

INDUSTRIAL GAS USERS ASSOCIATION (Madsen)

Answer to Undertaking from Ontario Energy Board (Board)

Undertaking from Mr. Madsen:

J18.2

To identify and prioritize 10 accounts worthy of a study to identify actual costs.

Response:

The following table summarizes the calculated net salvage by account as originally forecast in Enbridge's application:

Account number	Account Name	Average balance (2024) per IGUA-25 Att 3 (\$ millions)	Applied for depreciation rate per IGUA-25 Att 3 (%)	Concentric calculated net salvage percentage per IGUA-14 (%)	Concentric calculated net salvage rate (%)	Concentric recommended net salvage rate (%)	Calculated net salvage recovered (2024) (\$ millions)
452	Structures and improvements	\$ 115.8	3.58%	-10.07%	-0.36%	-0.36%	\$ 0.4
453	Wells	\$ 193.9	2.89%	-29.87%	-0.86%	-0.97%	\$ 1.9
455	Field lines	\$ 258.9	2.34%	-8.83%	-0.21%	-0.20%	\$ 0.5
456	Compressor equipment	\$ 725.8	2.72%	-6.29%	-0.17%	-0.16%	\$ 1.2
457	Regulating and measuring equipment	\$ 108.9	2.28%	-13.94%	-0.32%	-0.32%	\$ 0.3
462	Compressor structures and improvements	\$ 167.5	1.97%	-5.23%	-0.10%	-0.10%	\$ 0.2
463	Measuring and regulating structures and improvements	\$ 11.5	1.32%	-6.38%	-0.08%	-0.08%	\$ 0.0
464	Equipment	\$ 3.0	2.13%	-5.06%	-0.11%	-0.11%	\$ 0.0
465	Mains	\$ 3,128.6	1.58%	-11.90%	-0.19%	-0.19%	\$ 5.9
466	Compressor equipment	\$ 1,031.8	3.44%	-7.04%	-0.24%	-0.28%	\$ 2.9
467	Measuring and regulating equipment	\$ 526.4	2.65%	-14.29%	-0.38%	-0.41%	\$ 2.2
473.01	Services - metal	\$ 611.4	2.75%	-31.54%	-0.87%	-0.88%	\$ 5.4
473.02	Services - plastic	\$ 5,036.2	2.16%	-26.14%	-0.56%	-0.57%	\$ 28.7
475.21	Mains - coated & wrapped	\$ 4,008.8	2.38%	-41.71%	-0.99%	-1.00%	\$ 40.1
475.3	Mains - plastic	\$ 3,839.1	1.94%	-37.83%	-0.73%	-0.78%	\$ 29.9
	Total	\$ 19,767.6					\$ 119.6

The primary concern as set out in my evidence is for the Ontario Energy Board to approve additional reporting around the largest dollar value accounts where net salvage is collected. The ten largest accounts based on the table above in descending order are as follows:

Account number	Account Name	Dollar amount of net salvage forecast (\$ millions)
475.21	Mains - coated & wrapped	\$ 40.1
475.3	Mains - plastic	\$ 29.9
473.02	Services - plastic	\$ 28.7
465	Mains	\$ 5.9
473.01	Services - metal	\$ 5.4
466	Compressor equipment	\$ 2.9
467	Measuring and regulating equipment	\$ 2.2
453	Wells	\$ 1.9
456	Compressor equipment	\$ 1.2
455	Field lines	\$ 0.5
	Total	\$ 118.7

Based on the above table, I note that 92% of the total net salvage requirement of \$119.6 million is driven by the five largest accounts which comprise \$110.1 million of the forecast net salvage requirement. As noted above, the purpose of my recommendation is in part to permit a study of the accounts with the highest dollar value impact on the forecast net salvage requirement. However, another purpose of the recommendation is to address the observed discrepancy more broadly between the recommended net salvage rates and the observed historical net salvage costs.

As an example, account 466 is the sixth largest account as listed above with a net salvage requirement of \$2.9 million. Despite the amount being small relative to the total net salvage requirement of \$119.6 million, it is important to note that the investment balance is greater than \$1 billion. Further, the net salvage rate for this account is approximately -7%, which is significantly lower than the observed net salvage rate for this account of -28% (Concentric Depreciation Study page 7-15). To the extent the net salvage rate is determined by a study to be greater than -7% used in the CDNS calculation or the -10% recommended under the Traditional Method, then this will increase the net salvage requirement for this account. If this account is excluded from the analysis, then the risk of that exclusion is a continued lack of clarity around the observed salvage costs and the forecast net salvage requirement in the next rate application.

Studying these ten accounts in detail provides significant coverage over the forecast investment and expected future net salvage requirements. Given the interrelated nature of many of the assets in each account, studying the net salvage requirements for services and mains would also likely inform the costs for other accounts such as compressors and regulating equipment given some interdependency on the forces of retirements (i.e., retirement due to customer request for removal).

In summary, I continue to recommend a study of the ten largest accounts as listed above. Each of the accounts have experienced large increases in actual salvage costs in recent years and many have the potential to experience increases in net salvage requirements in the future for this reason. Therefore, even though certain of the accounts above are not currently material to the overall net salvage requirement, they may contribute materially to the overall future salvage costs.

To the extent the OEB considers there to be efficiencies gained from an even more focused effort than I recommend, then I would propose Enbridge be directed to study mains, services, compressors, and measuring/regulating equipment. These four categories including the sub categories noted above, would cover the bulk of the forecast net salvage requirement and the commonalities between the accounts would limit the amount of detailed study required to be completed by Enbridge.