Ontario Energy Board | Commission de l'énergie de l'Ontario

DECISION AND RATE ORDER – PHASE 2

EB-2018-0336

EPCOR NATURAL GAS LIMITED PARTNERSHIP

Application for approval to change gas distribution rates and other charges effective January 1, 2020 to December 31, 2024

BEFORE: Lynne Anderson
Presiding Member

Michael Janigan
Member

Emad Elsayed
Member

October 24, 2019

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1 INTRODUCTION AND SUMMARY

EPCOR Natural Gas Limited Partnership (EPCOR Natural Gas) is a privately owned utility regulated by the Ontario Energy Board (OEB) that sells and distributes natural gas in southwestern Ontario. EPCOR Natural Gas serves over 9,000 customers in Aylmer and surrounding areas. In November 2017, EPCOR Natural Gas purchased the entire natural gas distribution system from the predecessor distributor, Natural Resource Gas Limited (NRG).

EPCOR Natural Gas filed an application with the OEB on February 1, 2019 under section 36 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval to charge new rates for the sale and distribution of natural gas effective January 1, 2020. The application also sought approval of an incentive rate-setting plan for the period January 1, 2021 to December 31, 2024.

In the first phase of the proceeding, parties (intervenors and the applicant) reached a full settlement on all issues in the proceeding. As part of the settlement proposal parties agreed that the costs of four capital projects incurred by NRG in prior years (2016 and 2017) to address system integrity issues (system integrity projects) would be dealt with in a future rate proceeding, or as phase 2 of the current proceeding.

The four system integrity projects are the Bradley Station project, the Bradley to Wilson pipeline project, the Putnam to Culloden pipeline project, and the Springwater pipeline project. The location of the projects is shown in Schedule A to this Decision and Order.

The OEB in its Decision and Interim Rate Order dated July 4, 2019 accepted the settlement proposal and determined that the cost of the four system integrity projects would be addressed as phase 2 of the current proceeding. Accordingly, the OEB made provision for the applicant to file additional evidence, interrogatories on that evidence, reply to interrogatories and for the submission of final arguments.

According to EPCOR Natural Gas, the system integrity issues were caused by low system pressures in parts of its system resulting from both insufficient gas supplies entering the system and the system having insufficient capacity to deliver the gas.

OEB staff and VECC supported two of the four projects (the two Bradley Station projects) that were directly related to receiving critical supplies from Union Gas Limited[1] at the Bradley Station. OEB staff argued that the Putnam-Culloden pipeline project was not a system integrity project and should be permanently removed from rate base. For the Springwater pipeline, OEB staff submitted that the project appeared

[1] Now part of Enbridge Gas Inc.

to resolve system pressure issues in the south for which NRG requested approval to purchase locally produced premium priced gas. Since the premium for locally produced gas is expected to end in September 2020, OEB staff submitted that the project should be allowed to enter rate base in January 1, 2021. VECC submitted that both projects (Putnam-Culloden and Springwater pipelines) should be permanently excluded from rate base based on the excess premium that customers have paid for locally produced gas from October 1, 2016 to January 1, 2020.

EPCOR Natural Gas argued that its evidence established that all four capital projects were needed, prudently implemented and of benefit to ratepayers, and therefore should remain in rate base. EPCOR Natural Gas submitted that the Putnam-Culloden pipeline addressed low pressure issues around the area of Brownsville and the Springwater pipeline resolved severe low pressure issues in the southwest of NRG's distribution system.

The OEB findings concerning EPCOR's request for recovery of the costs in rate base of the four system integrity projects are as follows:

1. The OEB approves the inclusion of the Bradley Station project and Bradley to Wilson pipeline in the 2020 rate base.
2. The OEB finds that the Putnam to Culloden pipeline project and the Springwater pipeline will not be included in the 2020 rate base.
3. EPCOR Natural Gas may present evidence as part of its next cost of service rate application to address the issue of the prudence of the Putnam to Culloden pipeline project.
4. The OEB approves the inclusion of the Springwater pipeline project in rate base for the rate year following the transition to a fully market-based supply of gas, expected to be January 2021.

2 THE PROCESS

EPCOR Natural Gas filed an application with the OEB on February 1, 2019 to set rates for the period January 1, 2020 to December 31, 2024. Rates for 2020 are set on a cost of service basis and for the period January 1, 2021 to December 31, 2024 on an incentive rate-setting mechanism (IRM) basis.

