ENBRIDGE

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August 18, 2020

**VIA EMAIL and RESS**

Ms. Christine E. Long
Board Secretary
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 No.: EB-2020-0094**
**Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor**
**Update to Evidence and Interrogatory responses**

As indicated in its letter dated August 14, 2020 in the above noted proceeding, Enbridge Gas is proposing to establish two thresholds for future Development Projects where an Hourly Allocation Factor ("HAF") would apply.

Accordingly the following exhibits and interrogatory responses have been updated:

- Evidence update:
  - Exhibit B, Tab 1, Schedule 1, Enbridge Gas Proposal, (paragraphs 40 and 43)
  - Exhibit C, Tab 2, Schedule 1, Proposed Revisions to EGD Rate Zone Economic Feasibility Procedure and Policy, (paragraph 41)
  - Exhibit C, Tab 2, Schedule 2, Proposed revisions to Union Rate Zones' Distribution New Business Guidelines (paragraph 6)
- Interrogatory responses update:
  - Exhibit I.CME.3
  - Exhibit I.STAFF.8
  - Exhibit I.STAFF.9

Please contact the undersigned if you have any questions.

Yours truly,

(Original Digitally Signed)

Rakesh Torul
Technical Manager,
Regulatory Applications

cc: EB-2020-0094 Intervenors

# ENBRIDGE GAS PROPOSAL

1. In order to avoid the regulatory burden associated with separate applications to the Ontario Energy Board ("OEB" or the "Board") for project specific System Expansion Surcharge ("SES") or Temporary Connection Surcharge ("TCS") and Hourly Allocation Factor ("HAF") approvals, Enbridge Gas is requesting Board approval to apply the SES or TCS and HAF for future projects in accordance with pre-set criteria consistent across the Enbridge Gas rate zones. The SES and TCS are rate surcharges applicable to general service customers in the project area. The HAF will be used to allocate capital costs to customers for the purposes of conducting economic feasibility analyses for those served by the project. The details related to the proposed SES, TCS and HAF are further described in this evidence and the other exhibits referenced herein.

2. Enbridge Gas is seeking approval under section 36 of the *Ontario Energy Board Act, 1998*, as amended ("OEB Act"), for application of the SES and TCS as described in this evidence, including proposed amendments to its respective rate schedules as set out in Exhibit C, Tab 1, Schedule 1 and Exhibit C, Tab 1, Schedule 2. Enbridge Gas is also seeking Board approval for use of the HAF, which is a cost allocation mechanism to be used for economic feasibility calculations (not a rate), as described in this evidence and in proposed amendments to the Company's feasibility policies[1] as set out in Exhibit C, Tab 2, Schedule 1 and Exhibit C, Tab 2, Schedule 2. The feasibility policies also contain explanations about the SES and TCS.

[1] For the Union rate zones, the feasibility policy is entitled the Distribution New Business Guidelines and for the EGD rate zone, the feasibility policy is entitled Economic Procedure and Policy.

3. If the Board accepts Enbridge Gas's proposal, it would no longer be necessary for Enbridge Gas to seek approval under section 36 of the OEB Act for the SES and TCS on a project specific basis either for projects that meet the criteria for a leave to construct ("LTC") application or for smaller distribution projects. Similarly, Enbridge Gas would be able to use the HAF in accordance with its feasibility policies without obtaining Board approval on a project specific basis.

4. Enbridge Gas is proposing two rate surcharges (SES and TCS) to address two distinct project types:

   i. The SES will be applicable to each Community Expansion Project, defined as a natural gas system expansion project for which the profitability index ("PI") is less than 1.0 and which will provide first-time natural gas system access to a minimum of 50 potential customers, The SES will be applicable to all small volume customers. Customers who consume more than 50,000 $m^3$ per year will have the option of paying the SES or negotiating another method of contribution to the project; and /C

   ii. The TCS may be applicable to each Small Main Extension or Customer Attachment Project, defined as a natural gas system expansion or extension project for which the PI is less than 1.0 and which will provide distribution access to fewer than 50 potential customers. Customers who consume more than 50,000 $m^3$ per year will have the option of paying the TCS or negotiating another method of contribution to the project. These projects include the extension of mains, the related service attachments and any service lines to individual customers connecting to pre-existing mains. /C

5. Enbridge Gas is also seeking approval of the HAF to be used, as appropriate, in the allocation of capital costs to individual or multiple customers, on a peak hour basis, in the economic feasibility analysis for any:
    - Development Project, defined as a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers. It may include a mix of large and small volume customers.

System Expansion Surcharge (SES)

6. Enbridge Gas is requesting that the Board approve a volumetric based SES of $0.23 per cubic metre that would be applicable to all small volume customers served by Community Expansion Projects as defined above. The SES requested would be a constant volumetric per cubic metre charge that appears on small volume customer bills in addition to the regular Board approved rates for the applicable rate class. While Enbridge Gas's approved rates will change over time, the SES will not. Consistent with the current versions of the SES which have previously been approved by the Board, the form of SES proposed in this application will be considered revenue and treated as such for the purpose of the economic feasibility analyses.

7. The SES will allow customers to be served by Community Expansion Projects to contribute a portion of their savings from converting to natural gas towards natural gas system expansion feasibility. The SES addresses the Board's determination in the Generic Proceeding on Community Expansion, EB-2016-0004 (the "Generic Proceeding"), that "for many communities a higher gas distribution rate would be more than offset by the savings these customers would realize over time by converting to natural gas. This is true even when one considers the costs of

conversion, such as a new or modified furnace."[2] The proposed rate of $0.23 per cubic metre is appropriate for small volume customers as it was derived from a study that reviewed small volume customers' energy costs and conversion costs. Larger volume customers typically have different costs and potential savings such that $0.23 per cubic metre would make conversion uneconomic. Feasibility for large volume customers within a Community Expansion Project will be calculated separately in accordance with the Board's E.B.O. 188 Guidelines[3] and any required contribution in aid of construction ("CIAC") will generally be applied directly to those customers or addressed through the applicable large volume rate multi-year contracts. However, the option will be available to these customers to pay the SES in lieu of or in addition to a CIAC.

8. In the case of the EGD rate zone, the Board had previously approved the general use of the SES across large and small system expansion projects in a manner consistent with the Board's E.B.O. 188 Guidelines[4]. However, in the case of the Union rate zones, the SES was approved on a project specific basis[5].

9. In the EGD rate zone, Enbridge Gas has received approval to use the SES in the Town of Fenelon Falls (EB-2017-0147) and Scugog Island (EB-2017-0261) expansion projects. In the Union Gas rate zones, the SES has been approved for use in several projects such as Prince Township, Milverton, Rostock and Wartburg, and Kettle and Stony Point First Nation.[6] Enbridge Gas is proposing in this

[2] EB-2016-0004, Decision with Reasons
[3] Issued pursuant to the OEB Report on Natural Gas System Expansion, dated January 30, 1998.
[4] EB-2017-0147, Decision and Order
[5] EB-2015-0179
[6] EB-2015-0179, Community Expansion Application (Union)

application that the SES, as detailed below, be approved for use for future Community Expansion Projects in all rate zones.

