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VIA RESS

Ms. Nancy Marconi
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Marconi:

Re: EB-2022-0200 – Enbridge Gas Inc. (EGI) Application for 2024 Cost of Service Rates.

Industrial Gas Users Association (IGUA) Comments on Draft Rate Order (DRO).

We write to provide comments on behalf of IGUA on EGI's DRO.

During this proceeding IGUA has focussed primarily on three topics; equity thickness, depreciation (including net salvage costs), and energy transition business risk. In reviewing the DRO we have continued that focus. Our DRO comments primarily address the proposed treatment of depreciation, including net salvage (i.e. site restoration) costs. In considering the DRO in these respects, we asked Dustin Madsen of Emrydia Consulting, whose evidence on depreciation and net salvage costs IGUA sponsored, to review the DRO filing and provide his comments. Those comments are reflected in what follows.

We have also had the benefit of reviewing a draft of SEC's DRO comments which address, *inter alia*, EGI's contention in the DRO filing that the directed elimination of a forecast $119 million in integration capital from proposed rate base actually results in an elimination of only $91 million in integration capital once accumulated depreciation for computer software plant assets included in the integration capital spending is accounted for (as we understand EGI's position). Given that this heretofore unmentioned adjustment is said by EGI to result from application of depreciation, we asked Mr. Madsen to consider and provide his views on this topic as well. Those views are also reflected in our comments below.

We also comment on two further adjustments proposed by EGI in the DRO filing; one arising from the settlement agreement in which we participated, and one related to overhead capitalization which we don't understand.

Depreciation Adjustment

Mr. Madsen has reviewed Attachment 1 to DRO Working Papers Schedule 6 and, to the extent that he was able to, he re-performed some of the applicable depreciation calculations. While Mr. Madsen did not thereby identify any specific concerns with the material provided, he did note that there were updates to both the depreciation rates and the capital amounts without reconciliation to the initial tables based on which those in the subject Working Papers were derived. He does confirm that the depreciation rates used by Concentric are consistent with the Board's order.

We ask that Concentric provide a reconciliation of the DRO tables to Concentric's initial tables, identifying changes in both capital amounts and depreciation rates, to enable full validation of the revised depreciation provision to be included in the final 2024 rate order.

Proposed Treatment of Site Restoration Costs

EGI's proposed treatment of site restoration costs properly reflects the OEB's decision.

EGI has indicated that starting in January, 2024 it will record to a new Site Restoration Cost Variance Account (SRCVA); i. revenues collected on account of net salvage costs; and ii. actual salvage costs net of salvage related proceeds incurred in the year. EGI has also indicated that balances in the SRCVA will be *"set aside and maintained in a distinct interest-bearing account for the duration of the incentive rate-setting mechanism"*, earning interest at the prime rate less a discount; i.e. at the actual interest rate paid on such account. EGI has indicated that an investment policy in respect of the SRCVA will be brought forward for review in its next rebasing application, which investment policy will consider risk tolerances for SRC funding and propose a desired investment asset mix to deliver *"enough asset growth to meet those [asset retirement] obligations over time, within risk tolerances"*. IGUA supports this objective, but submits that a more robust investment approach should be advanced prior to the 2029 rate year.

The current prime rate is in the range of 3-4%. Previously, net salvage funds were used by EGI as an offset to other financing needs, effectively earning EGI's weighted average cost of capital (WACC) for customers; 6-7%. Long-term market rates of return (matching 40+ year horizons for useful lives for new EGI assets) may be even higher than the WACC rate. Mr. Madsen expects that once a proper investment policy for these funds is put in place, as recommended by EGI, customers will benefit from much higher accruals on the SRC funds than will be the case under EGI's interim proposal of essentially putting the funds in a savings account.

The Board should direct EGI to bring forward for review a proposed SRCVA investment policy with its 2025 rate adjustment application. While we agree with EGI that ultimately an actuarial study to review expected liability obligations (which, as the Board noted in its decision (page 93), Concentric estimated at $6.9 billion) and establish an investment policy consistent with appropriate risk tolerances to fund such expected obligations is appropriate, in the interim there is no doubt that funding far in excess of 2024 net salvage revenues will be required, and that long-term accrual goals with conservative risk tolerances are appropriate. We see no reason to wait until 2029 to identify appropriate investment vehicles that can earn more than savings account rates of interest. ***EGI should be directed to come forward in its next rate adjustment application with some***

proposal for low-risk investment options that will earn something above savings account rates on funds set aside to cover future SRC costs.

