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BY EMAIL and RESS

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Our File: EB20190194

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Christine Long, Registrar & Board Secretary

Dear Ms. Long:

Re: EB-2019-0194– Enbridge Gas Inc. 2020 Phase 2 – SEC Submissions

We are counsel to the School Energy Coalition ("SEC"). Pursuant to Procedural Order No. 2, these are SEC's submissions on certain Phase 2 issues of the application by Enbridge Gas Inc. ("Enbridge") for 2020 rates.

Incremental Capital Module

Enbridge seeks approval for an Incremental Capital Module ("ICM") for two projects in 2020, the Don River Replacement Project and the Windsor Line Replacement Project.

Don River Replacement Project. Enbridge seeks approval for ICM funding in its EGD Rate Zone for its Don River Replacement Project. The project is forecast to cost a total of $35.4M and Enbridge is seeking approval for an ICM of approximately $30.1M, which represents the amount above the EGD Rate Zone materiality threshold eligible for incremental funding.[1] SEC accepts that the project meets the strict requirements of an ICM. The need and prudence of the project were determined in the context of the Board's Leave to Construct approval.[2] SEC also agrees that Enbridge has calculated the project-specific and overall materiality threshold correctly.

With all of that being said, the Board should still deny ICM funding for this project.

In Enbridge's 2019 ICM application, it sought ICM funding for the same project. The Board denied the request on the basis that it reduced certain other capital projects related to IT spending, and so the maximum eligible incremental capital for the EGD Rate Zone was reduced to below zero. Thus, there was no need for ICM funding for Enbridge to undertake the Don River Replacement Project.[3]

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[1] Ex.B-2-1, p.15
[2] *Decision and Order (*EB-2018-0108 - EGD Don River LTC), November 29, 2018
[3] *Decision and Order* (EB-2018-0305 - Enbridge Gas 2019), September 12, 2019, p.21

> The OEB has previously determined that $13.4 million related to IT spending will be removed from the 2019 in-service capital forecast used to determine the maximum eligible incremental capital for the EGD rate zone. This reduction reduces the starting point of the 2019 in-service capital from $481.7 million to $468.3 million. The resulting maximum eligible incremental capital drops from $13.1 million to negative $200,000.39. Consequently, there is no room for any ICM funding for the EGD rate zone. Accordingly, the Don River project does not qualify for ICM funding.[4]

Yet, Enbridge did not undertake the Don River Replacement Project in 2019. The completion of the project was delayed due to permit delays, and so the new in-service date is expected in 2020.[5]

The implication of the delay, and Enbridge's renewed request for incremental funding, is that ratepayers are worse off. If the project had been completed in 2019, as the Board's decision noted, it would not have been able to receive incremental funding. The ICM provides additional funding not just in the in-service year, but every year until rebasing. The Board's 2019 rates decision denied Enbridge funding in not just 2019 for the project, but also each year between 2020 and 2023. If the Board approves the renewed request, then Enbridge will be able to receive ICM funding, at a level *greater* than it even sought in 2019, for each year between 2020 and 2023.

It is unfair to ratepayers for Enbridge to be financially better off by having this project come into service a year later. From the perspective of the utility, the Board told Enbridge it had sufficient funding in base rates, after the adjustment is made to reflect in its view, unreasonable IT spending, to complete the work in 2019 as it had forecast. Since it did not complete the work in 2019, it should still have the same financial ability to fund the project in that year as if it had.

SEC submits the Board should deny approval of the Don River Replacement Project.

Windsor Line Replacement Project. Enbridge seeks approval for ICM funding in its Union Rate Zone for its Windsor Line Replacement Project. The project is forecast to cost a total of $91.9M and Enbridge is seeking approval for an ICM of approximately $84.2M, which represents the amount above the Union Rate Zone materiality threshold eligible for incremental funding.[6]

- ***Materiality***. SEC accepts that Enbridge has calculated the project-specific and overall materiality threshold ICM criteria correctly based on the information they have provided. However, SEC submits that the Board should adjust the maximum eligible incremental capital amount that determines the amount above the materiality threshold available for funding, to reflect a more reasonable underlying capital budget in the Union Rate Zone. Enbridge has forecast a total of $528.3M for Union Rate Zone spending in 2020.[7] This appears to be overstated based on Enbridge's 2019 Union Rate Zone in-service additions.

