September 20, 2020

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

Dear Ms. Long:

EB-2020-0094 – Enbridge Gas Inc. – System Expansion Charges

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-reference proceeding. .

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All Parties
EGI, Regulatory Affairs

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

RE: ENBRIDGE GAS DISTRIBUTION INC. – SYSTEM EXPANSION SURCHARGES

EB-2020-0094

INTRODUCTION:

Enbridge Gas Inc. has filed an application with the Ontario Energy Board ("OEB") on May 8, 2020, under section 36 of the Ontario Energy Board Act, 1998 for an order approving the following:

1. A System Expansion Surcharge ("SES") for future Community Expansion Projects;
2. A Temporary Connection Surcharge ("TCS") for Small Main Extensions and Customer Attachment Projects;
3. Amendments to Rider 1 of the Rate Handbook for the EGD rate zone and to Rate Schedules for the Union rate zones;
4. An Hourly Allocation Factor ("HAF") to be applied in the economic feasibility calculation for future Development Projects consistent with the OEB's EBO 188 Guidelines;
5. Amendments to the Company's feasibility policies to implement the SES, TCS and HAF proposed.

It is EGI's evidence that the proposed forms of SES, TCS and HAF are required for EGI to achieve consistency between its use of these and the HAF capital allocation mechanism in the EGD and Union rate zones. In addition, approval of these proposals will allow EGI to accommodate demand for future expansion projects more efficiently without having to seek OEB approval on a more project specific basis.[1]

These are the submissions of the Consumers Council of Canada ("Council") regarding EGI's proposals.

SUBMISSIONS:

System Expansion Surcharge:

EGI is proposing the following terms and conditions related to its SES:

- The amount of the volumetric surcharge is $.23/m^3;

- For the EGI rate zone, the SES is applicable to Rates 1 and 6. For the Union rate zones the SES is applicable to Rates 01, M1 and m2;

[1] Argument in Chief, dated September 3, 2020, p. 2

- The SES is applied to Community Expansion Projects, which are expansion projects with a profitability index ("PI");

- He SES will be applicable to customers who consume no more than 50,000m3/year. It is applied to the property which means that new owners will assume payment for the balance of the term;

- Customers who consume more than 50,000m3/year may elect to pay the SES or pay a contribution in aid of construction, or other mechanisms to cover the charge;

- The SES may be applied for a term of up to 40 years to be determined using EGI's feasibility policies consistent with the OEB's EBO 188 Guidelines;

- The harmonized form of SES will be considered revenue and treated as such for the purpose of economic feasibility analyses;

- EGI will not modify the SES if the project has increased profitability relative to the forecast;

- Community Expansion/SES projects will be subject to a 10-year rate stabilization period ("RSP") during which EGI will bear the risk of its customer attachment forecast;

- At the end of the RSP actual capital costs will be brought forward at the next rebasing;

- Reporting regarding actual costs, customer attachments, revenues and an updated PI will only take place at the end of the RSP.[2]

The Council is generally supportive of the SES and the need for harmonization. The purpose of having the SES and is to allow customers access to natural gas in areas where the PI is less than 1.0. In addition, it ensures that those who are getting access to the service are paying the costs necessary to make the project profitable.

The Council's acceptance is based on the following:

- Small volume customers should have the option of paying an upfront Contribution in Aid of Construction ("CIAC"). This is an option offered to larger volume customers and the Council sees no reason why it should not also be offered to small volume customers. Customers may see value in paying up front, rather than seeing a surcharge on their bill for up to 40 years;

[2] AIC, pp. 4-7

- EGI must be very clear in communicating to the new customers, in the new communities, that they will be required to pay an SES. As set out in the evidence (see Ex. I.CPA.3) there has been a great deal of customer confusion regarding the introduction of the SES in certain communities. From the Council's perspective EGI needs to improve this communication and ensure that the SES will only be applied following a positive election by the customers;

- EGI has indicated its intent to file the following:

    I. Budgeted and actual capital costs, both at a gross level and net of any CIAC, as of the project's in-service date;

    II. Cumulative forecast and actual customer attachments for the duration of a project's 10-year customer addition forecast period; and

    III. Each project's PI, updated to reflect the project's actual capital cost and revenues over its RSP.[3]

  From the Council's perspective this information should inform the OEB, upon rebasing what costs to be included in rate base and whether the application of the SES for each project should continue as planned. Any cost overruns would need to be assessed by the OEB. In addition, if a project's PI has moved to 1.0 or above, it may be appropriate, at that time, to eliminate the SES for that community.

Temporary Connection Surcharge:

The TES is similar to the SES, but will be applied to Small Main Extension or Customer Attachment projects undertaken by EGI for which the PI is less than 1.0 and the number of customers less than 50. The TCS will be applied for a term of 1-20 years. If the feasibility of the PI does not reach 1.0 or greater over the maximum 20-year term, EGI would require a CIAC in addition to the TCS. In addition, customers connection after a TCS is built will be required to pay the TCS for the remainder of the term.[4] Larger volume customers would have the option of paying an up-front CIAC and/or the TCS or other contracts.

The Council is generally supportive of the TEC and its acceptance is based on the following:

- EGI must be very clear in communicating to the new customers, in the new communities, that they will be required to pay an TCS. As set out in the evidence (see Ex. I.CPA.3) there has been a great deal of customer confusion regarding the introduction of the SES in certain communities. From the Council's perspective EGI

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[3]Ex. B/T1/S1/p. 9
[4] Ex. B/T1/S1/pp. 10-12

needs to improve this communication and ensure that the SES and TCS will only be applied following a positive election by the customers; and

- EGI is proposing a term limit for the TCS of 20 years. In the event the 20-year term does not make the project economically viable EGI will require a CIAC. From the Council's perspective, EGI should also consider extending the term of the TCS in lieu of the CIAC. This will give customers two options – pay the TCS and a CIAC, or spread the payments over a longer period of time.

Hourly Allocation Factor:

The Hourly Allocation Factor is a method of allocation the upfront capital investment of a Development Project designed to provide incremental firm capacity to multiple large volume customers forecast to require additional form service within an identified Area of Benefit.[5] EGI is seeking to standardize its use of the HAF across its rate zones and update its feasibility policies to describe the HAF and how it may be used for feasibility assessment purposes. The Council accepts that at a high level the HAF is appropriate method to allocate a portion of project costs to large customers. The Council expects that the implementation of the HAF will be considered by the OEB on a case by case basis to ensure that its implementation is fair to all customers.

Expansion Policies:

EGI, through his application is making some selective changes to its system expansion policies. The Council is of the view that in light of significant changed circumstances, since the original EBO 188 Guidelines were established, it is time for the OEB to undertake a wholesale review of its expansion policies. Climate change policies, the emergence of new technologies and changing economics of alternatives to natural gas warrant such a review from the Council's perspective. Issues regarding cross-subsidization among customers groups, and between new and existing customers should be considered, as should issues regarding the potential for stranded assets and the treatment of stranded assets. Undertaking a review prior to EGI's next rebasing would clearly be in the best interests of natural gas customers in Ontario.

[5] Ex. B/T1/S1/p. 12