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ENBRIDGE GAS INC. (EGI)
Phase 2 – Incremental Capital Module
EB-2020-0181

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

March 12, 2021

Vulnerable Energy Consumers Coalition

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Submissions on ICM Treatment

1. Enbridge Gas Inc. ('EGI') originally requested an Incremental Capital Module (ICM funding) for three projects: (1) the London Line Replacement Project (London Lines Project), the Sarnia Replacement Project (Sarnia Project) and Phase 3 of the St. Laurent Replacement Project ('St. Laurent') project. Given this latter change VECC's submission are brief.

London Line Replacement Project

2. VECC submits that EGI has met the requirements for ICM treatment for the London Lines Project. The Project is within the materiality threshold test set out by the Board. It is a large and distinguishable from other normal capital projects in the Utility System Plan (USP) It has already been found to be in the public interest by the Board in the Leave-to-Construct ('LTC') proceeding EB-2020-0192.

3. In our submission the amount of ICM funding available for the London Line project should be recalculated based on using the approved former Union Gas capitalization policies.

Sarnia Replacement Project

4. VECC submits that EGI has failed to demonstrate the need for ICM rate relief for the Sarnia Project. In our view the proposal fails for a number of reasons. The first is that EGI fails to address the clear and significant issue of incremental revenues arising from this project. The second is that the project is not material with respect to the overall capital budget of the amalgamated Utility. Finally, EGI's past achieved rates of return do not indicate a pressing need for rate relief for a project that fits a gas utility's "business as usual" capital budget.

   Economics of the project should be considered

5. With respect to the incremental revenues the Ontario Greenhouse Vegetable Growers (OGVG) and London Property Management Association (LPMA) have made detailed submissions. These arguments are comprehensive and compelling and we agree with them. We would simply add that it belies the entire rationale of the ICM policy for it to include projects which are highly profitable. EGI expects incremental contract demand in the order of 1,280 10^3m^3 per month with revenues of $2.6 million in the first year and rising to $3.1 million by year 3.[1] We do not think the ICM policy was developed in order to provide further benefits for projects which on a cash flow basis returns in 8% of their invested cost in the first year.

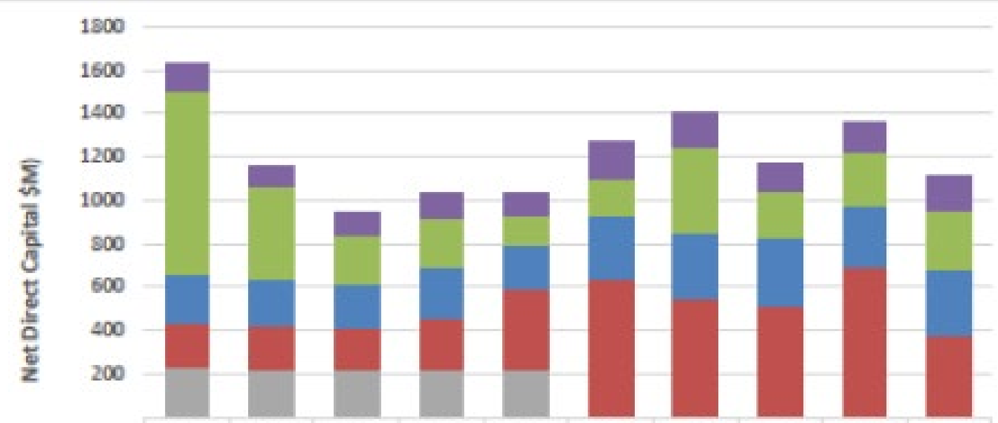
[1] Sarnia LTC EB-2019-0218, Exhibit C, Tab 4, Schedule 3

Materiality

6. The Sarnia project also fails on the grounds of materiality. EGI points to the fact that the Board has stated that an individual project must have an in-service capital addition of at least $10 million.[2] This is true, but it is also a "necessary, but not sufficient" condition. The Board's has articulated that its consideration of "material" will be made in light of the utility (distribution) system plan. The Board made a number of detailed observations about this in Alectra Utilities ICM request EB-2017-0024 including:[3]

   The OEB will consider whether each capital project proposed for an ICM is significant with respect to Alectra Utilities' total capital budget, not with respect to the capital budget by rate zone.

