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VIA EMAIL and RESS

May 1, 2020

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: EB-2019-0194 Enbridge Gas Inc. ("Enbridge Gas")
2020 Rates – Reply Argument (Phase 2)

In accordance with Procedural Order No. 3, dated February 26, 2020, enclosed please find the Reply Argument of Enbridge Gas in the above noted proceeding.

Please contact the undersigned if you have any questions.

Yours truly,

(Original Signed)

Rakesh Torul
Technical Manager,
Regulatory Applications

cc: David Stevens, Aird and Berlis LLP
EB-2019-0194 Intervenors

EB-2019-0194

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, as amended;

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, 2020.

ENBRIDGE GAS INC.

2020 RATES - PHASE 2

REPLY ARGUMENT

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A. OVERVIEW

1. On March 11, 2020 Enbridge Gas Inc. (Enbridge Gas, or the Company) filed Argument in Chief setting out its position on the four outstanding items in this proceeding: (i) two incremental capital module (ICM) requests; (ii) a cost allocation study that includes a proposal for the cost allocation methodology for certain major projects in the Union rate zones; (iii) Enbridge Gas's eBill Practices; and (iv) Unaccounted For Gas (UFG) Report.

2. Enbridge Gas requests approval of the two ICM requests for 2020 Rates, and approval of the proposed cost allocation methodology changes to be implemented at rebasing. Enbridge Gas has reported on its eBill Practices, filed a UFG Report and has made commitments about future activities and reporting relevant to these items. The Company does not believe that any relief from the Ontario Energy Board (OEB, or the Board) is required on these latter two items.

3. Fifteen parties[1] filed submissions in response to Enbridge Gas. This Reply Argument sets out Enbridge Gas's response. Enbridge Gas will not repeat its Argument in Chief, but continues to rely on the positions and argument already submitted. Given the large number and broad scope of the arguments received from other parties, Enbridge Gas will not attempt to respond to every item noted. However, failure to respond to any particular items should not be interpreted as acceptance or agreement by Enbridge Gas.

4. A summary of Enbridge Gas's position and response on the four outstanding items is set out below:

[1] OEB Staff (OEB Staff), Association of Power Producers of Ontario (APPrO), Building Owners and Managers Association (BOMA), Canadian Manufacturers & Exporters (CME), Consumers Council of Canada (CCC), Energy Probe Research Foundation (EP), Federation of Rental-housing Providers of Ontario (FRPO), Industrial Gas Users Association (IGUA), London Property Management Association (LPMA), Ontario Greenhouse Vegetable Growers (OGVG), Pollution Probe (PP), Quinte Manufacturers Association (QMA), School Energy Coalition (SEC), TransCanada PipeLines Ltd. (TC Energy), and Vulnerable Energy Consumers Coalition (VECC).

a) *__ICM Requests__* – The Company's requests for ICM rate recovery for the Don River Replacement Project (EGD rate zone) and the Windsor Line Replacement Project (Union South rate zone) each meet the Board's criteria for ICM funding.[2] Enbridge Gas seeks approval of ICM unit rates beginning in 2020 for the duration of the deferred rebasing period to recover the total revenue requirement of the two ICM projects from 2020 to 2023. Since the date of the Argument in Chief, the Board has granted leave to construct approval for the Windsor Line Replacement Project at a modestly reduced project cost, and Enbridge Gas has confirmed an April 24, 2020 in-service date for the Don River Replacement Project. The Company's Reply Argument addresses the impact of these developments and explains why additional ICM adjustments proposed by other parties are not appropriate.

b) *__Cost Allocation Study__* – As required by the MAADs Decision[3], the Company filed a cost allocation study for the legacy Union rate zones that takes into account certain projects (Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D and the Hagar Liquefaction Plant) and that includes a proposal for addressing TransCanada's C1 Dawn to Dawn-TCPL service.[4] Enbridge Gas is seeking Board approval of the indicated cost allocation methodology changes. The Company proposes to implement the cost allocation methodology changes as part of its next rebasing proceeding. Parties do not raise substantial concerns with the cost allocation proposals. However, parties are divided on the timing and approach for implementation. Some parties argue for implementation of the cost allocation methodology changes in 2021, while others indicate that the Board should wait until rebasing and consider all cost allocation methodology changes proposed by the Company together at that time. Enbridge Gas continues to believe that approval of cost allocation methodology changes in this proceeding for later implementation at rebasing is appropriate. However, as between the alternatives presented by other parties, Enbridge Gas favours the option of waiting for consideration and implementation of cost allocation methodology changes with the rebasing proceeding.

c) *__eBill Practices__* – Enbridge Gas has transitioned to make eBill the default billing option for customers.[5] The transition to eBill has resulted in cost savings, improved customer satisfaction and increased self-serve volume. The Board has encouraged utilities to increase the use of eBill[6], but has not prescribed any rules about how this must be done. Enbridge Gas disagrees with parties who assert that the Company should obtain specific consent from each new or moving customer before making eBill that customer's billing option. This is not consistent

[2] The evidence in support of Enbridge Gas's ICM requests is filed at Exhibit B, Tab 2, Schedule 1.
[3] August 30, 3018 Decision and Order in EB-2017-0306/0307 (MAADs Decision). Found at https://www.oeb.ca/sites/default/files/Dec-Order-EGD-Union-Amalgamation-20180830-amended.pdf.
[4] The cost allocation study is filed at Exhibit B, Tab 1, Schedule 1. Appendix C.
[5] Evidence about Enbridge Gas's eBill practices is filed at Exhibit B, Tab 3, Schedule 1.
[6] OEB Notice of proposal to Amend Codes and a Rule in EB-2017-0183, dated December 18, 2018, page 42.

with modern practices, or with the fact that around 60% of Enbridge Gas customers are already on eBill. Instead, Enbridge Gas submits that a proper balance between the benefits of eBill (improved customer experience and lower costs) and respecting customer choice will be met by making eBill the default approach for new and moving customers while also ensuring that these customers are aware that they can choose the no-cost option of paper bills at any time if that is their preference. Current paper bill customers who provide an email address to Enbridge Gas as part of a telephone or online interaction in the future will be transitioned to eBill, but will always be able to move back to paper bills upon request. Under this approach, there is no need to continue with most of the "interim measures" that were set out in the Settlement Proposal.

d) *UFG Report* - As required by the MAADs Decision, Enbridge Gas filed a Report on Unaccounted For Gas (UFG) for the EGD and Union Rate Zones (UFG Report).[7] The Company will implement the recommendations in the UFG Report and will report on its progress in the 2022 rate application. Enbridge Gas will also present a proposal for consistent forecasting and management of UFG across the full franchise area as part of the 2024 rebasing application. Most parties agree that this approach is appropriate.

B. ICM REQUESTS

5. As explained in Argument in Chief, Enbridge Gas is seeking ICM funding for two projects in 2020 that are not funded through existing rates – the Don River Replacement Project in the EGD rate zone and the Windsor Line Replacement Project in the Union South rate zone. Each project meets the Board's ICM criteria in terms of materiality (including the means test and discrete project criteria); need; and prudence.

(i) Updates

6. Since the time when Enbridge Gas submitted Argument in Chief, there have been significant developments for each ICM project.

[7] The UFG Report was filed on December 19, 2019.

Don River Replacement Project

7. Enbridge Gas has now confirmed that the Don River Replacement Project went into service on April 24, 2020.[8] This means that the project is confirmed as a 2020 project, with the in-service capital expenditures being recognized for 2020.

Windsor Line Replacement Project

8. On April 1, 2020, the Board granted leave to construct (LTC) approval for the Windsor Line Replacement Project.[9] In the Windsor Line Replacement LTC Decision, the Board found that the replacement of the pipeline is in the public interest and acknowledged Enbridge Gas's plan to commence construction in May 2020 with completion scheduled for November 2020.[10] The LTC Decision confirms the "need" for the project and the prudence of the associated costs.

