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Sept. 18, 2020

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

Dear Ms. Long,

RE: EB-2020-0094 - Submissions of London Property Management Association - Enbridge Gas Inc. – System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor

Please find attached the submissions of the London Property Management Association in the above noted proceeding.

Yours very truly,

Randy Aiken

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Date: 2020.09.18 08:22:21 -04'00'

Randy Aiken
Aiken & Associates

c.c. EGI Regulatory Proceedings (e-mail only)

EB-2020-0094

Enbridge Gas Inc.

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

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SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

Enbridge Gas Inc. ("EGI") filed an application with the Ontario Energy Board ("Board") on May 8, 2020 under Section 36 of the Ontario Energy Boar Act, 1998 for an order approving a System Expansion Surcharge ("SES") for future Community Expansion Projects, a Temporary Connection Surcharge ("TCS") for Small Main Extensions and Customer Attachment Projects and 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. EGI also applied for approval to amend 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 and to amend EGI's feasibility policies to implement the SES, TCS and HAF as proposed.

The submissions of the London Property Management Association ("LPMA") with respect to the SES, TCS and HAF are provided below. In general, LPMA supports each of the proposals related to these items. However, LPMA does have some concerns with respect to the treatment of small versus large customers and a potential lack of consistency between proposals and definitions.

B. SUBMISSIONS

LPMA is in general support of the proposals related to the SES, TCS and HAF, and by extension to the proposed amendments to the Rate Handbook for the EGD rate zone, Rate Schedules 01, 10, M1 and M2 in the Union rate zone and the feasibility policies.

LPMA's support for the SES, TCS and HAF is based on the protection to existing ratepayers from the costs associated with expansion projects. Both the SES and TCS ensure that costs associated with expansion projects are paid for by customers that will directly benefit from these projects. This ensures no, or at least minimal, cross-subsidization between customers that benefit from a project and those that do not. Similarly the HAF is an allocation methodology that is used to allocate upfront capital investments to large volume customers in a project in a fair and transparent manner.

i) System Expansion Surcharge ("SES")

While LPMA supports the SES, it is concerned with restriction that prevents small volume customers (i.e. those with annual consumption of less than 50,000 m^3) from having the option of paying a Contribution in Aid of Construction ("CIAC") while large volume customers (i.e. those with annual consumption of more than 50,000 m^3) may elect to pay the SES or pay a CIAC. This is highlighted in both EGI's Argument-in-Chief dated September 3, 2020 at the third and fourth bullet points on page 4 and in the response to Exhibit I.LPMA.7 in which it is stated that *"Small volume customers will not have the option of paying a CIAC in lieu of either the SES or TCS if they derive service from an SES or TCS project."*

The EGI proposals result in more options for large volume customers than for small volume customers. While the SES provides the benefit of deferring costs over a long period of time (of up to 40 years) rather than paying the costs upfront through a CIAC for both small and large volume customers, only large volume customers are eligible for the potential benefits of paying a CIAC upfront. There may be benefits to small volume customers if they were given the same option of paying the CIAC upfront, rather than paying an extra 23 cents per m^3 for up to 40 years.

While the majority of small volume customers will be residential customers where the SES is likely to be preferred over the CIAC, a good percentage of these small volume customers will also be small businesses such as rental properties, retail stores, restaurants, etc. In today's low interest environment, it may make sense for these small businesses to borrow (if required) to finance the upfront cost of gaining access to natural gas and benefiting by significantly reducing their future operating costs through the avoidance of the 23 cent per m^3 charge. For a small business with annual consumption of 25,000 m^3, the SES represents an annual cost of $5,750. Businesses face high levels of uncertainty over their viability in the future due to many unknowns. Reducing their operating costs by paying an upfront CIAC eliminates one future cost and reduces future uncertainty a little bit. LPMA submits that this may also be the situation for many institutional

customers that may have more certainty over capital funding now for the upfront CIAC than in operating budgets during the term of any SES.

LPMA submits that the Board should direct EGI to give small volume customers the same options available to chose between a CIAC and the SES as proposed for the large volume customers. Small businesses should have the same options available to them as larger customers that are often also competitors.

ii) Temporary Connection Surcharge ("TCS")

LPMA submits that the Board should direct EGI to provide the same options to small volume customers that are available to large volume customers when it comes to the TCS and the CIAC for the same reasons noted above for the SES and CIAC for small volume customers.

LPMA so notes that the only difference between the SES and the TCS is the number of potential customers in a project area (i.e. 50 and over vs. less than 50) and the maximum term of the charge (40 years for SES and 20 years for TCS) as confirmed in Exhibit I.LPMA.17. In effect, the only impact that a potential customer would see is the maximum term of the charge.

It is not clear to LPMA why the maximum term of the TCS should be limited to 20 years rather than to the same 40 year maximum proposed for the SES.

As noted in the definition of the TCS on page 4 of Exhibit C, Tab 2, Schedule 2, the TCS is for small volume customers who attach to a small main extension or customer attachment project and that the TCS is used as an alternative to achieve a Profitability Index ("PI") of 1.0, or in addition to CIAC for a project to achieve a minimum PI of 1.0.

This could result in a situation where a customer is required to pay an upfront CIAC in addition to a TCS for 20 years because there were less than 50 potential customers in the project area whereas another customer in a project area that has a few more potential customers and thus qualifies for the SES (more than 50 potential customers) paying the SES for 40 years with no upfront CIAC required. Given that the SES and TCS charges are set at the same level, it appears to LPMA that the 20-year maximum for the TCS could have the impact of imposing an upfront CIAC that could be eliminated, or at least reduced, if the maximum term of the TCS was extended to match that of the SES. Customers should be treated equally regardless of whether they are in a SES or TCS project area.

