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March 4, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi,

RE: EB-2021-0148 – Enbridge Gas Inc. 2022 Rates (Phase 2 – Incremental Capital Module) – Submission of London Property Management Association

INTRODUCTION

These are the submissions of the London Property Management Association ("LPMA") related to 2022 Incremental Capital Module ("ICM") requests of Enbridge Gas Inc. ("EGI") to be approved for inclusion in 2022 rates as part of the incremental capital module.

EGI has requested approval for ICM funding for five projects in 2022: Byron Transmission Station Project (Union South rate zone), Dawn to Cuthbert Replacement and Retrofits Project (Union South rate zone), Kirkland Lake Lateral Replacement Project (Union North rate zone), St. Laurent Ottawa North Replacement (Phase 3) Project (EGD rate zone) and NPS 20 Replacement Cherry to Bathurst Project (EGD rate zone). LPMA is providing submissions on each of these five projects.

LPMA is providing submissions with respect to the two projects in the Union South rate zone, as both of these projects impact the rates to be paid by LPMA members and could have an impact on the reliability of the service provided to them as well.

In addition, LPMA is making submissions with respect to the three other projects that do not impact the Union South rates or the reliability of service in the Union South rate zone. These submissions relate more to the general principles associated with the use of the ICM for funding related to these three specific projects proposed by EGI.

UNION RATE ZONE ICM PROJECTS

LPMA has no issue with the maximum eligible incremental capital for the Union rate zone, as shown in Table 10 of Exhibit B, Tab 2, Schedule 1, Corrected. The maximum eligible incremental capital is $87.6 million and is based on a 2022 in-service capital forecast of $543.1 million and a materiality threshold of $455.5 million. LPMA submits that the materiality threshold has been calculated correctly.

LPMA makes no submissions related to whether the 2022 in-service capital forecast for the Union rate zone is appropriate for the following reasons.

First, the Union South rate zone projects for which EGI is requesting ICM funding have a total 2022 in-service cost $43.9 million and the lone project in the Union North rate has a total 2022 in-service total cost of $20.7. These figures are shown Table 11 of Exhibit B, Tab 2, Schedule 1. In total, the 2022 in-service capital additions for the Union rate zones is $64.6, or $23.0 million below the maximum eligible incremental capital amount of $87.6 million noted above.

Second, the issue of whether the 2022 in-service capital should be calculated based on the previous overhead capitalization policy or the new harmonized overhead capitalization policy would only reduce the in-service capital additions for 2022 by $3.4 million (Table C, Exhibit B, Tab 2, Schedule 1, Attachment 1), meaning that the three projects in the Union rate zones would still total nearly $20 million less than the maximum eligible incremental capital.

LPMA submits, however, that if the Ontario Energy Board ("Board") determines that the 2022 in-service capital forecast should be based on the previous overhead capitalization policy, then the incremental capital funding amounts should be reduced to the amounts shown in column (b) in Table D of Exhibit B, Tab 2, Schedule 1, Attachment 1, for each of the Union rate zone projects, for a total reduction in the three projects of $0.9 million.

LPMA submits that the proposed allocation of the three proposed Union zone ICM projects, as discussed at pages 33 and 34 of Exhibit B, Tab 1, Schedule 1 and shown in Appendix F to that exhibit are appropriate and should be approved by the Board if it approves ICM treatment for the respective projects.

Submissions with respect to each of the Union rate zone proposed ICM projects follow below.

<u>Byron Transmission Station Project (Union South Rate Zone)</u>

LPMA supports the inclusion of the Byron Transmission Station Project as an ICM project. This project has a 2022 in-service capital addition cost of $20.4 million and has a direct impact on service reliability to the City of London, the City of St. Thomas and Port Stanley systems.

