agree that daily load balancing is a component of market-based storage services and there are competitive options for the service as a whole?

(b) Does ENGLP agree that the OEB rejected the arguments of APPrO that intra-day balancing services is a monopoly and should be regulated? If no, please explain your position in light of the above findings in the NGEIR decision.

Responses:

(a) ENGLP does not agree with this statement. While Enbridge may include seasonal storage with daily load balancing in rates such as M9 and T3 that does not make one a component of the other. Each of these provides a distinct service (seasonal storage versus operational flexibility) and may be offered independent of each other. Market-based storage services are by definition services for which there is a competitive market currently available or for which a competitive market could develop over time. In order for a competitive market to develop, the service must be able to be provided by more than a single entity. As detailed below, given the mechanics of achieving daily load balancing, only Enbridge can provide that service to ENGLP as Enbridge is the monopoly transmission supplier for the utility from Dawn to the demarcation point at Dornoch. This is separate and distinct from seasonal storage which can be provided by parties other than Enbridge and for which a competitive market has developed.

Daily load balancing (or end of day load balancing) is a fundamentally different service than intra-day load balancing. Gas-fired power generators are single source consumers of gas that normally operate intermittently throughout the day. These generators can reasonably determine the daily profile of gas required given that they have known heat rates and make offers to the IESO to deliver specific amounts of power. As a result of NGEIR, certain services were introduced to assist gas-fired power generators to better deal with the NAESB restrictions that otherwise would require evenly hourly flows throughout the gas day and the limited nomination windows that are available. Provision of these required the use of storage facilities downstream of the former Union Gas. These new intraday services however did not eliminate the imbalance that occurs on transportation contracts at the end of a gas day. The customers of these new services were still required to separately deal with end of day imbalances under their contract.

Daily load balancing continues to be an integral component of the transportation service provided by Enbridge. Under the proposed M17 contract gas will be received at Dawn and redelivered at Dornoch. The daily imbalance is the difference between the aggregate receipts for the gas day and the aggregate deliveries at Dornoch. The amount of any imbalance can only be determined after the gas day has concluded. Since the imbalance relates to the difference between receipts and deliveries, by definition, the imbalance is in the possession of Enbridge at the end of the gas day. Enbridge has indicated that the amount of any imbalance will be reported to ENGLP after the end of a gas day. ENGLP is only able to reverse any imbalance after Enbridge reports the amount of any imbalance. Once the imbalance is received, the level of the imbalance can be reversed by adjusting planned nomination for the next day's gas delivery. This adjusted nomination can include modifying planned gas purchases by the amount of the imbalance or adjusting any volume it planned on withdrawing/injecting from storage, but it must be remembered that the imbalance resides on Enbridge's system for 1-2 days until such time as it receives the gas under the adjusted nomination. As referenced in section 5 g) of ENGLP's evidence, Enbridge specifically acknowledges the need to use a portion of its 9.5 PJ of system integrity storage to provide "*operational balancing necessary to manage all services*". While ENGLP storage can help to reverse an imbalance once ENGLP is advised of the imbalance, the daily load balancing service is a very specific service that can only be provided by Enbridge. It deals with the imbalance that resides on the Enbridge system between the end of a gas day and the time that gas flows under an adjusted nomination to reverse the imbalance.

(b) ENGLP agrees that the OEB did not accept that intra-day balancing services are a monopoly and should be regulated. In the decision on the motion the OEB noted that

> *The record in the NGEIR proceeding is clear that competitive alternatives will be developed for this service and that power generators and others will expect to access to these services. (p.13)*

However, as noted in (a) above, daily load balancing (or end of day load balancing) is a fundamentally different service than intra-day load balancing. In Elenchus's report[1] it states

> *There is no hint that the OEB foresaw the emergence of a competitive environment for community expansion. As a consequence, the proceeding did not separately examine the effective competitiveness of different storage services such as seasonal load balancing and operational flexibility (daily load balancing).*

As further detailed in ENGLP's evidence, and summarized in (a) above, a competitive market to provide ENGLP with end of day load balancing can not develop as Enbridge is the only entity that can provide such a service.

[1] Eb-2019-0183, Assessment of the Rate Proposals in the Enbridge Gas Inc. Owen Sound Reinforcement Project Leave to Construct & Rate M 17 Application, January 10, 2020, P.11 Lines 1 – 4

Staff.4

Reference: **Elenchus Research Associates Inc. evidence, p. 15**

Preamble: The evidence quotes the OEB's Generic Community Expansion Decision (EB-2016-0004) which states (p.19):

The issue of advancing upstream system expansion and enhancements should be considered in every case where they are shown to exist. The cost of upstream enhancement that any project would bear must be the same regardless of the utility proposing the expansion. This will allow for proper comparison of competing bids, again levelling the playing field.

Request:

(a) Please explain if the similarity in the cost of upstream enhancement referred to above is not merely in the context of facilitating the comparison of competing bids and not to ensure that upstream enhancements costs are identical for all competing proponents.

(b) Please explain how the cost of upstream enhancement would be the same for competing proponents if a new distribution utility is considering multiple supply options and an incumbent utility enjoys certain cost advantages because of an existing distribution and transmission system.

Responses:

(a) It is Elenchus' understanding that the similarity in the cost of upstream enhancement is primarily in the context of facilitating the comparison of competing bids. However, Elenchus considers it to be important as well to ensure that the interests of the end use customer are also protected. It would not be in the interest of the end use customers of the new distributor for the costs that are passed through to them in their distributors rates embed discriminatory costs of upstream enhancements. If that is permitted, end-use customers could end up paying higher rates than they would if a higher cost incumbent (excluding the upstream costs) had succeeded in the competitive process.

(b) Elenchus understands the essence of the question to be that it may not be practical to attempt to eliminate all competitive advantages on the part of either the new or the incumbent distributor. Elenchus did not suggest that any inherent advantages should be offset. The suggestion of Elenchus is that the OEB should not permit incumbent distributors to recover any costs from their other transmission customers when the identical costs (i.e., costs for identical facilities) required by a new distributor must be borne by the new distributor's distribution customers. Put simply, the incumbent distributor should not have the ability to disadvantage the customers of a new distributor by imposing discriminatory charges on a new distributor. In this context, Elenchus defines a discriminatory charge as a charge that will be passed through to end-use customers (or discriminatory method for determining the charge) that results in a different level of costs for identical facilities.

Staff.5

Reference: **Elenchus Research Associates Inc. evidence, p. 19**

Preamble: The evidence states that "In a current proceeding before the Régie de l'énergie, Energir has filed evidence that separates the traditional load balancing function into two functions: seasonal storage and operational flexibility. Operational flexibility is the storage-based service required to respond to the within-day variances that will inevitably occur, forcing a distributor to increase or decrease the scheduled deliveries during the day to avoid unacceptable end of day imbalances between deliveries and actual consumption by its customers."

Request:

(a) In the context of the above, please define the function of seasonal storage and contrast it to operational flexibility.

(b) Has that distinction been approved by the Régie de l'énergie? If so please provide a copy of the decision approving it.

(c) Has that distinction been approved by other regulators? If so, please provide a copy of the decision(s) approving it.

Responses:

(a) Seasonal storage is storage required to inject excess gas volumes on low-demand days (essentially the summer season) and withdraw the gas on high-demand days (essentially the winter season). This is long term storage for which distributors have gas supply management options. More broadly, this can be defined as inter-day storage.

Operational flexibility corresponds to end-of-day balancing which is the relevant aspect of intra-day balancing in the context of the Elenchus evidence. For clarity, intra-day load balancing which is a term that used in the Elenchus evidence, may also refer to storage requirements that arise when balancing is required on the day after an imbalance occurs. The concern identified by Elenchus refers specifically to end-of-day load balancing which would be required by the proposed M17 service although it is not available as a distinct service. Please also see the response to Staff #3.

