EB-2020-0066

ONTARIO ENERGY BOARD

Enbridge Gas Inc. (EGI) Application for Voluntary Renewable Natural Gas Program beginning January 1, 2021.

WRITTEN SUBMISSIONS

of

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

IGUA's General Position on the Program

1. IGUA's members have a high level of interest in the development of renewable natural gas (RNG).

2. EGI's modest Voluntary RNG Program proposal is designed for small volume system gas customers. EGI's position is that large volume contract customers interested in RNG supply can arrange for their own RNG supply, and can avail themselves of EGI's existing direct purchase and regulated RNG injection services to arrange for delivery of RNG that they wish to procure.[1] IGUA agrees with this position, and has not focused its intervention on the operational details of EGI's proposal.

3. IGUA generally supports utility innovation initiatives focused on utility services. EGI's Voluntary RNG Program proposal is focused on continuing to make use of the existing gas distribution system[2] and is intended to provide EGI with experience and knowledge in RNG procurement[3], in anticipation of continued public policy imperatives for "greening" of gas supply, including in anticipation of a federally mandated Clean Fuel Standard.[4] EGI's

[1] EGI AIC, paragraph 16.
[2] EGI AIC, paragraphs 8 and 32.
[3] EGI AIC, paragraph 36.
[4] EGI AIC, paragraphs 31 and 32.

Voluntary RNG Program proposal seems appropriately focused within the reasonable sphere of regulated utility activities.

4. As noted in IGUA's March 16th Request for Intervention herein, in respect of RNG development IGUA has advocated; i) a market based approach to supply; ii) a voluntary approach to demand; iii) market based vs. regulated contracting and pricing arrangements; and iv) avoidance of cross-subsidization.

5. EGI's proposal relies on a market based competitive approach to supply, a voluntary approach to demand, and market based pricing of RNG. It is intended to help with consumer knowledge and awareness of the benefits and availability of RNG[5], which supports development of RNG demand and supply. EGI's proposed short term contracting may provide, in a modest fashion, secondary market activity in support of RNG development.[6]

6. EGI's proposal does not, however, avoid cross-subsidization. Even though the cross-subsidization resulting from the program design is forecast to be modest, it also appears to be reasonably easily avoidable.

Avoidance of Cross-Subsidization

7. EGI asserts that its proposed program will not increase the rates of non-participating customers through the balance of EGI's deferred rebasing period.[7] EGI concedes, however, that as proposed operation of the program may decrease any earnings to be shared during this period.[8] In the result, there is the potential for cross-subsidy of participating customers by non-participating customers.

8. While conceding the potential for cross-subsidization, EGI justifies that result through assertions that the proposed Voluntary RNG Program *"is a utility activity being conducted at the direction of the Ontario Government for the benefit of ratepayers and the Province"*. EGI thus advises that *"Program costs will be part of the utility's costs of providing service*

[5] EGI AIC, paragraph 33.
[6] Technical Conference Transcript Volume 1, page 116, lines 10-16.
[7] EGI AIC, paragraph 2.
[8] EGI AIC, paragraph 27.

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)".[9]

9. Despite EGI's repeated reference to an Ontario government "direction" to EGI to implement a voluntary RNG program, there has been no such direction.[10] While the Made in Ontario Environment Plan (MOEP) states that the government will direct the province's gas distributors to implement a voluntary renewable natural gas program, that indication is not itself a direction, and no direction was ever given. That may be because EGI was quite willing to go to the government with its own program proposal.

10. When the proposed program was presented by EGI to the Ontario government it was presented on the basis that all program costs, including operational and capital related costs, would be recovered from program revenues, and there would be no cross-subsidy from non-participating customers.[11] The same representations were made to EGI's senior management in support of the proposed program.[12] Clearly EGI assumed in developing the program that such result was appropriate and doable, and there is no evidence to the contrary. One might also presume that it was on this basis that the government accepted EGI's proposed program as satisfying the relevant MOEP policy objective, and EGI's senior management endorsed the proposed program as appropriate.

11. The potential for cross-subsidy can be readily avoided either by EGI procuring less RNG[13] (i.e. using available program funds after allowing for the forecast costs of the program), or by EGI increasing the monthly charge (by an average over the 10 year program forecast period of 83¢/month[14]) to cover the forecast costs of the program. RNG volumes are not expressly tied to voluntary customer contributions to the program. It is appropriate that program revenues cover program costs and thereby preclude any cross-subsidies. This is in keeping with EGI's representations to government and its own senior management on how its program could, and <u>would</u>, be structured.