As noted in the evidence (Exhibit B, Tab 2, Schedule 1, pages 28-29), EGI has identified integrity issues based on an indirect heater assessment and has identified noise concerns, maintenance and operations concerns. In addition, the station, according to EGI, is unable to support the long term demands of the London market. EGI has provided additional evidence in support of the project in Exhibit B, Tab 2, Schedule 2, at pages 10 through 12, along with a business case at Appendix B to the schedule. LPMA submits that the EGI evidence sufficiently supports the need for this project.

It is the view of LPMA that the project is also material. The *Report of the Board: New Policy Options for Funding of Capital Investments: The Advanced Capital Module* (EB-2014-0219 dated September 18, 2014) states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold. It states (page 17):

> *"A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise, they should be dealt with at rebasing.*
>
> *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 OEB-defined threshold calculation is expected to be absorbed within the total capital budget."*

In the EB-2017-0306/EB-2017-0307 Decision and Order dated August 30, 2018, the Board determined that for the amalgamated entity *"any individual project for which ICM funding is sought must have an in-service capital addition of at least $10 million"* (pages 32-33).

LPMA notes that the Byron station project is more than double the $10 materiality threshold. The question remains, however, is whether this project should be considered a minor expenditure in comparison to the overall capital budget, and if so, should it be considered ineligible for ICM treatment.

Exhibit I.APPRO.10 shows that the Byron project represents 1.6% of the total EGI 2022 in-service capital additions. Some parties may argue that this low percentage should be considered a minor expenditure in comparison to the overall capital budget. However, LPMA points out that based on the figures in Exhibit I.APPRO.10, this project represents 3.8% of the EGI 2022 in-service capital additions in the Union rate zones. LPMA submits that this is not a minor expenditure based on this comparison.

LPMA further notes that the treatment of this project as being ICM eligible results in a reduction of rates to most Union South rate classes, with no change to the remaining rate classes. This is because the change in the revenue requirement over the 2022 through 2023 period is actually a reduction of $422,000 (Table 12 of Exhibit B, Tab 2, Schedule

1). In other words, this project has no negative impact on any rate classes in the Union South rate zone (or in any other EGI rate zone).

Dawn to Cuthbert Replacement and Retrofits Project (Union South Rate Zone)

LPMA supports the inclusion of the Dawn to Cuthbert Replacement and Retrofits Project as an ICM project. This project has a 2022 in-service capital addition cost of $23.5 million and has a direct impact on service reliability downstream of Dawn, including the City of London, the City of St. Thomas and Port Stanley systems.

As noted in the evidence (Exhibit B, Tab 2, Schedule 1, page 28), EGI has identified integrity EGI has provided additional evidence in support of the project in Exhibit B, Tab 2, Schedule 2, at pages 8 through 10, along with a business case at Appendix A to the schedule. LPMA submits that the EGI evidence sufficiently supports the need for this project.

The Dawn to Cuthbert project is based on an identified need to replace approximately 650 meters of the existing NPS 42 Dawn to Cuthbert pipeline to mitigate pipeline integrity concerns. This pipeline supplies the NPS Dawn to Kirkwall pipeline, one of four parallel pipelines that forms the Dawn Parkway system, which in turn in the backbone of the gas transmission system that serves customers in Ontario, Quebec, eastern Canada and the U.S. northeast (Exhibit B, Tab 2, Schedule 1, page 28).

EGI states that the project is required to address integrity issues identified through its Transmission Integrity Management Program. Replacing the pipeline would mitigate the threat of stress corrosion cracking along this section of pipe, and would reduce the risk and enhance the safety and reliability of the pipeline. Given the importance of this pipeline in feeding into the Dawn Parkway system, LPMA submits that the need for the project is reasonable and should be approved for ICM eligibility.

LPMA notes that the Dawn to Cuthbert station project, like the Byron project, is more than double the $10 materiality threshold. The question remains, like with the Byron project, is whether this project should be considered a minor expenditure in comparison to the overall capital budget, and if so, should it be considered ineligible for ICM treatment.

