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April 8, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Long,

RE: EB-2019-0194 Enbridge Gas Inc. Application for natural gas rate increases effective January 1, 2020

Please find enclosed the submissions of the Ontario Greenhouse Vegetable Growers in the above noted proceeding.

Yours very truly,

Michael R. Buonaguro

CC: All Parties

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Enbridge Gas Inc., pursuant to section 36(1) of the Ontario Energy Board Act, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2020.

SUBMISSIONS ON BEHALF OF THE ONTARIO GREENHOUSE VEGETABLE GROWERS

OVERVIEW

These are the submissions of the Ontario Greenhouse Vegetable Growers ("OGVG") with respect to Enbridge Gas Inc.'s ("EGI's") application for 2020 rates for the Enbridge Gas and Union Gas rate zones, specifically with respect to issues relegated to phase 2 of the proceeding. OGVG's submissions are focused primarily on the EGI partial Cost Allocation Study, with only minor comments with respect to the ICM requests. Although OGVG generally agrees with submissions exhibiting concern about the manner in which EGI transitioned customers over to E-Billing, OGVG generally defers to the submissions of intervenors that represent the interests of the residential customers most affected by EGI's actions with respect to E-Billing.

BOARD DIRECTION RE: COST ALLOCATION STUDY

OGVG has reviewed the several submissions that have been filed early and generally agrees with submissions that oppose the use of EGI's partial Cost Allocation Study to support rate changes in either 2020 or 2021. OGVG agrees that the nature of the study that was filed by EGI does not sufficiently justify rate changes during an IRM period, particularly since it only looks to update a relatively small portion of EGI's total costs, artificially uses revenue as a stand in for costs, would require unacceptably high rate impacts for some rate classes, and will be subject to potentially wholesale changes when EGI files a full cost allocation study for rebasing in 2024[1]. Accordingly, OGVG offers the following submissions as supplementary to the already filed submissions opposing any rate changes as a result of cost allocation issues prior to rebasing and the filing of a full cost allocation study.

Rate setting for the Union and Enbridge rate zones for 2020, 2021, 2022 and 2023 is, by virtue of the MAAAD's decision, based on incentive regulation, where rates are generally decoupled from costs. The benefits to ratepayers are predictable rates that change year to year based on a price escalation formula that relies on external drivers (in this case the GDP-IPI FDD) with the actual costs incurred by EGI during IRM only considered in very specific, limited circumstances (i.e. specified Y-factors and Incremental Capital Module related funding). Put simply, unless the utility can properly characterize a particular, material cost increase as qualifying for exceptional treatment under the IRM framework, customers are protected from the rate impacts of those costs until at least the next rebasing application.

The trade-off for customers for the predictable rates they receive under incentive regulation also flows from the decoupling of costs from rates, in that customers lose the ability to have material cost decreases reflected in the annual rate setting process unless those decreases qualify for exceptional treatment (i.e. directly through Y factor treatment or indirectly through earnings sharing).

In OGVG's submission the decoupling of costs from rates extends to the notion of cost allocation, in that the rate stability and predictability offered to customers through incentive regulation relies not only on the decoupling of rates from a utility's costs, but also upon the decoupling of rates from the exercise of allocating the utilities' costs between different customers classes. In OGVG's view a proposal to change the allocation of costs that underpin rates during an IRM period is essentially a proposal to ignore the decoupling of rates from costs, a proposal that, even if armed with a full cost and cost allocation review, should be done in only the most extreme of cases. The fact that

[1] See, for example, OEB Staff argument at pages 11-13.

the current proposal only considers a review of certain elements of EGI's costs, dictates, in OGVG's submission, that the circumstances within which changes to rates should be considered should be even narrower, a sentiment OGVG believes the Board has endorsed previously with reference to the specific issues before the Board in this instance:

