

**ONTARIO ENERGY BOARD**

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

**AND IN THE MATTER OF** an application by Enbridge Gas Inc. for approval of a proposal for integrated resource planning;

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**FINAL ARGUMENT  
OF THE  
SCHOOL ENERGY COALITION**

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**March 31, 2021**

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## 1 GENERAL COMMENTS

### 1.1 Introduction

- 1.1.1 This Application seeks to establish a framework to incorporate integrated resource planning principles into the facilities planning process of Enbridge Gas Inc.
- 1.1.2 The IRP Proposal from Enbridge was originally included as part of a leave to construct application, EB-2019-0159. The Board determined that the IRP component should be heard separately. Subsequently, the LTC component was withdrawn by the Applicant.
- 1.1.3 The proceeding has included reports and testimony from multiple experts, as well as extensive interrogatories and comprehensive technical conference and oral hearing. The Argument in Chief of the Applicant was filed on March 17, 2021.
- 1.1.4 This is the Final Argument of the School Energy Coalition.
- 1.1.5 The Board will be aware that some of the customer and environmental groups who intervened in this proceeding have worked together to avoid duplication, including sharing ideas, positions, and drafts. We have been assisted in preparing this Final Argument by that co-operation (and often lively debate) amongst parties.
- 1.1.6 This Final Argument has been organized to follow the logical flow of the issues. Because we are recommending that the Board reject the Enbridge Proposal, it was neither necessary nor even possible to structure our Final Argument in the same manner as the Argument in Chief.
- 1.1.7 There are many issues on which SEC has made no submissions. Where that is the case, that does not indicate that SEC agrees with all or any part of the Application. Silence is just silence.

### 1.2 How Long Do We Have to Wait?

- 1.2.1 The following is a description of IRP developed by the Board and by OEB Staff:

*“Integrated resource planning (IRP) for natural gas utilities is an expanded method of planning whereby the expected demand for natural gas services is met from the least costly mix of supply additions, energy conservation, energy-efficiency improvements and load management techniques (i.e., the integration of supply-side resources and demand side resources). Some of the specific objectives of the planning process are to continue to provide reliable service, equity among ratepayers, and a reasonable return on investment for the utility while addressing environmental issues and achieving the lowest cost to the*

*utility and the consumer.*

*The methodology for calculating the "cost" of each option and the analytical framework used for insuring consistent treatment of both supply-side and demand-side options must be developed and adopted prior to the development of actual plans.*

*Fundamental to successful implementation of IRP is a refocussing of the gas utility's mission from being solely a purveyor of natural gas to a more comprehensive view of being a provider of natural gas services.*

*Besides integrating demand- and supply-side options on a consistent basis, an integrated resource plan should be flexible and diversified; the utility should be able to respond to uncertainty and minimize risk. The planning exercise is preferably conducted on a cooperative basis which should allow for input from all parties interested in the development of the plan, and will include some form of regulatory review, thereby ensuring that the interests of all stakeholders are taken into account.”<sup>1</sup>*

- 1.2.2** Sadly, as familiar as the wording sounds, that is not a quote from this proceeding, or even a recent proceeding. It is, in fact, from EBO-169, which was a proceeding on the Board’s own motion (originated April 9, 1990 in EBRO 462) to consider least cost planning for natural gas. The EBO-169 proceeding led eventually to EBO-169-III, which formed the basis for the DSM programs currently being offered in Ontario today.
- 1.2.3** While the EBO-169-III proceeding focused mostly on using energy efficiency and other techniques to affect gas supply planning, the original Discussion Paper also expressly included facilities planning. In theory, at least, DSM should have been targeted since 1993 on reducing the need for additional pipe. That has not in fact happened, despite many directions from the Board for the utility to place more emphasis on non-pipes alternatives.
- 1.2.4** SEC is aware that other parties are setting out in their Final Arguments some of the history of IRP in Ontario, so we will not duplicate that here. However, we do want to highlight three more recent instances where the Board was very clear about what was expected.
- 1.2.5** In EB-2012-0451, the GTA Reinforcement case, the Board was clear that it felt the utility’s consideration of non-pipes alternatives was inadequate, and more should be

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<sup>1</sup> EBO -169, Board Staff Discussion Paper, September 16, 1991 Revision, at para. 20. This is a revision to the original draft of the Discussion Paper dated June 18, 1991.

done in future cases to review alternatives to more pipelines<sup>2</sup>. That decision was more than seven years ago.

- 1.2.6 In EB-2014-0134, the Report of the Board on the Gas DSM Framework, the Board said, less than a year after the GTA Reinforcement decision:

*“As part of all applications for leave to construct future infrastructure projects, the gas utilities must provide evidence of how DSM has been considered as an alternative at the preliminary stage of project development.*

*In order for the gas utilities to fully assess future distribution and transmission system needs, and to appropriately serve their customers in the most reliable and cost-effective manner, the Board is of the view that DSM should be considered when developing both regional and local infrastructure plans. This is consistent with the direction outlined in the LTEP and the Conservation Directive, which state that the Board shall take steps it considers appropriate towards implementing the government’s policy of putting conservation first in electricity distributor and gas distributor infrastructure planning processes at the regional and local levels, where cost-effective and consistent with maintaining appropriate levels of reliability. The Board expects the gas utilities to consider the role of DSM in reducing and/or deferring future infrastructure investments far enough in advance of the infrastructure replacement or upgrade so that DSM can reasonably be considered as a possible alternative. If a gas utility identifies DSM as a practical alternative to a future infrastructure investment project, it may apply to the Board for incremental funds to administer a specific DSM program in that area where a system constraint has been identified.*

*The Board is also of the view that the gas utilities should each conduct a study, completed as soon as possible and no later than in time to inform the mid-term review of the DSM framework. The studies should be based on a consistent methodology to determine the appropriate role that DSM may serve in future system planning efforts. As part of the multi-year DSM plan applications, the gas utilities should include a preliminary scope of the study it plans to conduct and propose a preliminary transition plan that outlines how the gas utility plans to begin to include DSM as part of its future infrastructure planning efforts.”<sup>3</sup>[emphasis added]*

- 1.2.7 This has come up again in EB-2015-0029/49, EB-2017-0127/128, EB-2018-0097, EB-2018-0306, and EB-2020-0192, among others. In each case, the Board was clear that

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<sup>2</sup> EB-2012-0451/433 *Decision with Reasons*, p. 46.

