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September 18, 2020

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

Dear Ms. Long,

**RE: EB-2020-0094 Enbridge Gas Inc. Harmonized System Expansion Surcharge,  
Temporary Connection Surcharge and Hourly Allocation Factor Application  
- Energy Probe Argument Submission**

Attached is the argument submission of Energy Probe Research Foundation (Energy Probe) in the Enbridge Gas Inc. EB-2020-0094 Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor Application proceeding.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi  
TL Energy Regulatory Consultants Inc.  
Consultant representing Energy Probe

cc. Patricia Adams (President, Energy Probe Research Foundation)  
Enbridge Gas Inc. (Regulatory Affairs)  
Intervenors of Record

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**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Sch. B), as amended (“OEB Act”);

**AND IN THE MATTER OF** an application by Enbridge Gas Inc. for an order or orders under section 36 of the Act, approving certain rate mechanisms for expansion projects and a capital allocation factor for project economic feasibility as per the E.B.O. 188 Guidelines.

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**Enbridge Gas Application for Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor**

**Energy Probe Argument Submission**

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**September 18, 2020**

**Enbridge Gas Application for Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor**

**Energy Probe Argument Submission**

**The Application**

Enbridge Gas filed this 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;
- (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; and
- (v) Amendments to the Company’s feasibility policies to implement the SES, TCS and HAF as proposed for EGD and Union Rate Zones.

**System Expansion Surcharge SES**

The amount of the SES charge is \$0.23/m<sup>3</sup> which 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 Enbridge Gas 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 m<sup>3</sup>/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 m<sup>3</sup>/year, they may elect to pay the SES or pay a CIAC or use other contractual mechanisms to cover the charge. Enbridge Gas may apply the SES for a term of up to 40 years, to be determined in accordance with Company’s feasibility policies, which are required to follow 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.

Enbridge was asked in several interrogatories<sup>1</sup> to explain how the SES of \$0.23/m<sup>3</sup> was derived. It declined to provide this information and pointed to its letter to a letter it sent to one of the intervenors, EPCOR<sup>2</sup>. In the letter Enbridge refused to provide information on the derivation of the \$0.23/m<sup>3</sup> charge and referred to OEB approvals of the \$0.23/m<sup>3</sup> amount in past proceedings, some of which took place several years ago. It has provided no evidence that \$0.23/m<sup>3</sup> amount is still appropriate or will be in the coming years.

Enbridge Gas is proposing to charge the SES for the full SES term set at the beginning of the project, and will not stop charging the SES even if the project PI reaches 1.0 prior to the end of the original SES term<sup>3</sup>. According to Enbridge the excess SES revenues would result in reduced rates for all customers.<sup>4</sup>

Enbridge Gas has proposed that it will not periodically update a project's PI for the duration of the SES term<sup>5</sup> for future projects (and reduce the SES term accordingly) as it is required to do currently for projects within the legacy Enbridge rate zones. The primary reason that Enbridge Gas has not proposed to periodically update a project's PI for the duration of the SES term for future projects is that this would be inconsistent with the treatment of non-SES projects. Enbridge further claims that it would not increase an established SES term above 40 years, because a practice of reducing an established SES term would be asymmetric and result in higher rates for all customers.<sup>6</sup>

**Energy Probe is not opposed to the SES proposal in principle and notes has been accepted by customers and the Board in prior proceedings. However, at the time of these prior EGD Rate Zone proceedings, Enbridge was required to periodically update a project's PI for the duration of the SES. Enbridge is now proposing to discontinue that practice which could result in increased cross-subsidies between new and existing customers. Energy Probe is opposed to that change and believes that periodic updating of expansion project PIs should continue. Energy Probe submits that there is insufficient evidence in this proceeding for the OEB to issue a finding that the proposed SES charge of \$0.23/m<sup>3</sup> is the appropriate amount.**

### **Temporary Connection Surcharge (TCS)**

Enbridge Gas indicates the TCS applies to Small Main Extension or Customer Attachment Projects, defined as natural gas system extension or expansion projects undertaken by 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 indicates it 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. The TCS will be applied for a term of 1-20 years (rather than up to 40 years). If

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<sup>1</sup> CCC.1, CME.1 a), STAFF.2 a)

<sup>2</sup> Enbridge letter to EPCOR, July 2, 2020

<sup>3</sup> EP.2

<sup>4</sup> STAFF 1 c)

<sup>5</sup> EP-3

<sup>6</sup> STAFF 1 e)

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.<sup>7</sup>

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. 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 remaining balance of the term.

