

**ONTARIO ENERGY BOARD**

**Enbridge Gas Inc. (EGI)**

**Application for Approval of a System Expansion Surcharge,  
a Temporary Connection Surcharge and an Hourly Allocation Factor**

**WRITTEN SUBMISSIONS**

**of**

**INDUSTRIAL GAS USERS ASSOCIATION (IGUA)**

**IGUA's Position**

1. In its 2018 application for leave to construct the Kingsville Reinforcement Project<sup>1</sup> Union identified 14 firm customer contracts executed and 20 customer contracts being negotiated all of which were reliant on approval of the (then) proposed project. That project was characterized as a transmission project.
2. In furtherance of the rate making principle that allocation of costs should follow the realization of benefits, IGUA argued in that case that consideration should be given to the benefits accruing to the 34 specifically identified customers whose demands were among the drivers of, and justification for, the project when it came to allocation of cost responsibility for the project.
3. In its decision on that application the Board considered the economic tests currently applied to economic evaluation of gas transmission and gas distribution projects – E.B.O. 134 for transmission projects and E.B.O. 188 for distribution projects – and concluded that these tests are exclusive, applicable either to distribution lines or to transmission lines, and that currently there is no mechanism to have parties benefiting from transmission

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<sup>1</sup> EB-2018-001. See also ExJT1.2 herein in which the Board's decision on that application is referenced.

projects make a contribution to these projects, despite their substantial benefits for these parties.

4. In response to IGUA's submissions in that case, the Board acknowledged "*the creative thinking included in IGUA's submission*" and noted:<sup>2</sup>

*While it is not appropriate to split the costing between transmission and distribution pipelines as proposed by IGUA in this proceeding, such proposals may help inform future thinking on the treatment of dual function pipelines.*

5. The rate making principle that allocation of costs should follow the realization of benefits is also engaged in, in fact was central to, the Board's consideration of gas system community expansion policy. In developing that policy the Board rejected funding of community gas expansion projects through subsidies from existing customers, determining that<sup>3</sup>:

*The communities that receive the benefit will be the ones paying the costs.*

6. In support of that determination the Board has approved alternative rate making tools - such as the System Expansion Surcharge the regularization of which is sought by EGI in the current application - to fund expansion projects while respecting the costs follow benefits principle of rate making.
7. The 3 expansion charge mechanisms addressed in the current application - the System Expansion Surcharge (SES), the Temporary Connection Surcharge (TCS) and the Hourly Allocation Factor (HAF) – support the equitable allocation of costs in accord with the benefits of system expansions.
8. ***IGUA supports the recognition and regularization of all 3 of these rate making mechanisms.***
9. In respect of the SES and the TCS, IGUA endorses EGI's proposal that Large Volume Customers (LVCs)<sup>4</sup> to be served by expansion projects would have the option to choose

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<sup>2</sup> EB-2018-0013 *Decision and Order*, September 20, 2018, page 6, as excerpted in ExJT1.2 herein.

<sup>3</sup> EB-2016-0004, page 4, last paragraph.

<sup>4</sup> In this submission we use the term Large Volume Customers in the manner in which EGI has used the term in its application; i.e. in reference to customers with annual peak hourly demands of 50 m<sup>3</sup> or greater.

to pay these monthly charges, or could (and more likely would<sup>5</sup>) pay costs that more accurately reflect expansion benefits accruing to them by opting for the more conventional methods of providing assurance of payments to cover the costs incurred to serve them; contract term extensions and/or contributions in aid of construction (CIACs).

10. As representative of EGI's largest customers, IGUA has focused its attention in this proceeding on the proposed HAF.

### **Mechanics and Benefits of the Proposed HAF**

11. The HAF mechanism proposed would allow EGI to take confidently expected future demand growth into account in optimizing the sizing and resulting costs of system expansion projects, while at the same time providing a mechanism for the equitable allocation of the costs of the expansion projects to those customers that benefit from the projects.<sup>6</sup>
12. EGI's witnesses have explained that;<sup>7</sup>
  - (a) expansion facilities are increasingly expensive to build, and the ability to combine multiple current and confidently expected customer loads together yields economies of scale driving the dollar per m<sup>3</sup> of expansion capacity down;
  - (b) recent experience with conducting formalized expressions of interest and complimentary detailed market analysis has resulted in robust forecasts of large volume customer demand; and
  - (c) an HAF supported proactive approach to expansion planning and construction has (in four projects for which the mechanism has been approved to date), and will, allow EGI to meet confidently forecast customer demands;
    - (i) in a timely way;
    - (ii) in a more efficient way, to the benefit of all customers<sup>8</sup>, than would result from successive more limited expansions; and

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<sup>5</sup> EGI AIC, paragraph 10.

