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March 4, 2022

**EB-2021-0148 – Enbridge 2022 Incremental Capital Module  
Pollution Probe Submission**

Dear Ms. Long:

In accordance with Procedural Order No. 2 for the above-noted proceeding, please find attached Pollution Probe's Submission.

Please reach out to the undersigned should you have any questions.

Respectfully submitted on behalf of Pollution Probe.

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**ONTARIO ENERGY BOARD**

**Enbridge Gas Inc. 2022 Rates Phase 2  
2022 Incremental Capital Module**

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**POLLUTION PROBE SUBMISSION**

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**March 4, 2022**

**Submitted by: Michael Brophy  
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Consultant for Pollution Probe**

## Overview

Enbridge Gas Inc. (Enbridge) filed an application with the Ontario Energy Board (OEB) on October 15, 2021, under section 36 of the Ontario Energy Board Act, 1998, seeking approval for rate changes related to its 2022 Incremental Capital Module (ICM) funding request.

In a separate application (EB-2021-0147), Enbridge applied for rate changes related to its incentive rate-setting mechanism (IRM) and other pass-through cost adjustments effective January 1, 2022 (Phase 1). This is the second phase of the application and pertains to Enbridge Gas's ICM funding request for five projects in 2022.

Below are Pollution Probe's submissions in relation to ICM funding request.

## Proposed Incremental Capital Module("ICM") Projects

In this application Enbridge is seeking OEB approval for ICM funding for five projects in 2022 as follows:

1. St Laurent Ottawa North Replacement (Phase 3)
2. NPS 20 Replacement Cherry to Bathurst in the EGD rate zone
3. Dawn to Cuthbert Replacement and Retrofits
4. Byron Transmission Station
5. Kirkland Lake Lateral Replacement Project

Potential ICM consideration by the OEB is available for capital projects that are specifically incremental to the annual capital envelope already approved by the OEB as long as the projects meet the conditions set by the OEB for ICM consideration. Criteria include that the projects are truly incremental in nature and that each project must be material compared to the capital budget envelop. It is expected that projects be managed within the annual capital budget envelope to avoid the ICM from just becoming a mechanism to expand the OEB approved annual capital envelope.

In summary, Pollution Probe's recommendations for the projects submitted for 2022 ICM consideration is as follows.

Project	Recommendation
1. St Laurent Ottawa North Replacement (Phase 3)	Decline for 2022 ICM treatment in this application.
2. NPS 20 Replacement Cherry to Bathurst in the EGD rate zone	Approve for 2022 ICM treatment in this application.
3. Dawn to Cuthbert Replacement and Retrofits	Reject for 2022 ICM Treatment in this application.
4. Byron Transmission Station	Reject for 2022 ICM Treatment in this application.
5. Kirkland Lake Lateral Replacement Project	Reject for 2022 ICM Treatment in this application.

Rationale for the recommendations above are provided below by project. Following that is a short list of additional issues and recommendations related to this ICM proceeding but separate from specific comments and recommendations on individual projects.

#### 1. St Laurent Ottawa North Replacement (Phase 3)

This ICM proceeding is not reviewing purpose, need and timing since that is the purpose of the Leave to Construct proceeding in EB-2020-0293. There is currently no Leave to Construct approval and several project timing issues are detailed below. It is not clear whether Leave to Construct approval will be granted for this project and if it is the scope, costs and timing are highly likely to change based on the issues identified in the proceeding and the Leave to Construct adjournment while Enbridge reassessed the project and file a new application. The St. Laurent Phase 3 project was previously put forward for ICM consideration and was withdrawn by Enbridge in that ICM proceeding<sup>1</sup>. In Pollution Probe's view it would have been more efficient and practical for the OEB and all stakeholders if Enbridge had done the same in this ICM proceeding given the state and timing of that project.

In the original Leave to Construct application Enbridge indicated urgent need for OEB approval and that it expected to commence construction of the Project in August of 2021 in order to meet project timelines (i.e. in-service date of December 2022). Enbridge indicated that it required the OEB grant leave to construct approval of this project as soon as possible and not later than July 2021<sup>2</sup> to meet the project schedule. Due to project, consultation and other gaps the project is approximately one year behind schedule and the original in-service date of December 2022 is unimaginable based on

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<sup>1</sup> Resulting from a request from the OEB for an integrated project consideration for St. Laurent Phases 3 and 4

<sup>2</sup> Reference: EB-2020-0293 Exhibit A, Tab 2, Schedule 1. Page 1 of 4

the delays and schedule table provided below. Even if more crews and additional spending/resources were allocated for rush conditions this remains true. In fact, Enbridge has already signaled a move to its contingency plan to complete the St. Laurent Phase 3 project in 2023 if it receives OEB Leave to Construct approval<sup>3</sup>. Approval of funding for a project that will not occur in 2022 is counter to the OEB ICM consideration in this proceeding. If Enbridge finalizes all required approvals and is able to complete the project in 2023, it has the ability to ask the OEB for potential ICM consideration. Gambling on projects that are not approved and have no reasonable chance of commissioning in 2022 have no place in this proceeding.

