

SCOTT POLLOCK
T 613.787.3541
spollock@blg.com

Borden Ladner Gervais LLP
World Exchange Plaza
100 Queen St, Suite 1300
Ottawa, ON, Canada K1P 1J9
T 613.237.5160
F 613.230.8842
blg.com



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September 18, 2020

Christine Long
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Long

**Re: Enbridge Gas Inc. (“EGI”)
Approval of a System Expansion Surcharge, a Temporary Connection Surcharge
and an Hourly Allocation Factor
Board File #: EB-2020-0094**

Pursuant to Procedural Order No. 2 dated August 13, 2020, please consider this letter as the submissions of Canadian Manufacturers & Exporters (“CME”) with respect to EGI’s application for approval of a System Expansion Surcharge (“SES”), a Temporary Connection Surcharge (“TCS”) and an Hourly Allocation Factor (“HAF”).

CME represents 400 Ontario-based member companies that operate energy intensive businesses. CME’s members are diverse, however, many members would be considered “large volume” consumers for the purposes of EGI’s application.

CME does not oppose the majority of EGI’s application, however, it is concerned about certain aspects of EGI’s HAF proposal, which is further detailed below.

With respect to the SES and TCS EGI proposes to apply a surcharge of \$0.23/m³ for small volume customers in the areas served by SES and TCS projects,¹ for up to a maximum of 40 years for the SES and 20 years for the TCS.² Larger volume customers will be provided a choice between paying the SES or TCS, or paying a contribution in aid of construction (“CIAC”), or another contractual mechanism.

¹ EB-2020-0094, Exhibit A, Tab 2, Schedule 1, p. 2 of 4.

² EB-2020-0094, Exhibit B, Tab 1, Schedule 1, Plus Appendix, p. 9 of 16; Exhibit B, Tab 1, Schedule 1, Plus Appendix, p. 5 of 16.

According to EGI's evidence, the application of the SES and TCS will allow natural gas service to expand into areas where previously it had been unprofitable to do so. The Board has previously found that for many of these communities, the savings derived from switching to natural gas can more than offset the additional surcharge costs.³

Based on its review of EGI's evidence in this proceeding, CME does not oppose EGI's application with respect to the SES or TCS.

With respect to the HAF, EGI's proposal is to change how capital costs are allocated for development projects where incremental firm capacity is going to be delivered to multiple large volume customers.⁴

As CME understands it, EGI's current process is to allocate the entire cost of the development project to the initial customers that commit at the time of project design. The project is then built to meet the committed load.⁵ According to EGI's evidence, this causes two problems:

- 1) Gaming – Due to nominal pipe sizing, it is very rare for EGI's development projects to perfectly match the committed load.⁶ As a result, there is often some remaining excess capacity which goes unused by the initial customers who have paid for the system. Another entity, whether intentionally or unintentionally can join the system after the project has been paid for, and use the remaining capacity without paying for the cost of the development project.⁷
- 2) Inefficient Construction – Due to the fact that EGI only designs the development project with the committed load in mind, this often leads to situations where growth on the system requires additional construction shortly after completion of the project. As a result, EGI would be required to build additional facilities in rapid succession.⁸

In order to combat these issues, EGI proposes applying the HAF. Under the HAF methodology, EGI would forecast not only the general service growth (which they currently do now) but also the large volume customer growth for the area of benefit for 10 years. The development project would be designed to accommodate the forecast volume growth for the area of benefit.

In order to determine the HAF, EGI proposes to derive the proportion of the forecast growth that comes from small volume customers, and from large volume customers, and then allocate a proportionate share of the cost of the development project to each customer type.

³ EB-2020-0094, Exhibit B, Tab 1, Schedule 1, Plus Appendix, p. 3 of 16.

⁴ EB-2020-0094, Exhibit B, Tab 1, Schedule 1, Plus Appendix, p. 12 of 16.

⁵ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 7.

⁶ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 16.

⁷ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 7.

⁸ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 9.

Subsequently, the total cost of the project allocated to large volume customers would be divided by the aggregate total growth of those customers. In other words, EGI would derive a dollar cost per m³/h of use for the development project.

This per unit cost would be applied to all the large volume customers with committed load in proportion to how much of the system they use. However, in contrast to the current process, early committed loads would not be forced to pay for the entirety of the project. As additional load comes onto the system from other users, the proportionate share of the remaining cost of the project would be allocated to the new user, until all of the capacity was used, and the project was fully paid.

CME agrees with EGI that gaming results in unfair outcomes among customers. CME also accepts that by sizing projects to incorporate growth, it will avoid inefficient building and development practices that necessitate repeated capital projects in the same area in a short time frame. However, the application of the HAF as currently proposed can lead to unfair results for large volume customers.

During the technical conference, EGI agreed that the cost incurred to serve general-service customers will be recovered through rates, which flow not only to general service customers, but also to large volume customers.⁹ As a result, large volume customers that initially pay for their proportionate share of the design project could end up paying more than their fair share once a portion of the small volume customer costs are passed through to large volume customers in their rates.

Additionally, there is the potential for EGI to recover an amount greater than the cost of the development project from ratepayers. As discussed in the technical conference, the entire cost of the project, net of any CIAC is added to rate base at the utility's rebasing.¹⁰

According to EGI's evidence, to the extent that future large volume customers were to come onto the system, the amount included in rate base would only be reduced by the incremental CIAC received at the next rebasing.¹¹ As a result, the period during the initial rebasing (where the cost of the project is included in rate base) and the subsequent rebasing occurs, EGI would be collecting the cost of the project both through rates and through the incremental CIAC.

Accordingly, CME opposes this aspect of EGI's HAF proposal. While CME believes that EGI is in the best position to determine how to mitigate these issues, one potential mechanism to help address the issue would be for EGI to reduce rate base by the incremental CIAC at the time it is received. That would prevent over-recovery during the period in between rebasing.

⁹ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 194.

¹⁰ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pg. 21.

¹¹ EB-2020-0094, Technical Conference Transcript, August 20, 2020, pp. 21-22.

In summary, CME does not oppose the bulk of EGI's proposal, but submits that EGI should address the potential inequities to large volume customers which arise as part of its HAF proposal prior to its implementation.

Yours very truly

Borden Ladner Gervais LLP



Scott Pollock

enclosure

c. Rakesh Torul (EGI)
Tania Persad (EGI)
Intervenors EB-2020-0094
Alex Greco (CME)

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