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OEB Staff Report to the Ontario Energy Board

Review of Annual Update to Natural Gas Supply Plans of EPCOR Natural Gas LP (Aylmer & Southern Bruce Franchise Areas)

EB-2020-0106

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Introduction

On July 6, 2020, the Ontario Energy Board (OEB) initiated a consultation to review the annual updates to the five-year natural gas supply plans of EPCOR Natural Gas Limited Partnership (ENGLP) in accordance with the gas supply plan assessment process established in the OEB's [Report of the Board: Framework for the Assessment of Distributor Gas Supply Plans](#) (Gas Supply Framework).¹

In 2019, the OEB initiated a review of the five-year Gas Supply Plan (GSP) of Enbridge Gas Inc. (Enbridge Gas) culminating in an OEB staff report dated March 26, 2020.² The consultation of the initial five-year GSP did not include the review of the gas supply plans of ENGLP (Aylmer and Southern Bruce franchise areas) as these were reviewed in individual rate proceedings.³

The Gas Supply Framework requires distributors to file an annual update to their five-year GSPs. Accordingly, Enbridge Gas and ENGLP (Aylmer) filed their annual updates (for 2020) to the five-year GSP on May 1, 2020. ENGLP filed its annual update for the Southern Bruce franchise area on June 15, 2020. In its kick-off letter dated July 6, 2020, the OEB determined that it would defer the review of Enbridge Gas's annual update to early 2021 so that it could include the impact of COVID-19 in its demand forecast and associated GSPs.

This report sets out OEB staff's assessment of ENGLP's annual update to the GSPs. In particular, as per the Gas Supply Framework, OEB staff assessed the extent to which:

- ENGLP's GSPs provides the information requirements (i.e., the framework criteria) used to evaluate whether the Plan delivers value to customers and meets the OEB's guiding principles of: i) cost-effectiveness, ii) reliability and security of supply and iii) public policy. The OEB's framework criteria are: i) demand forecast analysis, ii) supply option analysis, iii) risk mitigation analysis, iv) achieving public policy objectives, v) procurement process and policy analysis and vi) performance measurement.

¹ EB-2017-0129

² EB-2019-0137 Final OEB Staff Report to the Ontario Energy Board on Consultation to Review Natural Gas Supply Plans, March 26, 2020.

³ The five year Gas Supply Plan of ENGLP (Aylmer) was approved as part of the settlement proposal in EB-2018-0336. ENGLP (Southern Bruce) filed a three-year gas supply plan in EB-2018-0264, the cost consequences of which were approved through deferral and variance accounts.

- ENGLP’s GSPs include a description of how the framework criteria have been met.
- ENGLP’s GSPs successfully balance the three OEB guiding principles in a way that is prudent and delivers value to customers.

1.1 Background

The Gas Supply Framework set out the OEB’s approach for the assessment of the rate-regulated natural gas distributors’ (distributors) supply plans. It identified three guiding principles to be used in assessing the distributors’ GSPs:

- **Cost-effectiveness** – The GSP will be cost-effective. Cost-effectiveness is achieved by appropriately balancing the principles and in executing the supply plan in an economically efficient manner.
- **Reliability and security of supply** – The GSP will ensure the reliable and secure supply of natural gas. Reliability and security of supply is achieved by ensuring gas supply to various receipt points to meet planned peak day and seasonal gas delivery requirements.
- **Public policy** – The GSP will be developed to ensure that it supports and is aligned with public policy where appropriate.

The OEB clarified that cost-effectiveness does not necessarily mean the “lowest cost,” reliability does not mean “reliable at any cost” and support for public policy does not mean “support at any cost” or “any level of reliability”. Rather, the intent was to strike a balanced approach to the benefit of customers. Distributors would be required to demonstrate that their GSPs balance the principles in a way that is prudent and appropriate for customers. It was expected that distributors would employ strategies that clearly describe their approach, customer impacts and risks associated with both the options considered and chosen to deliver value to customers.⁴

The OEB also stated that a distributor’s plan must meet specific criteria established by the OEB and the GSP should include a description of how the criteria have been met. The framework criteria are the following:

⁴ EB-2017-0129, Gas Supply Framework, p. 8

- **Demand Forecast Analysis:** A distributor must describe: i) the process used to develop its demand forecasts, ii) the factors impacting its demand forecasts such as historical demand, customer demographic trends and changing weather patterns, and iii) associated risks. A distributor is expected to also use its OEB-approved methodology when preparing these forecasts.
- **Supply Option Analysis:** A distributor must describe the options that were considered and how the selected option was determined. The option analysis is to include: landed costs, bill impacts, the risks associated with each option and how the option aligns with the OEB's guiding principles.
- **Risk Mitigation Analysis:** A distributor must provide a clear description of the risk management process (identification and mitigation) and an assessment of the risk/cost trade-off implications for customers that are associated with options examined. A distributor must also include a suite of scenarios: best, most likely and worst scenarios.
- **Achieving Public Policy:** A distributor must identify and demonstrate the public policy (i.e., public policy that is in effect, not proposed) that its gas supply plan is supporting and how it balanced achieving this with the other guiding principles.
- **Procurement Process and Policy Analysis:** A distributor must provide an overview of its gas procurement policies including how the distributor monitors the market and what resources are applied to ensure that it meets demand.
- **Performance Measurement:** A distributor must develop performance metrics that reflect the OEB's criteria and demonstrate how the OEB's guiding principles have been achieved.

