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September 18, 2020

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Long,

RE: EB-2020-0094-Enbridge Gas Inc.
Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor

Please find attached the submissions submitted on behalf of the Ontario Greenhouse Vegetable Growers.

Yours very truly,

Michael R. Buonaguro
Encl.

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 E.B.O. 188 Guidelines.

SUBMISSIONS ON BEHALF OF THE ONTARIO GREENHOUSE VEGETABLE GROWERS (OGVG)

September 18, 2020

OVERVIEW

These are the submissions on behalf of OGVG with respect to Enbridge Gas Inc.'s (EGI's) request for approval of certain rate mechanisms for distribution expansion projects and the use of a capital allocation factor for economic feasibility as per E.B.O. 188 Guidelines.

OGVG does not have submissions with respect to EGI's request for approval of a System Expansion Surcharge and a Temporary Connection Surcharge; OGVG's primary concern in this proceeding relates to EGI's request for approval of the use of an Hourly Allocation Factor (HAF) to be applied in the project economic feasibility assessment of future Development Projects.

THE USE OF HAF FOR DISTRIBUTION PROJECTS

OGVG generally supports the use of an HAF to allocate the costs of a distribution project to large users for the purpose of the required economic feasibility calculation under the Board's existing E.B.O. 188 Guidelines. In OGVG's view this specific aspect of the requested relief is not materially different than what must necessarily be done under the existing framework in any event, as EGI, whether or not they use an HAF or some other mechanism, requires a methodology for allocating responsibility for any necessary capital contribution amongst the customers seeking to access new capacity created by new distribution expansions. That the use of an HAF to allocate cost responsibility for a project amongst large customers as proposed by EGI allows EGI to negotiate contracts that, generally speaking, allow customers to avoid the need to pay a capital contribution by contracting for gas service with EGI over a period that provides a revenue stream sufficient to offset that customer's allocated costs of the project is a welcome outcome of the use of the HAF.[1]

OGVG generally supports the aggregation of large user driven distribution projects through the use of the HAF in conjunction with a 5-year forecast of large user capacity requirements within a defined area of benefit. OGVG agrees with EGI that, rather than building to meet only the immediate needs of large customers (aggregated with the longer term needs of small customers) it is more cost effective and efficient to also include consideration of the capacity requirements of identified large customers out to at least a five year attachment horizon, allowing EGI and its customers take advantage of the material economies of scale available when designing gas distribution infrastructure to meet incrementally larger capacity requirements.[2]

In supporting the aggregation of large user capacity requirements over a forecast attachment horizon OGVG believes it is important to highlight that in any instance where EGI performs such aggregation EGI should be prepared to demonstrate that:

a) the inclusion of forecast large user capacity requirements results in a project with an HAF that is lower than the HAF that would have been experienced by the year

1 large users had the scope of the project been limited to the year 1 attachments that triggered the need for development, thereby ensuring that economies of scale have been realized and passed on to the benefit of customers, and

b) the design of the project is tailored as closely as possible to the forecast capacity requirements over the 10-year attachment horizon (10 years for small customers, 5 years for large users) so as to minimize the amount of unallocated capacity on the project, thereby maximizing the benefit of the economies of scale associated with the project by avoiding as much as is practical the expense of unused capacity.[3]

While the aggregation of near term future capacity requirements has the potential to, in some cases, result in capacity that is unused if customers do not connect as forecast, OGVG expects that the more efficient planning for large user capacity requirements across the EGI system through the aggregation of demand and the resulting economies of scale in the construction of new facilities will more than offset isolated incidents where near term demand does not develop precisely as forecast. To the extent that larger projects may expose customers to greater forecast risk, OGVG notes that all expansion projects in excess of $2M are automatically subject to leave construct applications under s. 90 of the OEB Act[4], such that to the extent there are concerns about the robustness of the forecast capacity requirements those forecasts can be tested by the OEB and interested parties.

THE HAF SHOULD NOT BE MECHANICALLY USED FOR TRANSMISSION RELATED PROJECTS

OGVG's primary concern with EGI's HAF proposal is that it may be used inappropriately to underpin transmission projects, causing individual large users to become responsible for capital contributions where, under the Board's prevailing policies with respect to transmission level projects, no such capital contributions from individual customers would be required.

EGI's application, as it relates to the HAF, is entirely framed as a request for approval within the context of the existing E.B.O. 188 guidelines[5], which relate specifically and solely to the economic evaluation of proposed distribution system expansions.

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[1] Transcript, Technical Conference, pages 23-24, EGI explains that it has mechanisms that allow large customers to avoid paying capital contributions when contracting for service based on their allocation under the HAF process.
[2] Transcript, Technical Conference, page 133, EGI explains how aggregating demand allows the realization of economies of scale through more efficient builds.
[3] Transcript, Technical Conference, pages 208-209, EGI explains that it plans its builds to meet the forecast demand as closely as possible.
[4] *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, s. 90 (1) (b) and O.Reg. 328/03, section 3.
[5] Exhibit B, Tab 1, Schedule 1, pages 12-13, paragraph 37.

