Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

March 6, 2020

Ms. Christine Long
Registrar & Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc. – Owen Sound Reinforcement Project Leave to Construct & Rate M17 Application
OEB File Number: EB-2019-0183

In accordance with Procedural Order No. 2, please find attached the OEB staff submission in the above proceeding. The attached document has been forwarded to Enbridge Gas Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Zora Crnojacki
Project Advisor, Natural Gas Applications

Encl.

ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc.

Owen Sound Reinforcement Project
Leave to Construct & Rate M17

Applications

EB-2019-0183

March 6, 2020

Introduction

Enbridge Gas Limited (Enbridge Gas) applied on August 29, 2019 under section 90(1) of the *Ontario Energy Board Act, 1998* (OEB Act) for an order granting leave to construct approximately 34 km of 12-inch diameter natural gas transmission pipeline with a Maximum Operating Pressure (MOP) of 4670 kPa, located in the Municipality of West Grey and the Township of Chatsworth in the County of Grey (Owen Sound Project or Project). The Project is a reinforcement of Enbridge's Owen Sound System. The need of the Project is to provide additional transmission capacity to: i) supply EPCOR Southern Bruce Gas Inc. with gas to serve the area of South Bruce (Southern Bruce Project)[1] and ii) to supply the demand growth in Enbridge's Owen Sound System in-franchise area. The Project also includes upgrades to the existing Durham Station and a new valve/receiver site at the northern terminus.

Enbridge Gas also applied under section 97 of the OEB Act for an approval of the forms of easement agreement related to the construction of the proposed pipeline.

Construction of the Project is scheduled to commence at the beginning of spring 2020. The in-service date for the proposed facilities is November 1, 2020.

The application also includes a request for a new M17 firm transportation service for natural gas distributors. The service is in response to a request by EPCOR Natural Gas Limited Partnership (ENGLP) for natural gas transportation service to serve the area of South Bruce. Enbridge Gas is also seeking approval to modify the applicability of the existing Rate M9 and Rate T3 rate schedules for gas distributors to limit their applicability to existing natural gas distributors.

OEB staff has reviewed the evidence of Enbridge Gas, ENGLP, interrogatory responses filed by both parties (Enbridge Gas and ENGLP) and the argument-in-chief of Enbridge Gas. OEB staff supports the OEB granting leave to construct approval to Enbridge Gas for construction of the Project, subject to certain Conditions of Approval contained in Appendix A of this submission. OEB staff also supports the approval of the M17 Rate and Enbridge Gas's request for limiting the applicability of Rate M9 and Rate T3 to existing gas distributors. OEB staff however disagrees with Enbridge Gas's proposal not to allow existing gas distributors to return to Rate M9 or Rate T3 if they switch services.

[1] Southern Bruce Project was approved by the OEB in EB-2018-0263

This submission is organized into two main sections:

- Leave to Construct Application
- Rate M17 Application and Proposed Modifications to Rate M9 and Rate T3

Process

The OEB issued a Notice of Hearing on October 1, 2019. The Notice was published in newspapers (English) on October 10, 2019.

The City of Kitchener, ENGLP Natural Gas Limited Partnership (ENGLP), Energy Probe Research Foundation (Energy Probe), Federation of Rental-housing Providers of Ontario (FRPO), Industrial Gas Users Association (IGUA), School Energy Coalition (SEC), Six Nations Natural Gas Company Limited (SNNG) and TransCanada PipeLines Limited (TransCanada) applied for intervenor status. Energy Probe, FRPO, IGUA and SEC also applied for eligibility to apply for cost awards. All parties that applied for intervenor status were approved as intervenors. In addition, Energy Probe, FRPO, SEC and IGUA were deemed eligible to apply for an award of costs pursuant to the OEB's *Practice Direction on Cost Awards*.

On November 1, 2019 the OEB issued Procedural Order No. 1 setting the schedule for written interrogatories. According to the schedule OEB staff and interveners filed interrogatories by November 14, 2019. Enbridge Gas's responses to interrogatories were due by November 28, 2019.

On December 6, 2019 ENGLP filed a letter requesting that the OEB allow the ENGLP to file expert and company evidence. On December 12, 2020 the OEB issued Procedural Order No. 2 setting the procedural schedule for filing the evidence, discovery on the ENGLP evidence and written submissions.

ENGLP filed written expert and company evidence on January 10, 2020. Enbridge Gas, OEB staff and intervenors filed written interrogatories on ENGLP evidence on January 24, 2020. ENGLP filed responses to the interrogatories on February 7, 2020. Enbridge Gas filed its Argument-in-Chief on February 21, 2020. According to the procedural schedule OEB staff and intervenors may file any written submissions by March 6, 2020. Enbridge

Gas may file any reply submissions with the OEB and serve them on all other parties by March 20, 2020.

LEAVE TO CONSTRUCT APPLICATION

This section covers public interest considerations that the OEB typically takes into account when reviewing an application under section 90 of the OEB Act:

- Need and Project Alternatives
- Project Economics
- Environmental Matters
- Indigenous Consultation
- Land Matters
- Conditions of Approval

Need and Project Alternatives

Enbridge stated that the need for the Owen Sound Project is:

1. To supply 10,648m^3/hr of natural gas over the next ten years to the Southern Bruce Project starting in the winter of 2020/2021

2. To supply Enbridge Gas's increased forecast customer demand of 13,864 m3/hr over the next four years starting in the winter of 2021/2022. Enbridge Gas's forecast total in-franchise growth over this period is nearly 7,800 customers.[2]

As these needs are greater than the capacity currently available on the Owen Sound System (except for the first year of ENGLP's anticipated demand for the Southern Bruce Project), Enbridge Gas is proposing to provide additional capacity.