1.2 The Process

On June 24, 2020, Enbridge Gas filed a letter requesting to forego the review of its 2020 GSP update. Enbridge Gas noted that it prepared its annual update prior to the onset of the COVID-19 pandemic. Therefore, the update did not include any impacts of the pandemic. Enbridge Gas proposed to expedite the filing of a 2021 annual update to January or February of 2021, as opposed to May as per the Gas Supply Framework.

The OEB in its kick-off letter dated July 6, 2020, agreed with Enbridge Gas and determined that it would review the 2021 GSP of Enbridge Gas in early 2021. However, the OEB determined that it would proceed with the review of ENGLP's GSPs for the Aylmer and Southern Bruce franchise areas. The OEB outlined a process for interested stakeholders (parties) to participate in the process.

The OEB scheduled a written process to review the annual update of ENGLP's GSPs. Parties and OEB staff submitted written questions on the GSPs. Following the responses, OEB staff were to file its conclusions to the OEB in the form of a report (i.e. this document). Unless the OEB decides to hold a proceeding to consider any component of the annual updates, the review process would conclude with OEB staff's report.

The following parties participated in the consultation:

- Anwaatin Inc. (Anwaatin)
- Building Owners and Managers Association (BOMA)
- Canadian Rite Rate Energy Corporation (Rite Rate)
- Federation of Rental-housing Providers of Ontario (FRPO)
- Pollution Probe
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers Coalition (VECC)

On August 6, 2020, four stakeholders and OEB staff filed questions to ENGLP on its annual update to GSPs. On August 21, 2020, ENGLP submitted written responses to the questions. The annual update to the GSPs and the written responses to the questions on the GSPs form the basis of this report.

All material related to this consultation is available on the [OEB's website](#).

Summary of Natural Gas Supply Plans

1.3 ENGLP Aylmer Gas Supply Plan

ENGLP Aylmer distributes natural gas in southwestern Ontario. It serves over 9,000 customers in Aylmer and surrounding areas. In November 2017, ENGLP purchased all the distribution assets from the predecessor distributor, Natural Resource Gas Limited (NRG).

EPCOR is an Ontario limited partnership and is a wholly indirect subsidiary of EPCOR Utilities Inc. which is a utility company based in Edmonton, Alberta. EPCOR Utilities Inc. manages water, wastewater, natural gas and electricity distribution systems in Canada and the United States. EPCOR was formed pursuant to a limited partnership agreement which provides that EPCOR Ontario Utilities Inc., as general partner, will manage the day-to-day operations of EPCOR. EPCOR operates separate business units, one each for the Aylmer region and the other for the Southern Bruce area. The two units are referred to as ENGLP Aylmer and ENGLP Southern Bruce in this report.

ENGLP Aylmer filed its five-year GSP for the period 2019-2024 in its cost of service proceeding.⁵ The OEB in its Phase 1 decision approved the settlement proposal between the applicant and the intervenors in its entirety including ENGLP's five-year GSP.⁶ While the OEB approved the resulting cost consequences of ENGLP's GSP, the OEB also noted that it expected that ENGLP would still participate in the GSP policy proceeding and adhere to any applicable policy directions that are provided to natural gas distributors with respect to their gas supply plans.

ENGLP Aylmer is a system gas customer of Enbridge Gas and procures gas under Rate M9. ENGLP receives a bundled service under Rate M9 which includes natural gas commodity, storage, load balancing and transportation services. ENGLP augments the supply from Enbridge Gas with local production to address system integrity issues in the southeast portion of its service territory.

⁵ EB-2018-0336

⁶ EB-2018-0336, Decision and Interim Rate Order, July 4, 2019, pp. 4-5.

In the cost of service proceeding, ENGLP engaged Cornerstone Energy Service to produce a system integrity study. The study determined that procuring local production was the most cost-effective option to address system integrity and low-pressure issues.⁷ In the five-year GSP, ENGLP indicated that it intended to negotiate a long-term supply agreement to ensure that there is sufficient local production. However, since ENGLP was still negotiating supply arrangements with local producers, details regarding local supply were not available for review in the rates proceeding. In its annual update to the GSP filed as part of the current review, ENGLP provided details for procuring local supplies, namely the new contract entered into with Lagasco Inc. (Lagasco Contract). In the January 2020 QRAM application, the OEB approved the cost consequences of the Lagasco Contract on an interim basis pending the review of the Lagasco Contract in the annual review of the GSP.⁸

ENGLP discussed the specific criteria established by the OEB and described how its GSP has met the criteria. These criteria are discussed below:

Demand Forecast Analysis

In order to develop a natural gas supply portfolio, ENGLP first developed a demand forecast. ENGLP's demand forecast for the rate year (2019) was approved in the cost of service proceeding. The analysis was updated in 2020 for purposes of the current GSP review.

The utility serves three main classes of customers: General Service, Seasonal and Contract customers under six rate classes. The forecasted annual customer service demand for weather sensitive customers was developed through multivariate regressions. Forecast for consumption that is not weather sensitive (agricultural demand) was developed using a five-year rolling average.