The St. Laurent project is distinctly different from the NPS 20 Replacement Cherry to Bathurst project that Pollution Probe is recommending for 2022 ICM approval. Pollution Probe believes that Enbridge adequately planned for that project, submitted and receive Leave to Construct approval and is in a reasonable position to complete construction in 2022. This permits ICM consideration for that project in 2022. That project was filed by Enbridge on July 31, 2020 and OEB Leave to Construct approval was granted December 17, 2020. This is six to twelve months ahead of where the St. Laurent project sits today.

The St. Laurent project is not special from thousands of kilometers of other similar pipelines in the system. Enbridge confirmed that “the steel pipeline system (over 12,000 km in total) accounts for approximately 35% of all mains within the gas distribution system. The “vintage steel mains” (installed in 1970 and prior), across the entire EGD Rate Zone, account for over 50% (more than 7,000 km) of the total steel mains population<sup>4</sup>”. If the OEB starts to provide ICM treatment for sections of pipeline that total over 7000 km in the system, it is signaling that the remaining 7000 kms could be taken outside the current capital and O&M envelope approach and brought forward for incremental capital that would be billions of dollars<sup>5</sup>.

Finally, the St Laurent pipeline will be built to provide approximately half of its peak design load to customers outside the Province of Ontario<sup>6</sup>. It is unclear why Ontario Ratepayers would be asked to pay for costs related to ex-franchise customers. If a capital contribution or revenues are available<sup>7</sup> to justify the pipeline size to meet ex-

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<sup>3</sup> EB-2020-0293 Exhibit I.STAFF.3bi

<sup>4</sup> EB-2020-0293 Exhibit I.PP.11b

<sup>5</sup> Estimated based on \$86 million estimated for St. Laurent and extrapolated to 7000 kms of pipeline (\$86 million / 16.5km x 7000 km = \$36.5 billion)

<sup>6</sup> EB-2020-0293 Exhibit I.PP.3 although ex-franchise peak capacity could be as high as 49% based on the ex-franchise customers served on a peak day table EB-2020-0293 B-1-1 page 9.

<sup>7</sup> Enbridge currently has no guarantee placed on the record that ex-franchise customers will cover their portion of the pipeline costs, but Enbridge has assumed they will.

franchise load, then those capital costs should be removed from the costs being recovered from Ontario Ratepayers.

Project timing is as follows<sup>8</sup>:

Date	Stage
March 2021	Original St. Laurent (Phase 3&4) Leave to Construct application
April 2021	Ministry of Transportation (MTO) filed a letter informing the OEB that the proposed route was unacceptable and would not be allowed per their previous communications with Enbridge <sup>9</sup>
May 2021	Enbridge advised the has begun consulting with the Royal Canadian Mounted Police (RCMP) and MTO in an attempt to resolve routing issues.
May 2021	OEB places the application in abeyance pending resolution of the outstanding issues.
September 2021	An updated application is filed by Enbridge including route revisions.
September 2021	The OEB issues a Notice of Hearing on September 30, 2021 for the updated application.
December 2021	Enbridge request to extend the deadline for its interrogatory responses approved by the OEB.
December 2021	The OEB orders Enbridge to respond to FRPO's unanswered questions by February 22, 2022
March 2022	Application Technical Conference
March 2022	Deadline for Undertakings
March/April 2022	Proposed dates for Argument/Reply Argument
Summer 2022 - TBD	OEB determination on Leave to Construct application
Fall 2022 - TBD	Complete permits and approvals
Fall/Winter 2022 - TBD	Commence construction subject to LTC approval
Spring/Summer/Fall 2023 - TBD	Complete and commission Phase 3 of St. Laurent pipeline subject to LTC approval.

Note: TBD are reasonable estimates based on previous LtCs of a similar diameter (e.g. Cherry St project). If the OEB denies LtC approval or provide a different direction all milestones in 2022 and 2023 would need to be reassessed.

<sup>8</sup> All dates taken from EB-2020-0293 and have been consolidated from the procedural orders.

<sup>9</sup> EB-2020-0293 - Alexandre GitKow\_Ministry of Transportation\_ltr comment\_20210409\_Redacted

As of March 4, 2022 the Leave to Construct proceeding is in the stage of a Technical Conference to deal with issues related to the proposed project and also to provide an opportunity for the City of Ottawa and its partner large customers to provide facts relevant to the project that were not include in the Enbridge application. Conclusion of the Leave to Construct proceeding is expected later in 2022 and the project is currently behind by approximately one year.

## 2. NPS 20 Replacement Cherry to Bathurst

Pollution Probe recommends ICM approval for the NPS 20 Replacement Cherry to Bathurst project. As mentioned above, Pollution Probe believes that Enbridge properly planned the timing of this project. This project was filed by Enbridge on July 31, 2020 and OEB Leave to Construct approval was granted December 17, 2020. It is planned to be completed and put into service in 2022. It is also a large incremental project that appears to align with the intent of ICM funding.

