Energy Probe Compendium

Panel 14

EGI Overhead Capitalization Policy

EB-2022-0200 Phase 1 Oral Hearing

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ENBRIDGE GAS INC.

Answer to Interrogatory from
OEB Staff ("STAFF")

INTERROGATORY

Reference:

Exhibit E, Tab 1, Schedule 1, pages 4-10; Exhibit E, Tab 1, Schedules 3-7.

Preamble:

Enbridge Gas noted that E.B.O. 134 is the appropriate economic test to apply to the Project, as the Project consists entirely of transmission pipeline infrastructure to which distribution customers do not directly connect.

Enbridge Gas noted that the Stage 1 Discounted Cash Flow (DCF) analysis for the Project shows that the Project has a Net Present Value (NPV) of negative $95 million and a Profitability Index (PI) of 0.63. Enbridge Gas further noted that after the Stages 2 and 3 DCF analyses are applied, the NPV for the Project is between $342 million and $463 million, and the Project is economically feasible.

Question:

a) Please explain why indirect overhead is not included as part of the cash outflows in the DCF analysis. As part of the response, please provide a reference the E.B.O. 134 Report of the Board.

b) Please discuss the contract demand for contract rate customers and volumes for general service customers used in the calculation of the transmission margin at Exhibit E, Tab 1, Schedule 4. Please explain how these contract demand and volume figures were derived. Further, please explain how these figures align with the statement that 98% of the incremental capacity created by the Project will meet contract rate customer demand.

c) Please provide a detailed calculation supporting the Stage 2 DCF analysis at Exhibit E, Tab 1, Schedule 6.

   i. Please explain the annual energy demand figure used in the Stage 2 DCF analysis. Specifically, please discuss this energy demand figure in the context that it appears that only 2% of the incremental capacity created by the Project is for general service customers.

ii. Please explain how the fuel mix used in the Stage 2 DCF analysis was estimated.

iii. Please explain the $0.14/m^3 price for natural gas used in the Stage 2 DCF analysis.

iv. Please confirm that the natural gas price used in the Stage 2 DCF analysis includes the cost of carbon.

d) Please confirm that only the direct economic benefits associated with the Project are included in the Stage 3 DCF analysis at Exhibit E, Tab 1, Schedule 7.

e) Please explain the GDP Factor and the Jobs Factor used in the Stage 3 DCF analysis.

f) Please confirm that the economic benefits (e.g. GDP impact, taxes, etc.) listed in the Stage 3 DCF analysis are the same as used in previous E.B.O. 134 tests for OEB approved Panhandle projects. If there are any changes relative to previous applications for Panhandle projects, please explain those changes and provide rationale supporting the changes.

Response

a) E.B.O. 134 Report of the Board states "The Board finds that incremental costs should be used in evaluating the feasibility of system expansion."[1] Indirect overhead is not an incremental cost and has therefore not been included in the DCF analysis.

b) The contract demand for contract rate customers was derived by dividing the Contract Firm (Total Incremental Demand) forecast, as seen at Exhibit B, Tab 1, Schedule 1, Page 11, Table 1, by a heat value content of 0.03932 GJ per m^3.

[1] Ontario Energy Board, E.B.O. 134 Report of the Board, June 1, 1987, paragraph 6.70

Panhandle Regional Expansion Project
Project Cost
($ Millions)

		NPS 36				
Item No.	Cost Description	Mainline	Stations	Subtotal	Dawn	Total
1	Materials	$ 28.3	$ 2.2	$ 30.5	$ 26.4	$ 57.0
2	Labour	2.7	0.2	2.8	0.9	3.8
3	External Permitting and Land	17.4	-	17.4	-	17.4
4	Outside Services	130.8	5.4	136.2	42.0	178.1
5	Contingency	13.9	0.6	14.5	6.3	20.8
6	Interest During Construction	6.4	0.3	6.7	5.4	12.1
7	Total Direct Capital Cost	199.5	8.6	208.1	81.1	289.2
8	Indirect Overheads	48.0	2.1	50.1	18.7	68.8
9	Total Project Cost	$ 247.5	$ 10.7	$ 258.2	$ 99.8	$ 358.0

