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Enbridge Gas Distribution Inc.
EB-2020-0066
Voluntary Renewable
Natural Gas Program

Submission of the Vulnerable Energy Consumers Coalition (VECC)

July 15, 2020

Vulnerable Energy Consumers Coalition

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Summary of Submissions

VECC believes the Board should approve the proposed Voluntary RNG program with some modest adjustments. These are:

- The program costs and revenues should be excluded from the annual ESM calculation.
- Customers should receive a notice not less than once every 24 months seeking their renewal in the program.
- An annual credit of approximately $3.10 should be provided to program participants.
- Program participants should receive a program report indicating the RNG amount purchased and providing the estimated environmental benefits.

In our submission the Board should also direct that the Utility report to the Board on the program if and when Federal or Provincial related programs such as the Clean Fuel Standards impact its benefits or costs.

Approvals Sought

Enbridge Gas proposes that each participant in the Voluntary RNG Program will pay a fixed charge of $2 per month. The funds received for the Voluntary RNG Program will be used to purchase RNG at periodic intervals. Enbridge Gas estimates that approximately 1.5%-1.7% of a typical household's gas supply would be offset by this program[1]. Customers are to be unaffected by the incremental cost of RNG supply as the additional cost of RNG will be paid from Voluntary RNG Program revenues.

The Specific approvals sought for this program are:[2]

a) A proposed fixed $2 charge for each participant in the Voluntary RNG Program;
b) The addition of the Voluntary RNG Program charge to relevant Rate Schedules;
c) A proposal to use the Voluntary RNG Program funds to pay for the incremental costs of RNG to include within the gas supply portfolios for each of the Company's rate zones;
d) The proposal to charge the same rates to all customers within a rate zone for their gas supply, whether or not that customer is a participant in the Voluntary RNG Program;
e) The proposal to continue to charge the same rates to all applicable customers within a rate zone for their Federal Carbon Charge contribution, whether or not that customer is a participant in the Voluntary RNG Program;
f) The proposal to include Voluntary RNG Program costs in the calculation of ESM amounts during the deferred rebasing term; and,

[1] 1.ED-4
[2] Exhibit A, Tab 2, Schedule 1, pg. 3 and Enbridge Argument in Chief (AIC), July 3, 2020, pg. 13

g) 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.

No issues list was approved by the Board in this proceeding. In VECC's view the questions to be addressed are:

- Is the program within the mandate of the Board's regulatory authority and does it address any of the objectives in the *OEB Act*?
- Are the costs and benefits of the program reasonable?
- Are cost and benefits of the program appropriately apportioned as between ratepayers and program participants and shareholders?
- Are ratepayers and program participants adequately protected?

Is the program in keeping with the Board's legislative objectives?

Enbridge outlines the benefits of the program as[3]:

- 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).

However, none of these benefits appear directly related to the legislated regulatory objectives for natural gas in the *OEB Act*. The Board must be guided by the specific legislation in accordance with the legislative objectives. In our view the following three objectives are pertinent to the Utility's proposal: [4]

> *1. To facilitate competition in the sale of gas to users.*
>
> *2. To protect the interests of consumers with respect to prices and the reliability and quality of gas service.*[5]

[3] AIC, pgs. 1-2

[4] Ontario Energy Board Act, 1998, S.O. 1998, CHAPTER 15, SCHEDULE B

[5] The alternative "2. To inform consumers and protect their interests with respect to prices and the reliability and quality of gas service." appears to yet to be proclaimed.

