

September 3, 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
Argument-in-Chief and Update to Evidence**

In accordance with Procedural Order No. 2, dated August 13, 2020, enclosed please find the Argument-in-Chief of Enbridge Gas in the above noted proceeding.

Further to the application and evidence filed on July 31, 2020, also enclosed are the following updated exhibits.

Exhibit	Corrections
C-2-1	Page 5, paragraph 9 Page 9, paragraph 39, 40 Page 10, paragraph 41
C-2-2	Page 1/2, paragraph 2 Page 5, paragraph 6 Page 7, paragraph 7

As explained in the Argument-in-Chief, these late revisions are required to ensure that the proposed revisions to the Enbridge Gas feasibility policies accurately reflect the manner in which the HAF will be calculated and applied. Enbridge Gas is seeking Board approval of its revised feasibility policies in this application. The revisions are consistent with the testimony from the technical conference.

Please contact the undersigned if you have any questions.

Yours truly,

(Original Digitally Signed)

Tania Persad
Senior Legal Counsel

cc: EB-2020-0094 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an application by Enbridge Gas Inc. for approval of a System Expansion Surcharge, a Temporary Connection Surcharge and an Hourly Allocation Factor

ARGUMENT-IN-CHIEF OF ENBRIDGE GAS INC.

A. Introduction

1. In accordance with Procedural Order No. 2, this is the Argument-in-Chief of Enbridge Gas Inc. (“Enbridge Gas” or the “Company”).
2. Enbridge Gas filed an application with the Ontario Energy Board (“OEB” or the “Board”) on May 8, 2020, under section 36 of the *Ontario Energy Board Act, 1998* (the “Act”) for an order approving the following:
 - i) A System Expansion Surcharge (“SES”) for future Community Expansion Projects;
 - ii) A Temporary Connection Surcharge (“TCS”) for Small Main Extensions and Customer Attachment Projects;
 - iii) Amendments to Rider I of the Rate Handbook for the EGD rate zone and to Rate Schedules 01, 10, M1 and M2 for the Union rate zones;¹
 - iv) An Hourly Allocation Factor (“HAF”) to be applied in the economic feasibility calculation for future Development Projects consistent with the Board’s EBO 188 Guidelines;² and

¹ Amended rate schedules are set out at Exhibit C, Tab 1, Schedule 1 for the EGD rate zone and Exhibit C, Tab 1, Schedule 2 for the Union rate zones.

² Issued pursuant to the OEB Report on Natural Gas System Expansion, dated January 30, 1998.

- v) Amendments to the Company's feasibility policies to implement the SES, TCS and HAF as proposed.³
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- 3. Enbridge Gas has also proposed very minor revisions to its Conditions of Service for each of the EGD and Union rate zones that it would implement through a bill notice to customers in the next billing cycle after Enbridge Gas has had the opportunity to review and consider Board approval of the SES and TCS. The revisions amount to one small addition of the words "and/or surcharge" to the Conditions of Service sections describing when a contribution in aid of construction ("CIAC") may apply.⁴ Pursuant to the OEB's *Gas Distribution Access Rule*, revisions to the Conditions of Service do not require Board approval; advance notice of the revised policies must be provided to customers and to the Board.⁵
 - 4. The proposed forms of SES, TCS, and HAF are required for Enbridge Gas to achieve consistency between its use of these surcharges and the HAF capital allocation mechanism in the EGD and Union rate zones. In addition, approval of these proposals will allow Enbridge Gas to accommodate demand for future expansion projects more efficiently without having to seek Board approval on a project specific basis.
 - 5. The Application was supported by written evidence and was prepared in accordance with all relevant OEB guidance. The meaning of capitalized terms not defined shall have the meaning of those terms set out in the evidence.

B. System Expansion Surcharge

- 6. The SES is not new to the Board or Enbridge Gas customers. This rate surcharge has been approved by the Board in several recent proceedings for the

³ Amended feasibility policies are set out at Exhibit C, Tab 2, Schedule 1 for the EGD rate zone and Exhibit C, Tab 2, Schedule 2 for the Union rate zones.

⁴ See Exhibit C, Tab 3, Schedule 1.

