

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27^e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

August 6, 2020

Christine E. Long
Registrar & Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Review of Annual Update to Gas Supply Plans of EPCOR Natural Gas
Limited Partnership (Aylmer and Southern Bruce franchise areas)
OEB File Number: EB-2020-0106**

In accordance with the Ontario Energy Board (OEB) letter dated July 6, 2020, please find attached OEB staff questions in the above noted matter.

Yours truly,

Original Signed By

Khalil Viraney
Case Manager

Encl.

EPCOR Natural Gas LP – Aylmer Franchise Area**ONTARIO ENERGY BOARD STAFF QUESTIONS****August 6, 2020****Staff.1****Ref: EPCOR Natural Gas LP (ENGLP) Aylmer Gas Supply Plan (GSP), pp. 7-8 and ENGLP July 2020 QRAM Application (EB-2020-0149), Schedule 6**

The GSP notes that there are two distinct agreements in place for procurement of local production. The first agreement pertains to the former Natural Resource Gas Limited (NRG) wells, located on-shore, in the ENGLP distribution system. These wells were sold by NRG's previous owner and through a series of transactions, are currently held by Lagasco Inc. (Lagasco). The second gas supply agreement is in response to the pressure problems in the south and southeast of the distribution system (Lagasco Contract).

- a) In ENGLP's July 2020 QRAM application, there are two distinct local purchase options (Local Production B and C). Please explain how Local Production B and C are related to the two distinct agreements for local purchases identified in the GSP.
- b) Does ENGLP have two distinct agreements for gas purchases apart from the contract that expires in September 2020? If yes, please explain why ENGLP has two distinct agreement to purchase from the same company.
- c) Is there a difference in the pricing of natural gas related to the two agreements? If yes, please explain why.
- d) Does ENGLP intend to consolidate local purchases into a single gas supply agreement in the future? If yes, please provide estimated timeline.

Staff.2**Ref: Aylmer GSP p.9**

ENGLP amended its capital plan and negotiated a gas supply agreement with Lagasco. Under the agreement, Lagasco provides 1,200 GJ per day of locally produced gas on a firm basis at its Lakeview Compressor Station. To connect to the new supply, a new regulating and metering station was required at the Lakeview site to regulate gas pressure. The current project cost estimate of \$461,000 is \$104,000 higher than the

estimated cost included in the cost of service rate filing. ENGLP has indicated that the difference is primarily as a result of increasing the nominal pipeline size from 4 inches to 6 inches. As future demands increase and production from the connected wells continues to decline, ENGLP believes that it is important to ensure safe and reliable service to existing customers as well as to support ongoing development in the area. As a result, although a 4 inch pipeline is adequate to meet the firm contracted gas volume of 1,200 GJ per day, the 6 inch pipeline infrastructure was sized at the location to accommodate the availability of nearly twice the contracted firm volume during peak demand periods now and in the future.

- a) Does Lagasco have the capability to deliver twice the contracted volumes?
- b) Is the firm contracted gas volume of 1,200 GJ per day being delivered every single day or is that volume available up to 1,200 GJ per day on any given day?
- c) Is ENGLP currently using the excess capacity created by the 6 inch pipeline as opposed to the originally proposed 4 inch pipeline to serve customers? If not, when does ENGLP expect to use the excess capacity?
- d) What is the total estimated cost difference between installation of a 4 inch pipeline and a 6 inch pipeline?
- e) Did ENGLP conduct a discounted cash flow (DCF) analysis to determine if the capital investment in a 6 inch pipeline is prudent and will provide value to ratepayers over the long term? Please provide a detailed response including results of the DCF and the Profitability Index of the project.
- f) ENGLP refers to decreasing production from connected wells. Is the proposed pipeline connecting to existing wells that are depleting or the new gas from Lake Erie?

Staff.3

Ref: Aylmer GSP pp. 9-13

In the GSP, ENGLP has indicated that it requires significant new gas supply in the southeast area of the distribution system. Tying incremental lake gas is the only local production capable of delivering gas in the south and southeast of the distribution system. ENGLP's chief operating risk associated with the Lake Erie gas supply is that of gas quality. In order to mitigate this risk, the Lagasco Contract provides for a gas quality clause.