3. To promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.

Enbridge does argue that "[A]*pproving this voluntary and relatively small-scale Program would be consistent with the Board's statutory objective "to promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances."*[6]

1. <u>Competition</u>

This is the second application by the Utility for renewable or biomethane gas supply. In the fall of 2011 both predecessor utilities, Union Gas Limited and Enbridge Gas Distribution Inc., brought forward similar applications. Then the companies proposed to limit the volume of biomethane purchased to an annual cap of 3.3 petajoules (87 million m3) for Enbridge and 2.2 petajoules (58 million m^3) for Union Gas. Similar to this application, this represented at the time about 2% of system gas supply for the companies.[7] In that proceeding VECC argued for a voluntary approach. The Utilities in reply objected to this proposal for reasons set out in the Board's Decision:

> "…*they* [Enbridge Distribution and Union Gas] *do not have the marketing expertise to pursue such an approach*; *there is too much uncertainty around the level of take up to underpin the purchase commitments; and it would place them in direct competition with gas marketers with similar programs*"
>
> The Board concurred with the Utilities' position stating:
>
> "*The Board concludes that the voluntary approach would be inappropriate. Such an approach would effectively place the utilities in the position of competing directly with marketers, as opposed to their current role, which is essentially that of default supplier. The Board concludes that this would be an inappropriate distortion to the competitive market*"

The Board also encouraged the Utilities to address the issue of competitive offerings:

> "*Enbridge noted that if the Board considered it appropriate to allow such a mechanism for the gas marketer community to participate and offer renewable natural gas as a voluntary option, the companies would be open to this adjustment to the proposed program. The Board concludes this has merit and should be considered*.[8]

The applications were subsequently withdrawn by the two Utilities on September 17, 2012.

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[6] AIC, pg. 10
[7] Interim Decision and Order, July 12, 2012, EB-2011-0242/0283, pg. 2
[8] Ibid, pg. 23

In this Application Board must again consider the issues of the impact of a voluntary program on competition in the gas market. However, notwithstanding the Board's past concerns the issue of the impact of this proposal on the competitive gas market was not vigorously addressed in this Application. The evidence with respect to this aspect of the proposal is largely in responses to interrogatories, specifically Staff-3. And notwithstanding the similarities of the prior and this proposal Enbridge "….. *is of the view that the Program does not compete with energy marketers that may attempt to offer an RNG supply option*". Little concrete evidence is offered to support that statement.

Nevertheless, we agree with Enbridge. Over the subsequent 7+ years since the Board's Biomethane decision retail gas marketers have largely been unable "kick-start" a renewable gas supply option. To our knowledge only one gas marketer, BullFrog Power, offers a similar service. They did not intervene in this proceeding.

Enbridge states that there is only one Ontario facility currently producing RNG. It is reasonable to assume from this fact that the adoption of a "renewable gas" option in the private market has been less than overwhelming. The lack of RNG production bolsters the argument that a Utility service might have the ancillary benefit of promoting an RNG production market. Supporting that notion Enbridge noted that two more RNG facilities are currently under construction and it provided a list of up to 37 potential sites for development[9].

Potential Ontario Renewable Natural Gas Production Facilities Known to Enbridge Gas			
Feedstock / Biogas Source	**Potential Number of Facilities**	**Potential Annual Production ($10^6 m^3$)**	**Estimated Annual Production ($10^6 m^3$)**
Anaerobic Digestion	22	173	71
Landfill	8	161	149
Waste Water Treatment	5	31	13
Gasification	2	37	30
Total	**37**	**402**	**262**

We observe that the competitive natural gas market for residential consumers is largely (and thankfully) moribund. In any event, the failure of the low-volume natural gas retail market to innovate should not be used to obstruct new services being offered by the regulated utility. We

[9] Undertaking JY1.2 and AIC, pg. 11

submit therefore that the Board would not be unreasonable in dismissing concerns that approval of this service might undermine the facilitation of competition.

2. Protect the interest of Consumers

Given that RNG supplied gas is likely to be more than 9 times the cost of natural gas it is difficult to argue that the proposed service meets the objective of protecting consumers interest with respect to prices[10]. Unlike conservation and demand management (CDM) programs which (at least notionally) offer the benefit of lower distribution costs through avoided plant and facilities, higher gas prices are a net loss to consumers unless environmental externalities are incorporated in the calculation.

