Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

September 18, 2020

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

Dear Ms. Long:

Re: Enbridge Gas Inc.
Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor
OEB Staff Submission
OEB File No. EB-2020-0094

In accordance with Procedural Order No. 2, please find attached the OEB staff submission for the above proceeding. This document has been sent to Enbridge Gas Inc. and to all other registered parties to this proceeding.

Enbridge Gas Inc. is reminded that its reply submission is due by October 2, 2020.

Yours truly,

Azalyn Manzano

Advisor, Natural Gas

Encl.

c. Enbridge Gas Inc., all parties to EB-2020-0094

Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor

Enbridge Gas Inc.

EB-2020-0094

OEB Staff Submission

September 18, 2020

1 INTRODUCTION AND SUMMARY

On May 8, 2020, Enbridge Gas Inc. (Enbridge Gas) filed an application with the Ontario Energy Board (OEB) 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) across its rate zones.

Enbridge Gas is also requesting approval of the following:

- Approval of amendments to Rider I of the Rate Handbook for the EGD rate zone and Rate Schedules for Rates 01, 10, M1 and M2 for the Union rate zones to implement the SES and TCS
- Amendments to the Company's feasibility policies to implement the HAF, SES and TCS

Enbridge Gas submitted that the proposed forms of SES, TCS and HAF are required for Enbridge Gas to achieve consistency regarding its use of these surcharges and the HAF capital allocation mechanism across its rate zones. Enbridge Gas also submitted that approval of these proposals will allow Enbridge Gas to accommodate demand for future expansion projects more efficiently without having to seek OEB approval on a project-specific basis.

OEB staff generally supports Enbridge Gas's proposals as a means to expand access to natural gas to new customers and accommodate existing customers who require more capacity. OEB staff agrees with the SES and TCS terms and conditions proposed by Enbridge Gas. OEB staff agrees with the inclusion of SES and TCS projects in the Rolling Project and Investment Portfolios. However, OEB staff submits that SES projects should have the same reporting requirements whether they require leave to construct (LTC) or not, and that the actual capital costs of SES projects should not be automatically included in rate base at the rebasing after the ten-year rate stability period (RSP) as it would still be incumbent on the OEB to determine whether or not to allow any potential cost overruns to be recovered in rates. OEB staff supports Enbridge Gas's proposal to raise the minimum profitability index (PI) required for individual projects from 0.8 to a PI of 1.0. OEB staff however notes that there appears to be an inconsistency related to the how the contributions in aid of construction (CIACs) are calculated and how this is captured in the proposed Customer Connection Policy for TCS projects. OEB staff supports Enbridge Gas's proposal to use the HAF as a means to allocate the capital cost of a project as it appears to be a fair and equitable approach, and agrees with the proposed threshold of eligibility for HAF allocation and the proposed contracted

commitment threshold of 50%. OEB staff also submits that the proposed amendments to Enbridge Gas's rates handbooks and feasibility policies should also be approved.

2 PROCESS

Enbridge Gas filed the application on May 8, 2020. The OEB issued a completeness letter on May 20, 2020, and a Notice of Hearing on May 21, 2020. The intervention period ended on June 9, 2020.

Procedural Order No. 1 was issued on June 15, 2020. The following parties were granted intervenor status and are eligible to apply for cost awards:

- Building Owners and Managers Association (BOMA)
- Canadian Manufacturers & Exporters (CME)
- Canadian Propane Association (CPA)
- Consumers Council of Canada (CCC)
- Energy Probe Research Foundation (Energy Probe)
- Environmental Defence Canada Inc. (Environmental Defence)
- Federation of Rental-housing Providers of Ontario (FRPO)
- Industrial Gas Users Association (IGUA)
- London Property Management Association (LPMA)
- Ontario Greenhouse Vegetable Growers (OGVG)
- Pollution Probe (Pollution Probe)
- Quinte Manufacturers Association (QMA)
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers Coalition (VECC)

The City of Kitchener and EPCOR Natural Gas Limited Partnership (EPCOR) were also approved as intervenors.

Procedural Order No. 1 also provided for interrogatories on the Application. OEB staff, Environmental Defence and Pollution Probe filed written interrogatories by July 6, 2020. Enbridge Gas filed interrogatory responses on July 27, 2020.

Procedural Order No. 2 was issued on August 13, 2020, which provided for a one-day technical conference on August 20, 2020 focussed specifically on the HAF, as well as submissions on the application. Enbridge Gas filed its argument-in-chief on September 4, 2020.

Enbridge Gas's reply submission is due by October 2, 2020.

3 SYSTEM EXPANSION SURCHARGE (SES)

Enbridge Gas is requesting OEB approval to apply the SES to future Community Expansion Projects in accordance with pre-set criteria consistent across all Enbridge Gas's rate zones. Enbridge Gas defines Community Expansion Projects as natural gas system expansion projects undertaken by Enbridge Gas, for which the Profitability Index (PI) is less than 1.0 and will provide first-time natural gas access to a minimum of 50 potential customers.