A settlement was reached on all issues in the proceeding. EPCOR Natural Gas filed a settlement proposal along with draft rate schedules and accounting orders, on June 3, 2019. An updated settlement proposal was filed on June 10, 2019 that included total bill impacts and a revised revenue sufficiency. The settlement proposal determined that the costs of four capital projects incurred by NRG in prior years to address system integrity issues would be dealt with in a future rate proceeding or as phase 2 of the current proceeding. The OEB in its Decision and Interim Rate Order dated July 4, 2019 accepted the settlement proposal and determined that the cost of the four system integrity projects would be addressed in phase 2 of the current proceeding. The cost of the four projects is currently included in rate base and rates have been set on an interim basis pending a decision on the four projects.

For the second phase of the proceeding, the OEB made provision for EPCOR Natural Gas to file additional evidence, OEB staff and parties to ask interrogatories on that evidence, for the submission of final arguments and reply argument by the applicant.

EPCOR Natural Gas filed additional evidence on August 1, 2019 followed by interrogatories on August 8 and 9, 2019. EPCOR Natural Gas provided responses on August 19, 2019.

OEB staff filed final arguments on August 29, 2019 followed by VECC on August 30, 2019. EPCOR Natural Gas filed its reply on September 20, 2019.

3 SYSTEM INTEGRITY AND POSITION OF PARTIES

History of System Integrity

The natural gas distribution system of NRG, the predecessor utility, essentially began as a gathering system for local production and it later became a comprehensive natural gas distribution system serving customers.[2] NRG Corp., a company related to NRG with common officers, owned a majority of the wells in and around Aylmer. NRG purchased natural gas from NRG Corp., for over 30 years. Over the years, the two companies worked closely together, drilling and developing wells in areas where NRG needed gas.[3]

In the 2011 rates proceeding[4], NRG indicated that on a very cold day with heavy demand, it might not be able to get enough gas from its existing connections to Union Gas Limited's (Union Gas, now Enbridge Gas Inc.) system to maintain adequate pressure in certain parts of its distribution system. In order to ensure adequate pressure at all times, NRG maintained that it also needed to take local gas into its system. In the 2011 rates proceeding, NRG requested approval to purchase 2.4 million cubic metres of natural gas from NRG Corp. at a price of $8.486 per mcf (a premium from the market price).[5] In 2009, NRG Corp. informed NRG that it was unwilling to sell gas at a price based on the OEB established methodology. In September 2009, NRG Corp. agreed to supply gas to NRG at a price of $8.486 per mcf.[6] NRG submitted that purchasing the natural gas at a premium from NRG Corp. was the most sensible way of dealing with the system integrity issue, and by far the cheapest for ratepayers.[7]

System integrity refers to factors that impact reliability and structural integrity of a distribution system. Such factors could include corrosion, cracks, leaks and low system pressure. System integrity in the context of this application and the four projects specifically refers to low system pressure in certain parts of the distribution system. System pressure below certain levels can have a significant impact on safety, reliability and service levels.

In the 2011 rates application[8], NRG submitted a system integrity study completed by Aecon Utility Engineering (Aecon study) that suggested a cost of between $8 million and $23 million for new pipeline infrastructure to resolve system pressure issues. The

[2] *ibid*, p.1.
[3] *ibid*, p.1.
[4] Eb-2010-0018
[5] NRG Argument-in-Chief Phase 2, EB-2010-0018, December 23, 2011, p.17.
[6] Ibid, pp.2-3.
[7] *ibid*, p.3.
[8] EB-2010-0018

Aecon study indicated that apart from significant spending on infrastructure projects, the only way to alleviate system pressure issues in the southern service area was to inject additional gas from local gas producing wells (namely, wells of NRG Corp.).[9]

In its decision, the OEB ordered NRG to complete a system integrity study that would examine possible engineering solutions and a competitive market study that would consider the mechanics of establishing a competitive market for natural gas using local sources within NRG's franchise area.[10] In its decision, the OEB also expressed concern about the pricing mechanism being sought by NRG, noting that this pricing mechanism seemed to demonstrate that NRG Corp. exercised market power within NRG's franchise area. However, the OEB allowed NRG to purchase a maximum annual quantity of one million cubic meters from the related company at a premium price of $8.484 per mcf.