10. Under this proposal, provided that the area to be served by an Expansion Project includes 50 or more existing potential customers, the SES will apply to all small volume customers located in the project area. As noted above, customers will be charged the applicable Enbridge Gas regulated distribution rate, as well as the SES. The SES will appear as a separate line item on each customer's monthly Enbridge Gas bill. Potential customers will be informed of the details of the SES charge as each Community Expansion Project is developed, as well as at the time they make their application to Enbridge Gas for service.

11. The SES will apply for a period of up to 40 years. The term of the SES for each project will be set such that the project will achieve a PI of at least 1.0. Enbridge Gas notes that there is a difference in approach between the EGD and Union rate zones with respect to updating the project's PI and its impact on the duration of the SES. In this application, Enbridge Gas is proposing to adopt the SES on the same basis as it has for previously approved projects in the Union rate zones (e.g.,EB-2015-0179). As such, the Company is not proposing to periodically update the project's PI for the duration of the SES term.

12. In the OEB's recent EB-2019-0188 Decision concerning the extension of gas service to the Northshore and Peninsula Roads area in the City of North Bay the Board noted that under the same proposal as that outlined above the increased profitability of a project would be captured in the Company's base rates resulting in reduced rates for all customers. This treatment is consistent with the portfolio concept that underpins the Board's E.B.O. 188 Guidelines that requires the Company's

Investment Portfolio PI to be greater than 1.0 (1.0 plus a safety margin)[7]. It is the Company's view that this E.B.O. 188 requirement implicitly recognizes that some projects will be more profitable than others and that over the discounted cash flow period over which the project PIs are calculated, more profitable projects will result in investment Portfolio PI greater than 1.0 and declining rates for all customers over time, all else equal.

13. After the term of the SES is set, there may be customers who attach to the Community Expansion Project after it has been placed into service. Customers attaching after the in-service date will also be required to pay the SES for the remainder of the SES term for that project. Similarly, the ongoing obligation for payment of the SES will attach to the property (not the owner) for the balance of the original term.

14. Enbridge Gas's proposal for the SES has been set out such that it meets the criteria as defined in the Generic Proceeding, EB-2016-0004. Enbridge Gas's proposal is also consistent with the E.B.O. 188 Guidelines. By adhering to both, Enbridge Gas will be maintaining the principle of avoiding long term cross-subsidization by existing customers of new customers.

15. Enbridge Gas recognizes that the initial evaluation of a Community Expansion Project and the SES term are determined based on estimated capital costs and a forecast of customer attachments, revenue rates, and natural gas consumption. Following the end of a project's Rate Stabilization Period ("RSP"), Enbridge Gas will use the actual project revenues including actual SES revenues for ratemaking purposes subject to OEB review and approval. In other words, Enbridge Gas will not

[7] E.B.O. 188, Final Report of the Board relating to Natural Gas System Expansion, page 11

seek to recover from existing or new community expansion customers any shortfall in revenue requirement for the first 10 years of a project's in-service date. The Company proposes that it would bring forward for approval any potential revenue requirement shortfalls or excesses for the future period in the next rates rebasing application after the 10-year RSP.

16. During the RSP, Enbridge Gas will include projected revenues as derived from the customer attachment and volumetric forecast inclusive of SES revenue for each particular project in the determination of any revenue sufficiency or deficiency in the process of setting of OEB approved rates. Enbridge Gas will not seek to reflect the actual revenues of a project in the determination of rates until after the RSP has expired. After the RSP has expired, actual revenues for a particular project will be used for the determination of any revenue sufficiency or deficiency in the process for setting approved rates.

17. With respect to capital costs, Enbridge Gas proposes to treat these costs in the same manner as the costs of other capital projects. The Company will bring forward its actual capital costs at the next rebasing proceeding following the 10-year RSP. This treatment of capital costs is the same as other distribution system expansion projects that form part of the common rate base and is consistent with the Board's ruling on this issue in EB-2015-0179.

18. Any variances between forecast and actual capital costs for a project would therefore be captured in rates at the rebasing application following the end of the 10-year term of the RSP. Enbridge Gas is at risk for potential revenue shortfalls during the 10-year RSP and will not seek recovery for any overages or shortfalls related to the RSP. Enbridge Gas will seek to include the actual project cost in the base upon which rates are set in the next rebasing application that follows the end of the RSP.

19. In the event that Enbridge Gas should seek recovery of any revenue requirement shortfall after the end of the initial 10-year RSP, it will be supported by an updated PI calculation that uses actual capital costs and actual customer attachments (revenues). The OEB stated in Union's Community Expansion Application[8], "The OEB agrees with this approach and will require Union to provide a revised DCF calculation based on actuals after the 10-year forecast risk period is over in the event that Union seeks to recover any revenue requirement shortfall."

20. Enbridge Gas is requesting that the Board approve a 10-year RSP for all Expansion Projects. The RSP will address the Board's finding in the Generic Proceeding, EB-2016-0004 that "a utility would bear the risk for that 10-year period if the customers they forecast did not attach to the system."[9] The RSP will commence on the in-service date of the Project. A 10-year period is also consistent with what the Board approved in EGD's application for an SES applicable to all future Expansion Projects in EB-2017-0147.

21. The RSP is proposed to function as follows: If leave of the Board is granted to construct an Expansion Project, Enbridge Gas will include the forecasted capital costs of a project in rate base as of the in-service date. Capital costs included in rate base would be those costs outlined in the economic feasibility assessment of the project net of any third-party funding (such as government administered grants pursuant to O.Reg. 24/19, municipal contributions and any contribution in aid of construction from customers).

[8] EB-2015-0179, Decision and Order, Page 14
[9] EB-2016-0004, Decision with Reasons

22. Following the end of each project's RSP, the following information will be reported for the most recently ended fiscal year for which actual information is available on a project specific basis:
    - Budgeted and actual capital costs, both at a gross level, and net of any CIAC, as of a project's in-service date;
    - Cumulative forecasted customer and actual customer attachments for the duration of a project's 10-year customer addition forecast period; and
    - Project's PI updated to reflect the project's actual capital cost and revenues over its RSP.

Temporary Connection Surcharge (TCS)

23. Enbridge Gas is asking the Board to approve a TCS which is similar to the SES but will be used for smaller distribution expansion projects that will provide natural gas system access to fewer than 50 potential customers in homes and businesses. /C This will allow for these customers to gain similar benefits to those being served by larger Community Expansion Projects.