7. The Board requires that ICMs be considered in the context of Utility (Distribution) System Plans in order to understand the proportionality of the project in relation to the overall capital budget. This allows the Board to see materiality as judged by the relative to the entire capital plan. A project which is small in comparison to the overall budget allows can more easily advanced by delaying or pacing other projects. The overall capital budget of EGI is large and as the chart below shows and the variation in spending among years is easily exceeds the $30+ million of the Sarnia project.[4]



	2016A	2017A	2018A	2019A	2020B	2021F	2022F	2023F	2024F	2025F
General Plant	127	91	95	117	101	169	163	119	128	159
System Service	848	429	224	231	135	171	387	217	245	271
System Access	224	213	209	226	202	287	305	310	286	302
System Renewal	199	196	191	239	369	644	551	518	693	380
Overhead	234	227	221	225	224					
Grand Total	1632	1157	940	1038	1031	1270	1406	1163	1353	1112

[2] EGI AIC, par. 28, page 8
[3] Decision and Order, EB-2017-0024, Alectra Utilities Corporation, April 6, 2018, page 25
[4] Exhibit C, Tab 1, Schedule 1, page 46

8. Another way to consider relative materiality is to consider other project spending in the USP. The table below shows only General Plant spending in the Union Rate zone[5]. That is, it's a subset of a subset. Yet even here by examining the change in leasehold improvements which was approximately $7-8 million prior to 2020 but $31 million in that year and continually rising until it reaches $51 million just 3 years later. We are not debating the merits of the specific projects in this category only noting that there clearly room for EGI to pace other projects in order to accommodate the Sarnia Reinforcement.

General Plant Capital Expenditures[2] by category (2016-2025) – Union Rate Zones ($ Millions)

Line No.	Category	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Fcast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
1	Tools	2.4	2.7	2.0	1.5	1.9	1.9	2.0	2.1	2.1	2.2
2	Equipment & Materials	-	-	-	-	-	3.7	3.8	4.1	4.1	4.2
2	LNG Capital Maintenance	0.1	0.2	-	-	-	-	-	-	-	-
3	Measurement Electronics Upgrades	-	0.1	0.8	-	-	-	-	-	-	-
4	Compressor and Dehy Capital Maintenance	-	-	1.4	-	-	-	-	-	-	-
5	Fleet Vehicles	3.1	6.2	7.7	12.4	7.0	6.1	6.2	6.6	6.6	6.8
6	Land – Storage, Transmission & LNG	0.2	0.3	-	-	0.5	1.7	1.1	0.6	0.8	0.5
7	Leasehold Improvements	8.7	9.1	12.3	7.7	6.2	30.9	25.5	51.2	21.4	46.2
8	Other - Indirect Materials	0.2	0.3	-	0.2	0.2	-	-	-	-	-
9	Service Facilities - Dawn	6.1	1.5	-	-	-	-	-	-	-	-
10	IT Implementation	23.9	22.4	23.8	30.0	12.6	11.3	18.2	14.2	37.4	31.2
11	**General Plant - Union Rate Zones**	**44.8**	**42.8**	**48.0**	**51.8**	**28.4**	**55.6**	**56.8**	**78.8**	**72.4**	**91.1**

9. In meeting the materiality threshold EGI notes that "[T]*he calculated return did not exceed 300 bps above the respective Board-approved ROE. The 2019 actual ROE was calculated to be 10.475%, which was 149.5 bps above the 2019 Board-approved ROE of 8.98%.*" [6] Once again, as with the materiality threshold figure of $10 million, EGI chooses to be literal rather than contextual. The point of the rule is to prohibit ICM for a Utility that over earns by an amount of 300 basis points. It does not say that if a Utility over earns by less than 300 points it is entitled to an ICM. The Board must apply its judgement. It must look

[5] Exhibit B, Tab 2, Schedule 1, Appendix A, page 2

[6] Exhibit B, Tab 2, Schedule 1, page 15

at the need for the project, its relative materiality and it must consider if the current rate – without an ICM rider – might still provide reasonable returns to the utility. While EGI has met the needs test it fails on both other aspects.

10. In our submission this project is not a materially different than other projects contemplated within the USP. Therefore, it fails the test that it is not a "typical" part of the capital budget of the Utility. EGI has also failed to demonstrate the case of financial need since the project appears to be a source of significant incremental revenues and past shareholder returns indicate the existing rates already provide a reasonable of return to its shareholders.

Other Issues /Capitalization and Allocation

11. Our submissions in this section pertain only to the London Line Project.

12. EGI has calculated the maximum eligible funding available under the ICM using the harmonized capitalization policy which has not been approved by the Board for ratemaking purposes. The effect is to increase the amount of rate funding available. In our submission this is incorrect. The correct way to calculate the maximum eligible incremental capital is to use the existing Board approved capitalization rules.

13. EGI proposes to change the currently approved cost allocation methodology. This change would shift an additional $944,000 to residential customers served by the M1 rate[7]. In our submission ICM proceedings are not the best forum for making changes to cost allocations since the results are necessarily piecemeal. The project is by title a "replacement" and so it is fair to continue with the existing cost allocation methodology and until such time as the Board considers the matter comprehensively.

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14. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[7] Exhibit I.LPMA.4, Attachment 1