⁵ *Gas Distribution Access Rule*, section 8.5

predecessors of Enbridge Gas, Enbridge Gas Distribution Inc. (“EGD”) and Union Gas Limited (“Union”)⁶ since the Board considered the surcharge concept in its Generic Proceeding on Community Expansion, EB-2016-0004 (“Generic Proceeding”). In this application, Enbridge Gas is simply seeking to harmonize its use of the SES across its rate zones. It makes sense to do this now rather than wait for rebasing because Enbridge Gas is continuing to pursue SES projects today through the Ontario government’s Natural Gas Expansion Program. If approved, Enbridge Gas may start construction of new SES projects prior to rebasing. Stated another way, as long as Enbridge Gas is proceeding with Community Expansion projects, there appears to be no good reason to delay harmonization of how the SES is applied across the Enbridge Gas rate zones.

7. In essence, the items for which Enbridge Gas is seeking approval regarding the SES in order to bring consistency to all Enbridge Gas rate zones are of a “housekeeping” nature and do not amount to a substantive change in policy or practice. For instance, Enbridge Gas is not seeking to change the previously approved amount of the SES. That remains consistent with what exists today, as would most of the terms and conditions pursuant to which the SES is currently implemented. In this application, Enbridge Gas is seeking approval for its revised Rider I for the EGD rate zone, revised rate schedules for the Union rate zones and for related amendments to its feasibility policies, all to consistently reflect the SES terms and conditions with which the Board and customers are already familiar.
8. The revised customer-facing terms and condition applicable to the SES are set out in Rider I for the EGD rate zone and are inserted in the rate schedules and supplemented by the Distribution New Business Guidelines, which constitute the feasibility policy, for the Union rate zones.⁷ Although their presentation is

⁶ See Exhibit B, Tab 1, Schedule 1, page 4,

⁷ See Exhibit C, Tab 1, Schedule 1 for the EGD rate zone and Exhibit C, Tab 1, Schedule 2 and Exhibit C, Tab 2, Schedule 2 for the Union rate zones.

different because of the existing distinctions between the rate handbook and schedules for the EGD and Union rate zones, their substance is the same. The proposed terms and conditions are:

- The amount of the surcharge is \$0.23/m³; it is a constant volumetric rate that will not change for the term of the SES.
 - For the EGD rate zone, the SES is applicable to Rates 1 and 6. For the Union rate zones, the SES is applicable to Rates 01, 10, M1 and M2.
 - The SES is applied to Community Expansion Projects, which are natural gas system expansion projects undertaken by the Company 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 customers who consume no more than 50,000 m³/year within a Community Expansion Project area; it is applied to the property such that if a new owner takes possession, they will assume payment of the SES for the balance of the applicable term.
 - For customers who consume more than 50,000 m³/year, they may elect to pay the SES or pay a CIAC or use other contractual mechanisms to cover the charge.
 - The Company may apply the SES for a term of up to 40 years, to be determined in accordance with the Company's feasibility policies, which follow the Board's EBO 188 Guidelines.
 - The Community Expansion Projects to which an SES applies will be set out in Rider I for the EGD rate zone and in the applicable schedules for the Union rate zones.
9. The SES has been accepted by customers and the Board in prior proceedings on the basis that it allows customers to obtain natural gas distribution service by

contributing a portion of their savings from converting to natural gas towards natural gas system expansion feasibility. As the Board stated in the Generic Proceeding, “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.”⁸ The SES, typically in combination with municipal and/or government subsidies, has allowed otherwise infeasible projects to proceed and for their feasibility analysis to remain consistent with the EBO 188 Guidelines, thereby avoiding long-term cross-subsidy of new customers by existing customers.⁹

10. The proposed rate of \$0.23/m³ continues to be appropriate for small volume customers, having been accepted and approved by the Board on several occasions.¹⁰ This is why Enbridge Gas proposes to limit mandatory application of the SES to customers who consume no more than 50,000 m³ in a Community Expansion Project. In Enbridge Gas’s experience, larger volume customers typically have different costs and potential savings such that a \$0.23/m³ surcharge would make conversion uneconomic. Feasibility for large volume customers within a Community Expansion Project will be calculated separately in accordance with the Board’s EBO 188 Guidelines and any required 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.¹¹
11. Consistent with the current versions of the SES that have been approved by the Board, the harmonized form of SES proposed in this application will be considered revenue and treated as such for the purpose of the economic

⁸ Generic Proceeding, page 4

⁹ See Exhibit B, Tab 1, Schedule 1, page 6.

¹⁰ See Enbridge Gas’s July 2, 2020 letter in response to EPCOR’s inquiry.