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Exhibit 2, Tab 4, Schedule 2, p 17 and Table 4, p. 19

Question(s):

Enbridge Gas's harmonized methodology results in total overhead capitalization of $310.5 million for the 2024 Test Year, which represents an overhead capitalization rate of 23.8%.

a) Please provide the capitalization overhead amount, capitalization rate and actual O&M expenses for 2021 and 2022. Also, please provide the total O&M expenses that were actually incurred for 2021 and 2022, irrespective of whether they were capitalized or not.

b) Enbridge Gas has provided the impact of the harmonized methodology for the years 2020 to 2023 and the amount recorded in the Accounting Policy Changes Deferral Account. Please confirm that the amounts recorded for the years 2020 to 2023 are based on the harmonized methodology submitted in this proceeding. If not, please provide a detailed explanation of the methodology used to calculate overhead capitalization for the 2020 to 2023 period.

Response:

a) Actual overhead capitalization amounts, O&M before and after capitalization and the related capitalization rates for both 2021 and 2022 are detailed in Table 1:

Table 1

Particulars ($ millions)	2021 Actual (a)	2022 Actual (b)
Utility O&M Prior to Capitalization	1,154.8	1,272.6
Overhead Capitalization	(234.2)	(269.7)
Utility O&M	920.6	1002.6
Capitalization Rate	20.3%	21.2%

b) Confirmed.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Consumers Council of Canada (CCC)

Interrogatory

Reference:

Ex. 2/T4/S2/p. 19

Question(s):

Please provide the O&M impact in 2024 due to the change in Overhead Capitalization methodology in the same format as Table 4.

Response:

Please see Table 4.

Table 4

Change in Overhead Capitalization Methodology - O&M Impact

Line No.	Particulars ($ millions)	Utility	2024 Test Year
			(a)
1	EGI Harmonized Methodology	EGI	(310.5)
2	Historical Methodology	EGI	(295.1)
3	O&M Impact	EGI	(15.4)

Notes:

(1) Negative amounts represent a decrease to Operating & Maintenance (O&M) expense and an increase to capital expenditures

ENBRIDGE GAS INC.

Answer to Interrogatory from
Energy Probe Research Foundation (EP)

Interrogatory

Reference:

Exhibit 2, Tab 4, Schedule 2, Paragraph 31, Page 13

Preamble:

"Enbridge Gas's harmonized overhead capitalization methodology calculates a weighted average burden rate of 41.7% for the 2024 Test Year budget. The weighted average burden rate more appropriately capitalizes pension and benefits costs because it is applied to the capitalized labour."

Question(s):

Please explain how the capitalization policy differentiates between capital projects that are constructed by Enbridge employee labour and capital projects that are constructed by contractor labour particularly as it relates to capitalization of Enbridge indirect costs. In your answer, please provide replies to the following questions.

a) Is the 41.7% burden rate applied to the compensation costs of permanent Enbridge Gas employees who are working on capital projects?

b) What burden rate is applied to the compensation costs of short-term contract Enbridge Gas employees who are working on capital projects?

c) What burden rate is applied to the labour costs of employees of construction contractors who are working on capital projects for Enbridge Gas?

