ONTARIO ENERGY BOARD

OEB Staff Submission
Enbridge Gas Inc. 2021 Rates
Incremental Capital Module Funding
EB-2020-0181

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1.0 Background

On August 30, 2018, the Ontario Energy Board (OEB) approved the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union Gas).[1] In the amalgamation decision (the MAADs Decision), the OEB also approved a rate-setting framework and associated parameters for the deferred rebasing period of 2019 to 2023. The companies amalgamated to form Enbridge Gas Inc. (Enbridge Gas) on January 1, 2019.

Enbridge Gas filed an application with the OEB on October 15, 2020 seeking approval for unit rates related to its 2021 Incremental Capital Module (ICM) funding request. In a separate application, Enbridge Gas applied for rate changes related to its incentive rate-setting mechanism (IRM) and other pass through cost adjustments effective January 1, 2021 (Phase 1).[2] In a Decision and Interim Rate Order issued on November 6, 2020, the OEB accepted the settlement proposal between the intervenors and the applicant on all issues in Phase 1 of the proceeding. This is the second phase of the application that deals with just the ICM funding request. In this application, Enbridge Gas initially requested ICM funding for three capital projects.

The OEB issued Procedural Order No. 1 on November 27, 2020 which outlined a process for discovery of the evidence and filing of written arguments. In a letter dated January 28, 2021, Enbridge Gas requested that it be permitted to file updated evidence regarding the St. Laurent Phase 3 Replacement project, a project for which Enbridge Gas requested ICM funding in this application. At around the same time, some intervenors filed letters with the OEB requesting a technical conference to seek further clarification regarding certain interrogatories.

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. 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 a future leave to construct application, 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 response 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

[1] EB-2017-0306 / 0307, Decision and Order August 30, 2018 (MAADs Decision).
[2] EB-2020-0095.

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.

A technical conference was held on February 17, 2021. In Procedural Order No. 4 issued on February 19, 2021, the OEB scheduled a process for filing technical conference undertaking responses and final arguments. Enbridge Gas filed its undertaking responses on February 26, 2021 and its argument-in-chief on March 1, 2021.

In this submission, OEB staff discusses the company's consolidated Utility System Plan (USP) and the Asset Management Plan (AMP) in so far as they relate to the 2021 ICM funding request and the underlying ICM projects. In summary, OEB staff submits that the London Line Replacement and the Sarnia Industrial Line Replacement projects meet the OEB's ICM criteria and are supported by the consolidated USP and the AMP.

2.0 Utility System Plan and Asset Management Plan

In Procedural Order No. 3, the OEB clarified the scope of the review of the USP and AMP. The OEB noted that the review of the consolidated USP and AMP is necessary only so far as it provides context for hearing the ICM applications and determining the maximum eligible incremental capital for 2021. The OEB further noted that the current application was to set IRM rates and the intent was not to undertake the same detailed assessment of the USP and AMP that would normally occur in a rebasing application (cost of service or Custom IR). OEB staff's review of the USP and AMP has been guided by the OEB's direction in Procedural Order No. 3.

Following the directions in the MAADs Decision, Enbridge Gas filed a consolidated USP and AMP to support the ICM requests in the 2021 rates application. The AMP reflects Enbridge Gas's asset plan for the next five years, with assets for the EGD and Union rate zones being maintained separately for capital planning purposes through the end of 2025. The AMP outlines how Enbridge Gas plans, manages and develops the distribution, transmission and storage systems, and determines the capital investment requirement while balancing risk, performance and costs.

2.1 2021 Spending – 2021 AMP Versus 2020 AMP

OEB staff has compared the capital expenditures provided in the 2020 rate application with the information filed in this application. For the EGD rate zone, the capital expenditure forecast for 2021 is higher in the current AMP versus that filed in the 2020 rate application ($536.0 million in EB-2019-0194 v. $580.3 million in this application).

