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October 2, 2020

VIA EMAIL and RESS

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

Dear Ms. Long:

Re: Enbridge Gas Inc. (Enbridge Gas)
Ontario Energy Board (Board) File No.: EB-2020-0094
Harmonized System Expansion Surcharge, Temporary Connection Surcharge and Hourly Allocation Factor - Reply Argument

In accordance with Procedural Order No. 2, dated August 13, 2020, enclosed please find the Reply Argument of Enbridge Gas in the above noted proceeding.

Please contact the undersigned if you have any questions.

Yours truly,

Tania Persad Digitally signed by Tania Persad Date: 2020.10.02 11:21:50 -04'00'

Tania Persad
Senior Legal Counsel

cc: EB-2020-0094 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an application by Enbridge Gas Inc. for approval of a System Expansion Surcharge, a Temporary Connection Surcharge and an Hourly Allocation Factor

REPLY ARGUMENT OF ENBRIDGE GAS INC.

A. Introduction

1. In accordance with Procedural Order No. 2, Enbridge Gas Inc. ("Enbridge Gas" or the "Company") filed its argument-in-chief on September 4, 2020 setting out the reasons why the proposed forms of the system expansion surcharge ("SES"), temporary Connection Surcharge ("TCS") and Hourly Allocation Factor ("HAF") and related rate schedule and feasibility policy amendments should be approved by the Ontario Energy Board ("Board" or "OEB").

2. Fourteen parties filed submissions in response to Enbridge Gas.[1] This reply argument sets out the response of Enbridge Gas. Enbridge Gas will not repeat its argument-in-chief but continues to rely on the positions and argument already submitted. To the extent that Enbridge Gas does not respond to any particular item raised by other parties, this should not be interpreted as acceptance or agreement by Enbridge Gas.

3. Enbridge Gas will address submissions related to the SES and TCS and related feasibility policy and rate schedule amendments below together as many parties had similar comments in respect of these surcharges. The feasibility policy amendments related to the HAF are addressed under a separate heading. The

[1] OEB Staff, Canadian Manufacturers & Exporters ("CME"), Canadian Propane Association ("CPA"), Consumers Council of Canada ("CCC"), Energy Probe Research Foundation ("EP"), Environmental Defence ("ED"), EPCOR Natural Gas Limited Partnership ("EPCOR"), 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 ("PP"), School Energy Coalition ("SEC") and Vulnerable Energy Consumers Coalition (VECC).

meaning of capitalized terms not defined shall have the meaning of those terms set out in the evidence.

B. System Expansion Surcharge and Temporary Connection Surcharge

4. The majority of parties (notably, all who represent customer groups), including OEB Staff, are either not opposed to or are supportive of the SES and TCS proposals and the need to harmonize the applicable terms and conditions across the EGD and Union rate zones, subject to some caveats as noted below.[2] This is logical given the Board has already approved some form of the SES in several prior proceedings[3] and has approved a form of the TCS for the EGD rate zone.[4]

5. OEB Staff and other supporting parties expressed some concerns about the SES and TCS proposals or suggested conditions that the Board should consider in any approval. A summary of these submissions and Enbridge Gas's position on each is set out below:

- **Amount of Surcharge:** OEB Staff notes that the SES rate proposed by Enbridge Gas is reasonable and consistent with SES rates previously approved by the OEB and the proposed volumetric rate of $0.23/m^3 continues to be reasonable as there is no evidence that the conversion costs, annual savings and acceptable payback period have changed in a material way.[5] EP asserts that there is insufficient evidence in this proceeding for the Board to find that the $0.23/m^3 is the appropriate amount.[6] As Enbridge Gas commented in its July 2, 2020 letter filed in response to EPCOR's request for a copy of a study that reviewed small volume customers' energy and conversion costs, evidence filed in Union's original Community Expansion application ("Original CE

[2] OEB Staff, CME, CCC, VECC, EP, PP, SEC, IGUA, LPMA, FRPO, OGVG and EPCOR.
[3] EB-2015-0179, EB-2019-0139, EB-2019-0187, EB-2019-0188, EB-2017-0147 and EB-2017-0261.
[4] See Board Decision and Order in EB-2017-0147.
[5] OEB Staff submissions, pp. 10-11.
[6] EP submissions, p. 3.