<sup>6</sup> Technical Conference Transcript, pages 183-184.

<sup>7</sup> Technical Conference Transcript pages 186-187.

<sup>8</sup> Technical Conference Transcript, page 80, lines 23-25.

- (iii) in such a way as to not be a critical path impediment to expansion of natural gas dependent businesses in Ontario;

all while supporting appropriate and equitable allocation of expansion costs.

13. The HAF would be applied wherever there are at least two LVCs included in the demand forecast driving the expansion project, and at least 50% of the capacity included in the project to serve the forecasted LVCs has been contracted.
14. Setting the threshold for identification of LVCs for the purposes of application of the HAF at 50 m<sup>3</sup> annual peak hourly demand ensures that the larger customers to be served by an expansion are allocated their fair share of the expansion costs, while preserving the SES and TCS mechanisms for cost recovery from residential and smaller commercial customers.<sup>9</sup>
15. Requiring that at least 50% of the anticipated LVC demand be contracted at the time that the HAF project is advanced mitigates the forecast risk inherent in any project planned to meet anticipated growth.
16. ***IGUA supports the HAF as advanced in this application for policy approval.***
17. We note, however, an apparent inconsistency in EGI's description of the mechanics of the HAF in its Argument in Chief (AIC) as compared to the evidence on the matter provided in the proceeding (in particular the description of the mechanics of the HAF mechanism as provided in ExJT1.1).
  - (a) At paragraph 24 of its AIC EGI indicates that the HAF is to be calculated "... by dividing the capital cost of a Development Project by the sum of the forecast firm hourly large volume customer demand (regardless of seasonality) that the project services within the Area of Benefit".
  - (b) In contrast, EGI's evidence describes the first step in application of the HAF being to split the project into capital costs for LVCs and small volume customers<sup>10</sup>, and then dividing the LVC component of the capital costs by the forecast firm hourly large volume demand.<sup>11</sup>

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<sup>9</sup> Technical Conference Transcript, pages 191-192.

<sup>10</sup> ExJT1.1, page 2, top.

<sup>11</sup> ExJT1.1, page 2, 2<sup>nd</sup> paragraph.

18. As corroborated by EGI's Technical Conference witnesses, we understand EGI's intention to be to first split the costs of a proposed development project between LVC and small volume customer forecast demands<sup>12</sup>, and then apply the HAF to allocate the LVC portion of the costs so determined as among the LVC customers contemplated by the project. It is on the basis of this understanding that IGUA supports the HAF proposal as properly allocating costs as between LVCs and smaller customers, and then as between each LVC whose demands the project ultimately serves.
19. ***We ask that EGI confirm this in its reply submissions.***
20. The HAF mechanism is designed to ensure that just because a customer is "first in" does not mean that they will have to pay all of the costs of an expansion, including costs for capacity beyond that which they require and which future customers would then access "for free".<sup>13</sup>
21. The timing constraints presented by successive more limited expansions and the customer frustration resulting from inequitable allocation of expansion costs were discussed by EGI's witnesses at the Technical Conference:<sup>14</sup>

*... it's somewhat intuitive that if we can drive down the ultimate cost per M cubed, if we can spread the costs out to all customers that benefit, not just the ones that were first in, and if we can ensure that our system [is] being built for these forecasted known needs, it allows us to bring these customers on when they need it.*

*The last thing a customer needs is to share an expansion claim [sic – s/b plan] with us that where they need gas in 18 months and we say, sorry, we need two-and-a-half years because of the LTC process and everything that comes as part of that.*

....

*If you're the one customer driving the need for that project, it's frustrating if Enbridge comes and says you need to pay for the whole project. There's excess capacity that some future customer can benefit from, but you need to pay the capital in order to – or, sorry, you need to be allocated the capital ...*

*It helps the customer if we say, look, you are taking 85 percent. So in the case of Sarnia, you are taking 85 percent of the capacity, you are only allocated 85 percent*

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<sup>12</sup> Technical Conference Transcript page 191, line 21 to page 192, line 9.

<sup>13</sup> Technical Conference Transcript, page 80, lines 14-17.

<sup>14</sup> Technical Conference Transcript, page 80, line 26 *et seq.* and page 82, lines 5-23.