24. Enbridge Gas's proposal for a TCS would apply to those small volume customers who would otherwise be required to pay a CIAC in order to make gas service to their property economically feasible at a PI of 1.0. In these situations, Enbridge Gas would have the ability to offer the TCS for up to 20 years as an alternative to these potential customers rather than requiring them to pay a lump sum CIAC prior to the in-service date of the facilities.

25. Enbridge Gas is proposing the TCS rate be set at $0.23 per cubic metre which is the same rate as proposed for the SES. Setting the TCS at the same rate as the SES also allows small volume customers to contribute a portion of their savings from

26. converting to natural gas towards natural gas system expansion feasibility. Availability of a TCS for small main extensions or attachments will provide an alternative to CIAC for those customers where attachment to Enbridge Gas's system is not economically feasible based on the use of current approved rates only.

27. A CIAC requires an up-front payment which the customer must provide prior to construction. This requirement acts as a barrier to conversion for some customers. The TCS, on the other hand, provides a mechanism for a small volume customer to fund the costs of attachment from the annual savings achieved by converting to natural gas. Similar to the SES, the ongoing obligation for payment of the TCS will attach to the property (not the owner of the property), for the balance of the initial TCS term.

28. Consistent with the SES, after the term of the TCS is set, customers who attach to the system in the TCS project area after it has been placed in service will also be required to pay the TCS for the remainder of the initial term for that project.

29. The TCS will appear as an extra line item on each monthly bill, labelled "Temporary Connection Surcharge". For clarity, this line item will be in addition to other current gas bill line items such as commodity, transportation, storage, delivery, and the fixed monthly charge which are all identified in current Board approved rate schedules. Customers affected by the TCS will be informed of the details of any applicable TCS charge as the project is being developed, as well as at the time they make their application for service to Enbridge Gas.

30. Consistent with the current versions of the SES which have previously been approved by the Board, the form of TCS proposed in this application will be

considered revenue and treated as such for the purpose of the economic feasibility analyses.

31. The proposed TCS will be applicable to small volume customers served by small main extensions and/or attachments, as an alternative to CIAC to achieve a PI of 1.0, or in addition to CIAC for a project to achieve a minimum PI of 1.0. The proposed rate of $0.23 per cubic metre is appropriate for small volume customers as it was derived from a study that reviewed small volume customers' energy costs and conversion costs. Larger volume customers will have the option of paying an upfront CIAC and/or the TCS or entering into multi-year contracts under large volume rate classes as a means of supporting the economics of these projects, subject to the E.B.O.188 Guidelines.

32. Enbridge Gas's proposal for the TCS has been set out such that it meets the criteria as defined in the Generic Proceeding, EB-2016-0004. Enbridge Gas's proposal is also consistent with the E.B.O. 188 Guidelines. By adhering to both these Board decisions, Enbridge Gas ensures that the principle of avoiding long term cross subsidization from existing ratepayers to new ratepayers is maintained.

33. The proposed TCS is similar in nature to the SES other than the differences identified below.

34. The TCS term will be determined on a project specific basis and will be restricted to a minimum of one year to a maximum of 20 years from the project's in-service date. The term will be based on the number of years of TCS revenues required so that the project will achieve a PI of 1.0. This approach is consistent with the calculation for

SES terms which has been approved in EB-2017-0147 as well for several other projects as noted earlier in the application.

35. The 20-year maximum may not make all projects economically viable, in which case Enbridge Gas expects that a CIAC will be required in addition to the TCS.

36. Enbridge Gas proposes that projects where a TCS rate rider is applied should be included in the Company's Rolling Project Portfolio and Investment Portfolios alongside other system expansion projects. This will provide an ongoing method of determining the financial feasibility and rate impact of expansion projects as prescribed in E.B.O. 188. As such, separate tracking and reporting on these projects will not be warranted.

Hourly Allocation Factor (HAF)

37. The HAF is a method of allocating the upfront capital investment of a Development Project designed to provide incremental firm capacity to multiple customers forecasted to require additional firm service within an identified Area of Benefit[10]. Unlike the SES and TCS, the HAF is not a rate, but rather an element of the Company's respective economic feasibility policies that addresses the method by which capital costs of a project are allocated.

38. The concept of the HAF is consistent with the Board's E.B.O. 188 Guidelines which states: *"The Board agrees with the parties that the common criteria for contributions in aid of construction should apply to all customer classes. If there is a reasonable*

[10] The Area of Benefit is defined as the geographic area, drawn as a polygon on a map, that includes all customers who will be served by, and benefit from, the infrastructure build or pressure increase from the Development Project.

*expectation of further expansion, the contribution in aid of construction is expected to take into account the future load growth potential and timing of any such expansion."* (E.B.O. 188, Final Report of the Board, January 30, 1998, section 4.3.4, page 19). Further, the E.B.O. 188 Guidelines also contemplated that capital costs will be allocated based on the customer's peak day demand (E.B.O. 188, Final Report of the Board, January 30, 1998, Sec. 4.3.3, part (ii), page 19). The HAF refines this by making this allocation based on each customer's peak hour demand.

39. Fundamentally, the HAF is derived by dividing the net forecasted capital cost of a project by the forecasted capacity that the project serves within the Area of Benefit. The HAF is expressed as a capital cost for each cubic metre per hour of incremental capacity. This approach has previously been used and approved in four LTC projects in the Union rate zones. A summary of these previously approved projects and their corresponding HAF calculations is provided in Appendix A to this exhibit. The HAF can then be used to allocate the capital cost of a project to the customers the project serves as each customer contracts for or initiates service, based on each customer's incremental capacity requirement, in addition to the costs of any customer specific facilities that may be required (e.g., upgrades to a customer station, service line, or distribution main).

40. Enbridge Gas is proposing that the Board approve the use of the HAF process as an allocation methodology for capital costs in future Development Projects. The previous four LTC Board approved projects that employed the HAF approach all had about 50% of the capacity committed or more prior to being advanced for LTC approval. See Appendix A for details. Consistent with these past examples, Enbridge Gas is proposing that it would only start construction on a Development

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Project once that project had at least 50% of the large volume component (including all customers that meet the threshold of eligibility) commited under contract.

41. The HAF process ensures fairness and helps ensure cost causality especially where multiple incremental customers or demands are anticipated in an Area of Benefit over a period of several years. It provides a process to design and build the optimal facilities for the future and ensures each new customer or demand is allocated an appropriate portion of the Development Project as they each move through the commitment or contracting and connection process. In this way the first customer does not bear the entire economic burden, nor the last customer avoid theirs.

42. The concept of the Hourly Allocation Factor is to fairly and equitably share and allocate the costs and benefits of a Development Project that benefits multiple customers commensurate with peak hour demand. When a Development Project is proposed, it can be modelled to determine an Area of Benefit. The Area of Benefit is the geographic area that will see a noticeable increase in firm natural gas capacity as a result of the Development Project.