Increases can be seen for all categories of spending (System Access - $127.8M to $139.8M, System Renewal - $188.9M to $215.7M and System Service $11.3M to $43.1M)[3]. In response to an interrogatory, Enbridge Gas noted that higher spend levels in the System Renewal category for the EGD rate zone in 2021 is related to the SCOR (Storage Corunna) meter area upgrade with a total in-service capital of $49.3 million in 2021.[4] The forecasted in-service capital in the 2020 AMP was $43.6 million as the scope and timing of the project was still being developed.[5]

Some of the changes as compared to the 2020 AMP is as a result of re-classification of certain expenditures from System Renewal to System Service where a majority of the variance is observed. OEB staff inquired into the significant increases for the 2020 to 2022 period related to integrity initiatives spending in this AMP as compared to the 2020 filing for the EGD rate zone. In response, Enbridge Gas clarified that the spending was consistent with the 2020 filing. Enbridge Gas moved certain spending from other asset classes to integrity initiatives in the current AMP. Some investments were moved from the Stations Asset Class (which is mapped to System Renewal) to the Distribution Pipe Asset Class (which is mapped to System Service). The re-classification has resulted in a shift of approximately $28 million between the 2020 AMP and the 2021 AMP.

In addition, following a review of maximum operating pressures, some pipelines have been added to the Transmission Integrity Management Program (TIMP). Projects such as Blackhorse to Chippewa Creek Retrofit, Blackhorse Gate to Folk Road Retrofit, Eagleson Retrofit, Lancaster Line retrofit/replacement and Clarington Retrofits totalling $22.8 million were added to the TIMP. These projects were not identified in the 2020 AMP and have been added to obtain better data on the condition of the pipelines. Moreover, Enbridge Gas inadvertently excluded the Campbell Street Station ($4.0 million) project in the 2020 filing.[6]

Having reviewed the evidence and interrogatory responses, OEB staff is satisfied with the explanation regarding the variance in capital expenditures as filed in the 2020 and 2021 AMP.

With respect to the Union rate zones, OEB staff notes that the total expenditures for 2021 as noted in the 2020 AMP was $746.3 million[7] while in the current AMP it is $627.0 million. Considering the reduction in the current AMP, OEB staff has no specific concerns with the proposed capital expenditures for 2021 as proposed in the 2021 AMP.

[3] For Comparison purposes the amounts exclude overheads as provided in Energy Probe IRR#2.
[4] Exhibit C, Tab 1, Schedule 1, p. 55, Table 4.
[5] EGD 2020 AMP, Table 1.9-5.
[6] OEB Staff IRR #8.
[7] EB-2019-0194, Exhibit B, Tab 2, Schedule 1, Table 2.

2.2 Information Technology (IT) Spending

In the 2019 rates application, OEB staff pursued some of the IT spending and argued that not all of the proposed IT spending was required considering that the former utilities have merged and should be reviewing their IT needs and infrastructure before spending on the individual legacy utilities' IT projects.[8] The OEB in its 2019 rates decision reduced IT spending by $13.1 million for the EGD rate zone.[9]

In the 2020 rate application, OEB staff asked follow-up questions to get an update from Enbridge Gas regarding the review of its IT needs going forward and the IT synergies/savings that will be achieved as a result of the amalgamation. Enbridge Gas in response to an interrogatory indicated that it had reduced IT spending by $7 million for the EGD rate zone and by $8.5 million for the Union rate zones.[10] In the current AMP, Enbridge Gas confirmed that IT spending for the Union rate zones has been reduced by $25.8 million for 2021 as integration investments were removed from the budget. At the same time, IT spending for the EGD rate zone has increased by $6.8 million for 2021, largely related to allocation of overheads and Meter Reading Handheld replacements.[11]

As the utilities integrate their operations, OEB staff expected Enbridge Gas to realize savings from integrating IT spending. OEB staff is satisfied that the AMP reflects the savings in IT spending and has no concerns regarding the 2021 budgeted amounts.

2.3 Prioritization and Optimization of Capital Spending

At the technical conference the Federation of Rental-housing Providers of Ontario (FRPO) and Energy Probe expressed concerns with the optimization and prioritization of capital spending. Enbridge Gas noted that the 2021 pre-optimized capital spending for the EGD rate zone was over $700 million while for the Union rate zones it was approximately $950 million.[12] At the same time, the proposed capital expenditure in the USP for 2021 is $580.3 million and $627.0 million for the EGD and Union rate zones respectively. In other words, not all projects that were initially considered were approved in the capital spending plan.

