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July 14, 2020

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

Dear Ms. Long,

RE: EB-2020-0066 Enbridge Voluntary RNG - Energy Probe Argument Submission

Attached is the argument submission of Energy Probe in the EB-2020 Enbridge Voluntary RNG proceeding.

Respectfully submitted,

Tom Ladanyi
TL Energy Regulatory Consultants Inc.
Consultant representing Energy Probe

CC. Patricia Adams (Energy Probe)

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ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B,
as amended;

AND IN THE MATTER OF an application by Enbridge Gas Inc.
for an order or orders related to its Voluntary Renewable Natural Gas Program;

AND IN THE MATTER OF an application by Enbridge Gas
Inc. for an order or orders amending or varying the rates charged to customers for the sale,
distribution, transmission, and storage of gas commencing as of January 1, 2021.

EGI Application for Voluntary Renewable Natural Gas Program

Energy Probe Research Foundation Argument Submission

July 14, 2020

EGI Application for Voluntary Renewable Natural Gas Program

Energy Probe Research Foundation Argument

The Application

On March 5, 2020, Enbridge Gas Inc. filed an application with the Ontario Energy Board seeking approval to implement a Voluntary Renewable Natural Gas Program. The Voluntary RNG Program offers customers the opportunity to pay \$2 per month towards the purchase of RNG that will displace system supply of traditional natural gas. This will reduce the overall greenhouse gas emissions (GHG emissions) from the natural gas consumed by Enbridge Gas's customers.

Enbridge Gas requested ¹that the Board approve:

1. The proposed \$2 monthly charge for each participant in the Voluntary RNG Program;
2. The addition of the Voluntary RNG Program charge to relevant Rate Schedules;
3. The proposal to use all the RNG Contributions during the deferred rebasing term to pay for the incremental costs of RNG to include within the Company's gas supply portfolio;
4. The proposal to include Voluntary RNG Program costs in the calculation of ESM amounts during the deferred rebasing term; and,
5. The proposal to record reductions in the Federal Carbon Charges resulting from the inclusion of RNG in the Company's gas supply portfolio into the FCCCVA and to allocate such amounts to all ratepayers who pay Federal Carbon Charges.

Summary of Energy Probe Submissions

1. Energy Probe takes no position on the \$2 monthly charge.
2. Energy Probe supports the addition to the rate schedules of the Voluntary RNG Program on the condition that it is a Pilot Program to be reviewed at re-basing.
3. Energy Probe submits that Procurement costs should be *net* of Program costs and the FCPPA Carbon Tax rebate.
4. Energy Probe is opposed to the inclusion of Voluntary RNG Program costs in the calculation of ESM amounts.
5. Energy Probe is opposed to the proposed rebate applied to offset VRNG program costs. (VRNG Deferral Account)

¹ AIC Page 13

Voluntary RNG Program

Enbridge Gas forecasts that approximately 16,000 customers will enroll in the Voluntary RNG Program in its first year (2021), with the number of participants growing to around 25,000 customers in year three².

During the deferred rebasing period Enbridge Gas indicates it will pay for all VRNG Program operating costs from existing distribution revenues. Accordingly the \$2/month received from Program participants will be used to fund the incremental cost of RNG above the cost of traditional natural gas.

As part of its rebasing application, the Company will make a proposal regarding how Program operating costs will be funded in 2024 and beyond.

Energy Probe Submission

Enbridge failed to provide evidence that would support its forecast of 16,000 customers in the first year followed by 25,000 in subsequent years.³ The Company's forecast should be considered as a Pilot Program forecast. Energy Probe submits that net revenue (RNG fees less Costs plus FCPPA tax credit) should be used to purchase RNG volumes. There should be no cross subsidy from other ratepayers.

