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July 4, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Walli,

RE: Board File No. EB-2018-0305 Enbridge Gas Inc. Application for 2019 Rates

Please find enclosed the submissions of the Ontario Greenhouse Vegetable Growers in the above noted proceeding.

Yours very truly,

Michael R. Buonaguro

CC: All Parties

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Enbridge Gas Inc., pursuant to section 36(1) of the Ontario Energy Board Act, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2019.

SUBMISSIONS ON BEHALF OF THE ONTARIO GREENHOUSE VEGETABLE GROWERS

OVERVIEW

These are the submissions of the Ontario Greenhouse Vegetable Growers ("OGVG") with respect to Enbridge Gas Inc.'s application for 2019 rates for the Enbridge Gas and Union Gas rate zones.

OGVG's submissions are organized in accordance with the approved issues list in this proceeding. OGVG notes that a number of issues were accepted by the Board as settled; accordingly OGVG has omitted those issues from this submissions. OGVG further notes that there were some Enbridge Gas rate zone specific issues that remained unsettled. As noted under those issues in this submission, OGVG has not historically participated in the Enbridge Gas Rate zone specific proceedings and has no immediate, direct interest in those issues, and therefore has not provided submissions in relation to those issues, relying instead on the submissions of parties with a direct interest and history with respect to those outstanding items.

As a result of the foregoing OGVG's submissions are entirely focused on the appropriate application of the Board's Incremental Capital Module ("ICM") policy to the relief requested by Enbridge Gas Inc. To that end OGVG respectfully submits that, generally speaking, the outstanding ICM related issues are all a result of Enbridge Gas Inc.'s attempt to modify the Board's ICM policy in order to maximize the rate relief available to Enbridge Gas Inc., modifications that OGVG respectfully submits should not be considered by the Board in the context of this proceeding.

In OGVG's submission the parameters of this rate setting application have already been determined by the Board. Specifically with respect to the ICM framework that Enbridge Gas Inc. is required to employ, the appropriate framework was determined as a result of the Board's decision in EB-2017-0307, wherein Enbridge Gas Distribution Inc. and Union Gas Limited (referred to jointly for the purposes of this submission as Enbridge Gas Inc.) applied to the Board for approval of a rate setting mechanism to employ during the term of the deferral period approved by the Board in EB-2017-0306.

In its EB-2017-0307 rate setting framework application Enbridge Gas Inc. clearly and unambiguously applied for approval of the use of the Board's existing ICM policy, seeking only one specified modification:

During the deferred rebasing period, Amalco will apply for rate adjustments <u>using the OEB's ICM</u> to recover costs associated with qualifying incremental capital investment beyond what is normally funded through approved rates <u>consistent with the Board-established policy on ICM</u>. The Consolidation Handbook provides the ICM option for funding incremental capital investments during the deferred rebasing period. Capital projects related to the amalgamation will be funded and managed by Amalco as an integral part of supporting achievement of synergies through the deferred rebasing period. (emphasis added)

Qualifying incremental capital investments are discrete projects <u>that satisfy the criteria documented in the OEB reports</u>. One of the qualifying criteria is that the capital investment will cause the total capital budget to exceed the threshold value of capital expenditures that can be funded through approved rates. (emphasis added)

The level of capital spend that can be managed under the Price Cap approach is determined by the OEB's calculation of the ICM materiality threshold value. (emphasis added)

In the annual rate application, the Applicants will be requesting approval of a rate adjustment to fund forecast incremental capital projects that qualify for ICM. In calculating the revenue requirement for the proposed ICM, the methodology applied will be consistent with the Board requirements with one exception. (emphasis added)

The Board requires the use of approved cost of capital parameters when calculating the revenue requirement. The Board's ICM policy was established for five year ratemaking models. Amalco will be operating under a 10 year deferred rebasing period and using a Price Cap. Amalco proposes the cost of capital will reflect the latest forecast cost of debt, incremental long-term debt requirement for the capital project and allowed ROE at the time of the application and be based on the Applicants' current capital structure at 64% debt and 36% equity.[1]

The Board's decision in EB-2017-0307 reiterated Enbridge Gas Inc.'s requested use of the existing ICM policy and its proposed single exception:

The applicants proposed to comply with the OEB's ICM policy with one exception – they proposed to use current long term debt and the current OEB issued ROE for determining the revenue requirement of any approved qualifying ICM project, instead of the current approved debt and ROE rates from the last rebasing.[2] (emphasis added)

