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April 8, 2020

Delivered by Email & RESS

Ms. Christine Long, Registrar and Board Secretary
Ontario Energy Board
P.O.Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: Enbridge Gas Inc. 2020 Rates Application
Submissions of the Association of Power Producers of Ontario ("APPrO")
Board File No. EB-2019-0194

In accordance with Procedural Order No. 3 dated February 26, 2020 and Procedural Order No. 4 dated March 31, 2020, please find attached APPrO's submission on Phase 2 of this proceeding.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by Flora Ho

Flora Ho

/Encl.

cc: David Butters, APPrO
Mark Kitchen, Enbridge Gas Inc.
David Stevens, Aird & Berlis LLP
Parties to EB-2019-0194

EB-2019-0194

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, ch. 15 (Schedule B) (the “Act”);

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an order or orders made pursuant to section 36(1) of the Act approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of natural gas, commencing January 1, 2020.

SUBMISSIONS OF THE ASSOCIATION OF POWER PRODUCERS OF ONTARIO (“APPrO”)

FILED: APRIL 8, 2020

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INTRODUCTION

1. On October 8, 2019, Enbridge Gas Inc. ("**Enbridge Gas**" or "**Applicant**") filed an incentive rate-setting mechanism ("**IRM**") application with the Ontario Energy Board (the "**Board**" or "**OEB**") pursuant to section 36 of the *Ontario Energy Board Act, 1998* (the "**OEB Act**") seeking approval for changes to its natural gas distribution rates to be effective January 1, 2020 (the "**Application**"). The Board assigned file number EB-2019-0194 to the Application. This Application is Enbridge Gas' second annual rate adjustment application under the IRM framework approved in the MAADs decision (EB-2017-0306/0307) ("**MAADs Decision**"), which approved the amalgamation of Enbridge Gas Distribution Inc. ("**EGDI**") and Union Gas Ltd. ("**Union**") to form Enbridge Gas.

2. In the Application, Enbridge Gas requested that the Application be processed and adjudicated in a bifurcated manner in order to allow for updated interim rates to be in place for January 1, 2020. Enbridge Gas proposed that distribution rates relating to the IRM be processed and adjudicated first as Phase 1 and matters related to the incremental capital module (ICM) funding and the cost allocation study be addressed in Phase 2 of the proceeding. The OEB in Procedural Order No. 1 issued on November 12, 2019 accepted Enbridge Gas' request to process and adjudicate the application in a bifurcated manner.

3. A settlement conference for Phase 1 of the proceeding was held between the applicant and the intervenors on November 21 and 22, 2019 and a settlement was reached on all issues in Phase 1. A decision on Phase 1 was issued by the OEB on December 5, 2019.

4. The Applicant filed its cost allocation study on November 27, 2019 ("**Cost Allocation Study**") and evidence on its eBill Practices and Incremental Capital Module on January 15, 2020 as part of Phase 2 of the proceeding.

5. On March 11, 2020, the Applicant filed its Argument-in-Chief with respect to Phase 2 ("**AIC**").

6. The Association of Power Producers of Ontario ("**APPrO**") makes these written submissions with respect to the Cost Allocation Study portion of Phase 2.

7. These submissions are prefaced by a general statement of APPrO's position on the Cost Allocation Study followed by a more detailed set of submissions.

BACKGROUND

8. In EB-2016-0186 Union applied for leave to construct a Panhandle system expansion ("**Panhandle Reinforcement Proceeding**"). In the same proceeding, Union proposed a departure from its 2013 OEB approved cost allocation methodology because under that methodology, Union's Panhandle system costs and St. Clair system costs were aggregated and then allocated to rate classes in aggregate. However, as the expansion costs only related to the Panhandle system, in Union's view the 2013 cost allocation methodology created an inequity between customers of the Panhandle system and customers of the St. Clair system.

9. In APPrO's submissions in the Panhandle Reinforcement Proceeding, it was explained that:

> *"APPrO members all purchase T2 service in Union South. Many of these are classified as 'large' T2 customers. None of the projected capacity additions is being developed for APPrO members. The projected rate increase in the T2 delivery rate is 20%, which will result in annual increases of approximately $386,000. In the event that the Board rejects Union's proposed changes to cost allocation, the rate impact to T2 customers could be as high as 37%. This would represent over a $700,000 increase for these customers that receive no benefit from service."*[1]

10. APPrO supported Union's proposed changes to the cost allocation methodology to address these inequities as part of the Panhandle Reinforcement Proceeding. However, at that time the OEB did not approve the changes based on the assumption that **<u>the next rebasing application would occur in 2019</u>**,[2] which was only 14 months away at that time.