Government Policy

EGI claims the VRNG Program is consistent with and responsive to public policy in response to the Government of Ontario's Made-in-Ontario Environment Plan (MOEP). The Provincial Government continues to support the introduction of RNG as a "clean fuel" that can help meet Ontario's 2030 emission reduction target. The Provincial Government's MOEP is intended, among other things, to "[support] Ontarians to continue to do their share to reduce greenhouse gas emissions". Under the heading:

"Increase access to clean and affordable energy for families", the MOEP states that the Government will "require natural gas utilities to implement a voluntary RNG option for customers".⁴

Anticipated benefits from this Application include supporting better waste management options and reductions to GHG emissions from Enbridge Gas customers, while maintaining the value of existing distribution infrastructure; increased customer awareness of the benefits of RNG; support for the growth of RNG supply options; and early steps towards the introduction of RNG to support future compliance with the anticipated Federal Clean Fuel Standard (CFS).

Regulatory Precedent

² *ibid.* Page 5

³ I.E.P.4; Tech. Conf. Tr. Vol. 1, pages 178-180

⁴ MOEP, page 33. Beyond its specific requirement for a voluntary RNG option, the Ontario Government commits to shifting toward a waste management approach that considers waste "as a resource that can be recovered, reused and reintegrated back into the economy." The MOEP states that RNG production is a waste management option for organic waste resulting in "a clean, carbon-neutral energy source." See Exhibit B, Tab 1, Schedule 1, para. 7 and references cited therein.

The OEB has previously considered RNG as a supply option in the EB-2011-0242/0283 and EB-2017-0319 proceedings, which considered proposals for RNG supply and RNG-enabling services. In the first of these proceedings, the Board did not approve an application to introduce RNG into system supply.

In the EB-2017-0319 proceeding, the Board approved two new services under Enbridge Gas Distribution's (EGD) proposed "RNG Enabling Program" which is intended to enable RNG production and was proposed because there was little current activity in that Area.

One of the services approved by the Board (RNG Injection Service) is to be carried out within the regulated utility,

Customer/Participants' Considerations

Enbridge Gas's proposed Voluntary RNG Program will offer system gas general service customers across all rate zones the option to pay a fixed \$2 monthly charge to fund the incremental cost of including RNG volumes in the Company's system gas supply. Participating customers will not receive a specified proportion of their gas as RNG, nor will their contributions fund a set volume of RNG purchases. Rather, Enbridge Gas will use the fixed contributions from participating customers to fund the incremental cost of RNG relative to traditional natural gas, procuring as much RNG as can be purchased with the amount collected.

Based on the customer participation forecasts of approximately 16,000 in the first year, growing to 23,000 and 25,000 in the next two years, Enbridge Gas forecasts that that Voluntary RNG Program participants' contributions in the first year of the Program will be approximately \$385,000, growing to approximately \$850,000 annually by year ten. Enbridge Gas forecasts the cumulative Program funds will be \$6.8 million (RNG Contributions) in the first ten years of Program operations.⁵

Enbridge Gas estimates that available funds from the first 12 months of Program operations will allow for procurement of over 22,000 GJ of RNG, increasing gradually to reach 52,000 GJ in year ten.³⁰ In total, Enbridge Gas estimates that forecast RNG Contributions will allow the Company to procure over 400,000 GJ of RNG supply over the ten year forecast period.

Energy Probe Submission

There is inadequate evidence to support the decision to set the participant cost to \$2 per month. The Company presented no report or analysis that would lead the OEB to conclude that \$2 per month is the right amount⁶. It is not derived or supported by the Customer Survey. Energy Probe does not support or oppose the \$2 per month proposal if Voluntary RNG is a Pilot Program.

However, Energy Probe is concerned that customers responding to the Customer Survey were not told that they were already paying about \$75 /year (2019) for the Federal Carbon Tax or that the rebate from RNG would not flow back to them.

⁵ *ibid.* page 6

⁶ I.EP.14, Tech. Conf. Tr. Vol. 1, Pages 170-172

Energy Probe recommends that in soliciting VRNG Program participants, *full disclosure* should be provided to each potential participant.

Federal Carbon Charge Considerations

Each unit of RNG procured will reduce GHG emissions by displacing traditional natural gas. In the first year of the Voluntary RNG Program, Enbridge Gas forecasts that RNG supply will result in GHG emissions reductions of approximately 1,100 tCO₂e.

The inclusion of RNG in the Company's gas supply portfolio will reduce the amount of Federal Carbon Charges otherwise payable by Enbridge Gas on behalf of ratepayers. Enbridge Gas will subtract the amount of RNG from the total customer volumes of natural gas subject to the Federal Carbon Charge, as per requirements in the *Greenhouse Gas Pollution Pricing Act*.