ENGLP forecasted a ten year demand of 10,648m^3/hr required from Enbridge Gas. [3] To facilitate this request in 2019 (year 1), Enbridge Gas constructed a custody transfer station

[2] Enbridge Gas Evidence Exhibit E, Tab 3, Schedule 3: Customer Forecast Summary
[3] EPCOR's Rates Application EB-2018-0265 and EPCOR's Leave to Construct South Bruce Expansion Project EB-2018-0263

as sufficient capacity exits to serve the anticipated demand of the Southern Bruce Project in year one. Enbridge Gas will deliver a firm load of natural gas to the new custody transfer point on the existing Owen Sound System pipeline. Enbridge Gas also stated that ENGLP's 2019 requirements are partially offset by 2,508 m^3/hr load turned back in 2019 by a customer served by the Owen Sound System. This reduction of load was a result of Enbridge Gas's reverse open season. In order to meet ENGLP's full requirement of 10,648 m^3/hr over a 10 year period, Enbridge Gas proposes to construct the Project with a November 1, 2020 in-service date. EPCOR is seeking an initial contract term of 30 years.

The second component of the need is Enbridge's Owen Sound System area in-franchise growth forecast at 13,864 m3/hr over the 2019 to 2023 period. Enbridge Gas uses the Facilities Business Plan (FBP) approach to identify the infrastructure expansion projects needed to support the forecasted growth within specific geographic areas. The Owen Sound FBP is in Enbridge Gas's Union South rate zone and consists of 11 smaller service areas. Enbridge Gas explained that the FBP approach identifies future growth areas with the objective to plan for the least cost facilities and provide a long-term security of supply for the system. Enbridge Gas customer attachment forecast over the 2019 to 2023 period for the Owen Sound Project is based on historical attachments and local knowledge.

Enbridge Gas gave detailed consideration to three alternatives[4], including the Project, after rejecting ten other alternatives earlier in the process. Enbridge Gas stated that Demand Side Management (DSM) was not considered as an alternative to the Project because, in Enbridge Gas's view, results of DSM programs would not be sufficient to offset demand and would not materialize in adequate time to affect the in-service date of the Project.

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[4] Enbridge Gas Evidence Exhibit E, Tab 3, Schedule 4: Summary of Alternatives

Alt #	Alternative Description	Price (millions)*	Rationale
	<u>Proposed Project</u> Install 34.2km NPS 12 reinforcement Durham Gate station to Grey County Road 40.	$60.1	This length of pipe and diameter provides three years growth capacity equivalent to the other alternatives but at the most cost effective price.
Alt 1	Install 30.5 km NPS 16 pipeline from Durham Gate station to Sideroad 4B	$87.0	Provides similar capacity but at a higher price than the chosen alternative.
Alt 2	Install 40 km NPS 10 pipeline from Durham Gate Station to Grey Road 16.	$66.0	Provides similar capacity but at a higher price than the chosen alternative.

Enbridge Gas has identified the Project in Enbridge Gas's Utility System Plan and Asset Management Plan filed with the OEB[5].

Based on the evidence filed by Enbridge Gas, OEB staff submits that there is a need for the Project as it is required to meet demand for the Southern Bruce Project (which would be underpinned by a long-term contract) and Enbridge Gas in-franchise growth. OEB staff also submits that the preferred alternative is acceptable as it is the lowest cost alternative to meet the need for additional capacity.

Project Economics

The total costs of the Project is estimated to be approximately $69 million including interest during construction and indirect overheads.

An economic analysis was completed in accordance with the OEB's E.B.O. 134 report on *Economic Tests for Transmission Pipeline Applications* and associated Filing Guidelines (together referred to as E.B.O. 134). The Stage 1 economics shows an overall Profitability Index (PI) of 0.31 and a net present value (NPV) of negative $37.7 million. A PI of 0.31 indicates that the revenues from rates is not sufficient to recover the costs of the Project.

[5] EB-2018-0305, Exhibit C 1, Schedule 1, page 174 (AMP ID 863)

Since the Project does not have a PI of 1.0, in accordance with E.B.O. 134, Enbridge Gas conducted Stage 2 and 3 analyses to demonstrate that the Project is in the public interest. Stage 2 includes energy cost savings resulting of using natural gas instead of other fuels. These costs savings for in-franchise customers were estimated to be about $269 million over 20 years to $405 million over 40 years. Stage 3 analysis adds other public interest considerations resulting from the Project. The quantifiable benefits that Enbridge Gas calculated are: i) economic benefits to Ontario (i.e. direct and indirect estimated to be $71 million); ii) increase in direct and indirect employment related to the Project (i.e. estimated 894 jobs); iii) taxes Enbridge Gas would be paying (i.e. income tax to Federal Government estimated $ 4 million; municipal taxes estimated at $ 10 million) iv) employer health taxes v) environmental effects (i.e. not quantified but indicate reduction of carbon emission compared to other fuels).

A summary of Stages 1 to 3 in the evidence shows that the NPV for the Owen Sound Project is in a range of $302 to $ 438 million.

Enbridge Gas stated that the projected revenues from Rate M17 service to ENGLP is insufficient to recover ENGLP's share of the costs of the Project and therefore it requires a Contribution in Aid of Construction (CIAC) of $5.34 million. According to Enbridge Gas this amount is based on a proportionate share attributed to ENGLP for constructing the Owen Sound Project. OEB staff will address the issue of CIAC in the section on Rate M17 of these submissions.

OEB staff notes that Enbridge Gas used appropriate methodology set in E.B.O. 134 to evaluate the Project's economics and has no concerns with the results of the E.B.O. 134 assessment of Project's economics.

Environmental Matters

AECOM completed an Environmental Report (ER) identifying environmental and socio-economic features along the route of the Project. Mitigation measures to reduce the effects of construction are included in the ER. The ER was prepared in accordance with the *OEB's Environmental Guidelines for Location, Construction and Operation of Hydrocarbon Pipelines in Ontario [7th Edition, 2016]* (OEB Environmental Guidelines).

According to Enbridge Gas, environmental impacts related to the construction of the Project are minimal as the majority of the pipeline will be located within existing road allowances.

On August 31, 2018 Enbridge Gas distributed the ER to the members of the Ontario Pipeline Coordinating Committee (OPCC), affected conservation authorities, municipalities and other stakeholders for review and comments. A summary of the comments received in the OPCC review and Enbridge Gas's responses is on the record. The record was updated on November 27, 2019 [6] and shows that there are no unresolved issues or concerns raised in the ER review.