In accepting Enbridge Gas Inc.'s proposal to use the OEB's existing ICM Policy, the Board made two discrete changes to the Enbridge Gas Inc. proposal, rejecting Enbridge Gas Inc.'s request to use the latest forecast cost of capital instead of the approved cost of capital parameters, and requiring Enbridge Gas Inc. to adjust the Union Gas rate zone specific rate base and depreciation for the purpose of determining the eligible incremental capital amount; other then those two changes, the Board's decision confirmed the use of the existing OEB ICM policy for Enbridge Gas Inc.:

The OEB approves the proposed formula for calculating the materiality threshold for the ICM, including the 10% deadband. This formula is the same one used for the ICM for electricity distributors. (emphasis added)

The eligible incremental capital amount will be determined using the OEB's ICM formula and each gas utility's rate base and depreciation, i.e. calculated individually for both Union Gas and Enbridge Gas. This is consistent with the policy for electricity distributors. (emphasis added)

The OEB agrees with intervenors who noted that, through Union Gas' capital pass-through mechanism, significant capital additions have been funded through rates during the past IRM term. The rate base and depreciation associated with projects that were found eligible for capital pass-through treatment during the IRM term, shall be added to the 2013 OEB-approved rate base and depreciation in determining the eligible incremental capital amount for Union Gas' service territory. (emphasis added)

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[1] EB-2017-0307 Exhibit B Tab 1 page 12 to 16.
[2] EB-2017-0307 Decision dated August 30, 2018, page 30.

The OEB does not agree with the applicant's proposal to deviate from the ICM policy by using updated cost of capital parameters. The cost of capital parameters for the ICM funding will be the most recent OEB-approved for each of the Union Gas and Enbridge Gas legacy service areas.[3] (emphasis added)

Despite the clear and unambiguous decision of the Board with respect to the application of the Board's existing ICM policy to Enbridge Gas Inc. during the approved deferral period, Enbridge Gas Inc. is, in this application, seeking modifications to that policy, notwithstanding the fact that Enbridge Gas Inc. did not raise and pursue such modifications when it advised the Board through its application in EB-2017-0307 that it was proposing to be governed by the existing ICM policy subject to only one (ultimately rejected) modification.

OGVG notes that the Board was very specific, when approving the use of the ICM policy for Enbridge Gas Inc., in finding that the ICM policy was not a Y-Factor:

The OEB approves an ICM as discussed in this section. The OEB finds that it is appropriate to have a mechanism for the funding of incremental capital. Both Enbridge Gas and Union Gas had mechanisms for the funding of capital in their last rate frameworks; Enbridge Gas through is Custom IR forecast and Union Gas through its capital pass-through mechanism.

The OEB disagrees with the characterization of the ICM as a Y-Factor. Y-Factors have been defined as a mechanism for "passing through" certain costs. The ICM is a funding mechanism for significant, incremental and discrete capital projects for which a utility is granted rate recovery in advance of its next rebasing application. The ICM is not a capital pass-through mechanism.[4] (emphasis added)

OGVG respectfully submits that the Board's characterization of the ICM as a funding mechanism as opposed to a Y-factor is an important distinction, and generally explains both why Enbridge Gas Inc. is seeking these modifications and why the Board should reject them.

Particularly in the instance of Union Gas, Enbridge Gas Inc. is used to the notion of "passing through" the actual costs associated with approved capital pass through projects; that is expressly not the intent of the Board's ICM policy. Rather, the Board's ICM policy is a funding mechanism, employed as an exception to the normal decoupling of costs and rates during a period of incentive rate making (such as in the case of Enbridge Gas Inc.'s five year deferral period) in order to provide some relief until rebasing where the subject utility's capital needs exceed the Board defined materiality threshold. There is no intent or necessity that the actual costs for ICM projects be "passed through" to rates.

In OGVG's view the deviations from the Board's ICM policy for which Enbridge Gas Inc. is seeking approval are all essentially attempts to move the Board's ICM policy as close as possible to a true "Y" factor, attempts that OGVG respectfully submit the Board should deny.

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[3] EB-2017-0307 Decision dated August 30, 2018, page 33.
[4] EB-2017-0307 Decision dated August 30, 2018, page 32.

OGVG expects that there are a variety of adjustments that could be made to the OEB's ICM policy, some of which would increase the funding it provides to applicants and some of which would decrease the funding it provides to applicants, some of which would move the ICM policy closer to being a Y-Factor and some of which would move the ICM policy closer to a simple funding mechanism decoupled from rates. In OGVG's view, however, given that:

a) Enbridge Gas Inc. applied for a rate setting mechanism that incorporated the existing ICM policy without the modifications that it is now requesting,
b) the Board approved both the MAADs application and the Rate Setting Application on the basis that Enbridge Gas Inc. would have access only to the existing ICM Policy, and
c) the ICM policy was never intended to operate as a fully functioning "Y-Factor",

it would be appropriate both in this proceeding and throughout Enbridge Gas Inc.'s deferral period to strictly apply the Board's ICM policy without further modification.