9. The Board's LTC approval of the Windsor Line Replacement Project is for a "hybrid option", which combines the use of nominal pipe size (NPS) 4 inch and 6 inch pipeline sizes in different parts of the route. Enbridge Gas had proposed NPS 6 for the full project.[11] The Board's determination reduces the overall cost of the project from $106.8M to $105.5M (inclusive of indirect overhead costs).[12] The $1.3M cost reduction results from the use of NPS 4 pipeline for part of the route.[13]

10. With the approved budgeted project cost for the Windsor Line Replacement Project being lower by $1.3M compared to the Enbridge Gas proposal ($105.5M vs $106.8M),

[8] EB-2018-0108/20190-0275, Enbridge Gas letter to OEB dated April 14, 2020, found at http://www.rds.oeb.ca/HPECMWebDrawer/Record/674215/File/document.
[9] EB-2019-0172 Decision and Order, dated April 1, 2020 (Windsor Line Replacement LTC Decision), found at http://www.rds.oeb.ca/HPECMWebDrawer/Record/673434/File/document.
[10] Windsor Line Replacement LTC Decision, page 1.
[11] Windsor Line Replacement LTC Decision, page 12.
[12] The total cost is comprised of $76.1M for the main pipeline ($1.3M less than the estimated project cost of $77.4M using only the NPS 6 pipeline option), $15.3M for ancillary facilities (stations and services), and $14.1M in indirect overhead costs.
[13] In the Windsor Line Replacement LTC Decision (page 12), the OEB acknowledged the potential benefits of planning to meet un-forecast demand by the construction of NPS 6 line throughout the length of the Project stating that "Enbridge Gas may choose of its own volition to construct a NPS 6 line throughout but the incremental increase in cost over the hybrid option will not be eligible for inclusion in rate base until the need for NPS 6 actually arises."

the 2020 ICM funding request will be lower by $1.3M. The $1.3M reduction in the ICM funding request results from the fact that the 2020 total in-service capital expenditure requirements for the Union rate zones and resulting maximum eligible incremental capital are each reduced by the same amount. The resulting impacts are as follows:

a) *ICM funding request*: The amount is reduced from $84.2M to $82.9M;

b) *Annual average revenue requirement*: The average annual revenue requirement is reduced from $5,648,000 to $5,557,000; and

c) *ICM bill impact*: There is a slight reduction in the bill impact associated with the 2020 ICM funding request for a typical Rate M1 residential customer consuming 2,200 m^3 annually in the Union South rate zone (the new bill impact is $2.08 vs. $2.12 as proposed, each of which were calculated assuming a January 1, 2020 implementation).

11. Enbridge Gas will reflect these updated amounts in the relevant supporting materials and rate schedules associated with the final rate order for this proceeding.

(ii) Response to Intervenor Submissions

12. Many parties agree that the OEB should grant approval for the Windsor Line Replacement Project ICM request[14], while a smaller number of parties support ICM approval for the Don River Replacement Project.[15]

13. Parties generally accept the need for each project, and do not dispute that Enbridge Gas passes the “Means Test” and that each project is “discrete and material”.

14. In the following paragraphs, Enbridge Gas provides its response to the issues and objections raised by parties about each ICM proposal.

[14] See Staff Submission, page 8; CCC Submission, page 2; LPMA Submission, page 6; QMA Submission, page 3; SEC Submission, page 3; and VECC Submission, page 5.
[15] See Staff Submission, page 7; and QMA Submission, page 3.

Don River Replacement Project

15. The concerns raised by parties about the Don River Replacement Project relate to four topics – ICM eligibility, maximum available ICM capital, project cost estimate and inclusion of overhead costs.

a) *ICM eligibility*

16. Parties object to the fact that Enbridge Gas is seeking ICM treatment for the Don River Replacement Project after ICM treatment was not received in the 2019 rate application.[16] This is referred to as "unfair"[17] and "*res judicata*"[18]. Parties raising these objections argue that Enbridge Gas should not be eligible for 2020 ICM treatment for the Don River Replacement Project.

17. As a preliminary matter, Enbridge Gas wants to make clear that its request for ICM treatment for this project in the 2019 rate case was not denied on the merits. Instead, the Board simply found that there was no eligible incremental capital available for any projects in the EGD rate zone in 2019, and therefore declined to consider the merits of Enbridge Gas's ICM request for the Don River Replacement Project.[19] This is not a "*res judicata*" type scenario, where an applicant seeks a different substantive decision from the decision maker on the same question as has previously been determined.[20] In the 2019 rate case, the Board did not make a substantive decision about whether the Don River Replacement Project qualified for ICM treatment in 2019. There was no review of the merits of the project or the application of ICM criteria. The

[16] See, for example, CCC Submission, page 2; CME Submission, page 3; PP Submission, page 2; SEC Submission, page 2; and VECC Submission, page 4.
[17] SEC Submission, page 2.
[18] VECC Submission, page 4.
[19] EB-2018-0305 Decision and Order, September 12, 2019 (2019 Rates Decision), at page 12. Found at http://www.rds.oeb.ca/HPECMWebDrawer/Record/652349/File/document.
[20] For a discussion of the principles of *res judicata* (both issue estoppel and cause of action estoppel), see *Nordion Inc. v. Life Technologies Inc.*, 2015 ONSC 99 (CanLII) at paras. 29-44. Found at https://www.canlii.org/en/on/onsc/doc/2015/2015onsc99/2015onsc99.html?autocompleteStr=nordion&autocompletePos=2.

Board's determination in the 2019 Rates Decision about incremental capital availability for that year is not relevant to an ICM request in the 2020 rate case.

18. After the 2019 rate case, the timing of the Don River Replacement Project changed.[21] As a result of unanticipated delays in obtaining permits and a need to align the delayed schedule with a firm customer's planned shut-down, the tie-in of the new pipeline was completed in April 2020, rather than the planned September 2019 date. These unanticipated delays were not caused by Enbridge Gas, but instead resulted from decisions and circumstances of third parties.[22] Enbridge Gas informed the Board of this delay as soon as it was known, and provided all relevant details about the reasons for the delay. Enbridge Gas made a Request to Vary the LTC Approval for the Don River Replacement Project, and the Board approved that Request to Vary in December 2019.

19. The result of the in-service delay to April 2020 is that the Don River Replacement Project became a 2020 project for purposes of ICM eligibility.[23]

20. ICM recovery is not available until a project goes into service, even where some or most of the related expenditures were incurred in a prior year.[24] This is indicated in the Board's ICM policy, specifically in the September 2014 document titled "New Policy Options for the Funding of Capital Investments: The Advanced Capital Module"

[21] This is described in prefiled evidence (Exhibit B, Tab 2, Schedule 1, paras. 45-46), interrogatory responses (the October 15, 2019 Request to Vary, and related correspondence/submissions and the Board's approval of the Request to Vary are filed at Exhibit I.VECC.1), and Argument in Chief (paras. 22-23).

[22] Enbridge Gas takes specific exception to Energy Probe's accusation that delays and cost changes are due to "management failure" (Energy Probe Submission, pages 6-7). The Request to Vary and related correspondence make clear that Enbridge Gas reacted reasonably and appropriately to manage delays caused by third parties.

[23] Contrary to BOMA's submission, the fact that most of the spending took place in 2019 does make this a 2019 project (see BOMA Submission, page 9).

[24] Several parties appear to be under the impression that a project should be considered for ICM eligibility in the year where most of the related expenses are incurred – see, for example, BOMA Submission, page 9; and CME Submission, pages 3-4.

(2014 ICM Policy).[25] In that document, the Board states that if the in-service date for a previously approved advanced capital mechanism (ACM) project has been delayed to the following rate year (or beyond), distributors should identify this fact in the earliest possible IR application and confirm in which IR application the distributor expects to seek to commence funding for the project.[26] The same principle would apply to an approved ICM project that is delayed to the following year. That is made clear in the filing requirements from the 2014 ICM Policy, which indicate that an ICM request must include details of the project and its planned in-service date, as well as details, by project, for the entire capital spending plan for the "subject year".[27] On the same point, the MAADs Decision makes clear that the determination that a project is material and eligible for ICM treatment is based on the <u>in-service value</u> of the project exceeding $10M.[28]

21. Taking all of this into account, it is appropriate that Enbridge Gas's request for ICM recovery for the Don River Replacement Project is included in the 2020 rate case. That is the year that the capital costs of the project go into service. This is not "gaming" – it is complying with the Board's timing rules in the face of unexpected changes in circumstances that caused a delay in the project in-service date.

22. Enbridge Gas's 2020 ICM request for the Don River Replacement Project is not "unfair". No amounts related to the project are included in the 2019 in-service capital expenditures. Enbridge Gas did not underspend on in-service capital projects in 2019, even with the deferral of the Don River Replacement Project into 2020.[29] The

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[25] "New Policy Options for the Funding of Capital Investments: The Advanced Capital Module", September 18, 2014. Found at https://www.oeb.ca/oeb/_Documents/EB-2014-0219/Board_ACM_ICM_Report_20140918.pdf.
[26] *Ibid,* page 13.
[27] *Ibid,* page 25.
[28] MAADs Decision, page 32-33.
[29] See Exhibit I.EP.1, which indicates that Enbridge Gas's actual in-service capital additions for 2020 were $507M (as compared to the ICM threshold of $469M). In any event, though, variances in a prior year is not a specific factor to take into account in determining a subsequent year ICM request.

Company has followed the intent and requirements of the Board's ICM policy and seeks incremental funding in 2020, the year when the project has gone into service.

b) *Maximum Eligible ICM Capital*

23. Enbridge Gas's evidence is that it has removed Information Technology (IT) capital projects totaling $7M from the forecast 2020 in-service capital expenditures, largely to reflect the Board's determination in the 2019 Rates Decision that certain types of IT spending should not be included in the capital budget.[30] However, as detailed below, other 2020 in-service capital spending requirements have more than replaced the removed amounts. OEB Staff asserts that Enbridge Gas should reduce the ICM eligible capital for the EGD rate zone by $7M.[31] OEB Staff asserts that Enbridge Gas has not justified the decisions to replace the removed $7M in IT spending with other projects within the 2020 capital budget and therefore that amount should be subtracted from the overall capital spending forecast to determine the maximum eligible ICM capital.

