

SUMMARY

Enbridge Gas Inc. (EGI) has applied for Leave-to-Construct (LTC) for 4.5 km of NPS 20 HP along Lakeshore Blvd. In our view, EGI has made its case that the better approach is replace than repair in the section that has been analyzed by In- Inspection (ILI).

However, we do not believe that the simple extrapolation of results from one section warrant replacement of additional section that is larger than the section analyzed.

Further, we respectfully submit that the timing on replacement ought to be determined in consultation with the City of Toronto and its projects in that area. Coordinated construction would likely reduce cost for all stakeholders and ratepayers while minimizing construction related traffic problems and reducing the risk of additional work to remove newly installed pipe.

In addition, we submit that the inflated costs for contingency and indirect overhead have not been supported as just and reasonable.

Replacement is Superior to Repair

FRPO respects that as assets age, utilities must undertake an on-going assessment of their condition to determine priorities for renewal, rehabilitation, or replacement. This process is best done in a comprehensive and systematic approach. As such, we appreciate the work that EGI has done in developing an Asset Management Plan including Asset Health.

We also appreciate that a significant amount of evidence has been generated through the application and interrogatory process. It is beyond the ability of most participants in this proceeding to digest all of the technical information provided. However, in our experience, we would support EGI's conclusion that replacement of the NPS 20 is superior to repairing on an ad-hoc basis.

That being said, we would respectfully submit that the project not be given approval as requested in the application. Below we outline our concerns submitted to assist the Board its determination in the public interest.

Further Assessment is Required to Determine Scope and Timing

While EGI has been diligent in assessing and applying for replacement of the 1.9 km of NPS 20, we would respectfully submit that further diligence is required to establish the scope and timing for replacement.

Additional Investment in Diagnostics is Prudent

EGI has presented two In Line Inspection reports¹ for inspections done in 2016 and 2018 for the 1.9 km portion. When asked about how the results could be extrapolated to the remaining 2.6 km section, EGI answered that the un-inspected section was of the same type, vintage and in similar soil conditions so the results were extrapolated because *“it would be expensive and difficult to complete ILI on the remaining 2.6km of the Cherry to Bathurst segment.”*²

Being concerned about this extrapolation of results, EGI provided that the cost of the two previous reports for the 1.9km section totaled approximately \$0.84M and the remaining section would cost approximately \$1M³. However, EGI is asking the Board to provide LTC for a project estimated to cost \$133M. Using a simple proration of the distances, the cost of the 2.6km section would be over \$75M. In our view, we believe that it would be prudent to invest less than 2% of the expected cost of replacement to ensure that replacement of that section is actually necessary and at what level of priority. We respectfully submit that a prudent approach should be taken especially given the expected cost of the project.

¹ Exhibit I.Toronto.12

² Exhibit I. EP.6 and Exhibit I.EP.9

³ Exhibit I.FRPO.5

Timing of Segments Ought to be Coordinated with the City

From the City of Toronto's participation and its dozens of interrogatories, we conclude that the City is keenly aware of the impact and consequences of the proposed project. Toronto submitted a number of City directed projects in the proposed area of this replacement⁴. Given the nature of the City's questions and EGI's identification of the congested nature of the project area, we respectfully submit that the replacement of segments of this project should be phased and completed in conjunction with the City to avoid potential conflicts with City work and to minimize impact on traffic and other aspects. In our view, this approach would lead to reduced costs for EGI ratepayers and Toronto residents and businesses.

EGI has provided evidence that supports the pipeline should be replaced but they have also provided evidence that the replacement is not urgent. Of the analysis of the pipeline submitted in this proceeding, the first study was the External Corrosion Assessment dated February 2011.⁵ That study recommended four investigative digs.⁶ As outlined further in that interrogatory response, the investigative digs did not find what was expected and EGI provided some reasons why that may have been the case.⁷

In moving to an internal inspection, EGI was provided with a more definitive understanding of the pipe condition. In 2016, EGI was provided Inspection Findings that informed, while there were corrosion and dents, only two were deemed Critical Findings by the company that authored the report⁸. We trust that amongst the integrity digs performed between 2016 and 2018, these two critical matters were addressed as the 2018 report using the same approach resulted in zero Critical Findings⁹.

This evidence supports the conclusion that while replacing the pipe eventually is the preferred approach, currently there are no critical issues allowing the replacement to

⁴ Exhibit I.Toronto.1

⁵ Exhibit I.ED.1 Attachment 2

⁶ Exhibit I.ED.1 Attachment 2, page 38 of the report.