(b) The approach described in the Elenchus evidence is currently before the Régie; hence, it has not been approved. Elenchus was retained by the Régie as independent expert. The opinion in support of the conceptual approach is the view of Elenchus as contained in the Elenchus evidence that is on the public record and is cited in the Elenchus evidence in this proceeding.

(c) It is Elenchus understanding that the approach proposed by Énergir and supported on a conceptual level by Elenchus is an innovative approach that has not yet been considered in other jurisdictions. The approach is a logical response, proposed in the context of Énergir’s cost allocation methodology that addresses the reality of flexible gas supply options that has merged as a result of the restructuring of the North American natural gas market in recent decades.

Staff.6

Reference: **Elenchus Research Associates Inc. evidence, p. 27**

Preamble: The evidence states that the most direct way to avoid tilting the competitive playing field that would result if the Ontario Energy Board (OEB) were to accept the proposals of Enbridge in the current application would be to reject the proposal that Rate M9 and Rate T3 services will not be available to new distributors serving new communities. This approach would imply that as a matter of policy, community expansion projects should have access to cost-based storage on the same basis as existing distributors.

Request:

(a) Please confirm if the ENGLP franchise is outside the franchise area of Enbridge Gas Inc.

(b) Please indicate how ENGLP's view of having access to cost-based storage aligns with the NGEIR decision (EB-2005-0551, November 7, 2006, p.3) that states that the Board will cease regulating prices charged for all storage services offered by legacy Union Gas and Enbridge Gas Distribution to customers outside their franchise areas.

Responses:

(a) ENGLP understands that Enbridge has a franchise agreement for the municipality of Arran-Elderslie under which it provides service to certain areas of that municipality. ENGLP also has a franchise agreement for this municipality and will be providing service to certain areas of the municipality of Arran-Elderslie. Other than that overlap, ENGLP's franchise areas are outside of those of Enbridge.

(b) Elenchus has observed that the NGEIR decision predates by a decade the introduction of the provision of distribution service to new areas of the province on a competitive basis. As a result the decision did not consider the unique circumstances of a new distribution utility that requires end of day load balancing in order provide the necessary operational flexibility to accommodate intra-day variances between the day ahead forecast and actual demand.

At the time of the NGEIR decision, no entity has been required to arrange intra-day daily (e.g. end of day) load balancing as a separate service. This service has always been bundled with transportation service, where required. Hence the competitiveness of the market for intra-day daily load balancing has not previously been considered by the OEB.

The recommendations of Elenchus align with the NGEIR decision since (i) it draws a distinction between two storage based services, which has not been done before, and (ii) having differentiated between intra-day daily load balancing and all other seasonal (or multi-day) load balancing, applies the OEB's test of the competitiveness of the market as a basis for permitting access to the minimal amount of storage required for intra-day daily load balancing.

Perhaps equally important is the observation by Elenchus that unless an entirely new storage service that includes intra-day nomination changes as well as real time volumetric information is created, it will be impossible for any new distributor to manage their gas supply in a way that relies on any service other than that provided by the transmission company on a monopoly basis to manage its intra-day gas supply.

Staff.7

Reference: **Elenchus Research Associates Inc. evidence, p. 28**

Preamble: Enbridge has proposed that Rate M17 service will not include daily load balancing. The evidence submits that the OEB could amend this limitation and require that daily load balancing be bundled with the service, on a basis comparable to the transportation services that are available to Enbridge to serve customers of community expansion projects that it undertakes.

Request:

(a) Would the amended service as proposed above include cost-based or market-based storage rates?

(b) If Enbridge were to agree to the amendment, would ENGLP take service under the amended Rate M17? Under such conditions, would ENGLP still oppose the proposed limited accessibility of Rate M9 and Rate T3 to existing gas distributors?

Responses:

(a) Elenchus understands from ENGLP's evidence that on an operational basis any daily imbalances are managed on an integrated basis across all customers, meaning that positive imbalances are netted off any negative imbalances and only the resulting net imbalance that exists on a system at any time requires any action. Some of this net imbalance is managed through natural changes in line pack on the pipeline and it is only the remaining net imbalance that requires physical access to storage. Elenchus also understands from section 5 g) of ENGLP's evidence, that Enbridge's transmission rates already recover the costs of providing daily load balancing in its rates, and these costs reflect cost-based storage. Elenchus recommends in its evidence that "*daily load balancing be bundled with the service, on a basis comparable to the transportation services that are available to Enbridge to serve customers of community expansion projects that it undertakes*." Elenchus also understands that Enbridge uses its existing cost-based services, including the cost of daily load balancing, to serve new communities. Given that these imbalances are managed on an integrated basis, and Enbridge is already using cost-based daily balancing to service new communities, it would be impractical to establish a market-based daily balancing system for some customers and a cost-based system for another set of customers.

Elenchus therefore suggests that the cost of daily balancing in the M17 service be cost-based, especially in light of the transportation rates for this service already including costs related to daily balancing.

(b) ENGLP's position is that unless it had no other option, it would not take service under the amended Rate M17. While ENGLP has been requesting a cost based daily balancing service be included in M17, Enbridge has been unwilling to discuss this amendment. As a result, the details of how this might be operationalized, i.e. amount of daily balancing available and how nominations might work, have not been confirmed. ENGLP is of the view that the existing T3 rate has been in existence for a number of years and the details have been tested by the Board and interveners over that time. While it may be possible to simply insert the relevant details related to daily balancing from the T3 rate to a modified M17 rate, absent any unintended consequences, the result would be almost identical rates. As a result, it is not clear why there would be a requirement for the new M17 rate.

Given the above, ENGLP would still oppose the proposed limiting of access to Rate M9 and T3 to existing gas distributors as ENGLP is of the view that it should have access to those rates.

Staff.8

Reference: **ENGLP evidence, p. 4**

Preamble: In its evidence ENGLP has raised certain concerns with respect to the proposed rate (M17) and the contribution required by Enbridge. ENGLP is required to pay a contribution in aid of construction (CIAC) of $5.34 million for upstream reinforcement. ENGLP has submitted that its share has not been appropriately calculated under EBO 134. ENGLP has further submitted that Enbridge's charge of $4.02 million for meter station costs is not consistent with Enbridge's past practices and the proposal to charge a customer-specific monthly charge for the meter station is neither appropriate nor consistently applied.

Request:

(a) In ENGLP's opinion what should be the appropriate amount of the CIAC? Please provide supporting calculations and rationale for a particular recommendation?

(b) ENGLP has already paid for meter station costs. Should the meter station costs have been different than that paid by ENGLP? What should have been the appropriate amount in the opinion of ENGLP and how should it have been recovered or allocated?

(c) Does ENGLP propose a different customer-specific monthly charge than what has been proposed by Enbridge? If yes, please provide the suggested amount and the supporting rationale.

Responses:

(a) ENGLP's opinion is that application of the three-stage economic analysis of EBO 134 will determine the appropriate amount of any CIAC. Enbridge has determined that the 3 stage economic analysis for the project is a NPV of $302 - $438 million[1]. This analysis includes a

[1] EB-2019-0183 Owen Sound Reinforcement Project Leave to Construct & Rate M17 Application, August 29, 2019, Exhibit D, Tab 2, Schedule 3, Page 6 of 7, Para 23

presumed CIAC from ENGLP of $5.34 million. Without the proposed CIAC from ENGLP the three-stage economic test would result in a NPV of approximately $296 - $432 million[2]. Given this positive result ENGLP's CIAC should be $0.0 million.