24. As explained below, Enbridge Gas disagrees that the proposed adjustment is appropriate. However, in order to be responsive to the OEB Staff request[32], Enbridge Gas can advise of the impacts of reducing the 2020 forecast in-service capital expenditure budget in the EGD rate zone by $7M. This would result in a decrease in the Maximum Eligible Incremental Capital from $30.1M to $23.1M and a decrease in the ICM funding request for the Don River project from $30.1M to $23.1M. As a result, the annual average revenue requirement for Don River would decrease from $2,048,000 to $1,575,000. The bill impact associated with the 2020 ICM funding request of $23.1M for a typical Rate 1 residential customer consuming 2,400 m^3 annually in the EGD rate zone would be an increase of $0.35 (vs $0.46 as proposed).

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[30] See AMP addendum, Exhibit C, Tab 1, Schedule 1, pages 5 and 7. The Board's determination related to 2019 IT budgets for the EGD rate zone is found at page 21 of the 2019 Rates Decision.
[31] OEB Staff Submission, page 5.
[32] OEB Staff Submission, page 8.

25. Enbridge Gas submits that its full 2020 forecast capital expenditure budget of $517.2M for the EGD rate zone should be used for the purpose of determining ICM eligible capital. This budget does not include any amounts related to the IT projects that the Board questioned in the 2019 Rates Decision. However, as a result of ongoing risk review and iterative budget processes, Enbridge Gas has also included additional capital expenditures beyond what was in the 10 year Asset Management Plan (AMP) that exceed the IT amounts removed from the budget. The dynamic and iterative nature of the Company's capital budgets is explained in the AMP addendum as follows:

> *EGD acknowledges that the identification of risks and the execution of projects is dynamic. As a result, the portfolio is reviewed twice following optimization, to account for execution status, outstanding risks and opportunities, and emerging risks and opportunities. During the year, the project scope may change or new projects may arise, resulting in cost pressures to the current portfolio. As these pressures are identified, trade-off decisions are made based on risk and available capital, a direct demonstration of EGD's Plan-Do-Check-Act model.*[33]

26. Table 2.1.1 of the AMP addendum for the EGD rate zone sets out how Enbridge Gas's forecast capital expenditures for 2020 evolved.[34] As seen in Table 2.1.1, $7.1M related to IT expenditures for the EGD rate zone were removed from the 2020 capital expenditure budget (as compared to the AMP)[35], but a larger amount ($18.5M) was added to the budget to reflect the impact of the Board's 2019 Rates Decision with respect to contributions in aid of construction (CIAC).[36] This more than offset the IT-related capital budget reduction.[37]

[33] Exhibit C, Tab 1, Schedule 1, page 6; see also Exhibit I.VECC.10.
[34] Exhibit C, Tab 1, Schedule 1, pages 7-8. Energy Probe notes that the total capital expenditures budget in the AMP addendum is different from the as-filed 2020 capital expenditures (Energy Probe Submission, page 4). The reason for this is that the as-filed 2020 capital expenditures ($517.2M) represents 2020 in-service projects, whereas the AMP addendum amount ($485.2M) represents amounts forecast to be spent in 2020 regardless of whether the associated project is forecast to go into service in 2020.
[35] The reduction in the IT capital expenditure budget for the EGD rate zone is also discussed at Exhibit I.STAFF.20.
[36] See also the description of this update at page 5 of the AMP addendum (Exhibit C, Tab 1, Schedule 1).
[37] The OEB Staff Submission (page 4) points to Exhibit I.STAFF.20(b) which details changes in the "Technical Information Services" (TIS) capital portfolio for EGD rate zone that kept the capital budget for that category fairly constant by reallocating cost reductions to other priorities. That interrogatory response

27. Enbridge Gas submits that it is reasonable for the reduction in capital budget for IT related spending to have been replaced by other spending priorities. That is consistent with the dynamic nature of the risk identification and project execution. In this particular case, the Board's direction from the 2019 Rates Decision that Enbridge Gas (EGD rate zone) must revert to the previous CIAC policy[38] adds substantial capital costs above what had been previously forecast for 2020. It is reasonable and appropriate for Enbridge Gas to reflect the higher costs associated with reverting back to the previous CIAC policy in the capital budget amounts used to determine the ICM threshold – these are new costs specifically required by the Board that must be funded by (or absorbed in) Enbridge Gas's existing rates.

c) *Cost estimates*

28. Several parties assert that the costs for the Don River Replacement Project should be reduced for the purpose of determining ICM recovery.[39] The main premise of these arguments is that the final costs of the project are higher than what was approved in the Don River Replacement Project LTC approval and the overages should not be recovered.[40]

29. Enbridge Gas addressed this topic in Argument in Chief.[41] The difference between the final cost for the Don River Replacement Project ($35.4M) and the cost reviewed in the LTC approval ($25.6M) is almost entirely related to the indirect overhead costs that apply to the project ($9.2M).[42] These are not new costs that arose because of the delay in completing the project. As has been EGD's practice in past LTC applications the project's indirect overhead costs were not included in the cost

points only to changes within the TIS portfolio. To see the overall changes required to the 2020 capital budget, it is appropriate to look at the AMP addendum which describes high-level changes in all areas, including the change in CIAC costs described above.

[38] Enbridge Gas 2019 Rates Decision, page 34.

[39] See, for example, Energy Probe Submission, page 4; and VECC Submission, page 4.

[40] The EB-2018-0108 Don River Replacement Project LTC Decision and Order is found at http://www.rds.oeb.ca/HPECMWebDrawer/Record/627559/File/document.

[41] Argument in Chief, para. 24.

[42] See Exhibit I.BOMA.6. Note that the cost estimate for the Don River Replacement Project is the same as was presented in the 2019 rates case – there are no additional costs forecast as a result of the project delay – see Exhibit I.CME.3 and Exhibit I.VECC.1, Attachment 1.

estimate presented in the LTC application. However, as explained below, these indirect overhead costs are attributable to the project and are properly included as part of the in-service capital costs and recovered through ICM unit rates. This approach reflects that rates are designed on a fully allocated basis. The inclusion of indirect overheads (which represent the back-office project execution support costs) makes the project's cost fully allocated. The ICM unit rates are designed to recover from customers the average annual revenue requirement for the project on a fully allocated basis. In the 2019 Rates Decision, the Board specifically accepted that Enbridge Gas's ICM funding requests are based on fully burdened costs and approved the inclusion of indirect overheads in the ICM project costs.[43]

30. Enbridge Gas acknowledges BOMA's submission that there were also increases in the land costs and regulatory costs between the LTC approval and final project costs.[44] Importantly, however, these increases (totaling an additional $2.4M) were almost entirely offset by a decrease in contingency costs between the LTC approval amount ($5.7M) and the updated project cost estimate ($3.7M).[45] The result is that total costs of the project did not increase as compared to the forecast amount approved in the LTC application, except in relation to the inclusion of indirect overhead costs in the final project costs. In this circumstance, it is not appropriate to adjust the total costs recoverable through the ICM.

d) <u>*Overheads*</u>

31. Some parties assert that the total amount of indirect overhead costs associated with the Don River Replacement Project are too high and should be reduced.[46]

[43] Enbridge Gas 2019 Rates Decision, page 29.
[44] BOMA Submission, pages 9-10.
[45] See Exhibit I.BOMA.6.
[46] See, for example, Energy Probe Submission, pages 4-5.

32. Enbridge Gas disagrees.[47] The indirect overhead costs for the Don River Replacement Project were determined in accordance with the Company's existing policy and process.[48] There is no overlap or double-counting of indirect overhead costs between project costs and OM&A budgets, because capitalized overheads are removed from OM&A budgets.[49] In the 2019 Rates Decision, the Board confirmed that indirect overheads should be included in the ICM-eligible project costs even though the costs had not been included in a project budget presented in the related LTC application.[50] Enbridge Gas does not believe that it is necessary for that determination to be revisited before rebasing.[51]

Windsor Line Replacement Project

33. The concerns raised by parties about the Windsor Line Replacement Project relate to six topics – need, timing, maximum eligible ICM capital, project cost estimate, inclusion of overhead costs in ICM eligible amounts and inclusion of retired assets in base rates.

a) *Need*

34. Parties generally acknowledge that the Board's Windsor Line Replacement LTC Decision confirms the need for the project. Energy Probe argues that the OEB did not confirm that there is an "immediate need" for the project.[52] Energy Probe argues that the project should be postponed until rebasing.