However, we believe consumers interests with respect to prices can be respected provided the program is, as proposed, voluntary. And we note that the Utility has apparently addressed its prior unease with offering a voluntary program. In order to properly protect consumers' interest in addition to being voluntary ratepayers need to well informed. Transactional ease should also be part of the equation. Otherwise, as often occurs in the low volume retail gas market, consumers may fall prey to exploitive marketing (even under good intentions) and barriers to making changes to their service.

3. Promote Energy Efficiency

That the RNG program does not undermine the OEB's objectives is not sufficient, in our view, to approve the service. The program should serve at least one of the OEB Act's objectives and in a positive way. Enbridge's argument is that the proposal serves objective (3): *To promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances*.

In our submission since the RNG supplied gas is a substitute for otherwise purchased natural gas the proposal it cannot reasonably described as energy conservation. It is fuel substitution not fuel reduction.

That leaves "energy efficiency." If one defines energy efficiency by the common meaning as using less fuel to provide the same level of energy (work) than the proposal also fails to meet objective (3).

However, a broader definition of energy efficiency might include its environmental attributes. The renewed effort by Enbridge is demonstrative of this more liberal interpretation. It appears that the Utility was motivated to resurrect its prior proposal by two things. One is precedent. Enbridge points to a number of utilities with similar pilot programs. The second and related matter is with respect to government policy. As in other jurisdictions there is a growing (if not

[10] On the other hand, as set out in its Argument-in-Chief (pg. 6) RNG procured gas will meet all gas quality requirements.

overwhelming) consensus on the need to address greenhouse gases and global warming. Enbridge points to the Federal legislation of carbon taxes and the Ontario Provincial statements on their intent, as yet unrealized, to mandate voluntary RNG type programs.

The difficulty is that for Federal policy it is the place of the Government of Canada and not the OEB to establish a price for environmental externalities. This is precisely what the Federal carbon tax policies do[11]. In a like fashion the criteria of the upcoming federal government Clean Fuel Standard ("CFS"), which will (or may) require fossil fuel producers, importers and distributors to reduce the carbon intensity of the fuels used in Canada, is a prerogative of that level of government.

The difficulty with the Ontario Provincial policy is that currently consists only of policy statements. Enbridge is anticipating that a voluntary RNG type of program will be required of Ontario gas utilities. The Ontario Government has not yet passed legislation or regulations that would require the implementation of a voluntary RNG program. And so, the Board does not have an approved framework within which to implement the statements made by the Ontario Government. On the other hand, the Board may take some comfort in that Enbridge Gas has had discussions with representatives of the Ontario Government with respect to how a Voluntary RNG program could be structured.

Notwithstanding a broad societal consensus that there is benefits to reducing GHG emissions the OEB's guiding legislation does not place this goal among its objectives. Rather than seize jurisdiction it is incumbent upon industry and stakeholders to work with government to fill this legislative gap. Clarity of mandate is especially important when, as is currently the case, there are real policy difference as between the Federal policy approach, which mandates carbon taxes and (potentially) clean fuel standards and Provincial policy, which focuses on voluntary actions.

As such and until clarity by the Province is provided, we submit the Board should act judiciously. We submit this is a compelling reason to provide approval for the program only if it done on a voluntary basis both by the Utility and the ratepayer. If parties freely enter into the transaction and if participating customers are not exploited, are fully informed and if a real benefit for their participation is provided, then we believe the Voluntary RNG program can be approved within a broad definition of the Board's objectives to promote efficiency in the natural gas sector.

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[11] On June 21, 2018 Royal Assent was given to the Greenhouse Gas Pollution Pricing Act, S.C. 2018, c. 12, s. 186 ("GGPPA"). Under the GGPPA, the federal carbon pricing program ("FCPP") applies to Ontario. The FCPP includes a charge on fossil fuels (the "Federal Carbon Charge" or FCC), including natural gas. The FCC began on April 1, 2019 at a rate of 3.91 cents/m3 of natural gas, and will increase annually until it reaches 9.79 cents/m3 of natural gas in 2022. Under Part 1 of the GGPPA, Enbridge Gas is exempt from paying the Federal Carbon Charge on volumes of RNG.