An archaeological assessment will be completed by a licensed archaeological firm along the pipeline route, as recommended in the ER. Stage 1 Archeological Assessment (AA) was completed and submitted to the Ministry of Heritage, Sport, Tourism and Cultural Industries (MHSTCI) and accepted into the register (P438-0115-2017). Stage 2 AA was also completed, submitted to the MHSTCI and accepted into the register (PIF P438-0158-2018). Enbridge Gas stated that it expect that the final review of the Stage 2 archeological assessment for the entire route of the Project is expected to be completed before the construction start. Enbridge Gas noted that "…should MHSTCI responses not be received prior to the anticipated construction start date it may consider initiating construction in areas that have been included in the Stage 1 and Stage 2 AA reports that have received MHSTCI acceptances." [7]

OEB staff has no concerns with the environmental aspects of the Project, given that Enbridge Gas is committed to implementing the mitigation measures set out in the ER. OEB staff notes that Enbridge Gas agrees with the draft Conditions of Approval proposed by OEB staff, including those that require Enbridge Gas to certify that it has obtained all approvals, permits, licences, and certificates required to construct, operate and maintain the proposed Project.[8]

OEB staff expects that Enbridge Gas will update on the status of the MHSTCI archeological assessment report review in its reply submission.

[6] Enbridge Gas Inc. Updated Evidence, November 27, 2019, Exhibit E, Tab 7, Schedule 3, pages 1-5.
[7] Enbridge Gas Inc. Response to OEB staff interrogatory # 17 b) c) d) e) f)
[8] Enbridge Gas Inc. Response to OEB Staff Interrogatory # 1

Indigenous Consultation

The OEB Environmental Guidelines sets out procedures and protocols for Indigenous consultation and the duty to consult on natural gas pipeline projects that are subject to the OEB's approval.

Enbridge is required to adhere to these procedures and protocols and to file the required documentation with the OEB as part of its evidence in support of its application. On March 11, 2017 Enbridge Gas provided a description of the Project to the Ontario Ministry of Energy Northern Development and Mines (MENDM) and received a delegation letter from MENDM on April 20, 2017 delegating procedural aspects of duty to consult to Enbridge. The Delegation Letter identified the following Indigenous communities to be engaged and consulted about the Project:

- Saugeen First Nation
- Chipewas of Nawash Unceded First Nation
- Métis Nation of Ontario Great Lakes Métis Council
- Historic Saugeen Métis

On August 29, 2019 Enbridge Gas filed the Indigenous Consultation Report (ICR) with MENDM and requested that MENDM determine if the procedural aspects of the Duty to Consult for the Project have been sufficient. The ICR was submitted for review and assessment to the MENDM and was filed with the application. On November 19, 2019 Enbridge Gas received a letter of opinion from MENDM.[9] MENDM stated that "...the procedural aspects of consultation undertaken by Enbridge to date for the purposes of the Ontario Energy Board's Leave to Construct approval for the Owen Sound reinforcement project is satisfactory." MENDM also noted in the letter of opinion that it expects Enbridge Gas to continue the Indigenous consultation with the affected communities and inform MENDM of any additional "…rights-based concerns/issues arise."

OEB staff submits that Enbridge Gas appears to have made efforts to engage with affected Indigenous groups and no concerns that could materially affect the Project have been raised through its consultation to date. MENDM's opinion is that the procedural aspects of the consultation as conducted by Enbridge Gas are satisfactory. OEB staff notes that continuity of consultation activities is expected to be maintained by

[9] Enbridge Gas Inc. Updated Evidence, November 27, 2019, Exhibit E, Tab 8, Schedule 3 MENDM Review Summary

Enbridge Gas and that Enbridge Gas has confirmed its commitment to continuous consultation with the Indigenous communities potentially affected by the Project.

Land Matters

The proposed pipeline will be located mostly within road allowance in the Municipality of West Grey, the Township of Chatsworth and the County of Grey.

Enbridge Gas will require approximately 3.5 acres of permanent easements. Enbridge Gas has acquired all necessary permanent easements.

Temporary land use (TLU) rights to facilitate easier and more efficient installation of the pipeline along road allowances will be required. Enbridge Gas requires a total of 7.815 hectares or 19.31 acres of TLU rights. Signed agreements have been secured for 41 of 55 properties where TLU rights are required. Enbridge Gas is actively negotiating with the affected landowners for the remaining 14 properties where TLU are required.[10] Options for temporary land rights will be obtained from the directly affected landowners. Enbridge Gas noted that it will make efforts to obtain these rights and if unable to obtain these rights it can still construct the pipeline within the road allowances.

Enbridge Gas has obtained two fee simple land right purchases it needs for the proposed new valve/receiver site, and expansion of the existing Durham Station.[11] Enbridge Gas is committed to continue to meet with landowners to further discuss and resolve whatever questions or concerns they may have.

According to section 97 of the OEB Act, "In an application under section 90, 91 or 92, leave to construct shall not be granted until the applicant satisfies the Board that it has offered or will offer to each owner of land affected by the approved route or location an agreement in a form approved by the Board." Enbridge filed a copy of Enbridge Gas' Form of Permanent Easement and form of Temporary Land Use Agreement for the land rights required and noted that these forms were previously approved by the OEB in the proceedings: 2016 Dawn Parkway Expansion[12],

[10] Enbridge Gas Inc. Response to OEB Staff Interrogatory # 15 (b)
[11] Enbridge Gas Inc. Argument-in-Chief, para 71, pages 21-22.
[12] EB-2014-0261

Panhandle Reinforcement Project[13] and Kingsville Transmission Reinforcement[14].[15] Enbridge stated that it has offered to all the affected landowners a form of easement agreement that has been approved by the OEB.

OEB staff has no concerns with the forms of agreement filed by Enbridge Gas.