<sup>3</sup> EB-2014-0134 *Report of the Board, Demand Side Management Framework for Gas Distributors (2015-2020)*, p. 35-6.

IRP is a responsibility of the utility. It is not optional.

- 1.2.8** The most shocking of these situations may have been EB-2018-0097, the Bathurst Reinforcement Case. In that proceeding, Enbridge filed the 2018 ICF Report, and then in their Reply Submissions said the following:

*“With regards to the broader subject of IRP, Enbridge believes that it is important to note the numerous policy and regulatory issues raised by ICF in the ICF IRP Report including those identified at page 4 which are as follows:*

***2. ICF’s review indicates that changes in Ontario energy policy and utility regulatory structure would be necessary to facilitate the use of DSM to reduce infrastructure investments. These include:***

- a. Cost recovery guidelines for overlapping DSM and facilities planning and implementation costs and criteria for addressing DSM impact risks.*
- b. Approval to invest in, and recover the costs of the Advanced Metering Infrastructure (“AMI”) necessary to collect hourly data on the impacts of DSM programs and measures.*
- c. Changes in the approval process for DSM programs to be consistent with the longer time frame associated with facilities planning.*
- d. Clarification on the allocation of risk associated with DSM programs that might or might not successfully reduce facilities investments.*
- e. Guidance on cross subsidization and customer discrimination inherent in geo-targeted DSM programs that do not provide similar opportunities to all customers.*
- f. Guidance on how to treat conflicts between DSM programs designed primarily to reduce investment in new infrastructure and DSM programs designed to reduce carbon emissions or improve energy efficiency.*
- g. Guidance on how to treat uncertainty associated with energy efficiency programs outside the control of the Utilities that impact peak period demand.”[emphasis in original]*

- 1.2.9** Or, to paraphrase, “Despite the many times the Board has told us that we should be including non-pipes alternatives in our planning, the Board doesn’t understand that IRP is not really possible. We will not be doing it until the Board changes the rules.”

**1.2.10** The current Utility System Plan and Asset Management Plan of Enbridge do not include any consideration of integrated resource planning. None. Zero.

**1.2.11** Looked at from outside the regulatory arena, it looks very much like Enbridge doesn't want to do IRP (their business is putting pipes in the ground to distribute gas, not finding ways to avoid distributing gas), and they have been stunningly successful over the last thirty years, and the last 8-10 years in particular, in delaying their obligation to do so.

**1.2.12** In SEC's view, the current "IRP Proposal" is really just a continuation of that strategy. Recognizing that they have to appear to be transitioning to a lower carbon future, Enbridge has proposed a framework that

- is long on process but short on substance,
- keeps the utility (with their inherent conflict) 100% in the driver's seat,
- screens out all but a very few projects from IRP consideration,
- tests cost-effectiveness in a way that rules out most non-pipes alternatives,
- builds in poison pills (rate basing non-assets, interfering in the competitive markets, double investing in IRPAs and then facilities, etc.),

and still allows them to add more than a billion dollars a year to rate base.

**1.2.13** The difference today, compared to thirty years ago, is that Enbridge has reached the end of its ability to delay the energy transition. It wants to put assets in the ground that we already know have a high probability of not being fully utilized for their entire useful lives. It wants to build 40 year pipes that may be obsolete in 20.

**1.2.14** All of that with no risk to the shareholders.

**1.2.15** SEC believes the Board's role in this case is to guide Enbridge away from its denial of the future, and towards a more proactive approach in which Enbridge truly does embrace the energy transition. In this respect, the Board should be focused on the following objective set out in the OEB Act:

*"5.1 To facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas."*<sup>4</sup>

**1.2.16** While other objectives are very important as well, in our submission this is about the gas regulator taking steps today to ensure that the customers don't get left, a decade or two from now, with a gas distribution system that is overbuilt and no longer financially viable in a lower carbon Ontario.

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<sup>4</sup> Ontario Energy Board Act, S.O. 1998, c. 15, Sched. B, s. 2.

### 1.3 Summary of SEC Proposal

- 1.3.1 The Enbridge Proposal.** SEC believes that the Enbridge Proposal is fundamentally flawed, and should be rejected by the Board. However, that does not mean we believe the Board should just do nothing.
- 1.3.2 What To Do Instead.** SEC submits that the Board should limit its approvals and guidance to those determinations that it has to make now. Determinations that are better made with a full evidentiary base, and are not necessary today, should not be made today.
- 1.3.3** Three types of directions/approvals by the Board would, however, be effective in moving IRP forward in Ontario.
- 1.3.4 Steps Toward a Long Term Framework.** The Board should direct Enbridge to file, in its rebasing application, a comprehensive ten year USP/AMP that integrates into its planning the principles of IRP including the Board's guidance from this proceeding. The Board should in that proceeding determine, based on the strong factual foundation which that would provide, the parameters that should apply to gas IRP going forward. In short, the IRP framework should be based on evidence, not just theory.
- 1.3.5 Board Guidance Today on Relevant Principles/Approaches.** The Board should direct Enbridge that their USP/AMP incorporating IRP should adhere to the following principles:
- (a) Unfair Competition.** Enbridge should not be competing in competitive markets using the regulated utility, and should not use its IRP processes to control or unduly influence competitive markets. Competitive markets provide cost and other benefits to the customers.
  - (b) Rate Basing Costs.** The costs associated with IRPAs should in general not be rate based, but should follow normal accounting principles. Rate basing simply replaces one set of potentially stranded assets with another set of equally strandable assets. Any exceptions should be expressly justified, including mitigation of risks.
  - (c) Cost Comparisons.** Cost effectiveness should be tested using primarily a TRC+ test, although a rate impact test should also be employed to ensure that equity issues are transparent. The Board should initiate a process to develop a cost comparisons manual for use in Ontario integrated resource planning. That manual should be developed in conjunction with the working group described below.