(b) Further to ENGLP's company evidence[3], the capital and ongoing recovery of the meter station costs for the ENGLP interconnect should have been $0.0 million. In order to be consistent with past Enbridge practises on its Dawn-Parkway system, as detailed in the above referenced evidence, the cost should have been recovered thorough Enbridge's transmission charges as they are with the interconnections with the former Enbridge Gas Distribution. In order to determine whether any contribution was required, these meter station costs should have been an integral part of the three-stage economic test. Since Enbridge required ENGLP to provide full funding of the station costs prior to Enbridge building the station, ENGLP has paid the full $4.02 million to Enbridge. However, since the Board has determined in the past that any CIAC is a rate subject to their jurisdiction, ENGLP (in its written submission) will be requesting from the Board an order directing Enbridge to immediately repay ENGLP $4.02 million.

(c) ENGLP is proposing a $0 monthly charge for the M17 service. Enbridge's (formerly Union Gas') past practice with interconnections with Enbridge Gas Distribution have been to recover these customers specific meter charges (both capital and O&M costs) as part of the transmission charge, which is recovered from all customers using the Dawn-Parkway system. The Firm Monthly Transportation Demand Charge of the M17 rate is substantially based on the Dawn-Parkway charge indicating the M17 rate includes the recovery of the capital and operating costs for meter connections. If a monthly is included in the M17 rate, it would result in a double charge for metering.

[2] $302 – $5.34 = $296.66 million, $438 - $5.34 = $432.66 million.
[3] EB-2019-0183, Evidence of ENGLP, January 10, 2020, Section 4, pages 22 - 25

Staff.9

Reference: **ENGLP evidence, pp. 7-8**

Preamble: Since all the gas required to service the South Bruce region must be transported by Enbridge, ENGLP notes that it is important that the conditions of service between Enbridge and ENGLP be approved in a timely fashion. If the OEB does not reach a decision on the application before service is required, service could potentially commence according to ENGLP under one of the existing OEB approved M9 or T3 services.

Request:

(a) Has ENGLP discussed the above option with Enbridge? If yes, please provide Enbridge's response.

Responses:

(a) ENGLP recalls having at least two, preliminary discussions with Enbridge on the above option. However, the option was rejected with no comprehensive discussion on the matter.

ENGLP is aware that in Enbridge's evidence, they have requested approval of the M17 service on an interim basis if necessary. Given that ENGLP disputes the terms of the proposed M17 service and given the significant implications to ENGLP and its customers of relying on an untested service, ENGLP believes that it is inappropriate in this case, for the OEB to approve a new service prior to the full review and examination of the proposed service, in particular when Enbridge already has two Board-approved services (M9 and T3) that would meet ENGLP's and its customers' needs.

Staff.10

Reference: **ENGLP evidence, Table 1, pp. 12-13**

Preamble: In its evidence, ENGLP has provided a list of Dawn-Parkway expansion projects and Other Transmission projects, which relied on the EBO 134 economic test.

Request:

(a) Please confirm that the list of projects identified on page 13 (Table 1) did not require a contribution in aid of construction (CIAC).

(b) For pipeline expansion projects identified in Table 1, please indicate if the revenue requirement related to the project was allocated to rate classes that would be using the incremental or new service.

Responses:

(a) Confirmed, ENGLP did not find any reference to a CIAC being paid in the individual project applications.

(b) It is ENGLP’s understanding that the revenue requirement associated with the projects would be allocated to all rate classes using the Board-approved specific cost allocator for the asset type rather than only allocating the associated revenue requirement to the rate classes using the incremental or new service.

Staff.11

Reference: **ENGLP evidence, Table 1, p. 16**

Preamble: The evidence notes that in response to an ENGLP interrogatory asking for the annual impact to a Union South residential customer if the CIAC was not recovered from ENGLP, Enbridge noted that the bill impact would be $0.12, which represents less than 0.1% of their annual bill.

Request:

(a) Based on the above argument, is ENGLP suggesting that it should not be required to pay any CIAC?

(b) If ENGLP does not pay a CIAC, would Enbridge customers be subsidizing the customers of ENGLP? How would such an approach align with the Generic Community Expansion Decision (EB-2016-0004) which noted that it would not be appropriate to require existing customers to pay a portion of the costs for any community expansion (p.4)?

Responses:

(a) Yes, based on the above argument, as well as other evidence filed in this application.

(b) The Elenchus evidence states at page 26:

Whether a CIAC is charged would be determined on the basis of the application of the entire EBO 134 three-stage test. Enbridge Gas' (and former Union Gas') past practice appears to be that no CIAC is levied even when the PI from application of only stage 1 is very low, provided that there will be no undue rate impact for existing customers and that the resulting NPV of the project from the application of the three stage analysis supports the project. Adoption of this approach will require that the Board clearly define what constitutes "undue impact" in this circumstance. Based on the Panhandle Expansion precedent, the definition of an undue impact would be something in excess of 1.2% of an end use customer's bill. An exception may be justified and CIAC charged, in the event that the upgrade is a dedicated facility for a single customer.

The proposal is that in order to ensure that there is a level playing field for new and existing distributors, the determination of a CIAC should be based on applying the EBO 134 three-stage test consistently. Based on Elenchus review of past practice in terms of Enbridge proposals and OEB approvals, it would be consistent to require no CIAC for this project.

As in the case of the cited precedents, the three-stage test would be determining that the degree of subsidy implied by the Stage 1 test is justified on the basis of the Stage 2 and Stage 3 benefits.

Staff.12

Reference: **ENGLP evidence, Table 1, pp. 28-35**

Preamble: ENGLP in its evidence has raised certain operational issues with respect to daily balancing under the proposed M17 service. The evidence indicates that the daily imbalance cannot be retroactively changed as it is only possible for ENGLP (or any third party) to remedy the imbalance on a prospective basis. The proposed M17 transportation agreement between ENGLP and Enbridge does not allow for an imbalance to exist. The evidence further notes that ENGLP cannot be expected to precisely balance the receipts and deliveries under the M17 service and only Enbridge can offer a daily imbalance service under the M17 contract. ENGLP has indicated that it is therefore required to enter into a daily balancing storage service with Enbridge that is market-based and beyond the purview of regulation.

Request:

(a) Is ENGLP aware of other Enbridge customers that have similar transportation agreements and are required to load balance on a daily basis? If yes, please provide details.

(b) Is ENGLP aware of other rate classes (of legacy Union Gas or Enbridge Gas Distribution) that have similar requirements around daily balancing?

(c) Has ENGLP discussed the problem identified above with Enbridge and has Enbridge proposed appropriate solutions? Please provide a detailed response.

Responses:

(a) ENGLP is aware that M12 customers are required to balance on a daily basis. The legacy Enbridge Gas Distribution contract (and formerly Consumers Gas) is the only M12 contract that has gas delivered gas to the customer's delivery area[1]. Enbridge (formerly Union Gas) has an interconnect agreement with Enbridge Gas Distribution at the interconnecting pipeline and offers a load balancing arrangement (LBA) to accommodate daily load imbalances[2]. Other M12 contracts have gas transported by downstream pipelines in equal daily quantities as transported by Union under the M12 contract so daily balancing is a non-issue. Balancing under these contracts occurs, as necessary, at the shippers' respective downstream delivery area by others.