11. The OEB panel believed that the cost allocation of the Panhandle system would be fixed by no later than 2019. This is a relevant consideration in connection with the current Application.

[1] EB-2016-0186, APPrO Submissions, December 14, 2016, para. 20b
[2] EB-2016-0186, OEB Decision and Order, February 23, 2017, page 10-11.

12. Shortly after the Panhandle Reinforcement decision, Union and EGDI filed a MAADs application and as a consequence rebasing did not occur in 2019 as was expected. As such, the cost allocation inequities identified in the Panhandle Reinforcement proceeding were not addressed.

13. To avoid further delay in addressing the cost allocation issues and resulting inequities, in EB-2017-0306/EB-2017-0307 Decision and Order[3] (the "**MAADs Decision**") the OEB ruled as follows:

> *"**OEB Findings***
>
> *Amalco is expected to prepare and file a comprehensive cost allocation proposal to be filed with its next rebasing application following the five year deferred rebasing period.*
>
> *However, the OEB is concerned about the cost allocation issues raised by parties for Union Gas' Panhandle and St. Clair systems. **The OEB therefore requires Amalco to file a cost allocation study in 2019 for consideration in the proceeding for 2020 rates** **that proposes an update to the cost allocation** to take into account the following projects: Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D and the Hagar Liquefaction Plant. This should also include a proposal for addressing TransCanada's C1 Dawn to Dawn TCPL service. **The OEB accepts that this proposal will not be perfect, but is intended to address the cost allocation implications of certain large projects undertaken by Union Gas that have already come into service.**"[4]* **[emphasis added]**

COST ALLOCATION STUDY PROCESS AND RESULTS

14. APPrO is generally in agreement with the Cost Allocation Study methodology submitted by Enbridge Gas, which utilizes the traditional three-step approach of Functionalization, Classification and Allocation of relevant costs. The Cost Allocation Study differs from the 2013 methodology in at least one material way.

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[3] EB-2017-0306/EB-2017-0307 Decision and Order dated August 30, 2018, amended September 17, 2018 ("**MAADs Decision**")

[4] MAADs Decision at page 41.

15. As explained by Enbridge Gas:

> "*Prior to the addition of the Panhandle Reinforcement Project, combining the Panhandle System and the St. Clair System was reasonable because the systems had similar costs per unit of demand. With the inclusion of significant costs to the Panhandle System only as a result of the Panhandle Reinforcement Project, the use of the Ojibway/St. Clair demand allocation methodology no longer reflects the costs to serve customers on each of the respective systems.*
>
> *<u>Proposed Cost Allocation Methodology</u>*
>
> *Enbridge Gas is proposing a change to the cost allocation methodology of the Panhandle System and St. Clair System to address the change in the Panhandle System costs relative to the St. Clair System costs and the limitation of the current Board-approved methodology. In order to address the difference in the costs and design day demands of the Panhandle System and St. Clair System, Enbridge Gas has separated the Ojibway/St. Clair Demand functional classification into Panhandle Demand and St. Clair Demand in the 2019 cost allocation study. […]*"[5]

16. This change is fundamental to APPrO members who currently pay Rate T2 or Rate M12 rates. What it says clearly is that those consumers are currently overpaying Enbridge when assessed against the actual costs required to service them.

17. During the interrogatory process, Enbridge Gas confirmed that:

- The estimated annual impact for a Rate T2 customer that has contracted for 3,000,000 m3/d of capacity is a bill decrease of approximately $0.7 million based on current approved 2020 Rates and the cost allocation study including proposals.[6]

- The estimated annual impact for a Rate M12 customer that has contracted for 120,000

[5] Exhibit B, Tab 1, Schedule 1, Appendix C, paras 23 and 24.
[6] I.APPrO.2(b).

GJ/d of Dawn-Parkway transportation capacity is a bill decrease of approximately $0.4 million based on current approved 2020 Rates.[7]

18. In light of the Cost Allocation Study, there would need to a very compelling reason to delay implementation of the Cost Allocation Study and to continue to overcharge this hypothetical T2 customer **by $700,000 per year** and to overcharge this hypothetical M12 customer **by $400,000 a year**.