43. Enbridge Gas is proposing that the threshold of eligibility for all future Development Projects be set at 50 $m^3/h$. In the four previously approved LTC projects, the "floor" of HAF applicability was set at 200 cubic metre per hour. For the two projects that have been Board approved and that still have unallocated capacity (CK Rural Expansion Project and Sarnia Expansion Project[11]), Enbridge Gas proposes to maintain the previously approved thresholds. Enbridge Gas is proposing 50 $m^3/h$ going forward on all new Development Projects so that the benefits of the HAF can

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[11] EB-2018-0188, CK Rural Expansion Project; EB-2019-0218, Sarnia Expansion Project

be extended to include smaller customers that are part of slightly smaller projects. For the four historic HAF projects, Enbridge Gas determined the proposed HAFs based on the known parameters at that time, by dividing the net forecasted capital by the total forecasted capacity in cubic metres per hour made available by the project for customers who required in excess of 200 cubic metre per hour. These projects primarily targeted large volume customers, and as a result, a threshold was set that would target and capture those customers. Enbridge Gas proposes that in the future, all Development Projects would use a threshold of eligibility of 50 $m^3/h$ and the forecasted demands at or above that level.

44. Consistent with previous LTC projects, once the HAF is determined and set, it remains constant for all customers meeting the threshold of applicability for that particular Development Project requesting incremental capacity within the Area of Benefit. Enbridge Gas will cease to allocate and apply the HAF to the economic feasibility analysis of new customers requesting service in the Area of Benefit once the total incremental capacity has been fully allocated[12]. This approach will help reduce the situations where a single customer underpins a large project with a long-term contract or CIAC and then a neighbouring customer gains access to the incremental capacity without being allocated a fair share of the capital costs that generated that capacity. It also allows the Company to factor in anticipated growth to optimize the design of the facilities up front.

45. For the purposes of the economic feasibility analysis for customers allocated costs using the HAF, Enbridge Gas would continue to apply the E.B.O.188 Guidelines. Large volume customers would have flexibility through longer term contracts and/or a CIAC payment to achieve a PI of 1.0. Small volume customers would have the

[12] EB-2018-0188, CK Rural Expansion Project; EB-2019-0218, Sarnia Expansion Project

option of a CIAC payment and/or the TCS, as applicable over a defined term to achieve a PI of 1.0.

Rate Design

46. Enbridge Gas proposes to set the SES and TCS at a fixed volumetric rate of $0.23/m3 applicable to small volume customers served by expansion and extension projects as defined above. The SES and TCS are in addition to Enbridge Gas's base distribution rates as approved by the Board from time to time for applicable customers. The SES and TCS will be available to customers in general service rate classes in the EGD and Union rate zones. Enbridge Gas proposes to update Rider I in the EGD rate zone and the Rate 01, Rate 10, Rate M1 and Rate M2 rate schedules in the Union rate zones to include a provision for the SES and TCS fixed volumetric rate of $0.23 cubic metre for general service customers. The draft rider and rate schedules are provided at Exhibit C, Tab 1, Schedules 1 and 2. There are no rate schedule changes required for the HAF.

Economic Feasibility Policies and Conditions of Service

47. Enbridge Gas proposes to update the Economic Feasibility Procedure and Policy in the EGD rate zone and its Distribution New Business Guidelines for the Union rate zones to describe its proposed application of the SES, TCS and HAF. The revised feasibility policies are provided at Exhibit C, Tab 2, Schedules 1 and 2.

48. If its proposals for the SES and TCS are approved, Enbridge Gas proposes to make a minor revisions to the Conditions of Service for each of the Union Gas and EGD rate zones. Those revisions are set out at Exhibit C, Tab 3, Schedule 1. Enbridge Gas will provide advance notice to applicable customers of the revised Conditions of Service in accordance with section 8.5.1 of the OEB's *Gas Distribution*

*Access Rule*.

# PROPOSED REVISIONS TO EGD RATE ZONE ECONOMIC FEASIBILITY PROCEDURE AND POLICY

## Introduction

1. The purpose of this evidence is to present the proposed revisions to the Company's current procedures and policies for determining the feasibility of the Company's system expansion and community expansion projects in the EGD rate zone. These procedures and policies are adopted to comply with the *Guidelines for Assessing and Reporting on Natural Gas System Expansion in Ontario* of the Ontario Energy Board ("Board"), reported under EBO 188 dated January 30, 1998.

2. This evidence includes an overview of the Company's Customer Connection Policy, Customer Contribution and Refund Policy, Method for Economic Feasibility Assessment, and Procedure for Capital Expenditure Approval. It has been expanded to include key elements of the Company policy under the Community Expansion framework as approved by the Board in EB-2016-0004 dated November 17, 2016 and refined for this Application. The new framework applies to all qualifying Community Expansion ("CE") Projects and Small Main Extension ("SME") and Customer Attachment Projects, as defined in the EGD rate zone Rate Handbook, Rider I.

## Customer Connection Policy

3. The Company uses a portfolio approach to manage its system expansion activities and ensures that the required profitability standards are achieved at both the individual project and the portfolio level. Investment Portfolio and Rolling Project Portfolio are two Board-prescribed portfolio approaches and are discussed in paragraph 15 and 16 of this evidence.

4. The Company manages both of its portfolio approaches to achieve a Profitability Index ("PI") of greater than 1.0 as required by the Board under EBO 188.

5. Individual projects are required to achieve a PI of 1.0 or the customer shall be required to pay a Contribution-in-Aid-of-Construction ("CIAC") to bring the project up to the required PI level. In exceptional circumstances, a project may be authorized at a lower PI levels (i.e. between 1.0 and greater than 0.8) as long the Company maintains its overall portfolio PI above 1.0.

6. During construction and operation of each project, the Company will comply with the OEB's *Environmental Guidelines for HydroCarbon Pipelines and Facilities in Ontario*.

Customer Contribution and Refund Policy

7. CIAC may be obtained for projects having a negative Net Present Value ("NPV") or a PI less than 1.0. The contribution should be sufficient to bring the project PI up to a required level. Harmonized Sales Tax ("HST") is added to contribution payments.

8. New residential customers connecting to the existing mains are provided, at no cost, with a service connection up to a maximum of 20 meters. Any service length beyond 20 meters is charged to the customer at a rate $32 per metre as prescribed in Rider G of the Rate Handbook.

9. The length of service for feasibility assessment is measured from the customer property line to the location on the front wall of the building where the meter will be installed.

10. Where the use of a proposed facility is dominated by a single large volume customer, it is considered a dedicated facility for CIAC purposes. The dominant customer may be required to pay a CIAC to result in a project NPV of zero or a PI of 1.0. CIAC amounts are subject to added HST.