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[47] Some parties, including OEB Staff, accept that the indirect overhead costs are properly included in the ICM project costs - OEB Staff Submission, page 7.
[48] Exhibit I.EP.1. Enbridge Gas acknowledges that the calculation and level of indirect overhead costs is different between the EGD and Union rate zones – that arises because each uses the pre-existing methodology for the respective legacy utilities, and those are different from one another.
[49] See, for example, EB-2012-0459, Exhibit D1, Tab 3, Schedule 1, pages 6-7.
[50] 2019 Rates Decision, page 29.
[51] Enbridge Gas does not agree with BOMA that this should be addressed in the 2021 rates application (see BOMA Submission, pages 11-12).
[52] Energy Probe Submission, page 8. In addition to its argument that the project is not needed in 2020, surprisingly Energy Probe also broadly argues that "need" for the project has not been established at all, even though the OEB has issued the Windsor Line Replacement LTC Decision, and confirmed the need for the project (Energy Probe Submission, page 7). As of this date, Energy Probe has not taken steps to review or appeal the Windsor Line Replacement LTC Decision.

35. Enbridge Gas submits that there is no issue with the need for the Windsor Line Replacement project to proceed in 2020. The evidence and submissions in the Windsor Line Replacement LTC proceeding established the need for the project, and the need for it to proceed in 2020.[53] The Windsor Line Replacement LTC Decision accepted that evidence.[54] The Board's Conditions of Approval in the Windsor Line Replacement LTC Decision stipulate that construction must commence within 12 months, failing which the LTC approval will terminate.[55]

b) *Timing*

36. Some parties question whether the Windsor Line Replacement LTC project will be completed and placed into service before the end of 2020.[56]

37. Enbridge Gas's evidence, which the Board accepted in the Windsor Line Replacement LTC Decision, is that construction will begin by May 2020, with the project being in-service in November 2020. That remains the schedule, though construction activities will be conducted taking into account necessary precautions during the COVID-19 pandemic.

c) *Maximum Eligible ICM Capital*

38. LPMA, with support from several other parties, asserts that Enbridge Gas has miscalculated the 2019 in-service forecast capital additions for the Union rate zones, which is turn misstates the available ICM funding.[57] The specific allegation is that actual in-service capital additions in 2019 were $10.7M lower than the figure used by Enbridge Gas to derive the 2019 maximum available ICM funding. LPMA argues that

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[53] See, for example, EB-2019-0172 (Windsor Line Replacement LTC), Exhibit B, Tab 1, Schedule 1, para.3; Exhibit I.STAFF.2; Argument in Chief, paras. 3 and 16-18; and Reply Argument, paras. 9-15.
[54] Windsor Line Replacement LTC Decision, pages 1 and 6.
[55] Windsor Line Replacement LTC Decision, Schedule B, item 2(a). Energy Probe's proposal would require either a three year delay of this condition of approval, or a full new LTC proceeding in 2024. If that is Energy Probe's proposal, then it should pursue a review or appeal of the Windsor Line Replacement LTC Decision.
[56] See, for example, Energy Probe Submission, page 8; and Pollution Probe Submission, page 3.
[57] LPMA Submission, pages 6-7. See also CCC Submission, page 2; SEC Submission, pages 2-3; and VECC Submission, page 5.

as a result, the 2019 ICM request was overstated and the underage in the 2019 in-service capital addition should be applied against the 2020 ICM eligible amount. If LPMA's argument was accepted, the Company's eligible ICM request would be reduced by $10M, from $106.8M to 96.8M.[58]

39. Enbridge Gas submits that no change to the ICM request is necessary or appropriate. While there was some under-spending of in-service capital in 2019, this was due to the timing of spend on one already approved ICM project. The impacts of that difference will be captured in the ICM deferral account, so that amounts "over-collected" will be disposed as part of the ICM deferral account in a manner designated by the Board in a future rate hearing. Enbridge Gas would unfairly bear the consequences of the underspend twice if it were required to not only credit 2019 over-collection amounts to ratepayers at rebasing but also reduce ICM eligibility in 2020 to recognize the over-collection.

40. The primary driver for the under-spend of 2019 in-service capital is due to the timing of spend on the Kingsville Transmission Reinforcement project (Kingsville project) under the system service category (the other categories of spend were close to forecast/budget).[59] The Kingsville project is subject to ICM rate recovery.[60] The under-spend will be captured in the ICM deferral account and will be addressed at re-basing.[61] Where Enbridge Gas recovers more for the Kingsville project over the deferred rebasing term compared to what should have been recovered based on actual cost and timing, then ratepayers will be credited with the difference. In other words, Enbridge Gas will not keep any benefit of the under-spend in 2019. It would be inequitable if Enbridge Gas not only returns the "over-collection" but also is required

[58] SEC submits that the reduction should be $10.6M (2% of the in-service capital expenditures budget) – SEC Submission, page 3.
[59] AMP addendum, Exhibit C, Tab 1, Schedule 1, page 4 – as can be seen at that reference, $13.2M related to the Kingsville project was transferred from 2019 to 2020, but the amount was retained in 2019 costs for the purpose of determining the maximum available ICM amount to recognize that all forecast costs were included in the 2019 ICM recovery for the Kingsville project.
[60] 2019 Rates Decision, page 26.
[61] 2014 ICM Policy, pages 26-27.

to calculate the 2020 ICM eligible amount as if Enbridge Gas had collected and retained the "over-collection". In that case, ratepayers would benefit twice.

41. In any event, as a general principle a variance between forecast and actual spending in a prior year does not directly impact the ICM funding for the following year (i.e. lower than forecast in service additions in 2019 does not directly affect 2020 ICM eligible amounts). Variances between forecast and actual capital additions are always likely, and should be expected. The variances can happen in either direction (over-spend and under-spend). The Board's ICM policy sets the eligible ICM funding based on forecast amounts. There is no adjustment where actuals in a prior year are higher than forecast for that year, and in the same way there should be no adjustment where actuals from the prior year are lower than forecast.

42. In their submission, OEB Staff ask questions about two different projects (Hamilton Gate Station and London Rapid Transit Project) that are included in Enbridge Gas's in-service capital forecast for 2020 (Union rate zones) as items advanced in place of reduced IT spending.[62] OEB Staff does not object to these projects, or the inclusion of the projects in the calculation of the ICM eligible amounts, but does ask Enbridge Gas to provide more details.

43. The London Rapid Transit project was not included in the 2019-2028 AMP or 2020 AMP Addendum.[63] In the fall of 2019, after the 2020 AMP Addendum was completed, Enbridge Gas's continuous risk evaluation process identified newly emerging cost requirements for relocation projects totalling $5.2M, including the London Rapid Transit project.[64] While as OEB Staff note in their submission, municipalities generally plan for large projects years in advance and Enbridge Gas would have known of the City of London's plan for some time, the scope of this particular project was not defined. The project proposal has been under review and its scope has been

[62] Staff Submission, pages 5-6.
[63] These are filed at Exhibit C, Tab 1, Schedule 1.
[64] Exhibit I.STAFF.20(b). See also Exhibit I.EP.5(b).

developing for several years. The scope has continued to change and it was not until August 2019 that federal funding was announced.[65] Following that announcement, further planning regarding required gas line relocations was able to take place and resulted in identification of the emerging project as part of other relocation work newly identified for 2020.

44. OEB Staff asks Enbridge Gas to provide evidence as to why the $1.9M spent on maintenance at the Hamilton Gate Station was not sufficient to allow the original replacement date of 2022 to be maintained.[66] Enbridge Gas experienced two failures at the Hamilton Gate Station in 2019. Some immediate work was done to make safe but these failures highlighted integrity concerns that necessitated the promotion of the work to 2020 to ensure the safety and reliability of the system.

d) *Cost estimates*

45. The very recent Windsor Line Replacement LTC Decision confirmed the cost for the project of $105.5M (inclusive of indirect overhead costs), based on a “hybrid option”, which combines the use of NPS 4” and 6” pipeline sizes in different parts of the route.[67]

46. While no party takes specific issue with the cost estimate, some parties argue for special treatment not contemplated by the ICM framework.

47. BOMA asserts that there is room in existing capital budgets for a project that is less than 10% of the Company’s overall capital budget and therefore no need for ICM treatment.[68] That is not the case – the Company has shown that the costs of the project will not be accommodated within the existing capital budget envelope. Enbridge Gas has established that this project is ICM-eligible, in accordance with the Board’s ICM policy.

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[65] See https://www.cbc.ca/news/canada/london/london-ontario-transit-projects-1.5257485.
[66] Staff Submission, page 5.
[67] Windsor Line Replacement LTC Decision, page 12.
[68] BOMA Submission, page 9.

48. FRPO wades back into the LTC proceeding, requesting that the Board require Enbridge Gas to file the RFP results for the NPS 4 and NPS 6 pipeline needed to complete the project.[69] FRPO asserts that this will provide the Board confidence in the cost difference between the two pipeline sizes. Enbridge Gas objects. The Board has already indicated that the cost difference is expected to be approximately $1.3M.[70] Where the actual number is different, then this will presumably be addressed at the time that the ICM deferral account is reviewed at rebasing to determine how to address the impact on revenue requirement associated with differences in timing and cost versus what was recovered through ICM unit rates.