Enbridge Gas submitted that as it is continuing to pursue SES projects through the Natural Gas Expansion Program (NGEP), there appeared to be no reason to delay the harmonization of the application of the SES across its different rate zones.

Enbridge Gas proposed the following terms and conditions for the SES:

- The SES will be a constant volumetric rate of $0.23/m^3 for all qualifying projects[1].
- Enbridge Gas may apply the SES for a term of up to 40 years (the term of the SES will be set at the minimum term required to bring the project to a PI of 1.0 or 40 years, whichever is less), to be determined in accordance with Enbridge Gas's feasibility policies, which follow the OEB's E.B.O. 188 Guidelines.
- Once set, the term of the SES will not be modified.
- The SES will be applicable to Rates 1 and 6 customers in the EGD rate zone and Rates 01, 10, M1 and M2 customers in the Union rate zones who consume no more than 50,000 m^3/year within a Community Expansion Project area[2].
- For customers who consume more than 50,000 m^3/year, they may elect to pay the SES or pay a CIAC or use other contractual mechanisms to cover the revenue shortfall.
- Customers attaching after the in-service date will be required to pay the SES for the remainder of the SES term for the project[3].
- The SES will be 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.

[1] Exhibit I.PP.2(c)
[2] Exhibit I.VECC.3(a)
[3] Exhibit B/Tab 1/Schedule 1, p. 6

3.1 SES Rate

Enbridge Gas stated that the main factors considered in the determination of the SES rate ($0.23/m^3) are the impact on the economic feasibility of the project and the payback period required for the average customer to recoup the cost of converting their heating and water heating equipment from their current fuel to natural gas[4]. Enbridge Gas noted that the OEB had previously approved the SES rate for a number of recent proceedings, and submitted that the proposed rate continues to be appropriate for small volume customers, as large volume customers typically have different costs and potential savings that the proposed SES rate would make conversion uneconomic[5].

Enbridge Gas also clarified that the option to pay a CIAC is only available to customers consuming more than 50,000 m^3/year; a small volume customer would not have the option to pay for a CIAC if they did not wish to pay the SES over 40 years[6]. Enbridge Gas stated that the rationale behind this is based on the OEB's decision in the Generic Proceeding on Community Expansion (Generic Decision)[7] – Enbridge Gas states that the SES is meant to function as a surrogate for a project-specific standalone rate for small volume customers[8].

Enbridge Gas confirmed that the CIAC to be paid by a large volume customer would be equivalent to the net present value of the stream of SES revenue over the duration of the SES term for the project[9]. As per Enbridge Gas's policy, if a CIAC were to be paid upfront by a large volume customer who is newly attached in a Community Expansion Project in the EGD rate zone[10], five years after the activation of gas service it is possible for the customer to request a refund when the actual customer count on the system expansion exceeds the forecast[11]; this policy is not applicable in the Union rate zones[12].

[4] Exhibit I.PP.3(b)
[5] Application, Exhibit B/Tab 1/Schedule 1, p. 4; Enbridge Gas letter to EPCOR, dated July 2, 2020; Argument-in-chief, p. 5. Enbridge Gas makes note of the Prince Township, Milverton, Rostock and Wartburg, Kettle and Stony Point First Nation (EB-2015-0179) projects in Union rate zones, and Fenelon Falls (EB-2017-0147), Scugog Island (EB-2017-0261) projects in the EGD rate zone. OEB staff notes that the OEB has also approved the application of the SES for the following projects in Union rate zones: Chippewas of the Thames First Nation (EB-2019-0139), Saugeen First Nation (EB-2019-0187), and North Bay (EB-2019-0188).
[6] Exhibit I.Staff.2(a)
[7] EB-2016-0004
[8] Exhibit I.VECC.3(b)
[9] Exhibit I.LPMA.6(a)
[10] Exhibit I.VECC.7(a) and (b)
[11] Exhibit I.EP.10(a)
[12] Exhibit I.Staff.2(f); Exhibit.I.EP.10(a)

In contrast, Enbridge Gas stated that no refunds are contemplated for customers who opt to pay an SES. Enbridge Gas explained that the feasibility assessment and calculation of SES and TCS terms are based on the forecast customers for that area, including confirmed customers and those expected to connect in the future, and therefore customers requesting service as part of an expansion project, are expected to pay the SES and TCS surcharge for the full duration of the SES and TCS term[13].

3.2 SES Term

Enbridge Gas stated that the term of the SES for each Community Expansion Project would be set such that the project would achieve a PI of 1.0, and that once set, even if a project's PI reached 1.0 prior to the end of the original SES term, it would not stop charging the SES[14]. Enbridge Gas acknowledged that there is currently a difference between the EGD and the Union rate zones with respect to updating the project PI and the resulting impact on the duration of the SES term. Enbridge Gas proposed to adopt the SES on the same basis as was approved by the OEB in the Union rate zone projects, where the PI is not periodically adjusted for the duration of the SES term.

