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May 20, 2020

VIA RESS and EMAIL

Ms. Christine Long
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Enbridge Gas Inc. ("Enbridge Gas")
Ontario Energy Board ("Board") File: EB-2019-0183
Owen Sound Reinforcement Project Leave to Construct & Rate M17
Draft Rate Order: Reply Submission**

On August 29, 2019 Enbridge Gas applied to the Board pursuant to section 36 of the Ontario Energy Board Act ("the Act") for an Order or Orders granting approval of a new Rate M17 firm transportation service for gas distributors. Within the same application, Enbridge Gas also applied to the Board, pursuant to section 90(1) of the Act, for an Order or Orders granting leave to construct approximately 34 kilometres of NPS 12 hydrocarbon natural gas pipeline ("the Project") in the Municipality of West Grey and the Township of Chatsworth, both of which are within the County of Grey. Lastly, Enbridge Gas's application requested approval of the forms of agreements offered to owners of land affected by the route or location of the Project pursuant to section 97 of the Act. On April 9, 2020 the Board approved Enbridge Gas's application and ordered Enbridge Gas to file a Draft Rate Order with the revised Tariff of Rates and Charges, including the terms and conditions of Rate M17, by May 1, 2020.

On May 1, 2020 Enbridge Gas filed a Draft Rate Order including the Rate M17 rate schedule and general terms and conditions reflecting a June 1, 2020 effective date to align with the date EPCOR is expected to begin service, as well as updated Rate M9 and Rate T3 rate schedules. In addition Enbridge Gas responded to two items within its Draft Rate Order submission as they relate to Rate M17 and the provision of this service to EPCOR:

1) **Pooled Metering Costs:** "Enbridge Gas shall confirm as a part of the draft rate order process the nature of any pooled metering costs in Rate M17. Any pooled metering costs that provide no use or benefit to ENGLP shall be removed."[1]

2) **Attribution of Project and Asset Costs:** "Enbridge Gas shall confirm as part of the draft rate order process, that the portion of the 82% that is attributed to

[1] Decision and Order, April 9, 2020, page 17

> ENGLP has use or benefit to ENGLP. Alternatively, Enbridge Gas may confirm that no portion of the 82% will be allocated to ENGLP."[2]

Enbridge Gas received comments from OEB Staff, the Industrial Gas User Association ("IGUA") and EPCOR Natural Gas Limited Partnership ("EPCOR" or "ENGLP") in response to the Draft Rate Order. Enbridge Gas addresses these comments below.

Pooled Metering Costs

Neither IGUA nor EPCOR took issue with any metering costs included within the portion of Rate M17 attributable to Dawn-Parkway system costs, while Board Staff supported Enbridge Gas's position that EPCOR makes use of the Dawn-Parkway system and any metering infrastructure included within its costs is required to operate the system.[3] As such Enbridge Gas submits the Board should approve the Dawn-Parkway portion of Rate M17 as filed, given these assets are required to operate an integrated system from which EPCOR receives use and benefit. This treatment is consistent with rates paid by all other customers for use of the same assets, and no party opposed inclusion of these costs in Rate M17.

In its Draft Rate Order Enbridge Gas noted that the Other Transmission costs used in deriving Rate M17 include costs for Measuring and Regulating ("M&R") stations, including the Owen Sound and St. Jacob's transmission stations which are directly required to provide service to EPCOR.[4] OEB Staff requested Enbridge Gas clarify whether the Rate M17 Other Transmission demand costs included M&R costs related to transmission lines other than the Owen Sound Line, and identify how these other stations are of benefit to EPCOR.[5] Enbridge Gas confirms that this asset class includes stations other than those required to directly serve the Owen Sound Line, and that the asset class provides benefits to EPCOR as further described below.

Given that the Other Transmission M&R asset class includes stations other than the Owen Sound and St. Jacob's transmission stations, IGUA submitted that the costs of all other M&R stations should be stripped from the Other Transmission portion of the Rate M17 demand charge. In doing so IGUA points to the Board's direction that all "pooled metering costs" with no use or benefit to EPCOR would be removed from Rate M17.[6] EPCOR took no issue with the pooled metering costs included within Rate M17 in its reply to Enbridge Gas's Draft Rate Order.

To address the concerns raised in response to Enbridge Gas's Draft Rate Order, the Company submits that a) the Other Transmission M&R stations do not include end-use customer meters and b) EPCOR receives a direct benefit from the direct use of the two stations that are included within the Other Transmission asset class.

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[2] Ibid., page 22
[3] OEB Staff Comments, page 3
[4] Draft Rate Order, page 2
[5] OEB Staff Comments, page 3
[6] IGUA Comments, page 2

a) The Board's Decision regarding metering costs was made within the context of its approval of Enbridge Gas's proposal for EPCOR to pay the entire cost of the Dornoch customer station; an end-use customer meter which will be used to measure volumes leaving Enbridge Gas's system.[7] The M&R stations included within the Other Transmission portion of Rate M17 are transmission stations used to measure and regulate gas moving through the various components of Enbridge Gas's broader transmission system, and are required to allow the Company to safely and effectively operate its system to the benefit of all customers, including EPCOR. The Other Transmission M&R stations are not end-use customer meters that measure volumes leaving Enbridge Gas's system. Other end-use metering costs are classified as distribution and not included in the Other Transmission M&R asset class.

b) EPCOR directly uses and benefits from the M&R costs included in the Other Transmission portion of the Rate M17 demand charge. Specifically, Enbridge Gas requires the use of the Owen Sound and St. Jacob's transmission stations to provide transportation service to the Dornoch customer station. Excluding Other Transmission M&R costs from the derivation of the Rate M17 demand charge would result in EPCOR providing no contribution toward the recovery of assets that are required to serve them. To be consistent with cost allocation principles, EPCOR should continue to provide a contribution to recovery of these two station costs included in the Other Transmission M&R costs as they are required to provide service to EPCOR.