> *The OEB is of the view that any change to the existing cost allocation model should be done with the assistance of a comprehensive system-wide full cost allocation study. Cost allocation is a zero sum exercise. A full study ensures that all changes to facilities, operations and use in the transmission system since the development of the previous cost allocation model are recognized across all customer classes. This form of study provides that positive and negative changes in costs throughout the system are accounted for. A finding that current rates are inequitable because of the underlying allocation of costs for one project could introduce other inequalities by an incomplete analysis of the changing cost impacts on customers. <u>Equitable cost causality is only possible with a full study.</u> The OEB will not vary the Panhandle leave to construct decision that declined to change the cost allocation methodology for Panhandle Project costs and directed that any change should be considered in the next Union rates proceeding. Consistency in OEB decisions is important to regulatory clarity and predictability.*[2] *(<u>emphasis added</u>)*

OGVG does not take the position that the Board is completely estopped from make changing to rates during an IRM period that relate to changes in cost allocation policies. OGVG does however respectfully submit that the threshold for making such changes should be relatively high, given the fundamental decoupling of rates from changes in costs during an IRM period. In OGVG's respectful submission the results of the cost allocation proposal do not warrant any changes to base rates prior to EGI's next rebasing application, even if the proposal had been based on a comprehensive cost allocation study based on EGI's actual costs.

While OGVG is not privy to the final submissions of most of the party's that may seek immediate implementation of the EGI cost allocation proposals, there appears to be an underlying inference in the interrogatories posed to EGI with respect to the implementation of any cost allocation proposals that the result of implementation would necessarily be the immediate resetting of all rate classes to account for the full impacts of the results. Assuming that is the general nature of the request made by at least some of the parties in this proceeding, OGVG respectfully disagrees that that is necessarily the case.

Base rates for the Union Franchise Area were approved by the OEB in EB-2011-0210 for the 2013 rate year. Those rates represent the culmination of the Board's consideration of Union's costs and the allocation of those costs amongst Union's various rate classes before rates were decoupled from costs going into an IRM based rate setting regime from 2014 to the present. EGI confirmed that the current Union Franchise area rates, subject to escalation over time due to incentive regulation, are the result of the final rate adjustment process approved by the Board in EB-2011-0210.[3]

An examination of the final rates approved by the Board in EB-2011-0210 show that the Board approved rates, in many cases, were based on final revenue to cost ratios that were either below or above "unity"; by way of example, the approved revenue to cost ratio for the M4 in-franchise rate

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[2] EB-2017-0087, Decision and Rate Order dated January 18, 2018, page 8.

[3] Exhibit I.OGVG.3

class in 2013 was .783, 21.73% below “unity”, while the approved revenue to cost ratio for the C1 ex-franchise rate class was 3.269, or 226.9% over “unity”.[4]

When asked about the acceptable range of revenue to cost ratios in the EB-2011-0210 proceeding, Union explained that while for many rate classes the target revenue to cost ratio was near unity, that was not necessarily the case for all rate classes. Union explained, for example, that for in-franchise firm services between the in-franchise general services and the large firm in-franchise contract services acceptable revenue to cost ratios will vary due to firm rate continuum considerations, and that for those rate classes a revenue to cost ratio approximating 80% or more is generally realized.[5]

The resulting revenue to cost ratios from the new cost allocation proposals for the M4 class (assuming no resulting change in rates) is .763, only marginally below the approved revenue to cost ratio from 2013.[6] OGVG respectfully submits that in the present context, where rates continue to be decoupled from costs, such a marginal decrease in the perceived revenue to cost ratio relative the approved revenue to cost ratio does not warrant any adjustment during an IRM period.

Similarly, a comparison of the resulting revenue to cost ratios from the new cost allocation proposals for the C1 based rates do not, in OGVG’s respectful submission, warrant any adjustment in the context of an IRM period rate proceeding. The current Rate C1-other perceived revenue to cost ratio based on the new cost allocation proposals is 1.181; the combined Rate M12/C1 - Dawn-Parkway perceived revenue to cost ratio is only 1.072.[7] In both cases the perceived revenue to cost ratios, while above “unity’, are well below the 3.269 revenue to cost ratios that underpinned the approved 2013 C1 rates.