LPMA notes that there appears to be an inconsistency in the evidence related to whether or not small volume customers have the option of paying a CIAC rather than the TCS. As noted in the response to Exhibit I.LPMA.7 noted earlier, EGI states that *"Small volume customers will not have the option of paying a CIAC in lieu of either the SES or TCS if they derive service from an SES or TCS project."*

However, in the definition of TCS on page 4 of Exhibit C, Tab 2, Schedule 2, EGI states that the TCS is:
"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." (emphasis added)*

It is not clear to LPMA how the TCS can be called an alternative to the CIAC when the CIAC is not an option available to small volume customers – customers are not given a choice to choose between alternatives. Similarly, if the CIAC is not an option available to small volume customers, how can the TCS be in addition to a CIAC?

iii) Hourly Allocation Factor ("HAF")

The HAF is a methodology to allocate costs for upfront capital investment for a system expansion project that expands capacity over a certain area to serve increasing demands from existing and/or new customers and that may include a mixture of large and small volume customers. Specifically, the methodology allocates the upfront costs associated with multiple large volume customers to individual large volume customers. Customer-specific capital costs such as meters, customer stations and service lines are excluded from the HAF methodology. LPMA supports that use of the HAF methodology and submits that the Board should approve its use.

LPMA submits that the HAF allocates upfront capital investments to large volume customers in a fair and transparent manner that should reduce problems associated with the first few customers shouldering the cost responsibility and providing future customers with free access to any incremental capacity. This incremental capacity can be due to project design and nominal pipe size constraints or taking capacity that was originally designed for future small volume customer growth. LPMA submits that these problems should be reduced as a result of the use of the HAF. However, this problem would not be eliminated.

The response to Exhibit JT1.1 provides an example where excess capacity from a project is essentially free to a late coming large volume customer. As explained in the technical conference undertaking response, once 100% of the forecasted large volume customers have been connected, the HAF would cease to apply to future large volume customers. This could incent potential large volume customers included in the 10-year forecast to delay connecting if they are aware that some unforecasted large volume customers are considering connecting. Similarly, it may incent some potential large volume customers to remain unforecasted by failing to provide their intentions to EGI.

A possible solution to this issue would be for the Board to direct EGI to allocate the upfront capital costs to all large volume customers that connect to the project over the 10-year horizon, regardless of whether or not they were forecasted. While the HAF methodology allocates costs to individual large volume customers it does not mean that the customers will be subject to a CIAC, SES or TCS. However, the allocation could result in a large volume customer having to pay one of these charges. If an unforecasted connector had been forecasted, the payment could have been eliminated and in any case would result in a lower payment by the customer that was forecast. LPMA submits that it would not be fair or equitable in such a situation for a large volume customer to pay more because of a forecast error by EGI. There should be no impediment to EGI re-doing the HAF allocation and economic feasibility in situations like this and, if required, repaying the excess CIAC, SES or TCS that were made.

LPMA submits that the above situation is not likely to occur frequently, so EGI should be able to manage the few situations in which this occurs. LPMA believes that the frequency will be limited for a number of reasons.

First, the level of excess capacity for any such development project is not likely to be large in comparison to the total capacity created, however given that the minimum hourly consumption to qualify as a large volume customer is proposed to be 50 m^3/hour, even a small level of excess capacity relative to the total capacity created could result in many unforecasted large volume customers using up the excess capacity.

Second, EGI's ability to forecast large volume customers, even if not individually identified, should be able to account for such customers beyond those identified. Municipal zoning bylaws and past development history of an area should be incorporated into the EGI 10-year forecasts.

If the Board does not agree with the submissions above related to the possible need to provide refunds to some large volume customers in order to be fair and equitable to all connecting large volume customers, then LPMA submits the Board should direct EGI to

monitor their projects for this type of occurrence and to report to the Board on the frequency and magnitude of such occurrences. The reporting should begin with the first such occurrence and be project specific. In other words, the reporting only needs to include projects where the situation has occurred. This reporting would enable to the Board to determine if the problem is significant enough to require changes to HAF methodology for future projects.

LPMA is also concerned with the definition of the HAF included on page 2 of Exhibit C, Tab 2, Schedule 2, Updated. This definition is reproduced below:
"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."

This definition is consistent with the second last paragraph of Exhibit C, Tab 2, Schedule 2, Updated and paragraph 40 in Exhibit C, Tab 2 Schedule 1, Updated, which both state:
"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."

This definition and description ignores the initial step shown in the response to Exhibit JT1.1. The first step in the response is to split the project and capital cost into a large and small volume component based on the proportion of the peak hourly demands between the two groups. The above noted definition and description appear to imply that the net capital cost is divided by the sum of the firm hourly large volume customer demands and there is no mention of the small volume customer demands. LPMA also notes that the "net capital cost" does not appear to be defined anywhere.

If the net capital cost is meant to mean the proportion of the capital cost allocated to large volume customers as illustrated in Exhibit JT1.1, then this should be made clear in the HAF definition and description. If the net capital cost is not meant to mean only the proportion of the capital cost allocated to large volume customers, but rather the entire project, then the definition of the HAF and the description of the methodology should be updated to reflect the splitting of the capital costs between small and large volume customers as illustrated in Exhibit JT1.1.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
September 18, 2020

Randy Aiken

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Consultant to London Property Management Association