Response:

a) Yes, the 41.7% burden rate is applied to permanent Enbridge Gas employee labour that has been directly charged to capital projects to appropriately reflect the entire compensation cost associated with these employees.

b) Compensation costs of short-term contract Enbridge Gas employees who are working on capital projects are identifiable via invoicing and directly assigned to the appropriate capital projects. Furthermore, the amounts charged to Enbridge Gas for this labour represent the full cost to the Company and are not subject to the harmonized overhead capitalization methodology. Therefore, no burden rate is applied.

c) Compensation costs of construction contractors who are working on capital projects are identifiable via invoicing and directly assigned to the appropriate capital projects. Furthermore, the amounts charged to Enbridge Gas for this labour represent the full cost to the Company and are not subject to the harmonized overhead capitalization methodology. Therefore, no burden rate is applied.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Energy Probe Research Foundation (EP)

Interrogatory

Reference:

Exhibit 2, Tab 4, Schedule 2, Attachment 1, *E&Y Report*, pages 11and 21-25

Preamble:

"2. Documented all cost centres and calculated the overhead percentage for each one based on raw data provided by the Company. EY further segmented the cost centres into the various departments within the organization;"

Question(s):

a) Are the percentages shown on pages 21 to 25 the overhead percentages calculated by E&Y?

b) Did EGI provide E&Y the overhead percentages calculated by EGI staff? If the answer is yes, are the percentages calculated by E&Y the same as the percentages overhead percentages calculated by EGI?

Response:

The following response was provided by Ernst & Young LLP (EY):

a) The percentages shown in Exhibit 2, Tab 4, Schedule 2, Attachment 1, EY Report, pages 21 to 25 are capitalization rates calculated by EY under the harmonized capitalization methodology.

b) No, Enbridge Gas did not provide EY with overhead percentages calculated by Enbridge Gas staff under the harmonized capitalization methodology.

Appendix II – Summary of EGI Capitalization Rates

Director Group	Sub-category	Actuals Cap Rate
Marketing & Energy Conservation	N/A	0.0%
Customer Care Development	N/A	0.0%
Customer Care Operations	N/A	0.0%
Large Volume Contracting & Policy	N/A	0.0%
VP Admin Customer Care	N/A	0.0%
Energy Services - Director	N/A	0.0%
Gas Control & Management	N/A	0.0%
Gas Supply.	N/A	0.0%
S&T Joint Ventures	N/A	0.0%
VP Admin-Energy Services	N/A	0.0%
VP Admin Operations	VP Admin Operations - Synergy	0.0%
Business Development & Regulatory (excluding Market Development & Energy Conservation)	Business Development	0.0%
Business Development & Regulatory (excluding Market Development & Energy Conservation)	Regulatory Affairs	19.8%
Business Development & Regulatory (excluding Market Development & Energy Conservation)	Public Affairs & Ombudsmen	4.8%
Business Development & Regulatory (excluding Market Development & Energy Conservation)	VP Admin Bus Development	9.7%
Major Projects	N/A	100.0%
Distribution in Franchise Sales	N/A	8.3%
S&T Business Development	N/A	6.3%
Asset Management Director	N/A	57.0%
Engineering	N/A	50.8%
Integrity & IMS	Integrity	21.0%
Integrity & IMS	Integrity - Inline Inspection	0.0%
System Improvement	N/A	53.5%

Director Group	Sub-category	Actuals Cap Rate
VP Admin Engineering & Asset Management	N/A	53.1%
IMO	N/A	27.5%
Storage Operations.	Storage Operations	4.5%
Storage Operations.	Storage Operations - Excluded	0.0%
Trans & Compression - Engineering & Execution	Trans & Compression Engineering & Execution - Included	25.3%
Trans & Compression - Engineering & Execution	Trans & Compression Engineering & Execution - Excluded	0.0%
Trans & Compression Operations	N/A	4.5%
VP Admin – STO & IM	N/A	9.9%
Warehouse - SCM	N/A	100.0%
Human Resources	Pension and benefits	N/A
Human Resources	Non-Pension and benefits	19.5%
Human Resources	LUG Direct Loadings	N/A
Eastern Region Operations	Eastern Region Ops.	66.0%
Eastern Region Operations	Eastern Region Ops. - Direct O&M	0.0%
GTA East Operations	GTA East Ops.	54.7%
GTA East Operations	GTA East Ops. - Direct O&M	0.0%
GTA West/Niagara Operations	GTA West/Niagara Ops	60.4%