Conditions of Approval Leave to Construct

Section 23 of the OEB Act permits the OEB, when making an order, to impose such conditions as it considers appropriate. OEB staff submits that the OEB should approve the Project subject to the Conditions of Approval attached as Appendix A to this submission.

Enbridge Gas reviewed and agreed in response to the OEB staff interrogatories with all of the draft Conditions of Approval proposed by OEB staff. In its Argument-in-Chief Enbridge Gas confirmed that it agrees with all of the conditions with the exception of condition 2(b)(i). Enbridge Gas proposed a modification of condition 2(b)(i) to remove the “ten days” requirement and place no other time constraint on filing the notice of construction start: [16]

i. The commencement of construction, ~~at least ten days~~ prior to the date construction commences

Enbridge Gas indicated that the OEB’s approval of this revised condition would be consistent with the OEB’s recent Decision and Order in Southern Bruce Project [17]. OEB staff notes that in EPCOR’s South Bruce Expansion case, referred to by Enbridge Gas, the OEB’s conditions of approval 2(b)(i) required that “…ENGLP must give the OEB notice in writing of the commencement of construction, as soon as construction begins.” Enbridge Gas did not provide any further rationale for its request that condition 2(b)(i) be modified.

[13] EB- 2016-0186
[14] EB-2018-0013
[15] Enbridge Gas Inc. response to OEB staff interrogatory 15 d)
[16] Enbridge Gas Inc. Argument-in-Chief para 13, page 14.
[17] EB-2018-0263

OEB staff expects Enbridge Gas to provide in its reply submission the rationale for proposing to modify condition 2(b)(i).

RATE M17 APPLICATION AND PROPOSED MODIFICATIONS TO RATE M9 AND RATE T3

This section of the OEB staff submission covers the following issues:

- Customer Specific Station Costs
- Contribution in Aid of Construction (CIAC)
- Proposed Rate M17
    - Cost-based Storage Services
    - Load Balancing
    - Monthly Customer Charge
- Proposed Modifications to Rate M9 and Rate T3 Rate Schedules

Customer Specific Station Costs

Enbridge Gas has constructed a customer station (i.e. the Dornoch customer station) to facilitate the connection of ENGLP's facilities to the Enbridge Gas Owen Sound System. This customer station is the interconnection point with ENGLP and provides for measurement and delivery of the volumes at the appropriate pressure. ENGLP paid $4.02 million for the customer station costs. However, in response to an interrogatory, ENGLP indicated that its share of the customer station costs should have been $0.[18] ENGLP stated that the costs of the customer station should have been included in the total capital cost of the Owen Sound Project and made an integral part of the three-stage economic test.

In its evidence, ENGLP noted that Enbridge Gas has not applied the practice of charging for customer-specific stations consistently. Prior to the amalgamation of Enbridge Gas Distribution (EGD) and Union Gas Limited (Union Gas), Union Gas received approval to construct a variety of new facilities at its Parkway site, including a new Union-Enbridge interconnection which included a measurement station and related facilities. The meter

[18] Enbridge Gas Response to OEB staff interrogatory # 8b.

station costs were added to the overall total project costs of $203.1 million. ENGLP argued that its customer station facility is similar to the sole purpose facility built to serve EGD in the above example. ENGLP expressed the opinion that the M17 rate design is flawed in that it duplicates the recovery of the revenue requirement associated with metering costs. According to ENGLP, the Dawn-Parkway Easterly Transmission Charge which forms the basis of the M17 transportation rate already includes the recovery of the revenue requirement associated with capital and operating costs of metering at interconnects. Yet, Enbridge Gas requires ENGLP to pay the upfront capital costs of the Dornoch metering station (or include the revenue requirement associated with the capital costs of the meter station in the monthly charge) as well as separately pay for the Dornoch O&M costs through the proposed monthly charge.

In its argument-in-chief, Enbridge Gas disagreed with ENGLP's claim that the Union-Enbridge interconnect was a customer-specific station. Enbridge Gas noted this is not a customer-specific station for a single distributor, but a station that links to a transmission pipeline that offers service to other gas transmitters. Enbridge Gas also clarified that its practice of charging for customer-specific station costs is consistent and confirmed that customer-specific station costs are recovered in the Rate T3 monthly customer charge. If ENGLP were to receive service under Rate T3 (a service that ENGLP prefers), the costs of customer-specific stations would be treated in the same manner as under Rate M17.

OEB staff submits that the customer station was built for the sole purpose of serving ENGLP. If ENGLP does not pay the costs directly, it means that Enbridge Gas customers would be paying for the costs in their rates and in effect would be subsidizing ENGLP's customers. The OEB's Generic Community Expansion decision determined that existing customers should not subsidize community expansion projects. The OEB noted, "The communities that receive the benefits will be paying the costs".[19] As the customer station is for the specific benefit of ENGLP customers and will be exclusively used to provide service to ENGLP customers, it is therefore appropriate that ENGLP pay for the customer-specific station costs.

Alternatively, ENGLP has argued that in order to determine the CIAC amount for the Project, the customer station costs should have been included in the three stage economic test. OEB staff disagrees with this proposed approach. ENGLP is required to pay for its

[19] Generic Community Expansion Decision with Reasons, EB-2016-0004, November 17, 2016, p.4.

proportionate share of the Owen Sound Project. If the customer station costs are included in the capital costs, ENGLP would only pay a portion of the customer-specific station costs. Considering that ENGLP is the sole driver and beneficiary of the customer station, OEB staff submits that it should bear the entire cost of the facilities.

ENGLP also argues that the M17 rate design is flawed because it duplicates the recovery of the revenue requirement associated with metering costs. OEB staff notes that the firm monthly transportation demand charge under Rate M17 includes two parts. The first part of the charge includes a contribution towards the recovery of Dawn-Parkway demand costs. The second part allows for a contribution to the recovery of Other Transmission demand costs.