Has Enbridge Gas responded appropriately to all relevant OEB directions from previous proceedings?

From OGVG's perspective this issue remains unsettled only to the extent that it is an open issue as to whether Enbridge Gas has properly responded to the Board's MAADs decision when applying for 2019 rates through this application. To the extent that OGVG believes that Enbridge Gas has not responded appropriately to all relevant OEB directions OGVG has made submissions to that effect under the relevant issue below.

Should the proposed changes be made to the accounting orders for the following deferral accounts?

EGD Rate Zone

179.48 Open Bill Revenue Variance Account

Union Gas Rate Zones

179-136 Parkway West Project Costs
179-137 Brantford-Kirkwall/Parkway D Project Costs
179-142 Lobo C Compressor/Hamilton to Milton Project Costs
179-144 Dawn H/Lobo D/Bright C Compressor Project Costs
179-149 Burlington Oakville Project Costs
179-156 Panhandle Reinforcement Project Costs

OGVG has not participated in the various proceedings with respect to the EGD Rate Zone related deferral account 179.48 Open Bill Revenue Variance Account, has no immediate interest in the proposal to amend that account, and notes that there is no equivalent account in the Union Gas Rate Zones that would directly affect OGVG's members. Accordingly OGVG has no submissions with respect to this issue, relying instead on the submissions of parties more directly interested in its resolution.

As noted in the Settlement Proposal issues related to the Union Gas Rate Zone accounts remain unsettled issues as a consequence of Enbridge Gas Inc.'s proposal to make a one time adjustment to base rates in respect of the various capital projects tracked in the deferral accounts (the "Capital Pass-through Accounts"), with the result that the accounts would, if Enbridge Gas Inc.'s proposal were accepted, be amended to track only "timing differences" with respect to tax related impacts on the revenue requirements associated with each of those projects. As set out in detail under the appropriate issue OGVG respectfully submits that the one time adjustment proposed by Enbridge Gas Inc. is inappropriate in the context of this application and as such should be rejected, with the result that the Capital Pass-through Accounts, the form and substance of which Enbridge Gas Inc. specifically requested should continue throughout the deferral period as a component in their EB-2017-0307 Application, should not be amended.

Are any rate design proposals appropriate in the context of previous OEB decisions, including:

. **One-time adjustment for Capital Pass-Through Projects**

OGVG opposes Enbridge Gas' proposal to make a one adjustment for Capital Pass-Through Projects and amend the Capital Pass-Through Accounts so that they track only "timing differences" with respect to tax related impacts on the revenue requirements associated with each of the related projects.

The proposal to make the one time adjustment is solely related to the Board's decision in the MAADs proceeding to adjust Union Gas Ltd.'s rate base and depreciation expense for the purpose of the calculation of the Union Gas rate zone specific materiality threshold when calculating the amount of eligible capital under the Board's ICM policy. Enbridge Gas Inc.'s position, simply put, is that it is incorrect to adjust the Union Gas materiality threshold calculation by including the impact of the spending tracked in the Capital Pass through accounts without also adjusting Union Gas Ltd.'s base rates, on a one time basis, to account for that same spending.

In OGVG's view it would be inappropriate for the Board in the context of this proceeding, which is an application for the setting of rates for 2019, to allow what amounts to a collateral attack on the Board's decision in the Rate Setting Proceeding that established the framework for rates during the deferral period. In OGVG's respectful submission Enbridge Gas Inc.'s complaint is that the Board's decision in the Rate Setting Proceeding was in error, and is asking the Board to rectify that error in this proceeding. OGVG submits that Enbridge Gas was obliged to seek either a review or an appeal of the Board's decision in the Rate Setting Proceeding in order to seek the relief that it is requesting in this proceeding.

That Enbridge Gas Inc. should have sought such relief through a review or appeal proceeding is highlighted by the fact that this precise issue was raised by Enbridge Gas in reply argument in response to the specific proposal by several parties that the Board make such an adjustment to the calculation of the materiality threshold for Union Gas; the Board, in the context of the Rate Setting Proceeding, determined that the adjustment should be made notwithstanding Enbridge Gas Inc.'s arguments to the contrary.[5] In OGVG's view it would be inappropriate and out of scope to, in this proceeding, consider the relief requested by Enbridge Gas Inc., since to do so properly would require the Board to examine the proposed adjustment in the context of the entire decision in EB-2017-0307, an examination that should have been done, if at all, in the context of a review or appeal proceeding.

Do the USP and AMPs support approval of the ICMs?

