

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

March 12, 2021

**Re: EB-2020-0181 EGI 2021 Rates Phase 2 – Incremental Capital Module
Pollution Probe Argument**

Dear Ms. Long:

In accordance with Procedural Order No. 4 dated February 19, 2021, please find attached Pollution Probe's Argument related to the above noted proceeding.

Respectfully submitted on behalf of Pollution Probe.



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ONTARIO ENERGY BOARD

Enbridge 2021 Rates – Phase 2 ICM

POLLUTION PROBE ARGUMENT

March 12, 2021

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Background

Enbridge Gas Inc. (Enbridge) filed an application with the Ontario Energy Board (OEB) on October 15, 2020 under section 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, seeking approval for unit rates related to its 2021 Incremental Capital Module (ICM) funding request.

In Procedural Order No. 3 issued on February 5, 2021, the OEB expressed concerns regarding Enbridge Gas's request to file updated evidence regarding the St. Laurent Phase 3 Project, a project for which Enbridge Gas requested ICM funding for 2021 rates. The OEB was specifically concerned about the delay in processing the application resulting from the filing of updated evidence, the regulatory overlap of examining the updated evidence in the current proceeding and the leave to construct application, the impact of the updated evidence on the in-service date and the justification for reviewing the funding request for Phase 3 of the project in isolation as compared to the entire replacement project (Phases 3 and 4).

In a letter dated February 10, 2021, Enbridge Gas withdrew its request for 2021 ICM funding related to the St. Laurent Phase 3 Project. Enbridge Gas noted that it would request ICM funding for Phases 3 and 4 of the St. Laurent Project in a single ICM request within the 2022 rate application. Accordingly, Enbridge Gas confirmed that it was now requesting ICM funding for only two projects in 2021 rates, the London Line Replacement Project and the Sarnia Industrial Line Replacement Project.

This following is the written Argument from Pollution Probe in relation to this proceeding.

Context and Overview

In this application Enbridge applied for three ICM projects, specifically:

- London Line Replacement Project
- Sarnia Reinforcement Project
- St. Laurent Phase 3 Project

As noted above, Enbridge withdrew its request for approvals related to the St. Laurent Phase 3 Project and intends to file a more complete application including both Phases 3 and 4 of the St. Laurent Project in the future. Pollution Probe supports reassessment of the St. Laurent Project, the OEB's comments and exclusion from ICM treatment based on the information filed in this proceeding. It is critical that potential project be assessed from an integrated system context rather than siloed projects with little or no consideration of broader options. It also appears highly likely that the St. Laurent Phase 3 Project would not have been completed in 2021, per the original forecast.

The request for a new pipeline approval and related cost recovery requires a detailed assessment of demand and alternative options to ensure that it is a prudent investment and suitable for including in rate base. Inherent to that assessment is the need for integrated resource planning (IRP) analysis to ensure all relevant options are considered and not just a comparison of pipeline options. Recent capital project examples (e.g. Enbridge Waterfront Relocation Project) have shown that when all reasonable options (even for a replacement or relocation) are not properly identified or assessed, it can result in significant additional ratepayer costs (estimated at over \$40 million in the Waterfront Relocation Project) and greater environmental and socio-economic impacts. The current IRP Proceeding (EB-2020-0091) is not considering specific projects and has left it up to Leave to Construct and ICM (or other rate case related) proceedings to ensure that specific projects such as the London Lines Replacement and Sarnia Reinforcement projects are properly assessed and in the public interest. The London Line Replacement OEB Decision¹ clearly highlights the need for more prudent and comprehensive project assessment and the OEB expectation that this be resolved for project approval requests.

Sarnia Reinforcement Project

Enbridge filed a Leave to Construct application with the OEB for the Sarnia Reinforcement in EB-2019-0218. The project was to install approximately 1.2 km of NPS 20 pipeline and ancillary. The project is needed to supply the increased demand for natural gas and future growth in the Sarnia area, specifically to support a \$2 billion expansion of Nova Chemicals existing Corunna site. The project is economically

¹ EB-2020-0192 Decision dated January 28, 2021. Page 20.

feasible. The OEB approved the application and issued a Leave to Construct order on March 12, 2020. The capital cost of the project, including overheads, is \$31.5 million. Enbridge is requesting approval for ICM funding from ratepayers for \$28.8 million.