- (d) **Stranded Asset Risk.** In developing facilities or IRPA plans, Enbridge should ensure that they address head-on the risk that assets will be stranded, including active steps to mitigate that risk, and scenario analysis to ensure that the plans will remain robust in the face of that risk. Further, in their plans they should not assume that the shareholders will bear no risk for the cost of stranded assets in the future, even if the assets have been approved through a leave to construct, rebasing, or ICM application.
- (e) **Stakeholder Input.** The Board should establish a working group, under Board supervision, to provide input on the issues that will arise as the IRP framework is fleshed out, including the cost comparisons manual, the pilot projects, and the integrated USP/AMP to be filed on rebasing.

**1.3.6 Interim Measures.** Until an integrated USP/AMP is considered by the Board in the rebasing application, Enbridge should proceed on the following basis:

- (a) **Pilot Projects.** It should proceed with two pilot projects in a manner consistent with the Board Guidance outlined above. The costs of those pilot projects should be charged to a deferral account, for consideration at the time of rebasing.
- (b) **LTC/ICM.** It should not seek leave to construct or ICM approvals for new capital projects unless it can demonstrate that those projects cannot wait for approval until the Board has their ten year integrated USP/AMP in hand. Anything that is not sufficiently urgent should be considered as part of the rebasing application, and in the context of the IRP-driven USP/AMP and updated future carbon cost assumptions.

## **2 THE ENBRIDGE PROPOSAL**

### **2.1 General Problem**

- 2.1.1** The overriding problem with this Application is that Enbridge doesn't really want to do IRP, and their preference in that regard is perfectly understandable. They are being rational. Their business is distributing natural gas. It is regulated because it is a natural monopoly. They grow that business by distributing more gas, and building more gas infrastructure to do so. The non-pipes alternatives are generally not natural monopolies, and so they are entirely antithetical to the Enbridge business model.
- 2.1.2** In short, it is contrary to Enbridge's business interests to succeed with IRP.
- 2.1.3** Enbridge will argue that this is really no different from DSM, which is also contrary to their business interests in the short term, but which they have delivered successfully for almost thirty years.
- 2.1.4** As SEC has noted in its submissions on the upcoming DSM Framework, it is not clear that the more than a billion dollars of ratepayer money Enbridge and its predecessors have spent on DSM programs have actually produced the stellar results claimed<sup>5</sup>. Throughput is up, normalized average use has only declined marginally for residential, and has gone up for commercial/industrial, and rate base is multiples higher than before. All of this has happened in an environment where building codes, appliance standards, and many other factors are improving energy efficiency without the help of DSM programs.
- 2.1.5** Once one understands that Enbridge should not logically want to succeed at IRP, it is possible to look at the Enbridge IRP Proposal through that lens. Seen from that perspective, many aspects of the Enbridge Proposal make a lot more sense. However, they are not in the interests of the customers, or in the public interest.

### **2.2 Wrong Starting Point**

- 2.2.1** The starting point of the Enbridge Proposal is that Enbridge has an obligation to safely and reliably meet the gas demand of its customers, present and future. That starting point is informed by Enbridge's forecast that natural gas demand will continue to increase, year after year, for at least the next twenty years<sup>6</sup>.
- 2.2.2** That forecast is based on an assumption that the price of carbon will peak at \$50 per

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<sup>5</sup> EB-2019-0003, SEC Phase I Submissions.

<sup>6</sup> See, e.g., J1.7, and many other references. J1.7 is not as helpful as it could be, because it is limited to forecasting design day hourly peak (and is in any case not their current forecast), but it still shows that hourly peak increases every single year, in every Enbridge rate zone, for the next twenty years.

tonne, despite the federal government's plan to increase it to \$170 per tonne by 2030, and the likelihood that it will trend higher after that.

**2.2.3** The starting point is thus wrong on two counts.

**2.2.4 *Narrow Focus on Gas Only.*** First, Enbridge assumes that what the customers want is gas. That is simply incorrect. What the customers want is energy, of which gas is only one of their options. While Enbridge can legitimately say that, because they are in the gas distribution business, they should focus on gas, that is fundamentally counter to the principles of IRP.

**2.2.5** This is an important principle: IRP is about meeting the energy needs of the customers, not the gas needs of the customers. As soon as you limit it to delivering sufficient gas, you take away all or most of the long term benefits of IRP.

**2.2.6 *Eroding Price Advantage.*** Second, Enbridge assumes that the substantial price advantage currently enjoyed by natural gas in some uses will continue indefinitely into the future, and will be the primary driver of continued natural gas growth.

**2.2.7** This is likely incorrect in two ways.

**2.2.8** As the cost of carbon continues to rise, the price advantage of natural gas will erode over time. Indeed, that is the purpose of putting a price on carbon: to make burning fossil fuels more expensive. The increasing carbon price will be augmented by local restrictions on gas extraction and transmission, which should also increase the price of the commodity.

**2.2.9** The other way that the growth assumption is likely wrong is that there is a next generation of people that are less willing to support combustion of fossil fuels. The reason electric vehicles are gaining ground is not that they are cheaper. It is that the customers have a declining interest in gas guzzlers, and more interest in buying environmentally preferred products, even if they are more expensive. This tends to drive down the cost of those alternatives, even as the cost of fossil fuels continues to rise to meet a lower carbon future.

**2.2.10 *Not About the Environment.*** SEC wants to make very clear that this is not about leaving a better world for our children, or battling climate change, or anything like that. This is not about what should happen in the future. This is about forecasting what will happen in the future.