19. As more fully detailed below - APPrO has not, to date, seen any sufficiently compelling rationale to justify such a delay.

IMPLEMENTATION OF COST ALLOCATION STUDY RESULTS

20. In this proceeding, Enbridge Gas has not recommended reflecting the results of the Cost Allocation Study in rates for 2020.

21. In its AIC Enbridge provides several key reasons why the changes should not take place for 2020.

22. First, Enbridge notes that making the changes recommended through the Cost Allocation Study without associated rate design adjustments may result in unintended impacts to customers. This is perhaps the most compelling justification provided by Enbridge Gas in its evidence.

23. However, Enbridge fails to explain why, if they believed rate design adjustments would be appropriate to implement the Cost Allocation Study, they did not make a proposal to make these adjustments as part of this Application.

24. By omitting this necessary and directly relevant evidence in the Application, Enbridge has effectively undermined the ability of this OEB panel to implement a key aspect of the MAADs Decision in this 2020 rate proceeding. This is clearly a material deficiency in the evidence filed by Enbridge Gas in this Application.

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[7] I.APPrO.2(c).

25. As a result, Enbridge argues that the Cost Allocation Study can only be implemented by no earlier than 2021 rates.[8] APPrO acknowledges that in the circumstances, this is one viable approach.

26. Second, Enbridge Gas argues that there will be additional changes at rebasing in 2024, and that rates should not be changed once now to reflect the Cost Allocation Study and again in 2024.

27. Third, Enbridge Gas argues that if the Cost Allocation Study results are implemented in rates there could be consequential impacts on DVAs.

28. Fourth, Enbridge Gas argues that since cost allocation is a zero-sum exercise – any adjustments will cause increases for some rate classes to correspond to decreases to other rate classes.

29. APPrO does not dispute the validity of any of these three points.

30. However, in APPrO's view – each of these three reasons put forth by Enbridge Gas to defend deferring implementing the Cost Allocation Study results were expressly contemplated and rejected by the OEB panel in the MAADs Decision:

> "*The OEB accepts that this proposal will not be perfect, but is intended to address the cost allocation implications of certain large projects undertaken by Union Gas that have already come into service.*"

31. The OEB already acknowledged that the proposal would not be perfect. They knew that Enbridge Gas would be returning to rebase in 2024, they understood there would likely be consequential impacts on the calculations for various DVAs and they certainly understood that cost allocation is a zero sum exercise. None of this is new.

32. Rather, the OEB indicated its preference to attempt to address and fix the cost allocation imperfections arising from certain large projects undertaken by Union in the past sooner than 2024. This is the entire basis of the OEB requirement that Enbridge Gas prepare and

[8] AIC at pg. 19-20.

file the Cost Allocation Study.

33. These are not sufficient reasons to defer implementation.

34. Enbridge Gas stated in its AIC that the implementation of the cost allocation study results will require an assessment to determine if it impacts the revenue requirements in rates and the calculation of certain deferral and variance account balances.[9] APPrO does not oppose to such assessment. Any necessary changes should be made now.

35. In fact, in its IRR to Exhibit I.IGUA.6[10] Enbridge Gas sets out the steps that need to be taken to implement the cost allocation study results in rates at this time:

> *"If directed by the Board to implement the cost allocation study results in rates, Enbridge Gas will calculate unit rate changes for each rate class and rate component based on the revenue sufficiency / deficiency from the cost allocation study results, including rate design considerations, and the 2019 forecast used in the cost allocation study. The unit rate changes will be added or deducted from the unit rates calculated using the approved rate setting mechanism for the remainder of the deferred rebasing period."*

36. Finally, to the extent any rate class may see a total bill increase that exceeds 10% because of the changes arising from the Cost Allocation Study – it would be entirely appropriate for Enbridge to propose rate mitigation to phase in the change to the rate over two years rather than one. Acknowledging that the results may change after Enbridge introduces an appropriate rate design, based on the response to I.STAFF.4 – Attachment 1 this would appear to only affect Rate 25 and Large Rate M7. In addition, it appears a two year phased in approach would ensure neither class would see total bill impacts above 10% in any given year.