Director Group	Sub-category	Actuals Cap Rate
GTA West/Niagara Operations	GTA West/Niagara Ops - Direct O&M	0.0%
Northern Region Operations	Northern Region Ops	44.4%
Northern Region Operations	Northern Region Ops - Direct O&M	0.0%
Operations Support	Operations Support	49.5%
Operations Support	Operations Support - Customer Attachments	100.0%
Operations Support	Operations Support - Distribution Protection - Locates & Leak Survey	0.0%
Southeast Region Operations	Southeast Region Ops	45.2%
Southeast Region Operations	Southeast Region Ops - Direct O&M	0.0%
Southwest Region Operations	Southwest Region Ops	40.4%
Southwest Region Operations	Southwest Region Ops - Direct O&M	0.0%
Toronto Region Operations	Toronto Region Ops	70.0%
Toronto Region Operations	Toronto Region Ops - Direct O&M	0.0%
VP Admin Ops	VP Admin Ops	44.1%
EHS	N/A	19.5%
Accounting	N/A	19.5%
Business Partners	N/A	19.5%
Finance Admin	N/A	19.5%
FP&A	N/A	19.5%

Director Group	Sub-category	Actuals Cap Rate
Utility Finance Alignment	N/A	19.5%
Facilities & Workplace Services	N/A	19.5%
Supply Chain Other	N/A	19.5%

Below is a listing of Cost Centres that do not have a Director Group affiliated to them. As a result, rates are presented by Cost Centre as opposed to Director Group. These cost centres belong to shared services and O&M groups.

Cost Centre	Actuals Cap Rate
CC25263-COST TO ACHIEVE (GL)	0.0%
CC10899-Auditfees	19.5%
CC25206-AUDIT SERVICES	19.5%
CC25257-LANDS (PROJECT ACCOUNTING)	19.5%
CC25000-EXECUTIVE	19.5%
CC25228-IT GD GRAPHIC COMMUNICATION SERVICES	19.5%
CC25233-IT ISS END USER SERVICE	19.5%
CC25234-IT ISS CORE INFRASTRUCTURE	19.5%
CC25280-IT GD ADMINISTRATION	19.5%
CC25281-IT GD Data & Support Services	19.5%
CC25282-IT ES EFS	19.5%
CC25284-IT ISS Network Services	19.5%
CC25286-IT GD TECHNOLOGY PLANNING	19.5%
CC25287-IT GD BA & OAM	19.5%
CC25291-IT GD BA Capital	19.5%
CC25293-IT GD Productivity Services	19.5%
CC10990	19.5%
CC25002-LAW DEPARTMENT	19.5%
CC25005	19.5%
CC25007-CORPORATE SECRETARY	19.5%
CC25009-ETHICS & COMPLIANCE	19.5%
CC25205-RISK MANAGEMENT	19.5%
CC25207-TAX	19.5%
CC25246 - PAC EXTERNAL AFFAIRS CAN	19.5%
CCUN_21150-Energy Services - IMO CTA	0.0%
CCUN_21151-Operations -IMO CTA	0.0%
CCUN_21152-Engineering & Asset Management - IMO CTA	0.0%
CCUN_21153-Customer Care - IMO CTA	0.0%
CCUN_21154-Business Development & Regulatory -IMP CTA	0.0%
CCUN_21155-Storage Transmission & IMO - IMO CTA	0.0%
CCUN_20798-O&M Affiliate Revenue : Corporate	19.5%
CCUN_22738-CTL:OM	19.5%