Supply Option Analysis

ENGLP receives the majority of its gas supply requirements under the bundled M9 rate (Large Wholesale Service Rate). ENGLP currently has three M9 Large Wholesale Service Contracts: SA1550 (System Gas) with a contract demand of 208,429 m³, SA25050 (Direct Purchase) with a contract demand of 13,336 m³ and SA8936 (IGPC⁹) with a contract demand of 208,800 m³. Given ENGLP's limited size and resources, the utility intends to continue contracting with Enbridge Gas under the M9 rate.

⁷ EB-2018-0336, Exhibit 2, Tab 3, Schedule 2.

⁸ EB-2019-0288, Decision and Interim Rate Order, December 23, 2019.

⁹ IGPC is a large industrial contract customer of ENGLP Aylmer.

In evaluating alternative supply options, ENGLP evaluated the economics of the M9 service offering versus alternative services and associated rates offered by Enbridge Gas. Considering the experience of its predecessor distributor (NRG) following the winter of 2014 where NRG failed to balance its contract with Enbridge Gas and incurred financial penalties, a system supply option was considered most appropriate. NRG was a direct purchase customer of the former Union Gas under the M9 rate. Accordingly, NRG had to procure its own commodity. ENGLP is now a system gas customer under M9 and it receives a bundled service which includes commodity, transportation services, seasonal storage services, daily balancing and a nomination service. ENGLP completed an analysis of the price differential between the M9 rate and buying gas directly at Dawn. ENGLP estimates that the utility pays a 9% premium or approximately \$375,000 annually for using the M9 service in comparison to buying gas directly at Dawn.¹⁰ However, in order to purchase directly from Dawn, ENGLP indicated that it would need to invest in a number of resources including additional employees, IT systems, and credit support for long-term upstream transportation contracting and storage contracting.

ENGLP has also signed a long-term (five-year) gas supply agreement with Lagasco on October 3, 2019 to procure local supplies. The pricing structure of the Lagasco Contract is comprised of a monthly demand charge, a delivery charge and a commodity charge. This supply agreement will enable ENGLP Aylmer to maintain pressure in the southeast area of the distribution system (where ENGLP has historically experienced low pressure).

ENGLP has contracted for firm demand of 1,200 GJs per day with Lagasco that is delivered at the Lakeview Compressor Station. To connect to the new supply, a new regulating and metering station has been constructed at the Lakeview site. The Lagasco Contract is priced below the M9 gas supply commodity charge. A 5% discount to the M9 gas supply commodity charge is applied to the gas delivered by Lagasco. For any gas delivered in excess of the firm contract demand of 1,200 GJ per day, the discount will not apply and there will not be any incremental demand or overrun charges. A bill comparison shows that a supply portfolio which includes purchasing gas under the Lagasco Contract results in a modest \$2.66 reduction to the average annual residential bill.¹¹

ENGLP considered other supply options to address system pressure issues in the southeast part of the distribution system. A trucked compressed natural gas option was

¹⁰ ENGLP Aylmer 2020 Annual Update to GSP, May 1, 2020, p. 20.

¹¹ ENGLP Aylmer Annual Gas Supply Plan, pp. 14-15.

more expensive and less reliable during the winter season and was therefore dismissed. The cost of a new steel pipeline that would move high pressure gas into the ENGLP distribution system from an Enbridge Gas transfer point was rejected as the cost was in excess of \$10 million. ENGLP also approached another local producer within ENGLP's franchise area but it was unwilling to sell gas at an identical or lower price structure than offered by Lagasco.

Risk Mitigation Analysis

ENGLP intends to stay on the M9 rate and as indicated in Enbridge Gas's M17 rate application, Enbridge Gas will continue to offer the M9 rate to ENGLP Aylmer¹² With respect to the Lagasco Contract, ENGLP plans to purchase lake gas, which is gas produced in Lake Erie. Production from the older wells that were formerly owned by NRG Corp.¹³ and now owned by Lagasco are declining at an accelerated rate and not considered to be reliable in the future. Lake gas is therefore considered to be appropriate going forward. The remaining life of the currently producing wells in Lake Erie is 50 years based on a 2019 Deloitte Reserves Evaluation. The risk of depletion therefore is not a concern for the planning period.

The second risk relates to the terms of the contract between ENGLP and Lagasco. In response to a question, ENGLP confirmed that the supply contract does not have financial assurances from the supplier to support firm deliveries.¹⁴ In the event that there are any supply shortfalls, ENGLP has the right to immediately reduce the contract demand to a level determined by ENGLP.¹⁵

Public Policy Objectives

ENGLP has acknowledged the importance of Greenhouse Gas abatement across the Province and is considering the possibility of acquiring Renewable Natural Gas (RNG). ENGLP is currently in discussions about procuring RNG and will update the OEB in future GSPs.

As part of ENGLP's compliance requirements with respect to the Federal Carbon Pricing Program (FCPP), the utility filed its 2019 FCPP application with the OEB on March 8, 2019.¹⁶ The application was approved on July 18, 2019.

¹² EB-2018-0336

¹³ NRG Corp. was a related company to NRG Distribution (the utility).

¹⁴ Response to FRPO IR# 4.

¹⁵ Response to OEB Staff IR# 3.

¹⁶ EB-2019-0101

ENGLP does not currently offer Demand Side Management (DSM) programs in the Aylmer franchise area to encourage energy conservation and provide energy efficiency opportunities to its customers. ENGLP has confirmed that it does not intend to offer DSM programs in the near future.

