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July 29, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
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DELIVERED BY EMAIL

Dear Ms. Marconi,

Re: Enbridge Gas Inc.
EB-2024-0078 – Motion to Review and Vary
Submissions on Threshold Question

Please find enclosed the submissions of the Ontario Greenhouse Vegetable Growers (“OGVG”) in the above noted proceeding with respect to the threshold question as it relates to issue of the lengthening of the Average Useful Life of seven asset classes for depreciation purposes. OGVG takes no position on the threshold question as it relates to the issue of the denial of the inclusion of undepreciated capital costs for integration capital in 2024 rate base.

Yours very truly,

Michael R. Buonaguro
Encl.

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Enbridge Gas Inc., pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2024.

AND IN THE MATTER OF the OEB's Decision and Order dated December 21, 2023.

AND IN THE MATTER OF Rules 8 and 40, 42 and 43 of the *Rules of Practice and Procedur*e of the Ontario Energy Board.

Enbridge Gas Inc. Motion to Review and Vary OEB's December 21, 2023, Decision in Phase 1 of Enbridge Gas Inc.'s Rebasing Application

Ontario Greenhouse Vegetable Growers Submissions on the Threshold Question

July 29, 2024

OVERVIEW

1. Enbridge Gas Inc. ("EGI") has raised two issues on its motion to review the Ontario Energy Board's (the "OEB") December 21, 2023, Decision in EB-2022-0200 (the "Decision"):

    a) The lengthening of the Average Useful Life of seven asset classes for depreciation purposes ("Asset Lives Issue"); and

    b) The denial of the inclusion of undepreciated capital costs for integration capital in 2024 rate base ("Integration Capital Issue").

2. On June 21, 2024, the OEB, through Procedural Order No. 1, determined that it would hear arguments in writing with respect to a threshold question under Rule 43 of the OEB's Rules of Practice and Procedure ("Rule 43").

3. These are the Ontario Greenhouse Vegetable Growers' ("OGVG") submissions on the threshold question as it relates to the Asset Lives Issue. OGVG declines to make submissions on the threshold question as it relates to the Integration Capital Issue, as OGVG largely relied on the submissions of the School Energy Coalition with respect to that issue in the first instance.

4. Rule 43, when invoked at the discretion of the OEB, requires a finding that the motion raises relevant issues material enough to warrant a review of the decision or order on the merits.

5. In OGVG's respectful submission EGI has not raised any issues material enough within the Decision as it relates to the Asset Lives issue to warrant a review of the Decision.

THE DECISION DETERMINED THAT EGI'S APPROACH TO STRANDED ASSET COST RISK WAS INADEQUATE AND CONSISTENTLY REJECTED EGI'S INDIRECT ATTEMPTS TO ADDRESS THAT RISK

6. EGI's position is that the OEB is obligated to prefer Concentric's proposed asset life curves over those proposed by Intergroup/Emrydia because Concentric's asset life curves incrementally reduce EGI's stranded cost risks relative to the Intergroup/Emrydia curves through the recovery of approximately $46.2M in additional depreciation expense per year. In EGI's submission the general finding that EGI is facing an increased risk of stranded asset costs because of the "energy transition" compels the OEB to prefer, as between the two sets of asset life curves, the set that reduces that risk quicker.

7. In OGVG's submission EGI's position ignores the OEB's finding that "[while] Enbridge Gas has identified a risk of stranded asset costs due to the energy transition [it] has not assessed that risk, including whether to address it in its depreciation policy proposal."[1]

8. This finding underpins the OEB's Decision on depreciation expense, with the OEB consistently rejecting positions from EGI that involved approval of depreciation expenses based on either methodologies or asset life curves that purported to implicitly address stranded asset risk.

[1] Decision page 83.

9. In the case of the proposal by EGI to transition to the ELG methodology the OEB determined that:

> *While Enbridge Gas's proposal to change to the ELG methodology results in some acceleration in the recovery of the depreciation expense, the OEB does not accept the assertion that this proposal was responsive to the risk of stranded asset costs, since Enbridge Gas has not provided any meaningful assessment of that risk in its application. Further, the OEB is persuaded by the testimony of the InterGroup and Emrydia witnesses that neither the ELG nor ALG procedures were designed to address the energy transition risk.*
>
> *Enbridge Gas needs to carry out a proper assessment of risk and determine the extent to which that risk should be addressed in its depreciation policy. Given that, this is not the time to change to a new methodology.* [2]