The remainder of Union’s rate classes showing a perceived revenue to cost ratio above “unity” as a result of the cost allocation proposals are all in-franchise rate classes and do not, in OGVG’s submission, warrant rate changes that are designed to shift those revenue to cost ratios closer to unity in the context of an IRM rate proceeding, even if the cost allocation proposals are accepted by the Board without qualification.

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[4] EB-2011-0210 Draft Rate Order Schedule 13 (Attachment A to this submission)
[5] EB-2011-0210-Exhibit J.H-1-5-2 (Attachment B to this submission)
[6] Exhibit B Tab 1 Appendix C Working Papers Schedule 4 Page 1
[7] Exhibit B Tab 1 Appendix C Working Papers Schedule 4 Page 1; OGVG recognizes that in the EB-2011-0210 Draft Rate Order there appears to be no direct equivalent rate class to the M12/C1 Dawn-Parkway ex-franchise rate class.

Of Union's 15 in-franchise rate classes 11 of those classes exhibit perceived revenue to cost ratios below 1.0; only 4 rate classes show a perceived revenue to cost ratio above 1.0 such that they may benefit from a shift in revenue to cost ratios. With respect to those 4 rate classes:

a) Rate M9 has a perceived revenue to cost ratio that is only marginally (.01) above "unity"; there are only 2 customers in the M9 rate class, with a total cost of that deviation from unity of only $11,000;
b) Rate M10 has a perceived revenue to cost ratio that is .17 above unity; there is only one customer in Rate M10, and the total cost of that deviation from unity is only $3,000;
c) Rates T2 and T3 have perceived revenue to cost ratios of 1.148 and 1.12; there are only 23 customers in the T2 rate class, and only 1 customer in the T1 Rate Class, with total costs for those deviations from unity of $8.6M and $.720M respectively.[8]

In OGVG's view it is self-evident that the numbers of customers impacted in the M9 and M10 class and the total value associated with their apparent sufficiency's are both so low that making specific rate adjustments during an IRM period to try and shift the revenue to cost ratios for those customers would be unreasonable.

With respect to the T2 and T3 classes, while the values of the apparent sufficiency's are greater, the apparent deviation from unity does not, in OGVG's respectful submission, warrant specific rate adjustments in the middle of an IRM period.

If the Board were to entertain reducing the recovery from the T2 and T3 classes, it would necessarily have to do so by increasing the recovery from most of the other rate classes. That would mean increasing rates for as many as 1.5M customers in order to provide rate decreases for 27 customers, based solely on a partial review of the underlying cost allocation.[9] In OGVG's submission it would not be appropriate to disrupt the stability and predictability of rates during the IRM period for such rate adjustments, particularly given that any such adjustments are likely to become entirely obscured by whatever proposed rate regime the Board will consider on rebasing in 2024, especially given the possibility of harmonized rates and collapsed (or possibly new) rate zones.

OGVG would also note that in both the T2 and T3 scenarios the perceived revenue to cost ratio falls within .15 of "unity". The Board's cost allocation policies with respect to electricity distribution rates, at a minimum, tolerate revenue to cost ratios .15 in excess of unity for all classes, including large users, a tolerance that extends to cost of service applications.[10]

To OGVG's knowledge the Board has not established similar generic acceptable ranges of revenue to cost ratios for natural gas rates, presumably relying on the utilities to propose acceptable revenue to cost ratios as was the case in EB-2011-0210. However OGVG believes that to the extent the nature of cost allocation is similar in the context of both the natural gas and electricity sectors, and given the Board's policy of an established range of acceptable revenue to cost ratios that allow deviation from "unity" even in the context of a cost of service application for electricity rates, it is not unreasonable to expect that for the gas sector, particularly in the context of rate-setting in the midst of an IRM term, there should be an explicit recognition that rates that fall within a reasonable band around their approved revenue to cost ratios would continue to be considered reasonable rates. Indeed, it is implicit that during IRM rates underpinned by revenue to cost ratios that vary from unity remain acceptable, as there is no mechanism during IRM to adjust rates specifically to take into account variations in revenue to cost ratios.