**2.2.11** It is about cost, and risk.

**2.2.12** Whatever parties think about what should happen, SEC agrees that it is not part of the OEB's mandate to force utilities to reduce their carbon footprint. It is, however,

decidedly part of the Board's mandate to ensure that utility decisions today take prudent account of what is likely to happen in the future, and the costs and risks associated with those potential future events.

**2.2.13 *A Different Approach is Required.*** So what is missing from Enbridge's basic premise? Fundamentally, Enbridge planning should be sufficiently robust that plausible scenarios – like declining demand for natural gas – are identified and managed. Because the Enbridge IRP Proposal starts with the premise that Enbridge will have to deliver more and more gas, it has a built in bias in favour of building more facilities, and thus will always undervalue IRPAs.

**2.2.14** It is primarily for this reason that SEC will, later in these submissions, propose that the Board's ongoing IRP Framework be considered and approved in the context of a review of the ten year USP/AMP of Enbridge, to be filed in the rebasing proceeding within two years. It is in that real life context that the Board can see the tradeoffs required, and the appropriate policies and procedures necessary, to ensure that IRP is properly used to reduce both current costs, and the risks of future costs.

## **2.3 Utility Control of the Process**

**2.3.1** Another key premise underlying the Enbridge Proposal is that Enbridge has the responsibility for its system, so it "owns" (their word) the process of deciding between facilities and IRPAs, and "owns" the final decision, subject to Board approval.

**2.3.2** If IRPAs were consistent with the Enbridge business model, it might be reasonable to take that approach. As noted above, facilities are consistent with the Enbridge gas distribution business. Shifting customers to electricity is not consistent with that business, and it is not reasonable to have Enbridge "own" that decision and the process to get there.

**2.3.3** SEC is aware that other parties will discuss in detail the problems associated with how Enbridge proposes to manage the process, and we will not duplicate that effort. That is all consistent with our more general concern: those process proposals stem from a basic bias against non-facilities solutions.

**2.3.4** We should again emphasize that, in saying this, we are not intending to imply malice or in any way be perjorative. Enbridge has been consistently rational in all of this. They are in the gas distribution business. They are being asked to undermine the growth of that business. We should not be surprised with resistance.

## **2.4 Barriers to IRPAs**

**2.4.1** The Enbridge Proposal contains a number of requirements that have the effect of making it more difficult to identify and implement IRPAs.

**2.4.2 Screening Criteria.** The most obvious is the “screening criteria”<sup>7</sup>. While other parties will go into some detail about those criteria, SEC will limit itself to the following brief comments:

- (a) **Emergent Safety Issues.** Virtually all facilities options are in some sense related to the utility’s “continued ability to offer safe and reliable service or to meet an applicable law”. Yet, that is the basic screening rule proposed, with a “case-by-case” exception for longer term constraints/needs.
- (b) **Timing.** All needs that must be met within 3 years are screened out. This is the wrong approach. The question is: How can we avoid this need, for example through a combination of short-term and longer term IRPAs? Screening them out means you don’t look at all.
- (c) **Customer Specific Builds.** If a customer is paying the full cost of a build, they get to make the decision. If they are not paying 100%, or if the other customers are in any way at risk, then the utility should be protecting its existing customers by looking at all alternatives. A good example is a subdivision, in which the developers may make a contribution for an upstream reinforcement, but in the end it is the homebuyers that are saddled with long term gas infrastructure where a better option (lower long term cost, less risk) was available.
- (d) **Community Expansion.** Excluding all community expansion projects necessarily means that those communities will get natural gas even though cheaper non-gas alternatives may be available. It also necessarily means that those communities will in all cases take on a long term stranded asset risk that might be avoidable.
- (e) **Pipeline Replacement and Relocation Projects.** This screens out projects in this category under \$10 million, which in the next five year plan would be 93.5% of the projects in that category totalling \$373 million<sup>8</sup>.

**2.4.3** In total, Enbridge is proposing that the projects for which it won’t even look at whether there are available IRPAs will be 91% of their capital projects over the next five years totalling 68% of their forecast capital spend. In a capital budget of \$6.3 billion, they propose to screen out the bulk of that budget, and only look for available IRPAs (with no guarantee of finding them) for \$2.0 billion of that spend<sup>9</sup>.

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<sup>7</sup> See J1.4 for the most recent explanation of those criteria.

<sup>8</sup> J1.1, Table 1.

<sup>9</sup> J1.1, Tables 1 and 2.

**2.4.4 Cost Effectiveness.** Then, once they have a small number of projects, they will test any potential IRPAs by stacking the deck against the non-pipes alternatives:

- (a) First, Enbridge proposes to de-rate the IRPAs on the theory that they are less reliable than facilities at meeting system needs. 110% or 120% of the otherwise necessary IRPAs will be costed on the assumption that not all will actually deliver the needed results. No cost will be allocated to facilities options related to the risk that they will not be needed for their whole useful lives<sup>10</sup>.
- (b) Second, Enbridge proposes to use a “cost-effectiveness test” that is actually a rate impact test designed for completely different purposes. It is designed to test whether an option will deliver enough incremental utility revenues to pay for itself over time. It is not designed to test whether the customers are better off with one option vs. another option, and of course it specifically biases the assessment against non-gas alternatives.

**2.4.5 Double Counting.** Enbridge also seeks Board approval to exit IRPAs if they are not delivering as planned. They would still recover the cost from customers, plus they would be allowed to proceed with their facilities option and recover that from customers as well.

**2.4.6** Note that Enbridge would be the one to implement the IRPA, and then the one to decide whether an IRPA was delivering or not. In effect, under the Enbridge proposal they are rewarded for failing to achieve IRPA results by making an ROE on both the failed IRPA, and on the facility option they wanted in the first place.

**2.4.7 Barriers Generally.** This is just a brief summary of the barriers to IRPAs built into the Enbridge Proposal. We are aware that other parties will go into more detail on these issues, but SEC’s general point is that at each stage of the analysis, there is a bias in favour of Enbridge’s basic business model: put pipe in the ground and earn a return on it.