10. Similarly with respect to EGI's proposed asset curves, the OEB determined that:

> *The OEB reviewed the 12 asset classes in question, considering the range of proposals for each asset class and the overall range of proposals for all 12 asset classes. While Enbridge Gas submitted that the recommendations made by Concentric included consideration of the energy transition, it is not clear what impact that had on Concentric's recommendations. Elsewhere in this Decision and Order, the OEB has identified the need for Enbridge Gas to carry out a proper assessment of risk and determine the extent to which that risk should be addressed in its depreciation policy. Enbridge Gas has been directed to address this and other stranded risk mitigation options in its next rebasing application.*[3]

11. Taking these findings together, it is clear that while the OEB agreed that there will be increased risk of stranded asset costs resulting from energy transition, it was not satisfied with either EGI's assessment of that risk or EGI's apparent attempt to indirectly address that risk within its depreciation expense through the use of the ELG methodology and aggressive asset life curves. As a result of this dissatisfaction with EGI's proposals, the OEB preferred to maintain the status quo depreciation methodology and approve asset life curves that were "clean" of any unquantified attempt to indirectly address stranded asset cost related risk.

THE DECISION ADDRESSES STRANDED ASSET COST RISK

12. EGI's position fails to recognize that, taken as a whole, the Decision materially reduced EGI's stranded asset risk, well beyond the $42.6M impact of the Decision on asset life curves, by directing EGI to phase out the allocation of indirect overheads to capital.

13. While the utilization of EGI's preferred asset life curves over the 2024 to 2028 period would reduce the asset costs that could possibly be subject to the risk of being stranded by

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[2] Decision page 83.
[3] Decision page 86.

approximately $213M,[4] the OEB's decision to phase out the capitalization of indirect overheads will reduce EGI's asset costs that could possibly be subject to the risk of being stranded by approximately $550M over the same period,[5] with, once fully implemented, a persistent annual reduction in rate base additions that could be subject to stranded asset costs of approximately $300M per year relative to the annual $46.2M impact of EGI's asset life curves.[6]

14. It is of note that EGI actively opposed the phasing out of the capitalization of indirect overheads, arguing that the practice of capitalizing indirect overheads should continue even it requires OEB approved exemptions from the applicable accounting standards.[7] In other words, while EGI is arguing that the OEB somehow made a material error in its Decision in connection with a measure that would reduce its stranded asset risk by reducing its rate base by approximately $46.2M per year, it actively opposed a measure that reduces its stranded asset risk by reducing its rate base by approximately $300M per year.

15. It is also of note that the issues of the appropriate assessment of stranded asset risk and the proper approach to that risk within the depreciation expense approved for EGI remain live, as the OEB directed EGI to bring these issues forward in its next rebasing application:

> *For its next rebasing application, Enbridge Gas is directed to study options to ensure its depreciation policy addresses the risk of stranded asset costs appropriately. These options must encompass all reasonable alternative approaches, including the Units of Production approach. Enbridge Gas shall determine whether to propose changes to its approach to depreciation to account for the impact of the energy transition, recognizing that a failure to act prudently in relation to the risk of stranded assets will have an impact on the ability to keep those assets in rate base.*[8]

16. Accordingly, in OGVG's view, the Decision arguably does more to address EGI's stranded asset cost risk than EGI proposed in its application, while at the same directing EGI to perform a more appropriate assessment of stranded asset cost risk for its next cost of service proceeding. OGVG believes that the OEB's approach has the benefit of allowing time for various energy transition related policies from entities like the federal and provincial governments to manifest, giving EGI, the OEB and stakeholders more accurate information as to how demand for the use of

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[4] While using the 5-year period from 2024 to 2028 in recognition of EGI's proposal for a 4-year period of IRM ratemaking subsequent to the 2024 Cost of Service year for illustrative purposes, OGVG notes that the length and design of any approved IRM period subsequent to the 2024 Cost of Service year remains a live issue in EB-2024-0111. The estimated impact on stranded cost risk of $213M is calculated based on the $46.2M in incremental depreciation expense that EGI is seeking to recover through the motion to review, multiplied by the 5 years of EGI's proposed IRM term.

[5] EB-2024-0111 Exhibit 10 Tab 1 Schedule 1 Attachment 5 page 1.

[6] OGVG further notes that the OEB's reduction of EGI's capital spending by approximately $250M per year, plus its reduction of the revenue horizon for residential connections to 0 years also directly and materially reduced EGI's stranded asset cost risk (recognizing that through provincial legislation the revenue horizon aspect of the Decision is likely to become moot in the short term).