ENGLP is also aware that the M16, a transportation service between Enbridge (formerly Union Gas) and MHP Hub Partners Canada LP (an affiliate of Union Gas) requires volumes to be accounted for on a daily basis[3], the volumes of gas delivered to or from the storage pool are determined on a 'post flow basis":

> *"Union and Shipper recognized that on any day the receipt of gas by Union and the delivery of gas by Union may not always be exactly equal. The difference between the Pool Quantity[4] and the Authorized Quantity will be handled as though it was delivered to or received from Union at Dawn under the Facilitating Agreement. Shipper further acknowledges that it is impractical for Shipper to nominate Pool Quantity. Union shall calculate the Pool Quantity on a post flow basis.[5]"*

(b) ENGLP understands that the Enbridge Gas Distribution Rate 125 does include the requirement for daily balancing, but also includes fees in its rate schedule that are subject to the Board's approval. ENGLP also understands that Enbridge Gas charges certain of its customers a "Gas Supply Load Balancing Charge" including rate classes 110, 135, 145 170 and 200. This is defined as *"A charge in Rate Schedules where the Company recovers the cost of ensuring gas supply matches consumption on a daily basis."*[6] These charges are also subject to Board approval. ENGLP also notes that the Rate 200 is a wholesale service available *"To any Distributor who enters into a Service Contract with the Company to use the Company's natural gas distribution network for the transportation of an annual supply of*

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[1] EB-2018-0244 Interrogatory Responses, November 30, 2018, Exhibit B.EPCOR.2a)
[2] Ibid
[3] EB-2018-0244, Interrogatory Responses, November 30, 2018, Exhibit B.EPCOR.2 Attachment 2 paragraph 5.02 "All quantities of gas handled by Union shall be accounted for on a daily basis."
[4] Pool Quantity shall mean the actual daily quantity of gas delivered to or received from Shipper at the Custody Transfer Point (paragraph 1.07 h)
[5] EB-2018-0244, Interrogatory Responses, November 30, 2018, Exhibit B.EPCOR.2 Attachment 2 paragraph 5.01 c) Balancing Service
[6] Enbridge Gas Rate Handbook page 2

natural gas to customers outside of the Company's franchise area."[7] Notwithstanding the proposed M17 service where Enbridge proposes to remove the costs of daily load balancing outside the Board's purview, Enbridge Gas continues to offer such a rate regulated service to other distribution companies that may want to use its system.

(c) ENGLP has raised this concern with Enbridge. As noted in evidence Enbridge did offer an LBA service similar to what it provided at Parkway to Enbridge Gas Distribution. ENGLP has serious concerns with this service as the rates were not based on costs associated with Enbridge providing the service but were based solely on TransCanada's rates for providing a balancing service to customers using TransCanada's system. In response to the concern raised, Enbridge modified the terms of the proposed M17 service, which eliminated the LBA and required ENGLP to be in balance each day. In addition, Enbridge required ENGLP to contract for a market-based daily balancing service. This modified M17 service did not resolve ENGLP's concern that the daily balancing component of the transportation service should be an integral part of the overall regulated cost-based service. Since the daily imbalance component of the service is only available from Enbridge, leaving the daily balancing component of the service as an unregulated part of the service exposes ENGLP to the potential of monopoly rents, or the possibility that it may not even be able to acquire the service in the future.

[7] Enbridge gas Rate Handbook page 1 of 2 Handbook 32

Staff.13

Reference: **ENGLP evidence, pp. 35-36**

Preamble: ENGLP in its evidence notes that since the M17 contract does not allow for any imbalances between volumes delivered to Enbridge and received from Enbridge, a balancing service is mandatory, and it can only be provided by Enbridge. Negotiations of a market-based daily balancing storage arrangement with Enbridge under Rate M17 raises two concerns for ENGLP; (a) being subject to unregulated monopoly pricing; and (b) having no guarantee of renewal rights for ENGLP for such service (which to date, Enbridge has refused to provide).

Request:

(a) With respect to negotiating market-based daily balancing storage services, does the reference to unregulated monopoly pricing imply that the cost for market-based daily balancing storage arrangement would be subject to arbitrary pricing and changes or would the unregulated price be based on the contractual agreement between Enbridge and ENGLP?

(b) Is ENGLP aware of why Enbridge has refused to provide guarantee of renewal rights?

Responses:

(a) The reference to unregulated monopoly pricing for market-based daily balancing storage arrangements refers to the pricing that Enbridge requires as a condition of entering into a contract with ENGLP to provide that service, and subsequently the pricing when the contract is up for renewal.

(b) ENGLP understands that Enbridge does not want to guarantee pricing terms, conditions or the availability of market-based daily balancing storage.

Staff.14

Reference: **ENGLP evidence, pp. 38-39**

Preamble: The evidence states that while ENGLP did not agree with the changes to the availability provisions of the existing M9 and T3 services, in an effort to find a solution that was reasonably suitable to both parties, ENGLP indicated that it was prepared to consider a "modified" T3 service whereby the cost based storage embedded in the T3 service would be replaced with market-based storage costs. Enbridge rejected this proposal.

Request:

(a) Is ENGLP aware of why Enbridge rejected the proposal? If yes, please provide details.

(b) In ENGLP's opinion, would the proposed "modified" T3 service contravene determinations made in the NGEIR decision?

(c) Would the market-based storage costs include daily load balancing by Enbridge? If yes, please describe the mechanics of such a service.

(d) Would the proposed "modified" T3 service raise any regulatory or ratemaking concerns according to ENGLP?

(e) Would ENGLP prefer a modified M17 rate with daily load balancing services from Enbridge or a modified T3 service as proposed above? Please provide reasons for the preferred option.

Responses:

(a) ENGLP is not aware of why Enbridge rejected the proposal.

(b) In ENGLP's view, the "modified" T3 service may contravene the NGEIR Decision, because the Board determined in the NGEIR Decision that: (a) T3 service (an in-franchise, semiunbundled service) customers would be allocated cost-based regulated storage using the excess methodology; and (b) any storage required above this amount would need to be procured at market rates. ENGLP's proposal with respect to the "modified" T3 service was an attempt to resolve service issues with Enbridge.

(c) No, daily load balancing is currently included in the T3 service.

(d) See response to (b) above. The "modified" T3 service could be viewed as discriminatory to ENGLP since different customers within the same rate class (T3) would be treated differently. Existing T3 customers would have access to a certain allocation of cost-based storage, and ENGLP would not.

(e) While ENGLP had proposed a modified T3 service, Enbridge has been unwilling to discuss this modification. As a result, the details of how this proposal might be operationalized have not been confirmed (i.e. the inter relationship between the gas supply tools (including access to storage, injection and withdrawal rights) and the services themselves (daily balancing and seasonal storage)).

Subsequently, ENGLP has initiated discussions with Enbridge in order for ENGLP to obtain daily balancing and storage services at market rates. These discussions have highlighted the complex relationships between the gas supply tools used to provide daily balancing and seasonal storage. As a result, ENGLP is of the view that the existing T3 rate, which includes no-notice daily balancing and seasonal storage at cost based rates, would be the most practical option. ENGLP understands that the amount of allocated storage under the T3 tariff is not sufficient to manage the typical daily and seasonal T3 customer requirements and any incremental storage required/requested by ENGLP is at market based rates effectively resulting in a combined cost-based and market-based rate. This option has the advantage in that it has been in existence for a number of years and the details, including the relationship between daily balancing and market based storage, have been tested by the Board and interveners over that time.

Enbridge 1

Reference: **ENGLP Evidence, page 6, lines 12-13**

Request:

Please provide the date that ENGLP expects to be in-service and ready to accept gas from Enbridge Gas Inc. ("Enbridge Gas") at the Dornoch meter station.

Response:

ENGLP expects to be in-service before May 1, 2020.