NRG filed two system integrity studies in its cost of service application[11] in August 2016. The first study, completed by SNC-Lavalin, examined system pressure issues and recommended engineering solutions while the second study, completed by Dr. Philip Walsh, assessed the market for locally-sourced gas and recommended procurement solutions. However, the two studies were not reviewed by the OEB given the pending sale of NRG to EPCOR Natural Gas. The two studies were re-filed by EPCOR Natural Gas in the current application.

The SNC-Lavalin study concluded that the NRG system integrity problem arises from the fact that gas cannot move freely from the inlet locations in the north and east, into the south-west quadrant and into the Brownsville area. The study recommended that the Glencolin Line and the Wilson Line be extended and the Ostrander Loop be added to the NRG system.[12] No cost estimates were provided for the proposed projects. However, NRG did not adopt the recommendations of SNC-Lavalin and proceeded with projects that were not identified in the SNC-Lavalin study.

In its evidence, EPCOR Natural Gas noted that NRG faced supply and system limitations for a number of years. Consequently, the system had experienced system integrity issues in the form of low pressures in various parts of the system. The winter of 2014-2015 saw record low temperatures and NRG faced the risk of having to interrupt its residential customers.[13] Accordingly, NRG requested additional natural gas supplies from Union Gas. Union Gas agreed to provide additional supplies from existing and additional facilities to be constructed and in service by November 1, 2016

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[9] NRG Argument-in-Chief Phase 2, EB-2010-0018, December 23, 2011, pgs.4-10.
[10] OEB Decision and Order, Phase 2, EB-2010-0018, May 17, 2012.
[11] EB-2016-0236
[12] EB-2018-0336, Exhibit 1, Tab 4, Schedule 2, Transient Simulations of the NRG Distribution System Report, March 2016, pgs.22-23.
[13] EB-2015-0308, Affidavit of Brian Lippold.

at Union Gas' Bradley Station. EPCOR Natural Gas in its evidence indicated that two of the four system integrity projects (the Bradley Station project and the Bradley-Wilson pipeline) were directly related to obtaining the new high pressure gas supply from Union Gas at the Bradley Station. The evidence indicated that the remaining two projects (Putnam-Culloden and Springwater pipelines), were required to get the additional gas to the areas of low pressure.

The four system integrity projects and their net book value that are the subject of this proceeding include:

1. $402,639 for the Union Gas Bradley Station project (Bradley Station)
2. $748,383 for the pipeline from the Bradley Station to the Wilson Line project (Bradely-Wilson Line)
3. $498,922 for the pipeline from the existing Putnam Station to Culloden Line project (Putnam-Colloden pipeline)
4. $265,015 for the extension of the Springwater Road pipeline from south of Orwell to John West Line project (the Springwater pipeline)

These projects were added to rate base in order to determine the interim 2020 rates. The total net book value of the four projects in rate base is $1,914,959.

Position of OEB Staff and VECC

OEB staff and VECC accepted the system integrity projects that were directly related to receiving additional supplies from Union Gas at the Bradley Station (the Bradley Station project and the Bradley-Wilson pipeline). These projects addressed an urgent need for additional supplies from Union Gas and were considered to be prudent.

For the remaining two projects (Putnam-Culloden pipeline and Springwater pipeline), VECC submitted that it was not clear whether these projects were priority projects in addressing system integrity issues or addressed the requirement to purchase locally produced premium priced gas. VECC essentially supported OEB staff's submission on the four projects and substantively agreed with the overall arguments.

OEB staff in its submission noted that none of the projects reduced the need for locally produced premium priced gas, a concern specifically noted by the OEB in the 2011 rates proceeding. OEB staff disagreed with EPCOR Natural Gas' assertion that the four system integrity projects were successful in alleviating the low pressure issues in the Brownsville area and in the southwest around the Town of Aylmer. If this was the case, OEB staff questioned why NRG in its 2016 cost of service application requested approval for a 50% increase in the purchase of premium natural gas annually from the related company, to 1.5 million m^3.[14]

OEB staff and VECC both submitted that EPCOR Natural Gas was not able to provide a convincing explanation for the decisions made by NRG, such as the failure to implement the recommendations of SNC-Lavalin. VECC argued that in purchasing NRG, EPCOR Natural Gas inherited both ownership of assets and management; this included future benefits and liabilities for past behaviour.