## **2.5 Rate Basing the Costs**

**2.5.1** The Enbridge Proposal would allow the utility to add to rate base the costs associated with owning or procuring IRPAs, even if those costs would normally be considered to be current or operating costs rather than capital costs.

**2.5.2** There is something inherently intuitive about this proposal, which is why it has been raised so often in IRP and DSM proceedings over the years. The intent of IRPAs, including for example energy efficiency investments, is to deliver a long term benefit.

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<sup>10</sup> This difference between reliability risk and financial risk is described very well by Mr. Neme at Tr4:139..

Whether or not the accounting rules say that the cost to do that should be capitalized, in fact there is some logic to matching the cost over time to the benefit over time.

- 2.5.3** A problem arises, however, when you actually look at the results of that approach in the real world.
- 2.5.4** Take a simple example. The facilities option has a NPV cost of \$10 million, and will last 30 years. The competing IRPA (energy efficiency measures, for example), after de-rating, etc., has a NPV cost of \$9 million, and will last 30 years. Enbridge chooses the IRPA, of course, and adds it to rate base.
- 2.5.5** What happens in year 20? If gas demand is still growing or even constant, both options would be fine. There is rate base remaining to be amortized, but there is gas demand producing revenues to pay for that cost. All is good.
- 2.5.6** If the stranded assets future is occurring, we have a problem. The facilities option would be stranded, because there is less need for the pipe, and therefore less revenue to amortize the cost. However, the IRPA would also be stranded, also because there is less revenue to amortize the cost.
- 2.5.7** The problem is even more acute if the IRPA is a non-gas alternative. If, for example, the IRPA is a capital cost contribution to fund geothermal for a new subdivision, in order to avoid upstream reinforcement capex, the new customers are not gas customers at all. If the upstream reinforcement would have ended up stranded, the cost to avoid it, if added to rate base, will also end up being stranded, and those who benefitted most directly from that will not even be included in the customers bearing that stranded asset risk.
- 2.5.8** The bottom line is that you don't manage stranded asset risk by putting different costs into rate base. Customers like schools have no more interest in being saddled with the amortization of IRPAs than they have in being saddled with the amortization of the pipes the IRPAs were meant to displace.
- 2.5.9** There may well be circumstances in which adding the cost of an IRPA to rate base is a good idea. For example, amortizing an IRPA over a short term useful life may be a good way of managing rate impacts without taking on added risks. This can be handled by the Board on a case-by-case basis, but in our view should not be a standard rule.
- 2.5.10** In our submission, the default accounting and regulatory treatment for costs should be the normal accounting treatment used by US GAAP or IFRS, as the case may be. Exceptions should be just that, exceptions. A blanket exception for IRPAs is not justified by any concept of "like for like" treatment of IRPAs and facilities. They are not the same thing, and pretending that they are the same creates consequences that are

not in the interests of the ratepayers.

- 2.5.11** In this regard, SEC notes that Enbridge’s complaint that they should be equally incented to implement IRPAs and facilities options is a red herring. Unless the Board wants to unilaterally decide that the scope of the Enbridge monopoly should include energy supply activities other than gas distribution, Enbridge can never in fact be equally incented with respect to IRPAs and facilities. Facilities support their monopoly business. IRPAs undermine that business. Equivalence is not possible unless the monopoly business is expanded.

## **2.6 Impact on Competitive Markets**

- 2.6.1** Customers – whether schools or anyone else – benefit from competition between energy suppliers. Competition delivers lower prices, more product and service selection, and more flexibility of energy supply<sup>11</sup>.
- 2.6.2** One of the key roles of the Board, in fact, is to mitigate the deleterious effects of natural monopolies by being a “market proxy”. The Board tries to achieve some of the benefits of a competitive market even where such a market doesn’t exist due to the monopoly nature of some activities.
- 2.6.3** Entry by a regulated monopoly into competitive energy markets is generally not a good thing, whether that entry is by directly competing in those markets as if that was part of the monopoly business, or by indirectly influencing those markets through becoming “the only game in town” for procurement of certain products or services.
- 2.6.4 *Ownership of Competitive Assets.*** Enbridge seeks to have the ability to own, and rate base, products for which there is a competitive market, if in the view of Enbridge there is not sufficient robustness in that market to meet Enbridge’s IRPA requirements. For example, if there is limited market uptake of gas air source heat pumps (which would not be surprising, in fact), Enbridge seeks the ability to buy 10,000 of them, deliver them to gas customers and install them, add them to rate base, and charge a monthly fee to those customers to recover the cost over time.
- 2.6.5** Enbridge would argue that this will displace a system reinforcement, and therefore benefit the customers. They may even be right.
- 2.6.6** However, on the other side the customers will not benefit from Enbridge pushing the vendors of high efficiency furnaces, and the vendors of electric air source heat pumps, and the vendors of geothermal systems, out of the market using their monopoly clout

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<sup>11</sup> No-one thinks that competition is perfect, of course. Many aspects of the market have issues. However, the OEB Act, the many court decisions, and well-accepted regulatory principles, all make clear that the regulator must maximize the availability of competitive markets to benefit the customers.



and lack of downside risk. Not only will the customers that get those gas heat pumps be prevented from looking at alternatives. All other customers in the franchise area will be injured because the harm done to the competitors due to Enbridge's unfair competition will limit the benefits of competition for everyone.

**2.6.7** Enbridge was in the past in the business of selling (renting) competitive products like water heaters, furnaces, and other things. It exited that market when the Board imposed tough restrictions to ensure that anti-competitive actions and rate subsidies could no longer continue. It would be a serious mistake, in our submission, to allow Enbridge to replicate those past problems.

**2.6.8 *Market Influence.*** Enbridge is quick to point out that their preference will be to procure IRPAs from competitive companies. In that way, only their incremental costs to do so would be rate based, and in fact companies would compete with each other to be the suppliers to the customers.

