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March 12, 2021

Christine E. Long
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: EB-2020-0181 - London Property Management Association Submissions for Enbridge Gas Inc. – 2021 Rates (Phase 2 – Incremental Capital Module)

1. INTRODUCTION

The following are the submissions of the London Property Management Association ("LPMA") related to the Enbridge Gas Inc. ("EGI") application related to Phase 2 of the 2021 rate application, which seeks approval for unit rates related to the Incremental Capital Module ("ICM") funding requests.

EGI has requested ICM funding for two projects: the Sarnia Industrial Reinforcement Project ("Sarnia Project") and the London Line Replacement Project ("London Project"). Both projects are in the Union South rate zone and would impact rates in this zone but not in the Union North or EGD rate zones.

The LPMA submissions that follow in Section 2 are on four main issues that LPMA has identified: a) the eligibility and amount associated with the Sarnia Project; b) the eligibility and amount associated with the London Project; c) the maximum eligible incremental capital for 2021; and d) the allocation associated with the Sarnia and London projects.

2. SUBMISSIONS ON THE ISSUES

a) Eligibility and Amount Associated with the Sarnia Project

LPMA submits that the Sarnia Project does not qualify for or is in need of ICM funding and that the Board should deny EGI's request for ICM funding for this project.

EGI's request for ICM funding is generally governed by the Board's ICM and ACM policies that were originally developed for and intended for use by electricity distributors. The Board confirmed this in the August 30, 2018 Decision and Order for EB-2017-0306 and EB-2017-0307 (pages 30-34).

Section 3.3.2.1 (ICM Filing Requirements) of the OEB's Filing Requirement for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications dated May 15, 2020 is quite specific in that the Board requires that a distributor that requests relief for incremental capital during an IRM plan should include comprehensive evidence to support the need, which should include a number of items.

Included in these items are the two following filing requirements:

- *Evidence that the incremental revenue requested will not be recovered through other means (e.g. it is not, in full or in part, included in base rates or being funded by the expansion of service to include new customers and other load growth)*, and
- *Calculation of each incremental project's revenue requirements that will be offset by revenue generated through other means (e.g. customer contribution in aid of construction).*

These filing requirements reflect the EB-2014-0219 Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, dated September 18, 2014 (page 18):

> *"Distributors must also include a discussion on any offsets associated with each incremental project for which ACM or ICM treatment is proposed due to revenue to be generated through other means (e.g. customer contributions in aid of construction), at the time of the cost of service application, along with an estimate of the revenue requirement impact associated with those offsets. The final offset amounts, if any, would be confirmed at the time of the IR application."*

EGI has calculated the revenue requirement associated with the Sarnia Project to be $3,922,000 in aggregate over the 2021 through 2023 period (Ex. B, Tab 2, Sch. 1, Table 9).

EGI provided details with respect to the project and its drivers at Exhibit B, Tab 2, Schedule 1 on pages 25 through 27 including the statement that *"The project will provide reliable, secure and economic solutions to serve the increased demand growth contracted with Nova Chemicals beginning in November 2021."* However, nowhere its evidence did EGI indicate that there would be incremental revenue associated with this project.

A review of the leave to construct application for the Sarnia Project (EB-2019-0218), however, reveals that significant incremental revenue was forecast for the project and that the project had a positive net present value and a profitability index that was forecast to be 1.1 (Ex. B, Tab 1, Sch. 1, para. 14).

As part of the interrogatory process in the current proceeding, in response to questions from Board Staff, Energy Probe and Ontario Greenhouse Vegetable Growers, EGI indicated that the incremental revenues generated by the project totals $5,813,000 over the 2021 through 2023 period. (Ex. I.Staff.4 part (c)).

The revenue forecast from the contract with Nova Chemicals, which is replicated in Attachment 1 of Exhibit I.Staff.4 shows incremental revenues of $2.6 million for the first 5 years that the project is in service and $2.1 million per year for the following 15 years.

LPMA submits that EGI failed to follow the filing requirements with respect to filing evidence demonstrating that the requested ICM revenue will not be recovered through other means. In fact, now that the evidence is complete, it is clear that EGI is requesting ICM funding in the amount of $3,922,000 over the 2021 through 2023 period for a project that has been forecast to generate incremental revenue of $5,813,000 over the same period. In fact, as shown in the following table, there is a net revenue sufficiency in 2021 and in 2022 and 2023 there is essentially no net revenue deficiency or sufficiency.

Table 1

($000's)	2021	2022	2023	Total
Incremental Revenue Requirement (Ex. B, Tab 2, Sch. 1, Table 9)	-1,482	2,707	2,697	3,922
Incremental Revenue (Ex. I.Staff.4c)	434	2,616	2,763	5,813
Net Revenue Deficiency	-1,916	91	-66	-1,891

LPMA submits the Board's capital funding policy is very clear and that this project does not qualify for ICM funding relief in that it is more than fully funded by the expansion of service to include new customers and other load growth and that the incremental project's revenue requirements will be offset by revenue generated through other means (i.e. the Nova Chemicals contract expansion).