For all these reasons OGVG respectfully submits that even if the Board were to accept the partial Cost Allocation Study as being a reasonable representation of cost causality for EGI's customers, the revenue to cost ratios that flow from that study do not warrant any changes to rates during EGI's IRM period.

ICM REQUESTS

OGVG has had the opportunity to review the submissions of others with respect to the ICM requests in this application and would only add that it appears to OGVG that EGI is in a unique circumstance with respect to ICM related revenue requirements in 2020 as a result of the operation of the Accelerated Investment Incentive introduced through Bill C-97, particularly as it relates to the 2020 revenue requirement associated with the Windsor Line Replacement.

As illustrated at Exhibit B, Tab 2, Schedule 1 Appendix E page 2, the result of the Accelerated Investment Incentive is that the total revenue requirement for the Windsor Line Replacement is ($3.453M) in 2020;[11] this means that in the first year of the project there is, it would appear to OGVG, no pressing need to increase the cash flow to EGI as a result of the project, unlike in a non-Accelerated Investment Incentive scenario where the revenue requirement impact of the project would normally be positive in year 1.

OGVG would suggest that as a result of the materially negative revenue requirement in 2020 there is no immediate need for the Board to implement a rate rider in 2020. In these circumstances, it would appear reasonable to OGVG to consider requiring EGI to track the actual project expenses, timing of the project, and overall capital spending for the 2020 year and review that information with a view to implementing a rider in 2021 that reflects EGI's relevant 2020 actuals. This tact may be especially attractive given COVID-19 related impacts, if any, on EGI's ability to close capital spending to rate base in 2020, as it may very well be that EGI's actual capital spending in 2020 is materially compromised, reducing or possibly eliminating the need for incremental capital funding.

Having made this suggestion, OGVG is cognizant of the fact that such a process would not necessarily be considered consistent with the IRM framework approved by the Board for EGI in the MAAD's Decision. OGVG makes the submission in light of what appears to be a different impact of the Accelerated Investment Incentive for EGI as opposed to the electricity distributors the IRM framework was originally designed for, as it appears to OGVG that for electricity distributors the Accelerated Investment Incentive, while reducing first year revenue requirements, does not result in negative first year revenue requirements.

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

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[8] Exhibit B Tab 1 Appendix C Working Papers Schedule 4 Page 1, Exhibit I.OGVG.1
[9] Exhibit I.OGVG.1
[10] EB-2010-0219, Report of the Board, Review of Electricity Distribution Cost Allocation Policy page 36.
[11] Exhibit B Tab 2 Schedule 1 Appendix E Page 2; OGVG recognizes that this is the revenue requirement before updating through the interrogatory process and as such is used here for illustrative purpose.