Application")[7] and in Enbridge Gas's Fenelon Falls Project application[8] provided the basis upon which the surcharge amount of $0.23/m^3 was derived. This evidence continues to be relevant, as recognized by the Board most recently in its approval of the North Bay Community Expansion Project application earlier this year,[9] and there is no need to revisit the surcharge amount as part of this application. Further, there is a significant benefit to ensuring the surcharge amount remains consistent over an extended period of time, in the absence of any clear evidence that it should be changed. This allows Enbridge Gas to have consistency in its customer communications, marketing materials, calculations and processes over a reasonable period of time. Keeping the charge at a constant rate will reduce customer confusion. It also allows customers, contractors and other stakeholders to become more familiar with the surcharge as it becomes more common for projects. The same rationale applies for the TCS.

- **Reporting for SES Projects and PI Updates**: OEB Staff is supportive of Enbridge Gas's proposal not to periodically update the project PI (and potentially the SES term) as it is consistent with the North Bay 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.[10] Staff also accepts the reporting Enbridge Gas proposes as consistent with the Board's EBO 188 Guidelines[11] and comments that Enbridge Gas stated it intends to review and track Community Expansion Projects within the Investment and Rolling Project Portfolios.[12] Enbridge Gas wishes to point out that SES projects will not be tracked as part of the Investment Portfolio because this portfolio is used to demonstrate that system expansion

[7] EB-2015-0179, Exhibit A, Tab 1, p.19, dated December 14, 2015 updated application and evidence).
[8] EB-2017-0147, Exhibit B, Tab 1, Schedule 1, dated July 26, 2017.
[9] EB-2019-0188, Decision and Order ("North Bay Decision"), p. 22.
[10] OEB Staff submissions, p. 11.
[11] Issued pursuant to the OEB Report on Natural Gas System Expansion, dated January 30, 1998.
[12] OEB Staff submissions, p. 11.

investments in a test year do not cause undue rate impacts.[13] Because SES projects are subject to a rate stability period ("RSP") of 10 years, Enbridge Gas will not seek approval of its investment in the project for its revenue requirement until the RSP is over. The Board recognized this in its Generic Proceeding on Community Expansion, EB-2016-0004 ("Generic Proceeding") wherein it stated, "With the ability to proposed new rates, there is no need to test the profitability of projects against existing rates."[14] Enbridge Gas will include SES projects as part of its Rolling Project Portfolio, however, and as noted by OEB Staff,[15] it will report on the capital costs, customer attachments and profitability index ("PI") of each SES project at the end of the RSP, whether or not leave to construct ("LTC") is required.

- **Inclusion of Actual Costs in Rate Base After RSP:** OEB Staff states it will be incumbent on the Board to determine whether any potential cost overrun may be allowed for recovery in rates. Enbridge Gas agrees that any future Board review of SES projects after the RSP is not pre-empted by approval of this application but notes that such Board review should not simply be based upon a cost overrun or underrun analysis. After the end of the RSP, Enbridge Gas will present a revised discounted cash flow ("DCF") analysis for the relevant SES projects and an updated PI calculation that uses actual capital costs and actual customer attachments and revenues. The Board agreed with this principle in its decision in the Original CE Application.[16]

- **Choice for Small Volume Customers:** Certain parties propose that small volume customers ("SVCs") should have the option of paying a CIAC in lieu of the SES or TCS as large volume customers ("LVCs") would.[17] Enbridge Gas explained that giving this choice to SVCs for SES and TCS projects would significantly add to the complexity of administering and communicating the SES

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[13] See EBO 188 Report, section 2.3.2.
[14] EB-2016-0004, Generic Proceeding, p. 22.
[15] OEB Staff submissions, p. 12.
[16] EB-2015-0179, p. 14 and Exhibit B, Tab 1, Schedule 1, paragraph 19.
[17] CCC, LPMA, FRPO, VECC.

and TCS.[18] This approach is consistent with past OEB decisions.[19] To elaborate further, it would significantly increase the time and effort for Enbridge Gas to conduct the initial feasibility analysis for projects if it has to first determine whether each customer would choose to pay the CIAC or the surcharge. Enbridge Gas would also have to make assumptions within the feasibility analysis about whether future customers would choose to pay a CIAC and this would reduce the forecast accuracy. This is in addition to the administrative burden of tracking these customer choices, billing and collection challenges and increasing customer confusion and complexity of communications about how the surcharge or CIAC is applied in a specific geographic area. Providing SVCs a choice to pay a CIAC would increase the risk of concerns arising about perceived unfair or inequitable treatment of SVCs in SES and TCS projects. Enbridge Gas submits that the additional time, cost and complexity burdens and high potential for customer confusion outweigh the benefits to SVCs if they had this choice.

- **Clear Communications to Customers:** Certain parties condition their support of the SES and TCS proposals on Enbridge Gas needing to be clear in communicating the application of the surcharge to customers. This is addressed below in response to CPA's submissions on this topic.