OGVG has no submissions with respect to the adequacy of either the USP and AMP to the extent they are relied upon in support of the requested ICMs; OGVG does not have any submissions to make to the effect that ICM relief should be denied for any particular project because it is unsupported by either the USP or the AMP.

Are the costs of the ICM projects appropriate, to the extent that they differ from the costs considered by the OEB in granting leave to construct?

OGVG's submissions with respect to the costs of the ICM projects are set out under the other issues below, and largely relate to the appropriateness of treating capitalized overhead amounts as eligible for ICM funding, as well as the appropriateness of treating OM&A and property taxes as eligible for ICM funding.

Is the NPS 30 Don River Replacement Project in the EGD rate zone eligible for Incremental Capital Module (ICM) funding?

a. If yes, is the ICM rate rider for the NPS30 Don River Replacement Project calculated appropriately?

OGVG does not have an immediate interest in the rate consequences of the NPS Don River Replacement Project and has not participated in previous proceedings related to that project; accordingly OGVG respectfully takes no position with respect to the specifics of the request for ICM funding for the NPS 30 Don River Replacement Project. OGVG does note, however, that its approach to the eligibility of Union Gas Rate Zone related capital projects for ICM funding under issue 12 are generally applicable to the eligibility of the NPS 30 Don River Replacement Project for ICM funding, to the extent that OGVG's submissions relate to the proper application of the OEB's ICM policies in the context of Enbridge Gas Inc.

Are the Sudbury Replacement Project in the Union North rate zone and the Kingsville Transmission Reinforcement and Stratford Reinforcement projects in the Union South rate zone eligible for ICM funding?

a. If yes, are the ICM rate riders for the Sudbury, Kingsville and Stratford projects calculated appropriately?

In OGVG's respectful submission the Sudbury Replacement Project does not qualify for ICM treatment.

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[5] EB-2017-0307 Decision dated August 30, 2018, page 33; Enbridge Gas Inc. argued against this precise adjustment in its Reply Argument dated June 29, 2018, pages 57-58.

ICM eligibility is an exception to the general decoupling of costs from rates during an IRM period. In the present application Enbridge Gas Inc. is seeking eligibility for that exception related to the 2019 rate year. The Board's ICM policy is designed to provide incremental funding in relation to capital spending[6] when the capital spending in a given rate year exceeds, by a material amount, the notional funding for capital spending available to a distributor in that same year. In the present application the ICM policy is intended to provide incremental funding to Enbridge Gas Inc. if its 2019 capital spending exceeds, by a material amount, the notional funding available to Enbridge Gas for capital spending in 2019.

The simple fact is that the Sudbury Replacement Project does not represent 2019 capital spending; it is 2018 capital spending, and is therefore unequivocally disqualified from consideration as capital spending eligible for 2019 ICM treatment. From a rate perspective capital spending associated with the Sudbury Replacement Project is no different then any other capital spending incurred by Enbridge Gas in 2018; the inability of Enbridge Gas to recover incremental funding for the project within 2018 rates does not, in OGVG's view, change the scope of the Board's ICM policy, which is specifically and intentionally restricted to a review of the incremental needs of a distributor within a specific rate year. Put another way, the Board's ICM policy is not a mechanism for addressing perceived shortfalls in capital funding for historical years, including historical years governed by a different regulatory construct; the Board's ICM policy is a mechanism for addressing forecast shortfalls in capital funding relative to capital spending within a single subject year. That this is so is highlighted by the fact that in any instance of the application of the Board's ICM policy ratepayers are not entitled to recover any excess funding for capital in previous years, i.e. the fact that a distributor may have underspent in capital relative to the notional funding in rates for capital in previous years is not brought forward as a measure to offset overspending in the subject year for the ICM application. The only consideration in the ICM application is a comparison of the subject year capital spend relative to the notional funding for capital in that same year.

OGVG respectfully submits that Enbridge Gas had options to account for the cost of the Sudbury Replacement Project as part of its overall revenue requirement. Enbridge Gas was scheduled to apply for a cost of service based review of all of its costs for the 2019 rate year, a review which would have allowed Enbridge Gas to fully account for the costs of the Sudbury Replacement Project in its 2019 rates. Enbridge Gas determined that it was in its best interests to forego a cost of service rebasing of its rates in 2019 in favour of continued decoupling of costs from rates; one of the consequences of that continued decoupling is, OGVG respectfully submits, accepting the limited and simplified nature of the rate setting mechanism that Enbridge has become subject to during its deferred rebasing period, including the narrow scope of the Board's ICM policy.