Procurement Process and Policy Analysis

ENGLP procures a majority of its gas supply requirements (70% - 80%) from Enbridge Gas under the M9 rate which is a regulated rate. With respect to gas purchases from Lagasco, there is no transparent pricing mechanism within the franchise area to perform a commodity analysis. The 5% discount was a negotiated rate.¹⁷ However, as noted earlier, ENGLP engaged in discussions with another third-party producer but that producer was not willing to match the pricing structure offered by Lagasco.

Performance Measurement

ENGLP has outlined the performance metrics that will be used to monitor the effectiveness of the supply plan. The performance metrics have been developed to reflect the OEB's guiding principles of cost-effectiveness, reliability and security of supply, and public policy. The performance metrics are attached as Appendix A to this report.

ENGLP will update the scorecard as part of its annual updates. ENGLP will also monitor Lagasco's operational performance on a daily basis through ENGLP's recently installed SCADA system in order to ensure that Lagasco meets its firm contract delivery requirements.

1.4 ENGLP Southern Bruce Gas Supply Plan

ENGLP Southern Bruce will provide first-time natural gas service to the area of Southern Bruce. The OEB awarded ENGLP Southern Bruce Certificates of Public Convenience and Necessity for the Southern Bruce Municipalities in a Common Infrastructure Plan (CIP) competitive process.¹⁸ ENGLP Southern Bruce commenced connecting customers in October 2020.

In ENGLP Southern Bruce's cost of service proceeding, ENGLP submitted a three-year GSP for the period 2019-2021. The GSP for this review has been updated to include the period 2020-2023.

¹⁷ Response to Staff IR# 4.

¹⁸ EB-2016-0137/38/39

ENGLP requires transportation service from Enbridge Gas to move the gas from Dawn to the area of Southern Bruce. In the cost of service proceeding, ENGLP was not certain of the type of service (bundled or unbundled service, cost-based or market-based storage) that it would receive from Enbridge Gas. Enbridge Gas filed a leave to construct application for reinforcing the Owen Sound system and for a new Rate M17 firm transportation service to provide service to the area of Southern Bruce.¹⁹ In that application, ENGLP argued for service under Enbridge Gas's existing rate classes M9 and T3 that provides cost-based storage and load balancing services. However, the OEB in its decision approved the new Rate M17 under which ENGLP has to arrange for its own commodity and storage services.²⁰

ENGLP engaged ECNG Energy Group (ECNG), a third-party consultant, to procure the development of a customer demand forecast and associated gas supply services. ECNG will also develop an update to the GSP annually for filing with the OEB. Gas supply procurement strategies and processes developed for the GSP will be executed by ENGLP and ECNG and assessed against the OEB guiding principles of cost-effectiveness, reliability and security of supply, and public policy.

Demand Forecast Analysis

ENGLP committed to the forecast throughput volumes and customer attachment provided during the CIP competitive process and will bear the risk associated with achieving these connections during the 10-year rate stability period.²¹ ENGLP's demand forecast was approved in the cost of service proceeding.²² The forecast was updated in 2020 to reflect the updated construction schedule and the expected date of customer connections. ENGLP expects to connect 4,887 customers by 2023. ENGLP has contracted for 227,912 m³ per day of capacity to deliver gas from Dawn to the Dornoch interconnect which is sized to meet peak day demand of year 10 (2028).

The utility will serve General Service and Contract customers. Contract customers make up 62% of ENGLP's demand and there are currently two customers under this classification. The Contract customers will contract for their own commodity and storage and are therefore not included in the demand forecast and supply option analysis.

General Service customers make up the remaining 38% of ENGLP's natural gas system, and are comprised of residential, commercial and agricultural customers. While

¹⁹ EB-2019-0183

²⁰ Decision and Order, EB-2019-0183, April 9, 2020.

²¹ EB-2016-0137/0138/0139

²² EB-2018-0264

residential and commercial customers have heat sensitive demand, agricultural customers which make up 9% of the total General Service demand are expected to use natural gas for production purposes. ENGLP stated that this makes it difficult to forecast demand for agricultural customers due to lack of historical data.

Supply Option Analysis

ENGLP plans to access the Dawn Hub for procuring gas supplies. The Dawn Hub is a liquid trading point with connectivity to the vast majority of supply basins. Three types of physical contracts at Dawn were considered for the supply plan: fixed price term purchase, index price term purchase, and monthly spot and daily transactions. For this GSP, only fixed price forward period contracts with terms of one year or less are contemplated. ENGLP selected ICE NGX Union Dawn Day Ahead Index and CPGR 5A index purchases.

The NGX Index was preferred for the following reasons:

- All suppliers contracted with ENGLP use the NGX electronic trading platform.
- Data for the index is readily available through subscription.
- The trading data is deeper than Gas Daily (an alternate data provider).

CGPR 5A index was the preferred choice as it provides more recent data (the 5A is an average of all the days trading as the month happens and 7A is the average price of the days trading in the month before).