Cost Centre	Actuals Cap Rate
CCUN_22758-CTL:OH	19.5%
CCUN_22789-AUDIT:OM	19.5%
CCUN_22106-DEGT - Env Health & Safety - OM	19.5%
CCUN_22124-Environment	19.5%
CCUN_22196-DEGT - Env Health & Safety S&R - OM	19.5%
CCUN_20398-FI:Credit OM	19.5%
CCUN_20399-FI:Credit OH	19.5%
CCUN_20410-Senior Mgmt - President	19.5%
CCUN_20480-Senior Mgmt - Overhead Capitalized	19.5%
CCUN_22150-IT Enterprise Projects OH	19.5%
CCUN_22701-IT:OM	19.5%
CCUN_22739-IT:OH	19.5%
CCUN_22763-DCAN:IM:OM	19.5%
CCUN_22765-IM:OH	19.5%
CCUN_22776-ITI:OM	19.5%
CCUN_22777-ITI:OH	19.5%
CCUN_22791-IT Enterprise Projects O&M	19.5%
CCUN_22792-SE:ITI:OM	19.5%
CCUN_22793-SE:ITI:OH	19.5%
CCUN_22811-Gas Supply - Tech Support	19.5%
CCUN_22821-Gas Supply - Tech Support	19.5%
CCUN_23776-ITI Client Services OM	19.5%
CCUN_23777-ITI Client Services OH	19.5%
CCUN_24776-ITI Core Infrastructure OM	19.5%
CCUN_24777-ITI Core Infrastructure OH	19.5%
CCUN_22512-Insurance Services - OM	19.5%
CCUN_22513-Insurance Services - OH	19.5%
CCUN_22510-Legal Services - OM	19.5%
CCUN_22511-Legal Services - OH	19.5%
CCUN_20684-AP - Capitalization	19.5%
CCUN_22324-A/P - Administration - Admin	19.5%
CCUN_20303-FBS - Taxation - Admin	19.5%
CCUN_20713-Government & Indigenous Affairs - OH	19.5%
CCUN_22938-MCC VP,SS O&M cost centre	19.5%
CCUN_22948-Government Relations	19.5%
CCUN_22951-Government Affairs	19.5%

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	EB-2022-0200	Enbridge Gas Inc.

VOLUME: Technical Conference

DATE: March 27, 2023

EB-2022-0200

THE ONTARIO ENERGY BOARD

Enbridge Gas Inc.

Application to change its natural gas rates
and other charges beginning January 1, 2024

Technical Conference held by videoconference
from 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Monday, March 27, 2023
commencing at 9:30 a.m.

TECHNICAL CONFERENCE

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last time about 14 years ago. Your hair was a little darker at that time. Mine was too.

MR. KENNEDY: Yes, that -- other things have changed as well. My hair was much darker.

MR. LADANYI: Yes, you will be disappointed. I have no questions for you at all. All my questions deal with overhead capitalization, so probably all for Mr. Healey.

I'm the consultant representing Energy Probe, as probably all of you know. I sent an email out yesterday indicating which interrogatories I would be referring to. I guess about four or five. Hopefully you got that and you are ready with those.

A few of us intervenors had a meeting after you filed your interrogatory responses a few weeks ago, and we came to the conclusion that we did not understand how Enbridge proposes to capitalize overhead amounts.

And the intervenor suggested I ask a few simple questions, the answers to which may improve our understanding.

It is possible that the commissioners may also be assisted in their understanding of this issue by your answers to my simple questions.

Let me try a simple example of a pipeline construction project to be built in 2024. This project will consist of materials, company labour, and construction contractor labour. Now, will any overhead costs be charged to materials?

MS. DREVENY: Danielle Dreveny. The overhead will be applied to the total direct capital that comes from the project, so we're not allocating overheads directly to any particular cost type such as materials. Rather it applies to the total value of the project.

MR. LADANYI: See, now I'm totally puzzled, but let's continue on. This is quite contrary to what I expected.

So will any -- will any overhead costs be charged to construction contractors' labour?

MS. DREVENY: Danielle Dreveny again. This is similar to what would happen with materials. The overheads are allocated to projects based on the total direct capital incurred for those projects. It's not specific to any project cost type.

MR. LADANYI: Can you tell me why overhead costs would be charged to materials? What exactly are these costs that you are capitalizing when you charge overhead cost to materials? Because you just told me you were charging overhead cost to materials.