**2.6.9** If what Enbridge intends is that it develop a program, for example, to give a \$5,000 incentive to every new home that installs a code-compliant geothermal system, the competitive markets are then generally allowed to flourish. Different geothermal suppliers will compete (on price, service, innovative offerings, and other things) to sell their systems, and those selected by the customers will get the benefit of the \$5,000 per system reduction in price. That is how most DSM works today (with some exceptions), and it is not seriously problematic.

**2.6.10** What Enbridge appears to want to do is something different. In their model, it would appear that they propose an RFP in that situation, in which one or two companies will be selected by Enbridge to supply geothermal systems with the Enbridge incentive.

**2.6.11** This hurts the customers two ways. First, the cost of competing in the RFP is built into the cost of the systems and passed on to customers. Second, the day to day competition between suppliers, including price competition (sales discounts, etc.), innovation in products and services, and customer care, is all reduced. The one or two selected companies are the only game in town. They don't need to keep the customers happy. They just need to keep Enbridge happy.

**2.6.12 *Protecting Competitive Markets.*** SEC believes that the Enbridge Proposal, as presented to the Board, allows Enbridge to reduce competition in a manner than hurts the customers. Any IRP Framework should, in our view, ensure that Enbridge sticks to its regulated business, and allows the competitive markets to remain fully competitive and provide benefits to energy end-users.

## **2.7 Measuring Cost-Effectiveness**

**2.7.1** SEC adopts the submissions of GEC, ED, and Pollution Probe with respect to cost-

effectiveness tests. As noted earlier, the test proposed by Enbridge is biased against IRPAs, and does not measure what is in the best interests of the customers.

- 2.7.2** There is a reason why DCF tests are not used anywhere for IRP, or for its close cousin, DSM. As Mr. Neme, a noted expert in cost-effectiveness analysis, pointed out a number of times during cross-examination, cost-effectiveness testing has been studied at some length for many years. A DCF test would basically throw all of that developed knowledge out the window, and start from scratch with a test that is simply not built for the task.

## **2.8 Conclusion**

- 2.8.1** There are many other aspects of the Enbridge Proposal that could be critiqued, but in this Final Argument SEC has tried to focus on some of the most dicey areas. We assume that other parties will cover the other areas.
- 2.8.2** SEC therefore recommends that the Board reject the Enbridge Proposal for the reasons set forth above.

### 3 A DIFFERENT APPROACH

#### 3.1 Different Goals of IRP

- 3.1.1 Although SEC proposes that the Board reject the Enbridge Proposal, that does not mean that the Board should simply say “Never Mind”, and leave it at that.
- 3.1.2 In our submission, the Board should set in motion a more rigorous process to develop real IRP, i.e. IRP that will work for the customers and will still protect the utility.
- 3.1.3 In 1991 OEB Staff talked about the two different approaches to IRP<sup>12</sup>:

*“In Chapter III we identified two major approaches to integrated resource planning being used by utilities. The first defines the objective of the planning effort (e.g., minimizing bills, minimizing rates, minimizing environmental impact or maximizing societal benefit) at the outset and establishes screening criteria and methods to achieve that objective, possibly to the exclusion of other objectives. The emphasis, using this approach, is on the resource screening stages. Resource options meeting the screening criteria become part of the plan; options failing are rejected. Thus, only resource options meeting the specific, predefined objective are carried forward.*

*The second approach emphasizes the development and analysis of alternate plans at the utility-system level. No specific objective is established at the outset-rather, multiple objectives (e.g., minimizing bills, minimizing rates, minimizing environmental impact, and maximizing societal benefit) are considered. Resource options are screened to pass a broader criterion or any of several criteria. More resource options are carried forward to be incorporated into one or more alternative system plans. Each of these alternative plans can be designed to meet a different objective. Specific utility, societal, and customer data (e.g., utility revenue requirements, customer bills, societal benefits, rate impacts) are calculated for each alternative plan. The performance of the alternative plans can be compared, and the plan(s) best serving the public interest, however that is defined, can be selected.*

*The second approach is the more expansive and complicated of the two. It also provides more flexibility to the decision maker to define the elements comprising the public interest, and to determine how to weight those elements. The first approach is essentially one of the analyses contained in the second approach. Because the second approach subsumes the first approach, the*

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<sup>12</sup> EBO -169, Board Staff Discussion Paper, September 16, 1991 Revision, at para. 91-93.

*working model we present here is based on the second approach.”[emphasis added]*

- 3.1.4** Enbridge has proposed the first approach, essentially saying “The purpose of IRP is to displace a facilities option in meeting an identified system constraint.”
- 3.1.5** We are no longer in a world in which the only risk is that there will not be enough pipe to carry the gas. The future we face today is one in which the bigger risk may be whether we overbuild for growth assumptions that are unlikely to happen, and someone in the end is left holding the bag.
- 3.1.6** SEC therefore submits that the second approach – one based on how a truly integrated system plan handles various future scenarios – is what is needed in Ontario. That cannot be established in this proceeding, but the Board can take the first steps to accomplish that result.
- 3.1.7** This section therefore proposes concrete steps that the Board can take to get to a robust IRP Framework in a reasonable period of time, without delaying and while using the interim period wisely.
- 3.1.8** SEC notes that, in this respect, SEC largely agrees with most other parties, and with Enbridge. There is a lot of work to be done to get to a good plan, and a lot of learning that needs to take place. Stakeholdering, pilot projects, cost-effectiveness manual, etc. In parallel, other jurisdictions are facing the same challenges, and we can learn from them.
- 3.1.9** The difference between what we are proposing, and what Enbridge is proposing, is that we would limit what the Board approves today to what really needs to be decided now. For the rest, we believe that trying to decide an entire IRP Framework before we have all the facts, and constrained by the Enbridge Proposal, is both unnecessary and potentially harmful.

