

Elson Advocacy

August 28, 2020

BY EMAIL AND RESS

Ms. Christine Long

Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700, P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Long:

Re: EB-2020-0094 - Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor

I am writing on behalf of Environmental Defence pursuant to *Procedural Order #3* to provide reply submissions regarding Environmental Defence's request for full and adequate interrogatory responses.

Interrogatory #2 – Number and size of relevant projects

Environmental Defence is seeking information from Enbridge on the magnitude of the costs at issue in relation to the approvals it is seeking regarding the SES, TCS, and HAF. We believe Enbridge's proposals add increasingly unreasonable risks to existing customers. For example, both the TCS and HAF would allow projects to proceed with less up-front confirmed capital contributions. This is particularly concerning because climate change is causing changes in energy use patterns that could easily make low carbon alternatives preferable to natural gas well within the economic lifetime of these projects.

Assuming these projects are built between 2020 and 2030, the economic lifetimes will extend between 2060 and 2070. Substantial changes to the cost effectiveness of natural gas are likely to occur between now and then due to climate change. Electric heat pumps are already cost competitive with natural gas in many situations. Canada plans to be carbon neutral by 2050. We cannot predict the future, but there is at least a material possibility that climate change will strand these assets mid-way in their economic lifetimes, leaving existing customers on the hook. That material possibility, which we would argue is increasing over time, should be reflected by better protections for existing customers in expansion projects. Our concern is that Enbridge is proposing to move in the opposite direction by adding increasing levels of risk.

We are simply attempting to roughly determine the order of magnitude of the costs at issue so as to assess the size of this risk. We believe this is prudent seeing as Enbridge is seeking pre-

approval for financial mechanisms that determine, in part, the degree to which existing consumers bear this risk.

Environmental Defence agrees with Board Staff that individual leave-to-construct applications are an appropriate venue to examine the risks put on existing customers through the financial design of those projects. However, our concern is that Enbridge will argue in individual applications that the design of its surcharges cannot be changed in these future leave-to-construct applications to better protect individual customers because they have been pre-approved in this proceeding. We are also concerned about the risks arising from projects that do not require a leave-to-construct application and have no way to estimate the costs at issue. Therefore, we do not see how we can entirely defer the examination of risks unless the Board declines to approve the SES and TCS in this proceeding, leaving the specifics to be determined in individual leave-to-construct applications.

Although we initially requested information at a project-specific and an aggregate level, we acknowledge that information at the project-specific level is not necessary. However, Environmental Defence maintains that information at an aggregate level is relevant for the reasons set out above. We therefore narrow the request to aggregate information that would shed light on the order of magnitude of the costs of the projects that might be eligible for the SES, TCS, and HAF.

With respect to the SES, Enbridge notes that the aggregate of its proposed community expansion projects will be more than those that are approved within the \$130 million NGEP envelope. This point is well taken. However, if Enbridge provides the aggregate information, including how much NGEP funding its proposed projects would require, this would allow us to get a grasp on the magnitude of the costs. For example, if Enbridge's proposed community expansion projects would require two-times the NGEP funding, we could divide the total cost by two in order to arrive at an order of magnitude of the costs for SES projects were they to be approved up to the NGEP maximum.

With respect to the HAF, Enbridge noted that it would be able to determine the aggregate cost of projects requiring a CIAC in 2019.¹ This would be helpful as one data point to assess the potential costs that could be in play with respect to the HAF.

Interrogatory #3 – Dollar value of risk

Environmental Defence is also seeking an estimate of the value of the risk faced by current customers from various gas expansion projects, such as the risk of lower-than-forecast revenue or stranded assets. This risk is determined, in part, by the financial mechanisms that Enbridge seeks to have approved in this case.

In its submissions, Enbridge provided a response to parts (a) and (b) of this interrogatory regarding an assessment of this value by an insurer. Contrary to Enbridge's original interrogatory response, the insurer did not state that this insurance could not be obtained. It simply said it is

¹ Enbridge Submissions, para. 9.

“not typically available.” We believe Enbridge’s revised response with respect to parts (a) and (b) of this interrogatory is sufficient for the purposes of this proceeding.

However, part (c) remains outstanding. Enbridge is proposing financial mechanisms that put risk on existing customers. Enbridge argues those risks are low. Environmental Defence disagrees but believes this motion is not the place to determine that question. Regardless, we believe it is reasonable to seek an indication of the value or magnitude of this risk. We sought this by asking Enbridge what premium it would require to assume the risk. If it believes the risk is so small, we would assume the premium would be small. So be it.

However, Enbridge is seeking to put this risk on the existing customers and has the onus to respond to questions about the value of this risk. If Enbridge will not provide a valuation of these risks at this stage, it should not be able to seek generic approval of the financial mechanisms that create those risks, and the appropriateness of these mechanisms should be determined on a case-by-base basis with concrete information in future leave-to-construct or rates applications.

Yours truly,

A handwritten signature in blue ink, appearing to read 'K. Elson', with a stylized, cursive script.

Kent Elson

cc: Parties in the above proceeding