MS. DREVENY: Danielle Dreveny. Again we are applying overhead cost to the total value of the project.

We receive overheads from a capital perspective as a total amount that is capitalized from O&M, and these are apply to the construction of all capital projects. So we've not distinguished between, you know, one type of project versus another, nor did we distinguish between the types of costs in a project. It is just allocated in total across all projects.

MR. LADANYI: I thought you were using a burden rate, but we'll get to the burden rate in a minute.

So how about company labour? Are overhead costs charged to company labour? And I guess your answer is the same, isn't it? The same percentage? Is that what you're doing?

MS. DREVENY: Danielle Dreveny. In the case of company labour there would be a burden rate, as you mentioned, that would apply and then specifically to the total cost of the project, the overheads would apply.

MR. LADANYI: So there would become -- okay, double capitalization to company labour. There will be a burden rates plus an additional overhead allocated to it?

MR. HEALEY: Colin Healey. No, I guess you could say -- or another way to look at it is overhead is calculated as one piece which is allocated amongst the projects. Directed capital, such as materials or contract labour, is directly associated with capital projects.

So we utilize total OM&A. We apply the four categories that are talked about in evidence to determine what the overhead capitalization would be of O&M cost, and attribute those to the categories that Ms. Dreveny has referenced. I don't see any double-counting of costs.

MR. LADANYI: Oh, I didn't mean double-counting. I mean it's just a lot of overhead. Let's continue on.

I now must tell you, after listening to your -- hearing your answers, I'm now completely confused so let's continue. Perhaps by the time I'm finished we'll clear all this up.

I just ask you another question.

So, if I understand it, would your proposed 2024 gas distribution rates be designed to recover from rate-payers that total cost of shared services of 603,478,719, is that what is happening?

MR. HEALEY: Two clarifying questions. One, you've referenced EGD. I assume you're referencing EGI?

MR. LADANYI: Yeah, EGI, yes, well I'm referencing what you are proposing to do under your new capitalization.

MR. HEALEY: So the second -- or the number that you reference, where is that coming from? My apologies.

MR. LADANYI: It is actually coming from that same table on interrogatory 14, if you look at the box on top, back to Exhibit I.2.4-Energy Probe-14 and you will see that total cost on top in the box is 600 -- that's the number I just quoted. Is that what you are trying to do? Are you trying to capitalize that total amount to all of your capital projects? Does that represent a hundred percent of all your overheads or is this other number?

MR. HEALEY: No, I would not think that number highlights all costs because you only have two sections there, so you have operations costs and business costs. And then in addition to that, you'd have the other two sections of the four parts. You'd have your shared service and your burden.

MR. LADANYI: So what is the total amount 100 percent of the capitalized overheads? If it's not 731 million, what is it? So this is for Enbridge Gas Inc., okay, so we're asking for, not for any of the previous predecessor companies.

MR. HEALEY: I believe in 2024, if you look at page 17 of 21, of exhibit 2.4.2, behind like the capitalized amount under the harmonized method in 2024.

MR. LADANYI: And what is the total?

MR. HEALEY: 310.5 million. I believe that's the number you're looking for.

MR. LADANYI: How does it relate to the 631 million that we just saw on the interrogatory?

MR. HEALEY: Once again, I believe it would be unrelated.

MR. LADANYI: Unrelated?

MR. HIGGIN: Yes.

MR. LADANYI: All right. Let's turn to exhibit I.2.4-Energy Probe-8. Now, in the preamble I explained that Energy Probe is concerned that there has been double-recovery of indirect overheads through ICM projects.

And your response deals with past years and we'll get to that in a moment, but at first I want to understand how you deal with ICM projects under your proposed cost allocation methodology, and you are proposing to set 2025 base rates by escalating 2024 base rates by the IR formula; is that right? So these are gas rates we're talking about, gas distribution rates?

MR. HEALEY: Are you speaking to the overhead capitalization number?

MR. LADANYI: No, I'm actually speaking to everything.