- **Minimum PI for Projects:** Some parties expressed concerns about the proposed amendments to the Enbridge Gas feasibility policies and reference to a PI threshold of 1.0 rather than 0.8.[20] Enbridge Gas has not proposed any feasibility policy amendments that are inconsistent with EBO 188. The practical application of the EBO 188 principles has and continues to be to ensure the utility is able to maintain an Investment Portfolio and Rolling Project Portfolio PI of 1.0 or greater. This means that the majority of projects must be assessed against a PI of 1.0. Otherwise, Enbridge Gas runs the risk – a risk that it must

[18] Exhibit I.LPMA.7.
[19] EB-2015-0179, p. 14.
[20] OEB Staff submissions, p.14, PP submissions, p.7 and VECC submissions, p.5.

manage in accordance with EBO 188 – that its overall portfolio values drop below the required thresholds. This does not mean that Enbridge Gas does not apply a PI of 0.8 to any projects. However, as noted in the feasibility policies, this lower PI threshold is the exception and not the rule; an exception that is generally reserved for system reinforcement projects.[21] EBO 188 does allow the utility to have and exercise this flexibility as it deems appropriate, as the Board states:

> The intent of the portfolio approach is to provide the utilities a greater degree of flexibility in determining which projects to undertake, while the Board retains overall regulatory control to ensure no undue cross subsidy or rate impacts result from distribution system expansion.[22]

Most importantly for the purposes of this application, the proposed PI threshold of 1.0 is fully supported by EBO 188 and prior Board decisions that have approved the SES and the HAF.

- **CIAC Refund:** OEB staff requests that Enbridge Gas indicate in its reply submission whether it could extend the contribution in aid of construction ("CIAC") refund policy to all customers now rather than wait until its next rebasing application.[23] Staff also requests clarification on how a refund would be issued if the customer pays both a TCS and a CIAC.[24] VECC also questions the refund logic for TCS projects and any customers paying a CIAC.[25] As mentioned in the revised feasibility policy in the EGD rate zone, [26] Enbridge Gas is not proposing refunds where SES and TCS rate riders have been applied in lieu of CIAC. Refunds are not provided to customers paying the SES or the TCS because the initial feasibility assessment of the project is based upon attachment of forecast customers. In contrast, CIAC refunds are only issued when unforecasted customers or demands attach in the future to

[21] Exhibit I.SEC.5.
[22] EBO 188 Guidelines, p.1.
[23] OEB Staff submissions, p. 12.
[24] OEB Staff submissions, pp. 15-16.
[25] VECC submissions, pp. 4-5.
[26] Exhibit C, Tab 2, Schedule 1, paragraph 12.

the same main where customers have already paid a CIAC. Enbridge Gas has not proposed to extend the EGD rate zone CIAC refund policy into the Union rate zones in this application. In order to harmonize the CIAC policies, it would be necessary to consider and weigh the pros and cons of both solutions: 1) to extend the refund policy to Union rate zones, or 2) to eliminate it from the EGD rate zones. To extend CIAC refunds to the Union rate zones, Enbridge Gas would have to, at a minimum, amend its feasibility policy in the Union rate zones and determine how this change would be implemented with the current systems used for the Union rate zones. In principle, Enbridge Gas does not oppose extending the refund option. However, CIAC refunds are not proposed to apply to any of the expansion projects type addressed by this application. Also, the CIAC refund is not the only difference between the feasibility policies in the Union and EGD rate zones. For instance, rules related to service lateral installations also differ. Enbridge Gas would have to present additional evidence for the Board to consider how to harmonize those policies. As committed previously, Enbridge Gas will bring forward evidence in a subsequent application or at its next rebasing application to address further harmonizing its customer connection policies.[27]

- **CIAC Calculations for TCS and non-TCS Customers:** Staff surmises that in a scenario where you have a TCS and a non-TCS customer in the EGD rate zone and both require main extensions and longer than average services, the non-TCS customer may be paying a higher CIAC than the total CIAC paid by the TCS customer.[28] Enbridge Gas confirms that this is not the case. Feasibility is assessed using the estimated cost of mains and services.[29] Any CIAC for service laterals is based on the standard service length (i.e., 20 m and 30 m for EGD and Union rate zones, respectively). If the required service lateral for a customer exceeds the standard service length, that customer will

[27] Exhibit I.Staff.10 a).
[28] OEB Staff submissions, p. 15.
[29] See Exhibit I.Staff.7a).

be required to pay a CIAC based on the applicable per meter charge for the excess length, whether part of a TCS project or not.