Pollution Probe had the opportunity to review the submission filed by Ontario Greenhouse Vegetable Growers (“OGVG”) and Energy Probe which focus on the Sarnia Reinforcement Project. Pollution Probe agrees with the argument raised by OGVG and Energy Probe related to this project and has avoided duplicating those arguments in this submission.

London Lines Replacement Project

The proposed London Lines Replacement Project is over 90 km long, which is a much longer pipeline than typical seen. It is one of the oldest pipelines in the Enbridge system and Pollution Probe agrees that the existing transmission pipelines will eventually need to be replaced and that a smaller pipeline based on IRP principles is better than defaulting to a ‘like for like solution’. This pipeline has been in the current condition for some time and Enbridge has been monitoring it through its integrity program. Any approval in this proceeding should be specific to the scope of the Project² and exclusive of extraneous component such as the proposed abandonment, ancillary facilities and indirect overheads.

Enbridge considered DSM as an option to help reduce the size of pipeline required. Unfortunately the DSM assessment conducted for this project was not compliant with the OEB’s current DSM Framework (for example, it did not calculate consumer benefits using the defined measure life and ceased DSM benefits after the second year which appears to dilutes benefits of this option by a factor of 500% or more)³ and was done in a siloed manner without consideration of other relevant activities.

Enbridge conducted a benefit-costs analysis related to options, but declined to provide the (requested) simple NPV calculation comparing the DSM scenario to the proposed project scenario. Provision of this calculation would have enabled the OEB to evaluate proper net benefits. If Enbridge had conducted the analysis in accordance with standard OEB requirements, it is possible that the option of providing targeted DSM would have been more economic and would have decreased project costs and pipeline size. It appears clear to Pollution Probe that the OEB expects all future projects to be more thorough in their assessment of options if they are to be considered by the OEB. In the case of the London Lines Replacement Project, Pollution Probe generally supports the project and believes that it should be eligible for ICM treatment.

² EB-2020-0192 Exhibit I.PP.15b

³ EB-2020-0192 Exhibit I.PP.10

Enbridge has indicated that it is requesting OEB ICM approval for \$124 million for the London Lines Replacement Project⁴. During the Leave to Construct proceeding, Enbridge confirmed that the total capital costs for the London Lines Replacement Project as scoped for approval are \$95.206 million⁵. The Project explicitly excluded indirect overhead costs estimated to be approximately \$21.88 million⁶. Enbridge also indicated that it is not seeking approval for the ancillary facilities' costs (i.e. stations, services, abandonment) for the London Lines Replacement Project⁷. The proper ICM amount for this project appears to be a maximum of \$95.206 million in alignment with the detailed review and approval in EB-2020-0192.

Enbridge indicates that additional analysis since the pre-filed evidence was filed in EB-2020-0192 concluded that service connection costs will be \$0.5 million less than stated, but Enbridge "is not proposing to update the cost estimate at this time as the current estimate is based on high level quotes for the project. As detailed design progresses, these estimates will be substituted with quotes developed using more refined scopes of work, as such, the cost estimate will change"⁸. It is likely that actual project costs will be lower and a maximum ICM cap of \$95.206 million appears appropriate.

Incremental Project Overheads Costs

The proposal for recovering incremental overhead costs for capital projects is potentially problematic and likely one of the reasons they were excluded from the Project scope for the London Lines Reinforcement Project. Capital overhead costs relate to resources in Enbridge departments and these costs and resources are already funded through base rates. If the two ICM projects proposed in this application were declined by the OEB or were never proposed at all, the cost related to those overhead departments are incurred regardless. Therefore, it does not seem reasonable to request duplicate recovery of capital overhead costs in this ICM proceeding.

In the case of the London Lines Replacement Project, capital overhead costs were explicitly excluded from project costs as outlined above. If there are cases where specific incremental costs occur that are not already covered through capital overheads, those costs should be specifically identified with a rationale on why they are incremental to existing capital overhead already approved and included in rates. A full assessment of capital costs is required to avoid double counting and that is beyond the scope set for this proceeding. No specific details have been provided in this proceeding to demonstrate that any of the indirect overhead costs for the project are incremental and it is recommended that those cost be excluded from any ICM approvals considered by the OEB.