11. Refunds of CIAC may be requested by customers when the actual customer count on the system expansion exceeds the original forecast. For Rate 1 and Rate 6 customers, these refunds are processed at the end of five years from the date of construction. The system expansion project is then re-evaluated with the actual customer count to determine a revised contribution that is required to bring the NPV to the original targeted level. The difference between the revised contribution amount and the actual contribution paid by customers is the total amount to be refunded to original customers. Refunds are made based on the proportionate contribution of customers.

12. These refunds do not apply to the mains wheres SES and TCS rate riders have been applied in lieu of CIAC. The refunds are made only for the specific piece of main put into service; no refunds are payable for customers added downstream of the specific piece of main. No interest is payable, and only customers who made a contribution are eligible for a refund.

13. In order to be eligible for a refund, the customer must be consuming natural gas at the address for which refund is being claimed. If the customer moves, he or she is responsible for notifying the Company of the new address.

14. Refunds for large volume customers will be determined based on a re-evaluation of the system expansion project, taking into consideration extra investment and

additional load brought on within five years to the specific piece of main constructed to serve the initial customer(s). Similar to system expansions, refunds for large volume customers will be evaluated subject to customer request. This policy is not available to large volume customers in Development Projects where an Hourly Allocation Factor process has been used for allocating project cost amongst the prospective customers.

System Expansion Portfolios – Accountability

15. Investment Portfolio: The Company evaluates all system expansion projects in a test year and ensures they are designed to achieve a portfolio PI of at least 1.1. All new customers attaching to new and existing mains are included in this portfolio.

16. Rolling Project Portfolio ("RPP"): The Company also maintains a rolling 12-month distribution expansion portfolio including the cumulative result of project-specific Discounted Cash Flow ("DCF") analyses. The RPP does not include customer attachments from existing mains constructed in prior years. The Company maintains RPP at a PI level greater than 1.0.

Estimating Inputs for Economic Feasibility Assessment

17. This section provides the method used to determine the parameters that make up the economic feasibility assessment. It includes capital cost, O&M expenses, and distribution revenues associated with a system expansion project. These inputs are discounted at the Utility's Weighted Average Cost of Capital ("WACC") to carry out the DCF analysis which measures Economic Feasibility of a project based on NPV and PI.

Capital Cost Estimation

18. The Company uses various approaches for estimating capital cost for different types of projects. The objective is to derive estimates that are closely aligned to costs that are reflective of the unique parameters of each project, and those cost differences are typically delineated by geographic area.

19. The following is a summary of various estimation techniques and the project types to which they are applied:
    - For new subdivisions where Joint Utility Trenching ("JUT") is often used to construct natural gas infrastructure, unit rates prescribed in the underlying contracts are used for estimating capital cost for mains and services.
    - For subdivisions where JUT is not an option, or for commercial and industrial connections, field estimates are used for capital costing.
    - For residential infill services, capital cost is based on a regionally-specific estimate that relies on historical actual data of similar services installed. It can also be a specific field estimate where no historical data are available that is representative of the geographic area. In instances where known geographical/geological factors (e.g. rock, depth of main) have influenced capital costs, Enbridge Gas will utilize pricing for those factors to inform the estimate.
    - For large volume connections (i.e., above 340 000 $m^3$ annual consumption), field estimates are used to estimate mains and service cost.

20. If a main is oversized to meet future growth potential, it may be re-priced at the size required to meet customers' load requirements for feasibility calculations. The actual cost of the main must be shown on the Authorization for Expenditure ("AFE").

21. An incremental overhead allowance is added to the cost of mains and services and is incorporated in the feasibility analysis of all projects.

Consumption and Revenue

22. For subdivision and residential connections, consumption is estimated based on building type (single, semi-detached, townhouse) and configuration (bungalow, split or two-story). The Capital Project Feasibility ("CAPF") program calculates customer revenue based on consumption levels input by the Customer Connections Representative ("CCR").

23. A load sheet is used to estimate consumption of commercial and industrial connections. The load sheet information is provided by the customer and contains consumption of various appliances installed at the premises.

24. For large volume connections, consumption information should include monthly volumes and the customer's contract daily demand.

25. The Investment Review group calculates revenue, based on the input consumption profiles and the most recent Board-approved rates.

System Expansion Surcharge ("SES") and Temporary Connection Surcharge ("TCS")

26. As set out in Rider I of the Company's Rate Handbook, the Company may apply an SES or TCS to Rate 1 and Rate 6 customers receiving gas distribution services as part of a CE project, SME or Customer Attachment Project. The Company may apply the SES or TCS if the project PI is less than 1.0. The terms and conditions applicable to the SES and TCS are set out in Rider I.

(a) SES

27. The SES is used for CE Projects, having 50 or more potential customers. Unlike approved distribution rates, the SES will not change over time and will appear as a separate line item on a customer's monthly gas bill.

28. The SES will be treated as a revenue for the purpose of the Company's economic feasibility analsysis of the project. The SES will be charged to all Rate 1 and 6 customers who consume an estimated volume of gas less than 50,000 $m^3$ in the project area for a period of up to 40 years. The term of the SES for each project will be set at the minimum term required for the project to achieve a PI of at least 1.0 or 40 years, whichever is less.

29. Customers attaching after the start of the initial SES term will also be required to pay the SES for the remainder of the initial SES term for that project. The ongoing payment obligation of the SES will attach to the property for the balance of its term should the property change ownership or occupancy during this time.

30. Municipal contributions may be collected by way of up front lump sum or annual payments for up to 10 years subject to municipal commitment for such contributions to qualifying projects.

31. Large volume customers within the CE Project area, who consume more than 50,000 $m^3$ per year may pay either the SES and/or the CIAC. This will be addressed separately or as part of the customer contracts.

(b) TCS

32. The TCS is used for SME and Customer Attachment Projects, having less than 50 potential customers. The TCS is used as an alternative to CIAC to achieve a PI of 1.0, or in addition to CIAC for a project to achieve a minimum PI of 1.0.

33. These projects include the extension of mains, the related service attachments, as well as any service lines to individual customers connecting to pre-existing mains.

34. Similar to the SES, the TCS is charged at the same rate, is in addition to approved distribution rates and is treated as revenue for the Company's economic feasibility analysis of the project. TCS appears on a customer's gas bill as a separate line item.

35. The TCS term will be determined on a project specific basis and will be restricted to a minimum of one year to a maximum of 20 years from the project's in-service date. The term will be based on the number of years it takes for the project to achieve a PI of 1.0.

36. Similar to SES, customers attaching after the start of the initial TCS term will also be required to pay the SES for the remainder of the initial TCS term for that project. The ongoing payment of the TCS will attach to the property for the balance of its term should the property change ownership or occupancy during this time.

37. If a project is not economically viable after applying 20 years of TCS, CIAC may be used in addition to the TCS to achieve a PI of 1.0.

38. For the purpose of governance and reporting, all projects where TCS is applied will be included in the Company's Rolling Project Portfolio and Investment Portfolio

alongside other system expansion projects.