ENGLP secured upstream transportation service to Dornoch (the interconnect between Enbridge Gas and ENGLP Southern Bruce) under the M17 rate for 10 years. With respect to storage, ENGLP selected a Load Balancing Agreement (LBA) service and 100,000 GJ of seasonal storage service space at market price. ENGLP selected the LBA daily balancing service as it offers operating flexibility at lower costs versus the alternate daily balancing option offered by Enbridge Gas. The LBA service does not have demand charges associated with the service. Given the supply/demand modelling conducted as part of the GSP, ENGLP expects that the 100,000 GJs of seasonal storage in combination with baseload and month to month firm supplies is sufficient to meet deliverability requirements during the planning horizon.

ENGLP considered three supply options and modelled the GSP to meet the guiding principles of cost-effectiveness, reliability and security of supply.

Option A: Month to Month index purchases

This option includes month to month purchases 7 to 14 days prior to the start of the month, with procurement volumes based on conservative average day demand forecast taking into consideration storage withdrawal during winter months and injection requirements to fill storage during the summer months. Option A provides the most operational flexibility as all procurement volumes are determined on a monthly basis and allows ENGLP to quickly adjust procurement strategies to match near-term demand forecasts. However, since the entire procurement portfolio is priced at the Dawn Day Ahead Index which has shown significant price volatility in past winters, this strategy is exposed to significant price risks.

Option B: Mix of month-to-month index purchases and annual baseload index purchases at AECO

Planned procured volumes for each month is the same as Option A, with up to 50% of each planning year's average consumption (April to March) contracted in March prior to the planning year, at 5A Index plus a one-year fixed basis to Dawn. Remaining monthly forecasted demand and peak day demand shortfalls is met through planned storage withdrawals, month-to-month purchases and daily cash purchases. Option B introduces price diversity into the portfolio but one of the risks with this option is the reduced flexibility in adjusting gas procurement volumes in cases where customer demand is lower than forecasted at the time of entering into the contract.

Option C: Mix of month-to-month index purchases and seasonal baseload purchases (mix of AECO index and Dawn fixed price)

Planned procured volumes for each month is the same as Option A, with up to 65% of each season's average consumption contracted prior to the start of the season at 5A Index plus a fixed basis to Dawn. In the case of Option C, 65% of the average consumption between April and September is contracted in March at 5A Index plus a fixed basis to Dawn, and 65% of average consumption between December to March is priced using fixed price at Dawn contracted in November of each year. Remaining monthly forecasted demand and peak day demand shortfalls are met in the same manner as Option B.

ENGLP conducted a scenario analysis for all options under consideration. ENGLP's analysis indicated that Option C results in a lower landed cost of gas under a base case and a high commodity cost scenario. Given the results of the modeled scenarios and

the risk mitigation analysis, ENGLP selected Option C as it was found to be more flexible than Option B and provided additional price stability by procuring a portion of the winter supply at a fixed price.

Risk Mitigation Analysis

Keys risks to the GSP are weather, demand (both average day and design day²³) and price variation. Since Southern Bruce is a new franchise, there are no historical data to analyze demand relative to weather effects. Due to the lack of detailed rate class historical data, weather and consumption variances were not evaluated in the GSP. As the utility starts serving customers, it will incorporate this data in future GSPs.

Each supply option was tested with weather variations of 30% less heating degree days (HDD) and 38% more HDDs driving heat sensitive forecasted demand estimates. The options were also tested against 30% more and 30% less connections to the forecast. Option C performed the best due to the higher price diversification during the summer months and fixed price contracts in the winter months.

ENGLP contracted for firm M17 upstream transportation capacity to its franchise at Dornoch from Dawn to meet peak day requirements in year ten. ENGLP elected to procure its supply from Dawn instead of Kirkwall or Parkway in its M17 supply contract as Dawn is the most liquid supply point.²⁴ In addition, ENGLP contracted for sufficient storage capacity to meet customer demand for the term of the plan. ENGLP does not currently have the ability to assign its excess transportation capacity to another party as it is the only party that will be taking gas at the Dornoch interconnect. Accordingly, ENGLP will have unutilized transportation capacity until it attaches a critical mass of customers.

Since customers are expected to be connected over time, ENGLP does not intend to fully recover the cost of the excess capacity from its initial connecting customers. In its rates application, ENGLP received approval for a Storage and Transportation Variance Account to record these costs.²⁵ This account provides ENGLP the ability to defer the recovery of the costs related to the additional capacity that ENGLP was required to contract with Enbridge Gas initially in order to provide service to its customer base in

²³ Design day is the firm level of service that a utility is expected to provide to customers on an extremely cold weather day. The design day is measured in heating degree days (HDD). HDD represents the number of degrees of temperature difference between 18 degrees Celsius and the mean daytime outside temperature on any given day.

²⁴ The Dawn Hub located in southwestern Ontario is one of North America's most liquid natural gas trading hubs. Dawn also has the largest natural gas storage facility in Canada.

²⁵ EB-2018-0264, Accounting Order.

future years. The under-recovery related to the additional capacity in earlier years will be deferred to future years when all forecasted customers are connected.

Public Policy Objectives

ENGLP has complied with the FCPP program and filed its FCPP application with the OEB on May 1, 2020. The OEB issued an Interim Decision and Order on May 21, 2020 approving rates effective June 1, 2020.²⁶

ENGLP does not intend to offer DSM programs in the South Bruce franchise area during the term of the planning period.