In Enbridge Gas's OEB-approved cost allocation study for the Union Gas rate zones, the Owen Sound line is categorized as Other Transmission demand and is allocated to in-franchise customers in the Union South rate zone in proportion to design day demands. The Other Transmission demand rate recovers the costs of all other transmission assets (excluding Dawn-Parkway, Panhandle and St. Clair systems). The cost of the Dornoch customer-specific station has no bearing on the currently proposed M17 transportation rate as ENGLP has already paid for the customer station in full and therefore, the cost of the Dornoch station would not be included in Enbridge Gas's rate base.

Contribution in Aid of Construction (CIAC)

Based on Enbridge Gas's current forecasts for the in-franchise load growth, the Owen Sound system would have required reinforcement in 2022 in order to meet the winter demands of 2022/23. Enbridge Gas indicated that as a result of the request by ENGLP, the timing of the Project was accelerated as ENGLP requires incremental capacity for the winter of 2020/2021. ENGLP's requirements account for 18% of the capacity provided by the Project [20]. Given the significant, specific and identifiable nature of ENGLP's contribution to the need and timing of the project, Enbridge Gas is seeking a CIAC in the amount of $5.34 million to bring ENGLP's share of the project costs (18%) to 1.0.[21] In other words, the PI of the portion of the project that will service the in-franchise load growth of Enbridge Gas will still remain at 0.31.

[20] Enbridge Gas Inc. response to ENGLP interrogatory # 2 a) ii-iv
[21] Enbridge Gas Argument-in-Chief, para 9.

ENGLP disagreed with the view that its demand is the sole driver for either the need for or timing of the Project. ENGLP argued that its share of the incremental capacity is merely 18%, with 82% of the capacity being driven by Enbridge Gas's own in-franchise requirements. ENGLP further argued that Enbridge Gas has limited the economic analysis for the ENGLP portion of the Owen Sound line expansion to a Stage 1 economic test which triggered the need for a CIAC. The Stage 1 PI of the Project is 0.31. Since the PI for the Project that serves the expansion capacity of Enbridge Gas is less than 1.0, ENGLP argued that the cost of this capacity will be categorized as Other Transmission costs and allocated to all in-franchise customers in the Union South rate zone including Rate M17 customers. The implication of this approach according to ENGLP is that it is not only required to fully pay for the expansion capacity that ENGLP requires, but is also required to contribute its proportionate share of all Other Transmission projects that have a PI of less than 1.0.

ENGLP appears to be basing its argument on two different issues. The CIAC amount represents the delta between the total proportionate cost allocated to ENGLP and projected revenues under Rate M17 over a specific period. The CIAC amount will reduce the total cost of the Project when it is entered into rate base. The proportionate share of all Other Transmission projects is a rate design issue. The costs of Other Transmission projects, including the costs of the Project, will be categorized as Other Transmission costs and allocated to in-franchise customers in the Union South rate zone in proportion to design day demands. Other Transmission costs is a component of the rate design that includes the recovery of all transmission assets (excluding the Dawn Parkway, Panhandle and St. Clair system) used to serve in-franchise customers in the Union South rate zone. OEB staff submits that this treatment is consistent with the manner in which costs are recovered from all other customers for the use of the same assets.

ENGLP has further argued that when Enbridge Gas has undertaken expansion of transmission facilities it has rolled the entire costs into its revenue requirement. The resulting increase in its annual revenue requirement would be recovered from its entire customer base. Therefore, if the proposals of Enbridge Gas are accepted in this case (specific to charging a CIAC), it would establish a precedent that will force competitors to treat these costs as system expansion costs (to be collected solely from customers in the new service area) while allowing Enbridge Gas to treat them as system-wide costs (to be collected from all customers). This does not ensure a level playing field according to ENGLP as contemplated in the Generic Community Expansion Decision.

OEB staff notes that regardless of whether Enbridge Gas or ENGLP had been selected to serve South Bruce, the selected gas distributor would have had to bear the same costs of reinforcement. Like ENGLP, Enbridge Gas would have recovered the reinforcement costs from customers under its existing rate classes. The difference is that there are existing customers in the Enbridge Gas's residential rate class while ENGLP being a new utility does not have existing customers. Elenchus Research Associates (Elenchus, the expert evidence provider to ENGLP) in response to an interrogatory, acknowledges 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 further notes that it does not suggest that any inherent advantages should be offset.[22] The argument of ENGLP merely states an advantage that an incumbent distributor has and as noted above, Elenchus has acknowledged this. OEB staff further notes that the Generic Community Expansion Decision did permit existing gas distributors to provide service under an existing rate.[23]

ENGLP is also of the view that the CIAC of $5.34 million is not appropriate because Enbridge Gas has neither applied the E.B.O. 134 test in compliance with the E.B.O. 134 Guidelines, nor in a manner that is consistent with how E.B.O. 134 has been applied by Enbridge Gas in similar situations. Enbridge Gas in its argument-in-chief has indicated that this is not the case. Enbridge Gas referred to the Stelco Lake Erie Works Reinforcement Program where a three-stage analysis was used to assess the economic feasibility of the project in accordance with E.B.O. 134 and a CIAC was paid.[24]

Enbridge Gas further referred to section 7.29 of E.B.O. 134 that states:

> The Board finds that a contribution in aid of construction should be required for those projects where the sole purpose is to supply gas into a new area and where the evaluation process demonstrates an undue burden on existing customers

The above finding indicates that a CIAC under E.B.O. 134 is appropriate in certain cases. In response to an interrogatory, Enbridge Gas noted that if the proposed CIAC is not

[22] ENGLP response to OEB staff interrogatory #4.
[23] Decision with Reasons, OEB Generic Proceeding on Community Expansion, EB-2016-0004, November 17, 2016, page 21.
[24] Enbridge Gas Inc. response to OEB staff interrogatory # 12.

recovered from ENGLP, the incremental bill impact for a Union South residential customer is expected to be $0.12 per year.[25] In its evidence, ENGLP implies that $0.12 per year is not an undue subsidy. However, the OEB in the Generic Community Expansion Decision has clearly determined that a subsidy from existing customers to fund community expansion is not appropriate. Accordingly, OEB staff does not object to the proposed CIAC amount.