⁷ Exhibit I.ED.1 d)

⁸ Exhibit I.Toronto.12, Attachment 1, page 5 of 61

⁹ Exhibit I.Toronto.12, Attachment 2, page 7 of 120

happen in a coordinated fashion with the City. Further, this approach could, and as outlined above, should be used to analyze the remaining 2.6 km to determine any critical issues and understand the condition supporting replacement of this segment in conjunction with other City work.

This approach leads to two additional considerations:

- 1) In replacing the pipe in a coordinated fashion with the City, we would support the installation of NPS 20 as opposed to a smaller size. In this way, new segments do not become a bottleneck to flow for system integrity issues nor does the smaller size limit the on-going opportunity for internal inspections.
- 2) A condition the Board applies in LTC approvals is a time limit on the start of the project otherwise the approval expires. Respecting the Board's discretion, for this pipeline and more generically, we would recommend that the time period to initiate the project be increased or potentially not limited to allow coordination with other municipal and/or utility construction.

Contingencies Should Not be Used for Opportunistic Ratemaking

FRPO respects that construction activity does not always go as planned. Therefore, budgeting a contingency is considered appropriate. However, it is possible that some components of the cost estimate are completed at a lower cost than estimated. To add a 30% contingency due to uncertainty results in an inflated estimate. While FRPO understands that the approval of the rate impact of the ICM occurs in the rate proceeding, EGI's position was provided as follows:¹⁰

Approval of the immediate application by the OEB will establish the need for the Project and confirm a reasonable cost estimate for the Project. Those findings will be relevant when the Company seeks cost recovery through the ICM. All capital expenditures may be subject to a prudence review at the time of re-basing.

¹⁰ Exhibit I.PP.1

If the Board were to follow this premise, inflated contingencies would be included in rates until the time of re-basing. At re-basing, the amount included in rate base may be reduced if contingencies were inflated, however, there is no mechanism to give back the incremental rates recovered in the period prior to re-basing. In our view, better estimates could be made, and inflated contingencies would not be needed if the scope of replacement were coordinated with City work. If the Board does not order a coordinated approach to replacement, we would support the Board reducing contingencies as outlined in the submission of Energy Probe¹¹.

Inclusion of Indirect Overheads Should be Explicitly Considered in Ratemaking

FRPO understands that the amount of ICM funding included in rates is determined in the annual ratemaking proceeding. Ratepayer representatives have argued against the inclusion of indirect overheads since the initial rate-setting after the merger proceeding¹². In this proceeding, upon inquiry about the appropriateness of including indirect overheads, the company replied¹³:

The OEB has indicated that indirect overheads are included in the calculation of rate base and should be included in the assessment of the costs included in ICM; EB-2019-0194 Decision and Order, May 14, 2020, page 9.

However, a review of that reference indicates that the Board sees no reason to depart from the 2019 Rates decision¹⁴:

Finally, intervenors submitted that the inclusion of indirect overheads should not be allowed. The OEB had clarified in the 2019 Rates Decision that indirect overheads are included in the calculation of rate base and should be included in the assessment of ICM. The OEB sees no reason to depart from this Decision.

¹¹ Energy Probe_SUB_Arg_EGI_C2B_20201109, pages 5-6

¹² EB-2018-0305

¹³ Exhibit I.EP.25 c)

¹⁴ EB-2019-0194 Decision and Order, May 14, 2020, page 9

But going back to the 2019 Rates Decision for the Boards reasons, the Findings on this issue provides¹⁵:

Whether costs provided as part of a leave to construct proceeding should be inclusive of indirect overheads or not is out of scope of this proceeding. The OEB has never previously excluded indirect costs from ICM funding, and therefore the OEB considers Enbridge Gas' approach consistent with the OEB's policy for ICMs.

Respectfully submitted, FRPO believes that the issue ought to be reviewed by the Board in an upcoming rates proceeding and determined with the appropriate context of the merger of the natural gas utilities and allocations supporting base rates. As such, we would urge the Board, in whatever approvals may be determined, to explicitly defer the appropriateness of inclusion of indirect overheads to the appropriate EGI rates proceeding.

Conclusion

FRPO submits that the Board deny the requested LTC instead ordering EGI to work with the City in coordinating construction to reduce costs, traffic disruptions and risk of relocations which could have been avoided. Further, the Board could order EGI to use inline inspection of the un-inspected segment to reduce risk and determine need for replacement.

All of Which is Respectfully Submitted on Behalf of FRPO,

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¹⁵ EB-2018-0305 Decision and Order, September 12, 2019, page 29.