49. OGVG argues that because the actual 2020 costs for the Windsor Line Replacement Project as well as actual capital costs from other projects are subject to change because of the COVID-19 pandemic, it would be appropriate to create a “tracking account” in 2020 in place of an ICM rider.[71] This is not something that is contemplated by the MAADs Decision or the OEB’s ICM policy. The Board’s ICM policy evaluates ICM eligibility on a forecast basis. Enbridge Gas notes that there are many forecast items within its budgets and operations that may change because of the impacts of the COVID-19 pandemic. It is not appropriate to make adjustments for only one such item. Enbridge Gas submits that a new approach using an in-year tracking account should not be adopted on a one-off basis, and should not be considered where it is only raised by one party in argument without opportunity for all parties to provide their views. As noted several times already, where the costs and timing of the Windsor Line Replacement Project are different than forecast, related impacts will be reflected in the ICM deferral account.

[69] FRPO Submission, page 1.
[70] Windsor Line Replacement LTC Decision, page 12.
[71] OGVG Submission, page 7.

e) *Overheads*

50. Several parties question the inclusion of indirect overhead costs in the ICM calculation for the Windsor Line Replacement Project.[72]

51. As already stated, indirect overhead costs are part of the overall costs of a capital project. They are incremental costs not recovered through OM&A or other means. The Board determined in the 2019 Rates Decision that these costs are recoverable through the ICM.[73] Enbridge Gas does not believe that it is necessary for that determination to be revisited in this case (or in any other deferred rebasing rate adjustment case).[74]

f) *Inclusion of Retired Assets in Base Rates*

52. LPMA asserts that it is not appropriate for Enbridge Gas to receive the benefit of ICM recovery for the Windsor Line Replacement Project and also continue to receive the benefit of recovery of costs related to the retired assets that are being replaced.[75]

53. Enbridge Gas does not agree. During the deferred rebasing term and the Board-approved Price Cap rate setting framework, costs are decoupled from rates. There is no direct relationship between the specific costs or the specific assets supporting service and the rates charged for that service. The link between costs and rates is re-established at rebasing. In the intervening years, base rates are not adjusted for specific items added to or removed from service.[76]

[72] See, for example, Pollution Probe Submission, page 3; and BOMA Submission, pages 11-12.
[73] 2019 Rates Decision, page 29.
[74] Enbridge Gas does not agree with BOMA that this should be addressed in the 2021 rates application (see BOMA Submission, pages 11-12).
[75] LPMA Submission, page 7; see also VECC Submission, page 5.
[76] Note that the same principle of not making adjustments to rate base to recognize asset retirements during the deferred rebasing term (or a Price Cap term) also applies to the Board-approved determination of the ICM threshold where the rate base and depreciation expense used in the calculation are the Board-approved values from the last cost-of-service / rebasing proceeding (and are not adjusted for retirements during the deferred rebasing or Price Cap term).

54. In any event, from a ratemaking perspective a residual net book value (NBV) at the time of retiring an asset indicates that the full cost of that asset has not been recovered/expensed through depreciation (i.e. it was under-depreciated), and therefore still needs to be recovered/expensed. Consistent with the OEB System of Accounts for Class A Gas Utilities[77], the NBV will be debited to accumulated depreciation (not recognized as a loss on the income statement). It is appropriate for the NBV of a retired asset remain in rate base (for rate setting purposes) because: a) it will offset the potential over-depreciation of other assets in the pool (if the average life of all assets in the pool is consistent with the life captured in the depreciation rate), or b) it would be carried forward until the next depreciation study, which would capture the historical under-depreciation of assets in the pool, and adjust the pool depreciation rate to be used prospectively.

(iii) Enbridge Gas's ICM Requests

55. Enbridge Gas is seeking approval of ICM unit rates to be effective from the implementation date in rates for the duration of the deferred rebasing period to recover the total revenue requirement of the Don River and the Windsor Line Replacement Projects from 2020 to 2023.

56. The ICM unit rates presented in evidence were prepared assuming an implementation date in rates of January 1, 2020. Following the Board's Decision in this proceeding, Enbridge Gas will file a draft rate order including updated ICM unit rates to reflect recovery of the total revenue requirement of the ICM projects for the deferred rebasing period beginning with the Board's indicated implementation date.[78] The draft rate order will reflect the updated approved project cost for the Windsor Line Replacement Project and any relevant direction from the Board in its Decision in this proceeding.

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[77] Section 105 of OEB Uniform System of Accounts for Class A Gas Utilities, https://www.oeb.ca/sites/default/files/uploads/documents/regulatorycodes/2019-01/Uniform-System-of-Accounts-for-Class-A-Gas-Utilities.pdf.
[78] Exhibit B, Tab 2, Schedule 1, para. 62.

57. Consistent with the treatment of 2019 approved ICM project unit rates, Enbridge Gas proposes to embed the ICM unit rates in the delivery and transportation charges on the applicable rate schedule and customer bill.[79]

C. COST ALLOCATION STUDY

58. As required by the MAADs Decision[80], the Company filed a cost allocation study "for consideration" in the 2020 rate application that includes a proposal for the cost allocation methodology of certain projects (Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D and the Hagar Liquefaction Plant) and a proposal for addressing TransCanada's C1 Dawn to Dawn-TCPL service.[81] As stated, "[t]he cost allocation study is not intended to be a precise measurement of the actual cost to serve a particular rate class, much less a particular customer, but rather to provide a reasonable indication of cost responsibility by rate class at a specific point in time."[82]

59. Enbridge Gas is seeking Board approval of the indicated cost allocation methodology changes. The Company proposes to implement the cost allocation methodology changes as part of its next rebasing proceeding.[83]

60. Enbridge Gas's proposed cost allocation methodology changes are summarized in Argument in Chief.[84] While many parties made submissions on the implementation

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[79] Exhibit B, Tab 2, Schedule 1, para. 61. The derivation of the ICM unit rates for 2020 ICM Projects is filed as Appendix G to Exhibit B, Tab 2, Schedule 1. The ICM unit rates presented in Appendix G were prepared assuming an implementation date in rates of January 1, 2020. Following the Board's decision in this 2021 rates proceeding, Enbridge Gas will file a draft rate order reflecting such updated timing as may be appropriate.
[80] MAADs Decision, pages 40-41.
[81] The Cost Allocation Study is filed at Exhibit B, Tab 1, Schedule 1. Appendix C.
[82] Exhibit B, Tab 1, Schedule 1, Appendix C, para. 2.
[83] Argument in Chief, paras. 51-57; and Exhibit B, Tab 1, Schedule 1, Appendix C, para. 62. See also Exhibit I.CME.1(b) and Exhibit I.LPMA.2(e).
[84] Argument in Chief, paras. 34-50.

timing for Enbridge Gas's cost allocation study, almost no substantial concerns about the specific cost allocation proposals were raised.[85]

61. Parties are split on the timing and approach for implementation of the cost allocation proposals. Some parties argue for implementation in 2021. Other parties argue that the Board should not consider and approve the cost allocation study now but instead wait until rebasing and consider all cost allocation updates together at that time. Enbridge Gas continues to believe that the middle-ground approach of approving the cost allocation methodology changes in this proceeding for implementation at rebasing is appropriate. However, as between the alternatives presented by other parties, Enbridge Gas favours the option of waiting for consideration and implementation of cost allocation methodology changes with the rebasing proceeding.

62. In the following sub-sections, Enbridge Gas sets out its response to the positions of parties on each side of the implementation timing issue.

(i) Arguments in Favour of Immediate Implementation

63. Not surprisingly, parties who expect to benefit from the cost allocation methodology changes argue in favour of immediate implementation.[86] These parties accept,

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[85] BOMA is the only party to raise concerns, and it is only in relation to the Panhandle and St. Clair cost allocation proposal and its impact on Rate C1 – BOMA Submission, page 6. Enbridge Gas notes that BOMA's potential concerns about proposed C1 cost allocation changes refer only to Emera and Rover being C1 customers and do not recognize that any sales service contracts on the Panhandle and St. Clair systems are also considered Rate C1 contracts.