  In its 2019 rates application, Enbridge calculated the maximum allowable capital spending based on a forecast in-service addition amount of $518.5M.[8] Ultimately, it only brought in-

[4] *Ibid.*
[5] Interrogatory Response I.VECC.1, Attachment 1
[6] Ex.B-2-1, p.15
[7] Ex.B-2-1, p.5
[8] *Decision and Order* (EB-2018-0305 - Enbridge Gas 2019), September 12, 2019, p.25

service $507.8M of capital (2% less).[9] The impact on ratepayers is significant. If it had provided an accurate forecast in its 2019 application, it would have received $10.7M less in ICM funding. The Board should ensure this does not occur in 2020 by reducing the forecast 2020 Union Rate Zone capital additions by a similar 2% ($10.6M). This would reduce the ICM funding for the project from $84.2M to $73.6M.

- ***Need and Prudence.*** SEC notes that the Board has determined that Enbridge has met the requirement for the need of the project in the context of its recent Leave to Construct decision.[10] With respect to the prudence of the project, the Board noted in then the Leave to Construct decision that constructing entirely with an NPS 6 pipe was not appropriate and that it would approve an alternative hybrid option, in which a combined NPS 4 and 6 pipe was used. Based on the evidence in that proceeding, the Board noted that the hybrid option reduced the project costs by $1.3M.[11]

SEC submits that on this basis, the ICM should be recalculated to reflect the the proposed reduction in eligible incremental funding, as well as the reduction in costs as a result of the Board's Leave to Construct decision. Enbridge should provide a detailed breakdown of the revised project capital costs since those presented in the Leave to Construct proceeding are different from that sought in this application for the ICM due to the differences in indirect overhead allocations (i.e. incremental versus fully-allocated[12]).

Cost Allocation Study

In the MAAD's decision, the Board ordered Enbridge to file in its 2020 rates application a cost allocation study for certain major projects (Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D, and the Hagar Liquefaction Plant) in the Union Rate Zones, as well as a proposal regarding TransCanada's C1 Dawn to Dawn TCPL service.[13] Enbridge has filed the cost allocation study which, if implemented, would result in adjustments to all its rate classes. Enbridge generally utilized the previously approved cost allocation methodology but made changes to the Panhandle and St. Clair Systems, Parkway Station, and Dawn Station costs.

Enbridge proposes that while the Board should approve the proposed cost allocation methodology changes, it should not require a broader cost allocation study until it rebases in 2024.

If the Board orders the implementation for 2020 rates, the impact of the implementation of the cost allocation changes, for all of the Union Rate Zone customers except for its largest customers (M9, T1, T2), would be a rate increase.[14] For some of the rate classes, the amounts would be very significant. Since some of these costs are a flow-through to Enbridge Rate Zone customer transportation rates, there would be a slight rate decrease for them, albeit not a material one.[15]

SEC generally agrees with Enbridge, that it is preferable not to implement the revised cost allocation study for 2020 rates. The cost allocation study changes would only be for a subset of assets. It is not

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[9] Interrogatory Response I.LMPA.8, p.5
[10] *Decision and Order* (EB-2019-0172 - EGI Windsor LTC), April 1, 2020, p.12
[11] *Ibid.*
[12] *Decision and Order* (EB-2018-0305 - Enbridge Gas 2019), September 12, 2019, p.21, p.29
[13] *Decision and Order* (EB-2017-0306/307 - Enbridge-Union MAAD), August 30, 2018, p.41
[14] Interrogatory Response I-Staff-4, Attachments 1-4
[15] Interrogatory Response I.FRPO.19, Attachment 1; Interrogatory Response I.SEC.8

known at this point what the impact on rates would be if Enbridge was required to undertake a full cost allocation study for all its rate zones, as it will do at rebasing.[16] Since cost allocation is interactive, it is normally preferable to implement cost allocation changes only in the context of a full study, except in the most unusual of circumstances. In the meantime, if this subset of changes is implemented now, Union Rate Zone ratepayers may see a large swing in rates as a result of cost allocation changes in 2020, and may then see another large swing in 2024 based on a full review of Enbridge's cost allocation.

At the same time, SEC does not agree with Enbridge that this panel should approve the proposed cost allocation methodology changes if it is not going to implement the changes until rebasing. This panel should not fetter the rebasing panel's discretion on cost allocation methodology, especially since that panel will be reviewing Enbridge's entire cost allocation. Considering that at rebasing Enbridge will have to address the issue of rate zone harmonization, the changes to the cost allocation methodology at that time may be very substantial.

Unaccounted For Gas

Enbridge has filed a report commissioned by ScottMadden, as required by the Board, on the issue of Unaccounted For Gas ("UFG"). No relief is being sought by Enbridge. SEC has reviewed the report and Enbridge's responses to the interrogatories. SEC agrees with Enbridge's proposal to report on its implementation of the report's recommendations in its 2022 rate application.[17]

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and Intervenors (by email)

[16] Interrogatory Response I.SEC.6
[17] Interrogatory I.Staff.28(c)