OEB staff noted that the SNC-Lavalin study did not recommend the Putnam-Culloden pipeline and did not indicate any pressure issues at the Putnam Station.[15] OEB staff further referenced the map provided by EPCOR Natural Gas that did not indicate low pressure in the area.[16] OEB staff noted the evidence of EPCOR Natural Gas which indicated that the pipeline could be used to provide a second feed in case of a break or leak. The evidence further noted that the pipeline ensures access to new connections in the northeast area.[17] OEB staff argued that the evidence seemed to indicate that the pipeline was meant to operate as a relief line and to support future growth. OEB staff submitted that the Putnam-Culloden pipeline was not a system integrity project and there was no evidence to indicate that it resolved system pressure issues within EPCOR Natural Gas' franchise area. OEB staff maintained that NRG should have reprioritized its spending and focused on resolving system integrity issues that would have reduced the market power exercised by NRG Corp. and the reliance on locally produced premium priced gas. OEB staff therefore submitted that the cost of the Putnam-Culloden pipeline ($498,922) should be permanently excluded from rate base.

With respect to the Springwater pipeline project, OEB staff noted that the map flows indicate that the project did increase gas supply to the southern part of the distribution system where pressure issues had been identified in the 2011 rates proceeding.[18] OEB staff submitted that ideally the project should have resolved system integrity issues in the southern part of the system and there would be no need or a limited need to purchase locally produced premium priced gas. However, the project did not result in the elimination of premium priced gas. OEB staff therefore submitted that the project should be allowed to be entered into rate base as of January 1, 2021 (2021 rates) in line with EPCOR Natural Gas' proposal to stop purchasing locally produced premium

[14] EB-2016-0236, Exhibit 1, Tab 1, Schedule 2, p.2.
[15] The Putnam Station is located in the northern part of the distribution system. The SNC-Lavalin study indicated a pressure of 81 psig at the Putnam Station which was considered high by SNC-Lavalin. Ref. SNC-Lavalin Study, March 2016, Exhibit 1, Tab 4, Schedule 2, p.17.
[16] Phase 2, response to OEB staff IR#6.
[17] EPCOR Natural Gas Phase 2 evidence, p.12, para 14.
[18] EB-2010-0018

priced gas effective September 30, 2020. This would be an appropriate approach as the benefit to ratepayers would align with the timing of the asset into rate base.

VECC argued from a different perspective. VECC submitted that the issue was whether the utility appropriately prioritized competing investments and, in its view, it had not. VECC agreed that the Putnam-Culloden and Springwater pipelines remain used and useful parts of the utility's assets to service customers. However, it was not evident whether the projects could have been delayed in order to address system integrity concerns and the premium paid for locally produced natural gas. VECC based its argument on the opportunity cost of the premium priced gas. EPCOR Natural Gas calculated the annual impact of the premium priced natural gas at $127,200.[19] VECC submitted that NRG should have prioritized projects to reduce the reliance on premium priced locally produced gas. VECC submitted that the total cost differential of the premium priced gas that ratepayers paid from October 1, 2016 to January 1, 2020 was $413,400. Based on the weighted cost of capital, VECC estimated the undepreciated annual value (revenue requirement) of the two capital projects (Putnam-Culloden and Springwater pipelines) at $44,000. VECC submitted that since the premium paid does not cover the annual return of the two projects in rate base for the next five years, the two projects should be removed from rate base in perpetuity.

Reply Argument of EPCOR Natural Gas

In its reply, EPCOR Natural Gas argued that the submissions of OEB staff and VECC were premised on a misguided view of what constitutes a recoverable capital project and was narrowly tied to certain system integrity projects implemented for the primary purpose of eliminating or reducing the need for locally produced premium priced gas. EPCOR Natural Gas submitted that the OEB in the 2011 rates decision did not direct the utility to prioritize its short-term capital expenditures towards reducing or eliminating locally produced gas ahead of any other criteria. In implementing the four system integrity projects, EPCOR Natural Gas maintained that NRG exercised sound judgement and prudent management in determining which projects were needed to operate a safe, reliable, efficient and cost effective distribution system.