Exhibit I.APPRO.10 shows that the Dawn to Cuthbert project represents 1.8% of the total EGI 2022 in-service capital additions. Some parties may argue that this low percentage should be considered a minor expenditure in comparison to the overall capital budget. However, LPMA points out that based on the figures in Exhibit I.APPRO.10, this project represents 4.2% of the EGI 2022 in-service capital additions in the Union rate zones. LPMA submits that this is not a minor expenditure based on this comparison.

LPMA further notes that the treatment of this project as being ICM eligible, combined with the Byron project, still results in a reduction of rates to most Union South rate classes, with no change to the remaining rate classes. While the Dawn to Cuthbert project has a total incremental revenue requirement of $989,000 in 2022 and 2023, approximately 75% of those costs allocated to M12 customers that are outside of the Union South rate zone.

Finally, LPMA submits that the Board should treat the Byron and the Dawn to Cuthbert projects in the same way when it comes to ICM eligibility. In other words, the Board should either approve both as being ICM eligible or neither should be approved for ICM funding.

<u>Kirkland Lake Lateral Replacement Project (Union North Rate Zone)</u>

The Kirkland Lake Lateral Replacement Project does not impact Union South rate zone rates, so it has no direct impact on LPMA members.

As noted in the evidence (Exhibit B, Tab 2, Schedule 1, page 29), EGI has deemed this pipeline to be an operational risk and that it needs to be replaced to maintain the safety and reliability of natural gas distribution to the Municipality of Kirkland Lake.

EGI has provided additional evidence in support of the project in Exhibit B, Tab 2, Schedule 2, at pages 12 through 14, along with a business case at Appendix C to the schedule. LPMA submits that the EGI evidence sufficiently supports the need for this project.

Similar to both the Byron and Dawn to Cuthbert projects, the cost of the 2022 in-service additions is $20.7 million (Table 11, Exhibit B, Tab 2, Schedule 1). The issue of materiality for this project is the same as that for both the Byron and Dawn to Cuthbert projects. Based on the figures in Exhibit I.APPRP.10, this project represents 1.6% of the total EGI 2022 in-service additions forecast, and 3.8% of the total Union rate zones in-service additions.

From a materiality perspective, LPMA submits that the Kirkland Lake project should be treated in the same manner as the Byron and Dawn to Cuthbert projects.

Similar to the Byron and Dawn to Cuthbert projects, the Kirkland Lake project

The difference between the Kirkland Lake project and the Byron and Dawn to Cuthbert projects is that this project may include additional revenues, as noted in Exhibit I.ADR Request.1 filed on February 28, 2022. The additional revenue from the expansion of an existing customer is approximately $650,000 over the 2022 through 2023 period. This compares with an incremental revenue requirement shown in Table 12 of Exhibit B, Tab 2, Schedule 1 of $1,264,000.

In Exhibit I.ADR Request.1, EGI states that *"Separate service lines will be built to connect the customer to the system and accommodate the additional load from Macassa Mines (total connection costs of approximately $4.4 million), and the projected revenues and service connections costs were accounted for in the economic feasibility for the* *customer connection."* EGI also states that *"this additional load does not require any additional capacity beyond NPS 4 to service the customer and does not contribute to the need for the Project."*

LPMA's concern with this project is that in Exhibit I.Staff.1 in the response to part (b) EGI states that *"There are no incremental revenues associated with any of the non-LTC or LTC related projects included in this application."*

In the EB-2020-0181 Decision and Order dated May 6, 2021, the Board stated that in relation to the Sarnia project, which the Board found to be not eligible for ICM funding that (page 16):

> *"The OEB notes that Enbridge Gas's application did not indicate that the project was forecast to generate $5.8 million of incremental revenue.* ***This evidence was adduced through intervenor interrogatories. Enbridge Gas's application was lacking in this regard. In the interest of efficiency, forecast incremental revenues should be included in all ICM funding requests.****"* (emphasis added)

LPMA submits that EGI should have identified the incremental revenue as part of its original filing and explained fully why this incremental revenue should not be associated with the project. The incremental revenue was only identified through an additional information request from the settlement conference, whereas had it been identified in the original evidence, parties would have had the opportunity to test EGI's position that the incremental revenue was not the result of the project.