- **Extending the TCS Term Maximum to 40 Years:** LPMA and CCC suggest that the TCS term should be extended to a 40 year maximum term if a CIAC can be eliminated.[30] Enbridge Gas has proposed a 20 year maximum term for TCS projects because TCS projects are smaller in scope than SES projects and it is less likely that a surcharge beyond the 20 year maximum would be required in order to avoid customers having to pay a CIAC. While Enbridge Gas believes that the 20 year maximum should accommodate the majority of TCS projects, it is not opposed to extending this term to the maximum amount allowed by EBO 188 (40 years for SVCs) if required to help customers mitigate a CIAC payment.

- **Introducing a CIAC at a Future Date:** EP expressed a concern about the TCS proposal that if Enbridge Gas institutes a CIAC years after the project in-service date, this would constitute retroactive ratemaking.[31] Enbridge Gas can clarify that this concern is unfounded because both the TCS term and any required CIAC will be established at the time of the initial feasibility assessment, prior to construction (not at a later stage). The feasibility assessment is based on forecasted customers and volumes. Enbridge Gas is not proposing to calculate a CIAC at a later stage if the actual customers/volumes fall short of the forecast.

6. ***Customer Communications:*** CPA expresses general and specific concerns about the Enbridge Gas customer communications in existing Community Expansion projects. Enbridge Gas provided responses to these concerns as noted in the CPA submissions. CPA claims that requiring customers to sign or acknowledge terms and conditions is only for the benefit of Enbridge Gas.[32]

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[30] LPMA submissions, p. 3 and CCC submissions, p. 5.
[31] EP submissions, p. 4.
[32] CPA submissions, p. 5.

Clearly, this is not the case as having a customer sign or acknowledge provides more certainty that the customer has read and understood the terms and conditions of service. This is a basic tenet of consumer protection laws. Enbridge Gas does not commence the installation process until it has the customer's acknowledgement of the terms and conditions of services, including the SES. Enbridge Gas instituted this process after the initial SES customer concerns arose in the Fenelon Falls and Milverton projects.

7. CPA also does not acknowledge when the customer appeared to be satisfied with the Enbridge Gas response or satisfied with service since the initial complaint, as noted in the complaint logs provided.[33] It is important to note that these customer complaints represent only a small fraction of the customers that have been connected in Community Expansion projects to date and as is apparent from the logs provided, the complaints are concentrated in the areas where Enbridge Gas installed the first Community Expansion projects for each of the legacy utilities (Milverton and Fenelon Falls). Moreover, Enbridge Gas has not received any complaints about the SES since February of 2020, despite attaching hundreds of new customers since that time.

8. Enbridge Gas has improved its communication materials over time. Many of these materials are available publicly (www.savewithgas.com/faq) and have been provided in the evidence.[34] Enbridge Gas develops specific marketing and communication plans for each Community Expansion project in order to ensure clear and consistent communications. These plans may include, but are not limited to, engagement through open houses (virtual or in-person) and construction packages. As noted above, Enbridge Gas's "Save with Gas" website has been enhanced to answer questions related to the SES. When customers contact a heating, ventilation and air conditioning ("HVAC") contractor in an area where Enbridge Gas is conducting a Community Expansion project, the customer can also

[33] See Exhibit I.CPA.3.
[34] Ibid.

rely upon that contractor to answer their questions on the SES as Enbridge Gas regularly provides training and training materials to the HVAC community.

9. CPA asserts that the Board should require Enbridge Gas to obtain prior Board approval of its survey and marketing materials for the surcharges. Enbridge Gas submits that this would be an unnecessary and extraordinary step for the Board to take. The Board may request a copy of the Enbridge Gas marketing materials at any time and Enbridge Gas will provide it. Requiring advance Board approval of these materials would hamper Enbridge Gas's ability to make any required modifications expeditiously for different geographic locations and circumstances. Enbridge Gas remains responsible for its customer relations in this regard and is naturally incented to communicate terms and conditions clearly. This is one of the reasons why Enbridge Gas is proposing to implement the surcharges consistently across its rate zones. Approval of this application will support Enbridge Gas's efforts to communicate the SES and TCS in a consistent manner to all stakeholders, to the benefit of existing and prospective customers.