The Kingsville and Stratford Projects

OGVG does not have any submissions to make to the effect that either the Kingsville or Stratford Projects should be denied ICM eligibility, nor does OGVG have any

[6] In this context "capital spending" is synonymous with amounts closed to rate base within the rate year. Using the Sudbury Replacement Project as the example, had the spending largely occurred in 2018 but none of that spending closed to rate base until 2019 there would be an argument that the expenditure would qualify as "capital spending" in the 2019 rate year eligible for consideration as part of the 2019 ICM.

submissions to make to the effect that the cost forecasts for either project are inappropriate. OGVG's submission in relation to the Kingsville and Stratford Projects are limited to:

a) the proper calculation of the Union specific ICM Materiality Threshold,
b) the proper treatment of Capitalized Overhead Costs in the context of an ICM application,
c) the proper treatment of OM&A and property taxes within the ICM related accounts, and
d) the nature of the ICM riders.

Calculation of Materiality Threshold

For the Union Gas rate zone Enbridge Gas Inc. has proposed to modify the calculation of the materiality threshold by using a custom PCI based on Union Gas Ltd.'s actual annual PCI increase between 2013 and 2018 as opposed to the PCI of 1.07% that is required by the OEB's ICM Policy.[7] Enbridge Gas Inc. proposes to do this in order to more closely match the 2019 materiality threshold to the rate increases experienced by Union Gas limited over that period.

In OGVG's respectful submission the Board should reject this modification. The Board's ICM policy requires the use of the current PCI when calculating the materiality threshold in the full knowledge that depending on the gap in time between the relevant base year and the ICM year and the annual fluctuations in the PCI used to determine rates during that time period the PCI used in the materiality threshold may be higher or lower then the effective actual PCI over that period. By way of example, any electricity distributor applying for an ICM in year 5 of its IRM period is in a similar situation to Enbridge Gas Inc. with respect to the calculation of the materiality threshold; the PCI used to calculate the materiality threshold would be the PCI for year 5, even though the distributor will have experienced potentially materially different actual PCI values in years 2-4 of its IRM period.

While OGVG would expect that Enbridge Gas Inc.'s proposal could be entertained in the context of a review of the ICM policy as a whole, in the context of the application of the ICM policy in a particular application such as this one OGVG maintains that it would be inappropriate. OGVG respectfully submits that as a simple funding mechanism as opposed to a Y-Factor it is appropriate to respect the fact that in setting out the ICM policy as a exception to the decoupling of costs and rates during an IRM period the Board was largely engaged in a balancing exercise between providing relief for utilities whose capital requirements materially exceeded the notion capital funding in their rates and maintaining both the decoupling of costs from rates and regulatory simplicity over the IRM period. In OGVG's view tinkering with one aspect of the materiality threshold, in this case the calculation of the applicable PCI Index, undermines the ICM structure as whole.

Inclusion of Capitalized Overhead as ICM eligible spending

In updating the costs of the proposed ICM projects it was a surprise to OGVG that the original project costs used to justify the projects at their relevant Leave to Construct

[7] Exhibit B Tab 2 Schedule 1 pages 10-11.

proceedings did not include capitalized overhead. Having now added capitalized overhead to the proposed ICM projects Enbridge Gas Inc. is applying for ICM funding for the portion of the capitalized overheads allocated to eligible ICM projects, increasing the total amount of incremental funding requested.

OGVG does not object to the allocation of capitalized overhead to ICM projects in the normal course, with that capitalized overhead being closed to rate base and, on rebasing, attracting depreciation and cost of capital funding in rates. OGVG notes that the ICM policy does not distinguish between capitalized overhead and other types of capital costs when determining the materiality threshold or the total level of spending to be compared against the materiality threshold, and the depreciation cost that forms the basis of the materiality threshold calculation will necessarily include the depreciation cost associated with capitalized overhead amounts embedded in rates during the relevant cost of service application.

OGVG respectfully submits, however, that pursuant to the ICM policy it remains the burden of the applicant to establish that the capital spending being put forward as eligible for incremental funding meet the applicable criteria, which includes:

Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) <u>and must clearly have a significant influence on the operation of the distributor</u>; otherwise they should be dealt with at rebasing.

<u>Amounts must be based on discrete projects</u>, and should be directly related to the claimed driver.