EPCOR Natural Gas submitted that its evidence has established that all four system integrity projects in question were needed, prudently implemented and benefitted ratepayers. EPCOR Natural Gas referred to a Supreme Court of Canada decision wherein it was noted that capital expenditures often entail some amount of risk and may

[19] Response to OEB Staff IR#4, Phase 2.

not always be necessary to the short-term ongoing production of a utility.[20] However, such costs may often be a wise investment in the utility's future health and viability. EPCOR Natural Gas argued that if the Supreme Court jurisprudence supports projects aimed at future growth and system reliability, then the OEB should exercise greater caution in reviewing projects aimed at resolving critical safety issues.

EPCOR Natural Gas also referred to an Ontario Court of Appeal decision, which noted that in order to determine if a utility's actions were prudent, the decision must have been reasonable under the circumstances that were known or ought to have been known to the utility at the time the decision was made.[21] Accordingly, EPCOR Natural Gas submitted that the OEB should assess the reasonableness of NRG's decision to undertake the four system integrity projects based on the circumstances and information available to the utility at the time the decision was made.

EPCOR Natural Gas submitted that its evidence demonstrates that NRG was experiencing severe low pressure issues in the northeast and southwest quadrants of its system in 2016 and 2017. The utility further maintained that it was reasonable for NRG to implement the four system integrity projects in the context of the unexpected availability of new supply from Union Gas, the conclusions and recommendations of the SNC-Lavalin study and NRG's obligation to ensure public safety and the provision of a safe and reliable supply of natural gas to its customers.

While the utility agreed with OEB staff's assertion that there were no pressure issues at the Putnam Station, it noted that the Putnam-Culloden pipeline was not constructed to resolve pressure issues at Putnam Station. The Putnam-Culloden pipeline addressed low pressure issues around the area of Brownsville as referenced in the SNC-Lavalin study. EPCOR Natural Gas submitted that NRG implemented the alternative route to the one in the SNC-Lavalin study because NRG's preferred route not only resolved the pressure issues around Brownsville, but also resulted in improved system reliability and facilitated future growth not possible through implementation of the study's proposed recommendation.

EPCOR Natural Gas further sought to refute OEB staff's claim that the Springwater pipeline project should have resolved system integrity issues in the southeast and reduced the need for locally produced gas. EPCOR Natural Gas submitted that at no time in this proceeding or in other proceedings, did it or NRG indicate that any of the four system integrity projects in question would resolve system integrity issues to the

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[20] Reply Argument, p.7, *Ontario Energy Board v. Ontario Power Generation Inc*., 2015 SCC 44 (OPG Decision), para 107. (Note: Para 104 of the same decision indicates that the OEB is not bound to an evaluation of committed costs based on a no-hindsight prudence review).
[21] Reply Argument, pgs.7-8, *Enbridge v. The Ontario Energy Board* [2006], OJ No. 1335, (QL) at paras 10 and 23.

southeast of the distribution system where the local gas wells exist. The utility noted that the Springwater pipeline was necessary to move gas around the Town of Aylmer and into areas further south in the distribution system where pressure issues were being experienced.

EPCOR Natural Gas cited the recent study by Cornerstone Energy Services that was filed in this application. The study showed that after implementation of the four system integrity projects, there were no longer severe pressure issues in the northeast areas around Brownsville and in the southwest near the Town of Aylmer where NRG had experienced low pressure in the past. EPCOR Natural Gas argued that the results of the study demonstrate the benefits of the four system integrity projects. Accordingly, EPCOR Natural Gas submitted that the four projects should remain in rate base without any adjustment.

EPCOR Natural Gas further noted that it requested approval to continue purchasing one million cubic metres at a premium price of $8.486 per mcf until the end of the term of the gas purchase agreement which expires on September 30, 2020. EPCOR Natural Gas noted that the proposal was approved as part of the settlement and it was inappropriate for VECC to seek to impute an adjustment to rate base in order to compensate ratepayers for the extra cost of gas, when approvals related to the cost of gas have already been granted.

4 FINDINGS

The OEB's task in considering whether the costs associated with these four projects should be added to rate base is predicated on a finding that such additions would be just and reasonable in accordance with the balancing of the interests of consumers and the interests of the utility in running a safe and efficient operation. The OEB recognizes that the decisions associated with these projects were made before the current ownership of the utility was in place; however, the OEB must be satisfied that sufficient evidence has been produced by EPCOR Natural Gas to determine whether project expenditures have been reasonably incurred[22] .