[86] The parties arguing for implementation of the cost allocation methodology changes in 2021 are APPrO, EP and IGUA. While TC Energy does not support implementation of most of the cost allocation changes until rebasing, TC Energy does want to have the Board approve changes to Rate C1 Dawn to Dawn-TCPL to recognize that assets included in the derivation of that rate have now been fully depreciated (see TC Energy Submission, page 3). Enbridge Gas submits that it is not appropriate to "cherry pick" one such item for immediate implementation. During the deferred rebasing term, rates are decoupled from costs, and the Dawn to Dawn-TCPL service is no different. As Enbridge Gas stated in evidence (see Exhibit B, Tab 1, Schedule 1, Appendix C, page 28), if the Company was to reduce the revenue associated with this service, it would need to make an equal and offsetting revenue increase to another service or rate class in order for the utility to be kept whole. Cost allocation should be a zero-sum exercise. If Enbridge Gas adjusted just this one cost item without an offsetting adjustment in another rate class, as TC Energy proposes in argument, Enbridge Gas would no longer continue to earn revenue consistent with the approved rate setting mechanism. See also Exhibit I.STAFF.3(c).

however, that it is not feasible to implement in 2020, and that instead the implementation would be effective as of January 1, 2021. Enbridge Gas agrees that if implementation of the cost allocation methodology changes is done during the deferred rebasing term, the changes should be made as part of the 2021 rates case.[87]

64. Each of the parties arguing for immediate implementation of the main aspects of the cost allocation methodology changes (APPrO, EP and IGUA) point to the impacts on their constituents if the cost allocation methodology changes are or are not implemented during the deferred rebasing term.[88]

65. The main argument in favour of immediate implementation is that the Board has previously acknowledged potential concerns about the cost allocation of the Panhandle Reinforcement Project and other projects. The parties listed above argue that the costs are allocated to rate classes who do not benefit from the associated services and it is unfair for such rate classes to keep paying rates consistent with the existing allocation.[89]

66. Three points of context can be emphasized in response.

67. First, Enbridge Gas acknowledges that parties such as APPrO and IGUA expected that cost allocation methodology changes for the Panhandle Reinforcement Project would have been implemented in 2019 but for the amalgamation of EGD and Union and the MAADs Decision to defer rebasing until January 1, 2024. However, those significant events did take place, and they changed the ratesetting context for Enbridge Gas and its customers. While the MAADs Decision required that a limited

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[87] The Company proposes that this would be a later phase issue in the 2021 rates case (separate from the mechanistic rate adjustment), but that any changes would be implemented on a full year basis as if they had been in place from January 1, 2021. The Company's response to Exhibit I.IGUA.6 sets out potential timing for preparation and implementation of updated rates following a Board decision on the cost allocation study.

[88] APPrO Submission, paras. 37-47; EP Submission, pages 10-11 (note that EP argues that only the cost allocation changes for Dawn Parkway transportation needs to be implemented at this time); and IGUA Submission, paras. 34 and 60.

[89] APPrO Submission, paras. 20-47; and IGUA Submission, paras. 1-29.

cost allocation study be filed in this 2020 rates case, there was no imperative or assurance that the results of the cost allocation study would be implemented immediately. Enbridge Gas filed the cost allocation methodology proposal as required by the MAADs Decision, but also explained the reasons why it is appropriate to wait until rebasing for implementation of the proposed changes. As set out below, most parties agree that immediate implementation is not the best solution.

68. Second, while not intending to trivialize the dollars at issue, it is important to acknowledge that the impacts that would result from (unadjusted) application of the cost allocation methodology changes are only a small part of the overall natural gas costs for the affected customers. For example, the purported annual impact (reduction) on a Rate T2 customer of $0.7M, as argued by APPrO, represents approximately 11% of the total delivery bill and 1% of the total bill.[90] The purported annual impact (reduction) of $0.4M for a Rate M12 customer represents approximately 9% of the total demand charges.[91] Of course, if rate design adjustments are considered, the impacts (reductions) may be more modest. Similarly, while the overall cost allocation impact to EGD rate zone customers from implementation of the cost allocation methodology changes would be meaningful ($12M), the annual bill reduction for an average residential customer would be modest ($2.66, or 0.3% of the total bill).[92]

69. Third, because cost allocation is a zero-sum exercise[93], where there are decreases in allocated costs to some rate classes, there will be increases to others. As highlighted

[90] Customer parameters were provided by APPrO at Exhibit I.APPrO.2(b). Typical rate and bill impacts by rate class from the proposed cost allocation methodology changes are set out at Exhibit I.STAFF.4, Attachment 1.

[91] Customer parameters were provided by APPrO at Exhibit I.APPrO.2(c). Impact is based on a decrease in the M12 Dawn-Parkway transportation rate $0.309/GJ/month as provided at Exhibit I.TCPL.1, Attachment 1. When compared to the Dawn Reference Price of $2.621/GJ (per April 2020 QRAM), the decrease in the M12 Dawn-Parkway transportation rate of $0.010/GJ/d ($0.309 x 12 / 365) represents approximately 0.1%.

[92] Exhibit I.SEC.8, Attachment 1, page 2.

[93] Argument in Chief, para. 57.

in BOMA's Submission, implementation of the cost allocation methodology changes will have meaningful impacts on Rate M4.[94] This would amount to a bill increase of around 30% on the delivery bill (or 10% of total bill) for small Rate M4 customers (assuming no rate design considerations were implemented).[95] Similarly, Rate 10 and Rate M2 would also face meaningful rate and bill impacts – a small Rate 10 customer would see an increase of around 20% on the delivery bill (7% of total bill) and Rate M2 would see an increase of around 8% on the delivery bill (3% of total bill).[96]

70. On balance, Enbridge Gas submits that, for the reasons set out in Argument in Chief[97], it would be preferable not to implement the cost allocation methodology changes in 2021. Many of the reasons supporting that position are highlighted in the submissions from other parties, summarized below.

(ii) Arguments in Favour of Waiting Until Rebasing

71. Most of the parties in this proceeding (OEB Staff, BOMA, CCC, CME, FRPO, LPMA, OGVG, QMA, PP, SEC, TCPL and VECC) argue that the Board should wait until rebasing to consider and approve cost allocation methodology changes.

72. Key reasons advanced by parties who do not support approval and implementation of the cost allocation methodology changes in 2021 include the following:

a) Presumption against rate design changes during an IR/deferred rebasing term – OGVG submits that the threshold for making cost allocation changes during an IRM term should be relatively high, given the fundamental decoupling of rates from changes in costs during an IRM period.[98] OGVG submits that this should only be done in "the most extreme of cases".[99] Other parties implicitly agree that the proposed cost methodology changes proposed by Enbridge Gas do not rise to a level that warrants the extraordinary step of implementing cost allocation changes in the midst of a deferred rebasing term.

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[94] BOMA Submission, page 2 and Exhibit I.STAFF.4, Attachment 1, p. 2.
[95] Typical rate and bill impacts by rate class from the proposed cost allocation methodology changes are set out at Exhibit I.STAFF.4, Attachment 1.
[96] Exhibit I.STAFF.4, Attachment 1.
[97] Argument in Chief, paras. 51-56.
[98] OGVG Submission, page 4.
[99] OGVG Submission, page 3.

b) Incomplete scope of cost allocation review – Many parties point to the fact that Enbridge Gas's cost allocation study is much more limited than what will be presented in a rebasing application.[100] The current study is limited to cost allocation changes for a discrete set of projects, and does not take into account other proposals that would most likely be made in a full rebasing cost allocation study. As such, the proposed cost allocation changes being proposed in this proceeding will not fully capture all the required changes that would result from a comprehensive cost allocation study. Implementation of limited changes at this time may have unintended consequences in terms of rate signals and over- or under-collection in comparison to the updated rates that will be approved at rebasing taking into account the comprehensive cost allocation study and rate harmonization.[101]

c) Rate impacts – Concerns are raised about the implications on some rate classes of implementing the cost allocation methodology changes, because of the fact that the impacts will be more than 10% on a total bill impact basis in some cases.[102] In OEB Staff's submission, "[l]arge rate impacts are generally not appropriate during an IR term." In support of waiting to review and implement rate changes related to cost allocation, OEB Staff notes that at rebasing "the cost allocation changes will include other adjustments to rate base, possible rate harmonization proposals and rate design changes. This will provide a more complete picture of the costs and revenues and the resulting impact to rates which could be significantly different than presented in this update."[103]

d) Rate stability – Parties adopt Enbridge Gas's previously stated concern that changing unit rates without rate design adjustments may result in unintended impacts to customers and the utility.[104] As noted, implementation of cost allocation methodology changes in 2021 will result in rate changes that year, to be followed by additional changes to rates at rebasing in 2024 when Enbridge Gas introduces rate harmonization, integration of the cost allocation studies of the combined utilities and the pass-through of synergy cost savings into rates. Should rates be adjusted in 2021 and again in 2024 (at rebasing), customers would be subject to unpredictable rate changes within a short three-year time period. As BOMA points out, unnecessary changes in rates and rate volatility make it more difficult for customers and their agents to manage costs.[105] QMA makes a similar submission,

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[100] See, for example, Staff Submission, page 11; CCC Submission, page 4; and SEC Submission, pages 3-4.
[101] See, for example, Staff Submission, page 13; CCC Submission, page 4; CME Submission, para. 34; and TCPL Submission, pages 1-2.
[102] See, for example, Staff Submission, page 11 - typical rate and bill impacts by rate class from the proposed cost allocation methodology changes are set out at Exhibit I.STAFF.4, Attachment 1.
[103] Staff Submission, page 11.
[104] See, for example, CCC Submission, page 3; and SEC Submission, page 4.
[105] BOMA Submission, page 4.

stating that: "given the challenges of integrating to two legacy utilities into one very large gas distribution entity, the fair allocation of costs amongst rate classes and any adjustments to rate design should wait until rebasing when EGI can be looked at in its entirety to ensure costs are properly allocated to those end users who cause them."[106]

73. Enbridge Gas agrees with the substance of the submissions summarized above related to why implementation of the cost allocation methodology changes should not be completed during the deferred rebasing term. These submissions are consistent with what is set out in Enbridge Gas's evidence and Argument in Chief.