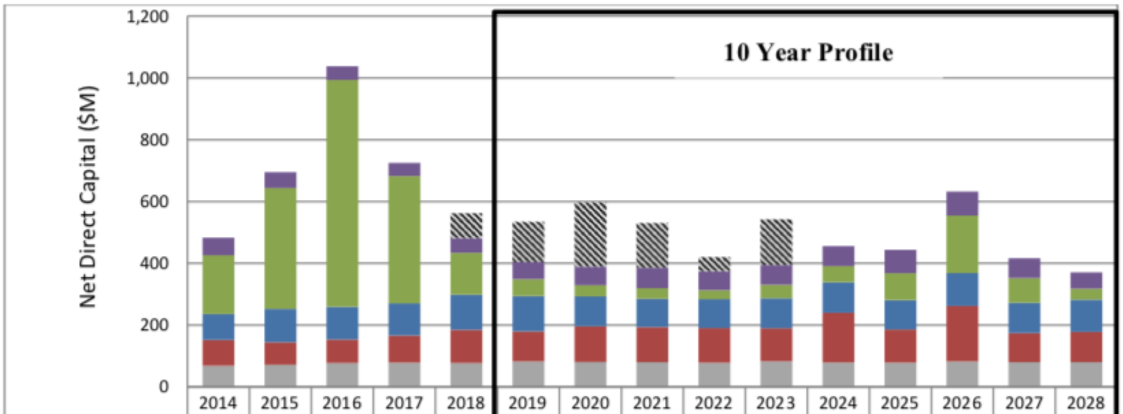
<u>The amounts must be clearly outside of the base upon which the rates were derived.</u>[8]
(Emphasis added)

In OGVG's submission capitalized overhead amounts such as the amounts claimed by Enbridge Gas Inc. do not qualify for incremental funding, as they do not meet any of the criteria noted above.

[8] EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 17.

The base upon which Enbridge Gas Inc.'s rates were derived includes a substantial amount in relation to capitalized overhead; in fact, capitalized overhead represents one of the most significant and stable categories of capital spending for Enbridge Gas Inc. from year to year. By way of illustration, OGVG notes that in its AMP Union Gas Ltd. shows as a separate line item the total of its capitalized overhead over the period from 2014 to 2028:[9]

Figure 11
Union's Capital Expenditure Summary
(with proposed ICM project in-service spend identified from 2019-2023)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
ICM Projects					80	130	207	145	46	148					
General Plant	57	51	45	43	48	55	60	66	61	63	64	76	77	64	52
System Service	190	391	734	412	135	54	36	34	30	43	53	87	186	80	36
System Access	84	108	106	104	114	115	96	92	93	97	99	95	106	98	104
System Renewal	84	73	76	88	108	97	116	114	112	107	161	108	180	94	98
Overhead	68	72	77	79	77	82	80	80	78	83	79	78	82	80	80
UNION Total	483	695	1,038	725	562	534	596	530	420	542	456	444	632	416	370

What is striking from this presentation is the stability of the forecast Overhead costs, not only into the forecast years but also the historical years, regardless of the fluctuations in the total spending in any particular year.

OGVG notes that the table does not go back to 2013, the year in which Union Gas Ltd.'s base rates were determined. However in the Decision and related Settlement Proposal in EB-2011-0210, the proceeding that set Union Gas Ltd.'s 2013 base rates, the total amount of forecast capitalized overhead amounts for the purposes of setting 2013 rates was set at $73M, more than what was actually spent in 2014 and within approximately 8% of the average annual level of capitalized overhead over 2014-2028 period.[10] Coupled with the fact that the base amount of capitalized overhead embedded in rates has notionally escalated over time since 2013[11] and the fact that increases in capitalized overhead are generally coupled with offsetting decreases in overhead charged to OM&A

[9] Exhibit C Tab 1 Schedule 1 page 53.
[10] EB-2011-0210, Settlement Proposal as Amended dated July 18, 2012, Appendix B Schedule 5.
[11] Using the Price Cap Index of 1.07% would escalate the amount of capitalized overhead notionally embedded in rates for 2019 to $76.75M.

with a resulting net savings in revenue requirement, it is OGVG's respectful submission that Enbridge Gas Inc.'s capital spending with respect to capitalized overheads:

a) will not, in 2019, have a significant influence on the operation of the distributor, as it is well within the normal parameters for the distributor with respect to capitalized overhead amounts,
b) while ultimately allocated to discrete projects for the purpose of closing amounts to rate base, are not in reality driven by those discrete projects, as illustrated by the stable amount of capitalized overheads over time regardless of the mix of projects and level of total capital spending, and
c) will not be clearly outside the base upon which rates were derived, with the difference between the capitalized overhead embedded in 2013 rates (and then escalated) being immaterially different then the amount included in 2019 rates, particularly when one considers that increases in capitalized overhead amounts will be more then offset, in the normal course, by decreases in overhead amounts included in OM&A.