Enbridge 2

Reference: **ENGLP Evidence, page 22, lines 3-6;**
EB-2018-0264, Exhibit 2, Tab 1, Schedule 1, page 62
ENGLP Evidence, page 22, lines 7-12

Preamble: Enbridge Gas was and is of the understanding that ENGLP's preference is to pay for the cost of the Dornoch station upfront through a contribution in aid of construction (CIAC) as opposed to embedding those costs within the M17 monthly customer charge.

Request:

(a) Please confirm Enbridge Gas provided ENGLP with the option to either include the capital costs of the Dornoch meter station within the M17 monthly customer charge or pay this amount as an upfront CIAC payment, and that ENGLP elected to make a CIAC payment.

(b) Please confirm the Dornoch Station will only provide service to ENGLP.

(c) Please confirm ENGLP included amounts relating to the customer station in its capital budget and revenue requirement calculations in its EB-2018-0264 Rate Application to the Board.

(d) Please confirm that the Rate T3 monthly customer charge includes recovery of the revenue requirement for rate base (net of any CIAC) and O&M costs associated with customer-specific stations.

Responses:

(a) Confirmed.

(b) Confirmed.

(c) EPCOR included $2.935 million for the customer station in its capital expenditures and revenue requirement in its EB-2018-0264 Rate Application ("Rate Application"). Enbridge subsequently increased the CIAC for the customer station to $4.023 million (an increase of approximately 37%). This increase was not included in the Rate Application. However, the OEB approved two variance accounts (Storage and Transportation Variance Account for Rates 1, 6 & 11 and Storage and Transportation Variance Account for Rate 16) in order to address changes to the CIAC, which would include increases charged to EPCOR by Enbridge or decreases that may result from an OEB decision in this proceeding.

(d) ENGLP is not familiar enough with the derivation of the Monthly Charge for the T3 service to confirm this statement without significant research.

Enbridge 3

Reference: **ENGLP Evidence, page 26, lines 4-5**

Preamble: *"…Enbridge is the only party able to provide the necessary daily balancing of ENGLP's gas volumes…"*

Request:

(a) How many market participants did ENGLP contact with an intent to procure balancing services?

(b) How many request-for-proposals (RFPs) did ENGLP issue to procure balancing services?

(c) Please provide all correspondence and/or RFPs that ENGLP has issued to other market participants.

Responses:

(a) In June of 2019, ENGLP posted an RFP, #729707, for Gas Supply Planning & Nomination Services. The RFP invited interested proponents who were qualified and interested in development of "a strategy to acquire the necessary services to meet the 5 year Demand Forecast on a cost effective and reliable basis" to respond. The RFP contemplated the use of multiple suppliers where appropriate to perform supply services including required balancing of the South Bruce pipeline, in accordance with the M17 tariff. Two proponents responded, and in discussions with them, they advised that daily balancing as contemplated by the M17 tariff could not be provided by the market other than the interconnecting pipeline.

ENGLP engaged ECNG L.P. ("ECNG") to be its system operator after considering their qualifications, including relevant industry experience as summarized below. In this role, ECNG will accept supply nominations from ENGLP's customers and issue nominations to suppliers (at Dawn, Kirkwall and Parkway) and to Enbridge on a daily basis to deliver these supplies to Dornoch.

ECNG has been performing this function for Utilities Kingston ("UK") for ten years and continues to do so. UK's daily nominations for upstream supply include accessing transportation contracts from TransCanada Energy ("TCE"), the sole physical connection for gas supply for UK's franchise. In its 30 years of experience, ECNG performed a similar function for the Corporation of the City of Kitchener – Kitchener Utilities ("KU") for more than a decade. For KU, the connections for gas supply are from one interconnecting pipeline company Enbridge (formerly Union Gas). In ECNG's experience, in both client circumstances, based on existing technology, systems, processes and nomination rules the service provided by their sole interconnecting pipelines is the only way to accomplish daily balancing.

Per ECNG, daily balancing service means an after-the-fact gas supply allocation calculated as the difference between the metered quantity (demand) at the custody transfer meter and the nominated supply. To address this difference, there is either injected supply (excess supply) or supplemented supply (excess demand) into/from an imbalance account. In UK's case the imbalance account is tracked by TCE in UK's LV1 account and in KU's case in its T3 storage account. In both instances, ECNG advises that this type of service is not available in the market as it can only be provided by the interconnecting pipeline with access to real time data, physical supply, line-pack and/or storage.

(b) See the response to (a) above.

(c) See the response to (a) above.

Enbridge 4

Reference: **ENGLP Evidence, page 21, lines 4-6**

Preamble: *"…despite ENGLP asking for sufficient capacity to meet its Southern Bruce requirements as early as October 1, 2015."*

Request:

(a) Please indicate the date on which ENGLP provided Enbridge Gas executed copies of each of its M17 transportation contracts with Enbridge Gas. For clarity, please provide a date for each of the two M17 contracts executed.

(b) Please indicate the in-service dates and contract quantities listed in each of the above noted M17 transportation contracts.

Responses:

(a) ENGLP provided Enbridge Gas with an executed copy of the M17 Transportation Contract (M17001) on October 1, 2019. ENGLP provided Enbridge Gas with an executed copy of the M17 Transportation Contract (M17000) on January 10, 2020.

ENGLP also provided Enbridge Gas with an executed copy of a Financial Backstopping Agreement in which ENGLP indemnified Enbridge against certain costs associated with the Owen Sound expansion as of June 1, 2017.

(b) The M17 Transportation Contract (M17001) was effective as of the date of execution (October 1, 2019) with Transportation Services commencing the later of November 1, 2020 or the day following the date that all of the conditions precedent set out in the Precedent Agreement dated September 27, 2019 have been satisfied or waived by the party entitled to the benefit thereof.

The Contract Demand for the M17001 agreement is 8,863 GJ.

The M17 Transportation Contract (M17000) was effective the date of execution with Transportation Services commencing the later of:

1. May 1, 2020;
2. Thirty days after Shipper provides Enbridge with written notice that it requests the Transportation Services to commence, provided that such date shall be not be later than May 1, 2020;
3. Day following the date that all of the conditions precedent set out in the Precedent Agreement dated September 27, 2019 have been satisfied or waived by the party entitled to the benefit thereof.

The Contract Demand for the M17000 agreement is 3,310 GJ.

Enbridge 5

Reference: **ENGLP Evidence, page 36, line 12**

Preamble: *"…the initial M17 rate application included a load balancing agreement (LBA)…"*

Request:

Please confirm that Enbridge Gas' modifications to the original M17 proposal came about as a result of ENGLP's dissatisfaction with the industry standard Load Balancing Agreement (LBA) and requirement for daily nominations.

Response:

See the response to Staff 12(c).

Enbridge 6

Reference: **ENGLP Evidence, page 39**

Preamble: ENGLP states that it was "prepared to consider a 'modified' T3 service whereby the cost base storage embedded in the T3 service would be replaced with market-based storage costs."

ENGLP goes on to list the following key elements of such an agreement:

(a) ENGLP would contract for a firm daily contract quantity whereby firm gas would be delivered to Enbridge at Dawn 365 days a year, effectively providing its own commodity requirements. This would be based on the projected annual load for the following year divided by 365,

(b) ENGLP agreed that its storage requirements under the modified T3 service would be market based,

(c) Enbridge in turn would provide daily load balancing as it does with the T3 service.

Enbridge Gas revised its M17 service in an effort to accommodate the requests outlined above. Enbridge Gas was and is of the view that Rate M17, combined with market-based storage and balancing services, provides the above-noted elements requested by ENGLP.

Request:

(a) Please articulate the specific ways in which Enbridge Gas' M17 service, combined with market-based storage and balancing services, **succeeds** in meeting the requirements noted above by ENGLP.