Procurement Process and Policy Analysis

ENGLP and ECNG are in the process of finalizing a Natural Gas Procurement Guidelines and Procedures document that will form the basis for procurement decisions impacting the GSP. ENGLP has noted that it will file a copy of the Procurement Guideline and Procedures document in the next annual update to the GSP.

Within the gas year²⁷, ENGLP will work with ECNG to assess and manage storage and transportation assets and make necessary adjustments to the procurement process based on scheduled reviews of gas supply, storage and transportation asset utilization, and updates to customer demand.

Performance Measurement

ENGLP has provided a performance metric scorecard that will be used to monitor the effectiveness of the GSP. ENGLP has indicated that it will continue to proactively identify new opportunities to meet its gas supply obligations while meeting the Framework assessment criteria. The performance scorecard is attached as Appendix B to this report.

1.4.1 Gas Supply Plan Execution

ENGLP will work with ECNG to execute the GSP. ENGLP and ECNG have also developed a Gas Supply Planning Model that links demand forecasts, supply arrangements, price forecasts, storage injection and withdrawals and LBA balances to produce an operational outlook for the period covered by the GSP. The model will inform ENGLP of portfolio impacts of different supply arrangements given a set of demand and pricing assumptions. The model will also be used to test ENGLP's natural

²⁶ EB-2020-0076

²⁷ Gas Year starts with the beginning of the heating season.

gas portfolio against various demand and pricing scenarios. On an annual and seasonal basis, EPCOR and ECNG will review the different aspects of the GSP and make adjustments to supply if needed. As ENGLP and ECNG gain more operational experience operating the utility, execution of the GSP will continue to improve.

OEB Staff's Assessment of the Plan

Overview

OEB staff is of the view that ENGLP provided the required information (i.e., the framework criteria) necessary to evaluate whether the GSPs (Aylmer and Southern Bruce) meets the OEB's guiding principles and whether it delivers value to customers.

The GSPs include a description of how the framework criteria have been met. As discussed in further detail below, OEB staff is of the view that overall the two plans successfully balance the three OEB guiding principles of: i) cost effectiveness, ii) reliability and security of supply and iii) public policy in a way that is prudent and delivers value to customers.

In this section, OEB staff presents an analysis of the two plans and discusses some specific issues. However, staff does not propose that the OEB conduct any additional review of the GSPs at this time.

1.5 Aylmer Gas Supply Plan

ENGLP purchases a majority of its requirements (about 80% in 2019-2020, 70% in 2020-2021²⁸) from Enbridge Gas under the M9 system gas service which is regulated and offers a fully bundled service (commodity, storage, transportation and load balancing). The review of the GSP in the rates proceeding²⁹ approved this approach. ENGLP acknowledged that it is paying a 9% premium under the M9 system service option versus buying gas directly at Dawn. OEB staff is of the view that this comparison is not entirely on an equal footing as this alternative scenario would not include a storage and load balancing service. In addition, there would be additional costs to manage the gas supply function (employees and IT systems) and obtain the required credit support for upstream transportation contracting and storage. On balance, OEB staff considers that purchasing gas under the M9 rate (system gas service) is appropriate as it provides supply security, reliability and rate predictability. While ENGLP did not quantify the incremental costs that the alternative option would entail, OEB staff is of the view that these incremental costs would likely be material and therefore could considerably offset the 9% premium. OEB staff requests ENGLP to

²⁸ ENGLP July 2020 QRAM, EB-2020-0149.

²⁹ EB-2018-0336

quantify in its next update, the estimated net cost differential of the direct purchase option.

OEB staff has reviewed ENGLP's analysis of alternatives considered to address system pressure issues. OEB staff is satisfied with the options considered and agrees that the Lagasco Contract terms and price provides a cost-effective option to obtain the required supplies. OEB staff specifically notes that the Lagasco Contract commodity price is lower than the M9 rate, and no other local suppliers were prepared to match or lower the pricing structure of the Lagasco Contract. The Lagasco Contract also results in delivery of gas to the southeast zone where it is needed to maintain system pressure. In addition, OEB staff makes the following observations regarding the Lagasco Contract.

In response to a question, ENGLP confirmed that the supply contract with Lagasco does not have financial assurances to support firm deliveries.³⁰ In the event that there are any supply shortfalls, ENGLP has the right to immediately reduce the contract demand to a level determined by ENGLP. In other words, if Lagasco for some reason is unable to provide the firm deliveries, there would be no financial penalties associated with the quantities of gas not delivered. However, OEB staff notes that Lagasco has sufficient reserves to meet its delivery commitments thereby minimizing the risk of any supply shortfall. ENGLP also indicated that it will monitor Lagasco's operational performance on a daily basis through ENGLP's recently installed SCADA system in order to ensure that Lagasco meets its firm contract delivery requirements. In the case of supply shortfall, ENGLP may have the ability to procure additional supplies from Enbridge Gas.

ENGLP is paying a monthly demand charge under both the M9 rate and the Lagasco Contract. There is no price differential between the demand charges paid to Enbridge Gas and Lagasco. ENGLP clarified that it reduced its contract demand by 2,385 m³ for the 2019-2020 contract year with Enbridge Gas as a result of entering into the Lagasco Contract and therefore the two monthly demand charges do not result in a higher effective commodity rate for customers. OEB staff notes that it is in the case of over-contracting that a monthly demand charge would result in a higher effective commodity price as demand charges are fixed and do not vary with volumes delivered. Since ENGLP has not over-contracted for supplies with Enbridge Gas or Lagasco, the monthly demand charges under Rate M9 and Lagasco are not a concern.