UNION GAS LIMITED
Revenue Deficiency Recovery
Effective January 1, 2013

		Before Recovery				After Recovery					
Line No.	Particulars	Current Approved Revenue (1) ($000's)	Current Approved Rates (2) (cents/m^3)	Revenue (Deficiency) / Sufficiency ($000's)	Approved Revenue Requirement (3) ($000's)	Revenue (Deficiency) / Sufficiency ($000's)	Approved Revenue (4) ($000's)	Approved Rates (5) (cents/m^3)	Revenue to Cost Ratios	Rate Change (%)	EB-2005-0520 Approved Revenue to Cost Ratios
		(a)	(b)	(c) = (a -d)	(d)	(e) = (f - d)	(f)	(g)	(h) = (f / d)	(i) = (g - b) / (b)	(j)
	North Delivery										
1	R01	139,945	15.8233	(20,698)	160,643	(176)	160,467	18.1438	0.999	14.7%	0.976
2	R10	16,954	5.2508	(2,789)	19,743	-	19,743	6.1146	1.000	16.5%	1.058
3	R20	9,726	1.5443	(7,073)	16,799	(3,382)	13,417	2.1304	0.799	38.0%	0.597
4	R25	3,197	2.0039	(2,125)	5,323	(850)	4,473	2.8033	0.840	39.9%	0.467
5	R100	12,658	0.6678	(2,853)	15,511	(32)	15,478	0.8166	0.998	22.3%	0.895
6	Total North Delivery	182,480		(35,538)	218,019	(4,440)	213,579		0.980	17.0%	0.939
7	Total Recovery of North Delivery Deficiency (col. f - a)						31,099				
	South Delivery & Storage										
8	M1	382,233	13.0323	(6,191)	388,424	(708)	387,717	13.1897	0.998	1.2%	0.972
9	M2	44,791	4.5962	(6,387)	51,178	(1,426)	49,752	5.0998	0.972	11.0%	0.972
10	M4	11,558	2.8561	(3,968)	15,526	(3,377)	12,149	3.0022	0.783	5.1%	0.783
11	M5A	8,916	1.6662	(6,970)	15,886	(2,791)	13,096	2.4472	0.824	46.9%	0.824
12	M7	3,951	2.6852	(1,182)	5,133	(1,062)	4,071	2.7667	0.793	3.0%	0.697
13	M9	819	1.3486	77	743	(40)	702	1.1562	0.946	-14.3%	0.946
14	M10	5	2.5245	(69)	74	(64)	10	5.1152	0.131	102.6%	0.131
15	T1	58,963	1.0860	6,267	52,696	-	52,696	0.9706	1.000	-10.6%	0.973
16	T3	4,571	1.6762	(92)	4,663	(264)	4,400	1.6133	0.943	-3.8%	0.943
17	Total South Delivery & Storage	515,808		(18,515)	534,324	(9,732)	524,592		0.982	1.7%	0.958
18	Total Recovery of South Delivery & Storage Deficiency (col. f - a)						8,783				
19	Total In-Franchise Delivery (line 6 + line 17)	698,289		(54,054)	752,342	(14,172)	738,171		0.981	5.7%	0.953

Notes:
(1) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (b).
(2) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (c).
(3) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (e).
(4) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (g).
(5) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (h).