Enbridge Gas stated that the primary reason for not updating the project PI is that to periodically do so would be inconsistent with the treatment of non-SES customer addition projects where the actual project PI ends up greater than 1.0[15]. Enbridge Gas also noted that because the SES term is set at a maximum of 40 years and would not be extended even if there was significant revenue shortfall, reducing an established SES term would be asymmetrical and result in higher rates for all customers[16].

Enbridge Gas also stated that the only significant benefit to providing periodic updates to the OEB on the project PI would be that the OEB could monitor the economic performance of each individual expansion project, the concept of which, Enbridge Gas submitted, had been rejected with the implementation of the Rolling Project Portfolio and the Investment Portfolio in the OEB's E.B.O. 188 Guidelines and reinforced in the OEB's Generic Decision[17]. Enbridge Gas further stated that the annual review of a project PI would be an administrative burden, with the time, effort and cost that would be incurred for such reporting, particularly if it is evaluating a large number of

[13] Ibid.
[14] Exhibit.I.Staff.1(c)
[15] Exhibit I.Staff.1(e)
[16] Exhibit I.Staff.1(e)
[17] Exhibit.I.Staff.1(f)

Community Expansion projects on an annual basis to determine if and when the project's PI exceeds 1.0, and would provide few potential benefits to ratepayers[18].

Enbridge Gas submitted that an annual review of the PI for each Community Expansion Project is not necessary, as the PI for Community Expansion Projects would be treated consistently with the PI for other expansion projects, and tracked and reviewed within the Rolling Project Portfolio and Investment Portfolio consistent with E.B.O. 188 requirements[19]. In Enbridge Gas's view, the "E.B.O. 188 requirement implicitly recognizes that some projects would be more profitable than others, and that over the discounted cash flow period over which the project PIs are calculated, more profitable projects would result in an Investment Portfolio PI greater than 1.0 and declining rates for all customers over time, all else equal"[20]. Enbridge Gas reiterated that the increased profitability of the project would be captured in the base upon which rates are set, which would reduce rates for all customers[21], a rationale which Enbridge Gas noted had been accepted by the OEB in the North Bay project proceeding decision[22].

Enbridge Gas stated that it does not propose to continue to track and report on EGD or Union rate zone projects, as previously proposed and approved in the Fenelon Falls and 2015 Community Expansion Projects[23]; Enbridge Gas expects that the reporting requirements approved in this proceeding will apply to all existing and future SES projects[24].

When asked about the converse risk to existing ratepayers if a Community Expansion Project were to fail to achieve a PI of 1.0 at the end of the 40 year period, Enbridge Gas stated that this risk was no different from another system expansion project that would be subject to E.B.O. 188 guideline and mitigated by the requirement to maintain the portfolio PIs at a level of 1.0 and greater[25]. Enbridge Gas stated that in the concepts underpinning the E.B.O. 188 Rolling Project Portfolio, there has always been the potential for subsidies to flow between customers[26]. However, Enbridge Gas indicated that a PI requirement of at least 1.0 means that on average, new customers are not being subsidized by existing customers.

[18] Exhibit.I.FRPO.1; Exhibit I.Staff.1(f)
[19] Exhibit.I.FRPO.1
[20] Exhibit B/Tab 1/Schedule 1, p. 6
[21] Exhibit B/Tab 1/Schedule 1, pp. 5-6; Exhibit I.FRPO.1; Argument-in-chief, pp. 5-6
[22] EB-2019-0188
[23] EB-2015-0179
[24] Exhibit I.Staff.6(b) and (c)
[25] Exhibit I.LPMA.11(c)
[26] Exhibit I.EP.4(b)

3.3 Treatment of Revenue Requirement and Capital Cost

Enbridge Gas stated that this application is consistent with prior approved applications in that Community Expansion/SES projects will be subject to a 10-year rate stability period (RSP) during which Enbridge Gas would bear the risk of its customer attachment forecast and revenue requirement. Enbridge Gas indicated that it will not seek to recover from existing or new community expansion customers any shortfall in customer attachment and revenue requirement during the RSP.

At the next rebasing application after the ten-year RSP expires, Enbridge Gas proposes to use actual revenues for a project to determine any revenue sufficiency or deficiency for rate-setting. Actual SES revenue (reflecting actual customer attachments and volumetric forecast known at the time the) for the test year will be used as an offset to its revenue requirement for rate-setting purposes[27]. Enbridge Gas clarified that if the expiry of the ten-year RSP occurs during an incentive rate mechanism (IRM) and not a rebasing year, any excess revenue or shortfall in rates would form part of the utility revenue that is subject to earnings sharing until the next rebasing, depending on the approved IRM framework at the time[28].