## **3.2 Starting Point Should be a Real Plan**

- 3.2.1 *Too Much Theory, Not Enough Reality.*** SEC has been struck during this proceeding by the highly conceptual nature of the discussion and debate. We are not looking at actual IRPAs, only the concept of undefined IRPAs. We are not looking at actual facilities, or even actual system constraints. We are talking theory, as if theory is sufficient to ground a robust plan.
- 3.2.2** Enbridge would say that this proceeding is about establishing the ground rules, so that there is guidance in getting to a plan. SEC agrees, and we believe that the Board should provide guidance in this proceeding.

- 3.2.3** What Enbridge is actually seeking, though, is a set of rules to apply to future projects, even though we don't know anything about those future projects, why they would be proposed, the nature of the costs and benefits, or anything else.
- 3.2.4** The problem with that is that rules that might well be suitable for an incentive program to replace gas with geothermal will likely not be suitable for an enhanced offering of interruptible rates to deliver peak demand response. Similarly, the rules that could work well for supply-side options such as those discussed by FRPO, would almost certainly not make much sense for multi-year geo-targeted DSM offerings.
- 3.2.5** Along the way, of course, none of this really works if the Board, the utility, and the customers do not face the issue of stranded assets head on. The Enbridge approach assumes that the facilities option being displaced would never be stranded. A more realistic approach treats avoiding stranded assets as one of the goals, and potential benefits, of IRPAs.
- 3.2.6** ***Develop the Framework Out of Considering the Plan.*** SEC believes that the way to get a robust IRP Framework is to start with a long term plan to meet system needs. That plan should identify risks and opportunities, constraints and costs. It should also include scenarios for different futures, and ensure that there are options to handle those futures when it becomes clear they are arising.
- 3.2.7** Thankfully, Enbridge is scheduled to provide the Board with a ten year USP/AMP, which will be filed less than two years from now. That plan will be based on a comprehensive customer, load, and demand forecast that will also be before the Board at that time. It will also include consideration of what happens with different carbon pricing futures. Enbridge is already on the road to developing different scenarios based on assumptions about the future.
- 3.2.8** SEC believes that the Board should tell Enbridge today that the Board expects Enbridge to integrate non-pipes alternatives into that USP/AMP. This will allow Enbridge to consider various types of IRPAs, over a ten year period, and cost out the system plan with different combinations of facilities and IRPAs. It will also allow Enbridge to test the cost-effectiveness of the plan using various approaches, to ensure that both cost-effectiveness and equity are transparent to the Board. Most important, perhaps, it will allow Enbridge to take express account in its scenario planning of the risks of asset stranding, and the impacts of different mixes of facilities and IRPAs on those risks.
- 3.2.9** Presented with a plan, and presumably with evidence from other parties proposing changes to the plan, the Board is then in a position to determine with some degree of confidence how each category of IRPA (and indeed, each category of risk), should be handled from a regulatory point of view. We are then not discussing how many angels can dance on the head of a pin. We are discussing real situations, with real

consequences, and the Board can drill down to see what should actually be done in each case.

**3.2.10 *What Can the Board do Now?*** Now, SEC is not for a minute suggesting the Enbridge should be asked to do this without guidance. A lot of discussion and debate has taken place in this proceeding, and some conclusions can be reached, at least on a preliminary basis. The Board can provide that guidance to Enbridge without setting a full IRP Framework in stone.

**3.2.11** What we do believe, however, is that the guidance needed to develop a plan is a subset of the rules needed to implement IRP over the long term. SEC is suggesting that the Board decide today those things that need to be decided today, and defer the remaining rules and framework until there is an actual plan before the Board for consideration.

**3.2.12** Below SEC sets out a short list of principles that we believe the Board can adopt now, based on the evidence it has heard in this proceeding.

**3.2.13** Further, SEC is not suggesting that Enbridge should do this alone. We also suggest, below, a working group of stakeholders, and OEB Staff, that can work side by side with Enbridge, hopefully driven by consensus, to achieve the goal of a robust IRP-based USP/AMP.

### **3.3 Board Guidance Today**

**3.3.1** SEC submits that the Board can today provide guidance to Enbridge in five areas:

- (a)* Impact on competitive markets.
- (b)* Rate basing of costs.
- (c)* Cost comparisons.
- (d)* Stranded asset risk.
- (e)* Stakeholder input.

**3.3.2 *Competitive Markets.*** As discussed earlier, SEC believes that one of the Board's roles is to ensure that the entities it regulates do not use monopoly powers and privileges in a manner detrimental to the competitive markets.

**3.3.3** It therefore appears to us clear that the Board can safely tell Enbridge its IRPA planning must avoid negative impacts on competitive markets for energy products and services. This means, as noted earlier, that Enbridge should generally not be engaging directly in competitive activities within the regulated utility, unless there is a clear case

for it and it has been approved in advance by Board. It also means that, to the extent that an IRPA requires that Enbridge promote a product or service that is offered competitively, it should do so in a way that allows that competitive market to operate within minimal utility influence.

- 3.3.4 *Rate Basing of IRPA Costs.*** Generally speaking, rate basing of IRPAs potentially replaces stranded facilities assets in rates with stranded IRPA assets in rates.
- 3.3.5** SEC believes the Board's guidance should be that, for each category of IRPA in the plan, Enbridge should propose an accounting treatment suitable to that particular IRPA. The default cannot be rate basing. The default should generally follow normal accounting rules and principles, unless an exception is justified and demonstrated.
- 3.3.6** The guidance should, in our view, also make clear that the accounting treatment of the IRPA should not be based on the accounting treatment of the facility option displaced, and it should not be based on incenting the utility to implement IRPAs. On the latter point, SEC believes that any incentive should be based on some form of sharing of the benefits, not on providing a return on intangible assets.
- 3.3.7 *Cost Comparisons.*** Different tests compare different aspects of options, whether IRPAs or facilities. SEC agrees with Mr. Neme that cost-effectiveness testing cannot be driven by utility revenues or profitability. Cost-effectiveness testing should compare costs, and the only issues should be which costs are included. In this respect, the main issue is whether cost-effectiveness is tested from a utility point of view, or from a customer point of view, or from a societal point of view.
- 3.3.8** SEC submits that the Board should establish the TRC+ test as the initial cost-effectiveness test for IRPAs. However, consistent with our view that the overall plan should be considered, this has three implications:
- (a)* Costing a plan with scenarios is not a head to head comparison. It is, instead, a comparison of probabilities. The TRC+ test can adapt to that goal, but it does not achieve that goal in its simple form used in DSM, for example.
  - (b)* The working group described below should be tasked with the responsibility to develop a manual for testing the value of plans.
  - (c)* That manual should take into account methods of valuing risk avoidance, including reliability and stranded asset risks, in comparing different mixes of IRPAs and facilities options.
- 3.3.9** The Board's guidance should also, in our view, direct Enbridge to include in its plan not only the TRC+ comparisons, but other tests that will allow the Board to understand how different resource mixes will impact customers, either over time or across