⁴ EB-2020-0181 EGI_ARGCHIEF_20210301. Page 7.

⁵ EB-2020-0192 Exhibit I.PP.15b

⁶ EB-2020-0192 Exhibit F Tab 2 Schedule 1

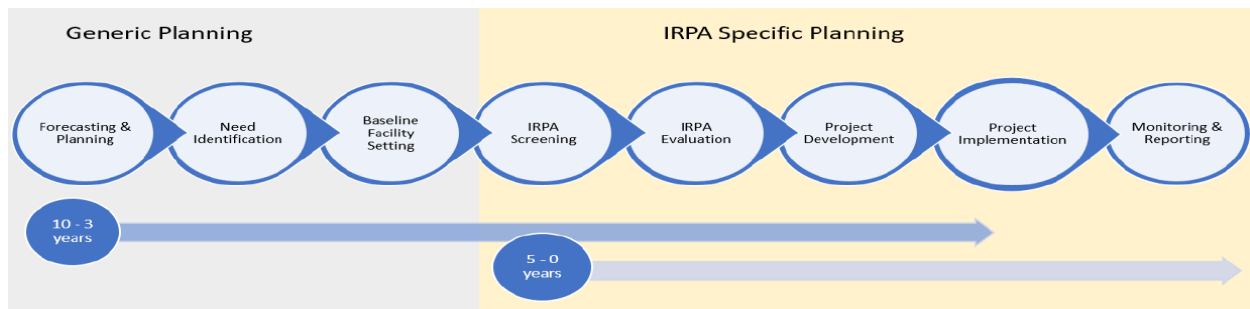
⁷ Exhibit F Tab 1 Schedule 1

⁸ EB-2020-0192 Exhibit I.PP.5d

Energy Probe provides additional detail related to capital overhead costs and Pollution Probe was able to also review their submission prior to filing these comments. Pollution Probe generally supports those arguments and has removed duplication to ensure efficiency.

Asset Management Plan and Utility System Plan

In this application Enbridge filed a five-year Asset Management Plan (AMP) and Utility System Plan (USP). The typical term for an AMP/USP has been ten years and it is generally agreed that a five year plan is not sufficient for effective assessment of asset management options, stakeholder and prudent decisions. Enbridge has indicated that it typically take up to ten years⁹ to properly assess options and provide opportunities to optimize asset decision making in alignment with integrated planning best practices.¹⁰



Enbridge has committed that it will use a ten year period for all future plans¹¹. Pollution Probe supports the use of a minimum 10 year period for an AMP/USP.

Conclusions

Pollution Probe recommends that the OEB approval ICM approval for the London Lines Replacement Project, but that capital costs be limited to a maximum of \$95.206 million in alignment with evidence, scope and the OEB Decision in EB-2020-0192. As identified above, project costs may be lower based on current project information and only actual costs aligned with the Project scope should be included in rates, up to a maximum of \$95.206 million.

Pollution Probe recommends that the Sarnia Reinforcement Project be excluded from ICM approval for the reasons outlined above.

Should the OEB determine that it is appropriate for 2021 ICM treatment for the London Line Replacement Project and/or the Sarnia Reinforcement Project, it is recommended

⁹ Revised Final Transcript for EB-2020-0091 EGI Feb 11 2021. Page 116.

¹⁰ Reference: Exhibit B Figure 2.1

¹¹ EB-2020-0091 Exhibit I.STAFF.6a

that approval be contingent on completion and commissioning of the project(s) in calendar 2021. ICM treatment in a specific year assumes that the project is completed on budget and schedule per the evidence provided. Should circumstances change to impact the commissioning of the project(s) in 2021, additional approval may be required (e.g. amendments to the Leave to Construct Decision or related conditions of approval) and the cost information assessed in this ICM proceeding may no longer be valid for 2021. In the circumstance that changes occur delaying the project completion until after 2021, it is recommended that the cost recovery approvals also be adjusted to the future year.

Pollution Probe recommends that the OEB not accept the AMP and USP filed in this proceeding as representative of the information and term required in an AMP/USP. As indicated above, Enbridge has committed to resume the ten year planning horizon for all future plans and it is recommended that the OEB endorse a minimum of ten years as the proper benchmark for the Enbridge AMP and USP.