Enbridge Gas proposed to treat the proceeds of the SES and TCS as revenue. In response to a LPMA's interrogatory, Enbridge Gas stated that both the revenue requirement and the revenue of a Community Expansion Project would be higher by treating SES/TCS as revenue rather than as contributed capital[29]. Enbridge Gas stated that from an economic feasibility perspective, the treatment of SES/TCS as revenue as compared to the treatment of CIAC (i.e. as an offset to capital costs included in rate base) results in the same objective of an economically feasible project. Enbridge Gas noted that a project can be made feasible by either reducing the cost of the project or by increasing the revenue associated with the project.

In terms of the treatment of capital costs during the RSP, Enbridge Gas stated that the capital required for the Community Expansion Projects will be provided by Enbridge Gas and potentially also funded under the Natural Gas Expansion Program (NGEP) until the next rebasing[30]. At the next rebasing (but before the end of the RSP), Enbridge Gas stated that it would include the original forecasted capital costs (costs outlined in the economic feasibility assessment of the project, net of any third party funding) of a

[27] Exhibit I.Staff.5
[28] Exhibit I.LPMA.12(b)
[29] Exhibit I.LPMA.8
[30] Exhibit I.PP.1

project in rate base as of the in-service date[31]. By using the estimate of the capital costs and not the actuals, Enbridge Gas will be at risk for any variances from the initial estimate during the RSP[32]. At the next rebasing following the RSP, Enbridge Gas would bring forward the actual capital cost of the project to be included in the determination of rates.

Enbridge Gas further clarified that SES projects would not be eligible for ICM funding, as Enbridge Gas excludes Community Expansion capital from the in-service capital forecast used to determine the maximum eligible incremental capital for ICM funding[33].

3.4 Reporting

At the end of each project's RSP, Enbridge Gas committed to report the following information for the most recently ended fiscal year for which actual information is available on a project-specific basis:

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

Enbridge Gas stated that it would inform the OEB of future SES projects by adding a reference to each SES project in Rider I in EGD rate schedules for EGD rate zone Community Expansion Projects, and by adding references to each of the SES projects in the Union rate schedules[34].

3.5 OEB Staff Submission

OEB staff submits that SES rate proposed by Enbridge Gas is reasonable and consistent with previous SES rates previously approved by the OEB. Enbridge Gas stated that the main factors considered in the determination of the SES rate are the impact on the economic feasibility of the project and the payback period required for the average customer to recoup the cost of converting their heating and water heating equipment from their current fuel to natural gas. As there is no evidence that the conversion costs, annual savings, and acceptable payback period have changed in a

[31] Exhibit I.Staff.4(a); Exhibit I.FRPO.4; Exhibit B/Tab 1/Schedule 1, p. 7
[32] Exhibit I.FRPO.4
[33] Exhibit I.EP.4(c)
[34] Exhibit I.Staff.6(d)

material way, OEB staff accepts that the proposed volumetric rate of $0.23/m^3 continues to be reasonable.

OEB staff submits that Enbridge Gas's proposal to not periodically update the project PI (and potentially the SES term) is consistent with a recent OEB decision in the North Bay LTC proceeding[35] and with the current treatment of non-SES expansion projects. As previously found in that decision, any increased profitability derived from a project would work towards reducing rates for all ratepayers, and the risk of a revenue shortfall is symmetrical to this potential benefit. Enbridge Gas however stated that it intends to review and track Community Expansion Projects within the Investment and Rolling Project Portfolios, consistent with E.B.O. 188 requirements. As noted by Enbridge Gas, the inclusion of projects within the portfolio may result in some level of cross-subsidization between new and existing customers[36]. OEB staff acknowledges that this is currently the case for non-SES expansion projects, but nonetheless submits that it fulfills the intent of E.B.O. 188 in requiring an overall rolling portfolio PI of 1.0, which is to balance the need to provide access to natural gas to new customers while protecting existing ratepayers[37]. OEB staff also notes that in E.B.O. 188, the OEB had also seen the rolling portfolio approach as a means to "obviate the need for intense scrutiny of the financial viability of each project"[38].

OEB staff notes that approving Enbridge Gas's proposal to not provide an annual review of project PIs (and adjust the SES term accordingly) in this proceeding would supersede the OEB's decision in the Fenelon Falls proceeding which required such reporting for SES projects in the EGD rate zone. This would also apply to the OEB's decision in the 2015 Community Expansion Proceeding which approved the proposed annual reporting on forecast achievement levels in SES projects in the Union rate zones[39].

OEB staff also agrees that Enbridge Gas's proposal to include the forecast capital costs in rate base at the next rebasing before the end of the RSP is consistent with the Generic Decision's requirement for a Community Expansion Project and would achieve the desired goal that Enbridge Gas would bear the risk of any capital cost overrun during the RSP. However, OEB staff disagrees that actual costs would automatically be included in rate base in the rebasing application following the end of the RSP, as it will

[35] EB-2019-0188, Decision and Order, p. 19
[36] Exhibit I.EP.4(b)
[37] E.B.O. 188, Report of the Board, Section 2.1.5
[38] Ibid.
[39] EB-2015-0179, Exhibit C.Staff.3(c)

be incumbent on the OEB to determine whether any potential cost overrun may be allowed for recovery in rates.