(iii) Enbridge Gas's Proposal

74. Enbridge Gas requests Board approval of the proposed cost allocation methodology changes outlined in the cost allocation study and prefiled evidence. Enbridge Gas plans to implement the cost allocation methodology changes approved in this case within the overall cost allocation study to be presented in the rebasing proceeding.[107]

75. Enbridge Gas continues to believe that its proposed approach of having the Board approve the largely uncontested cost allocation methodology changes in this proceeding for later implementation at rebasing is appropriate. This will avoid the 2021 implementation issues described above, but will provide some certainty and direction as Enbridge Gas prepares its comprehensive cost allocation study for all assets and activities in the context of rebasing and rate harmonization.[108]

76. Most parties do not agree that the Board should approve the cost allocation methodology changes for later implementation at rebasing, stating that this will be of little benefit (since the Board will be reviewing the comprehensive cost allocation study in any event) and could fetter the discretion of future Board panels.[109] Enbridge Gas believes that these concerns are overstated. Under the Company's proposal, the

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[106] QMA Submission, page 5.
[107] Exhibit I.CME.1(b) and Exhibit I.LPMA.2(e).
[108] See Argument in Chief, para.51 and Exhibit I.LPMA.2(e).
[109] See, for example, FRPO Submission, page 2; LPMA Submission, page 2; SEC Submission, page 4; and VECC Submission, page 6.

Board panel reviewing the rebasing cost allocation study can make all decisions that it deems necessary, but the Company and other parties will have the benefit of knowing that there is endorsement of the updated cost allocation methodologies for certain discrete projects.

77. However, as between the alternatives presented by other parties (immediate implementation versus deferral), Enbridge Gas prefers the option of waiting for consideration and implementation of cost allocation changes in the rebasing proceeding.

D. ENBRIDGE GAS'S EBILL PRACTICES

78. Enbridge Gas changed its eBill practices in 2019 to make eBill the default billing method for new customers and to switch existing paper bill customers who had previously provided an email address to the Company to eBill.[110] This increased the number of eBill customers, enabling them to get the benefits of Enbridge Gas's myAccount platform and more control over their account and information.

79. The Company's evidence is that customer satisfaction has increased as more self-service options are made available.[111] VECC takes a different position – asserting that the increase in 2019 customer complaints and number of customers who switched back to paper bills evidences customer dissatisfaction.[112] Context is important here. While the percentage of eBill related complaints rose in 2019, the actual number of complaints (less than 1100) was very low in the context of Enbridge Gas's 3.5 million customer base.[113] Similarly while some customers did switch back to paper bills, around 80% of the new eBill customers remain on eBill and myAccount.[114]

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[110] See Argument in Chief, paras. 59-77. Evidence about Enbridge Gas's eBill practices is filed at Exhibit B, Tab 3, Schedule 1.
[111] Argument in Chief, para. 71, and included references.
[112] VECC Submission, pages 10-11.
[113] Exhibit B, Tab 3, Schedule 1, page 22, Table 5.
[114] Exhibit I.STAFF.12.

80. Consistent with Board's direction in the MAADs Decision[115] and customer service rules consultation[116], Enbridge Gas's eBill adoption initiative has resulted in immediate and ongoing cost savings for Enbridge Gas and its ratepayers and contributes meaningfully towards the stretch targets from the MAADs Decision that keep rate increases below inflation.

81. The cost difference between paper billing and eBilling is approximately $10 per customer per year.[117] These cost savings will be shared with customers in the short term, during any deferred rebasing year where Enbridge Gas is in an earnings sharing position. In the longer term, the cost savings will be reflected in Enbridge Gas's updated cost of service at rebasing and customers will receive the full benefits.

82. Parties in this proceeding are largely supportive of e-billing.[118] This is seen, for example, in the OEB Staff submission which states "OEB staff is generally supportive of the initiative of e-billing. OEB staff recognizes that increase adoption of e-billing provides significant savings to the utility and these savings will be reflected in rates at rebasing."[119] No party argues that Enbridge Gas's expansion of eBill, including making it the default billing method, runs contrary to any specific OEB customer service rules.[120]

[115] The MAADs Decision made a number of determinations regarding Enbridge Gas's proposed rate-setting mechanism that encouraged and expected the Company to find productivity, innovation and efficiency savings. These include the use of a stretch factor of 0.3% and a shortened deferred rebasing period of 5 years as opposed to 10 years.

[116] Exhibit B, Tab 3, Schedule 1, para. 5. In its Notice of Proposal to Amend Codes and a Rule, specifically amending the Gas Distribution Access Rule (GDAR) to implement Customer Service Rules for gas distributors, the Board stated "[u]tilities are also expected to explore other opportunities for cost savings such as expansion of e-billing, enhanced and timely communication with customers, and improved collection processes.": EB-2017-0183, Notice of Proposal to Amend Codes and a Rule, December 18, 2018, page 42. Found at https://www.oeb.ca/sites/default/files/NOPH-CSR-20181218.pdf.

[117] Exhibit B, Tab 3, Schedule 1, para. 52.

[118] See, for example, OEB Staff Submission, page 16; CME Submission, page 8; LPMA Submission, page 8; QMA Submission, page 5; and VECC Submission, page 14.

[119] OEB Staff Submission, page 16.

[120] VECC argues that Enbridge Gas should have obtained OEB approval for the eBill adoption strategy, but does not point to any rules or guidance that exists, or any specific contraventions of any such rules or guidance – VECC Submission, page 13. The submission from VECC does not respond to Enbridge Gas's

83. In the Phase 1 Settlement Proposal in this proceeding, Enbridge Gas agreed to a number of interim measures related to eBill that were implemented in late 2019.[121] The intent of the interim measures was to suspend certain of Enbridge Gas's new eBill practices until a Board decision in this proceeding. All parties agreed that the implementation of the interim measures should not be interpreted as agreement by any party, including Enbridge Gas, that any item is appropriate or necessary on an ongoing basis.

84. The focus of intervenor submissions on e-billing is forward-looking, rather than remedial.[122] The main concern raised is that Enbridge Gas customers should have to specifically consent before they become eBill customers.[123] Essentially, this means that paper bills will be the default option. To effect this, some intervenors argue that the interim measures from the Settlement Proposal should continue in place.[124]

85. As a fundamental point, Enbridge Gas does not agree that continuing to treat paper bills as being the default billing option is appropriate.[125] This is not consistent with modern customer service practice.[126] Around 60% of Enbridge Gas customers are already on eBill. Most new and moving customers use the Company's website to set up their new account, indicating their comfort and preference for electronic communications.

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explanation in Exhibit I.VECC.23 setting out how the Board has recently updated customer service rules, and has not included any requirements relevant to e-billing.

[121] Exhibit N1, Tab 1, Schedule 1, pages 13-14.

[122] Energy Probe argues that the 2019 eBill initiative was inappropriate "negative option billing" and also that Enbridge Gas has withheld damaging legal opinions about the implications of the initiative (see Energy Probe Submission, pages 13-14). There is no basis for these submissions. As explained in response to Exhibit I.EP.27, this is not negative option billing (where a product is offered without being solicited and the customer is then charged). There is no evidence that Enbridge Gas has legal opinions on this topic and, in any event (as explained in response to Exhibit I.EP.27), any such opinions would constitute legal advice that is protected from production by solicitor client privilege.

[123] See, for example, OEB Staff Submission, pages 16 and 18; CCC Submission, page 4; and Pollution Probe Submission, page 5.

[124] See, for example, BOMA Submission, pages 11-13.

[125] LPMA agrees that eBills should be the default option for new customers – LPMA Submission, page 8.

[126] See discussion of Canadian mobile telephone company billing, Argument in Chief, para. 64 and related references. See also Exhibit B, Tab 3, Schedule 1, paras. 7-16.

86. As set out at the end of the prefiled evidence, Enbridge Gas plans to continue to direct new and moving customers to the myAccount platform to automate their transactions and dealings with the Company.[127] This will allow Enbridge Gas to facilitate continued benefits for customers in the form of improved customer experience and lower costs. To effect this, Enbridge Gas will continue to make eBill the default option for new and moving customers.

87. Additionally, where any of Enbridge Gas's existing customers provide an email address to the Company as part of a telephone or online interaction in the future, then Enbridge Gas will presume that the customer is comfortable with electronic communications and will move that customer to eBill and the myAccount platform. Each such customer will be provided with advance notice to the provided email address indicating that their next bill will be an eBill. If any of these customers have an LPP charge on their first eBill, Enbridge Gas will follow up with that customer to ensure that the eBill was actually received. Should any of these customers determine that notwithstanding the convenience and self-service advantages of myAccount, they do not want an eBill, then Enbridge Gas will move the customer back to paper bill on request from the customer.

88. In all cases, Enbridge Gas will ensure that its customers who contact the Company to indicate that they do not want an eBill will have the opportunity to revert to a paper bill instead of an eBill.

89. These practices will continue Enbridge Gas's transition away from costly and cumbersome phone and paper transactions towards completing interactions and transactions within myAccount.