¹¹ See Exhibit B, Tab 1, Schedule 1, page 4.

feasibility analyses.¹² Also, consistent with the most recent Board-approved SES project (in North Bay),¹³ Enbridge Gas proposes that it will not modify the SES term if a project has increased profitability relative to forecast. In that event, the increased profitability of that project would be captured in the base upon which rates are set, resulting in reduced rates for all customers, as all other customer additions are treated.¹⁴

12. This application is also consistent with prior approved applications in that Community Expansion/SES projects will be subject to a 10-year rate stabilization or stability period (“RSP”) during which Enbridge Gas would bear the risk of its customer attachment forecast. As noted by the Board in its Decision in the Generic Proceeding, “A minimum rate stability period of 10 years (for example) would ensure that rates applied for are representative of the actual underpinning long-term costs.”¹⁵ Enbridge Gas will not seek to recover from existing or new community expansion customers any shortfall in revenue requirement for the RSP.
13. Following the end of a project’s RSP, Enbridge Gas will use the actual project revenues, including actual SES revenues, for ratemaking purposes subject to OEB review and approval. Enbridge Gas will not 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.¹⁶ Similarly, after the RSP has expired, Enbridge Gas will use actual revenues for a particular project to determine any revenue sufficiency or deficiency in the process for setting approved rates. The Company will bring forward its actual capital costs at the

¹² Ibid., page 3

¹³ See OEB’s Decision in EB-2019-0188, page 19.

¹⁴ See Exhibit I.Staff.1c).

¹⁵ Generic Proceeding, page 20

¹⁶ See Exhibit B, Tab 1, Schedule 1, pages 6 and 7.

next rebasing proceeding following a project's RSP consistent with prior applications. These capital costs would be net of any third-party funding.¹⁷

14. Also, Enbridge Gas committed that 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:

- Budgeted and actual capital costs, both at a gross level and net of any CIAC, as of a project's in-service date;
- Cumulative forecast and actual customer attachments for the duration of a project's 10-year customer addition forecast period; and
- Each project's PI, updated to reflect the project's actual capital cost and revenues over its RSP.¹⁸

C. Temporary Connection Surcharge

15. Although the TCS term is new, the concept of the TCS is not. In fact, the Board has already approved use of the SES for smaller main extensions in the EGD rate zone.¹⁹ To date, Enbridge Gas has not implemented the SES for projects other than Community Expansion Projects in large part because Enbridge Gas is planning to implement the TCS consistently across its rate zones through this application. In its EB-2017-0147 Decision, related to the Fenelon Falls and Kawartha Lakes community expansion projects and in which the Board approved the current generic version of the SES for the EGD rate zone, the Board stated, "The OEB agrees that consistency of approach for the surcharge across Ontario is appropriate."²⁰ This application seeks to achieve that consistency for Enbridge Gas projects that span across Ontario.

¹⁷ Ibid., pages 7 and 8

¹⁸ See Exhibit B, Tab 1, Schedule 1, page 9.

¹⁹ See OEB's Decision in EB-2017-0147 (Re: Fenelon Falls & Kawartha Lakes), page 14.

²⁰ Ibid., page 15

16. The TCS is very similar to the SES in amount and customer-facing terms and conditions, as can be seen in the proposed Rider I terms for the EGD rate zone where both the SES and TCS appear together.²¹ The TCS terms that are distinctive from the SES are as follows:
- It applies to Small Main Extension or Customer Attachment Projects, defined as 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 (rather than 50 or more customers like the SES).
 - The Company will publish the geographic location, effective date and term of TCS project areas on its website (rather than in the rate handbook/schedules). Customers affected by the TCS will be informed of these details as the project is being developed and at the time they make their application for service to Enbridge Gas.²²
 - The TCS will be applied for a term of 1-20 years (rather than up to 40 years). If the economic feasibility of a project does not reach a PI of 1.0 or greater with application of the TCS over the maximum 20-year term, Enbridge Gas would require a CIAC in addition to the TCS.²³
17. Like the SES, the proposed TCS terms are set out in Rider I for the EGD rate zone and are in the rate schedules and supplemented by the Distribution New Business Guidelines for the Union rate zones.²⁴ Implementing the TCS as proposed will allow for all system expansion customers to gain similar benefits to those being served by larger Community Expansion Projects. Customers connecting after a TCS project is built will be required to pay the TCS for the

²¹ See Exhibit C, Tab 1, Schedule 1.

²² See Exhibit B, Tab 1, Schedule 1, page 10.