So everything becomes your revenue requirement. You calculate your rates then, on that basis for 2024 and under your incentive regulation proposal, you will then -- the rates for the next year will be the 2024 rates times the escalation from the IR formula. You understand, it's just a basic, simple question.

MR. HEALEY: I recognize and I follow your question.

Yes, my understanding of what has been submitted and the IRM calculation that is part of phase 2 follows that logic.

MR. LADANYI: So would your 2025 rates recover that 100 percent of that -- I think it was 310 million that you just mentioned?

MR. HEALEY: I don't think they would recover 100 percent in the year 2025.

MR. LADANYI: They will actually recover more than hundred percent due to the escalated.

MR. HEALEY: Once again, though, I think that's a calculation of the mechanism itself. I don't know what further to add there.

MR. LADANYI: Well unless the IR formula would be -- reduces rates, they are going to be at least 310 million, wouldn't they?

MR. HEALEY: My apologies. My clarity there is I don't think specifically this 310 is fully recovered within one year that has put into capital in the IR calculation.

MR. LADANYI: But it is somewhere insides the rates calculation, wouldn't it?

MR. HEALEY: It would be inside of that calculation, correct.

MR. LADANYI: If the OEB approves an Enbridge ICM project in 2025, would Enbridge use the same 41.7 percent burden rate?

MR. HEALEY: So every year the methodology that's been proposed would be updated. I think that's one of the guiding principles of the new methodology, is to have a transparent and practical logic or methodology that could be updated on a regular basis, in this case annually. So that rate would be subject to change as a result of the specifics of the program at the time.

MR. LADANYI: Yes, so it would be a number something similar to that, but you wouldn't expect it to be very different, wouldn't you?

MR. HEALEY: I wouldn't expect very different but I couldn't speak to it with accuracy.

MR. LADANYI: Would those costs be capitalized and included in the total costs of ICM projects in 2025, if there are any?

MS. DREVENY: Danielle Dreveny. In the event that we did have an ICM project in 2025 it would be allocated in direct overheads based on the methodology that's being proposed. So that would include burden rates and the O&M direct overheads.

MR. LADANYI: And would the total --

[Reporter appeals.]

MS. DREVENY: So the overheads that would be included would be the burdens, the indirect overheads, and in the case of capital projects we also include interest during construction as an overhead.

MR. LADANYI: So all these costs would be included in the design of the ICM rate rider, which would be charged to rate-payers.

MS. DREVENY: Danielle Dreveny. I believe that's correct.

MR. LADANYI: And in addition to the rate rider, the rate-payers in 2025 would be charged base rates escalated by the IR formula, so the total amount they would pay if we are only looking at base rates plus the ICM rate rider would be the sum of those, would it not?

MS. DREVENY: Danielle Dreveny. Yes, so on a forecast basis it would be assumed that the ICM project would receive an allocation of those overheads and the rest would be sitting within the base.

MR. LADANYI: And it's -- the 2025 base rates would be recovering a hundred percent of shared-services costs as they were calculated in base rates in 2024, and the ICM rate rider would also recover some more of the shared-services costs; would that not be double-recovery of some of the shared-services costs?

MR. HEALEY: Colin Healey. Could you repeat that? Sorry.

MR. LADANYI: Yeah. Let me try it again. And the 2025 base rates would be recovering a hundred percent of shared-services costs, so just the base rates, and then on top of that would be the ICM rate rider, which would recover even more of the shared-services costs, because you told me now that there would be more capitalization of shared-services costs going into the ICM rate rider.

Would that not be double-recovery of some of the shared-services costs?

MR. HEALEY: Colin Healey again. I follow your question.

So I think the logic to -- it's important to understand that only the total of overhead is calculated. We don't increase overhead capitalization as a result of more or less projects, so I can't see a situation where we would double-recover when only allocating 100 percent in all situations.

MR. LADANYI: Well, you don't actually reduce the base rates if you have an ICM project.