At the technical conference, Enbridge Gas referenced the criteria that projects need to meet in order to be considered for the AMP and the optimization process. These criteria are explained in the AMP (section 6.1.1) and include balancing risk, cost and performance, resource constraints, compliance requirements, third-party relocations and projects that meet economic feasibility tests (EBO 188 and EBO 134). If the

[8] EB-2018-0305.
[9] EB-2018-0305 Decision and Order, September 12, 2019, p. 19.
[10] EB-2019-0194, response to OEB Staff IR#20.
[11] OEB staff IRR #13.
[12] Asset Management Plan, Figure 6.1-1 and 6.1-2, p. 254.

desired spend exceeds the materiality threshold, Enbridge Gas tries to constrain the spending by deferring some projects.[13] However, Enbridge Gas did note that most of the capital spend is not discretionary but in cases where there is some discretion, Enbridge Gas does move the non-discretionary spending forward.[14] Enbridge Gas noted that in 2021 it had moved some of the stations projects and real estate projects forward.[15] In response to an undertaking, Enbridge Gas listed four projects totalling $34.9 million that were moved from the 2021 proposed spend to other years.[16] It is evident from the above discussion that there is some level of optimization within the AMP and not every project that meets the criteria is included in a particular year's capital budget.

3.0 2021 ICM

3.1 Materiality Threshold

In the MAADs Decision, the OEB provided the opportunity for Enbridge Gas to seek ICM funding during the deferred rebasing period. In the 2019 rates decision, the OEB outlined the approach that would be used to evaluate Enbridge Gas's ICM requests during the deferred rebasing term, including the manner in which the materiality threshold would be calculated.[17]

The materiality threshold calculation results in a 2021 threshold value of $567.3 million for the EGD rate zone and $474.2 million for the combined Union rate zones. The resulting maximum eligible incremental capital for the EGD rate zone is $13.0 million and $152.8 million for the Union rate zones. The maximum eligible incremental capital determines the maximum ICM funding that a utility can request during a rate year. The starting point to determine the maximum eligible incremental capital is the forecast capital budget. Therefore, it is necessary to determine if the forecast capital budget for 2021 is reasonable. OEB staff reviewed the reasonableness of the 2021 forecast capital budget in the earlier discussion on capital spending (section 2.1 and 2.2) and prioritization of capital expenditures (section 2.3). OEB staff is of the view that the USP and AMP adequately support the ICM request. Accordingly, OEB staff has no concerns with the 2021 in-service capital forecast.

The calculation of the ICM materiality threshold value takes into account the Price Cap Index (PCI), growth factor, rate base and depreciation amounts. Enbridge Gas has used the current year PCI of 1.7%[18] in the ICM threshold capital calculation for both the EGD and Union rate zones. The 2021 growth factor for the EGD rate zone has been

[13] Technical Conference Transcript, p. 35.
[14] Technical Conference Undertaking JT1.4.
[15] Technical Conference Transcript p. 32.
[16] Technical Conference Undertaking JT1.4.
[17] EB-2018-0305, Decision and Order, September 12, 2019, pp. 15-17.
[18] EB-2019-0194 Decision and Interim Rate Order, December 5, 2019.

calculated by comparing the percentage difference in annual revenues between 2019 (the most recent complete year) and 2018 as the approved base year revenues. The 2021 growth factor for the Union rate zones has been calculated by comparing the percentage difference in annual revenues between 2019 (the most recent complete year) and 2013 (the last rebasing year) as the approved base year revenues.

The threshold calculation uses the last OEB-approved rate base and depreciation. For the EGD rate zone, the MAADs Decision determined that the rate base and depreciation would be the 2018 OEB-approved amounts. For the Union Gas rate zones, the OEB determined that the threshold value would be based on the 2013 OEB-approved rate base and depreciation plus the 2019 forecast amount of rate base and depreciation associated with projects that were found eligible for capital pass-through treatment and included in Union Gas's base rates during the 2014 to 2018 IRM term.[19] OEB staff notes that the last capital pass-through treatment (Sudbury Replacement Project) was approved in the 2019 rates proceeding.[20]

Table 1 – Maximum Eligible Incremental Capital

Particulars ($ millions)	EGD Rate Zone	Union Rate Zone
2021 In-Service Capital Forecast	580.3	627.0
Less: Materiality Threshold Value	567.3	474.2
Maximum Eligible Incremental Capital	13.0	152.8

OEB staff has reviewed the calculation of the ICM materiality threshold and the maximum eligible incremental capital, and submits that they have been appropriately calculated.