Are the Costs and Revenues Properly Apportioned?

It is estimated that approximately $400,000 in operating costs will be incurred in the first year of Program. This will be offset by a tax credit of just under $200,000. After the first-year annual operating costs of approximately $250,000 per year are expected. Forecast costs include marketing costs, billing processing costs, customer contact center costs, legal costs and the revenue requirement associated with capital costs required for upgrades to internal systems.[12]

Within the first 12 months Enbridge expects approximately 16,000 participants to enroll in the Program. The participation rate is expected to increase over the second year to a total of 23,000 and slowly growing thereon until the tenth year when 37,000 participants are expected to be enrolled[13]. The forecast participation rates and the proposed voluntary monthly contribution of $2 are based, in part, on a study conducted by Ipsos Public Affairs in 2018. EGI did not conduct consultations with large commercial and industrial customers with respect to this program.

Program participant contributions are forecast in the first year of Program to be approximately $385,000 and growing to approximately $850,000 annually by the tenth year. The program is expected to raise a total of $6.8 million over the ten years of Program. The purchased volumes based on an assumption of $21/GJ for RNG supply are shown below.[14] The current cost of natural gas is approximately $2.60/GJ[15].

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Funds Collected	$386,090	$548,264	$590,438	$632,613	$674,787	$716,961	$759,135	$801,309	$843,483	$885,658
RNG Volumes (GJ)	22,711	32,251	34,732	37,213	39,693	42,174	44,655	47,136	49,617	52,098
RNG Volumes (m^3)	609,863	866,032	932,649	999,267	1,065,885	1,132,503	1,199,121	1,265,739	1,332,356	1,398,974
% of Funds used for RNG Procurement	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Assumed RNG Price($/GJ)	$21									

Enbridge Gas intends to launch the Voluntary RNG Program in early 2021.

[12] Exhibit C, Tab 2, Schedule 2
[13] Exhibit C, Tab 2, Schedule 1
[14] I.Staff-8
[15] April 2020 QRAM filing EB-2020-0077 Exhibit E, Tab 1, Schedule 1

Enbridge Gas has not yet determined how Program operating costs will be treated after rebasing in 2024. The Company expects its proposal at that time will be best informed by the most current government policy, experience delivering the Program to that point, market conditions at that time, and other relevant factors. Enbridge has indicated that it might later be appropriate to seek inclusion of Program operating costs within rates on a cost of service basis[16].

It is difficult for VECC to judge the accuracy of the forecast attachments. The program as projected relies upon the notion of charity. Since the charge is relatively small ($2.00 per month) and the program voluntary we submit the proposed rate is reasonable.

The marketing of the program is vague and we have some concerns with how customers might misunderstand the nature of the program and the benefits it might provide them directly or indirectly. However, we take some comfort in that it would be a regulated offering and subject to the Board's oversight should complaints arise. The Utility has also made it simple to exit the program. The one improvement we think critical is for the Utility to periodically seek that participants actively renew their status in the program. In our view this could be done in conjunction with period our recommendation that "green reporting" be provided the participants.

Variance and Tax Credit Accounting

The cost of the RNG will be recorded in the Union South PGVA, and the amount collected in rates from program participants will be used to equalize the cost of RNG with the average cost of non-RNG natural gas purchased (i.e. will be recorded as a credit in the PGVA). Enbridge explains that this will ensure that non-participants do not pay for the incremental cost of RNG relative to traditional natural gas supply.

Any avoided costs realized as a result of reduced Federal Carbon Charges will be tracked in OEB-approved Federal Carbon Charge – Customer Variance Accounts ("FCCCVA") for the EGD and Union rate zones (Account Nos. 179-502 and 179-421). Enbridge Gas will apply to dispose of final net balances in these accounts in future proceedings. The variance will be disbursed to all customers subject to the Federal Carbon Charge, which will include contract customers[17].