OEB staff also supports Enbridge Gas's proposal to report on the capital costs, customer attachments and PI at the end of the ten-year RSP. OEB staff submits that the reporting requirements should apply to all projects, whether they need leave to construct (LTC) or not. This would ensure that the OEB is able to compare the budgeted costs against the actuals after the RSP for all projects, including non-LTC projects.

Given these reasons, OEB staff generally supports the SES as proposed by Enbridge Gas. OEB staff does note however, that there appears to be a difference between the CIAC refund policy in the EGD and Union rate zones. When asked about its plans to harmonize the EGD and Union rate zone economic feasibility procedures and policies, OEB staff notes that Enbridge Gas has stated that as per the decision and order in its 2019 rates case[40], it intends to file detailed evidence regarding its customer connection policies with its next rebasing rate application[41]. Given that this application is meant to harmonize the treatment of customers in SES project areas across its rate zones, OEB staff requests that Enbridge Gas indicate in its reply submission whether it could extend the CIAC refund policy to all customers now rather than await until its next rebasing application.

4 TEMPORARY CONNECTION SURCHARGE (TCS)

Enbridge Gas also requested that the OEB approve a TCS, which it states is similar to the SES but will be used for Small Main Extension or Customer Attachment Projects. Enbridge Gas defines Small Main Extension or Customer Attachment Projects as natural gas system extension or expansion projects undertaken by Enbridge Gas, for which the PI is less than 1.0 and which will provide natural gas system access to less than 50 potential customers. Enbridge Gas stated that these projects include the extension of mains, the related service attachments and any service lines to individual customers connecting to pre-existing mains[42].

Enbridge Gas proposed the following terms and conditions for the TCS:

- The TCS will be a constant volumetric rate of $\$0.23/m^3$
- Enbridge Gas may apply the TCS for a term of up to 20 years (the term of the TCS will be set at the minimum term required to bring the project to a PI of 1.0 or

[40] EB-2018-0305
[41] Exhibit I.Staff.2(a)
[42] Exhibit B/Tab 1/Schedule 1, p. 2

20 years, whichever is less), to be determined in accordance with Enbridge Gas's feasibility policies, which follow the OEB's E.B.O. 188 Guidelines.
- Once set, the term of the TCS will not be modified[43].
- Customers who consume less than 50,000 m^3/year, and are classified as Rates 1 and 6 customers in the EGD rate zone[44] and Rates 01, 10, M1 and M2 customers in the Union rate zones[45], will have the option of paying the TCS in lieu of, or in addition to paying a Contribution in Aid of Construction (CIAC).
- Customers who consume more than 50,000 m^3/year may elect to pay the TCS or pay a CIAC or use other contractual mechanisms to cover the revenue shortfall.
- Customers attaching after the in-service date will be required to pay the TCS for the remainder of the TCS term for the project [46].
- The TCS will be applied to the property such that if a new owner takes possession, they will assume payment of the TCS for the balance of the applicable term.

Enbridge Gas will list the geographic location, effective date and term of its TCS projects on its website for each of the EGD and Union rate zones[47].

Enbridge Gas stated that the TCS would allow Enbridge Gas to offer the TCS for up to 20 years to potential customers, as an alternative to requiring them to pay a lump sum CIAC for the TCS project to achieve a PI of 1.0. In the event that a maximum 20-year TCS term does not make a project economically viable, Enbridge Gas will require a CIAC in addition to the TCS.

Enbridge Gas did not propose to separately track and report on TCS projects. Instead, it proposed to include TCS projects in its Rolling Project Portfolio and Investment Portfolios alongside other system expansion projects. Enbridge Gas stated that this would provide an ongoing method of determining the financial feasibility and rate impact of expansion projects as prescribed in E.B.O. 188.

4.1 OEB Staff Submission

OEB staff supports Enbridge Gas's TCS proposal as a means to expand natural gas access to customers who may be challenged to pay an upfront capital contribution for

[43] The table in Exhibit.I.SEC.1 states that the TCS charge is attached to the property for the TCS term, which OEB staff understands to mean that once the term is set, the TCS will be charged until the end of the set term, even if the TCS project's PI reaches 1.0 prior to the end of the set term.
[44] Exhibit C/Tab 1/Schedule 1
[45] Exhibit C/Tab 1/Schedule 2
[46] Exhibit B/Tab 1/Schedule 1, p. 10
[47] Exhibit I.Staff.6(a)

their connection. OEB staff agrees with Enbridge Gas's proposal to include TCS projects in its portfolios as a means of determining the financial feasibility and rate impact of these projects, as per E.B.O. 188.