The OEB approves the inclusion of the Bradley Station project and Bradley to Wilson pipeline in the 2020 rate base. The OEB concludes that these projects are directly relevant to the system integrity problem associated with low system pressures which resulted from both insufficient gas supplies entering the system and the system having insufficient capacity to deliver the gas. The main objective of these two projects was to increase the capacity at the Bradley Station location to accommodate the additional supply from Union Gas. The total net book value of these two projects ($1,151,022) shall be allowed to remain in rate base.

The OEB finds that the Putnam to Culloden Pipeline project and the Springwater pipeline will not be included in the 2020 rate base. It is not clear that there was a comprehensive re-assessment of the overall capital plan once the additional supply of natural gas became available, as would be expected for this significant new development. Greater priority should have been given to addressing the system integrity issues and reducing or eliminating NRG's dependence on the locally produced premium priced gas supply from NRG Corp. The latter issue of premium priced local gas was first raised by the OEB in the 2011 rates proceeding where the OEB expressed concern of NRG Corp.'s market power.[23] The OEB is not convinced that there were other greater priorities in the past seven years that precluded NRG or EPCOR Natural Gas from taking concrete steps to address the issue of locally produced premium priced gas and the incremental cost to ratepayers for such premium gas.

EPCOR Natural Gas has stated that the Putnam to Culloden Pipeline project had multiple objectives of alleviating system integrity issues, improving system reliability, and facilitating future growth in the northeast area. However, insufficient evidence has

[22] The reply submission of EPCOR omitted reference to an important finding set out in the majority judgement of the Supreme Court of Canada in *Ontario Energy Board v. Ontario Power Generation Inc.,* 2015 SCC 44 that is relevant to the OEB's task in this proceeding. This was that it is inconsistent with the statutory scheme of regulation to presume that utility decisions to incur costs were prudent.
[23] OEB Decision and Order, Phase 2, EB-2010-0018, May 17, 2012, p.8.

been provided on what other options were, or should have been considered to address these issues. The OEB is not persuaded that the Putnam to Culloden Pipeline project has a material impact on the system integrity issue. Any evidence related to the issues of system reliability and facilitating future growth is limited, and the significance of addressing these other issues is not clear. That information is necessary to assess what other options were available, including whether the project could have been deferred or replaced with higher priority projects. Given the OEB's clearly stated concerns regarding this issue, and the high cost of the premium priced gas to rate payers, projects designed to alleviate the system pressure issues should have been a clear priority for the utility.

EPCOR Natural Gas argues that NRG was never directed by the OEB to either reduce or eliminate reliance on premium priced local gas, nor was it directed to prioritize its capital expenditures for this purpose over all other utility priorities. A utility does not need direction from the OEB to prioritize its capital expenditures with the objective of reducing its costs for the benefit of its ratepayers. The OEB is not persuaded that a robust capital planning and prioritization process was used to arrive at the most appropriate solution for the ratepayers.

Customers should not be expected to pay for capital planning that does not appropriately prioritize projects to address the most important system issues. The net book value of the Putnam to Culloden Pipeline project ($498,922) is therefore excluded from the 2020 rate base. Whether this is a permanent exclusion from rate base will be determined in the next cost of service rate application on a prospective basis. The OEB is providing EPCOR Natural Gas with the opportunity to present evidence as part of its next cost of service rate application to justify the overall usefulness of the project, and the benefit to the system and ratepayers.

EPCOR Natural Gas challenged OEB staff's argument that the Springwater Pipeline project should have resolved system integrity issues in the southeast and therefore the need for purchasing locally produced premium priced gas. EPCOR Natural Gas indicated that the Springwater pipeline was implemented to resolve system pressure issues in the southwest. EPCOR Natural Gas asserted that at no time in the proceeding or other proceedings did EPCOR Natural Gas or NRG indicate that any of the four system integrity projects, including the Springwater pipeline would resolve system integrity issues localized to the southeast of the distribution system where local premium priced gas was required.[24]

However, EPCOR Natural Gas agreed that the Springwater pipeline should have resulted in requiring lower quantities of locally produced gas. In response to an OEB

[24] Reply argument, p.15, para 46.

staff interrogatory, EPCOR Natural Gas, while discussing the Springwater pipeline and other projects specifically noted that the system integrity projects improved north to south flows of gas into the southwest area of the franchise reducing any requirement for locally produced gas. EPCOR Natural Gas further noted that “this in turn would reduce the requirement for locally produced gas in the southeast to support markets in the southwest.”[25]