THE CONSEQUENCES OF DELAY

37. If the implementation of the Cost Allocation Study results are delayed to 2024, the cost

[9] AIC, para. 56
[10] IRR Exhibit I.IGUA.6, page 2.

allocation issues that have been existing for over 4 years will continue to harm large use customers for another 4 years. The Board's mandate is to set just and reasonable rates. By failing to implement the Cost Allocation Study results in a timely manner, rates will no longer be just and reasonable.

38. As identified above, the purpose of the Cost Allocation Study was to address the concerns that the OEB had with respect to cost allocation issues raised by parties and any harm resulting to certain ratepayer groups.

39. In the MAADs proceeding, APPrO submitted that by failing to address such cost allocation issues, natural gas power generators and other large volume customers are directly harmed by the proposed rate plan.[11] That is why APPrO had urged the Board to order EGDI and Union (the predecessors of Enbridge Gas) to undertake a full cost allocation study to rectify the issue as soon as practical.[12] The Board's MAADs Decision was in agreement with APPrO's position.

40. A delay in implementing the Cost Allocation Study would perpetuate known inequities between customer groups.

41. The two main rate classes negatively impacted by this proposal to defer any cost allocation changes to 2024 are T2 (large volume customers including gas-fired generators ("**GFG**")) and M12/C1 transportation customers (Dawn-Parkway, also used by some GFGs in the Enbridge and Union North rate zones).

42. As calculated by Enbridge Gas in its IRR to APPrO[13], the estimated annual impact for a Rate T2 customer that has contracted for 3,000,000 m^3/d of capacity is a bill decrease of approximately $0.7 million based on current approved 2020 Rates and the cost allocation study. If the Board was to order Enbridge Gas to implement the results of the proposed cost allocation methodology in 2024, then Rate T2 customers would continue to be overcharged $0.7 million annually for 4 years, **which totals to about $2.8 million**.

[11] EB-2017-0306/0307 – APPrO Submissions para 32.
[12] EB-2017-0306/0307 – APPrO Submissions para. 34-35.
[13] IRR, Exhibit I.APPrO.2, page 2.

43. The estimated annual impact for a Rate M12 customer that has contracted for 120,000 GJ/d of Dawn-Parkway transportation capacity is a bill decrease of approximately $0.4 million based on current approved 2020 Rates.[14] Similar to the case for Rate T2 customers above, if the implementation was deferred to 2024, then Rate M12 customers would continue to be overcharged approximately $0.4 million more annually for 4 years, **which totals to about $1.6 million**.

44. The net effect of a decision to defer implementation of the Cost Allocation Study results to 2024 is to knowingly overcharge large customers approximately $4.4 million. This is neither just nor reasonable.

45. By contrast, the annual impacts for rate classes Rate 1, Rate 10, Rate M1 and Rate M2 are minimal in comparison to large volume customers.

46. It is fundamentally important to look at whether a rate class benefits from capital projects and associated services when determining who should be paying the costs. This is fundamental premise of the beneficiary pays principle. As explained by APPrO in the Panhandle Reinforcement Proceedings, T2 customers do not benefit from the service of the Panhandle expansion but because of the 2013 approved cost allocation methodology, the T2 customers had to suffer a rate impact as high as 37%.[15]

47. If the Board approves Enbridge Gas' proposal of implementing the cost allocation methodology changes in its next rebasing in 2024, that means the issues that have been previously identified are not being addressed and the harm to large ratepayers is being knowingly prolonged.

CONCLUSION

48. The issue of fixing inequities and addressing concerns arising from Union's 2013 approved cost allocation methodologies have been impending and unresolved for 4 years now and still have yet to be resolved. Enbridge Gas is proposing to prolong this for another 4 years.

[14] Ibid.
[15] EB-2016-0186, APPrO Submissions, December 14, 2016, para. 20b.

Such an approach is neither just nor reasonable.

49. The Board made a decision and ordered for Enbridge Gas to prepare a cost allocation study in 2019 for consideration in 2020 rates. Enbridge Gas chose to perform the first part of the direction and not the second part. As demonstrated by the history of events described in these submissions, this is not what was intended by the Board.

50. A delay in implementing the Cost Allocation Study will be non-compliant with the Board's MAADs Decision and would continue and aggravate the harm caused to ratepayers. As such, APPrO respectfully submits that Board should not delay in implementing the Cost Allocation Study. Rate design changes should be addressed promptly so that the updated cost allocation approach is put in place for 2021 rates.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 8th DAY OF APRIL, 2020.

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A. D. Vellone

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John A.D. Vellone

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