However, OEB staff notes that Enbridge Gas's proposed amendments to its Economic Feasibility Procedure and Policies appear to include changes to Enbridge Gas's Customer Connection Policy on a much broader basis than simply accommodating the implementation of the SES and the TCS.

Enbridge Gas appears to be proposing to raise the minimum PI for all individual projects, which was previously considered feasible at 0.8, to a PI of 1.0[48]. However, as noted by Enbridge Gas, E.B.O. 188 permits a utility to use a minimum PI of 0.8 for individual projects as long as its portfolio PIs were above 1.0, and that it does not preclude the utility from using a higher PI threshold[49].

Applying a PI of 1.0 to TCS projects makes sense, as TCS projects are still considered community expansion projects, albeit on a smaller scale, which the OEB has previously confirmed would continue to have a PI requirement of 1.0[50]. For non-TCS projects, OEB staff also understands that requiring a PI of 1.0 further reduces the potential for cross-subsidization between new and existing customers. Enbridge Gas stated that it currently uses a PI of 1.0 for the vast majority of its system expansion projects, and allows a PI of 0.8 only for projects that are critical for future customer growth, such as system reinforcement type projects, and that Enbridge Gas does not apply it to industrial and large commercial projects[51]. As such, OEB staff supports raising the minimum PI required for an individual project to a PI of 1.0.

OEB staff notes that approving Enbridge Gas's current proposal would override the OEB's decision in the previous blanket SES approval in the Fenelon Falls proceeding, where the OEB stated that in "circumstances where the new load is primarily associated with contract customers, the requirement for capital contributions from contract customers to achieve a PI of a minimum of 0.8 will continue"[52].

OEB staff also notes that there appears to be an inconsistency in Enbridge Gas's Customer Connection Policy. Parties asked Enbridge Gas to clarify how it intends to apply the TCS to small volume customers, and how any required CIAC would be calculated[53]. For a TCS project in the EGD rate zone, Enbridge Gas stated that it would

[48] Exhibit I.PP.2, Attachment 1, p. 2
[49] Exhibit I.SEC.5
[50] EB-2017-0147, Decision and Order, p. 15
[51] Exhibit I.SEC.5; Technical Conference Transcript, pp. 98-99
[52] EB-2017-0147, Decision and Order, p. 15
[53] Exhibit I.Staff.7(g); Exhibit I.EP.7(a) and (b)

run a feasibility analysis based on the cost of the main extension and the cost of any service lines up to the first 20 metres, and divide any resulting CIAC equally between all customers. Enbridge Gas also stated that any costs associated with any extra lengths beyond the first 20 metres would be recovered from customers by way of another CIAC. Enbridge Gas would apply the same calculation for the Union rate zones albeit with the first 30 metres of the service line. Based on Enbridge Gas's response, there would appear to be two potential CIACs that a TCS small volume customer would be responsible for.

OEB staff submits that this CIAC calculation appears to diverge from the proposed EGD[54] and Union[55] customer connection policies. Both proposed policies appear to require a CIAC based on a PI of 1.0 for attachments where a main extension is required. OEB staff understands this to mean that the economic feasibility is calculated using the total cost of the entire project (mains extension and the entire service line lengths rather than only the first 20 metres for the EGD rate zone and the first 30 metres for the Union rate zones), with the CIAC calculated accordingly.

OEB staff understands that with the proposed policy, where there is an existing main, a customer attaching to the existing main will only be required to pay a $32/metre contribution after the first 20 metres of the service line in the EGD rate zone, and $45/metres contribution after the first 30 metres of a service line in the Union rate zones, the total amounts of which may or may not actually bring the project PI up to 1.0.

From this, OEB staff understands that in a scenario where you have a TCS and a non-TCS customer in the EGD rate zone, and both require a main extension and have service lines longer than 20 metres, the non-TCS customer may be paying a higher CIAC than the total CIAC paid by the TCS customer. This is so because the TCS customer would be paying only $32/metre past the first 20 metres of their service line. OEB staff submits that Enbridge Gas should explain why it cannot modify its proposed Customer Connection Policies to ensure equal treatment between TCS and non-TCS customers who require a main extension. This could be accomplished by calculating a non-TCS EGD rate zone customer's economic feasibility analysis based on the cost of their main extension and the first 20 metres of service line, which will result in a certain amount of CIAC. A second CIAC based on $32/metre could then be calculated. A similar policy for its non-TCS Union rate zone customers would be based on the cost of the main extension and the first 30 metres, and $45/metre past the first 30 metres of service line.

[54] Exhibit C/Tab 2/Schedule 1, p. 2 par. 7 and 8
[55] Exhibit C/Tab 2/Schedule 2, pp. 4-5 par. 4, pp.7-8 par. 9

Finally, OEB staff notes that as per the EGD Customer Contribution and Refund Policy, EGD rate zone customers attaching to a TCS project who opt to pay a CIAC would be allowed to request refunds. OEB staff would appreciate clarification in Enbridge Gas's reply submission on how a refund would be issued if the customer pays both a TCS and a CIAC.