NRG purchased annual volumes in excess of one million cubic metres from NRG Corp. for the period 2013 to 2016.[26] Rather than seeing a reduced reliance on premium priced natural gas, as part of its 2016 rates application NRG requested approval to recover 1.5 million cubic metres of premium priced natural gas purchased from NRG Corp. for the period 2017 to 2021, which was a 50% increase to the quantity approved in the 2011 rates application.[27]

The OEB has no information on how NRG prioritized system integrity capital spending for the distribution system and the criteria that it used to prioritize the spending. The record to-date suggests that the southeast area where locally produced premium priced gas was required did not receive the appropriate priority for system integrity spending. However, ratepayers had to pay a higher cost for maintaining system pressure in this area through locally produced premium priced gas. Although the current management of EPCOR Natural Gas may not have made these decisions, they are the current operator of the utility and must be able to demonstrate that the costs they seek to recover from ratepayers are just and reasonable.

While the Springwater Pipeline project may have alleviated some of the system integrity issues in the southwest area, its benefits to ratepayers are uncertain given the continuing need for premium priced locally produced gas. The OEB is therefore excluding this project ($265,015) from the 2020 rate base. The OEB approves the inclusion of the Springwater Pipeline project in rate base for the rate year following the transition to a fully market based supply of gas. EPCOR Natural Gas’ proposed date to stop purchasing locally produced gas at a premium price is September 30, 2020. This timeline would result in the Springwater Pipeline project going into rate base effective January 1, 2021.

The OEB accepts the submission of EPCOR Natural Gas that the quantum and pricing of locally produced gas has already been settled in Phase 1 of this proceeding.

[25] OEB staff IRR#4, Phase 2.
[26] *ibid*
[27] EB-2016-0236, Exhibit 1, Tab 1, Schedule 3, p.2.

5 RATE ORDER

The OEB approved rates on an interim basis in its decision of July 4, 2019. The four projects in question are already included in rate base. The OEB has made determinations in phase 2 of the proceeding that impact the amount in rate base. EPCOR Natural Gas is ordered to file a draft rate order that excludes the net book value of the two projects (Putnam-Culloden and Springwater pipelines) for rates effective January 1, 2020. The draft rate order should include the revised rate schedules and supporting calculation showing the exclusion of the two projects and the derivation of final rates.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR Natural Gas shall file with the OEB, and forward to all intervenors a draft rate order attaching a proposed Tariff of Rates and Charges reflecting the OEB's findings in this Decision by **October 31, 2019**. The draft rate order shall include customer rate impacts and detailed supporting information showing the calculation of final rates.

2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB and forward them to EPCOR Natural Gas on or before **November 7, 2019**.

3. EPCOR Natural Gas shall file with the OEB and forward to the intervenors responses to any comments on its draft rate order on or before **November 12, 2019.**

4. Cost eligible intervenors shall file cost claims with the OEB and forward them to EPCOR Natural Gas on or before **November 22, 2019**.

5. EPCOR Natural Gas shall file with the OEB and forward to the intervenors any objections to the claimed costs by **November 27, 2019**.

6. Intervenors shall file with the OEB and forward to EPCOR Natural Gas any responses to any objections for cost claims by **December 2, 2019**.

7. EPCOR Natural Gas shall pay the OEB's costs of and incidental to this proceeding upon receipt of the OEB's invoice.

All materials filed with the OEB must quote the file number, **EB-2018-0336**, be made in a searchable/unrestricted PDF format and sent electronically through the OEB's web portal at https://pes.ontarioenergyboard.ca/eservice. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and email address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at https://www.oeb.ca/industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a USB memory stick in PDF format, along with two paper copies. Those who do not have computer access are required to file seven paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Khalil Viraney at Khalil.Viraney@oeb.ca and OEB Counsel, Michael Millar at Michael.Millar@oeb.ca.