3.2 2021 ICM Projects

In this application Enbridge Gas is seeking ICM funding for two projects: the London Line Replacement project and the Sarnia Industrial Reinforcement project. Both of these projects are in the Union South rate zone. The annual rate impact associated with the proposed funding of the two ICM projects is $2.71 for a typical residential customer in the Union South rate zone. If approved, this application will not have any rate impact for customers in the EGD or Union North rate zone.

Table 2 shows the eligible capital projects and total in-service capital amounts for the ICM funding requests.

[19] Exhibit B, Tab 2, Schedule 1, p. 12
[20] EB-2018-0305 Decision and Order, pp. 22-23.

Table 2

2021 Incremental Capital Funding Request by Rate Zone

Particulars ($ millions)	Total Project In-service ($)	Max. Eligible Incremental Cap.	Difference
<u>Union South Rate Zone</u>			
London Line Replacement	124.0	124.0	-
Sarnia Industrial Line Reinforcement	31.5	28.8	(2.7)
Total Incremental Capital Funding Request	155.5	152.8	(2.7)

The ICM is a funding mechanism for significant, incremental and discrete capital projects for which a utility is granted rate recovery by means of rate riders in advance of the next rebasing application. Under the OEB's ICM policy, capital projects must meet the criteria of materiality, need and prudence. In the MAADs Decision, the OEB determined that any individual project for which ICM funding is sought must have an in-service capital addition of at least $10 million.[21] OEB staff notes that both projects (London Line Replacement and Sarnia Industrial Line Reinforcement) have a forecasted in-service capital exceeding $10 million.

London Line Replacement Project

Enbridge Gas filed a Leave to Construct (LTC) application with the OEB for the London Line Replacement Project on September 2, 2020.[22] The project involves replacement of the existing London Lines in their entirety. The existing London Lines are comprised of the London South Line and London Dominion Line which are two pipelines that are parallel to each other, approximately 60 km and 75 km in length, respectively. The proposed project involves replacing the existing London Lines with approximately 90.5 km of NPS 4 and NPS 6 dual fed pipeline. In its LTC application, Enbridge Gas noted that the proposed pipeline is necessary to replace the existing pipeline due to integrity concerns.

The total forecast cost for the London Line Replacement project including indirect overhead costs is $161.1 million. Of this amount, $124.0 million is forecasted to go into service in 2021. The balance of the project cost is largely for abandonment costs that do not constitute in-service capital amounts for ICM eligibility purposes.[23] The total forecast

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[21] EB-2017-0306/0307, Decision and Order, August 30, 2018, pp. 32-33.
[22] EB-2020-0192.
[23] Enbridge Gas argument-in-chief, March 1, 2021, para 37.

cost as filed in this application is $3 million lower than that filed in the LTC application. The difference results from updated overhead costs.

The OEB approved the London Line Replacement LTC application on January 28, 2021.[24] In its decision, the OEB accepted the need for the project and noted that it was prudent for the company to proceed with the project considering the age and deteriorating condition of the existing pipeline and that the projected costs were reasonable.[25] Since the need and prudence of the project has already been determined in the LTC application, OEB staff submits that the OEB does not need to re-examine these aspects of the application. This view is in line with the OEB's 2019 Enbridge Gas rates decision, where the OEB noted in reference to the Kingsville Transmission Reinforcement ICM request, "The need and the prudence for the project were addressed in the leave to construct approval. These elements do not need to be re-examined in this proceeding".[26]

Sarnia Industrial Line Reinforcement

Enbridge Gas filed a LTC application with the OEB for the Sarnia Industrial Line Reinforcement project on October 7, 2019.[27] The project is to install approximately 1.2 km of NPS 20 pipeline and ancillary facilities from the Dow Valve site to the Bluewater Interconnect including tie-ins to the existing Sarnia Industrial Line system. The project is needed to supply the increased demand for reliable and safe delivery of natural gas and future growth in the Sarnia area, specifically to support a $2 billion expansion of Nova Chemicals existing Corunna site. In a Decision and Order issued on March 12, 2020, the OEB approved the LTC application.[28] As the OEB has already determined need and prudence in the LTC case, these aspects do not need to be re-examined in this proceeding.

