

DCF+ Test Enhancements - Guidehouse Recommendations

June 2022

Agenda

- Treatment of GHG Emissions
- Net Equipment Costs
- 15% Non-Energy Benefit Flooring Mechanism
- 15% Non-Energy Benefit Accentuating Mechanism
- Additional Non-Energy Benefits that could be quantified or qualified

Treatment of GHG Emissions

- Phase 1 - Avoided/Incremental Utility Carbon Costs
 - \$65 per tonne of CO₂e in 2023, increasing by \$15/tonne of CO₂e per year to \$170 per tonne in 2030
 - Applicable to the utility's emissions.
 - Rationale:
 - To reflect the impact of federal Carbon Pricing Act on the utility's bottom line
- Phase 2 – Avoided/Incremental Customer Carbon Costs
 - \$65 per tonne of CO₂e in 2023, increasing by \$15/tonne of CO₂e per year to \$170 per tonne in 2030
 - Account for (participating) customer-specific carbon costs
 - Rationale:
 - To reflect the impact of federal Carbon Pricing Act on the customer's bottom line
 - Aimed at the incremental/avoided costs of carbon that industrial/commercial customers will incur due to the adoption of the Facility Alternative project (if any)

Net Equipment Costs

- Phase 2 - Net Equipment Costs
 - To distinguish costs associated with the customer-bought equipment from the rest of the customer-incurred costs
 - Including net equipment costs as a separate parameter would distinguish costs associated with the customer-bought equipment from the rest of the customer-incurred costs.
 - Recognizes that non-pipeline solutions (as opposed to physical pipeline upgrades) could result in customer, and equipment-specific costs.
 - To mirror the "Avoided Customer Infrastructure Costs" benefit and specify any equipment costs associated with the NPS-project
 - To provide more detailed information about parameters that specifically relate to the nature of Facility Alternative projects

15% Non-Energy Benefit Flooring Mechanism

- Phase 3 - NEB Flooring mechanism
 - Due to the segregation of the 3 Phases of the DCF+ test and the limitations of Phase III parameter quantification, it is important that Phase 3 NEBs have a base financial value (guaranteed by the flooring mechanism)
 - Adopting the flooring mechanism avoids under-accounting NEBs and ensures that they play a role within the economic feasibility test
 - The Flooring Mechanism's purpose is to ensure that quantified NEBs represent at least a percentage of the overall project gross benefits (similarly to the use of adders in single-phase tests).
 - This is a **flexible** adder, dependent on the gross benefits of Phases 1 and 2, and the quantified Phase 3 benefits
 - If the quantified Phase 3 NEBs are already greater than 15% of the gross Phases 1 and 2 benefits, then the flooring mechanism is not needed
 - The use of the NEB Flooring Mechanism avoids under-accounting NEBs and stimulates their quantification.
- **Quantifiable Benefits Phase 3 $\geq 0.15 * (\text{Benefits Phase I} + \text{Benefits Phase II})$**

15% Non-Energy Benefit Accentuating Mechanism

- Phase 3 - NEB Accentuating mechanism
 - The Accentuating Mechanism reflects the “typical” NEB adder found in other jurisdictions. It aims to increase previously quantified NEBs by a specific percentage – 15% in this instance – to account for known Phase 3 benefits for which there is no quantification mechanism.
 - Will stimulate the efforts to quantify Phase 3 benefits while ensuring that unquantifiable parameters remain financially considered within the DCF+ test.
 - **Total Benefits Phase 3 = 0.15 * (Quantifiable Benefits Phase 3)**
- Why 15% for both the flooring and accentuating mechanisms?
 - As used in other North American jurisdictions
 - To ensure that NEBs play a role in the financial analysis at a value that is comparable to what typical NEBs represent in other economic feasibility tests in Ontario and other jurisdictions
 - If no NEBs are quantified, the total NEBs after applying the Flooring & Accentuating Mechanisms are equal to 17.5% of the Phase 1 and Phase 2 gross benefits

Additional Non-Energy Benefits

- Guidehouse is also recommending the quantification / qualification of the following NEB's where appropriate:

NEB	Description
Economic development,	Including but not limited to: <ul style="list-style-type: none"> o Indigenous employment o Low-income employment o Minorities employment o Use of Canadian material/equipment/knowledge
Increased safety	o For users and operators (including probability of major injury, fatality, leakages)
Other emissions	o NOx o SOx
Water and land uses	
Resiliency of the transmission and distribution system, or the user's assets	
Reliability of the system (enhanced security of supply)	

Next Steps

- Final GH Report received by 3rd week of June
- Enbridge will confirm with Senior Leaders what GH recommendations will be accepted
- Final report sent to the IRP TWG Group
 - Including which recommendations Enbridge will be accepting by second week of July
 - IRP TWG third week of July