*of the capital costs. And whoever comes on in the future gets allocated that other 15%.*

*... that helps them with their economics, and it helps us ensure that future customer pays their fair share, which they could eventually avoid due to timing.*

22. Application of the HAF to better provide that costs of a development project are allocated among all benefiting customers is also consistent with the Board's expectations regarding accounting for future growth potential in determining appropriate customer contributions, as expressed in EBO 188 and as noted by EGI in its AIC (paragraph 32):

*If there is a reasonable expectation of further expansion, the contribution in aid of construction is expected to take into account the future load growth potential and timing of any such expansion.*

### **Mitigation of Risks of the HAF Proposal**

23. EGI has emphasized a number of processes and tools to be used in application of the HAF in order to mitigate demand forecast risk. These are:

- (a) Applying the HAF only to projects for which 50% or more of the capacity planned to meet LVC demand has been contractually committed to prior to commencement of the project.<sup>15</sup>
- (b) Using formal "expression of interest" processes to test LVC demand forecasts.<sup>16</sup>
- (c) Engaging directly with LVCs to assess their demand forecasts.<sup>17</sup>
- (d) Validating LVC demand forecasts with other parties such as economic development groups and municipalities.<sup>18</sup>

24. EGI has indicated<sup>19</sup>:

*It's only in cases where we get solid intelligence that there's future need and have 50 percent of that capacity committed, only under those two conditions would we proceed with a HAF project.*

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<sup>15</sup> EGI AIC, paragraphs 26 and 29; Technical Conference Transcript, page 185, lines 6-12.

<sup>16</sup> Technical Conference Transcript, pages 180-182.

<sup>17</sup> Technical Conference Transcript, page 181, line 24 to page 181, line 4.

<sup>18</sup> Technical Conference Transcript, page 181, lines 4-6.

<sup>19</sup> Technical Conference Transcript, page 71, lines 21-24.

25. That is, only in those circumstances would EGI propose a build designed to serve both currently committed and anticipated future LVC customer demands.
26. EGI's position is that this proposed HAF approach balances the benefits for all customers of economies of scale against the risk of not achieving the large volume forecast underpinning the particular expansion.<sup>20</sup>
27. We note that forecast risks are not unique to LVCs. They obtain as well for small volume customer forecasts.
28. The HAF, prudently and robustly applied, will lower expansion costs to the benefit of all customers to be served by the proposed expansion; both large and small.<sup>21</sup>
29. ***IGUA agrees that this is an appropriate balance.***

### **Relief Sought**

30. In respect of the HAF EGI seeks "*general approval of this mechanism*"<sup>22</sup> in the form of "*feasibility policy amendments*"<sup>23</sup>.
31. Given the expectation that any significant future HAF expansion projects will require leave to construct (LTC) approval<sup>24</sup>, and that the application of the proposed HAF mechanism in each such case would be subject to review<sup>25</sup>, IGUA agrees that it would be appropriate for the Board to provide policy guidance in support of the proposed HAF in the decision in this proceeding.
32. In respect of the scope for application of the HAF, EGI's evidence is that the HAF mechanism would be "*very applicable*" to reinforcement projects that are a mixture of transmission and distribution assets.<sup>26</sup> EGI's has noted<sup>27</sup> that further consideration of a

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<sup>20</sup> EGI AIC, paragraph 29.

<sup>21</sup> Technical Conference Transcript, page 19.

<sup>22</sup> Technical Conference Transcript, page 70, lines 5-8.

<sup>23</sup> EGI AIC, paragraph 35.

<sup>24</sup> Technical Conference Transcript, page 73, lines 15-20.

<sup>25</sup> EGI AIC, paragraph 22.

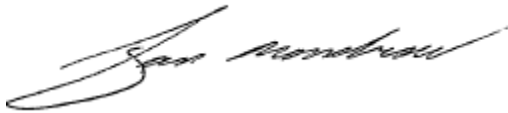
<sup>26</sup> Technical Conference Transcript page 187, lines 9-26.

<sup>27</sup> Exhibit JT1.2.

method for attributing costs to specific customers versus the benefits accruing to the system or the economy as a whole would be required in order to apply the HAF to such projects.

33. As noted at the outset of this submission, the Board has recently expressed encouragement for such thinking on the treatment of dual function pipelines<sup>28</sup>.
34. IGUA respectfully suggests that the Board encourage EGI to pursue such considerations in support of future LTCs for such projects.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED by:**



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September 20, 2020

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<sup>28</sup> EB-2018-0013 Decision as addressed in ExJT1.2 herein.