customer classes or categories. Enbridge may propose in its plan a balancing of the various impacts, but ultimately the Board needs a full range of data in order to assess whether the resulting rates will be just and reasonable.

- 3.3.10 *Stranded Asset Risk.*** It is submitted that the Board should require Enbridge to include in its ten year USP/AMP express consideration of stranded asset risks. Scenario analysis will cover most of this, but this risk also requires review of issues like amortization periods, mitigation plans, etc. It may well be, for example, that the time has come to shorten the amortization periods for facilities options, even though that may result in a near term rate increase.
- 3.3.11** SEC also believes that the Board should signal to Enbridge that its planning should not assume that shareholders will have no future stranded asset risk. Today, Enbridge assumes that if it has approval of its capital plan, or a leave to construct, or an ICM rider, it is assured that over the entire lives of the new assets, rates will be set to recover the full costs of those assets, plus return. In some future scenarios, this recovery guarantee is no longer reasonable or even practical.
- 3.3.12** SEC submits that, in the context of reviewing the upcoming ten year USP/AMP, the Board should re-open the question of the extent, if any, to which new capital spending is or should be at least in part at the risk of the shareholders.
- 3.3.13 *Stakeholder Input.*** There has been much discussion in this proceeding about how stakeholder input should be collected and managed. Other parties are, we know, making substantial submissions in that regard.
- 3.3.14** SEC were among the skeptics that the EAC model established by the Board in the last DSM Framework would be an improvement. We were wrong, and the Board was right. Although it is by no means perfect, the EAC has demonstrated that, with the right members of OEB Staff guiding the process, a lot of issues can get resolved in a more effective manner.
- 3.3.15** SEC submits that the Board should establish a similar committee or working group to assist the Board and Enbridge in moving from the current proceeding to a USP/AMP that can form the basis of a robust IRP Framework. In our view, that working group should be tasked over the next two years with the following responsibilities (among others):
- (a) Consideration of pilot projects, including establishment and monitoring.
  - (b) Development of the manual for measuring the value of various IRPA/facilities combinations, including what costs and benefits are included, and how they are valued (all for ultimate consideration by the Board).



- (c) Review of IRPAs proposed by the utility or by stakeholders, and proposing avenues to investigate further IRPA options.
- (d) Review of the approach by the utility to scenario analysis in the USP/AMP, with the intention of early identification of issues that either can be resolved, or should be flagged for the Board's analysis in the rebasing proceeding.

**3.3.16** SEC submits that, while this working group cannot and should not take the place of broader outreach by Enbridge, including regionally, there are a number of specific components of IRP that need to be addressed, and a working group is a more effective way of dealing with that than one-off meetings.

**3.3.17 *Conclusion.*** SEC believes that, with the above Board guidance, and the assistance of the working group, Enbridge should be in a position to incorporate IRP into its USP/AMP for its next rebasing application. With that body of evidence before it, the Board should then be in a position to establish some rules for IRP going forward that are based, not on conceptual analysis, but on real proposals with measurable consequences.

### **3.4 Pilot Projects**

**3.4.1** SEC submits that two other things can or will happen in the meantime. The first is pilot projects.

**3.4.2** While SEC would leave the development of pilot projects up to Enbridge and the working group, we believe that an optimal combination could be something like:

- (a) A demand response program, perhaps based on more aggressive pricing of interruptible rates, or perhaps some other paradigm.
- (b) A residential non-gas program, likely through identifying a new subdivision that would otherwise require an upstream reinforcement. This could include incentives for the builders to install geothermal or electric air source heat pumps.

**3.4.3** SEC recognizes that the full results from these pilots will not be available in time for the rebasing application. However, we fully expect that Enbridge and the Board will have learned a lot just from the implementation of these pilots, and that will inform the Board's consideration of the USP/AMP and the IRP Framework flowing from it.

### **3.5 Facilities Proposals**

**3.5.1** The second thing that will undoubtedly happen is that Enbridge will have ICM or LTC applications between now and the time of the rebasing application. SEC submits that

the Board should establish a moratorium on new facilities projects between now and rebasing, with the only exception being projects that Enbridge can demonstrate are too urgent to wait for the rebasing application, and are not reasonably likely to be affected by IRP analysis.

- 3.5.2** There are two reasons for this proposed moratorium.
- 3.5.3** First, the Board will have a much clearer picture of where large projects fit in when the Board has a comprehensive USP/AMP that looks more completely at future capital needs.
- 3.5.4** Second, Enbridge admits that its current USP/AMP does not include the impacts of the planned \$170/tonne carbon price, and admits those impacts could be material. Rather than risk approving spending today that could, in a couple of years, be shown to be at high risk of stranding, the Board should defer consideration of new projects unless absolutely necessary.

## **4 OTHER MATTERS**

### **4.1 Costs**

- 4.1.1** The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this proceeding. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible.

All of which is respectfully submitted.

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Jay Shepherd  
Counsel for the School Energy Coalition