EGD RATE ZONE ICM PROJECTS

LPMA's submissions with respect to the two projects in the EGD rate zone for which EGI is requesting ICM funding are at a higher level than for those in the Union rate zones. These submissions are more policy oriented than project specific.

St. Laurent Ottawa North Replacement (Phase 3) Project (EGD Rate Zone)

LPMA's understanding is that this project is subject to a leave-to-construct ("LTC") proceeding (EB-2020-0293), which is currently before the Board.

Given that the proceeding is still ongoing and that a decision is not expected until later this year and given the uncertainties of whether the Board approves the project and whether EGI could have the project in service before the end of 2022, LPMA submits that the Board should not approve this project for ICM eligibility **at this time**.

Rather, the Board should defer issuing a decision on the eligibility for ICM funding for this project until (and if) the Board approves the project and is satisfied that EGI will be able to have the project in service by the end of 2022. If the Board is not satisfied that this timetable can be achieved, it should indicate that if the project is indeed in service by the end of 2022, that EGI would be entitled to an ICM rate rider beginning January 1, 2023. If the project is not in service by the end of 2022, LPMA notes that EGI would likely be able to bring this project forward as part of its 2023 ICM request.

LPMA believes that it is important that the Board not approve ICM eligibility and funding for projects where the need for the project is being reviewed through an LTC proceeding where no decision has yet been made.

NPS 20 Replacement Cherry to Bathurst Project (EGD Rate Zone)

This project was the subject of a LTC proceeding and has been approved by the Board.

LPMA has no concerns with the project itself, but notes that the ICM funding quantum available for this project is dependent on the 2022 in-service capital forecast of $734.3 million. As shown in Table 10 of Exhibit B, Tab 2, Schedule 1, this amount, combined with a materiality threshold of $521.5 million provides a maximum eligible incremental capital amount of $212.8 million which is entirely consumed by the St. Laurent and Cherry to Bathurst projects. If the St. Laurent project, at an in-service addition forecast of $86.0 million, wase removed from the 2022 in-service addition forecast, the maximum eligible incremental capital amount would also decline by $86.0 million, to $126.8 million. The in-service capital addition forecast for the Cherry to Bathurst project is $126.7 million.

In other words, the proposal for the inclusion of the $126.7 million for ICM funding is dependent on the level of the 2022 in-service capital forecast. If this forecast were reduced by $20 million – as an example – the maximum eligible incremental capital amount would fall by the same amount and reduce the eligible amount for the Cherry to Bathurst project by the same amount.

LPMA is not making any submissions of whether the Board should accept the 2022 in-service capital forecast or make reductions based on submissions that may be made by other parties that would be impacted by the ICM rate rider in the EGD rate zone.

Rather, LPMA is simply pointing out the importance of the in-service capital addition forecast that appears to change each year as a result of EGI filing an Asset Management Plan ("AMP") Addendum (Exhibit B, Tab 2, Schedule 1, page 3). LPMA has no issue with new projects being identified or other projects being brought forward from future years due to changes in information or circumstances. LPMA also notes that projects can be, and are, deferred to future years. If these changes balanced themselves out over the years, LPMA would have no issue with the changes. However, if there is a trend to higher in-service capital additions on a year-to-year basis as the result of AMP addendums, then LPMA believes that the Board needs to revisit the entire ICM eligibility construct and the value, or lack thereof, of multi-year asset management plans.

Yours very truly,

Randy Aiken

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c.c. EGI Regulatory Proceedings (e-mail only)