²³ See Exhibit B, Tab 1, Schedule 1, page 12.

²⁴ See Exhibit C, Tab 1, Schedule 1 for the EGD rate zone and Exhibit C, Tab 1, Schedule 2 and Exhibit C, Tab 2, Schedule 2 for the Union rate zones.

remaining balance of the term.²⁵ It is believed the TCS will be a valuable tool for removing a barrier for customers challenged to pay the upfront connection costs.²⁶ Also, the TCS is more equitable in that the original customers are not shouldering a greater portion of project costs relative to future customers who connect after the project is constructed, which has been a common source of complaint. Like the SES, the TCS will provide a solution for those customers, and the same rationale applies of allowing small volume customers to contribute a portion of their natural gas service savings towards the costs of the attachment project.

18. Enbridge Gas would follow the same EBO 188 Guidelines principles in the way it assesses feasibility for TCS projects as each project would have to meet a PI of 1.0 or greater. Customer-specific facility costs are excluded from the feasibility analysis for the purpose of determining a project TCS term and such customer costs are assessed against each customer individually.²⁷ Like with the SES, larger volume customers would have the option of paying an upfront CIAC and/or the TCS or entering into multi-year contracts.²⁸
19. For reporting and future rate treatment, Enbridge Gas proposes to include TCS projects in its Rolling Project Portfolios and Investment Portfolios along with other system expansion projects. This will provide an ongoing method of determining the financial feasibility and rate impact of expansion projects as prescribed in the EBO 188 Guidelines.²⁹ As the Board recognized in its EBO 188 Report, "...the primary purposes of the Guidelines in Appendix B are to streamline the process of approval of system expansion projects and achieve a commonality of approach between the utilities, while ensuring that ratepayers are protected against the impacts of either over-aggressive, or financially inappropriate, system

²⁵ See Exhibit C, Tab 1, Schedule 2.

²⁶ See Exhibit B, Tab 1, Schedule 1, page 10

²⁷ See Exhibit I.EP.7a) and b).

²⁸ Ibid., pages 10 and 11

²⁹ See Exhibit B, Tab 1, Schedule 1, page 12.

expansion by the utilities.³⁰ The Board also accepted this approach in EB-2017-0147.³¹

D. Hourly Allocation Factor

20. The HAF is also not new to the Board and Enbridge Gas customers. The OEB has approved Enbridge Gas's use of the HAF on a project specific basis for Union on four separate occasions, the first of which was several years ago in EB-2012-0431. In those cases, the Board agreed with Union that use of the HAF resulted in an equitable means of allocating the capital cost of a project in the economic assessment of current and future customers.³²
21. The HAF is a method of allocating the upfront capital investment of a Development Project designed to provide incremental firm capacity to multiple large volume customers forecast to require additional firm service within an identified Area of Benefit.³³ Customer-specific capital costs such as dedicated distribution main, service lines, customer stations and meters are excluded from the feasibility analysis used for calculating the HAF, similar to TCS projects.³⁴
22. In this application, Enbridge Gas seeks to standardize its use of the HAF across its rate zones and update its feasibility policies to describe the HAF and how it may be used for project feasibility assessment purposes. As Enbridge Gas made clear at the technical conference, Board approval of the proposed revisions to Enbridge Gas's feasibility policies in this case will not obviate further review of how the HAF will be applied (including forecast attachment and demand) for future Development Projects through leave to construct applications, where required.³⁵ However, updating the feasibility policies to describe the HAF will

³⁰ EBO 188 Report, section 6.3.11.

³¹ See OEB Decision in EB-2017-0147, page 15.

³² See OEB's Decision and Order in EB-2018-0218, page 7.

³³ See Exhibit B, Tab 1, Schedule 1, page 12.

³⁴ See Exhibit B, Tab 1, Schedule 1, page 13 and Exhibit C, Tab 2, Schedule 2, page 5.

³⁵ Transcript, pages 51 and 72

promote greater consistency and better understanding of the HAF for future projects.