10. ***Fettering the Board's Discretion:*** ED asserts that the Board does not have jurisdiction to issue an order that would either approve or prohibit the use of the SES, TCS or HAF in this proceeding, claiming that the appropriateness of the SES, TCS and HAF must be determined in future LTC and rebasing applications because the Board panel deciding this application cannot fetter the discretion of Board panels hearing those future applications.[35] ED is on its own in making this assertion and its argument is completely without merit. First, it implies that the Board has already acted improperly in approving the SES on a generic basis in the EGD rate zone, yet ED did not challenge that Board decision. In that decision, the Board agreed with Enbridge Gas's submissions that, "approval of a fixed volumetric SES for application to future Community Expansion Projects allows all stakeholders to assess community expansion situations on the basis of a consistent, predictable surcharge to be paid by new customers."[36] For the SES and TCS proposals, this

[35] ED submissions, p. 2.
[36] EB-2017-0147, Decision and Order, p. 15.

application simply seeks to harmonize and update terms and conditions already approved in both the EGD or Union rate zones. Approval of these proposals does not bind the Board in future LTC and rebasing proceedings. As stated in many instances throughout the evidence in this application,[37] the Board will have an opportunity to review project forecasts, assumptions and actuals in required LTC and rebasing applications and through reporting required pursuant to EBO 188.

11. Second, the Board routinely makes orders approving or fixing just and reasonable rates in accordance with section 36 of the *Ontario Energy Board Act, 1998* ("OEB Act") to which it attaches terms and conditions such as those that Enbridge Gas is seeking in this application. In fact, that is the "bread and butter" of the Board's jurisdiction under the OEB Act. In each of its rate zones, Enbridge Gas has numerous rate schedules and rate riders with terms and conditions that have been approved by the Board without any challenge to the Board's jurisdiction to do so. Similarly, the Board has found that the CIAC is a rate[38] and the EBO 188 Report and Guidelines allow gas distributors to recover this rate without seeking approval of it on a project-by-project basis.[39] ED asserts that Enbridge Gas is not seeking approval of rates, but of financial models that would apply in future rates cases.[40] To be clear, the SES and TCS are rates with applicable terms and conditions. They are nothing more and nothing less. They will be subject to a certain rate treatment, in accordance with the incentive rate framework for Enbridge Gas approved by the Board from time to time.

12. ***Forecast Risk and Untested Claims:*** ED also does not support the TCS and HAF proposals because of a perceived increased risk to ratepayers, that the TCS and HAF would place undue financial risks on existing customers. If new customers convert away from using natural gas, remaining customers would be left to fund the

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[37]Exhibit B, Tab 1, Schedule 1, paragraphs 15 and 22, Exhibit I.PP.1 c) and d), Exhibit I.Staff.7 l), Exhibit I.CCC.10, Argument-In-Chief, paragraphs 13-14, 19, 22 and 34.

[38] See, for example, EB-2012-0396 Decision with Reasons, February 7, 2013, pp. 14-16 and EB-2013-0365 Decision and Order, August 21, 2014, p. 13.

[39] EBO 188 Report, pp. 18-19 and EBO 188 Guidelines, pp. 7-8.

[40] ED submissions, p. 3.

balance of the remaining unpaid TCS.[41] To support its conclusions and as in prior proceedings,[42] ED makes unsubstantiated and untested claims about the state of the energy market, evident in this paragraph:

> The financial risk is much higher today than it was in the past. Climate change is causing accelerating changes in energy use patterns. Regulation and market forces are increasing the attractiveness of alternatives to fossil fuels. In five years, natural gas may not be the preferred option for customers in certain communities, especially if they are required to pay surcharges. In ten years, that is even more likely to be the case. Even more so in 20 years or longer.[43]

13. Aside from the fact that it is inappropriate to be presenting such claims in argument, at a point in the proceeding when they cannot be tested by the other parties, there certainly are many other perspectives on these matters. Just to give the Board a sense of an alternate perspective, the Canada Energy Regulator ("CER"), that has as one of its mandates to conduct research and produce long-term outlooks on Canadian energy supply and demand, projects a marked increase in natural gas usage over the next 20 years with natural gas remaining the main fuel source for heating homes. It also projects growth in primary demand for energy use will be led by natural gas over the projection period.[44] This is despite decarbonization initiatives.

14. As the Board and other parties are well-aware, the Ontario government is also supporting expansion of natural gas in remote communities because, as stated on the government's Natural Gas Expansion Program ("NGEP") website:

> Natural gas is Ontario's most common heating source and is more affordable than other sources such as electricity, oil or propane. Currently, about 3.5 million homes and 130,000 businesses in Ontario use natural gas. The government is committed to expanding natural gas access to thousands of households and businesses across the province in Ontario's northern, rural and Indigenous communities.[45]

And, as noted in the Enbridge Gas response to ED's unsuccessful motion for full and adequate interrogatory responses in this proceeding, Enbridge Gas has

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[41] ED submissions, p. 2.

[42] For example, see ED submissions in EB-2019-0188 and EB-2019-0294.

[43] ED submissions, p. 3.

