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December 13, 2020

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto ON
M4P 1E4

Dear Ms. Long

**RE: EB-2020-0192 Enbridge Gas London Lines Replacement Project
Argument Submission of Energy Probe**

Attached is the argument submission of Energy Probe Research Foundation (Energy Probe) in the EB-2020-0192 proceeding, the application by Enbridge Gas Inc. to the Ontario Energy Board for the approval of its proposed London Lines Replacement Project.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.
Consultant representing Energy Probe

cc. Patricia Adams (Energy Probe Research Foundation)
Zora Crnojacki (OEB Staff)
Charles Keizer (Torys LLP)
Rakesh Torul (Enbridge Gas Inc.)

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ONTARIO ENERGY BOARD

IN THE MATTER OF The Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B, and in particular, s.90 (1) and s.97 thereof;

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an Order granting leave to construct natural gas pipelines and ancillary facilities in County of Lambton, the Township of Dawn-Euphemia, Middlesex County, the Municipality of Southwest Middlesex, the Municipality of Strathroy-Caradoc and the Municipality of Middlesex Centre

Enbridge Gas Inc. London Lines Replacement Project Leave to Construct Application

Energy Probe Argument Submission

December 13, 2020

Executive Summary

To obtain Leave to Construct order under Section 90 of the OEB Act, an applicant needs to demonstrate to the OEB the purpose, the need, and the timing for the project and that its cost estimate and route selection are appropriate. Based on the record in this proceeding, Energy Probe has concluded that Enbridge Gas has adequately demonstrated the purpose and the need for the London Lines Replacement project, and that the process followed by Enbridge Gas for the selection of the preferred alternative route is appropriate. However, Energy Probe submits that Enbridge Gas has not adequately justified the timing of this project or its construction cost estimate. Energy Probe submits that the project should be delayed until after re-basing so that ratepayers can benefit from productivity savings that Enbridge Gas has achieved since the merger of Enbridge Gas Distribution and Union Gas. Should the OEB decide to approve the project, it should reduce the overstated contingency amount by \$720 thousand.

The Application

Enbridge Gas filed an application seeking a Leave to Construct approval Enbridge Gas requesting approval from the OEB for leave to construct a \$164.1 million project to build 51.5 kilometres of NPS 4 and 39 kilometres of NPS 6 steel pipeline to replace the existing 60 km London South Line and the 75 km London Dominion Line (Existing Lines). As part of its application Enbridge is also seeking approval of a \$5.8 million lateral NPS 6 line of 8.4 km that would connect Strathroy Gate Station to the new pipeline¹, and the \$2 million cost² of rebuilding the gate station. A Leave to Construct application can be a grouping of several projects, in this case three projects: the 51.5 km replacement of London Lines, the 8.4 km Strathroy lateral, and the rebuilding of the Strathroy Gate Station. However, the OEB requires that an application for ICM funding must be for a single project and not for a grouping of projects. If the OEB issues a single LTC order for the combination of these three projects, it should not mean that all three projects should be included as components of a single ICM in another proceeding.

¹ I.STAFF.1

² I.EP.8

The Purpose of the Project

The Existing Lines provide essential gas service to many Enbridge Gas customers. The proposed replacement pipeline would continue to provide the same service to the same customers and to some prospective future customers. The project is not a load growth, nor a system expansion project and Enbridge Gas is not proposing to justify it on that basis. Energy Probe believes that the purpose of the project is adequately justified.

The Need for the Project

The project is needed to replace the Existing Lines some of which have been in service since 1935. The Existing Lines have safely operated since that time, but Enbridge claims due to leaks, obsolete steel pipe material, poor coating, corrosion, deteriorating condition, and numerous compression couplings³, they need to be replaced with a new NPS 4 and NPS 6 steel pipe. Enbridge has filed extensive evidence and responded to interrogatories in support of its claim. Energy Probe has reviewed the evidence and responses to interrogatories⁴ and agrees that Existing Lines need to be replaced. Energy Probe is pleased that Enbridge has noted Energy Probe's comments regarding the adequacy of integrity evidence in the Windsor Line replacement proceeding⁵ and has provided more complete integrity evidence in this case. Energy Probe agrees that the large number of compression couplings on the line, the history of corrosion and the age of the steel pipe, pose risks that need to be addressed.

The Timing of the Project

Enbridge Gas claims that Existing Lines need to be replaced now. However, the poor condition of London Lines was known for years as can be seen from the 2002 report⁶ to Union Gas management. There is no evidence of a sudden increase in deterioration. Even though a pullout of pipe from a compression coupling are of concern, there has never been an incident of a pullout

³ AIC page 5

⁴ I.EP.2, I.EP.3

⁵ I.EP.2, Att. 1, page 17

⁶ I.BOMA.5, (a), (ii)

in the entire history of the London South Line⁷ or the London Dominion Line⁸ largely due to diligent maintenance by legacy Union Gas.

There were three earlier reports about the condition of London Lines that were presented to management of legacy Union Gas. The management decided not to proceed with the replacement because cost of replacement. For example, the replacement of the London South Line was considered in the 2002 report to be “extremely costly”⁹. The subsequent 2004 report found that abandoning the London South Line and connecting the customers it served would be “cost prohibitive”¹⁰. London Lines replacement was listed in the Union Gas Asset Management Plan filed¹¹ in the merger proceeding. Enbridge has not explained why a replacement that was too costly for legacy Union Gas is not too costly for Enbridge Gas.