Enbridge Gas updated the budget for the Sarnia Industrial Line Reinforcement project from that filed in the LTC application. The updated budget is $32.9 million as compared to the original estimate of $30.8 million. Enbridge Gas indicated that the variance is due to a change in overhead allocations.

In its argument-in-chief, Enbridge Gas indicated that it has introduced a harmonized overhead capitalization policy as of January 1, 2020.[29] Due to the introduction of a company-wide overhead capitalization policy, there has been a net increase in the

[24] EB-2020-0192.
[25] EB-2020-0192 Decision and Order, January 28, 2021, pp. 2 and 11.
[26] EB-2018-0305 Decision and Order, September 12, 2019, p. 25.
[27] EB-2019-0218.
[28] EB-2019-0218 Decision and Order, March 12, 2020, p. 1.
[29] Enbridge Gas submitted an Overhead Capitalization Study dated May 15, 2020, Undertaking JT1.6.

amount of overhead costs capitalized, and a corresponding net decrease in amounts expensed as part of operations and maintenance (O&M) costs as compared to what would have occurred under the legacy (EGD and Union Gas) overhead capitalization policies. The Accounting Policy Changes Deferral Account (APCDA) that was approved in the MAADs Decision is being utilized to capture the revenue requirement of this change. The OEB set up the APCDA in the MAADs Decision to record the impact of any changes required as a result of the amalgamation that impact revenue requirement. The APCDA captures the revenue requirement impact of the reduction in O&M, net of the revenue requirement of the increase in capital. The deferral account ensures that neither Enbridge Gas or ratepayers benefit or are harmed by the adjustment. OEB staff notes that the APCDA was set up precisely to capture such changes. As per the OEB-approved settlement in the 2019 Deferral and Variance Account Disposition and Earnings Sharing proceeding, the review, allocation and disposition of the balances in the APCDA is deferred until the end of Enbridge Gas's deferred rebasing period.[30]

In the 2019 rates proceeding, the OEB approved the allocation of indirect overheads to ICM project costs.[31] OEB staff has no other concerns with the indirect overhead allocation.

Although the total project cost is estimated to be $32.9 million, Enbridge Gas has requested ICM funding for only $28.8 million based on the Maximum Eligible Incremental Capital calculation (Table 2). Enbridge Gas has confirmed that the balance of the 2021 in-service project costs will be accommodated within the ICM threshold.[32]

OEB staff further notes that this project has incremental revenues from increasing demand, specifically related to the expansion of the Nova Chemicals existing Corunna site. In response to an interrogatory, Enbridge Gas noted that the cumulative incremental revenues associated with the Sarnia Industrial Line Reinforcement project is $5.8 million until 2023 (end of the deferred rebasing period). In the Enbridge Gas 2019 rates application, London Property Management Association (LPMA) argued that the OEB should take into account incremental revenues for the Kingsville Transmission Reinforcement project.[33] Like the Sarnia Industrial Line Reinforcement project, the Kingsville project too had incremental revenues associated with the project.

LPMA argued that Enbridge Gas should be required to take into account the incremental revenues that will be generated through the increasing demand for natural gas and customer growth. Accordingly, LPMA submitted that the OEB should reduce

[30] EB-2020-0134 Settlement Proposal, January 5, 2021, p. 10.
[31] EB-2018-0305, Decision and Order, September 12, 2019, p.29.
[32] Enbridge Gas argument-in-chief, March 1, 2021, para 44.
[33] EB-2018-0305, LPMA submission, July 4, 2019, p. 12.

the net revenue requirement. In its decision, the OEB noted that the ICM policy does not require utilities to record possible incremental revenues in a deferral account or include it in the rate rider. The OEB further noted that the ICM policy was being applied 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 indicated that Enbridge Gas is under a Price Cap IR wherein revenues and costs are decoupled.[34]

Based on the determination of the OEB in the 2019 rates decision, OEB staff submits that incremental revenues generated from the Sarnia Industrial Line Reinforcement project do not require to be taken into account for the calculation of revenue requirement.

