

ENBRIDGE GAS INC.  
Answer to Interrogatory from  
Energy Probe Research Foundation (EP)

Reference: Exhibit B1, Tab 2, Schedule 1, Pages 19 to 27

Question:

- a) For each of the proposed ICM projects, please provide the detailed itemized cost estimate including contingency with line by line explanations of differences from the costs approved by the OEB in the LTC proceeding. For each project please provide the current Profitability Index ("PI") and compare it to the PI approved by the OEB in the LTC proceeding. Also please indicate if there have been any changes in the route or schedule of any project from the route and schedule approved by the OEB in the LTC proceeding.
- b) For each proposed ICM project where there is a significant difference between the cost, PI and route approved by the OEB in the LTC proceeding and the current cost, PI, and route please explain the meaning of the approvals in the LTC proceeding. For example, should not project cost above what was approved in the LTC proceeding be subject to a prudence review?
- c) Please recalculate each ICM proposal using project cost approved by the OEB in the LTC proceeding.

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**Response**

- a) Don River Replacement

The table below shows the estimated costs provided in the LTC application and the current cost projections.

Item No.	Description	Cost As Filed in EB-2018-0108	Updated Cost Estimate	Variance
		a	b	b-a
1.0	Material Costs	\$710,107	\$710,107	\$0
2.0	Labour Costs	\$17,060,285	\$17,060,285	\$0
3.0	External & Regulatory Costs	\$860,000	\$1,433,528	\$573,528
4.0	Land Costs	\$301,000	\$2,264,746	\$1,963,746
5.0	Overhead Costs	\$759,000	\$9,989,358	\$9,230,358
6.0	Interest During Construction	\$208,255	\$209,093	\$838
7.0	Contingency Costs	\$5,698,892	\$3,687,764	(\$2,011,128)
8.0	Total Project Cost	\$25,597,539	\$35,354,881	\$9,757,342

Variances in estimated costs relative to what was filed in the LTC application can be attributed to an increase in the cost related to the required permanent and temporary working easements for the project and the inclusion of indirect overhead costs. Interest during construction was not included in the costs presented in the LTC application. These costs have been included in the “Cost as Filed in EB-2018-0108” column and Contingency Costs have been reduced by an equivalent amount to maintain the overall cost presented in the LTC application.

The table below shows the estimated schedule provided in the LTC application and the current schedule.

Description	Schedule As Filed in EB-2018-0108	Updated Schedule
Expected LTC Approval	December 2018	November 2018
Receipt of Permits and Approvals	December 2018	April 2019
Commence Construction	January 2019	May 2019
Completion of Construction	September 2019	November 2019
Completion of Reinstatement	October 2019	December 2019
Final Inspection	December 2020	January 2021

The current projected in-service date has changed from October 2019 to December 2019 due to delays in receipt of permits and easements which have caused a delay in construction commencement.

The routing of the proposed facilities has not changed from the route identified in the LTC application.

A DCF analysis was not completed for the Don River Replacement project and therefore no PI calculation is available for this project.

Sudbury Replacement

The table below shows the estimated costs provided in the LTC application and the current cost projections.

Item No.	Description	Cost As Filed in EB-2018-0180	Updated Cost Estimate	Variance
		a	b	b-a
1.0	Materials	\$5,379,000	\$5,379,000	\$0
2.0	Construction & Labour	\$58,361,000	\$67,261,000	\$8,900,000
3.0	Contingencies	\$9,561,000	\$9,561,000	\$0
4.0	Interest During Construction	\$756,000	\$756,000	\$0
5.0	Overheads		\$12,300,000	\$12,300,000
6.0	Total Project Cost	\$74,057,000	\$95,257,000	\$21,200,000

Variances in estimated costs relative to what was filed in the LTC application can be attributed to the inclusion of indirect overhead costs and an increase in contractor costs due to design changes, inclement weather and construction execution.

The table below shows the estimated schedule provided in the LTC application and the current schedule.

Description	Schedule As Filed in EB-2018-0180	Updated Schedule
OEB Filing	May 2017	May 2017
OEB Decision	September 2017	September 2017
Construction Start	May 2018	April 2018
In Service	November 2018	October 2018

There were no significant changes to the project schedule for the Sudbury Replacement project.

The routing of the proposed facilities did not change from the route identified in the LTC application.

A DCF analysis was not completed for the Sudbury Replacement project and therefore no PI calculation is available for this project.

Kingsville Reinforcement

The table below shows the estimated costs provided in the LTC application and the current cost projections.

Item No.	Description	Cost As Filed in EB-2018-0013	Updated Cost Estimate	Variance
		a	b	b-a
1.0	Materials	\$7,725,000	\$7,725,000	\$0
2.0	Construction & Labour	\$82,931,000	\$82,931,000	\$0
3.0	Contingencies	\$13,598,000	\$13,598,000	\$0
4.0	Interest During Construction	\$1,462,000	\$1,462,000	\$0
5.0	Overheads		\$15,700,000	\$15,700,000
6.0	Total Project Cost	\$105,716,000	\$121,416,000	\$15,700,000

Variances in estimated costs relative to what was filed in the LTC application can be attributed to the inclusion of indirect overhead costs.