The main reason London Lines replacement project is being undertaken now seems to be that Enbridge Gas can now use ICM funding from ratepayers. This is confirmed by evidence¹². The decision to proceed with the project was taken on June 23, 2020¹³ when Enbridge Gas management was fully aware that ICM funding for the project was likely. Energy Probe submits ICM funding should not be the determining reason to proceed with this replacement project. Energy Probe believes that the project can be postponed for two years so that it can be built at lower cost due to expected productivity savings after re-basing. The cathodic protection pipe to soil readings¹⁴ show that the lines are adequately protected from corrosion. However, if any corrosion leaks occur prior to re-basing, they can be remediated easily at low cost¹⁵.

The Cost of the Project

The total cost of the project is \$164.1 million. This total includes \$16.0 million contingency and \$30.2 million of indirect overhead costs¹⁶. Costs that are neither labour nor materials nor outside services total \$46.0 million or 28.2% of the total cost. While still high it is significantly lower

⁷ I.EP.3, (a), page 2

⁸ I.EP.4, (b), page 1

⁹ I.BOMA.5, Att. 1, “The London Lines by Katie Hooper, 2002”, page 14

¹⁰ Ibid. Att.2, “London Lines Report by Bob Wellington, 2004”, page 14

¹¹ I.ED.1, Att. 2, page 196

¹² I.ED.1, Att.1, pages 31, 252, and 253

¹³ I.EP.2, Att.1

¹⁴ I.EP.4, Att.1

¹⁵ I.EP.6

¹⁶ I.ED.13, (a), page 2

than the 36.8% % of the total cost for the NPS20 replacement¹⁷ in the Enbridge Gas Distribution rate zone.

Enbridge Gas is applying the same 15% contingency to the cost of all labour and materials for all costs except the cost of abandonment where the contingency of 20% is claimed¹⁸. It is common construction industry practice to apply a lower contingency to materials than to labour. For example, construction delays due to wet weather would impact labour costs but would not impact the cost of replacement pipe. Pipe material costs the same whether it rains or not. However wet weather may slow down pipeline installation requiring more labour hours. Enbridge has not provided a risk analysis that would explain the reasons for the contingency percentages. Energy Probe submits that the contingency for materials should be half of that for labour.

Enbridge has already spent \$4.8 million¹⁹ on the London Lines replacement project. It indicates that it has not allocated any contingency to that amount. This \$4.8 million is included in the \$164.1 million total costs that includes 15% contingency on most categories of spending. Therefore, contingency claimed by Enbridge is overstated by at least 15% of \$4.8 million, or \$720 thousand. If the OEB approves this project and accepts Enbridge's cost estimate it should reduce the total project contingency amount by \$720 thousand.

Enbridge Gas has allocated \$30.2 million of Indirect Overhead costs to this project²⁰. The allocation is not supported by an estimate of the actual costs of services provided to the project by corporate departments. It is simply a percentage of 22.7% applied to all project costs based on legacy Union Gas financial data prior to its last rebasing. Enbridge Gas is a different company than Union Gas was prior to its last rebasing. Many departments were combined after the merger of Enbridge Gas Distribution and Union Gas and there were staff reductions. Ratepayers should not have to pay for a charge derived from the cost of employees that are no longer employed by Enbridge Gas. It is likely that Enbridge will argue in its Reply Argument that Indirect Overhead percentage can not be changed until re-basing. In that case, it would make sense for the project to be delayed until after re-basing so that so that lower Indirect Overhead can be allocated to the project based on the productivity savings that Enbridge Gas has achieved since the merger.

¹⁷ EB-2020-0136, ED-9; Ex. D, Tab 1, Sch. 1, Page 5

¹⁸ I.ED.13, (a), page 2

¹⁹ I.EP.9, page 2

²⁰ I.ED.13, (a), page 2

The Selection of the Preferred Alternative Route

Based on the evidence in the case, Energy Probe believes that the process Enbridge Gas followed in the selection of the preferred alternative route was appropriate. It is heartening to see that Enbridge has reached an agreement with Middlesex County and that a Section 101 proceeding regarding permits will not be necessary.

The Conditions of Approval

Energy Probe supports the conditions of approval proposed by Board Staff and that Enbridge has agreed to follow²¹.

The Regulatory Process

The regulatory process in this proceeding did not allow for the usual steps for discovery and testing of evidence or provide for settlement. There was no Technical Conference, Settlement Conference, or Oral Hearing. There was a Written Hearing, which did not allow for a thorough discovery and testing of evidence as an Oral Hearing does. This is particularly troubling as this case deals with a \$164.1 million expenditure supported by a large amount of highly technical evidence. Also, considering the shortened regulatory process, it would have been appropriate and prudent for the OEB Staff to hire a technical expert to review the applicant's evidence. Energy Probe is concerned that the OEB may be proceeding to a decision without a thorough examination of evidence.

Conclusion

Energy Probe has concluded that Enbridge Gas has adequately demonstrated the purpose and the need for this project, and that the process followed by Enbridge Gas for the selection of the preferred alternative route is appropriate. Energy Probe believes that Enbridge Gas has not

²¹ I.STAFF.14

adequately justified the timing of this project and that the construction cost estimate is overstated because of excessive contingency and indirect overhead allocation.

There is no urgent need for the project. If it is delayed so would take place after re-basing, it is likely that substantial savings could be realized due to lower indirect overheads that would result from productivity savings Enbridge Gas has achieved since amalgamation. However, if the OEB should decide to approve the project in this proceeding it should also reduce the cost of the project contingency by \$720 thousand.

Respectfully submitted on behalf of Energy Probe by its consultant,

Tom Ladanyi

TL Energy Regulatory Consultants Inc.