[44] *Canada's Energy Future 2019; Energy Supply and Demand Projections to 2040*, Canada Energy Regulator, pp. 4 and 22-24. See https://www.cer-rec.gc.ca/nrg/ntgrtd/ftr/2019/2019nrgftr-eng.pdf

[45] See https://www.ontario.ca/page/natural-gas-expansion-program.

submitted over 200 project proposals that have strong support from the municipal councils and constituents to bring natural gas service to the subject communities.[46] Through the NGEP, the government is providing for $130 million in funding to be made available for the successful natural gas expansion projects.[47] These are only two examples that demonstrate why the ED claims are not valid evidence and they should be rejected by the Board. On the contrary, the risk of existing and new customers migrating away from natural gas service at any time within the foreseeable future appears to be very low given the CER's well-informed projections of increased natural gas demand over the next couple of decades and the significant Ontario municipal support for expanding natural gas distribution systems. Moreover, as has been reiterated in this proceeding, Enbridge Gas takes the risk on its estimated attachment and volume forecasts for the RSP (the first 10 years of Community Expansion projects), after which time actual data will be reported to and reviewed by the Board.

C. Hourly Allocation Factor

15. Like with the SES and TCS proposals, the majority of parties (notably, those who represent customer groups), including OEB Staff, support the HAF proposal in principle, subject to clarification and confirmation of certain items.[48] These parties generally agree, as summarized by OEB Staff, that 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.[49]

16. Enbridge Gas addresses each of the items of clarification in turn below:

- **HAF Definition Clarification**: OEB Staff, IGUA and LPMA noted how the proposed HAF definition does not appear to clearly account for the first step of

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[46] Enbridge Gas August 27, 2020 response to ED motion. p. 3.

[47] Ministry of Energy, Northern Development and Mines letter to Board regarding NGEP, dated December 12, 2019.

[48] OEB Staff, OGVG, IGUA, LPMA, FRPO, SEC, CME and CCC.

[49] OEB Staff submissions, p. 19.

the HAF calculation which is to split the project and capital cost into a large volume and small volume component based on proportionate demands.[50] Enbridge Gas agrees that this clarification is warranted and therefore proposes the following revised definition and descriptions for the HAF in its feasibility policies (tracked changes would be made if approved by the Board):

EGD Rate Zone Policy

Paragraph 40: "The large volume component of a Development Project is derived by splitting the capital cost of the Development Project into a large volume and small volume component in proportion with the peak hourly demands of each component. The HAF is calculated by dividing the ~~net~~ forecast capital cost of the large volume component of the ~~a~~ Development Project (net of any municipal or governmental funding) by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves within the Area of Benefit and is expressed in dollars per m3/hour."

Union Rate Zones Policy

Page 2: "Hourly Allocation Factor (HAF) – ~~An allocation of upfront~~ A method used to allocate the capital costs of a Development Project to customers requiring additional firm service within an identified Area of Benefit. ~~It is derived by dividing the net forecast capital cost of the project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves in the Area of Benefit.~~ The HAF is expressed as a capital cost per m^3/hour~~of incremental capacity~~.

Page 5 (second paragraph of section 6): "The large volume component of a Development Project is derived by splitting the capital cost of the Development Project into a large volume and small volume component in proportion with the peak hourly demands of each component. The HAF is

[50] See Exhibit JT1.1.

calculated by dividing the ~~net~~ forecast capital cost of the large volume component of the ~~a~~ Development Project (net of any municipal or governmental funding) by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project serves within the Area of Benefit and is expressed in dollars per m3/hour."

- **Feasibility for SVC Component:** OEB Staff commented it is unclear whether SVCs would pay their fair share of costs of a Development Project at the time these costs are included in rate base, or whether an SES may be applied if necessary.[51] The timing and manner of collecting the proportionate share of SVC costs of a Development Project will be a function of the type and scale of the SVC component of the project. If the SVC component meets the criteria of a Community Expansion project and it has a PI less than 1.0, then Enbridge Gas will apply the SES. By the same token, if the SVC component of the project meets the criteria for a TCS project, then Enbridge Gas would apply the TCS.

- **HAF Forecast Period:** OGVG states that it generally supports the aggregation of the 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.[52] Enbridge Gas wishes to clarify that it has proposed that its forecast for the large volume component of a Development Project would be for up to 10 years, consistent with the EBO 188 Guidelines.[53]

- **Economies of Scale:** OGVG states that Enbridge Gas should be prepared to demonstrate certain facts related to economies of scale achieved in Development Projects where the HAF is applied.[54] The goal of Enbridge Gas for Development Projects is to facilitate the connection of customers seeking service in a fair, efficient and economic manner. In general, the higher the total capacity being served, the more economically efficient the costs. However, this