## 3. Dawn to Cuthbert Replacement and Retrofits

## 4. Byron Transmission Station

## 5. Kirkland Lake Lateral Replacement Project

Pollution Probe is bundling comments of the three small proposed projects to be efficient. The basis for rejecting these projects is common in that they are not incremental, urgent (compared to other projects in the 2022 capital list) or material in comparison to the existing OEB approved capital envelope for 2022. The small projects are less than 2% of the 2022 capital budget even before reducing the project costs related to decommissioning costs which come from a separate account. If treated within the current capital envelope, the issue of double counting project overheads also goes away.

These three small projects are not special or unique when compared to the projects in the potential 2022 capital project list<sup>10</sup>. There are projects near or above the cost of these small projects being considered within the existing 2022 capital envelope. These projects have not been reviewed by the OEB and do not have Leave to Construct or other project approval. If the OEB does not approve these projects for ICM treatment, they will be prioritized by Enbridge against the potential project list and the most important projects will be funded.

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<sup>10</sup> EB-2021-0148, Exhibit I.EP.3, Attachment 1

### Other IRM Related Issues

Pollution Probe is concerned with Enbridge's proposal to add smaller projects to its ICM request which are not material in the context of the overall capital budget already approved by the OEB. These projects can be accommodated within Enbridge's capital portfolio without ICM consideration. It is Enbridge's responsibility to prioritize projects on an annual basis within the OEB approved capital budget envelop. Moving small projects out of that process and requesting incremental capital funding is a bad precedent and the OEB should discourage this behavior. It is tantamount to re-opening the annual capital approvals previously determined by the OEB to provide a larger total envelope. The purpose of ICM is not to increase the annual capital envelop for Enbridge, but to provide an opportunity (if required) to bring forward truly incremental, urgent and material projects for incremental consideration. None of the three small projects proposed by Enbridge in this application meet that intent.

It is also important that annual ICM consideration does not become a mathematical exercise to pick a set of projects that matches the total theoretical maximum for ICM consideration. The OEB will see a trend in recent ICM applications (including this one) where the drivers do not appear to be the need for urgent, incremental and material projects, but an exercise to maximize total capital spending on an annual basis. This is clearly not the purpose of ICM.

### ICM Treatment for Utility Overheads

Pollution Probe does not support the application of capital overheads to ICM projects when those costs are already covered in base rates. Department overheads are accounted for in the regular capital and O&M budgeting process. To the extent that Enbridge believes that a specific ICM capital project drives incremental overheads in excess of those already recovered from Ratepayers, Pollution Probe believes that Enbridge should specify those specific incremental costs by department and demonstrate that they are truly incremental and required.

### Asset Management Plan Amendments

Enbridge Gas filed an Asset Management Plan (AMP) Addendum as part of its evidence. Enbridge indicated that the Addendum is for informational purposes in this proceeding and not for OEB specific review or approval. It is difficult for the OEB to consider an updated AMP filed in an ICM proceeding without the ability to ensure that this document is appropriate, particularly when changes have been made to the previous version that related to the specific ICM projects requested in the proceeding. This is something for the OEB to consider for this and future ICM applications.



### Systematic Projects and Planning

As mentioned, the St. Laurent project is not special from thousands of kilometers of other similar pipelines in the system. Enbridge confirmed that “the steel pipeline system (over 12,000 km in total) accounts for approximately 35% of all mains within the gas distribution system. The “vintage steel mains” (installed in 1970 and prior), across the entire EGD Rate Zone, account for over 50% (more than 7,000 km) of the total steel mains population<sup>11</sup>”. If the OEB starts to provide ICM treatment for sections of pipeline that total over 7000 km in the system, it is signaling that the remaining 7000 kms could be taken outside the current capital and O&M envelope approach and brought forward for incremental capital that would be billions of dollars<sup>12</sup>. These types of projects do not belong in an ICM proceeding and certainly not on a stand-alone basis without a full portfolio assessment and plan for the OEB to consider. This was proposed previously for a large systematic portfolio of cast irons replacement projects for OEB consideration.

### Stranded Assets

Projects proposed have an amortization period (recovery from Ratepayers) of between 40 to 55 years<sup>13</sup>. Municipalities across Ontario (including the City of Toronto and City of Ottawa which are the two largest project locations in this application) have been implementing energy and emissions plans to achieve net zero greenhouse gas emission by 2050 or earlier. This leaves decades of unamortized assets after customers in those municipalities no longer require the use of these assets. The time for the OEB to assess the impact of stranded assets is when the capital request for those projects is being considered. Approving an asset rate recovery without these considerations will result in significant future regulatory issues and higher costs for Ratepayers. One option for the OEB to consider is to significantly decrease the amortization period for new pipelines (10-20 years instead of 40-55 years). The OEB may also wish to hold a consultation on this issues since it affects a broader set of assets than proposed in this ICM proceeding.

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<sup>11</sup> EB-2020-0293 Exhibit I.PP.11b

<sup>12</sup> Estimated based on \$86 million estimated for St. Laurent and extrapolated to 7000 kms of pipeline (\$86 million / 16.5km x 7000 km = \$36.5 billion)

<sup>13</sup> EB-2021-0148 Exhibit I.ED.4