(b) Please articulate the specific ways in which Enbridge Gas' M17 service, combined with market-based storage balancing services, **fails to** meet the requirements noted above by ENGLP.

Responses:

(a) and (b) The modified T3 service includes an integral daily balancing service that would continue to be subject to the OEB's ongoing oversight. The proposed M17 service does not permit an imbalance to exist therefore ENGLP would be required to contract with Enbridge for a market-based daily balancing service to address any imbalances (and as ENGLP is contracted to Enbridge for ENGLP's Rate 16 Customer, these customers will also be directly exposed to this condition). Since market-based services are not subject to regulatory oversight, the service may be subject to monopoly rents or potentially not available at all in the future.

The modified T3 service would also result in substantially fewer daily nominations, whereas the proposed associated market based M17 daily balancing service would require regular daily nominations to ensure that the limited balancing provisions are not exceeded which would trigger overrun penalties.

Enbridge 7

Reference: **ENGLP Evidence, page 23**

Request:

Please confirm that TC Energy holds capacity on Enbridge Gas' Albion pipeline (a.k.a. Segment A of the GTA Pipeline).

Response:

ENGLP is generally aware that Enbridge offers its Rate 332 transportation service on the Albion pipeline and that TransCanada has contracted for capacity on this system. However, as indicated in footnote 33 of the above-noted reference (ENGLP Evidence, page 2), these transportation contracts were entered into subsequent to commitments made by Enbridge (formerly Union Gas) to construct the Union-Enbridge customer specific station.

Enbridge 8

Reference: **ENGLP Evidence, page 36, lines 12-17**

Preamble: Enbridge Gas is of the view that the original M17 proposal and the inclusion of an industry standard LBA was more than adequate to alleviate ENGLP's concerns with regard to daily balancing.

Request:

Please complete the following table comparing the no fee daily variance threshold allowed for as part of the LBA proposal included in the original M17 proposal to EPCOR's load.

	No Fee LBA Tier 1 Upper Limit (GJ)	No Fee LBA Tier 1 Upper Limit (m^3)[1]	Year 10 Forecast Peak Daily Load (m^3/d)	Balancing Limit as % of Year 10 Peak Daily Load
Daily	2,111	54,156		

Response:

Please see the responses to questions in Staff 12 and ENGLP Evidence, pages 36-38 for an overview of ENGLP's position regarding the LBA proposal and why it did not alleviate ENGLP's concerns with regard to daily balancing.

FRPO 1

Reference: **ENGLP Evidence, pages 17-18**

Preamble: ENGLP provides its assessment and important differentiating characteristics of the STELCO Application from the Owen Sound Reinforcement Project. We would like to understand better the evidence in that proceeding and basis for the Board's decision to support that approach.

Request:

(a) Please provide the evidence that ENGLP refers to in EBLO 249.

   i. Please provide relevant parts of the decision that support the Board's approval of that approach including exclusion of the customer station from recovery.

Response:

(a) Attached to this response is a copy of the relevant EBLO 249 evidence, a copy of the relevant parts of the OEB's Reasons for Decision, dated February 14, 1996, and Union Gas Limited's response to Board Staff IR #1, 5, and 29.

Please note that ENGLP was initially of the view that the requirement to pay a CIAC in respect of the Stelco Lake Erie Works Program excluded recovery in costs required to rebuild the meter station.[1] However, on review of IR #29, it is clear that the cost of the meter was included in the overall project economics.

[1] ENGLP Evidence, page18, lines 3-8

STELCO LAKE ERIE WORKS ["LEW"] REINFORCEMENT PROGRAM

SECTION 1
PROJECT SUMMARY

1. Union Gas Limited ["Union"] executed a contract with Stelco Lake Erie Works ["LEW"] for 875 $10^3m^3/d$ firm transportation service and 160 $10^3m^3/d$ of interruptible transportation service effective November 1, 1994 or later. As a result of this demand, Union requires increased pipeline capacity to meet the need of the LEW facility.

2. To meet increased capacity requirements, Union is seeking an Order granting leave to construct, in total, 40.95 kilometres of NPS 12 pipeline consisting of the following three sections:

   1) Dominion Line Looping;
   2) Tillsonburg Line Looping; and
   3) Nanticoke Line.

3. Union plans to construct the proposed pipeline facilities during the 1994 construction season at a total estimated cost of **$10,353,000**. The total project cost, including station and blast furnace service line costs, is estimated at **$13,363,000**. The project is being constructed exclusively to meet the additional requirements of Stelco LEW.

4. An economic analysis has been completed in accordance with the requirements of the Ontario Energy Board ["OEB"] Report on System Expansion EBO 134. It can be concluded from this analysis that the proposed facilities are in the public interest as the project has a profitability index ["PI"] of **.96** utilizing a 15-year economic analysis.

5. Stelco has negotiated with Union to pay an aid-to-construct of $4,957,000 over a 24-month period subject to a 13.8% interest rate with deferred payments for three months.

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the Canadian Gypsum plant. Union also noted the potential to further increase natural gas use at the blast furnace, since a portion of the blast furnace remains on coke.

2.0.4 Union described the Stelco contract as having the longest term of any industrial contract on its system. Stelco indicated that it was reluctant to commit for a period greater than five years in order to maintain operational flexibility if the production of the plant changed and to have the opportunity to substitute other fuels for the natural gas loads if fuel prices change after the five-year contract has expired. Stelco also indicated that it would not compensate Union for any unrecovered capital costs, in the event the contract is not renewed.

2.0.5 Union and Stelco described the environmental benefits of converting a portion of the blast furnace to natural gas. There would be a reduction in emissions of carbon dioxide and sulphur dioxide from the blast furnace. There would also be a reduction in the coal dust due to reduced needs for coal handling and in ash disposal.

2.0.6 The profitability index for the project was estimated at 0.96 using E.B.R.O. 476-03 rates and 0.98 using E.B.R.O. 486 proposed rates. These profitability indices were calculated over a fifteen year period, and included the contribution in aid of construction of $4.9 million. The revenues associated with the interruptible volumes that were being firmed up, termed by Union as "volumes at risk", were also included in the calculation of the profitability index.

Positions of the Parties

2.0.7 Union took the position that the potential for Stelco to terminate the contract after five years is speculative and the relative prices of alternative fuels would have to change very dramatically before Stelco would switch fuels. In Union's view, there would be no undue burden on rates for any individual group or rate class from the construction of these facilities, but there would be an immediate undue burden if the facilities were not built and Stelco decontracted its existing interruptible load. Union also noted that, if the facilities were constructed, there would be an ability to mitigate any reduction in Stelco volumes through potential additional deliveries

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File 10

UNION GAS LIMITED

STELCO ("LEW") REINFORCEMENT PROGRAM

Response to Interrogatory
from
Ontario Energy Board Staff

Interrogatory #1

Section 2 - Market Requirements

Does Union plan to use the new sections of pipeline as an alternative to serving any of its existing market between Ancaster and Nanticoke? Other than the increased service to LEW, are any new customers planned to be served off of the new pipeline sections that could not be served from the existing system?

Response:

Union does not plan to use the new sections of pipelines as an alternative to serving its existing market between Ancaster and Nanticoke. No new customers are planned to be served directly off the new pipeline sections. Connection to the Nanticoke Line would be considered to serve industrial customers should they want natural gas in the future. The new pipeline sections are only partial loopings of certain sections of the existing pipeline system and will be operated as an integral part of the system to serve the Nanticoke area.

