Introduction

Enbridge Gas filed the second phase of its 2022 distribution rate application with the OEB on October 15, 2021, under section 36 of the *Ontario Energy Board Act, 1998*, seeking approval of Incremental Capital Module (ICM) funding request for five projects in 2022. The Federation of Rental-housing Providers of Ontario (FRPO) has been an active participant in this proceeding, and, like many ratepayer representatives, we are concerned with the pace of capital spending the utility has undertaken when incented by the opportunity to apply for ICM funding.

While we respect the need to renew infrastructure and facilities, we see little compelling evidence of the utilities' need for these funds. In fact, these ICM requests are layered upon record capital spending at a time when the used and useful nature of long-term assets is in question.

FRPO Still Sees No Compelling Evidence for Record Spending

FRPO submitted its concerns about the pacing of spending last year when we evidenced EGI had effectively doubled their capital spending on system renewal shortly after the merger decision that approved access to ICM funding.[1] In our inquiry, which included discovery of EGI's first combined Asset Management Plan, we tested the possibility that Code, Regulation or other technical changes were driving this step increase. Our submission was that the testimony of EGI witnesses at the Technical Conference stated that none of these drivers accelerated spending.[2] This conclusion went uncontested by EGI in its Reply Argument.[3] We are still seeking compelling evidence that this level of spending is necessary and appropriate.

Energy Probe's Assessment of 2022 ICM Requests is Compelling

In not finding any compelling evidence again this year, we believed it would not be helpful to the Board to repeat our macro approach of last year and only provide the previous section as context. Instead of providing extensive argument in favour of reducing the requested ICM allocations, we adopt the excellent approach that Energy Probe has advanced in their submissions. We commend Energy Probe for its systematic approach and support their logic in supporting a much smaller allocation of ICM funding.

In addition, we offer some important specific items for the Board's consideration:

[1] EB-2020-0181 FRPO_SUB_EGI 2021 RATES P2_20210314, pg. 1-2
[2] EB-2020-0181 Final Transcript EB-2020-0181 Enbridge TC Feb 17 2021, pages 14-17 and pages 45-50
[3] EB-2020-0181 EGI_ReplyARG_EB-2020-0181_2021 Rates_20210323

Projects Prioritization Lacks Evidentiary Basis

With all of the information involved in the utility capital budget, it is difficult to examine all aspects of proposed expenditures. However, one of the best examples is the amount of money that EGI is channelling into building projects – structural buildings not pipe. These projects are being advanced with little information on need. Instead, through discovery,[4] the company has advanced the need to shell out over $25M for REWS projects **that were not included in its planned expenditures in its 2020 AMP.** This amount is on top of over $50M that the company planned to spend on these type of projects in 2021.

We understand that all assets need to be maintained and periodically renewed or enhanced. But the company provides no evidence of Code changes or other external drivers that support this increase. In addition, in context, these expenditures are being given priority while the company has evidenced that it has been **reducing** staff. In our view, this example clearly demonstrates how the company has been exploiting the ICM construct.

Major Projects Prudence will be Difficult if not Impossible to Test

FRPO respects that the prudence of major projects will be tested at the rebasing proceeding. In the interim though, there is a growing awareness that the company is handing its major capital ICM projects to its Alliance Partner contractor. We understand that there are benefits with having an experienced, qualified contractor for ongoing new business and replacement work. However, these major projects in the tens of millions of dollars are being granted to the Alliance contractor instead of testing the cost through competitive tendering. This situation creates a number of problems for the Board and ratepayers, two of which are:

- Inability to test the reasonableness of capital estimates advanced by the company as being generated by contractors[5]
- Inability to test the market value of services provided especially when costs have escalated[6]

Given the ICM construct, we respectfully submit that neither the company nor the contractor have incentives to lower the cost of capital projects. From an economic perspective, there are few ratepayer safeguards to be able to ensure an ability for

[4] Exhibit I. SEC.4
[5] Exhibit D, Tab 1, Schedule 1, Page 1
[6] EB-2020-0181 FRPO_SUB_EGI 2021 RATES P2_20210314, pg. 2 Tables show an effective doubling of system renewal costs in this period

the Board to assess the cost effectiveness of the utility capital expenditures in a test for prudence.

In addition, the longer that a market is not established for the provision of utility services due to long-term sole sourced contracts, the more barriers there will be for other qualified entrants into the market. This fact would not be beyond the awareness of the incumbent contractor.

While we are not seeking any relief at this time on this item, we firmly believe that the Board ought to be aware of the situation and ratepayer concerns about the public interest being served using the above approach.

All of Which is Respectfully Submitted on Behalf of FRPO,

Digitally signed by R. Dwayne Quinn
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