Hourly Allocation Factor ("HAF")

39. The HAF process is a method of allocating incremental firm capacity to multiple customers forecasted to require additional firm service within an identified Area of Benefit[1] that are forecast to share capacity on a Development Project[2]. The HAF is allocated and applied as a capital cost to the individual economic analysis of customers receiving incremental capacity as they commit or contract for gas service. This allocated capital cost is in addition to any customer specific facilities including distribution main, service line, customer station and meter.

40. The HAF is calculated by dividing the net capital cost of a Development Project by the capacity that the project adds to the Area of Benefit and is expressed in dollars per $m^3$/hour.

41. The threshold of applicability of the HAF for all Development Projects will be 50 $m^3$/h. /U

Customer Attachment and Revenue Horizon

42. The maximum customer attachment horizon for small volume customers (including residential, commercial and industrial connections with annual consumption of no more than 50 000 $m^3$) is 10 years. The revenue horizon is 40 years from the in-service date of the initial mainline.

[1] The Area of Benefit is defined as the geographic area, drawn as a polygon on a map, that includes all customers who will be served by and benefit from the infrastructure build or pressure increase.
[2] Development Projects –a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers. It may include a mix of large and small volume customers.

For large volume customers, the maximum customer attachment horizon is 10 years. The maximum revenue horizon is 20 years from the customers' initial service date.

43. A project specific revenue horizon is used when the project life cycle is deemed shorter than 20 years.

Marginal Operating and Maintenance ("O&M") Expenses

44. The Company's incremental operating and maintenance ("O&M") cost is based on an annual study that is aligned with cost allocation principles and is included in assessing project feasibility.

Procedure for Capital Expenditure Approval

45. Enbridge's procedure for obtaining management approval to make a capital expenditure for distribution system expansion is known as the Authorization for Expenditure ("AFE"), and is outlined in the AFE manual. A system expansion project is typically initiated by a Customer Connections Representative ("CCR"), who identifies potential new customers. The CCR will assess the required amount of plant additions to provide service and will initiate an AFE for approval.

46. A feasibility assessment is required to be attached to an AFE as part of the approval process. Feasibility assessment is done based on the estimated revenue and benefits of connecting new customers against the total cost of attaching and serving them. The Capital Project Feasibility ("CAPF") program is an online IT tool used for evaluating all projects except for residential infills connections and Large Volume projects. All Large-volume projects are separately evaluated by the Investment Review group using Excel based feasibility tools.

47. CCRs provide inputs for the CAPF tool, which include estimates of capital cost, customer additions and timing, and annual consumptions of new customers. The Investment Review group uses Excel based feasibility tools for assessing large-volume and more complex projects with inputs from the Special Projects and Key Accounts groups.

48. All AFEs are approved by the appropriate level of authority including managers, directors, VPs and President as set out in the workflows based on capital approval authority.

# PROPOSED REVISIONS TO UNION RATE ZONES' DISTRIBUTION NEW BUSINESS GUIDELINES

1. Purpose

- To ensure that customers are treated fairly and consistently.
- To manage growth of the natural gas distribution business by providing guidelines for capital investment to ensure no undue rate impact for existing customers.
- To provide business principles and guidelines for distribution new business investments.
- To streamline administrative processes and approvals where possible.
- To delegate authority where appropriate to field operations staff.

2. Definitions

- Area of Benefit - The Area of Benefit is defined as the geographic area, drawn as a polygon on a map, that includes all customers who will be served by, and benefit from, the infrastructure build or pressure increase from a Development Project where an Hourly Allocation Factor process is used to allocate capital costs based on peak hour capacity.

- Community Expansion Project - A natural gas system expansion project undertaken by the Company for which the PI is less than 1.0 and which will provide first-time natural gas system access to a minimum of 50 potential customers.
- Contribution in Aid of Construction (CIAC) - The Company's calculation in accordance with its feasibility policy of the amount of customer financial

contributions required to reduce the capital cost of a project to serve one or more customers so that the project becomes economically feasible.

- Development Project - a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers. It may include a mix of large and small volume customers.

- Distribution New Business - Providing gas service to new customers in all market segments (i.e. new and existing housing, commercial and industrial). It also includes providing incremental gas supply capacity to existing customers.

- Hourly Allocation Factor (HAF) – An allocation of upfront capital costs of a Development Project to customers requiring additional firm service within an identified Area of Benefit. It is derived by dividing the net forecasted capital cost of the project by the forecasted capacity that the project services in the Area of Benefit. The HAF is expressed as a capital cost per $m^3$/hour of incremental capacity.

- Investment Portfolio - The costs and revenues associated with all new distribution customers who are forecast to attach in a particular test year (including new customers attaching on existing mains). The Investment Portfolio includes a forecast of normalized reinforcement costs.

- Profitability Index (PI) – The Company's calculation in accordance with its feasibility policy of the ratio of the net present value (NPV) of the net cash inflows

to the NPV of the net cash outflows for a natural gas system expansion or extension project undertaken by the Company.[1]

- Rolling Project Portfolio - An accumulation of the new business capital requisitions that are issued and approved for a 12 month period. The rolling PI is the cumulative PI data from the Rolling Project Portfolio. The Rolling Project Portfolio includes all future customer attachments, revenues and costs on the basis of the life cycle of each project. It also includes a forecast of normalized reinforcement costs. It excludes those customers requiring only a Service Lateral from an existing main.

- Service Lateral - A gas pipeline connecting the company gas main to the customer's gas meter as measured from property line to meter.

- Small Main Extension and Customer Attachment Projects – Natural gas system extension or expansion projects undertaken by the Company for which the PI is less than 1.0 and which will provide natural gas system access to less than 50 potential customers.

- Small volume – Gas consumption of no more than 50,000 $m^3$ per year.

- System Expansion Surcharge (SES) - An economic contribution to financial feasibility of community expansion projects by all small volume customers who attach to the system as part of a Community Expansion Project during the period

[1]https://www.oeb.ca/oeb/_Documents/Regulatory/EBO%20188%20Decision_AppB_Guidelines.pdf

in which it is in place through a temporary volumetric rate as set out in the applicable rate schedules.

- Temporary Connection Surcharge (TCS) - An economic contribution to financial feasibility of main extension projects made by small volume customers who attach to a Small Main Extension or Customer Attachment Project through a temporary volumetric rate as set out in applicable rate schedules. The TCS is used as an alternative to CIAC to achieve a PI of 1.0, or in addition to CIAC for a project to achieve a minimum PI of 1.0.

3. Accountability

Enbridge Gas manages separate Investment Portfolios and Rolling Project Portfolios for Union North (Rate 01 and 10) and Union South (Rate M1 and M2) rate zones. Excluding Community Expansion Projects, the Rolling Project Portfolio PI for each area must remain above 1.0 and the Net Present Value ("NPV") must remain greater than $0 at all times.

