

ONTARIO ENERGY BOARD

EB-2021-0148

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application by Enbridge Gas Inc. for natural gas distribution rates effective January 1, 2022 (phase II – ICM)

Submissions of Environmental Defence

Enbridge 2022 Incremental Capital Module Application

March 4, 2022

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Overview

Enbridge is seeking \$277.3 in incremental capital funding for 2022. Environmental Defence requests that the amount be reduced based on the four factors outlined below.

In addition, Environmental Defence wishes to comment on a wider concern with Enbridge's methodology for comparing repair and replace options that is illustrated by the Dawn to Cuthbert project. We are not asking for specific relief in this case in relation to this concern but simply wish to flag the issue as one that Environmental Defence will raise in a proceeding with a wider scope.

ICM Reductions Requested

Environmental Defence has conferred with other intervenors and supports the following submissions that we anticipate will be made by others in more detail:

1. The St. Laurent project should not be funded in this proceeding because, among other reasons, it likely will not go into service this year and leave to construct has not yet been granted.
2. Any ICM amount approved in this proceeding should be reduced because the base budget used to calculate the maximum ICM eligible amount is unduly high based on a comparison to previous years. This is important for this proceeding and also for rebasing because a continuation of base budget increases would have significant customer cost impacts.
3. The three smaller projects are relatively minor in comparison to Enbridge's overall capital budget and therefore should be managed within that pre-existing budget.
4. The Kirkland Lake project should not be funded because the 2022 timing is driven by a customer need and the associated customer revenue cannot be accounted for in the ICM process. This project can be addressed at rebasing.

In the interest of efficiency, we will not make detailed submissions on each of these points as we anticipate that they will be fully addressed by other intervenors.

Comment re Planning Processes

Environmental Defence is concerned that Enbridge's capital planning process does not consider the potential impacts of decarbonization when comparing repair options versus replace options. The Dawn to Cuthbert project provides an illustration of that. The cost of that project will not be fully depreciated until 2073.¹ As of 2050, approximately 45% of the capital costs will remain undepreciated. Canada has committed to net zero emissions by 2050 and there is more than a non-trivial possibility that this will occur through electrification that would result in stranded or underutilized gas pipeline assets. The precise probability is far beyond the scope of this proceeding.

¹ Exhibit I.ED.4, Page 1.

Decarbonization is relevant to an analysis of repair alternatives in at least two ways. First, a repair option can buy time until we have more information on how decarbonization will take place and the extent that it will impact gas demand. This is often described as option value or planning value. Second, the cost effectiveness of a repair option will improve relative to a replace option as the risk of stranded or underutilized assets due to electrification increases above 0%. These factors are not considered in Enbridge's planning processes, despite the fact that pipelines built today will be depreciated well past 2050 and into the 2070s.

These factors are particularly important to consider when the net present value of the repair and replace options are close, as in the case of the Dawn to Cuthbert pipeline. This is illustrated below:

Table 1: NPV Analysis Results

\$Millions	Option A (Inspect/Maintain, Replace in 2031)	Option B (Replace)
Net Present Value (Life Cycle)	(20.21)	(20.13)

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Enbridge confirmed that the repair option would be sufficient to meet the standards set out in CSA Z662 in the Dawn to Cuthbert case.³ However, Enbridge might nevertheless argue that the replace option has reliability concerns. Without more detailed discovery processes that would be available in a leave to construct proceeding (e.g. a technical conference), that issue cannot be explored in sufficient detail.

We are not asking the OEB for specific relief based on these comments due to the appropriately limited scope and discovery processes in this ICM proceeding. We anticipate the issue will be raised in more detail in the St. Laurent leave to construct proceeding and in the next rebasing application. For now, we simply wish to flag the issue because it applies to the Dawn to Cuthbert pipeline and we would not want silence to be taken as acceptance of the status quo methodology for comparing repair and replace options that was followed here.

Conclusion

In conclusion, Environmental Defence requests that the OEB reduce the ICM request based on the four points listed on page 2 and we hope to raise the planning issues discussed above in a future proceeding.

² Exhibit C, Tab 1, Schedule 1, Attachment 1, Page 2

³ Exhibit I.ED.5