The difference between the amount of the Federal Carbon Charge paid to the federal government and the amount billed to customers will create a variance that will be recorded in the Federal Carbon Charge – Customer Variance Accounts (FCCCVA). Enbridge Gas estimates this benefit (savings) to be less than \$50,000 in total for the first year of the VRNG Program.⁷ Enbridge Gas proposes to record this amount as a credit in the FCCCVA such that all customers who pay the Federal Carbon Charge will benefit. While the Company recognizes that it might be appropriate to specifically credit the variance to Program participants, the cost associated with administering that treatment outweighs benefits.

Non-participants in the Voluntary RNG Program will not see any additional amounts included on their bills because of the Program. As noted, Enbridge Gas proposes it will absorb the Program costs during the deferred rebasing term.

Energy Probe Submission

Energy Probe submits that it is not fair to VRNG participants and against ratemaking principles, for the credit from reduced FCPPA not be returned to participants, *provided the program costs are charged to the participants*.

Energy Probe recognizes that the cost of providing the rebate may outweigh the amount of the rebate.⁸ Accordingly, a reasonable option that Energy Probe would support, is to use the Carbon Tax credit to offset some of the approximately \$250,000 in VRNG Program annual operating costs. To achieve this, the credit would flow into the VRNG Program Operating costs account. (See below re treatment of VRNG Operating costs)

VRNG Program Costs

EGI indicates VRNG Program costs will be part of the utility's costs of providing service to ratepayers and will therefore be included in the determination of Enbridge Gas's utility results' net revenues for each year of the deferred rebasing term (2021, 2022 and 2023). To the extent that the Company is in an

⁷ Exhibit I.EP.10(d). See also 2Tr.24-25.

⁸ *ibid*

earnings sharing position in any year (i.e. utility ROE of at least 150 basis points above allowed ROE), then the inclusion of Program costs will decrease the ESM amount around \$250,000 per year

Energy Probe Submission

Energy Probe submits that although the annual VRNG Program cost is modest, and regardless of EGI being in a deferred rebasing period, the principles of ratemaking require that the ~\$250,000 VRNG operating costs be paid by VRNG customers out of the \$2/month fee. As noted above, the credit from the FCCPA carbon tax should be an offset to VRNG costs.

Net VRNG Revenue to purchase RNG = VRNG fees - [(VRNG operating costs + Carbon tax rebate)]

For accounting purposes, a VRNGP Deferral Account is required. There will be no longer an impact on the ESM during the rebasing period.

Competition Considerations

Currently, there is little to no competition in the sale of injected RNG to residential and other low-volume customers in Ontario. It appears that only one marketer is offering any such option⁴⁵, and the total number of mass market customers served by any gas marketer in Ontario is quite low.⁹ Enbridge Gas does not believe that its Voluntary RNG Program will negatively impact gas marketers since they are not currently delivering a similar service to provide a small portion of gas supply as RNG.

Enbridge Gas expects that the launch and growth of the Program will drive customer demand for receiving RNG as part of their gas supply. This could open up opportunities for third party gas marketers who will have the flexibility to design and market different offerings from Enbridge Gas's modest Program.

Energy Probe Submission

The VRNG Program is *not* natural gas supply and distribution and therefore not a service that must be provided under Act. Pending changes to the Act to allow this, VRNG should be considered as a non-utility program.

As noted earlier, Energy Probe does not oppose the program as a Pilot Program, conditional on certain amendments as set out in this submission. However, should tangible competition arise, the Board should direct Enbridge Gas to cease and desist. EGI has the option to operate VRNG as a non-utility program and have the charges put on the VRNG customers' bill.

Respectfully submitted on behalf of Energy Probe Research Foundation by its consultants,

**Roger Higgin
SPA Inc.**

**Tom Ladanyi
TL Energy Regulatory Consultants Inc.**

⁹ Exhibit I.CBA.1(d) and Exhibit I.SUMMITT.8. See also Tech. Conf. Tr. Vol. 1 pages 63-65