- a) Is the lake gas, wet or dry gas?
- b) What is the estimated life of the gas wells in Lake Erie?

- c) Does Lagasco need to drill the wells in Lake Erie or are they existing natural gas producing wells?
- d) Does ENGLP know the estimated reserves of natural gas in Lake Erie and the volumes that can be extracted by Lagasco at a reasonable cost? If yes, please provide the data.

Staff.4**Ref: Aylmer GSP pp. 13-14 and 20**

The Lagasco Contract is comprised of a monthly demand charge, a delivery commodity charge and a commodity charge. The GSP notes that in keeping with principles of transparency, all prices are at or below the current approved M9 rate, the rate under which Enbridge Gas provides system gas service to ENGLP. The commodity in the Lagasco Contract is priced at a 5% discount to Enbridge Gas's OEB QRAM M9 commodity rate. The M9 or Large Wholesale Service Rate service offers supply and transportation services including Commodity Supply, Seasonal Storage Services, Daily Balancing and a nomination service. ENGLP completed a two year analysis of the premium associated with the M9 service examining the M9 price versus buying gas directly at Dawn. ENGLP concluded that the utility incurs a 9% premium or approximately \$375,000 annually for this service.

OEB staff also understands that ENGLP did not change the contract demand in the M9 contract for 2019-2020 despite contracting for incremental supplies under the Lagaso contract.

- a) Is there a premium between buying gas directly at Dawn versus purchasing gas under the Lagasco contract? If so, please provide the estimated annual premium associated with the Lagasco Contract versus purchasing gas directly at Dawn.
- b) Please provide the analysis supporting the reasonableness of the 5% discount on the commodity charge under the Lagaso contract. Please include all options assessed in determining the reasonableness of that discount.
- c) Does the 9% premium of the M9 price versus buying gas at Dawn reflect that the M9 service also includes Seasonal Storage Services, Daily Balancing and a nomination service? If not, please provide an apple to apple comparison.
- d) Does ENGLP agree that implicit in the Lagasco contract is a "premium" from paying a monthly demand charge under both the M9 and the Lagasco contract as a result of not changing the contract demand in the M9 contract for 2019-2020 despite contracting for incremental supplies under the Lagaso contract? If so,

how much will this “premium” be for the 2019-2020 period? When does ENGLP intend to adjust the contract demand under the M9 contract to reflect the incremental supplies under the Lagasco contract?

Staff.5

Ref: Aylmer GSP, section 5.6, p. 24

ENGLP states that it will continue to monitor performance of the incremental supply from the Lagasco contract.

- a) How does ENGLP propose to monitor performance under the Lagasco contract and how often will the performance be monitored?

Staff.6

Ref: Aylmer GSP, section 6.2, p. 25

ENGLP states that it does not currently offer Demand Side Management (DSM) in its natural gas distribution system.

- a) Does ENGLP plan to start offering DSM in the near future? If so, when and what type of programs is ENGLP contemplating? If not, why not?

EPCOR Natural Gas LP – Southern Bruce Franchise Area**ONTARIO ENERGY BOARD STAFF QUESTIONS****August 6, 2020****Staff.1****Ref: Southern Bruce Gas Supply Plan (GSP), p. 5**

The evidence states that the development of the GSP was a coordinated effort between ENGLP and ECNG Energy Group, a third party consultant (ECNG). EPCOR procured ECNG for a number of services including the development of a customer demand forecast.

- a) Please indicate if the customer demand forecast developed by ECNG differs from the demand forecast prepared by ENGLP in the rates proceeding (EB-2018-0264). If yes, please explain the differences.

Staff.2**Ref: Southern Bruce Gas Supply Plan (GSP), pp. 5 and 10**

ENGLP has contracted ECNG to execute gas supply procurement including nomination services for its system gas portfolio and for contract (Rate 16) customers.