Integration Capital

SEC's DRO comments cite the evidence provided by EGI throughout the proceeding on integration capital. The issue was an active one, and opposition by a number of parties to inclusion in 2024 opening rate base of the net book value of those investments was clear. The issue was live through the argument phase of the proceeding as well, of course, and EGI specifically addressed it in reply. In reply EGI stated, consistent with the balance of its evidence and argument as reviewed by SEC in its DRO comments, as follows[1] (our emphasis):

> *The total <u>undepreciated</u> integration capital amounts that Enbridge Gas proposes to include in 2024 rate base is <u>$119</u> million.*

This statement is crystal clear.

The Board's decision on this proposal is also crystal clear:

> *Enbridge Gas spent $189 million on integration capital projects during the deferred rebasing term, of which <u>$70 million has already been depreciated</u>. Enbridge Gas has requested the undepreciated net book value of $119 million be included in the opening 2024 rate base.*[2] [Our emphasis]
>
> *…*
>
> *The OEB disallows the addition of the <u>undepreciated integration capital in the amount of $119 million</u> to rate base.*[3] [Our emphasis]

There is no indication, and EGI has raised none, that the Hearing Panel's figures as quoted above are wrong. Yet, for the first time throughout this year long process, EGI says in its DRO filing that the $119 million <u>net book value</u> – i.e. <u>depreciated</u> – integration capital figure, which it has quoted throughout and which it expressly proposed be included in rate base, is upon denial of that proposal, overstated. EGI <u>now</u> says that the $119 million figure was just an estimate of the undepreciated value of the integration assets *"calculated by applying OEB-approved depreciation rates to the cost of integration assets"*. <u>Now</u> EGI says that figure *"did not represent the forecast net book value embedded in opening rate base because it is not possible to isolate the net book values of individual assets under group depreciation."* Yet, in its DRO filing, EGI has done just that (i.e. isolate the net book values of individual assets previously group depreciation), and is now saying that there was actually an additional $28 million of depreciation expense that had already been recognized for these particular assets during the deferred rebasing period. The evidence that EGI cites in support of this explanation (2 generic paragraphs (15 and 16) in Ex4/T5/S1) sheds little light on this new evidence.

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[1] EGI Reply Argument, paragraph 148.
[2] Decision, page 71, 1st paragraph.
[3] Decision page 74, 3rd paragraph.

Throughout the proceeding it was EGI's evidence that the remaining, undepreciated integration capital amount was $119 million. It was this specific amount that EGI proposed to add to 2024 opening rate base, and it was this specific proposal that the OEB denied. EGI should not now be permitted to provide what amounts to new evidence on what the real number is (as opposed to the previous, repeatedly evidenced, number). ***At no time, despite ample occasion to do so, did EGI qualify its representations regarding the $119 million of integration capital as being just an estimate, that could vary by as much as ~25%. It should not be entitled to do so now, when this new evidence cannot be tested and further understood. Opening 2024 rate base should be reduced by the full $119 million of evidenced net book value of integration capital.***

Settlement Agreement Related Adjustment to *"Regulated O&M"*

In its DRO filing EGI has identified a number of revenue deficiency adjustments that it says arise from the settlement agreement but were not previously identified in the settlement agreement adjustments evidence provided [J17.11]. One such adjustment is an increase to the revenue deficiency of $900,000 described as reflecting *"the allocation of the settled $50 million reduction to O&M between regulated and unregulated"*.[4] That is, EGI is now saying that the reduction to rates on account of this settlement is $49.1 million, not $50 million.

In the Settlement parties agreed to a reduction of EGI's as filed O&M budget by $50 million. In doing so, from IGUA's perspective, parties agreed to a reduction in the O&M budget that customers are responsible for through rates paid, and not to a reduction of $49.1 million in rates and another $900,000 for non-utility activities. From IGUA's perspective what EGI spends on non-utility activities the costs of which are not included in rates is EGI's business, not that of customers. ***This proposed reduction of the $50 million O&M reduction agreed to in the Settlement should be rejected, resulting in an adjustment to the "Ending balance after decision" 2024 Revenue Deficiency presented at page 3, Table 2 of the Rate Order Overview filing from $116.9 million to $116 million.***

Adjustment for Overhead Capitalization

EGI has proposed to include in 2024 rate base $292 million of capitalized indirect overheads. The Board's decision directs expensing $50 million of this amount rather than capitalizing it, resulting in an increase to 2024 O&M of $50 million. EGI indicates, however, that 2024 rate base would only be

[4] Rate Order Overview, page 2, Table 1, line 4.

reduced by $14 million on account of this adjustment. No further explanation or calculation has been provided to support this rate base reduction figure.

We ask that EGI provide such reconciliation in its responding comments.

Yours truly,

Ian A. Mondrow

c: S. Rahbar (IGUA)
V. Innis (EGI)
D. Stevens (Aird & Berlis LLP)
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