In the response to Exhibit I.OGVG.1, EGI relies on the Decision and Order in its 2019 rates application (EB-2018-0305) in order to support its belief that it should receive ICM funding for a projected that is projected to generate more incremental revenue than the forecast increase in the revenue requirement. In particular the response quotes the following from page 26 of the EB-2018-0305 Decision and Order dated September 12, 2019:

> *"LPMA argued that Enbridge Gas should be required to take into account the incremental revenue generated from the increase in volumes delivered and growth in customers. The OEB notes that the* ***ICM policy does not require utilities to record possible incremental revenues in a deferral account or include it in the rate rider****. As discussed under section 4.3.2, the ICM policy is being applied to the current framework, and* ***the policy should apply in its entirety****. The materiality threshold calculation for determining the maximum eligible incremental capital includes a growth factor that accounts for incremental revenues and growth in customers that may arise due to the implementation of an ICM eligible project. The OEB further notes that Enbridge Gas is under a Price Cap IR wherein revenues and costs are decoupled."* (emphasis added)

The circumstances in this proceeding are different from that in EB-2018-0305. In that proceeding, the forecasted incremental revenue generated from the Kingsville Transmission Reinforcement project was less than 20% of the incremental revenue requirement over the 2019 through 2023 period. Specifically, EGI forecast incremental revenue of $6,990,000 (EB-2018-0013, Ex. A, Tab 9, Sch. 3) and an incremental revenue requirement of $36,908,000 (EB-2018-0305, Ex. M1, Tab 1, App. B, pg. 1) over the 2019 through 2023 period.

In the paragraph above from the EB-2018-0305 Decision, the Board stated that the ICM policy does not require utilities to record possible incremental revenues in a deferral account or include in it the rate rider. LPMA is not requesting any such treatment in this proceeding. The driver of the Sarnia Project is an increase in the contracted demand from an existing customer. The project is economic, with a positive net present value and a profitability index greater than 1.0. This was not the case in the EB-2018-0305 proceeding related to the Kingsville Reinforcement Project.

If it were requesting deferral account treatment of the incremental revenue obtained from the Sarnia Project, LPMA notes that the rate rider would actually be a refund to customers since the incremental revenues exceed the incremental costs over the 2021 through 2023 period. As noted above, however, LPMA is not requesting any such deferral account treatment.

LPMA is, however, requesting that the Board apply its ICM policy in its entirety. In the case of the Sarnia Project, this includes evidence that the incremental revenue requested will not be recovered, in full or in part, by the expansion of service to include new customers and other load growth. EGI has not provided any such evidence and, in fact, the evidenced adduced through the interrogatory process shows the opposite to be true. The incremental revenue generated by the growth at an existing customer, which was the driver of the project, more than offsets the increase in the costs over the 2021 through 2023 period for which EGI is seeking ICM funding. As illustrated in Table 1 above, which shows the calculation of the project's incremental revenue requirement, which is required as part of the filing guidelines for ICM requests, the revenue requirement is offset by the revenue generated through other means – in this case by the incremental revenue generated through the increased contracted demand from the customer which drove the need for the reinforcement project.

In summary, the Board should deny ICM funding for the Sarnia Project. It does not qualify for funding under the ICM guidelines because there is no revenue requirement shortfall associated with the project.

b) Eligibility and Amount Associated with the London Project

LPMA has no issue with the eligibility for ICM funding for the London Project. Unlike the Sarnia Project, the London Project, which is a replacement project, will not generate incremental revenues that will offset the increase in the revenue requirement associated with the project. At best it may provide limited additional capacity to serve incremental customers and/or load, but it is primarily a replacement project that will enable current revenues to be maintained, while providing safe and reliable service.

LPMA has no specific issues with respect to the forecasted cost of the London Project. The total ICM funding request for this project is $124.0 million (Ex. B., Tab 2, Sch. 1, Table 7). LPMA notes that this figure would be reduced if the maximum eligible incremental capital (discussed below) were to be reduced to below this level.

c) Maximum Eligible Incremental Capital

EGI has calculated its maximum eligible incremental capital for the Union rate zone to be $152.8 million, based on a 2021 in-service capital forecast of $627.0 million and a materiality threshold value of $474.2 million (Ex. B, Tab 2, Sch. 1, Table 6). LPMA has no issue with the materiality threshold value and submits that it has been calculated appropriately. The comments that follow below all relate to figures for the Union rate zone.

LPMA submits that the Board should reduce the 2021 in-service capital forecast of $627.0 million, and the resulting maximum eligible incremental capital amount for two primary reasons.