90. Enbridge Gas confirms that three of the interim measures from the Settlement Proposal will continue:

a) Enbridge Gas does not charge customers any extra amounts for paper bills;

[127] Exhibit B, Tab 3, Schedule 1, paras. 58-65.

b) Enbridge Gas will contact any existing paper bill customer who becomes an eBill customer and who incurs LPP charges on its first eBill, in order to ensure that the customer has received the eBill and that the proper contact information is being used;[128] and

c) Enbridge Gas will ensure that no customer who was switched to eBill in 2019 is reported to credit agencies based on late payments.

91. Enbridge Gas acknowledges that the Board may choose to address e-billing practices and create specific rules for all distributors at some time in the future. Enbridge Gas will fully participate in any consultation on this topic.

92. Until such time as the Board establishes new broadly-applicable rules related to e-billing, the Company does not believe that it is necessary for the Board to impose additional utility-specific e-billing restrictions or rules on Enbridge Gas. The Company complies with all existing rules and has made commitments in its Argument in Chief and Reply Argument in this proceeding that will balance customer protection and the continued growth of lower-cost, higher-service eBill and myAccount options.

E. UFG REPORT

93. In the MAADs Decision, the Board directed Enbridge Gas to file a report on UFG by December 31, 2019.[129] ScottMadden, Inc. (ScottMadden) prepared a UFG Report that reviewed and evaluated factors contributing to UFG within the legacy EGD and Union service areas.[130]

94. As described in the UFG Report, and summarized in Argument in Chief[131], ScottMadden found that over the past 10 years EGD and Union demonstrated lower UFG levels than comparable gas utilities. EGD and Union's year-to-year fluctuations

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[128] Given this commitment, Enbridge Gas does not believe that it is necessary to adopt LPMA's suggestion of requiring that both paper and eBill be sent to customers for their first two bills after they start to receive eBills (see LPMA Submission, page 9).
[129] MAADs Decision, section 7.2, page 53.
[130] ScottMadden's final report, titled "Report on Unaccounted For Gas", was submitted to the Board on December 19, 2019.
[131] Argument in Chief, paras. 86-88.

in UFG were generally consistent with those of other gas utilities. ScottMadden found that the sources of UFG for the legacy utilities are generally consistent with those at other gas utilities. ScottMadden found EGD and Union's initiatives to monitor and manage potential sources of UFG to be generally consistent with those of other utilities.[132]

95. ScottMadden made a number of recommendations for Enbridge Gas to consider in order to manage UFG in the future.[133] These include identifying and implementing "best practices" related to monitoring and managing UFG across the legacy utilities; documenting data, processes and studies related to monitoring and managing UFG; and continuing to investigate sources of UFG on a periodic basis.

96. Enbridge Gas has committed to review and implement the recommendations from the UFG Report in its ongoing operations.[134] Among other things, this includes Enbridge Gas's ongoing project to update the metering at the legacy EGD Victoria Square gate station where gas is received from TransCanada Energy.[135]

97. The Board's direction in the MAADs Decision did not require Enbridge Gas to seek or receive OEB approval for the UFG Report. Enbridge Gas does not request any relief from the Board in relation to the Report. However, as set out in interrogatory responses and Argument in Chief, Enbridge Gas commits that it will report upon its progress in implementing the recommendations set out in the UFG Report in its 2022 rates filing.[136]

98. For the most part, other parties do not take issue with the UFG Report and Enbridge Gas's proposed next steps.[137] Several parties support Enbridge Gas's proposal,

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[132] UFG Report, pages 7-9 and 22-46.
[133] UFG Report, pages 9 and 47.
[134] Exhibit I.STAFF.27 and Exhibit I.STAFF.28 (c). See also Argument in Chief, para. 91.
[135] UFG Report, page 39, Exhibit I.EP.24(c) and Exhibit I.FRPO.17(a).
[136] Exhibit I.STAFF.27, Exhibit I.STAFF.28 (c) and Exhibit I.EP.25; see also Argument in Chief, para. 92.
[137] Only 9 of the 15 parties filing submissions addressed the UFG Report.

including OEB Staff who indicate that they have “no concerns” with the UFG Report or Enbridge Gas’s interrogatory responses.[138]

99. A common theme in intervenor responses is that the Company should provide more information about implementation and impact of UFG-reducing initiatives as part of its rebasing application.[139] LPMA suggests that reporting in the rebasing application should include more segregated and complete information about UFG measurement across the constituent parts of Enbridge Gas’s combined system.[140]

100. Enbridge Gas has already committed to assess its UFG forecasting methodology in the rebasing proceeding.[141] The Company understands that parties in the rebasing application will also be interested in progress made in addressing ScottMadden’s recommendations and other steps taken to address UFG. To that end, Enbridge Gas undertakes to include information in the rebasing application evidence about the implementation of ScottMadden’s recommendations and other activities to address UFG, and the impacts of such activities. As part of the rebasing filing, Enbridge Gas will also provide reporting of UFG results, segregated by rate zone and activity (distribution, transmission, storage), with such recent historical information as is available.

101. Enbridge Gas submits that the commitments described above demonstrate that it is taking UFG seriously, and is focused on taking steps to manage UFG levels and improve forecasting.[142] However, this will take time to implement, measure and

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[138] See Staff Submission, page 15. Three of the other parties filing submissions on this item support Enbridge Gas’s proposal – BOMA, QMA and SEC.
[139] Staff Submission, page 15, Pollution Probe Submission, page 6 and VECC Submission, page 17.
[140] LPMA Submission, page 10. Pollution Probe makes a similar suggestion at page 6 of its Submission.
[141] Exhibit I.PollutionProbe.7. See also Argument in Chief, para. 91.
[142] Contrary to the allegation from the EP Submission (page 12), Enbridge Gas is not taking UFG “too lightly”. UFG Report found that both legacy Union Gas and legacy EGD have taken the issue seriously and have recorded UFG levels lower than comparative gas utilities. ScottMadden noted that the legacy companies have established practices and initiatives to monitor and manage sources of UFG that are consistent with – and in some cases exceed – industry practices and initiatives. Enbridge Gas has a process underway to identify and standardize “best practices” across the legacy companies that will enable Enbridge Gas to better monitor and manage sources of UFG in a consistent and more effective manner.

evaluate. The UFG Report recommendations are substantial and it will take time to: (1) identify and standardize best practices related to monitoring and managing UFG across the legacy companies' service areas; (2) develop processes to collect and analyze data to monitor and manage UFG on a consistent basis; and (3) prepare analysis on the sources of UFG. Enbridge Gas believes that its 2022 rate application (which will be filed in 2021) presents a reasonable and appropriate timeframe to complete such steps.

102. Two parties propose more immediate reporting and response on UFG mitigation and measurement.[143] Enbridge Gas does not believe that it will be useful or informative to require reporting or an "action plan" in the 2021 rate application[144], since that case will be filed in the next couple of months. It is more appropriate to include progress reporting in the 2022 Rate Application, as the Company has proposed. More complete reporting will be included in the evidence for the January 1, 2024 rebasing application. At that time, Enbridge Gas will consider whether any of FRPO's additional proposed items should be taken into account.[145]

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[143] EP Submission, page 12; and FRPO Submission, pages 2-11.

[144] This is EP's suggestion – see page 12 of EP Submission.

[145] At page 11 of its Submission, FRPO lists five items that it says should be included in annual UFG update reports. Enbridge Gas has agreed to provide the first two of these items (update on initiatives identified in the UFG Report to be provided in 2022 Rate Application, and separate reporting of UFG related to EGD storage operations, which is also referred to as LUF, to be provided in Rebasing Application). FRPO's concern regarding retail meters was addressed in Exhibit I.PollutionProbe.6 which notes that the best practices address verification and reverification of diaphragm, rotary and turbine meters as well as electronic volume integrators (EVIs). The legacy Union Gas and legacy EGD service areas have different processes for verification and reverification of all this measuring equipment. Enbridge Gas is reviewing these processes to develop best practices to be implemented across the rate zones, and this can be addressed at rebasing.

F. RELIEF REQUESTED

103. As set out in Argument in Chief, Enbridge Gas respectfully requests the following relief in relation to the outstanding items in this proceeding:

a) Approval of the ICM funding requests for the Don River Replacement Project (EGD rate zone) and the Windsor Line Replacement Project (Union South rate zone), and approval of the associated ICM unit rates.

b) Approval of the proposed cost allocation methodology changes to the Panhandle System and St. Clair System, Parkway Station and Dawn Station, to be implemented along with all other rate changes as part of its next rebasing proceeding.

104. Enbridge Gas filed a proposal setting the process that it plans to follow for the timing and steps for its future rates applications during the deferred rebasing term.[146] No party made any submissions on this proposal. Enbridge Gas plans to follow its proposed process for the 2021 Rate Application.

All of which is respectfully submitted this 1st day of May 2020.

(Original Signed)

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David Stevens, Aird & Berlis LLP
Counsel to Enbridge Gas

[146] Exhibit A, Tab 3, Schedule 1. See also Exhibit I.LPMA.1.