Proposed Rate M17

The proposed service under the Rate M17 rate schedule is a firm point-to-point transportation service between an applicable receipt point (i.e. Dawn, Kirkwall or Parkway) and the delivery area. Enbridge Gas has developed the Rate M17 transportation service for gas distributors in response to changes in the competition for natural gas distribution in Ontario[26]. In response to ENGLP's request for transportation services, Enbridge Gas has introduced the M17 service that includes a transportation service with access to competitive storage options. Currently, some natural gas distributors within Ontario receive cost-based storage. In the Natural Gas Electricity Interface Review (NGEIR) Decision, the OEB determined that new ex-franchise customers of the former Union Gas Limited would not be eligible for cost-based storage.[27] The current rate classes (M9 and T3) which provide services to gas distributors include cost-based storage services. Enbridge Gas has therefore proposed a new rate class that caters to gas distributors post NGEIR. ENGLP is the first gas distributor post NGEIR that has requested service from Enbridge Gas.

Enbridge Gas has indicated that its proposed M17 rate design is consistent with the rate design principles that underpin Enbridge Gas's existing ex-franchise rates (Rate M12, Rate C1, Rate M13 and Rate M16). The proposed rate design includes the following components:

1. A monthly customer charge to recover fixed customer-related costs associated with having the gas distributor attach to Enbridge Gas's system.
2. Firm monthly transportation demand charges for each of the transportation paths (Dawn, Kirkwall or Parkway) to the delivery area.
3. Commodity charges to recover incremental Dawn-Parkway compressor fuel and Unaccounted for Gas associated with providing the transportation service.

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[25] Enbridge Gas Inc. response to ENGLP interrogatory #2 j).
[26] Generic Community Expansion Decision with Reasons, EB-2016-0004, November 17, 2016.
[27] NGEIR Decision with Reasons, November 7, 2006, pp. 82-83

4. Overrun charges for quantities that exceed the M17 shipper's contract demand.

OEB staff has no specific concerns with the proposed rates or the proposed rate design components. Understandably, ENGLP would prefer service under Rate M9 and Rate T3 that were available to gas distributors at the time of the NGEIR Decision. The Aylmer franchise area of ENGLP receives service under Rate M9. Under Rate M9, Enbridge Gas offers a bundled delivery service. The bundled delivery service includes storage, delivery and transportation. Rate M9 customers also have a utility sales service option under which Enbridge Gas sources gas supply on behalf of the customer. Rate T3 is a semi-bundled storage and transportation service. Kitchener Utilities receives service under Rate T3. Both rate classes (M9 and T3) include regulated storage at cost-based rates. However, post NGEIR, Enbridge Gas is not required to provide cost-based storage to new ex-franchise customers. ENGLP is an ex-franchise customer of Enbridge Gas and therefore Enbridge Gas has proposed a new rate wherein gas distributors will manage their own gas supply arrangements and access storage at market-based rates. OEB staff agrees that as per NGEIR, ENGLP does not have access to cost-based storage and the proposed M17 rate is therefore appropriate.

<u>Other Transmission Demand Charges</u>

Enbridge Gas has proposed a firm monthly transportation demand charge for easterly services from Dawn to the delivery area and westerly service from Parkway or Kirkwall to the delivery area. The proposed demand charge provides a contribution towards the recovery of demand-related costs associated with the pipeline assets that will be used to transport gas on behalf of the M17 shipper.

The firm monthly transportation demand charge includes two components: Dawn-Parkway demand charge for moving gas on the Dawn-Parkway system and Other Transmission demand charge that reflects the cost to move the gas from the Dawn-Parkway interconnect to the ENGLP interconnect at Dornoch.

OEB staff sought to understand the rationale for using the Other Transmission demand average unit rate as a proxy for the costs to serve the South Bruce area from the Dawn-Parkway system as opposed to designing a rate that reflects the specific costs to serve that area. Enbridge Gas explained that it is not possible to design the Rate M17 transportation demand charge based on specific costs as there are no identifiable costs of the Dawn-Parkway or the Owen Sound Line to service the South Bruce area only. Enbridge Gas concluded that the pricing of the M17 services is consistent with other similar services that use the same assets. Based on the explanation of Enbridge Gas, OEB staff accepts that the Other Transmission demand charge is a reasonable proxy representing costs from Dawn-Parkway to the South Bruce interconnect.[28]

Enbridge Gas and ENGLP have had numerous commercial discussions with respect to finalization of a Rate M17 contract. The main areas of contention between the two parties include the provision of cost-based storage services, load-balancing and the monthly customer charge.

Cost-based Storage Services

Under the terms of Rate M17, customers will have to arrange for their own commodity, upstream transportation and daily load balancing services. ENGLP stated that this means that unlike Enbridge Gas's services provided under the M9 and T3 rate schedules, the proposed M17 services do not include load balancing entitlements.

ENGLP argued that this provides a competitive advantage to existing distributors as they have access to cost-based storage under the M9 and T3 rate schedules. ENGLP expressed the view that the tilt in the level playing field cannot be completely eliminated unless a core element of the NGEIR Decision is supplemented to allow new distributors to be allocated cost-based storage on the same basis as an existing distributor. The NGEIR Decision determined that access to cost-based storage should be predicated on whether or not a utility has sufficient access to competitive storage options. The OEB reserved the existing storage capacity of the former EGD (as of November 2006) and 100 PJ of Union Gas's storage capacity for in-franchise customers at cost-based rates.[29]

The EGD rate zone currently has a 126.1 PJ in-franchise storage requirement of which 26.4 PJs is purchased at market based rates. In other words, EGD in-franchise customers pay a blended storage rate that includes cost-based and market-based storage. Union Gas's in-franchise storage requirement for the winter of 2019/2020 is 97.1 PJs. As a result of the amalgamation of EGD and Union Gas, the combined cost-based storage of 199.7 PJ is not sufficient to meet the current storage needs of in-franchise customers.[30] OEB staff submits that it would not be fair to provide ENGLP (an ex-franchise customer) with cost-based storage when the current cost-based storage capacity is insufficient to meet the in-franchise needs of Enbridge Gas. The NGEIR Decision is clear on this issue; future ex-

[28] OEB Staff interrogatory #9.
[29] NGEIR Decision with Reasons, November 7, 2006, pp. 82-83
[30] Enbridge Gas response to OEB staff interrogatory #6.

franchise customers of EGD and Union Gas post-NGEIR, will have to pay market-based rates for storage. Moreover, OEB staff notes that EPCOR in its evidence was willing to consider market based storage under a revised T3 service.[31]

<u>Load Balancing</u>

Under the M17 terms, ENGLP is required to load balance on a daily basis. ENGLP has claimed that daily load balancing is not available on a competitive basis and therefore, this service should be made available on a rate regulated basis.