The first reason that the 2021 in-service capital forecast should be reduced is the change in the capitalization policy that has not been approved by the Board at this time.

The forecast of capital additions in the Union zone has increased because of the change in the capitalization policy being used. This increase has been significant as can be seen in the response to two interrogatories.

In the response to parts (a) and (b) of Exhibit I.Staff.4, the indirect overheads for the Sarnia Project increased from $2.9 million to $5.0 million, an increase of more than 70%. EGI indicates in the response that increase in the overhead amount is based on the revised indirect overhead capitalization policy the EGI implemented effective 2020.

The second interrogatory response that reflects the magnitude of the increase in associated with the change in policy is Exhibit I.LPMA.7. That response indicates that the increase in the 2020 forecast of overhead shown from $76.4 million in the EB-2019-0194 filing to $101.7 million in the current proceeding was the result of an increase of $26 million as a result of the change in treatment for direct overheads for the Union rate zone. In other words, the increase in overheads of $26 million represents about 25.6% of the total overhead forecast of $101.7 million.

Part (c) of Exhibit I.LPMA.7 provides a description of the changes to the overhead capitalization policy of EGI.

EGI is forecasting total overhead in the 2021 in-service capital additions based on the new policy of $113.4 million (Ex. I.EP.2, page 3). LPMA submits that using the 25.6% proportion calculated above is a good proxy for the increase in the total overhead capitalized in 2021 due to the policy change. Applying the 25.6% to the $113.4 million yields an increase of $29.0 million related to the change in policy.

As per the undertaking in Exhibit JT1.11, EGI provided an explanation in its Argument-in-Chief ("AIC") dated March 1, 2021 as to the change in the capitalization policy and the relationship with the change in the indirect overheads and the capturing of the amount and the accounting policy change deferral account ("APCDA"). This explanation, found at paragraph 20 of the AIC , states that as a result of the amalgamation, EGI has introduced a harmonized overhead capitalization policy that was effective as of January 1, 2020 and that as a result of this harmonized overhead capitalization policy, there has been a net increase in the amount of overhead costs capitalized and a corresponding net decrease in amounts expensed as part of operations and maintenance costs ("O&M") as compared to what would have occurred under the legacy overhead capitalization policies. The APCDA is used to capture the revenue requirement impact of this change and it captures the revenue requirement impact of the reduction in O&M, net of the revenue requirement impact of the increase in capital.

The explanation goes on to state that the offset to the amount recorded in the APCDA is an adjustment to revenues and that this adjustment to revenues is reflected within the utility financial results, which offsets the O&M and capital impacts from the overhead capitalization policy change such that the utility return on equity is not impacted by the change in accounting policy. The explanation concludes that the APCDA entry ensures that neither the company or ratepayers benefit or are harmed at the expense of the other.

It is not clear to LPMA how, or if, the APCDA captures higher ICM rate rider revenue as a result of the capitalization policy change that increases the maximum eligible incremental capital that is eligible for ICM funding. LPMA does not believe that the APCDA was designed to deal with ICM applications and the impact on these applications of the new overhead capitalization policy, which has not been approved by the Board. It is not obvious to LPMA that the APCDA, as designed, can ensure that neither the company or ratepayers benefit or are harmed at the expense of the other for the ICM funding that reflects the new overhead capitalization policy.

Unless EGI can successfully demonstrate to the Board that the APCDA captures the impact of the new capitalization policy on ICM funding and the associated revenues generated through the rate riders, LPMA submits that the overhead included in the 2021 in-service capital addition forecast should be based on the previous Board approved capitalization policy. As noted above, LPMA believes a reasonable estimate of this reduction is $29.0 million.

An alternative to reducing the 2021 in-service capital additions to reflect the previous Board approved capitalization policy would be to establish a new ICM APCDA that would ensure that neither the company or ratepayers benefit or are harmed at the expense of the other with respect to revenues generated through the ICM related rate riders.

The second reason for a reduction in the 2021 in-service capital forecast is related to the credibility of this forecast. 2019 was the first year in which EGI requested and the Board approved ICM funding under the current 5-year IRM period. The Board approved a forecast of in-service capital additions of $518.5 million (EB-2018-0305 Decision and Order dated September 12, 2019, page 25). However, as shown in Table 2 of Exhibit B, Tab 2, Schedule 1, the actual in-service additions for 2019 were $507.8 million, a reduction $10.7 million or approximately 2%. LPMA considers this a material reduction, in that it is more than $10 million threshold for a project to qualify for ICM funding for EGI.