3.3 Materiality

There are two materiality tests related to ICM applications. The first test is the ICM materiality threshold formula, which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. The test states, “Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount” and “must clearly have a significant influence on the operation of the distributor”.[35]

The OEB has a second, project-specific materiality test for ICMs:

> Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the Board-defined threshold calculation is expected to be absorbed within the total capital budget.[36]

OEB staff submits that both projects (London Line - $124.0 million and Sarnia Industrial Line - $31.5 million) are material in comparison to the overall budget and have a significant impact on Enbridge Gas’s operations.[37]

The ICM policy further requires assessment of whether ICM funding is needed by meeting the following criteria:

- the Means Test

[34] EB-2018-0305 Decision and Order, September 12, 2019, p. 26.
[35] ACM Report, p.17.
[36] *Ibid*
[37] 2021 In-Service capital of $627 million for the Union Gas rate zone. London Line is 20% and Sarnia Industrial Line is 5.0% of the total in-service capital.

- the amounts must be based on discrete projects, and should be directly related to the claimed driver

- the amounts must be clearly outside of the base upon which the rates were derived[38]

OEB staff submits that Enbridge Gas satisfies the Means Test. Under the Means Test, if a distributor's regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then the funding for any incremental capital project is not permitted.[39] Enbridge Gas in its application confirmed that its ROE did not exceed 300 basis points above the deemed ROE. The actual 2019 ROE for Enbridge Gas was calculated to be 10.475% which is less than 300 basis points above the 2019 OEB-approved ROE of 8.98%.[40] Enbridge Gas filed its last Deferral and Variance Account (DVA) disposition and Earnings Sharing application, on September 3, 2020.[41] This application dealt with the 2019 DVAs and utility earnings calculation. The 2019 ROE was provided as part of that proceeding.

OEB staff further agrees that both projects are discrete and outside the base upon which the rates were derived. Enbridge Gas has confirmed that neither of the projects are part of the utility's typical annual capital maintenance programs.

Based on the above discussion, OEB staff submits that the two projects meet the ICM criteria established by the OEB.

3.4 Cost Allocation and ICM Revenue Requirement

Cost Allocation

With respect to the London Line Replacement project, Enbridge Gas proposed to change the cost allocation methodology. Enbridge Gas proposes to allocate the annual average net revenue requirement of the project to Union South rate classes in proportion to the forecast Union South in-franchise design day demands of firm and interruptible customers served by the distribution system excluding customers served directly off transmission lines. Enbridge Gas indicated that the proposed cost allocation is consistent with the plant accounting record categorization and the treatment of the

[38] EB-2014-0219 Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 17.
[39] Ibid, p. 15.
[40] Enbridge Gas argument-in-chief, para 27.
[41] EB-2020-0134.

Windsor Line Replacement ICM project. In the 2020 rate application, the OEB approved a similar cost allocation change for the Windsor Line Replacement project.[42]

In response to an interrogatory, Enbridge Gas supported its decision to change the cost allocation methodology of the London Line Replacement project due to the inconsistency with the classification of the project in the plant accounting records.[43]

Considering the age of the pipeline (dating back to 1935/36), OEB staff understands that there could be certain inconsistencies in the classification of the pipeline or missing information. Since a similar change was approved for the Windsor Line Replacement project, OEB staff has no concerns regarding the proposed change to the cost allocation of the London Line.

With respect to the Sarnia Industrial Line Reinforcement project, Enbridge Gas proposes to allocate the annual average net revenue requirement to Union South rate classes in proportion to the forecast Union South in-franchise design day demands. The proposed cost allocation methodology is consistent with the cost allocation methodology of the existing Sarnia Industrial Line that was approved in Union Gas's 2013 cost allocation study (the last rebasing application of Union Gas). OEB staff has no concerns with the proposed cost allocation.

ICM Revenue Requirement

The total capital cost of Enbridge Gas's 2021 ICM funding requests is $152.8 million, with an associated total revenue requirement of $23.3 million from 2021 to 2023 (the last year until rebasing) and an average annual revenue requirement of $7.8 million. OEB staff is satisfied that the total revenue requirement and the average annual revenue requirement have been appropriately calculated.

Enbridge Gas is seeking approval of ICM unit rates to be effective from the implementation date for the duration of the deferred rebasing period to recover the revenue requirement of the two ICM projects from 2021 to 2023. Following the OEB's decision in this proceeding, Enbridge Gas proposes to file a draft rate order including updated ICM unit rates reflecting the implementation date (as it did in last year's ICM proceeding). OEB staff supports the proposed approach.

– All of which is respectfully submitted –

[42] EB-2019-0194.
[43] APPrO IRR #3.