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DATED at Toronto October 24, 2019

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary

SCHEDULE A

DECISION AND RATE ORDER – PHASE 2

EPCOR NATURAL GAS

EB-2018-0336

OCTOBER 24, 2019

EPCOR NATURAL GAS SYSTEM MAP

SHOWING THE FOUR SYSTEM INTEGRITY PROJECTS

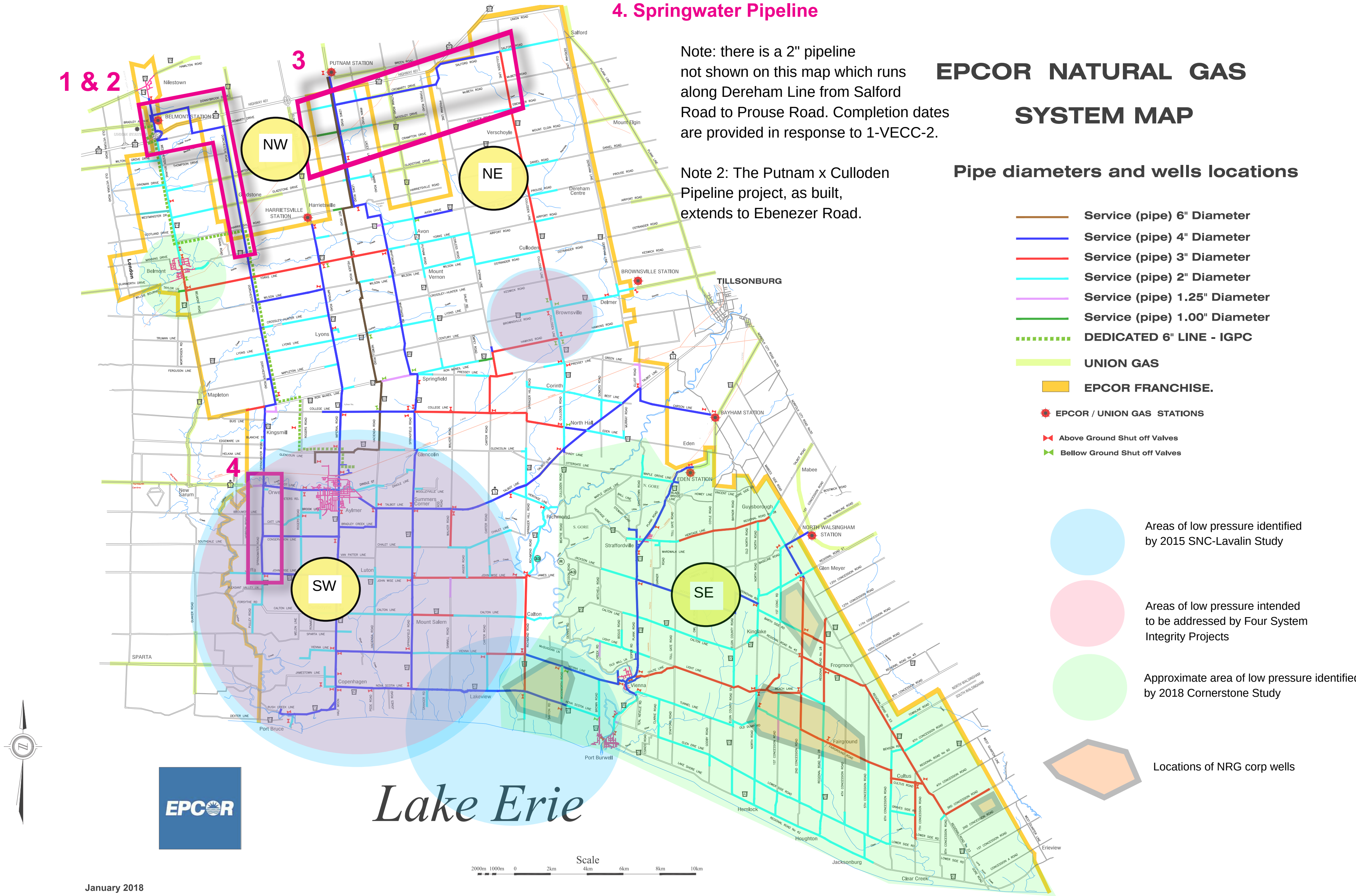
The Four System Integrity Projects:
1. Bradley Station Project
2. Bradley x Wilson Line Pipeline
3. Putnam x Culloden Pipeline (Note 2)
4. Springwater Pipeline

Note: there is a 2" pipeline not shown on this map which runs along Dereham Line from Salford Road to Prouse Road. Completion dates are provided in response to 1-VECC-2.

Note 2: The Putnam x Culloden Pipeline project, as built, extends to Ebenezer Road.

EPCOR NATURAL GAS SYSTEM MAP

Pipe diameters and wells locations



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