LPMA also notes that in EB-2019-0194, EGI forecast capital expenditures in the Union rate zone to be $539.9 million for 2019 in evidence dated January 15, 2020 (Ex. B, Tab 2, Sch. 1, Table 2). In the February 21, 2020 response to an interrogatory (Ex. I.LPMA.8) in that proceeding, the actual 2019 figure of $507.8 million was provided. This was a decrease of $32.1 million, or nearly 6% between pieces of evidence dated barely more than a month apart. LPMA believes that this highlights the lack of credibility or accuracy of the EGI capital forecasts. Exhibit I.LPMA.2 in the current proceeding provides a variance analysis of the significant reduction in in-service capital additions. LPMA submits that the Board should take into account this lack of accuracy and credibility of in-service capital addition forecasts.

LPMA notes that EGI is incented to forecast high when it comes to in-service capital additions. High forecasts lead to a higher maximum eligible incremental capital amount that accommodates more ICM eligible projects and a higher ICM funding request. LPMA submits that the Board needs to take this into account when approving an in-service capital addition forecast. Specifically, based on the over forecast for 2019, LPMA submits that the Board should reduce the 2021 in-service capital additions by a minimum of 2%, or $12.5 million (2% of $627 million).

In summary, LPMA submits that the OEB should reduce the 2021 in-service capital additions forecast and the resulting maximum eligible incremental capital amount to reflect both the impact of the change in the capitalization policy as it impacts the Union rate zone and the incentive for EGI to over forecast its capital additions in order to increase the amounts recoverable through ICM funding.

Specifically, the 2021 in-service capital additions should be reduced from $627 million by the amounts of $12.5 million related to over forecast and $29.0 million related to the capitalization policy change to arrive at a 2021 in-service capital addition forecast of $585.5. This would in turn reduce the maximum eligible incremental capital for the Union rate zone from $152.8 million to $111.3 million.

d) Allocation Associated with the Sarnia and London Projects

EGI proposes to allocate the London Project ICM revenue requirement to rate classes based on the most recently Board approved cost allocation methodology updated for the current year forecast. For the Union South rate zone, this is the approved cost allocation study filed in EB-2011-0210. (Ex. B, Tab 2, Sch. 1, para. 49-53). LPMA supports this proposal.

With respect to the Sarnia Project, if the Board approves ICM funding for this proposal, EGI proposes to allocate the revenue requirement to rate classes in proportion to the forecast Union South in-franchise design day demands, which is consistent with the allocation of Other Transmission Demand costs approved by the Board in EB-2011-0210 (Ex. B, Tab 2, Sch. 1, para. 52). This allocation is the same as the historical allocation of the Sarnia industrial line (Ex. I.LPMA.5). As there is no change in the allocation methodology for this asset, LPMA supports the proposed allocation.

However, LPMA submits that the Board should not approve the proposed change in the allocation of the London Project costs at this time. EGI confirmed that the proposed allocation methodology for the London Project is not the same as the historical cost allocation used for the lines it replaces (Ex. I.LPMA.4).

The current cost allocation study classifies the London Line as Other Transmission and allocates costs to Union South in-franchise rate classes in proportion to the forecast firm design day demands. EGI proposes to change this allocation to Union South Distribution demand costs which is allocated to rate classes in proportion to forecast Union South in-franchise design day demands of firm and interruptible customers served by the distribution system and excludes the design day demands of customers served directly off transmission lines.

While EGI indicates that the proposed change in the allocation methodology for the London Project is similar to the change that was approved in EB-2019-0194 for the Windsor Line Replacement ICM project in 2020 (Ex. JT1.13), LPMA is concerned with the significant shift in costs between the rate classes, as illustrated in Attachment 1 to Exhibit I.LPMA.4. Under the new proposed methodology, rate classes M9,T2(F) and T3 would pay less than under the current methodology, which other rate classes would pay more. In particular, the small general service rate classes of M1 and M2 would see an increase in their allocated costs of more than$1.3 million.

LPMA submits that this is a significant change in the allocation of costs and should be considered as part of a comprehensive rebasing application in which all proposed changes can evaluated. This is especially true when EGI may bring forward rate harmonization and/or rate zone harmonization proposals in their 2024 rates rebasing application. To make this change now and then make further changes in 3 years could result in a lack of stability of rates.

e) Summary of Submissions

The Sarnia Project does not require ICM funding due to the incremental revenue generated more than offsetting the revenue requirement associated with the project. The Board should deny the ICM funding for this project.

The Board should approve the London Project for ICM funding, but at a lower level than that proposed by EGI to reflect any reduction in the maximum eligible incremental capital determined to be appropriate by the Board.

The Board should not accept the change in the allocation methodology associated with the London Line at this time. Such allocation changes should be dealt with in a rebasing application, which is expected for 2024 rates.

3. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA submits that it has acted responsibly and efficiently in all aspects of the process.

Yours very truly,

Randy Aiken Digitally signed by Randy Aiken
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c.c. EGI Regulatory Proceedings (e-mail only)