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Ms. Christine Long
Registrar & Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

September 17, 2020

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

Dear Ms. Long:

Please find enclosed Pollution Probe's Submission on the above noted proceeding.

Respectfully submitted on behalf of Pollution Probe.

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Tania Persad, Enbridge Legal (via email)
Interested Parties (via email)
Richard Carlson, Pollution Probe (via email)

EB-2020-0094

ONTARIO ENERGY BOARD

Application for approval of a System Expansion Surcharge, a Temporary Connection Surcharge and an Hourly Allocation Factor

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POLLUTION PROBE SUBMISSION

September 17, 2020

Submitted by: **Michael Brophy**

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Overview

Enbridge Gas Inc. (Enbridge) filed an application with the Ontario Energy Board (OEB) on May 8, 2020 under section 36 of the *Ontario Energy Board Act, 1998,* as amended (OEB Act) for approval of a harmonized System Expansion Surcharge (SES), a Temporary Connection Surcharge (TCS) and an Hourly Allocation Factor (HAF) for the former Enbridge Gas Distribution Inc. and Union Gas Limited rate zones.

As part of its application, Enbridge is requesting OEB approval for 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
v) Amendments to the Company's feasibility policies to implement the SES, TCS and HAF as proposed.

Pollution Probe has differentiating between the SES, TCS and HAF approvals sought from the OEB and requested approval of the Enbridge feasibility policies for the reasons outlined below. The SES, TCS and HAF were the subject of review and a technical conference to provide clarity on how each proposed mechanics would work, consumer impacts and the basis for why such changes are required at this time. This is different than the approach used for the proposed changes to the feasibility policy.

When Enbridge filed its Argument-in-Chief on September 3, 2020 it included evidence updates related to the feasibility policy that it is requesting the OEB approve. It is not typical to provide evidence updates at this late stage of the proceeding and Enbridge indicates that 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. In its original evidence Enbridge provided a summary of the proposed revisions to the EGD Rate Zone Economic Feasibility Procedure and Policy[1], but a copy of the proposed revised feasibility policies was not included. It appears that the revised feasibility policy versions in the Argument-in-Chief matches the edited version provided in response to Pollution Probe Interrogatory #2[2] and Pollution Probe

[1] Filed: 2020-05-08 EB-2020-0094 Exhibit C, Tab 2, Schedule 1.
[2] EB-2020-0094, Exhibit I.PP.2, Attachment 1.

requests that Enbridge confirm that it is a match in its Reply Argument or identifies which words have been changed, if applicable.

Rationale Supporting Surcharges

The SES for future Community Expansion Projects and TCS for Small Main Extensions and Customer Attachment Projects are methods for collecting additional revenue from customers where a project does not meet EBO 188 profitability requirements (or other new requirements set by the OEB like done through a few Leave to Construct proceedings). If the OEB approves additional recovery of customer revenues through surcharges Pollution Probe believes that they should be specific (i.e. stop once the total revenue for the project meets the amount needed) or else excess revenues will be collected. The Provincial mandate to expand natural gas is meant to reduce Ontario consumers energy costs and collecting excess revenue from new customers would be contrary to that policy goal.

Enbridge is allowed under EBO 188 Guidelines to complete projects with a Profitability Index (PI) of 0.8 or greater as long as the portfolio remains profitable (i.e. PI > 1). The current portfolio has a PI > 1 with room to accommodate projects with a PI < 1. Having a PI>1 mean that the portfolio (or project) is recovering more revenue than needed to make the project profitable. It has been suggested that adding a project to the portfolio with a PI < 1 means that there is cross-subsidization (i.e. funds from all ratepayers are being used to fund the project with a PI<1). While from a mechanical perspective this is true, in reality (or from a consumer perspective) this is not true. Customers being served by projects in a portfolio with a PI>1 do not get any rebate or increased cost if a new project is added to the portfolio.Therefore, requiring all projects to have a PI of 1.0 or greater is not supported by EBO 188 (or Enbridge’s current feasibility policy[3]). Requiring surcharges for new projects (as long as the portfolio is 1.0 or greater) only increases the overall costs on consumers without providing any incremental benefits. Project surcharges have been reviewed only on a project specific basis and not from a holistic review such as done in EBO 188.

SES and TCS Proposal

The SES is for Community Expansion Projects and the TCS is for Small Main Extensions and Customer Attachment Projects. These surcharges are essentially the same thing (to collect additional revenue to fund projects), but different scales. Community Expansion Projects typically require Leave to Construct (LTC) approval from the OEB since they are larger in scale. Small Main Extensions and Customer

[3] EB-2020-0094, Exhibit I.PP.2, Attachment 1.

Attachment Projects do not typically require LTC approval and the OEB would only have visibility on these projects after the fact during a rebasing application.

Pollution Probe does not oppose collecting revenues from customers to pay for project infrastructure approved by the OEB. Having consistency in the way those charges are applied is also of benefit as long as long as they are evaluated in a holistic manner like done in EBO 188. The SES may not be a new concept to the OEB, but generic approval of the SES outside of an LTC application is new. Past LTC approvals including an SES vary on the application of the surcharge from 12 to 40 years depending on the project[4]. The TCS is new and functions similarly to the way that the SES functions, but with a maximum term of 20 years.

Pollution Probe does not oppose the general concept of an SES or TCS surcharge, but does have concerns if an SES or TCS over-collects revenues from consumers. Pollution Probe proposes that the following conditions would need to accompany any SES or TCS surcharge approval.