Witness: L. R. Hyatt
Date: 1994 09 20

UNION GAS LIMITED

STELCO ("LEW") REINFORCEMENT PROGRAM

**Response to Interrogatory
from
Ontario Energy Board Staff**

Interrogatory #5

Section 2 - Market Requirements

Paragraph 17 refers to LEW's weakened position relative to its other suppliers should a contract longer than five years be signed with Union. Please explain why Union's 15 year commitment (to ensure payback) is not compromised by LEW's 5 year contract. Is it expected that at the end of the 5 year contract LEW will re-evaluate its fuel supply position?

Response:

Union's position is not compromised by a 5-year contract because a switch to heavy fuel oil or coal would require significant capital expenditure (see Union's response to Board Staff Interrogatory #4) after LEW has already spent over $5 million to use natural gas. These future capital expenditures would have to be factored into the production costs associated with either heavy fuel oil or coal and would make a future switch cost prohibitive. More specifically, the combined capital and fuel costs of the alternates would have to be cheaper than the fuel cost of natural gas.

Witness: R. J. Brintnell
Date: 1994 09 20

UNION GAS LIMITED

STELCO ("LEW") REINFORCEMENT PROGRAM

Response to Interrogatory
from
Ontario Energy Board Staff

Interrogatory #29

Section 3 - Facilities

Please reconcile the capital cash flow figures in Schedule 5 with the estimated capital and environmental costs shown in Schedules 1 and 2. If the estimated station and service line costs shown on Schedule 3 have not been included in the DCF analysis please provide an explanation as to why they have been excluded.

Response:

Section 4, paragraph 4, states that the environmental costs are included in Schedule 1, but are also identified separately in Schedule 2. The estimated station and service costs shown in Schedule 3 have been included in the DCF analysis. Paragraph 13 states that the *"interest during construction (IDC) for capital costs incurred before the in-service date of August 15, 1995 is included in the DCF analysis. However, IDC is excluded after this date as the DCF analysis inherently captures IDC throughout the discounting process"*. The table attached as Schedule A provides a reconciliation of the numbers shown in Schedules 1 and 2 and the capital numbers used in the DCF analysis.

Witness: G. W. Connors
Date: 1994 09 20

E.B.L.O. 249
Interrogatory #29
Board Staff
Schedule A

Schedules 1 and 2	
Total Pipeline Cost (from Schedule 1)	10,220,000
Total Station and Service Line Costs (from Schedule 3)	2,844,000
Total Project Cost	13,064,000
Less Estimate of IDC during F96	(177,000)
Total	12,887,000
Less Aid-to-Construct	(4,957,000)
Total Used for DCF Analysis	7,930,000
Economic DCF Analysis	
Capital Cost Flow - 1996	7,655,000
- 1997	275,000
	7,930,000

FRPO 2

Reference: **ENGLP Evidence, Appendix A**

Preamble: We are interested in understanding better how other jurisdictions have viewed commercial and regulatory obligations of a monopoly host utility to its embedded utility when the two could be or have been competing for the same service territory.

Request:

In ENGLP's expert's experience, has a regulator approved a host utility providing service to an embedded utility a rate or cost higher than it would charge itself for the same service to the same service territory.

Response:

Elenchus is not aware of a regulator that has approved a host utility providing service to an embedded utility a rate or cost higher than it would charge itself for the same service to the same service territory. Elenchus has not conducted a survey of other jurisdictions as a basis for responding to this question. It may be noted that other Canadian jurisdictions have not implemented policies for the provision of natural gas service to new areas on a competitive basis similar to the Ontario regulatory regime.

EP-ENGLP-1

Reference: **ENGLP Evidence, page 10**

Preamble: "This approach ignores the first step in the EBO 134 test and emphasizes the second step, except Enbridge does not detail how the expansion actually results in an undue impact such that ENGLP should be required to pay a CIAC."

Request:

(a) Please explain ENGLP's understanding of the "first step in the EBO 134 test".

(b) Please provide ENGLP's calculation of the "first step in the EBO 134 test" showing all numbers.

(c) Please explain ENGLP's understanding of the term "an undue impact".

(d) Please provide the threshold number rate impact between due rate impact and undue rate impact.

Responses:

(a) ENGLP's understanding of the "first step" of EBO 134 is the discounted cash flow analysis of incremental costs and revenues.

(b) ENGLP is unable to complete this calculation as it does not have access to Enbridge's incremental costs and revenues.

(c) ENGLP is not aware of OEB pronouncements on all the factors, or the weighting of individual factors, it takes into account when determining if a subsidy creates an "undue impact" in reference to EBO 134. This is a matter for the OEB's discretion and should depend on the factual context.

(d) Please see response to (c) above.

EP-ENGLP-2

Reference: **ENGLP Evidence, page 10**

Preamble: "ENGLP does not agree that its demand was the sole driver for either the need or the timing of expansion."

Request:

(a) Please list all drivers for the need for this project, including load forecast for each driver.

(b) Please list all drivers for the timing of this project including timing date for each driver.

Responses:

(a) Enbridge has not provided a comprehensive list of "all drivers for the need for this project" other than the information included in its Application and in response to ENGLP IR in Exhibit I.EPCOR.2a)(v), wherein Enbridge stated that the percentage of the ENGLP demand being provided by the proposed reinforcement facilities is approximately 18% of the total expansion capacity.

(b) Enbridge has not provided a comprehensive list of "all drivers for the timing of this project including timing date for each driver" other than the information included in its Application and in response to ENGLP IR in Exhibit I.EPCOR.2a)(v) wherein Enbridge stated that the percentage of the ENGLP demand being provided by the proposed reinforcement facilities is approximately 18% of the total expansion capacity.

EP-ENGLP-3

Reference: **ENGLP Evidence, page 15**

Preamble: "If the Enbridge policy is to exempt customers from paying a CIAC because an incremental demand at Dawn hub increases the liquidity, then ENGLP can similarly claim an exemption as its increase in demand at Dawn will also proportionately increase liquidity."

Request:

(a) Please explain how ENGLP increases liquidity at Dawn hub.

(b) Please provide ENGLP's estimate of liquidity at Dawn with and without ENGLP's estimated load.

Responses:

(a) ENGLP understands that Enbridge's position is that expansions of the Dawn-Parkway system to serve downstream markets, where a first stage EBO 134 test had a PI of less than 1.0, are not subject to a CIAC. Enbridge supported this position on the basis that the expansion results in an increase in demand at Dawn that also increases liquidity[1]. Following Enbridge's logic and past practices, ENGLP's request for capacity would similarly increase the demand for gas at Dawn, and proportionately increase liquidity, at a substantially lower expansion cost. Overall, ENGLP should be subject to the same economic test as Enbridge applies to other downstream markets.

(b) ENGLP does not measure liquidity at Dawn and is unable to provide the information requested.

[1] Exhibit I.EPCOR.3b)

EP-ENGLP-4

Reference: **ENGLP Evidence, pages 15 and 16**

Preamble: "The implication of this approach is that ENGLP is required to fully pay for the expansion capacity that ENGLP requires, but also is required to contribute its proportionate share of all Other Transmission projects that have a PI<1.0. ENGLP notes in contrast, that a 3-stage economic test analysis is offered to Dawn-Parkway expansion capacity contracted by customers in Eastern Ontario, Quebec and the Northeast US."

Request:

(a) In ENGLP's opinion, what would be a fair way to allocate the cost for expansion capacity between EGI and ENGLP ratepayers?

(b) Please explain ENGLP's understanding of when it is appropriate for an Ontario natural gas distributor to use a 3-stage economic test analysis and when it is not.