[16] I.Staff-12
[17] I.LPMA 4

While VECC has no objection to the accounting structure, we do not believe the disbursement of tax credits arising from the purchased of RNG are properly shared with all customers. Rather this benefit should accrue to program participants.

Benefits to Participants

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.[18]

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. Over ten years, Enbridge Gas forecasts that RNG supply from the Program will result in GHG emissions reductions of approximately 20,200 tCO2e/[19]

Enbridge Gas noted that it will report on overall Program results and associated GHG reductions and all participants will have access to this information, but was vague on what precisely program participants would receive.[20]

In response to questions by VECC Enbridge stated it "*would use assets owned and operated by Enbridge Gas to recognize Program participants. Owned asset examples include Enbridge Gas websites, social media accounts owned and operated by Enbridge Gas such as Twitter, LinkedIn and Facebook, and print marketing materials as required"* And "*would provide customers with tools to gain social recognition for their participation in this program. Social recognition examples include lawn signs and window decals demonstrating their commitment to the environment*.[21] The evidence also talks in vague terms about potential for some type of points rewards.[22]

Enbridge Gas estimates the savings from the tax benefit of RNG purchased gas to be under $50,000 in total for the first year of the Voluntary RNG. This works out to about $3.10 per participant or about 25 cents per month. When questioned on returning this amount to the program participant Enbridge stated:"[W]*hile the Company recognizes that it might be*

[18] Enbridge Argument in Chief, pg.4 and Exhibit B, Tab 2, Schedule1.
[19] Ibid, page 8 and Exhibit B, Tab 2, Schedule 4, pg. 2 Corrected June 1, 2020
[20] I.PP.5
[21] I.VECC.1
[22] Technical Conference Transcript, June 18, 2020, pg. 36

appropriate to specifically credit the variance to Program participants, the cost associated with administering that treatment outweighs benefits."[23]

VECC queried this response in detail at the Technical Conference specifically trying to understand why an annual one-time credit (e.g. of $3.10) could not be provided. Enbridge explained that changes to the billing systems would be required because "*It has to do with the fact that customers are coming into the program at different times, or could be leaving the program, and being able to allocate different amounts to different -- to specific customers is not functionality that currently exists in our system*.[24]"

Yet we note that if a customer were to acquire RNG supplied gas from a marketer then "*Enbridge will make the required billing adjustment necessary to reduce the Federal Carbon Charge attributable to that customer's Enbridge Gas bill provided the customer procures all of their gas supply as RNG*[25]."

That is, if a customer acquires biomethane from a gas marketer they will receive all or some of the benefit through their retail gas provider. If they participate in the Utility's program, they do not receive a similar credit. This seems both incorrect and counterproductive.

Apparently, the main objection to providing a "FCC dividend" is the need to prorate customers RNG benefit according to the time of their enrollment in the program. However, it is clear that the Utility expects that participants will stay in the program for prolonged periods. It would seem to us relatively straightforward, if imperfect, to simply provide an annual dividend based on the total number of customers in the programs and the tax credits at the end of the year. This might mean that some customers would receive more than their prorated share of any credit and others, leaving the program might miss receiving a credit in a given year. However, it seems to us this result is better than the Utility's proposed alternative where program participants receive no financial benefit.

Enbridge proposes to maintain a ratepayers enrollment in the Voluntary RNG program until such time as the program (in its current form) is terminated or upon a 30 day notice from the participant.[26] The bill notification of being a subscriber to the RNG program consists of a single line on the bill under the ambit of "Other Enbridge Charges and along with the HST charge and any rate rider.[27] In our submission is this simply insufficient communication to the program participant of their enrollment and their ability to leave the program.

[23] AIC, pg.9
[24] Technical Conference, June 18, 2020, pg.29
[25] I.VECC.9 corrected 2020-05-27
[26] I.VECC.5
[27] See I.Summitt2_Atacchment 1

In our view it is important to provide some tangible benefit for this service and to be made aware periodically of their enrollment in the program. The Utility offered no certainty to that in this proceeding. In addition to an annual "FCC dividend" it is our view that each participant should receive (by email if convenient) an annual report on the environmental savings. Such a report would also serve as a reminder to the participant that the program is voluntary and that they are free to exit with 30 days' notice.