5 HOURLY ALLOCATION FACTOR (HAF)

Enbridge Gas is requesting that the OEB approve the HAF as a capital cost allocation method in calculating the economic feasibility of future Development Projects consistent with E.B.O. 188 Guidelines. Previously approved for four different Union projects, Enbridge Gas seeks to be able to standardize its use of the HAF across its EGD and Union rate zones and update its feasibility policies to promote greater consistency and better understanding of the HAF for future projects[56]. Enbridge Gas stated that it was seeking the generic approval of the HAF for use in both LTC and non-LTC projects, so as not to require subsequent "re-approval" as part of any future LTC[57]. However, Enbridge Gas acknowledged that OEB approval of the proposed revisions to Enbridge Gas's feasibility policies in this case would 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[58].

Enbridge Gas defines a Development Project as a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers. Enbridge Gas proposes to use the Hourly Allocation Factor process to allocate capital costs to customers, which may include a mix of large and small volume customers[59].

Enbridge Gas clarified that the HAF would be derived by dividing the net forecasted capital cost of a Development Project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the Development Project would serve within the identified Area of Benefit[60]. The Area of Benefit is determined by hydraulically modelling the pipeline network in the region around the proposed Development Project to determine the geographic extent of the area of the system that will benefit from the incremental capacity created by the project[61].

[56] Argument-in-chief, pp. 10-11
[57] Exhibit I.VECC.6
[58] Argument-in-chief, p. 10
[59] Exhibit I.Staff.8(a)
[60] Argument-in-chief, p. 11
[61] Exhibit I.EP.8(a)

The HAF would be expressed as a capital cost for each cubic metre per hour of incremental capacity and is thus allocated based on each customer's peak hour demand[62]. Enbridge Gas stated that using a peak hour allocation as opposed to peak day demand is more appropriate, as Enbridge Gas pipeline distribution network is designed and modelled on a peak hour basis[63]. Once the HAF is determined and allocated, it would then be used as the capital cost in the individual economic analysis of the customers receiving incremental capacity as these customers commit to, or contract for, natural gas service. This would be in addition to the costs of any customer-specific facilities that may be required. Enbridge Gas stated that once the total incremental capacity has been fully allocated, it would cease to allocate and apply the HAF to the economic feasibility of new customers requesting service in the Area of Benefit.

Enbridge Gas proposed that the threshold of eligibility for HAF applicability for all future Development Projects be set at 50 m^3/hr. Enbridge Gas explained that this value is about also 25 to 50 times larger than the hourly consumption of a typical residential customer. Enbridge Gas submitted that 50 m^3/hr of peak hourly demand roughly correlates with 50,000 m^3 of annual natural gas consumption, which is the threshold under which the OEB's *Gas Distribution Access Rule* (GDAR) considers consumers to be low volume.

Enbridge Gas also proposed that it only proceed with a Development Project once it had secured contractual commitments for at least 50% of the large volume capacity available for the project[64], so as to lower the uncertainty around the forecast and increase the level of commitment[65].

Enbridge Gas stated that it intends to use the HAF process on Development Projects that may involve a mix of distribution and transmission facilities[66]. Enbridge Gas stated that while the share of the capacity and costs associated with customers over the threshold of eligibility are used to derive the HAF, the share of capacity and costs associated with the smaller volume customers (those under the threshold of eligibility) will be treated as a generalized reinforcement[67]. Enbridge Gas also stated that a Development Project could include a Community Expansion Project within the Area of Benefit, which would then require an SES from customers to pay for their share of the costs[68]. It is unclear to OEB staff whether this means that smaller volume customers

[62] Exhibit B/Tab 1/Schedule 1, p. 13
[63] Exhibit I.EPCOR.3(a)
[64] Argument-in-chief, p. 12
[65] Ibid., p. 13
[66] Exhibit I.EPCOR.2(a)
[67] Exhibit I.CME.2(c)
[68] Exhibit I.EPCOR.1(a) and (b)

would pay their fair share of the costs of a Development Project at the time when these costs are included in rate base, or whether Enbridge Gas intends to conduct a feasibility analysis that would take into account the capital costs allocated to smaller volume customers, and apply an SES if necessary.

Enbridge Gas stated that with the HAF, all customers benefiting from a Development Project can contribute towards the project in a fair and equitable manner. Enbridge Gas submitted that using the HAF would prevent situations where a single customer would underpin a large project, and future customers could gain "free" access to the incremental capacity generated by the project. 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.