³⁰ Response to FRPO IR# 4.

Overall, OEB staff is satisfied with the supply options selected by ENGLP for the planning period. The Lagasco Contract represents a cost-effective option to augment the supply from Enbridge Gas and alleviates system pressure issues in the southeast part of the distribution system. For the reasons stated above, OEB staff recommends that the cost consequences of the Lagasco contract be approved by the OEB on a final basis as part of ENGLP's next QRAM application.

ENGLP provided a performance metric scorecard that will be used to monitor the effectiveness of the GSP. OEB staff has no concerns with the scorecard developed by ENGLP as it reflects the guiding principles underpinning the Gas Supply Framework.

OEB staff has identified the following as an area of concern. As noted earlier, ENGLP does not intend to offer DSM programs in the near future. ENGLP has argued that resources required to implement DSM programs outweigh the benefits given the small size of the utility and the relatively new age of residential properties in the franchise area.³¹ OEB staff notes that ENGLP has close to 10,000 customers and there are similar sized electric utilities where customers are offered opportunities to save energy. Although the electric Conservation and Demand Management (CDM) programs are offered centrally through the Independent Electricity System Operator (IESO), there is no distinction made between customers of small, medium or large electric utilities. OEB staff notes that even in case of newer properties, there are several DSM initiatives such as adaptive thermostats, air sealing, high efficiency heating equipment, etc. that can provide energy savings to consumers. OEB staff encourages ENGLP to consider the implementation of DSM programs in its franchise area and provide an update in subsequent reviews of GSPs.

Lastly, ENGLP stated that it has not experienced nor does it expect to experience supply/demand impacts over the term of the plan due to the COVID-19 pandemic. However, OEB staff recognizes that it is an evolving situation and there is uncertainty regarding any future impacts. OEB staff expects that ENGLP will monitor this situation and report back to the OEB in its next annual GSP review.

³¹ Response to OEB Staff IR# 6.

1.6 ENGLP Southern Bruce Gas Supply Plan

ENGLP revised its demand forecast for the GSP which was different from the forecast approved in the cost of service proceeding.³² The updated forecast was based on the revised customer connection schedule resulting from construction delays. OEB staff has no concerns with the revised demand forecast that forms the basis of the GSP as it is based on the most recent information.

ENGLP Southern Bruce takes service from Enbridge Gas under an unbundled firm transportation contract. ENGLP Southern Bruce is therefore responsible for procuring its own commodity, storage and load-balancing services. As noted earlier, ENGLP evaluated several supply options and selected Option C. OEB staff is of the opinion that Option C is a conservative option and performs better in response to price fluctuations. Option C provides higher price diversification during the summer months and the fixed price contract along with storage withdrawals is sufficient to meet winter demand reducing the need for spot purchases when prices are higher.

OEB staff requested ENGLP to consider an additional supply option and provide a sensitivity analysis to that option. ENGLP was asked to consider purchasing 40% (in place of 65% under Option C) of the season's average consumption prior to start of the season. The simulation showed that this alternate scenario had little impact on procurement costs and WACOG³³ in all scenarios with the exception of the High Price Scenario (Cost of Gas at High Price under Option C: \$6.53 per GJ and under staff's alternative scenario: \$5.93 per GJ). Considering that the cost of gas was essentially the same under Option C in most scenarios, OEB staff is of the opinion that Option C is an appropriate procurement option and purchasing 65% of the season's average consumption prior to start of the season is a logical approach.

One risk that a new distribution utility faces is the risk of achieving the customer connection forecast. The demand forecast has been developed on the basis of a certain customer attachment forecast and if this forecast is not achieved, the utility runs the risk of over-contracting for storage and transportation costs. Although ENGLP has assumed the customer forecast risk with respect to the revenue requirement for the first 10 years of service, storage and transportation costs are expected to be pass-through costs and will be recovered from ratepayers. The costs related to gas supply were not considered in the competitive process that awarded the franchise to ENGLP.³⁴

³² EB-2018-0264

³³ Weighted Average Cost of Gas

³⁴ EB-2018-0264, Exhibit 3.

If the forecast customer connections are not achieved, the demand charges for upstream costs will be spread over smaller volumes thereby resulting in a higher effective commodity cost. ENGLP conducted sensitivity analysis to test the robustness of the options to variations (+/- 30%) in customer attachment forecast. The selected Option C is impacted by fewer connections (and resulting lower volumes) but tolerates price fluctuations better than the other options.

ENGLP provided a performance metric scorecard that will be used to monitor the effectiveness of the GSP. OEB staff has no concerns with the scorecard developed by ENGLP as it reflects the guiding principles underpinning the Gas Supply Framework.

Lastly, ENGLP analyzed the economic and social impacts of the COVID-19 pandemic. ENGLP stated that it is possible that the economic fallout resulting from the pandemic may negatively impact or delay a customer's propensity to switch to natural gas. The pandemic could also impact the construction schedule of the distribution system and delay site visits to switch on the supply of natural gas. ENGLP engaged Innovative Research Group to conduct a telephone survey of potential residential and commercial customers to assess the impact of COVID-19 on natural gas conversion. The results indicate that 96% of residential respondents and 84% of commercial respondents do not expect the pandemic to impact the conversion decision or timeline of conversion. ENGLP indicated that the pandemic is expected to have a negligible impact from a supply planning perspective. Nonetheless, OEB staff expects that ENGLP will monitor this situation and report back to the OEB in its next annual GSP review.