The Director, Distribution In-Franchise Sales is accountable for ensuring that the corporate Rolling Project Portfolio PI, excluding Community Expansion Projects, exceeds 1.0 on an ongoing basis.

4. Project Acceptance Levels

The Company manages its portfolio approach to achieve a Profitability Index ("PI") of greater than 1.0 as required by the Board under EBO 188.

Individual projects are required to achieve a PI of 1.0 or the customer shall be required to pay a Contribution in Aid of Construction ("CIAC") to bring the project up

to the required PI level. In exceptional circumstances, a project may be authorized at a lower PI levels (i.e. between 1.0 and greater than 0.8) as long the Company maintains its overall portfolio PI above 1.0.

5. Acceptance Level Exceptions

Subject to ability to manage minimum portfolio PIs as indicated above, projects can proceed with reduced PI levels. All requests for exceptions to the minimum project PI of 1.0 must be authorized by the Director, Distribution In-Franchise Sales, and the Director, Operational Services & Governance prior to construction.

6. Hourly Allocation Factor

The HAF process is a method of allocating incremental firm capacity to multiple customers forecasted to require additional firm service within an identified Area of Benefit that are forecast to share capacity on a Development Project. The HAF is allocated and applied as a capital cost to the individual economic analysis of customers receiving incremental capacity as they commit or contract for gas service. This allocated capital cost is in addition to any customer specific facilities including distribution main, service line, customer station and meter.

The HAF is calculated by dividing the net capital cost of a Development Project by the capacity that the project adds to the Area of Benefit and is expressed in dollars per $m^3$/hour. /U

The threshold of applicability of the HAF for all Development Projects will be

5 $m^3$/h.

For the purposes of the economic feasibility analysis for customers allocated costs using the HAF, the Company would continue to apply the EBO 188 Guidelines. Large volume customers would have flexibility through longer term contracts and/or a CIAC payment to achieve a PI of 1.0. Small volume customers would have the option of a CIAC payment and/or the TCS, as applicable over a defined term to achieve a PI of 1.0.

7. Collecting a Contribution

Projects that do not meet the minimum stage 1 economic criteria, after factoring in SES, TCS or long-term service agreements, where applicable, shall be required to pay a CIAC.

CIAC may be collected in advance of construction from new customers or other parties who have agreed to fund the shortfall in the economics.

For Small Main Extensions and Customer Attachment Projects, the Company may allow eligible customers to reduce their CIAC through the use of the TCS, and/or negotiate other contribution arrangements.

The TCS term will be determined on a project specific basis and will be restricted to a minimum of one year and to a maximum of 20 years from the project's in-service date. The term will be based on the number of years it takes for the project to achieve a PI of 1.0.

For Community Expansion Projects, contributions will be collected from all small volume customers served by the project through use of a SES. Larger volume customers may elect to pay the required CIAC through an SES and/or negotiate other contribution arrangements.

The SES will be treated as a revenue for the purpose of the Company's economic feasibility analysis of the project. The term of the SES for each project will be set at the minimum term required for the project to achieve a PI of at least 1.0 or 40 years, whichever is less.

Both the TCS and SES will apply to the property for the full term, notwithstanding any change of ownership or occupancy.

8. Project Costs
    a) When available, economic feasibility analysis shall use project specific data (costs, volumes, customer attachments) based on survey data, historical practice, weather and local conditions to determine the costs, load and forecast.
    b) When no specific data is available or the project is a minor project, regional averages shall be used.

9. Service Laterals
    a) The Company shall provide, at its cost, up to 30 metres of Service Lateral to connect a residential customer.
    b) Service Laterals over the length specified above shall require the prior agreement of the customer to pay an "excess charge" of $45.00 per metre. The PI analysis for commercial and industrial services shall be individually

calculated reflecting the site-specific lateral length, pipeline sizing, costs, gas usage and margins.

c) The Service Lateral is measured from property line to meter.

d) The minimum requirement to qualify for residential service shall be attachment of a water heater or a primary heat source. Requests for service where this condition is not satisfied shall be considered but will require a discounted cash flow analysis to be completed and any required customer contribution to be made in advance.

e) Full or partial abandonments of Service Laterals are completed at no charge to the customer. When the customer wishes to reconnect to our system, the Excess Footage Charge referenced in (b) above does not apply, however, the applicable service replacement costs that would apply can be found on the Enbridge Gas website.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

Interrogatory

Reference:

Exhibit B, Tab 1, Schedule 1, page 15 of 16

Question:

At Exhibit B, Tab 1, Schedule 1, page 15, EGI stated: “Enbridge Gas is proposing that the threshold of applicability be set by Enbridge Gas on a case by case basis.”

a) How does EGI’s proposed case-by-case threshold analysis for the HAF interact with EGI’s request that the Board approve the HAF in advance?

   For instance, at Exhibit B, Tab 1, Schedule 1, page 2, EGI states that EGI would be able to use the HAF without obtaining Board approval.

   Is the net result of these requests that EGI will be able to apply a previously unidentified threshold of applicability without additional Board approval? Please explain fully.

Response:

a) Please see Exhibit I.STAFF.9 a). /U

ENBRIDGE GAS INC.

Answer to Interrogatory from
Board Staff (STAFF)

Interrogatory

Reference:

Exhibit B, Tab 1, Schedule 1, Page 13
EB-2018-0188, Applicant's response to OEB staff IR# 2(a-b)

Preamble:

Enbridge Gas is proposing that the OEB approve the use of the Hourly Allocation Factor (HAF) process as an allocation methodology for capital costs in future Development Projects. Enbridge Gas states that the previous four leave to construct projects approved by the OEB which employed the HAF approach had about 50% of the capacity committed or more prior to being advanced for LTC approval.

The HAF is to be derived by dividing the net forecasted capital cost of a project by the forecasted capacity that the project serves within the Area of Benefit, and is expressed as a capital cost for each cubic metre per hour of incremental capacity.

In the Chatham-Kent Rural Project (EB-2018-0188), the forecasted capacity of the project that was used to calculate the HAF differed from the total capacity generated by the project (65,000 m3/hr). In the Chatham-Kent Rural Project, Enbridge Gas appeared to have used the original total forecasted demand required by large volume customers (30,045 m3/hr) to calculate the HAF, rather than the total forecasted capacity of the project, or even the updated total demand growth forecast for large volume customers (31,895 m3/hr).

Question:

a) Please explain the difference between an expansion project and a Development Project.

b) Please confirm that Enbridge Gas intends to use the forecasted capital cost of the project (net of grants and other upfront contributions) divided by the total forecasted capacity of the project, rather than the capacity allocated to identified large volume customers. If otherwise, please explain why.

