ENBRIDGE GAS INC.
Answer to Interrogatory from
Association of Power Producers of Ontario (APPrO)

Reference: i) Exhibit B1 Tab 2 Schedule 1

Preamble: The ICM materiality threshold within the Union Rate Zone for 2019 is $375.2 million. Enbridge is seeking ICM funding for amounts in excess of this threshold for several specific projects. Enbridge is seeking funding in 2019 to cover the $91.9 million in capital associated with the Sudbury Lateral, as well as $146.1 million associated with the Kingsville and Stratford reinforcements. $2.8 million of these capital amounts may be below the threshold amounts and therefore not eligible for incremental ICM funding. Enbridge has applied this $2.8 million to reduce the costs of the Kingsville and Stratford laterals.

Question:

a) Please explain why Enbridge is proposing to apply all of the capital amounts falling below the threshold amounts (i.e. $2.8 million in this case) to the Union South projects only? Given that there are ICM projects in other rate zones, why wouldn't a proportionate allocation among both rate zones be more appropriate? Since projects occur in each rate zone, what is the rate impact in each rate zone under this alternate allocation methodology?
b) In the event some of the other regularly occurring capital amounts are elevated over the historical average (e.g. General Plant) in the same year a major reinforcement project is also proposed, this could have the effect of increasing the ICM amount attributable to reinforcement than had these other capital expenditures not occurred. If the allocation methodology for the major reinforcements is different from the allocation methodology for the other asset types also experiencing higher spending, then the resulting rates could be distorted. APPrO would like to understand the cost allocation principles that Enbridge intends to apply during the IRM period should these situations occur.
c) To the extent that the threshold capital amounts are not exceeded in any year, is it the company's intention to "bank" the differences to apply against future amounts that do exceed the threshold?

Response

a) The $2.8 million reduction in project capital is a result of the Union rate zones capital spend exceeding the maximum eligible incremental capital for the Union rate zones identified at Exhibit B1, Tab 2, Schedule 1, Table 7. Since the reduction is attributable to the Union rate zones calculation, it has been applied to the Union rate zones.

   There is no 2019 in-service capital forecast for the Union North rate zone, therefore the reduction for the Union rate zones has been applied to the Union South rate zone only.

b) As per the OEB's ICM policy, Enbridge Gas is required to propose cost allocation and associated recovery of the incremental revenue requirement from customer classes for each discrete project that exceed the ICM materiality threshold. Note that projects proposed for incremental capital funding during the IRM period must be discrete projects rather than programs or regularly occurring capital amounts. Enbridge Gas's proposed cost allocation and incremental revenue recovery from customers in this application (as will also be the case in future applications) are based on cost causality (i.e., customers' usage of the ICM project assets) for each discrete ICM project. The proposed cost allocation methodology for 2019 ICM projects is provided at Exhibit B1, Tab 2, Schedule 1, pages 32 to 34.

   Also note that in-service capital expenditures / additions below the ICM materiality threshold are recovered through Enbridge's base rates during the IRM period. Accordingly, cost allocation is not carried out or proposed for those assets.

c) No.