23. In the proposed revisions to the Union rate zone feasibility policy, the HAF calculation is described as follows: "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 m³/hour".³⁶ Enbridge Gas has since refined this approach and clarified this in the technical conference, as explained by Mr. Gillett:

MR. GILLETT: So what changes are being proposed to the HAF mechanism? What we are proposing is to use forecasted large volume needs in the project design.³⁷

24. Enbridge Gas is proposing to make minor revisions to its feasibility policies to clarify how the HAF is calculated and those revisions are filed with this argument.³⁸ Because Enbridge Gas is seeking approval of its feasibility policy amendments in this application, these late revisions are required to ensure that, if approved, the feasibility policies accurately reflect how Enbridge Gas intends to apply the HAF. The revisions are consistent with the testimony in the technical conference and describe how the HAF is calculated, by dividing the capital cost of a Development Project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves within the Area of Benefit. It is important to emphasize that Enbridge Gas designs facilities required for a HAF project in order to optimize the capacity created to meet only the needs of forecast customer demands.³⁹
25. Once determined, Enbridge Gas allocates and applies the HAF as a capital cost to the individual economic analysis of customers that would receive incremental

³⁶ See Exhibit C, Tab 2, Schedule 2, page 5.

³⁷ Transcript, page 8

³⁸ See revised Exhibit B, Tab 1, Schedule 1 and Exhibit C, Tab 2, Schedules 1 and 2 enclosed.

³⁹ See JT1.1 and Transcript, pages 88 to 90.

capacity as they commit to or contract for gas service.⁴⁰ The HAF is not a charge or payment, but an allocation mechanism, the employment of which may or may not result in a CIAC payment (and/or surcharge).⁴¹ As Enbridge Gas confirmed in its undertaking response JT1.3, no customers of previously approved HAF projects have to date had to pay a CIAC.⁴² Enbridge Gas typically has the ability to work with large volume customers in Development Projects to establish contract terms that will help them avoid a CIAC payment.

26. As part of this application and in response to apparent concerns about the breadth of projects to which the HAF would apply, Enbridge Gas updated its evidence and now has proposed to further standardize its use of the HAF by establishing two thresholds:

- **Threshold of Eligibility:** For all new Development Projects, the HAF will only apply to customers within an Area of Benefit whose forecast hourly gas consumption demand is at least 50 m³/h.⁴³
- **Contracted Commitment Threshold:** Consistent with prior Board approved HAF projects, Enbridge Gas would only proceed with a Development Project if it has secured contractual commitments for at least 50% of the large volume capacity available for the project (i.e., from customers with a demand of at least 50 m³/h).⁴⁴

27. At the technical conference, Enbridge Gas witnesses explained further why and how these thresholds were determined, as stated by Mr. Gillett regarding the threshold of eligibility:

Mr. Gillett:...So we took that away and we developed what we thought were more appropriate thresholds. So what we're proposing for the threshold of eligibility is hourly

⁴⁰ Ibid.

⁴¹ See Exhibit I.EPCOR.5b) and Exhibit I.IGUA.3a) and c).

⁴² Transcript, page 24

⁴³ See Exhibit KT 1.1, slide 2 and Exhibit B, Tab 1, Schedule 1, pages 14 and 15.

⁴⁴ Ibid.

consumption of 50 cubic metres per hour. So this would be a hard threshold for all HAF projects, where any customer that has a firm hourly requirement of 50 cubic metres or higher would be applied the HAF. We chose this threshold because we felt it properly captured the large-volume customers while not including sort of the average general service customers...⁴⁵

28. This threshold of eligibility is appropriate because it is high enough to exclude typical residential customers and low enough to capture large volume customers that are currently not forecasted. This value is also 25 to 50 times larger than the hourly consumption of a typical residential customer.⁴⁶ In addition, 50m³/hr of peak hourly demand roughly correlates with 50,000 m³ of annual gas consumption, a threshold below which a consumer is considered to be low volume for the purposes of the Board's *Gas Distribution Access Rule*.
29. The proposed contracted commitment threshold is appropriate because it balances the benefits of economies of scale against the risk of not achieving the large volume forecast. As Mr. Gillett stated:

Mr. Gillett:...We are also proposing that we would not proceed with the project unless we had 50 percent of the large volume forecast committed at the time of the project. So whatever portion of the project is capacity is there to serve large volume, we would not proceed unless we had a minimum 50 percent. It could be higher, absolutely, but no lower than 50. The idea there is that... it lowers the uncertainty around the forecast and it increases the level of commitment.⁴⁷

30. It is very important to highlight that Enbridge Gas developed the HAF in order to help customers connect to the gas system in a fair and equitable manner. Defining an Area of Benefit and conducting the feasibility analysis that accounts for immediate and future known growth potential and then allocating project costs based upon an objective demand criteria ultimately ensures that customers

⁴⁵ Transcript, page 10

⁴⁶ Ibid.