That is not to say that, under the current ICM policy, the 2019 level of capitalized overheads do not have an impact on the ICM analysis. In OGVG's view, under the current ICM policy, the appropriate treatment of capitalized overhead is as a component of the total spending in the year; it is simply the case that the capitalized overhead amounts should not attract ICM funding. The result in the present case is the reduction of the eligible capital amounts claimed for the enumerated ICM eligible projects by the amount of capitalized overhead allocated to each such project. OGVG notes that the process of accounting for all capitalized overhead as non ICM eligible capital spending may result in certain projects that might otherwise have been notionally funded by rates may become eligible for ICM funding, effectively trading places with capitalized overhead amounts. OGVG is, however, unaware if any such projects would qualify in 2019.

Recovery of OM&A and Property Taxes in relation to ICM Projects

Enbridge Gas Inc. is seeking, through this application, to track and ultimately recover the incremental OM&A and property tax expenses associated with approved ICM projects.[12] That Enbridge Gas Inc. is seeking such relief was not, it appears to OGVG, clear in the application, with no direct mention of including OM&A and property taxes within the scope of the revenue requirement recovered in connection with ICM projects. It appears to OGVG that it was only when answering Exhibit I.STAFF.19 that Enbridge Gas Inc., at Attachment 1, described the full scope of the revenue requirement elements that it intended to track and, ultimately, recover within the ICM related deferral accounts both OM&A and Property Tax expenses:

The purpose of the Union Rate Zones ICM deferral account is to record the difference between the actual revenue requirement for the Union Rate Zones approved ICM projects, and the actual revenues collected through ICM rates approved by the Board for the Union Rate Zones. The actual revenue requirement will include costs associated

[12] OGVG notes and recognizes that for the 2019 rate year there are no OM&A costs included for recovery and only, arguably, immaterial amounts included for Property Taxes; nonetheless OGVG feels that it is important to engage the issue since it appears Enbridge Gas Inc. is attempting to establish those categories of costs as recoverable under the Board's ICM policy in the event there are future, material amounts at issue.

with the capital investment, including return on rate base, depreciation expense, and associated income taxes, as well as material incremental operating expenses (O&M and property taxes), if applicable. The actual revenues will be those collected through the ICM rate riders approved by the Board for the Union Rate Zones. (Emphasis added)

While the cited interrogatory response was an indication that Enbridge Gas Inc. was seeking to recover such costs despite the exclusion of such costs from the ICM policy, at that point in the proceeding there was still no justification provided as to why Enbridge Gas Inc. should recover such costs given the fact that the Board's ICM policy does not provide for recovery of OM&A and property taxes in relation to ICM projects.[13] Board Staff followed up with Enbridge Gas Inc. in the technical conference to ask why this new relief was being requested:

MS. KWAN: Okay, thank you. My other question is on Staff 19. It is the attachment on the ICM deferral account, which is this one, I think. So in the draft accounting order, the ICM deferral account is to true-up the difference between actual revenue requirement and the rate riders collected. And then you go on to say that the actual revenue requirement will include costs associated with capital investment, including return on rate base, depreciation expense, and associated income taxes, as well as material incremental O&M and property taxes.

I think in the application 4.2 million of property tax was included in the incremental revenue requirement. So my question is: Why are you proposing to include material incremental O&M and property taxes when the Board's ICM guidelines is typically only for capital?

MR. SMALL: The company's proposal is due to the fact that the property taxes and potentially O&M are a direct result of capital and should be viewed in conjunction with that capital spending.[14]

It appears to OGVG that this is example wherein Enbridge Gas Inc. is attempting to extend the scope of the Board's ICM policy, transforming it from a simple funding mechanism into a true Y-Factor, passing through all costs in the same manner as the capital pass through mechanism formerly employed by Union Gas Ltd. That is not, in OGVG's view, what the Board's ICM policy is intended to facilitate.

The Board ICM policy, which governs the scope of the costs eligible for recovery in relation to approved ICM eligible Projects, does not allow for the recovery of incremental operating expenses. The Board ICM policy only allows for the recovery of incremental funding related to the capital expenditure associated with the project.[15]

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[13] OGVG recognizes that in Exhibit B1, Tab 2, Schedule 1, Appendix E Enbridge Gas Inc. includes a category of "incremental operating expenses" within which it includes OM&A, Depreciation Expense and Property Taxes; OGVG notes however that the inclusion of OM&A and Property Tax line items despite the ICM policy's inclusion of only depreciation expense is never explained or justified in the Application.

[14] EB-2018-0305 Technical Conference Transcript Volume 1 pages 95-96.

[15] EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014: With respect, the entirety of the Board

Were the ICM policy to have even considered the recovery of incremental operating expenses (OM&A and property taxes) there would have had to have been, for example, a process established to determine whether claimed operational expenses were truly incremental, offset by reductions in operational expenses, etc. OGVG respectfully submits that it is clear that the ICM policy is narrowly focused in scope, allowing only for incremental funding for capital expenses, and that Enbridge Gas Inc.'s attempt to add OM&A and property tax expenses to the scope of the ICM policy should be rejected, with the proposed deferral accounts being adjusted accordingly and the existing property tax expenses included in the ICM projects removed for the purposes of calculating the ICM revenue requirements.