A daily imbalance is the difference between the volumes nominated and received by Enbridge Gas, and the actual volumes measured and redelivered by Enbridge Gas to ENGLP at Dornoch. Since it is impossible to forecast the precise requirements of customers, ENGLP notes that there will always be a daily imbalance as the gas balance for any day can only be determined after the end of a gas day. ENGLP claims that the proposed M17 transportation agreement between ENGLP and Enbridge Gas does not allow for an imbalance to exist. Since ENGLP can only know of the imbalance at the end of a day, ENGLP argued that it not possible for any party other than Enbridge Gas to resolve any imbalances for that day. In other words, ENGLP argued that end of day balancing cannot work competitively and only Enbridge Gas can provide this service. ENGLP therefore submitted that it should receive daily load balancing on a cost basis. ENGLP is concerned that if it is required to enter into a market-based daily balancing storage arrangement with Enbridge Gas, it would be subject to unregulated monopoly pricing.

In its argument-in-chief, Enbridge Gas disagreed with the interpretation of ENGLP regarding daily load balancing. Enbridge Gas noted that an imbalance can exist under the terms of the Rate M17. Enbridge Gas referred to Schedule B of the Rate M17 rate schedule which acknowledges that the receipts of gas by Enbridge Gas and deliveries may not always be exactly equal. The schedule states that cooperation between the parties will be leveraged to reduce imbalances and that remaining imbalances shall be allocated to ENGLP's firm daily load balancing contract, which can be with Enbridge Gas or a third party. Enbridge Gas further noted that as part of the Rate M17 terms and conditions, ENGLP is required to execute a valid Facilitating Agreement that would allow for end-of-day imbalances to temporarily exist. This would provide the time for imbalances to be identified, quantified, and allocated to the appropriate storage contract. Enbridge Gas also confirmed that third parties can and do provide market based daily balancing services

[31] ENGLP evidence, pp.38-39.

which ENGLP requires under Rate M17. Enbridge Gas argued that ENGLP's characterization that a daily balancing service cannot be provided by a party other than Enbridge Gas is not accurate.

Enbridge Gas in its original Rate M17 proposal[32] included a limited balancing agreement (LBA). The LBA is consistent with the agreements Enbridge Gas has to balance daily loads in the Union North and EGD rate zones served by TC Energy's Canadian mainline. Enbridge Gas notes that ENGLP rejected the proposal for two reasons.

The first reason was that the LBA required daily nominations for volumes to be delivered at Dornoch. As ENGLP has now engaged a third party for gas supply planning and nomination services, Enbridge Gas believes that ENGLP has the appropriate capabilities in place to facilitate daily nominations.

Second, ENGLP maintained that the fees for the LBA above the first tier were not cost based and were based solely on TC Energy's rate to provide such a service on TC Energy's system and had no relation to Enbridge Gas's cost of providing the service on its system. Enbridge Gas in its argument-in-chief clarified that the probability of incurring a fee is minimal. Using a peak load of approximately 212,960 m^3 in year ten of ENGLP's system expansion, Enbridge Gas estimated that the nomination for consumption on the day would need to be incorrect by an amount greater than 25% of the estimated peak daily load in order to incur fees. On a cumulative basis, ENGLP would need to be out of balance by an amount in excess of 50% of this estimated forecast peak load. Accordingly, Enbridge Gas argued that the LBA service provides ENGLP sufficient flexibility to manage its daily load balancing requirements. Enbridge Gas noted that it utilizes the same LBA to balance daily load with TC Energy in the Union North rate zone. Enbridge Gas further notes that the LBA proposed within the original Rate M17 is an industry standard within Ontario for the purpose of balancing daily loads between natural gas system operators.

OEB staff agrees with Enbridge Gas in that the LBA appears to provide sufficient flexibility to ENGLP to manage the balancing of daily loads with a low probability of triggering fees. At the same time, the daily balancing service that is included in the current proposal, also appears to meets the needs of ENGLP. In other words, the combination of the M17 services with a daily load balancing service or the LBA should be sufficiently flexible to meet the needs of ENGLP. OEB staff disagrees with ENGLP's argument that the daily

[32] The original proposal was made in EB-2018-0244 which was later withdrawn by Enbridge Gas.

balancing service is monopolistic in nature and can only be provided by Enbridge Gas.

Enbridge Gas further indicated that it is amenable to the LBA or daily balancing service. OEB staff submits that the OEB should allow ENGLP the flexibility to obtain the daily balancing service as proposed in this application or the LBA that was proposed originally by Enbridge Gas.

Monthly Customer Charge

Enbridge Gas proposed a fixed monthly customer charge to recover the costs associated with having the gas distributor attach to Enbridge Gas's system. The customer-related costs primarily include the revenue requirement for the rate base (net of any CIAC) and O&M costs associated with the customer station. Enbridge Gas proposed a unique charge for each customer that takes service under Rate M17, specific to the delivery area. This approach recognizes that cost differences can exist amongst different natural gas distributors based on the specific facilities required to provide service, and whether the customer-related costs are paid in part or in whole by a CIAC. The proposed monthly charge to be paid by ENGLP is $1,998.71, based on estimated annual customer-related O&M costs of approximately $24,000. The proposed monthly charge assumes that ENGLP has paid for the required customer station facilities in whole by a CIAC.