⁴⁷ Transcript, page 11

within the Area of Benefit can achieve economies of scale through Enbridge Gas's ability to optimize design of the gas system.

31. Using the HAF mechanism allows the Company to factor in anticipated growth in the Area of Benefit and it prevents situations where a single customer underpins a large project and a future customer gains "free" access to the incremental capacity (either due to project design and nominal pipe size limitations or by usurping general service customer capacity).⁴⁸ With the HAF, future customers would receive a fair allocation of their proportionate share of the project capital costs, until the HAF is fully allocated.
32. In its Final Report in EBO 188, the Board recognized the potential for inequities due to location and timing of system expansion, as evidenced by the Board's statement, "The Board notes that accidents of timing and geography can... lead to inequitable situations where some ratepayers in similar situations may not have to pay a contribution while others are required to pay contributions."⁴⁹ The HAF serves to mitigate these inequity concerns and also addresses the Board's expectations about accounting for future growth potential expressed as, "If there is a reasonable 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."⁵⁰
33. Enbridge Gas would determine its forecast demand for HAF projects using the same methods it uses today – for instance, expressions of interest, market intelligence and Enbridge Gas's customer knowledge.⁵¹ The expression of interest process is a formal process wherein large volume customers document their demand forecast in writing through a non-binding process. Without the HAF, Enbridge Gas would only forecast for general service growth and contractually committed large volume growth. The non-HAF method leaves room

⁴⁸ See Exhibit B, Tab 1, Schedule 1, page 15 and Transcript, pages 7 and 8.

⁴⁹ See EBO 188, Final Report of the Board, January 30, 1998, section 4.1.2, page 17.

⁵⁰ Ibid., section 4.3.4, page 19

⁵¹ Transcript, page 8

for the problems explained above of near-term future customers gaining system access without bearing a fair allocation of system costs.⁵²

34. As with TCS projects, HAF projects are system expansion projects for which Enbridge Gas would follow the same reporting requirements as set out in the EBO 188 Guidelines. HAF projects are and would continue to be part of Enbridge Gas's Rolling Project Portfolios and Investment Portfolios.⁵³ Rate treatment would also be consistent with the TCS and other system expansion projects, other than SES projects.

E. Conclusions

35. In conclusion, Enbridge Gas reiterates its request for approval of the proposed standardized SES, TCS and HAF and related rate rider/schedule and feasibility policy amendments for the reasons described above as supplemented by the referenced evidence in this proceeding.

All of which is respectfully submitted this 3rd day of September, 2020.

ENBRIDGE GAS INC.

[original signed by]

Tania Persad, Senior Legal Counsel

⁵² Transcript, page 9

⁵³ Transcript, page 50

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 where 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 large volume customers 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”).

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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 analysis 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 m³ 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 m³ 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 the capital cost of a Development Project between forecast large volume customers requiring incremental firm capacity within an identified Area of Benefit. The HAF is applied as a capital cost in addition to the capital cost of customer specific facilities (i.e. dedicated distribution main, service line, customer station, meter) to the individual economic analysis of customers receiving incremental firm capacity in the Area of Benefit as they commit or contract for gas service. /U
40. The HAF is calculated by dividing the net capital cost of a Development Project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves within the Area of Benefit and is expressed in dollars per m³/hour. /U
41. The threshold of eligibility of the HAF for all Development Projects will be 50 m³/h and greater /U
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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 m³) is 10 years. The revenue horizon is 40 years from the in-service date of the initial mainline. 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.
- 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 forecast capital cost of the project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves in the Area of Benefit. The HAF is expressed as a capital cost per m³/hour of incremental capacity. /U
- 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 m³ 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

¹https://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 the capital cost of a Development Project between forecast large volume customers requiring incremental firm capacity within an identified Area of Benefit. The HAF is applied as a capital cost in addition to the capital cost of customer specific facilities (i.e. dedicated distribution main, service line, customer station, meter) to the individual economic analysis of customers receiving incremental firm capacity in the Area of Benefit as they commit or contract for gas service.

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The HAF is calculated by dividing the net capital cost of a Development Project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves within the Area of Benefit and is expressed in dollars per m³/hour.

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The threshold of applicability of the HAF for all Development Projects will be 50 m³/h or greater

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For the purposes of the economic feasibility analysis for customers allocated capital 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.

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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 an SES. Larger volume

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customers may elect to pay the required CIAC through an SES and/or negotiate other contribution arrangements.

The SES will be treated as 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.