- SES or TSC surcharges should only be applicable in cases where the project is below a PI=0.8 and additional revenues are required to bring a project to a PI=0.8 (or 1.0 in circumstances outlined below); and
- SES or TSC surcharges should only be applicable to projects with a 0.8<PI<1.0 when the addition of the portfolio will bring the rolling portfolio below the minimum threshold set by the OEB (i.e. PI=1.0).

It can be dangerous to apply a patchwork of policy changes over time without consideration of the interaction of those changes as a whole on customers and in alignment with policy considerations. Pollution Probe believes that it would be useful to review the requested changes as part of a generic review of the EBO 188 Guidelines to ensure that all interrelated issues are considered and to reduce the risk of unintended consequences. There are many other recent or coming changes that could be assessed together. For example, Ontario consumers will continue to moving to lower carbon energy options and including long term charges may cause additional risk if consumers move off of newly built natural gas infrastructure. During a generic review, it may be appropriate to reconsider the amortization period used for new projects.

<u>HAF Proposal</u>

The HAF proposal is not a request to collect additional revenues for customers, but simply a different method to allocate a portion of the project costs to large customers (i.e. over 50,000 m^3) based on estimated peak load. Costs need to be allocated using one methodology or another, so the real question is if this approach is better than the

[4] EB-2020-0094 Exhibit I.PP.4

existing approach. The HAF approach is roughly equivalent to the current approach. Each approach has pros and cons and no approach is perfect. If a project is to serve one or a small number of customers, then Enbridge can contract with the customer(s) to ensure that they pay their portion of the project costs. When a larger number of customers are involved this becomes more difficult and proxies must be used to estimate portions of costs.

Sizing of a pipeline project are driven by the peak capacity of the pipeline (a function of pipeline size and pressure). This would be easy if every customer had a maximum peak load and those peak loads were always coincident with the peak load of the pipeline. This unfortunately is not reality. In fact, Ratepayers receive value from large volume customers that have a high peak consumption as long as the peak is not coincident with the pipeline peak. It means that more gas (i.e. revenue) flows through the pipeline without requiring greater capacity. The HAF is based on a large customer's peak load as a proxy which may or may not be correlated with the peak load of the pipeline.

It is also important to recognize that the HAF is calculated prior to application of any Demand Side Management (DSM) programs (TC ED reference) which could result in an impediment to pursuing DSM opportunities.

Revised Feasibility Policies

Enbridge filed proposed edits to the legacy Enbridge Gas and Union Gas feasibility policies with proposed revisions that extend beyond SES, TCS and TAF. For example, during the TC, Enbridge confirmed that it has flexibility to apply the EBO 188 approach for projects down to a PI=0.8 (reference). In the response to Pollution Probe #2, Enbridge has proposes to change the feasibility policy wording to indicate that the new standard is 1.0 and would continue to apply a PI down to 0.8 in "exceptional circumstances"[5]. The proposed revised feasibility policy does not provide rules on how "exceptional circumstances" would be determined and this could provide more ambiguity than EBO 188. By approving the prosed changes, the OEB could be creating policy uncertainty without the benefit of a full EBO 188-type review.

Conclusions and Recommendations

Enbridge has had submitted over 200 project proposals accounting for approximately $2.5 billion in funding requests, and over $3 billion in proposed total capital expenditures, with the proposed addition of more than 40,000 customers. OEB Staff identified and the OEB confirmed that the threshold for requiring a Leave to Construct for these projects will likely mean that the OEB will have an opportunity to review

[5] EB-2020-0094, Exhibit I.PP.2, Attachment 1, Page 2 of 14

projects on an individual basis[6]. These projects will be evaluated though the Provincial competitive grant process. The outcomes of that process are intended to provide the most cost-effective access to natural gas for new communities in Ontario. In the proceeding Enbridge confirmed that there are no projects that they currently know of where the HAF would apply[7], however it is a tool available should they need it. It is possible that the SES, TSC or HAF would not be applied to any of the 200 projects noted above, which would reduce the urgency to make the changes requested.

It has been over two decades since EBO 188 and those guidelines have provided a sound foundation. It can be dangerous to apply a patchwork of policy changes over time without consideration of the interaction of those changes as a whole on customers and in alignment with policy considerations. The policies of the legacy Enbridge companies will also need to be merged in the near future. Pollution Probe believes that it would be best to review the requested changes as part of a generic review of the EBO 188 guidelines and any other relevant changes since they were established. This would ensure that all relevant elements are considered and to reduce the risk of unintended consequences.

Pollution Probe does not oppose the general concept of an SES or TCS surcharge, but does have concerns in its ability to over-collect revenues from consumers. Pollution Probe proposes that the following conditions would need to accompany any SES or TCS surcharge approval should the OEB decide to proceed at this time.

- SES or TSC surcharges should only be applicable in cases where the project is below a PI=0.8 and additional revenues are required to bring a project to a PI=0.8 (or 1.0 in circumstances outlined below); and
- SES or TSC surcharges should only be applicable to projects with a PI<1.0 and when the addition of the portfolio will bring the rolling portfolio below the minimum threshold set by the OEB (i.e. PI=1.0 from EBO 188).
- If surcharges are required for a project, they should end once a project meets the approved PI (0.8 or 1.0 depending on the project).

[6] EB-2020-0094 OEB Decision on Environmental Defence Motion. Page 6.
[7] Technical Conference, August 20, 2020. Transcript page 76.