Benefits to Shareholders - ESM

In our submission any proposal for a new service by the gas utility during the rate deferment period must be at a minimum neutral and preferably have a benefit for ratepayers.

As approved by the Board in EB-2017-0319, Enbridge Gas provides RNG injection services on a regulated basis under Rate 401, as well as RNG upgrading services as a non-utility activity. The Company also makes Rate M13 available to RNG producers in the Union South rate zone, and has two unregulated affiliates that engage in RNG business activities. The increase in activity due to this program would be marginal.[28]

Enbridge has two affiliates investing in RNG facilities: Union Energy Service Inc. and 2099634 Ontario Inc. These affiliates build, own and operate RNG facilities.[29] The Utility has stated that it will procure RNG under the same Gas Procurement Policies and Practices used to govern the purchase of traditional natural gas and will also adhere to the requirements of the OEB's Affiliate Relationship Code for Gas Utilities. This will ensure that ratepayers and program participants are not adversely impacted in the event that Enbridge Gas procures RNG from an Enbridge-related entity.

In our submission there are no outstanding issues with respect to affiliate relations.

On the face of it the proposal is of no consequence to ratepayers during the rate deferral period. Over the deferred rebasing term, all revenues collected through the $2 monthly charge are directed toward the incremental cost of RNG and all other costs are funded through Enbridge Gas's existing revenues[30].

[28] Undertaking JT1.15
[29] Exhibit I.SEC.3
[30] Exhibit I.LPMA.10

However, Enbridge will include operating costs of the program as part of utility results (i.e. within utility rate base and O&M) for the purpose of calculating earnings sharing (ESM) for each year within the deferred rebasing period[31].

Enbridge believes that the costs and revenues associated with the RNG program will be immaterial relative to the amounts used to calculate any ESM. We submit this is proposal should be rejected.

While one might commend the objective of the RNG program (or not) the fact point of the rate deferral period is to hold "*in situ*" the rates and services of the Utility. New services bring with them new costs and benefits and the associated risks with those variables. The entire premise of the "no rebasing" period is to put upon the Utility both the potential risk and benefits of activities in the rebasing period.

As we discuss below, customers are being offered very little other than good feelings for joining this program. And it is clear to us that there is a significant risk that notwithstanding its (limited) customer surveying that ratepayers on the whole will fail to heed a call to "do the right thing" and volunteer $2.00 a month to Enbridge for the greater good. If the Utility is comfortable with its proposal and has now surmounted its objections offering a voluntary program, then it should reasonably be at risk for the both the revenues and costs of the proposal. We would also add that if the Board were to acquiesce to the proposal to include the program in the overall calculation of the ESM it would be removing the incentives for the Utility to maximize its revenues and minimize its costs of the program.

For these reasons we submit the Board should order the removal of both the costs and revenues of this program from the calculation of future earning sharing.

<u>Future Changes</u>

The Company's approach to the implementation of the Clean Fuel Standard ("CFS") when (or if) it is implemented will be dependent on the final requirements of the CFS. The Company's Voluntary RNG Program may be extended, modified or terminated based on the requirements of the CFS.[32]

"*So at the point that the Clean Fuel Standard is coming in, that may require us to change how we consider the requirements for the RNG coming into our program*."[33]

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[31] Ibid
[32] I.VECC.4
[33] Technical Conference Transcript, June 18, 2020, pg. 147

Enbridge Gas has committed to assessing its experience with the first years of the Program and reporting to the OEB and interested parties within its 2024 rebasing application at the end of the deferred rebasing term.[34]

This is a reasonable approach to potential future changes that might impact the program.

These are our respectful submissions. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

JULY 15, 2020

[34] AIC, pg. 12