UNION GAS LIMITED
Revenue Deficiency Recovery
Effective January 1, 2013

		Before Recovery					After Recovery				
Line No.	Particulars	Current Approved Revenue (1) ($000's) (a)	Current Approved Rates (2) (cents/m^3) (b)	Revenue (Deficiency) / Sufficiency ($000's) (c) = (a -d)	Approved Revenue Requirement (3) ($000's) (d)	Revenue (Deficiency) / Sufficiency ($000's) (e) = (f - d)	Approved Revenue (4) ($000's) (f)	Approved Rates (5) (cents/m^3) (g)	Revenue to Cost Ratios (h) = (f / d)	Rate Change (%) (i) = (g - b) / (b)	EB-2005-0520 Approved Revenue to Cost Ratios (j)
	North Transportation & Storage										
1	R01	70,790	8.0041	(27,572)	98,362	(3,920)	94,442	10.6784	0.960	33.4%	1.000
2	R10	23,140	7.1667	(8,539)	31,679	(1,342)	30,338	9.3957	0.958	31.1%	1.000
3	R20	8,815	7.2291	(1,717)	10,532	(477)	10,055	8.2463	0.955	14.1%	1.000
4	R25	1,685	3.9269	(442)	2,127	(117)	2,010	4.6844	0.945	19.3%	1.000
5	R100	197	-	48	150	16	166	-	1.109		0.701
6	Total North Transportation & Storage	104,628		(38,222)	142,850	(5,839)	137,011		0.959	31.0%	0.991
7	Total Recovery of North Transport & Storage Deficiency (col. f -a)						32,383				
8	Total In-Franchise (page 1, line 19 + line 6)	802,916		(92,276)	895,192	(20,011)	875,181		0.978	9.0%	0.956
9	Total Recovery of In-Franchise Deficiency (col. f - a)						72,265				
	Ex-Franchise										
10	M12	161,163		1,123	160,040	(2,507)	157,532		0.984	-2.3%	0.984
11	M13	373		162	211	200	411		1.952	10.2%	1.470
12	M16	748		297	451	286	736		1.634	-1.5%	1.356
13	C1	45,392		31,622	13,770	31,245	45,015		3.269	-0.8%	2.610
14	Total Ex-Franchise	207,676		33,205	174,471	29,224	203,695		1.167	-1.9%	1.177
15	Total Recovery of Ex-Franchise Deficiency (col. f - a)						(3,981)				
16	Total Delivery, Transportation & Storage (line 8 + line 14)	1,010,592		(59,071)	1,069,663	9,213 (6)	1,078,876		1.009	6.8%	1.004
17	Total In-Franchise Commodity / Admin	625,443		48,673	576,769	44,414	621,183		1.077	-0.7%	-
18	Total Recovery of Commodity / Admin Sufficiency (col. f - a)						(4,260)				
19	Total Union Gas (line 16 + line 17)	1,636,035		(10,398)	1,646,432	53,626	1,700,059		1.033	3.9%	1.002

Notes:
(1) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (b).
(2) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (c).
(3) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (e).
(4) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (g).
(5) EB-2011-0210, Rate Order, Working Papers, Schedule 14, column (h).
(6) Includes Phase I sharing of short-term storage margin of $0.661 million and Phase II update of a $0.155 million decrease; Phase I sharing of optimization margin of $1.492 million; Heritage Pool sufficiency of $0.056 million; exclusion of $0.300 million of System Integrity costs related to Union's non-utility storage space per Board Decision; and Union South Gas Supply Transportation Optimization of $7.570 million.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit H1, Tab 1, page 14

The evidence states that the proposed revenue to cost ratios are within an acceptable range and are generally consistent with those previously approved by the Board. Please identify what Union views as an "acceptable range". What, from Union's perspective, would not be an acceptable revenue to cost ratio?

Response:

Revenue-to-cost ratios are the outcome, not an input, of the application of Union's Rate Design Considerations described at Exhibit H1, Tab 1, Updated, page 11. As a final check on its rate design, Union reviews the resulting revenue-to-cost ratios for reasonableness. Acceptable revenue-to-cost ratios must:

1. satisfy rate design principles set forth in evidence, and
2. bear a reasonable relationship to previously approved revenue-to-cost ratios.

When setting 2013 rates, revenue-to-cost ratios also reflect the application of $20.852 million in S&T transactional credits to in-franchise rates with the resulting revenue-to-cost ratio for all in-franchise delivery services of 95.3%.

Acceptable revenue-to-cost ratios guidelines will usually include:

1. Firm in-franchise general services (Rate 01, Rate 10, Rate M1 & Rate M2) close to unity.
2. Large firm in-franchise contract services (Rate T1, Rate T3 and Rate 100) close to unity.
3. Other in-franchise firm services between (1) and (2) above will vary due to firm rate continuum considerations. A revenue-to-cost ratio approximating 80% or more is generally realized.
4. Rate M12 firm transportation service close to unity.
5. Interruptible in-franchise service pricing is set in relative relationship to firm services, with the resulting revenue-to-cost ratios showing greater deviation from unity.

Rate designs not meeting the above criteria would be considered unacceptable.