[7] EGI Reply Argument dated October 11, 2023, page 132, paragraph 373.

[8] Decision page 92.

EGI's assets responds to those policies over time before making fundamental changes to ratemaking policies like depreciation expense.

EGI ASSERTS THAT STRANDED ASSET COST RISK IS NOT A NEAR TERM CONCERN

17. EGI's own evidence is that there is no material stranded asset cost risk in the near term; in EGI's view the actual manifestation of material risk associated with stranded costs is remote enough that future depreciation studies (which is what is required by the Decision) can address that risk:

> *In Scenario 1, where a single customer disconnects from the system, the assets would not be considered stranded as they are considered as part of typical retirements already contemplated within the depreciation study. In such instances, the Company may not even know why the customer is disconnecting (e.g. an existing structure is being demolished with intent is to build a new structure in the future).*
>
> *In Scenario 2, where an entire neighbourhood disconnects from the system resulting from a change in government policy, the assets would meet Enbridge Gas's definition of stranded assets if they cannot be repurposed to remain used or useful.*
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> *However, Enbridge Gas does not believe there would be stranded asset costs in either scenario, to the extent the scenarios were reasonably contemplated in prior depreciation studies. From an accounting and regulatory perspective, Enbridge Gas applies group depreciation procedures to plant assets, including gas meters and distribution service lines. If the assets disconnected are retired before their expected average service life is reached (as reflected for the group), the implied loss is captured in accumulated depreciation. The loss would be reflected in subsequent depreciation studies and recovered through depreciation expense over the remaining life of the assets left within the group.*
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> *Enbridge Gas expects that large scale retirements (e.g. municipalities transitioning to full electrification) as a result of changes in market conditions or government policies would be implemented over an extended period of time and would be communicated in advance. As a result, subsequent depreciation studies reflecting the need for accelerated depreciation and economic planning horizons, or some other regulatory mechanism, could be implemented to address stranded asset costs.*[9]

18. In other words, EGI is not, in fact, concerned so much about stranded asset costs in the near term that it believed any explicit assessment of the issue and response in the form of some specific regulatory mechanism within the context of its depreciation policy was necessary for 2024.

[9] Exhibit JT2.14, EB-2022-0200

19. EGI's general lack of concern over the near term with respect to stranded asset costs is highlighted by its opposition to the expensing of indirect overheads, the single most significant measure in terms of reducing the quantum of EGI's future rate base that could become stranded asset costs.

20. In this context, OGVG respectfully submits, the Decision's refusal to implement EGI's indirect attempts to address stranded asset costs through the ELG methodology and aggressive asset life curves, the direction in the Decision to bring forward a robust assessment of stranded asset cost risk and related proposals to address that risk within EGI's depreciation policies, and the Decision's elimination of the capitalization of indirect overhead are all, taken together, a reasonable response to the current state of EGI's stranded asset cost risk.

SUMMARY

21. In OGVG's submission there are no material defects in the Decision as it relates to the Asset Lives Issue that warrant a hearing on the merits of EGI's motion to review.

22. The Decision clearly and unambiguously:

    a) determined that EGI's assessment of stranded asset cost risks was inadequate; and

    b) determined that EGI's proposals, insofar as they purported to indirectly address stranded asset cost risk within its depreciation policies, were inappropriate.

23. As a result of these findings, the Decision purposely maintained the status quo depreciation methodology, accepted only asset life curves that were unaffected by unquantified attempts to indirectly address stranded asset cost risks and directed EGI to bring forward an appropriate assessment of stranded asset cost risk, including an assessment of appropriate ways to address that risk in its depreciation expense methodologies, at EGI's next cost of service proceeding.

24. In the meantime, the Decision implements measures, most notably the phase out of the capitalization of indirect overheads, which do more to address EGI's stranded asset risk then what EGI was proposing through its aggressive asset life curves.

25. By EGI's own evidence there is no material stranded asset cost risk in the near term, such that there will be sufficient opportunity to revisit the issue and determine appropriate mechanisms, including through changes to EGI's depreciation policies, in subsequent cost of service proceedings.

26. For all these reasons OGVG respectfully submits that the OEB should determine that EGI has not met the threshold question as it relates to the Asset Lives Issue, and that accordingly the motion to review based on that issue should be rejected.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 29th DAY OF JULY 2024