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[9] EGI AIC, paragraph 27.
[10] ExI.IGUA.1.
[11] ExJT2.6, Attachment 1, pages 2 and 3; Attachment 2, pages 1 and 2.
[12] ExJT1.13, Attachment 1, pages 3, 4, 7, 8, and 10.
[13] ExI.LPMA.16, part a) Corrected.
[14] ExI.LPMA.16, part b) Corrected.

12. ***IGUA submits that program costs should <u>not</u> be approved for inclusion in calculation of ESM amounts during the deferred rebasing term.*** Rather RNG program contributions from voluntarily participating customers should be used to cover the operating and capital related costs of the program as well as for procurement of RNG. EGI has indicated no reason why this would be inappropriate or unworkable, and it would preclude cross-subsidization by non-participating customers. In the alternative, and to the extent that such program costs are truly "modest" as EGI asserts, then they can be for the account of the shareholder and not to the account of non-participating customers.

(In the Alternative) Mitigation of Cross-Subsidization

13. In respect of non-participating system supply customers, the potential cross-subsidization inherent in EGI's program design proposal would be mitigated to some extent by the proposed allocation of reductions in carbon compliance costs resulting from displacement of conventional gas volumes with RNG volumes. EGI has proposed allocating avoided carbon compliance costs to the Federal Carbon Charge Customer Variance Account (FCCCVA). Such allocation would provide no mitigation from cross-subsidization by non-system supply customers.

14. When asked if the avoided carbon compliance costs resulting from the RNG volumes to be procured under the proposed program could be allocated to the Federal Carbon Charge <u>Facilities</u> Variance Account (FCCFVA), which is cleared to all <u>delivery</u> customers, EGI's response was that the program is to be marketed to customers on the basis of displacing customer volumes, and so the carbon compliance cost benefits that will arise from the program are properly allocated to the commodity carbon compliance cost variance account.[15]

15. Marketing aside, from a ratemaking perspective a standard principle in setting regulated rates is that benefits should follow costs. In this instance, should the Board be persuaded to accept modest cross-subsidies potentially arising from the program for the time being, then it should also direct that the modest benefits arising from displacement of conventional gas volumes and resulting reduction in carbon emission compliance costs

[15] Technical Conference Transcript Volume 1, page 109 line 4 through page 110, line 22.

should be allocated so as to mitigate the costs being incurred in support of the program giving rise to such benefits. If customers at large are going to be potentially cross-subsidizing the program, then it would be appropriate for EGI to allocate the avoided carbon charge benefits to customers at large as well. This can be done by attributing the volumes, for the purpose of tracking carbon charges, to the FCCFVA. Further, such allocation is easily justified when considering that gas burned in effecting delivery service is burned for the benefit of customers and in order to deliver customer volumes (much like customer supplied compressor fuel is used to transport customer volumes).

16. EGI's AIC indicates an intention to allocate such amounts to *"all ratepayers who pay Federal Carbon Charges"*.[16] While the FCC<u>C</u>VA is not allocated to "*all ratepayers who pay Federal Carbon Charges"*, the FCC<u>F</u>VA is.

17. ***Accordingly, if the Board is persuaded to accept modest cross-subsidies from the program for the time being, at a minimum EGI should be directed to record reductions in Federal Carbon Charges resulting from inclusion of RNG in the Company's gas supply portfolio in the FCC<u>F</u>VA (the facilities related carbon charge variance account).***

Scope of Approvals

18. Subject to addressing, and correcting or at a minimum mitigating, the potential for cross-subsidy arising from EGI's program proposal, IGUA views the program as an appropriate innovation driven initiative for the province's main regulated gas distributor.

19. EGI has indicated that it will assess its experience with the first years of the Voluntary RNG Program and report to the OEB and interested parties within its 2024 rebasing application at the end of the deferred rebasing term.[17]

20. EGI also indicates that during the deferred rebasing term EGI (which actually means ratepayers at large in this instance) will pay for all program operating costs from existing

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[16] EGI AIC, sub-paragraph 39.v.
[17] EGI AIC, paragraph 37.

distribution revenues, and as part of its rebasing application EGI will make a proposal regarding how program operating costs will be funded in 2024 and beyond.[18]

21. IGUA's position on avoiding, or at least mitigating, cross-subsidization is set out above.

22. In any event of the Board's conclusions and directions in respect of EGI's proposed program, in keeping with its exploratory, "pilot like" nature the Board should provide approvals only through to the end of the current rate plan term, and reassess the program on the basis of EGI's report and proposal in respect of continuation and/or modification of the program, including how program costs would be funded in 2024 and beyond. While such a measured approach is warranted in any event, this is particularly warranted in the event that the Board accepts any form of potential cross-subsidization by non-participants in the early years of the proposed program.

23. ***Any Board approvals in response to this application should be granted only through December, 2023.***

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:

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Counsel to IGUA

July 17, 2020

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[18] EGI AIC, paragraph 26.