During the course of the interrogatory process, EGI was asked to confirm that the HAF would not be used in the context of the transmission projects. EGI did not confirm that the HAF would not be used for transmission projects, instead suggesting that it may use the HAF process in the context of projects that involve a mix of transmission and distribution facilities and citing the Chatham-Kent Rural project (EB-2018-0188) as an example where the HAF process was used to underpin a project involving both transmission and distribution facilities.[6]

In OGVG's view it would not be appropriate to use the HAF process to allocate costs of a transmission level project to individual large customers and then contract with those customers on the basis of those allocated costs, potentially forcing those customers into unduly onerous contracts in terms of length and possibly premium payments or a capital contribution. The Board's explicit policy with respect to the economic evaluation of transmission level developments, enshrined in E.B.O. 134, provides for a 3 stage analysis of the economic benefits of transmission level projects and ultimately endorses the subsidization of transmission level projects by a transmitter's entire existing customer base where the project is in the public interest:

> The Board continues to hold the opinion that it is appropriate for existing customers to subsidize, through higher rates, financially non-sustaining extensions that are in the overall public interest if the subsidy does not cause an undue burden on any individual, group or class.[7]

It appears that EGI holds a similar view, given its analysis of why the use of the HAF would not have been appropriately used to underpin a transmission project the size and nature of the Kingsville Reinforcement Project (EB-2018-0013).[8] Even though the HAF process had been in use by Union Gas prior to the application for leave to construct the Kingsville Reinforcement Project, Union Gas did not attempt to rely on the HAF process to attain leave to construct by allocating the costs of the project to large users based on their forecast access to new capacity and require capital contributions from those users through the contracting process; instead Union Gas applied for and the OEB granted leave to construct the Kingsville Reinforcement Project based on the analysis established in E.B.O. 134.[9]

OGVG recognizes that the Chatham Kent Rural Project, which involved transmission level facilities, did utilize the HAF process to an extent as part of the economic evaluation of the project. However, OGVG notes that there were two specific factors in the review of the Chatham Kent Rural Project that resulted in leave to construct being granted that do not directly relate to the HAF process as proposed by EGI:

a) the overall cost of the Chatham Kent Rural Project, including grant monies that drastically reduced the net cost of the project to be closed to rates, was relatively small for a transmission level project[10], and

[6] Exhibit I.Epcor.2

b) the overall cost of distribution investments that were required to connect new large users to the capacity created by the Chatham Kent Rural Project were also relatively small.

As a result of these two factors Union Gas was able to combine the transmission and distribution investments related to the large users that were accessing new capacity and, importantly, recognize both the transmission and distribution revenue from those new large customers when performing a economic analysis for the combined transmission and distribution project costs.[11] This departs from the usual practice, where transmission revenue would be solely used to underpin transmission investment, and distribution revenue would be solely used to underpin distribution investment.

Because of the overall (relatively) modest combined cost of the transmission and distribution facilities related to the Chatham Kent Rural Project and the ability to include distribution revenue from large users in its economic evaluation, Union Gas was able to enter into distribution contracts with the relevant large users that, without the need for capital contributions, provided a PI of 1.03 for the project spending as a whole, justifying the economics of the project without the need to evaluate it further using Stage 2 or 3 analyses.[12]

To be clear, OGVG has some concerns as to whether it is advisable to routinely combine distribution and transmission level projects when conducting economic analyses for either. The Chatham Kent Rural Project example demonstrates, in OGVG's submission, how important the specific circumstances of a particular project can be in terms of how it should be evaluated, such that the OEB should be wary of providing pre-approval of a mechanical process such as an HAF for transmission related projects without reserving the right to review the entirety of material projects in their full context when determining their economic viability and the appropriate impact those projects should have on new and existing customers.

[7] Filing Guidelines on the Economic Tests for Transmission Pipeline Applications (EB-2012-0092) page 3.
[8] Exhibit JT 1.2.
[9] EB-2018-0013, Decision dated September 20, 2018, pages 5-6.
[10] EB-2018-0188, Decision dated July 11, 2019, page 5.
[11] EB-2018-0188 Exhibit B.Staff.2 d) page 8.
[12] EB-2018-0188, Decision dated July 11, 2019, page 6.

To that end OGVG notes that, for practical purposes, there is always a need for EGI or other transmitters of natural gas to apply for leave to construct transmission level facilities under s. 90 of the OEB Act where there is an increase in capacity as a result of the nature of transmission lines in terms of size, throughput pressure and cost.[13] Accordingly, OGVG respectfully submits, there is no need for the OEB to pre-approve the mechanical application of an HAF process for the economic evaluation of transmission or mixed transmission and distribution facilities, as such projects will always come before the OEB in a leave to construct application wherein the OEB can fully evaluate the economic justification of the proposed facilities including the extent to which the project can be justified based on the revenues generated by new large customers accessing new capacity.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 18th DAY OF SEPTEMBER 2020

[13] Transcript, Technical Conference, page 210, EGI explains the unlikelihood of a transmission project that would not require leave to construct.