Enbridge Gas stated that it would determine its forecast demand for HAF projects using expressions of interest, market intelligence and Enbridge Gas's customer knowledge. Enbridge Gas stated it would consider both firm and incremental interruptible requests for capacity when deriving the forecast of capacity and revenues for a Development Project[69]. Enbridge Gas clarified that if there were incremental interruptible revenue forecasted at the time of designing the project, the incremental revenue could be used to reduce the overall project revenue requirement from the other customers in the Development Project[70].

Enbridge Gas stated that rate treatment for Development Projects would be consistent with TCS and other system expansion projects (other than SES projects) – it would follow the same reporting requirements set out in E.B.O. 188, and that the Projects would be part of Enbridge Gas's Rolling Project and Investment Portfolios. This means that while it might take time for the new capacity generated by the Development Project to be fully utilized, as long as the Development Project is feasible as per E.B.O. 188 guidelines, its revenue requirement (RR) would be fully recoverable from customers in consideration of the regulatory mechanism in place. Enbridge Gas explained that regardless of how much capacity of a Development Project is utilized (or allocated) on the in-service date, the entire revenue requirement of the Development Project would be recovered from customers as follows[71]:

- During the IRM period, Enbridge Gas would use existing rates to determine whether they are sufficient to cover the costs of the project. If the Development Project meets the Incremental Capital Module (ICM) criteria, Enbridge Gas would request approval for ICM treatment for that project.

[69] Exhibit I.OGVG.4(a)
[70] Ibid.
[71] Exhibit I.LPMA.18

- At cost-of-service rebasing, the Development Project's entire revenue requirement would be allocated to customers based on the approved cost allocation methodology and recovered from customers in rates accordingly.

When asked about potential refunds for CIACs paid to a Development Project or true-ups to the HAF "rate" in the event that there was an increase in forecasted demand, Enbridge Gas stated it was not proposing to refund any CIACs collected for a Development Project[72]. Enbridge Gas explained that a Development Project is designed to cater to the load of forecasted customers, and as such it was unlikely that the actual load would exceed the original forecast to trigger a CIAC refund[73]. Enbridge Gas also stated that true-ups to the HAF "rate" (in the event that there was an increase in forecasted demand) had also been previously considered in the Chatham-Kent proceeding, but had been rejected by the OEB[74]. Enbridge Gas argued that customers generally had no interest in a provision for a refund, as symmetrically the customers could be on the hook for any potential capital overages, and that customers were not interested in a true up as they prefer certainty when they execute a long term contract[75]. Enbridge Gas also stated that it is very motivated in getting the forecast costs right, as it would bear the consequences if the projects come in over budget and found to be imprudent by the OEB[76].

5.1 OEB Staff Submission

OEB staff agrees that the use of the HAF would result in the allocation of the capital costs of a project in a fair and equitable manner as the costs would be allocated over time to eligible customers seeking access to the incremental capacity generated by the project. OEB staff supports the proposed threshold of eligibility (50 m^3/hr) for individual customers to be allocated a share of the HAF to be reasonable as it is meant to exclude customers that would be considered to be small volume customers under GDAR. As per the example provided by Enbridge Gas[77], the capital costs of the project would be split into large and small volume components based on the proportion of the total peak hourly demand of each group. The HAF would then be determined by taking the capital allocated to the large volume component and dividing it by the sum of the large volume forecast demand. Both small and large volume customers would be able to pay for their fair share of the capital cost of the project. Large volume customers would be able to obtain the capacity they require when they require it, and at a fairer cost, while

[72] Exhibit I.EPCOR.5(c)
[73] Exhibit I.Staff.9(g)
[74] Exhibit I.EPCOR.6(a)
[75] Exhibit I.EPCOR.6(a)
[76] Transcript for Technical Conference, pp.127-129
[77] JT1.1

preventing, as Enbridge Gas said, the usurpation of the capacity reserved for small volume customers[78].

Given Enbridge Gas's example[79], OEB staff submits that the HAF definition should be revised to clarify that it is the forecasted capital cost of a Development Project allocated to large volume customers that will be divided by the sum of the forecast firm hourly large volume demand, as net forecasted capital costs can be taken to mean total forecast capital costs net of government funding/grants/municipal contributions. Also, given Enbridge Gas's explanation of the near-term nature of its forecast demand for Development Projects, OEB staff also agrees with the proposed 50% contracted commitment threshold prior to proceeding with a project.

OEB staff also supports Enbridge Gas's proposed rate treatment for Development Projects, which will allow Enbridge Gas to include the full cost of the project in rate base at rebasing, regardless of how much capacity has been allocated at that point, as Enbridge Gas's HAF proposal will allow for a more efficient system design, with room for short- to mid-term growth that Enbridge Gas is currently unable to plan for. OEB staff submits that this proposal is no different than how the OEB has historically approved the inclusion of capital costs in rate base. And as noted by Enbridge Gas, OEB approval of the HAF mechanism does not preclude further review of the Development Projects it intends to apply the HAF to, particularly in LTC applications.

All of which is respectfully submitted

[78] Argument-in-chief, p. 14
[79] JT1.1