The Nature of the Proposed ICM Rate Riders

It appears to OGVG that Enbridge Gas Inc. intends to recalculate the ICM related Rate Riders each year; OGVG assumes this to be the case based on Enbridge Gas Inc. proposal to, for example, not provide a 2019 ICM rate rider for the rate zones where the 2019 revenue requirement would result in a credit, instead applying that credit against the 2020 ICM rate rider:

To reduce recovery variances over the deferred rebasing term, <u>Enbridge Gas proposes to calculate the 2020-2023 ICM unit rates for the 2019 ICM Projects as part of each of the respective annual rate proceedings based on the annual revenue requirements provided in Table 11 and updated annual forecast billing units</u>. Any variance from the revenue requirement amounts collected through the ICM rate riders and the actual revenue requirement incurred, will be tracked through the respective deferral account, as described in Exhibit B1, Tab 1, Schedule 1, Section 2.[16]

It is OGVG's understanding that the ICM policy presumes a single ICM rate rider for each ICM application that persists through the deferral/IRM period, obviating the need for annual updates to the rider. OGVG's understanding is supported by the Board's elimination of the Half Year Rule when determining the rate rider despite the fact that doing so necessarily creates an over-recovery in year 1 of the ICM rate rider, a measure implemented by the Board in order to avoid building in material under-recovery into the rider as it continued in subsequent years.[17]

Given that it appears that the 2019 rate rider for most rate zones is projected to be negative if calculated based strictly on the 2019 revenue requirement for those projects, OGVG agrees that it does not make sense to build in a negative rate rider in year 1 and (in order to preserve the notion that the rider should be adjusted each year) continue that negative rider for several years, in the same way it did not make sense for the Board to enforce the half year rule for riders and build in an under-recovery in the subsequent years.

Accordingly, in OGVG's view, the solution most consistent with the Board ICM policy would be to hold of the implementation of the ICM rate rider until year 2 as proposed by

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Report details the recovery of only the capital related costs with respect to ICM projects, namely depreciation, cost of capital amounts, and income taxes.

[16] Exhibit B Tab 2 Schedule 1 page 35.

[17] EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 23.

Enbridge Gas Inc., and then implement a 2020 rider that incorporates ¼ of the 2019 related credit to provide a rider that can subsist for the 2020-2023 period without materially over or under recovering revenue relative to the 5 year revenue requirement.

Is Enbridge Gas' customer connection policy and Profitability Index calculation for consumers appropriate and in accordance with OEB guidelines?

As noted earlier OGVG has not historically participated in proceedings specific to the Enbridge Gas Franchise area and does not have a direct interest in the resolution of this particular issue as it does not affect the Union Gas specific customer connection policy or Profitability Index. Accordingly OGVG has no submissions with respect to this issue, relying instead on the submissions of parties more directly interested in its resolution.

SUMMARY

OGVG respectfully submits that the Board should make the following findings with respect to the application of the Board's ICM policy in the context of Enbridge Gas Inc.'s application for 2019 rates:

a) the Board should reject Enbridge Gas Inc.'s proposal to make a one time adjustment to rates with respect to the "capital pass through" projects, and should have Enbridge Gas Inc. continue operation of the "capital pass through" accounts as approved in EB-2017-0307;

b) the Board should reject Enbridge Gas Inc.'s proposal to include the Sudbury Replacement Project as a 2019 ICM Eligible Project,

c) the Board should approve the Kingsville Project and Stratford Project as ICM Eligible Projects,

d) the Board should reject Enbridge Gas Inc.'s proposal to implement a custom PCI for the Union Gas rate zone when determining the applicable ICM related materiality threshold;

e) the Board should confirm that the capitalized overhead amounts in Enbridge Gas Inc. 2019 capital budget, while appropriate for inclusion in Enbridge Gas Inc. total capital spend used for the purpose of determining the available amount of ICM eligible funding, should not itself be included as ICM eligible capital;

f) the Board should reject Enbridge Gas Inc.'s proposal to include OM&A and property taxes as components of the revenue requirement recoverable under the ICM policy; and

g) the Board should require Enbridge Gas Inc. to implement 2019 related ICM rate riders in 2020, with any ICM related credits accruing to ratepayers in 2019 to be included in the 2020 rider on an amortized basis over the remainder of the deferral period so that the rider will not have to be recalculated annually in order to avoid material over or under recovery.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 4th DAY OF JULY, 2019