As previously indicated, ENGLP argued that the monthly charge for the M17 service should be $0. ENGLP argued that the former Union Gas's past practice regarding interconnections with EGD has been to recover customer 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 that the M17 rate includes the recovery of the capital and operating costs for meter connections. ENGLP is of the opinion that if a monthly charge is included in the M17 rate, it would result in a double charge for metering.

Enbridge Gas in its argument-in-chief did not specifically address the concerns of ENGLP regarding the monthly customer charge. OEB staff disagrees with the arguments of ENGLP, as it is the sole driver and beneficiary of the customer station and the monthly customer charge is intended to recover the operating costs of the customer station. There is no evidence that these costs (capital and operating costs of the customer station) have been included to derive the Firm Monthly Transportation Demand Charge. OEB staff agrees that the monthly customer charge is appropriate and is intended to recover the annual operating costs of the customer station.

OEB staff is also supportive of the approach of deriving a monthly customer charge that is based on the specific facilities required to provide service as this is in keeping with cost causality principles.

Proposed Modifications to Rate M9 and Rate T3 Rate Schedules

The proposed Rate M17 service offering is different than the existing bundled and semi-unbundled services under Rate M9 and Rate T3 that were available to gas distributors at the time of the NGEIR Decision. Under Rate M9, Enbridge Gas offers a bundled delivery service. The bundled delivery service includes storage, delivery and transportation. Rate M9 customers also have a utility sales service option under which Enbridge Gas sources gas supply on behalf of the customer. In other words, the M9 service offers all the benefits of a residential customer service offering. Rate T3 is a semi-bundled storage and transportation service. Both rate classes (M9 and T3) include regulated storage at cost-based rates. On the other hand, Rate M17 is a firm point-to-point transportation service. Under this service, customers (gas distributors) have to manage their own gas supply arrangements and acquire storage at market-based rates.

In accordance with the NGEIR Decision, Enbridge Gas has proposed to grandfather the existing gas distributors taking service under the Rate M9 and Rate T3 rate schedules and limit the applicability of the rate schedules to existing gas distributors. In other words, new distributors will not be eligible for service under Rate M9 and Rate T3. In the NGEIR Decision, the OEB determined that it would refrain from regulating storage rates for customers that had access to competitive storage alternatives. Enbridge Gas's position is that with the introduction of the Rate M17 transportation service, new distributors will have access to competitive storage options and will be able to purchase storage services on behalf of their customers. Should an existing gas distributor customer elect to switch from Rate M9 or Rate T3 to Rate M17, Enbridge Gas proposed that they will no longer meet the applicability requirements of their prior service (of Rate M9 or T3).

OEB staff agrees in principle that new gas distributors should not be eligible for Rate M9 or Rate T3 service as the NGEIR Decision was clear that ex-franchise customers of the former Union Gas post NGEIR are not eligible for cost-based storage services. However, OEB staff does not agree that existing customers should lose their eligibility to re-take service under Rate M9 or Rate T3 if they decide to switch. Existing gas distributors were grandfathered under the NGEIR Decision and to arbitrarily terminate their eligibility undermines the determinations made in the NGEIR Decision.

All of which is respectfully submitted.

Appendix A

Leave to Construct Application under Section 90 of the OEB Act

Enbridge Gas Inc.
EB-2019-0183

Conditions of Approval

1. Enbridge Gas Inc. (Enbridge Gas) shall construct the facilities and restore the land in accordance with the OEB's Decision and Order in EB-2019-0183 and these Conditions of Approval.

2. (a) Authorization for leave to construct shall terminate 12 months after the decision is issued, unless construction has commenced prior to that date.

   (b) Enbridge Gas shall give the OEB notice in writing of the following:

   i. The commencement of construction, at least ten days prior to the date construction commences
   ii. The planned in-service date, at least ten days prior to the date the facilities go into service
   iii. The date on which construction was completed, no later than 10 days following the completion of construction
   iv. The in-service date, no later than 10 days after the facilities go into service

3. Enbridge Gas shall implement all the recommendations of the Environmental Report filed in the proceeding, and all the recommendations and directives identified by the Ontario Pipeline Coordinating Committee review.

4. Enbridge Gas shall advise the OEB of any proposed change in the project, including but not limited to changes in: OEB-approved construction or restoration procedures, the proposed route, construction schedule and cost, the necessary environmental assessments and approvals, and all other approvals, permits, licences, certificates and rights required to construct the proposed facilities. Except in an emergency, Enbridge Gas shall not make any such change without prior notice to and written approval of the OEB. In the event of an emergency, the OEB shall be informed immediately after the fact.

5. Concurrent with the final monitoring report referred to in Condition 6(b), Enbridge Gas shall file a Post Construction Financial Report, which shall provide a variance analysis of project cost, schedule and scope compared to the estimates filed in this proceeding, including the extent to which the project contingency was utilized. Enbridge Gas shall also file a copy of the Post Construction Financial Report in the proceeding where the actual capital costs of the project are proposed to be included in rate base or any proceeding where Enbridge Gas proposes to start collecting revenues associated with the project, whichever is earlier.

6. Both during and after construction, Enbridge Gas shall monitor the impacts of construction, and shall file with the OEB one paper copy and one electronic (searchable PDF) version of each of the following reports:

   (a) A post construction report, within three months of the in-service date, which shall:

      i. Provide a certification, by a senior executive of the company of Enbridge Gas' adherence to Condition 1

      ii. Describe any impacts and outstanding concerns identified during construction

      iii. Describe the actions taken or planned to be taken to prevent or mitigate any identified impacts of construction

      iv. Include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions

      v. Provide a certification, by a senior executive of the company, that the company has obtained all other approvals, permits, licences, and certificates required to construct, operate and maintain the proposed project

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

      i. Provide certification, by a senior executive of the company, of Enbridge Gas's adherence to Condition 3

      ii. Describe the condition of any rehabilitated land

      iii. Describe the effectiveness of any such actions taken to prevent or mitigate any identified impacts of construction

iv. Include the results of analyses and monitoring programs and any recommendations arising therefrom

v. Include a log of all complaints received by Enbridge Gas, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions

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

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