Responses:

(a) ENGLP's view is that it should be subject to the three stage transmission line expansion economic test set out in EBO 134. As noted in the evidentiary record referenced above, it is unfair to require ENGLP to both fully pay for the cost of its expansions (i.e. pay a CIAC such that the PI=1.0) and also cross subsidize other ratepayers when other expansion customers trigger a transmission line expansion that results in a PI <1.0., but such other project economics derive the benefit of a three-stage economic test. As a specific and current example, Enbridge has determined that the PI=0.31[1] for the remainder of the expansion capacity for their Owen Sound Transmission Line Expansion Project to serve in-franchise demands. Enbridge also confirms that upon rebasing, the revenue requirement associated with this expansion will be recovered in all rates including M17[2].

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

(b) ENGLP understands that distribution system expansion pipeline projects are subject to the guidelines under EBO 188, while transmission pipelines must fulfill the requirements under EBO 134. In this case, Enbridge is expanding one of its transmission lines and therefore should apply the EBO 134 economic test for expansion of transmission lines in the Union South Rate Zone. As the Board confirmed in Filing Guidelines on the Economic Tests for Transmission Pipeline Applications[3], the first stage is a test based on a discounted cash-flow (DCF) analysis (if the results indicate a profitability index of 1.0 or greater the analysis ends here), the second stage includes all quantifiable public interest factors regarding costs and benefits, and the third stage takes into account all other relevant public interest factors plus the results of stages one and two. A project could be accepted if it passed stage one, otherwise, stages two and three must be completed before the project is fully evaluated.

[3] EB-2012-0092

EP-ENGLP-5

Reference: **ENGLP Evidence, page 16**

Preamble: "Also, in response to an ENGLP interrogatory asking for the annual impact to a Union South residential if the CIAC was not recovered from ENGLP, Enbridge noted that the bill impact would be $0.12, which represents less than 0.1% of their annual bill."

Request:

(a) Please confirm that ENGLP does not believe that a residential bill impact of $0.12 is not an undue subsidy.

(b) Please explain what factors the OEB should take into account in determining if a subsidy is undue.

Responses:

(a) Confirmed.

(b) Please see response to EP-ENGLP 1(c).

EP-ENGLP-6

Reference: **ENGLP Evidence, page 21**

Preamble: "If in fact Enbridge has reserved the capacity for the Saugeen Project in priority to ENGLP's request, despite its lack of OEB approval of the Saugeen Project facilities, the implication is that the 3,848 m^3/h27 amount of the expansion capacity required to service ENGLP's total capacity request, and the related CIAC, is overstated."

Request:

(a) Does ENGLP believe that EB-2019-0183 Owen Sound and EB-2019-0187 Saugeen projects should not be looked at in isolation due their timing and the impacts of the two projects on system capacity?

(b) Would ENGLP consider filing a motion requesting the OEB to combine the EB-2019-0183 and EB-2019-0187 proceedings?

Responses:

(a) ENGLP understands that these two projects would not be looked at in complete isolation. Generally, in determining the need for the Owen Sound Reinforcement Project, a utility would take into account current forecasts for load growth, which would include expansion projects such as the Saugeen projects. The Saugeen projects would also be a consideration when applying the 3 stage test for EBO 134. ENGLP is of the view that when proposing expansion projects such as the Saugeen projects, a utility would confirm whether it has the system capacity to supply that expansion in advance of filing for their approval.

(b) No.

EP-ENGLP-7

Reference: **ENGLP Expert Evidence, page 1**

Preamble: "The current proceeding is not only a critical step in completing the South Bruce project, but also a critical step in fleshing out the OEB's vision of competitive community expansion. A central issue addressed by this evidence is the extent to which the terms and conditions of gas service provided by Enbridge Gas Inc. ("Enbridge") to new distributors will be compatible with the principles of a level playing field between existing and new distributors. Based on my analysis of the issues I have concluded that the Enbridge Gas proposals, if accepted by the OEB as filed, will establish precedents that will result in an approach that would provide a competitive advantage to existing distributors in any future competitive process."

Request:

(a) Why should there be a level playing field between existing and new customers in gas distribution in Ontario?

(b) Is there a level playing field between existing and new customers in electricity distribution in Ontario?

(c) Should existing gas customers be required to subsidize the creation of a level playing field that will only benefit new customers?

(d) If competitive advantage enjoyed by existing distributors results in lower rates for existing customers would not existing customers be better off if existing distributors are allowed to retain their competitive advantage?

Responses:

(a) Consideration of a level playing field does not relate to existing and new customers, it relates to existing and new distributors. For example, the proposals contained in the Elenchus evidence will not result in equal rates for existing and new customers; what it will result in is non-discriminatory cost pass-through to new customers whether they are served by a new or an existing distributor. The playing field between new and existing distributors will not be tilted on the basis of anti-competitive or discriminatory pricing practices of the transmission company that must be used by all competing distributors.

(b) No.

(c) No. The Elenchus proposals will not result in existing gas customers being required to subsidize the creation of a level playing field since all that is being proposed is that the cost being passed through to end use customers for identical facilities and services will be the same whether the competitive distributor is an existing or new distributor.

(d) Yes, provided that the competitive advantage is not the result of discriminatory practices of pricing.

EP-ENGLP-8

Reference: **ENGLP Expert Evidence, page 3;**
EBO 188 Final Report of The Board, January 30, 1998, page 19

Preamble: "Unless a standardized Stage 1 PI is established by the OEB, as well as clear guidelines for the Stage 2 and 3 tests, the proposed CIAC would set a precedent by tilting the playing field in favour of Enbridge and it would violate the principle of ensuring that the playing field is as level as practical for competitive community expansions."

"In order to ensure fairness and equity in the application and design of contribution requirements, the Board finds that all projects must achieve a minimum threshold P.I. of 0.8 for inclusion in a utility's Rolling Project Portfolio."

Request:

(a) Is Elenchus suggesting that the OEB set a standardized PI number such as it did when it approved a PI of 0.8 in its EBO 188 Final Report of The Board for inclusion of projects in the Rolling Project Portfolio? If the answer is yes, what PI would Elenchus consider appropriate?

(b) Please list the existing guidelines for the Stage 2 and Stage 3 tests and explain how each guideline could be made clear.

Responses:

(a) Elenchus evidence does not refer to EBO 188, the economic test for distribution system expansions, but rather deals with the application of the EBO 134 test for transmission line expansions. Enbridge's application is for the expansion of their Owen Sound Transmission Line pursuant to the EBO 134 economic test. Unlike the EBO 188 test, the EBO 134 test is a three-stage test.

(b) Elenchus does not think that the EBO 134 guidelines require further clarity at this time. EBO 134 Report sets out the requirements for a three-stage economic test to evaluate the feasibility of transmission line expansions. This EBO 134 three-stage test was reaffirmed by the Board in EB-2012-0092:

The Board believes that the economic feasibility test outlines in the EBO 134 Report continues to form a sound filing requirement for new pipeline transmission projects and are incorporated into this filing requirement."

In the recent Generic Hearing on Community Expansions (EB-2016-0004), the Board also included as an issue in the proceeding, the potential for amendments to the EBO 134 guidelines. The Board did not conclude any amendments were required.

The EBO 134 Report defines the three stages as follows:

The first stage of the EBO economic test is a discounted cash flow (DCF) analysis.

The second stage should be designed to quantify other public interest factors not considered at stage 1. All quantifiable other public interest information as to the costs and benefits should be provided at this stage.

The third stage should take into account of all other relevant public interest factors and the results for stages one and two.

The quote from the Elenchus evidence was intended to emphasis that "clear guidelines" would only be required if the Board were to accept Enbridge's position and thereby deviate from past practices. A departure from past practice would create uncertainty, at best, and a clear opportunity to undermine any future competitive distribution processes by opening the door to discriminatory practices, at worst.