**Energy Probe has a concern that the project economic feasibility is based on forecast of customer connections and volumes. If the number of customer connections or customer volumes are less than forecast, the decision to institute a CIAC could occur several years later and would constitute retroactive ratemaking. EGI should clarify in its Reply Argument, if it calculates the TCS based on the lower band of the connection and volume forecast to prevent needing to introduce a CIAC later.**

### **Hourly Allocation Factor (HAF)**

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.<sup>8</sup> 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.

In this application, Enbridge Gas seeks to standardize its use of the HAF across its rate zones and update its feasibility policies that describe the HAF and how it may be used for project feasibility assessment purposes.

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 m<sup>3</sup>/hr.
- **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 m<sup>3</sup>/hr).

EGI indicated that the 50 m<sup>3</sup>/hr of peak hourly demand roughly correlates with 50,000 m<sup>3</sup> 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*.

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<sup>7</sup> Exhibit B, Tab 1, Schedule 1, Page 12

<sup>8</sup> AIC Para 30

EGI is also proposing that it would not proceed with a project unless it had 50 percent of the large volume forecast committed at the time of the project. It states this lowers the uncertainty around the forecast and it increases the level of commitment.

EGI states that using the HAF mechanism allows the Company to factor in anticipated growth in the Area of Benefit (AOB) 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). With the HAF, Enbridge claims that future customers would receive a fair allocation of their proportionate share of the project capital costs, until the HAF is fully allocated.

The AOB is determined by Enbridge and is not disclosed to the customers underpinning it, and neither is the HAF. It appears that Enbridge Gas intends to treat customers subject to HAF fairly, however, the customers would not be able to confirm that under Enbridge’s proposal. There is also no provision that would allow customers subject to HAF to sell unused capacity to customers that need higher volumes.<sup>9</sup>

Under the Company’s proposal, neither the customers nor the OEB would know in which projects Enbridge was using the AOB or HAF except in projects that require a Leave to Construct or Certificate of Public Convenience approval from the Board.<sup>10</sup>

The current system expansion policy feasibility analysis allows Enbridge to use the forecast volumes for year 1 and year 2 for large volume customers. Under the proposed policy Enbridge proposes to use 10 years of forecast volumes in its feasibility analysis. This will make more system expansion projects feasible and will give Enbridge a competitive advantage over other gas distributors. This, however, is allowed under EBO-188 guidelines and would not prevent other gas distributors from doing the same.<sup>11</sup>

Under the HAF proposal, if the forecast volumes do not materialize, the existing customers will ultimately pay higher rates to cover the shortfall. Enbridge admits that existing customers will therefore take on greater risk.<sup>12</sup>

**Energy Probe suggests that the key issue related to the HAF is defining the AOB. It is not clear how AOB is determined in a generic manner and Energy Probe suggests the Board ask for expanded documentation/guidelines that apply to all projects where the HAF applies. This should provide details and methodologies for defining the AOB.**

**It is not clear that there is a strong link between Expression of Interest and the forecast demand<sup>13</sup>. Is the sole criterion that 50% of demand is firm? Enbridge should clarify this in its reply.**

**The HAF proposal will place greater risks on existing customers than exist under current expansion policies. Energy Probe believes that existing customers should not be forced to take on greater risks.**

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<sup>9</sup> Technical Conference Tr. Pages 168-169

<sup>10</sup> Ibid, Pages 162-163.

<sup>11</sup> Ibid pages 164-166

<sup>12</sup> Ibid Pages 53-54

<sup>13</sup> AIC para 33

**In its Final Report in EBO 188, “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.”<sup>14</sup> The HAF proposal as presented by Enbridge in this application appears to deal with inequitable situations between large volume customers within an AOB. However, it increases inequitable situations between new large volume customers and all existing customers of Enbridge. Unless Enbridge can address that concern in its reply argument, the OEB should turn down the HAF proposal.**

### **Amended Feasibility Policies**

Amended feasibility policies are set out in the Company’s AIC at Exhibit C, Tab 2, Schedule 1 for the EGD rate zone and Exhibit C, Tab 2, Schedule 2 for the Union rate zones.

**Energy Probe submits that the feasibility policies should be harmonized now into a single policy that references Rider I for the EGD rate zone and the rate schedules for Union Rate zones. In Energy Probe’s opinion, this should have been a key goal for this Application and should not wait for rebasing**

**The Board should condition its approval of the Application on Enbridge Gas filing within 90 days a consolidated set of feasibility policies based on Exhibits C, Tab2 and Schedules 1 and 2.**

**Submitted on behalf of Energy Probe by its consultants:**

**Roger Higgin  
Sustainable Planning Associates Inc.**

**Tom Ladanyi  
TL Energy Regulatory Consultants Inc.**

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<sup>14</sup> See EBO 188, Final Report of the Board, January 30, 1998, Section 4.1.2, page 17.