Like ENGLP Aylmer, ENGLP Southern Bruce does not expect to offer DSM programs within the planning period. Considering that ENGLP Southern Bruce is still in the process of connecting its first set of residential and commercial customers, offering DSM programs at the time of conversion would be optimal. While OEB staff accepts that ENGLP had to deal with many pressing challenges in connecting new communities, OEB staff is of the opinion that ENGLP should consider DSM opportunities in the near future. ENGLP could also consider co-ordinating DSM initiatives across the Aylmer and Southern Bruce franchise areas to address concerns regarding the viability (cost/benefit) of such programs noted earlier.

Overall, OEB staff is satisfied with the supply options considered by ENGLP and the sensitivity analysis conducted to assess the alternatives. The decision to purchase gas at Dawn is appropriate as Dawn is a liquid trading hub that is in close proximity to the Southern Bruce franchise area. The selected Option C performed best under different price scenarios and best responds to the needs of ENGLP.

Appendix A: Performance Scorecard (Aylmer)

1. Cost Effectiveness	Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024
	Policies & Procedures	Demonstrates consideration of alternate Enbridge rates	Annual Rate review	C					
	Price Effectiveness	Demonstrates local production a competitive option	Premium to system gas alternative	+/-%					
2. Reliability & Security of Supply	Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024
	Design Day	Demonstrates ENGLP ability to procure transportation assets required to meet design day demand	Acquired assets to meet design day	1. 100% 2.% Enbridge Overrun Charges					
	Coordination	Demonstrates ENGLP ability to invest in capital distribution required to meet design day demand	Monthly meetings between gas supply & engineering operations	12/yr					
	Communication	Ensure ongoing communications	Communication to ratepayers re material bill mpacts	C					
	Diversity	Demonstrate diversity of the portfolio	1. Firm local gas 2. Local production as % of system gas	%					
	Reliability	Demonstrate the reliability of the portfolio	1. Days failed to deliver to customers 2. Days customer interrupted (1)	#					
3. Public Policy	Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024
	Supporting Policy	Reports public policy In ENGLP supply plan	Plan addresses 1. Community expansion 2. FCC & 3. RNG	C					

Notes : C= Compliant

Definitions:

Definitions:

1. Cost Effectiveness: The gas supply plans will be cost-effective. Cost effectiveness is achieved by appropriately balancing the principles and in executing the supply plan in an economically efficient manner
2. Reliability and Security of Supply: The gas supply plans will ensure the reliable and secure supply of gas. Reliability and security of supply is achieved by ensuring gas supply to various receipt points to meet planned peak day and season gas delivery requirements
3. Public Policy: The gas supply plan will be developed to ensure that it supports and is aligned with public policy where appropriate

Appendix B: Performance Scorecard (Southern Bruce)

1. Cost Effectiveness										
Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024		
Policies & Procedures	Demonstrates consideration of timely pricing information and utility's ability to transact according to internal policies for managing counterparty risk	Procurement plan reviewed and approved as outlined in the policy	C							
		Transacting counterparties have met appropriate credit requirements	100%							
Price Effectiveness	Demonstrates diversity of supply terms within procurement plan through a layers approach to contracting	Distribution of procurement terms: Less than 1 month Monthly, Seasonal Annual Reference price history	Inserts % Reference price graph							
	Illustrates Price Stability									
2. Reliability & Security of Supply										
Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024		
Design Day	Demonstrates ability to procure transportation assets required to meet design day demand	Acquired assets to meet design day	100%							
		Storage	Demonstrates execution of storage inventory strategy	% of actual storage contract Nov 1 to plan	100%					
				% of storage target at March 31 to plan	100%					
		Coordination	Demonstrates ENGPL ability to invest in capital distribution required to meet design day demand	Monthly meetings between gas supply & engineering operations	12/yr					
		Communication	Ensure ongoing communications	Communication to ratepayers re: material bill impacts	C					
		Diversity	Demonstrate the diversity of the portfolio	1. % of contract tied to various pricing basins	%					
2. # of unique counterparties	#									
Reliability	Demonstrate the reliability of the portfolio	1. Days failed to deliver to customers	#							
		2. Days customer interrupted	#							
3. Public Policy										
Performance Categories	Intent of Measures	Measures	Sample	2020	2021	2022	2023	2024		
Supporting Policy	Reports public policy in EPCOR supply plan	Plan addresses: 1. Community expansion	% of customer converted versus CIP							
		2. FCC	C							

Notes : C= Compliant

Definitions:

1. Cost Effectiveness: The gas supply plans will be cost-effective. Cost effectiveness is achieved by appropriately balancing the principles and in executing the supply plan in an economically efficient manner
2. Reliability and Security of Supply: The gas supply plans will ensure the reliable and secure supply of gas. Reliability and security of supply is achieved by ensuring gas supply to various receipt points to meet planned peak day and season gas delivery requirements
3. Public Policy: The gas supply plan will be developed to ensure that it supports and is aligned with public policy where appropriate