The table below shows the estimated schedule provided in the LTC application and the current schedule.

Description	Schedule As Filed in EB-2018-0013	Updated Schedule
OEB Filing	January 2018	January 2018
OEB Decision	September 2018	September 2018
Clearing	March 2019	March 2019
Construction Start	May 2019	May 2019
In Service	November 2019	November 2019

There have been no changes to the project schedule/in-service date since the original LTC application was filed.

The routing of the proposed facilities has not changed from the route identified in the LTC application.

A revised DCF analysis (per EBO 134) has not been completed. The pre-filed evidence for the Kingsville Reinforcement project showed that the project had a positive NPV of between \$341 million and \$697 million. The increase in costs due to the inclusion of overheads would not have a significant impact on the NPV of the project.

### Stratford Reinforcement

The table below shows the estimated costs provided in the LTC application and the current cost projections.

Item No.	Description	Cost As Filed in EB-2018-0306	Updated Cost Estimate	Variance
		a	b	b-a
1.0	Materials	\$2,997,000	\$2,997,000	\$0
2.0	Construction & Labour	\$21,620,000	\$21,620,000	\$0
3.0	Contingencies	\$3,623,000	\$3,623,000	\$0
4.0	Interest During Construction	\$300,000	\$300,000	\$0
5.0	Total Project Cost	\$28,540,000	\$28,540,000	\$0

There have been no changes to estimated project costs since the LTC was filed. Indirect overhead costs were included in the costs filed in the LTC application.

The table below shows the estimated schedule provided in the LTC application and the current schedule.

Description	Schedule As Filed in EB-2018-0306	Updated Schedule
OEB Filing	November 2018	November 2018
OEB Decision	April 2019	March 2019
Construction Start	May 2019	May 2019
In Service	November 2019	November 2019

There have been no changes to the project schedule/in-service date since the LTC was filed.

The routing of the proposed facilities has not changed from the route identified in the LTC application.

Since there are no changes in estimated project costs the DCF analysis (per EBO 134) for the Stratford Reinforcement project has not been updated since the filing of the LTC application.

- b) Enbridge Gas interprets the approval associated with LTC applications, Board findings in the MAADs Decision, and the Board's ICM Policy as allowing for a prudence review of leave to construct projects and other projects for which ICM treatment is sought at the time of rebasing limited to the difference between forecasted and actual spend.

For example, the Board's ICM Policy states under section 7.4:

At the time of the next cost of service or Custom IR application, a distributor will need to file calculations showing the actual ACM/ICM amounts to be incorporated into the test year rate base. At that time, the Board will make a determination on the treatment of any difference between forecasted and actual capital spending under the ACM/ICM, if applicable, and the amounts recovered through ACM/ICM rate riders and what should have been recovered in the historical period during the

preceding Price Cap IR plan term. Where there is a material difference between what was collected based on the approved ACM/ICM rate riders and what should have been recovered as the revenue requirement for the approved ACM/ICM project(s), based on actual amounts, the Board may direct that over- or under-collection be refunded or recovered from the distributor's ratepayers.<sup>1</sup>

- c) The table below shows the forecast annual revenue requirement for each of the proposed ICM projects: assuming the capital costs approved for each project in their respective LTC proceedings, and assuming the cost reduction (generally due to the exclusion of indirect overhead and/or IDC) results in a corresponding reduction in the maximum eligible incremental capital of the applicable rate zone (i.e., reduces the ICM amount).

Enbridge Gas notes however, that while these calculations can be made for illustrative purposes, the reclassification/reassignment of certain costs from these projects does not change the total forecast in-service capital for 2019. As such, to the extent that costs apportioned to these projects are reduced, reducing the project specific ICM eligible amount, it may in turn create capacity for another ICM eligible project.

Total Incremental Revenue Requirement by Rate Zone  
 Using Project Cost Approved by the OEB in LTC

Line No.	Particulars (\$000's)	2019	2020	2021	2022	2023
	<u>EGD Rate Zone</u>					
1	Don River Replacement	(26)	335	386	383	380
	<u>Union North Rate Zone</u>					
2	Sudbury Replacement	7,690	7,720	7,617	7,509	7,396
	<u>Union South Rate Zone</u>					
3	Kingsville Reinforcement	(693)	8,859	9,097	9,187	9,245
4	Stratford Reinforcement	(766)	2,146	2,221	2,249	2,267
5	Total Union South Rate Zone	(1,459)	11,005	11,318	11,436	11,512
6	Total Incremental Revenue Requirement	6,205	19,060	19,321	19,328	19,288

<sup>1</sup> Ontario Energy Board, EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, page 26.