Is Enbridge Gas proposing a 50% threshold in terms of how much capacity should be committed prior to a project either being advanced for LTC approval or approved for construction? Please explain why or why not.

c) Will Enbridge Gas report on whether the costs of a Development Project have been completely allocated? If so, how?

d) What if there is insufficient demand to ensure that the costs of the Development Project are completely allocated? Are existing customers expected to carry the cost of a Development Project that remains unallocated at the next rebasing? How does Enbridge Gas intend to prevent cross-subsidization of Development Projects by existing customers?

Response:

a) As per the pre-filed evidence at Exhibit B, Tab 1, Schedule 1, page 3 of 16, a Development Project is defined as a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers and that will use the Hourly Allocation Factor process to allocate costs. It may include a mix of large and small volume customers. An Expansion Project is not a defined term.

b) Enbridge Gas intends to use the total project capacity and the ratio of large volume hourly demand (sum of those at or above the threshold of applicability) to total capacity to allocate costs to the large volume HAF customers. Grants or other upfront contributions meant to help the large volume customers would be netted off the costs associated with the large volume customers. Grants or other upfront contributions meant to assist all customers would be netted off the gross costs prior to allocating the costs based on the ratio of hourly demand. Please see Exhibit I.OGVG.6 for more information.

c) Consistent with the previous four LTC Board approved projects that employed the HAF approach, Enbridge Gas is proposing that construction would only commence on a Development Project once a minimum of 50% of the large volume component is commited under contract. /U

d) Consistent with how Enbridge Gas has managed previously approved projects in which a HAF was employed, the allocation for each Development Project will be tracked internally by Enbridge Gas. There is no specific reporting requirement for these projects.

e) As indicated in an interrogatory response in the CK Rural proceeding in EB-2018-0188, Exhibit B.Staff.2, b) v., should there be a variance to the demands forecasted (either positive or negative), it will be the subject of a future rates application and the impact of any such variance will be dealt with in that proceeding.

Consistent with the interrogatory response in the same proceeding at Exhibit B.Staff.2 x), if the Development Project has a P.I. of 1.0, there will be no cross subsidization from ratepayers over the life of the Project provided that the total capacity of those customers (requiring more than the established threshold) reaches the total incremental capacity created as forecasted in the project economics. If the Development Project demands do not reach the total incremental capacity created over the life of the Project or the actual costs are higher or lower than forecasted, there is a potential for cross subsidization over time. However, Enbridge Gas considers the risk of the Development Project variances for demand, timing and costs to be low.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Board Staff (STAFF)

Interrogatory

Reference:

Exhibit B, Tab 1, Schedule 1, Page 14-15
Exhibit C, Tab 2, Schedule 1, Page 3-4

Preamble:

Enbridge Gas is proposing that the threshold of eligibility be scaled with the size of the Development Project. For larger projects, Enbridge Gas would propose that the HAF apply only to large volume customers. For smaller projects, all customers, large and small, would be included.

The previous projects which primarily targeted large volume customers employed the HAF had a “floor” of HAF applicability set at 200 m3/hr. In the future, for smaller projects targeting a mix of larger and mid-sized customers, Enbridge Gas states that a lower threshold may be more appropriate. Enbridge Gas is proposing that the threshold of applicability be set by Enbridge Gas on a case-by-case basis.

Enbridge Gas states that while the HAF will typically be applied in situations where natural gas service is being made available to large volume customers, it can also be used for projects involving small volume customers where one or more of them may be placing a larger peak demand on the system relative to others that are served by that project.

Enbridge Gas states that the HAF is meant to fairly and equitably share and allocate the costs and benefits of a project that benefits multiple customers commensurate with peak hour demand, ensuring that the first customer does not bear the entire economic burden, nor the last customer avoid theirs. Enbridge Gas states that the HAF will remain constant for all customers within an Area of Benefit who meet the threshold of applicability for a particular project. Enbridge Gas will cease to allocate and apply the HAF to the economic feasibility analysis once the total incremental capacity has been fully allocated.

Refunds for large volume customers will be determined based on a re-evaluation of the system expansion project, taking into consideration extra investment and additional load

brought on within five years to the specific piece of main constructed to serve the initial customer(s). Similar to system expansions, refunds for large volume customers will be evaluated subject to customer request. Enbridge Gas states that this policy is not available to large volume customers in Development Projects where an Hourly Allocation Factor process has been used for allocating project cost amongst the prospective customers.

Question:

a) Is Enbridge Gas only able to determine the threshold of a proposed HAF based on the known parameters of a particular project at the time the project is initiated? If so, does this not imply that Enbridge Gas will still need to seek the OEB's approval for the proposed HAF for an individual project? Please explain.

b) Please provide an example of a larger development project and of a smaller development project and the corresponding thresholds of eligibility. What criteria does Enbridge Gas intend to use to differentiate the two?

c) How would Enbridge Gas propose the threshold of eligibility be scaled?

d) How would costs be allocated if a Development Project included small volume customers? How does Enbridge Gas intend to ensure that large volume customers in a Development Project do not end up subsidizing smaller volume customers and vice versa?

e) Would residential customers qualify for the HAF as small volume customers?

f) For Development Projects like the Chatham-Kent Rural Project, where the project was primarily constructed for large volume customers, but also provided incremental capacity for low volume customers, does Enbridge Gas intend to exclude the costs related to the incremental capacity for low volume customers from the HAF calculation?

g) Please explain why Enbridge Gas does not intend to provide refunds to large volume customers in Development Projects where a HAF was used.

Response:

a) Enbridge Gas is proposing that the threshold of eligibility for all future Development Projects be set at 50m³/hr. In the four previously approved LTC projects, the 'floor' of the HAF applicability was set at 200 m³/hr. Enbridge Gas is seeking approval in /U

this proceeding to have the option to apply the HAF process, thereby eliminating the need to seek approval for each future HAF process.

b) An example of a previously approved larger Development Project is CK Rural in EB-2018-0188 which had a threshold of 200m³/hr. An example of a smaller Development Project might be a non-LTC level project for which Enbridge Gas has yet to use the HAF with a threshold of eligibility of 50m³/hr. /U

c) Please see response to part a). /U

d) Costs are allocated based on peak hour demands applied to customers above a threshold. Development Projects are designed to serve the aggregate of large and small volume customers over an Area of Benefit. Both customer groups should see lower costs due to synergies and economies of scale resulting from larger projects. In this way, both customer groups are benefitting from a more holistic approach to serving growth and should not be inappropriately cross subsidizing each other.

e) Enbridge Gas anticipates the average residential customer would rarely be subjected to a HAF as the threshold proposed is 50m³/hr. For example, most residentials average 1 to 2 m³/hr and therefore the threshold would be higher than their peak hourly demands. /U

f) Yes. The costs associated with the capacity for the small volume customers will be managed and dealt with outside of the HAF process. See Exhibit I.OGVG.6 a).

g) A development project is designed to cater to the load of the forecasted customers. It is unlikely that the actual load on the facility underpinning a development project exceeds the original load forecast and thereby triggering a CIAC refund situation.