- a) Do Rate 16 customers pay an additional charge for nomination services and does the charge cover the total cost of providing such services?
- b) Why has ENGLP contracted ECNG to provide nomination services for contract customers considering that such customers will contract for their own natural gas supplies and their own storage assets to manage fluctuations in demand?

Staff.3**Ref: Southern Bruce GSP, p. 11, Table 1**

Table 1 shows the changes in customer connection forecast including a revised customer connection forecast which compressed the initial three year customer connection forecast into two years.

- a) Please confirm if the connections to date are on track to meet the revised customer connection forecast for 2020 in accordance with the AECON construction schedule. If not, please provide an updated customer connection forecast.

Staff.4**Ref: Southern Bruce GSP, pp. 12-29**

The GSP considered three supply options for the supply plan to meet the guiding principles of cost-effectiveness, reliability and security of supply. These options include:

- Option A: Month to month index purchases
- Option B: A mix of month to month index purchases and annual baseload index purchases at AECO
- Option C: A mix of month to month index purchases and seasonal baseload purchases (mixed of AECO index and Dawn fixed price)

Based on the risk mitigation analysis, ENGLP has selected Option C. Option C was selected for the planning horizon due to superior price risk management and flexibility to adjust supply to actual demand.

- a) Did ENGLP and ECNG consider other supply options apart from those outlined above? If yes, please briefly explain the other options considered and reasons for their elimination.
- b) The evidence discusses the procurement strategy under each of the options. For Option B, planned procured volume for each month is the same as Option A, with up to 50% of each planning year's average consumption (April to March) contracted in March prior to the planning year. In the case of Option C, planned procured volume for each month is the same as Option A, with up to 65% of each season's average consumption contracted prior to the start of the season at 5A Index plus a fixed basis to Dawn: 65% of average consumption between April and September contracted in March at 5A Index plus a fixed basis to Dawn. Please indicate if the average monthly consumption is higher under Option B or Option C assuming a normal winter weather.
- c) Based on the risk mitigation analysis, ENGLP has selected Option C as the preferred procurement option. Did ENGLP consider committing to lower volumes in order to lower the risk of over-contracting for the planning period considering that ENGLP will be connecting a limited number of customers during the three-year planning horizon and can access supply from storage? ENGLP has

indicated that it has significant transportation and storage capacity relative to current market size expectations during the time horizon of the current GSP. Would the projected average cost of gas be lower if ENGLP contracted for 40% (in place of 50% or 65%) of the season's average consumption prior to start of the season and met demand shortfalls through storage withdrawals and month-to-month purchases? Please provide a scenario analysis for this strategy similar to the one provided in Appendix A.

Staff.5**Ref: Southern Bruce GSP, p. 20**

ENGLP has indicated that the gas supply options were tested with weather variations of 30% less Heating Degree Days (HDD) and 38% more HDDs driving heat sensitive forecasted demand estimates.

- a) On what basis did ENGLP select 30% less HDD and 38% more HDD to test its supply options?

Staff.6**Ref: Southern Bruce GSP, p. 20**

ENGLP and ECNG are in the process of finalizing a Natural Gas Procurement Guideline and Procedures document which has formed and will continue to form procurement decisions impacting the GSP.

- a) Will ENGLP file a copy of the Natural Gas Procurement Guideline and Procedures document in the next annual update to the GSP?

Staff.7**Ref: Southern Bruce GSP, Current and Future Market Trend Analysis, p. 33**

According to U.S. Energy Information Administration (EIA), production in the Marcellus and Utica basins is expected to continue to grow in the three scenarios provided by the EIA keeping supply strong to fill Rover and Nexus pipelines feeding into Ohio, Michigan,

Ontario and Tennessee, Empire and National Fuel Gas Pipelines at Niagara and Chippewa.

- a) Please indicate if the expected growth in the Marcellus and Utica basins as indicated by EIA is prior to the onset of the COVID-19 pandemic. If yes, please explain if the COVID-19 pandemic is expected to have an impact on supplies to Ontario during the planning horizon of the current GSP.