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[51] OEB Staff submissions, p. 17.
[52] OGVG submissions, p. 3.
[53] Also see Exhibit C, Tab 2, Schedule 1, p. 9.
[54] OGVG submissions, p. 3.

may not be true in every case, as some small tranches of incremental capacity may be available for a lower cost per m^3/h than a subsequent tranche. By aggregating the forecast demands and selecting the least cost method of serving this demand, Enbridge Gas strives to facilitate the lowest cost project to serve the largest number/demand of customers possible. Attaching specific parameters to Development Projects in the manner that OGVG suggests could limit Enbridge Gas in the scale of Development Projects to only capture the least cost tranche of capacity. This could result in the next tranche of capacity being prohibitively expensive. A long-term forecast and building the least cost facilities that can serve that forecast is in the best interests of the greatest number of customers.[55]

- **Use of HAF for Transmission Projects:** OGVG, IGUA and EPCOR each express concerns about use of the HAF for transmission projects, the feasibility for which is typically governed by EBO 134 principles.[56] Enbridge Gas is mindful of customers' perspectives regarding the higher costs associated with large transmission projects and the necessity to assess societal benefits under stages 2 and 3 of EBO 134. In the case of the Chatham-Kent Rural project,[57] although it involved transmission facilities, the HAF was appropriate due to the modest cost and the fact that customers were able to mitigate their costs and avoid a CIAC through reasonable contract terms and conditions, as recognized by OGVG. Enbridge Gas is continuing to explore alternatives to applying EBO 134 or EBO 188 in an exclusive manner and how to reconcile the two sets of guidelines in an appropriate case. However, Enbridge Gas does not have an alternative to present at this time.

- **Timing of Connection by LVCs:** LPMA and FRPO raise concerns about the timing of connection of some LVCs and how they could potentially avoid allocation of the HAF if they delayed connecting or informing Enbridge Gas

[55] See Exhibits I.Staff.9d), p. 3; I.FRPO.5a); and I.CME.2c).
[56] OGVG submissions, p. 4-5, IGUA Submissions, p. 8,.EPCOR Submissions p.3.
[57] EB-2018-0188.

about their need for gas service. LPMA suggests that Enbridge Gas allocate the HAF to all LVCs regardless of whether they were specifically forecasted.[58] In fact, this is how the HAF proposal would work and is consistent with how it has been implemented to date. The Enbridge Gas forecast is comprised of demand estimates from information such as expressions of interest, market intelligence and customer relationships.[59] Enbridge Gas then determines the optimal facilities design to serve the demand, resulting in very little excess capacity relative to forecast (unlike the FRPO example in Exhibit JT 1.1). The only way for a customer to "reserve" any capacity created by the Development Project is to contract with Enbridge Gas for it. Customers are encouraged to contract for as much of the capacity as they are forecasting to need as early as possible because Enbridge Gas will commit capacity on a first come, first served basis. [60] If another customer requests available capacity, whether or not they were specifically identified in the forecast, they would have the ability to contract for that capacity. This encourages customers to participate in the expression of interest process, so their needs can be contemplated as part of the optimal facilities design. The issues raised by LPMA and FRPO are therefore not a concern. FRPO also states a concern about "the proposed discontinuation of the HAF in the RSP."[61] Enbridge Gas does not understand this concern because the RSP does not apply to a HAF project *per se*. An RSP may apply to a Community Expansion project within a larger project to which the HAF applies. However, this does not appear to be what FRPO is referring to.

- **Information Included in Development Project Forecast:** LPMA suggests that municipal zoning bylaws and past development history of an area should be incorporated into the Enbridge Gas 10-year forecasts.[62] Enbridge Gas does incorporate all available information into the formation of the forecast, including

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[58] LPMA submissions, p. 5.
[59] Technical Conference Transcript, p. 8.
[60] Technical Conference Transcript, p. 124.
[61] FRPO submissions, p. 2.
[62] LPMA submissions, p. 5.

municipal information, and will, where appropriate, include placeholders given the past development history of an area. For example, for the CK Rural project, Enbridge Gas identified six specific customers plus another "non-specific large volume growth" customer.[63]