Rate Design

As a practical matter Enbridge Gas cannot directly assign the costs of only two stations within the Other Transmission M&R asset class to Rate M17 as these assets are not solely used by EPCOR. To provide a contribution towards the recovery of the Owen Sound and St. Jacob's transmission stations, Enbridge Gas has proposed to use the average of all Other Transmission M&R demand costs, which is consistent with the Company's approved cost allocation methodology.

Putting aside this practical challenge, the Company submits that setting rates based on the specific assets required to serve a specific customer is not only inconsistent with postage-stamp rate design, but risks setting an unrealistic precedent for future detailed cost allocation. It is not clear to Enbridge Gas why EPCOR should receive a different cost allocation than other customers for the use of the same or similar M&R transmission assets. Enbridge Gas notes that Rate T3 customers, who like Rate M17 customers also pay the full cost of their end-use metering, contribute to the recovery of Other Transmission M&R costs in the same manner Enbridge Gas has proposed Rate M17 customers should contribute.

While EPCOR contributes to cost recovery of other M&R stations not related to its specific path, all other customers contributing to this asset class also contribute to the

[7] Decision & Order, page 17

cost recovery of the Owen Sound and St. Jacob's transmission stations regardless of whether those stations bring benefit to their specific location on Enbridge Gas's system. This is the nature of rate design and postage-stamp rate making, and the basis of Enbridge Gas's Board-approved cost allocation. There are also other benefits to using average costs in setting rates, as rates are more stable and predictable over time. It would be inappropriate to charge EPCOR only for the Owen Sound and St. Jacob's transmission stations when the costs of these assets are also being recovered from other customers that do not make use of these specific stations.

Contribution in Aid of Construction

Enbridge Gas notes that the Contribution in Aid of Construction ("CIAC") of $5.34 million, which was calculated in order to achieve a Profitability Index ("PI") of 1.0 for the portion of the Project directly attributable to EPCOR, was based on the proposed Rate M17 rates. Should Rate M17 rates change, the CIAC amount would need to be revised in order for EPCOR to bring the PI of its portion of the Project up to 1.0 as ordered by the Board. Should Enbridge Gas change the rate design associated with Other Transmission M&R costs, the Rate M17 demand charge would decrease from $4.431/GJ to $4.028/GJ. This rate decrease would require an increase to the CIAC from $5.34 million to $5.84 million to ensure EPCOR's contribution to the Project achieved a PI of 1.0 in accordance with the Board's Decision.

All of the above considered, Enbridge Gas submits that the Other Transmission portion of the Rate M17 demand charge should be approved as filed.

Attribution of Project and Asset Costs

In response to Enbridge Gas's Draft Rate Order, EPCOR and IGUA submitted that no costs associated with the 82% of Project capacity not used by EPCOR should be assigned to Rate M17 in the future.[8] OEB Staff noted that given the Project would not be added to rate base until 2024 the assignment of costs associated with the 82% capacity should be assessed at that time.[9]

Enbridge Gas submits the $5.34 million CIAC required to bring 18% of the Project up to a PI of 1.0 relates to EPCOR's specific contribution to the need and timing of this specific project. Changes to rates upon rebasing to reflect an updated rate base will relate to all customers, including EPCOR, recovering the broad set of assets used to serve them. The changes at that time will go beyond the impacts of the Project, with some costs across Enbridge Gas's Other Transmission assets being decreased through increased accumulated depreciation, while others are increased.

As noted in Enbridge Gas's Draft Rate Order, while EPCOR was required to pay a CIAC for its contribution to the project, 6,800m^3/hr of its 10,648 m^3/hr capacity was provided with no CIAC, as this capacity had been built out and paid for by previous Enbridge Gas

[8] IGUA Comments, page 3; EPCOR Comments, page 1
[9] OEB Staff Comments, page 4

customers.[10] As noted by OEB Staff, EPCOR will receive benefit from existing assets currently being paid for by other customers on Enbridge Gas's system.[11] EPCOR's payment of a one-time CIAC in response to its contribution toward a one-time project need should not exclude EPCOR from participating in the consistent recovery of costs across Enbridge Gas's customers to the benefit of all customers.

No party disagreed with Enbridge Gas's submission that the 82% of project costs would not impact rates during the deferred rebasing period. Enbridge Gas reiterates its view that it would be inappropriate to pre-suppose any outcome specific to Other Transmission assets or Rate M17 prior to the completion and submission of a comprehensive cost allocation study and proposal for rebasing in 2024.

Should you have any questions, please contact the undersigned.

Sincerely,

(Original Signed)

Brandon Ott
Technical Manager, Regulatory Applications

cc: Charles Keizer, Torys LLP
Intervenors (EB-2019-0183)

[10] Draft Rate Order, page 3
[11] OEB Staff Comments, page 4