Base rates remain base rates, and they are escalated by an IR formula. I have looked at your evidence, and I find no suggestion that you would be reducing their base rates, so therefore base rates already are recovering 100 percent, and now on top of that you have the rate rider, which is recovering some more of the shared-services cost.

Unless you plan to reduce base rates, I don't know how you would not be double-recovering.

MR. HEALEY: So to think about that, base rates would be based on historical, and then the next year would qualify and calculate the result of shared-service costs that are allocated to the business -- or to EGI, and then those costs would apply this logic to them.

So historic -- historic costs that are in the rate would -- once again they would still be in the rate, but then we would only apply new costs that would be allocated by a hundred percent.

So I think trying to look at it that there would be -- that historic has anything to do with the current year of 2025, I'm confused at the assumption that there would be double allocation when only a hundred percent annually of costs would be allocated.

MR. LADANYI: No, I'm not talking about allocated; I'm talking about recovery, because there is a question of what goes into the actual costs spent in 2025 and what is recovered from rate-payers in rates, and you are absolutely right about, in actual costs you might change your capitalization based on actual costs in 2025, but you are not changing base rates in the -- and this is my point -- so I see no evidence that you are changing base rates, because they might be an ICM project in 2025.

But let me try some more. Let's move on. I don't want to debate, because it's not really a hearing. This is a technical conference.

MR. HEALEY: I appreciate that.

MR. LADANYI: Can we go to your answer on -- so we're now looking at -- excuse me -- can we have 1 point -- Exhibit I2.4 Energy Probe 8 on the screen, please. And we go to page 3, please. And there you're discussing what goes into the ICM deferral account.

both ICM and non-ICM projects, and ICM projects would be allocated indirect overheads that would otherwise be allocated to non-ICM projects?

And so as I understand it, the base rates are recovering 100 percent of indirect overhead costs that are allocated to non-ICM projects, then some of these indirect overhead costs are then allocated to ICM projects and capitalized to recover in the ICM rate rider; is that right?

MR. HEALEY: To clarify, once again I'll reference, it is only 100 percent of the allocation that can and is allocated, and that would be split amongst the portion of projects, both ICM and non-ICM, so it is not clarified -- what I believe I heard is that it is fully allocated to non-ICM and then there's more allocated to ICM projects.

I don't believe that could be the case. It is once again 100 percent allocated.

MR. LADANYI: That would be in the actuals.

That would not be in what the rate-payers are actually paying in rates. And that was my point. And I think you see it here again.

So -- ah. It definitely looks to me that you're recovering more than 100 percent of indirect overheads.

We can have a debate in the hearing if this ever goes to a hearing.

MS. DREVENY: Sorry, Mr. Ladanyi, Danielle Dreveny. Perhaps I can provide some clarity as to the process when we complete the applications for the rates proceedings, so it -- the materiality threshold would dictate what should be included in your base rates, and to the extent that we exceed that, then we have an ICM project.

From an overhead perspective, it is one total pool of overheads, so when we're talking about what applies to the base, that would be the direct capital and the percentage of overheads that apply to that direct capital.

Then what gets included from the ICM perspective is the value of that ICM project plus the overheads that apply to that ICM project.

So the overheads are, in total, are split between those buckets, one being, you know, distinguished as our base and what can be supported under the materiality threshold, and the other being the ICM eligible project.

MR. LADANYI: Thank you. We might have to continue this in the hearing. I don't want to run out of time so I want to move on to some -- another area.

Can we turn to exhibit I.2.4-EP-19 please.

Okay that, and that interrogatory asks you to provide more detail behind quantities that are quantity shown for shared services cost in line 3 of table 3 of exhibit 2, tab 4, page 17. You don't have to turn to it.

By showing the amounts for each of the departments or groups included in the shared services costs, including the number of FTEs whose costs are included in each of these departments, and your answer I provided at table 1 which is on the next page. And you state that FTEs numbers are not shown in the table, and you indicate in your response that