- **Timing of Rebasing and CIAC Collection:** EPCOR, CME and FRPO each note concerns about the timing of application and collection of any CIAC arising from a Development Project and whether Enbridge Gas may be over-earning on such amounts.[64] First, Enbridge Gas notes that, to date, no CIAC payments have resulted from any projects for which a HAF has been applied.[65] In Enbridge Gas' experience, LVCs typically prefer to avoid CIAC payments by negotiating appropriate contract terms in lieu.[66] To the extent a feasibility analysis results in a CIAC payment, Enbridge Gas will offset the rate base value of the applicable assets at the time that CIAC payment is received. It is also important to understand how the timing of rate base inclusion will work. Depending upon when the project goes into service, Enbridge Gas may be perceived to either be under-earning or over-earning on the project. If a project goes into service within an incentive rate period, the Company will have to wait until its next rebasing application to make any adjustments to rate base for the project. At rebasing, a project's entire revenue requirement would be allocated to rate classes based on the approved cost allocation methodology. For any project for which Enbridge Gas has made the full investment, the total amount of the capital costs should be included in rate base at rebasing. Unallocated capacity does not result in over-earnings. Enbridge Gas will earn an allowed rate of return on its investment. During the incentive regulation term following rebasing, revenue from new customers taking the unallocated capacity form part of utility earnings that are subject to sharing based upon the incentive regulation model in place at the time. Unallocated capacity is simply a short-term timing

[63] See EB-2018-0188, Updated evidence: 2019-03-14, p. 10, paragraph 28.
[64] EPCOR submissions, p. 2, CME submissions, p. 3 and FRPO submissions, p. 2.
[65] Exhibit JT1.3.
[66] EB-2018-0188, Exhibit B.Staff.2, p. 7.

variance that, relative to all of the HAF benefits of efficient allocation of project capacity and cost, results in overall benefits to ratepayers.

- **CIAC Refunds:** EPCOR makes similar comments to those of VECC about potential discriminatory treatment of certain LVCs vis-à-vis the option to apply for a refund.[67] Enbridge Gas notes that the feasibility policies for the Union rate zones do not provide for CIAC refunds. This only exists in the EGD rate zone currently. The concept of a refund for a project to which the HAF is applied is only balanced if there is also a mechanism for a true-up of the HAF amount if project costs are determined to be higher than originally contemplated in the feasibility analysis. As Mr. Gillett articulated in the Technical Conference, "Our experience with large volume customers is that they want certainty around their costs. If there's a potential for a rebate, or a refund rather, there's also potential for incremental costs. Right? It's a symmetrical proposition, so what we find is that large volume customers want certainty. And so once the HAF is allocated, the HAF is done, and we don't revisit it to issue refunds."[68]

- **Area of Benefit Determination:** EP states that it is not clear how the Area of Benefit ("AOB") is determine in a generic manner and asks for expanded documentation/guidelines that apply to all projects where the HAF applies.[69] OEB Staff understood how the AOB is determined as stated in its submissions that, "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."[70] EP also asks for clarification of whether the sole criterion is that 50% of the demand is firm for projects to which the HAF will apply. Enbridge Gas confirms that it must have secured by

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[67] EPCOR submissions, p. 3.
[68] Technical Conference transcript, p. 38.
[69] EP submissions, p. 5.
[70] OEB Staff submissions, p. 16 and Exhibit I.E.8a).

contract at least 50% of the large volume forecast for the project before it will proceed.[71] This is a reference to firm capacity.

D. Relief Requested

17. As set out in its argument-in-chief, Enbridge Gas reiterates its request for approval of the proposed standardized SES, TCS and HAF and related rate rider/schedule and feasibility policy amendments for the reasons described above as supplemented by the referenced evidence in this proceeding.

18. Specifically, Enbridge Gas requests that the Board issue such final and interim orders as may be necessary to approve:
    - i) The SES for future Community Expansion Projects;
    - ii) The 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 setting out the terms of the SES and the TCS;[72]
    - iv) The 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.[73]

19. If approved, Enbridge Gas would implement the proposed amendments to its rate schedules and feasibility policies within four months of receiving the Board's decision. Enbridge Gas would` need this time to develop the systems and processes required for implementation. As noted in its argument-in-chief, Enbridge Gas also presented minor revisions to its Conditions of Service for each of the EGD

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[71] Argument-in-chief, paragraph 26.

[72] Amended rate schedules are set out at Exhibit C, Tab 1, Schedule 1 for the EGD rate zone and Exhibit C, Tab 1, Schedule 2 for the Union rate zones.

[73] Amended feasibility policies were filed with the Enbridge Gas argument-in-chief as updated Exhibits C, Tab 2, Schedule 1 for the EGD rate zone and Exhibit C, Tab 2, Schedule 2 for the Union rate zones. As noted herein, Enbridge Gas would further update these feasibility policies with the clarifications related to the HAF definition.

and Union rate zones that it would implement through a bill notice to customers in the next billing cycle after Enbridge Gas receives and considers Board approval of the SES and TCS.

All of which is respectfully submitted this 2nd day of October, 2020.

ENBRIDGE GAS INC.

Tania Persad Digitally signed by Tania Persad Date: 2020.10.02 11:22:31 -04'00'

Tania Persad, Senior Legal Counsel