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June 17, 2019

VIA RESS, EMAIL and COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0305 Enbridge Gas Inc. ("Enbridge Gas") – 2019 Rate Application Argument-in-Chief

In accordance Procedural Order No. 4 dated June 10, 2019, enclosed is the Argument-in-Chief of Enbridge Gas for the above noted proceeding.

Please contact the undersigned if you have any questions.

Yours truly,

(Original Signed)

Rakesh Torul
Technical Manager, Regulatory Applications

cc: EB-2018-0305 Intervenors
Crawford Smith, Lax O'Sullivan Lisus Gottlieb

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998, c.15, (Schedule B);

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, 2019.

ARGUMENT-IN-CHIEF

June 17, 2019

1.0 INTRODUCTION

Enbridge Gas Inc. ("Enbridge Gas" or the "Applicant") filed an application with the Ontario Energy Board ("OEB" or the "Board") on December 14, 2018, under section 36 of the *Ontario Energy Board Act, 1998*, for an order approving just and reasonable rates for the sale, distribution, transmission and storage of gas for each of its Enbridge Gas Distribution, Union North and Union South rate zones to be effective January 1, 2019 (the "Application"). The Application was prepared in accordance with all relevant OEB guidance.

On May 29, 2019, Enbridge Gas submitted to the OEB for its consideration a Settlement Proposal in respect of certain of the issues in the proceeding. By Procedural Order No. 4, the OEB approved the Settlement Proposal and set out a schedule for written argument in relation to the unsettled issues.

This is Enbridge Gas's Argument-in-Chief in respect of those issues and is organized based on the approved issues list in this proceeding. Where issues are connected or related, they are considered together.

2.0 OVERVIEW

This is Enbridge Gas's first annual rate-setting application following the OEB's August 30, 2018 Decision and Order[1] approving the proposed amalgamation of Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") effective January 1, 2019 and establishing the rate-setting framework for the deferred rebasing period of 2019 to 2023 (the "MAADs Decision").

The Rate Setting Mechanism evidence[2] describes proposed changes to Enbridge Gas's existing approved or "base rates" for regulated transportation, storage and distribution rates for each of its three rate zones (EGD, Union North and Union South[3]). The proposed changes will be effective January 1, 2019, and have been determined in accordance with the MAADs Decision. The changes include:

- an annual rate change determined by a price cap index ("PCI") formula, where PCI growth is driven by an inflation factor using GDP IPI FDD, less a productivity factor of zero and a stretch factor of 0.3%;

- average use / normalized average consumption adjustments for each of the rate zones, in accordance with the applicable Board-approved methodologies; and

- one-time base rate adjustments approved in or arising from the MAADs Decision including an adjustment to align the ICM threshold calculation in the Union rate zone with the capital investment that can be supported by rates.[4]

In the MAADs Decision, the OEB also approved the use of an incremental capital module ("ICM") to fund incremental capital during the deferred rebasing period. There are four projects for which Enbridge Gas is seeking ICM funding: the Don River Replacement project in the EGD rate zone;

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[1] EB-2017-0306/EB-2017-0307.

[2] Exhibit B1, Tab 1, Schedule 1.

[3] Collectively, the Union North and Union South rate zones are referred to as the "Union rate zones", and within Union North there is the Union North West and Union North East.

[4] As filed in Exhibit B1, Tab 1, Schedule 1.

the Sudbury Replacement project in the Union North rate zone; and the Kingsville Reinforcement and Stratford Reinforcement projects in the Union South rate zone.[5]

The request for ICM funding is further supported by a Utility System Plan[6] ("USP") filed with the application which includes an Asset Management Plan ("AMP") for each of the EGD and Union rate zones. Each AMP identifies how Enbridge Gas plans, manages and develops the distribution, transmission, and storage systems for each of the EGD and Union rate zones, and determines the capital investment requirement while balancing risk, performance and cost.[7] As the AMPs describe, projects are selected on the basis of their relative priority. All projects are evaluated and prioritized/optimized to ensure that capital resources are employed to address the highest priority items across all asset categories.

3.0 ARGUMENT

Issue 1

Has Enbridge Gas responded appropriately to all relevant OEB directions from previous proceedings?

Yes, the Applicant has responded appropriately to all relevant OEB directions from previous proceedings, including from the MAADs proceeding. The Application included a response to a commitment made in the EGD rate zone's Earnings Sharing proceeding (EB-2018-0131), which required the Applicant to file evidence about the refined feasibility analysis approach for residential infill customers.[8]

Further, in a response to an interrogatory from the Consumers Council of Canada ("CCC"), the Applicants further confirmed that the Application is consistent with the MAADs Decision and Order:

[5] Exhibit B1, Tab 2, Schedule 1.
[6] The USP for Enbridge Gas is filed at Exhibit C1, Tab 1, Schedule 1.
[7] The AMPs for Enbridge Gas are filed at Exhibit C1, Tab 2, Schedule 1 and Exhibit C1, Tab 3, Schedule 1.
[8] Exhibit B1, Tab 1, Schedule 1, p. 40.

> *Yes, the application is consistent with the Board's Decision and Order for the amalgamation and rate setting mechanism dated August 30, 2018. The implications of the Board's Decision are reflected in this rate application.*[9]

The implications of the Board's Decision and Order in the MAADs proceeding are discussed as part of Issues No. 5 and 7, which outlines the Applicant's proposal for a one-time adjustment for the capital pass-through projects and the corresponding changes to the projects' deferral accounts.

Outstanding commitments and directives are provided at Exhibit B1, Tab 1, Schedule 1, Appendix G.

Issue 2

Is the Price Cap Index calculated appropriately?

This issue is settled.

Issue 3

Does the accounting order wording in the following new accounts appropriately reflect the OEB's MAADs Decision?

- ***a. Earnings Sharing Mechanism Deferral Account (Enbridge Gas)***
- ***b. Tax Variance Deferral Account (Enbridge Gas)***
- ***c. Accounting Policy Changes Deferral Account (Enbridge Gas)***

This issue is settled.

Issue 4

Should the following deferral accounts be established?
a. Incremental Capital Module – EGD Rate Zone
b. Incremental Capital Module – Union Gas Rate Zones

This issue is settled.

Issue 5

Should the proposed changes be made to the accounting orders for the following deferral accounts?

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[9] Exhibit I.CCC.4.

<u>EGD Rate Zone</u>
a. 179.24 Post Retirement True-up Variance Account
b. 179.48 Open Bill Revenue Variance Account
c. 179.08 Ex-Franchise Third Party Billing Services Deferral Account
d. 179.70 Purchased Gas Variance Account
e. 179.88 Storage and Transportation Deferral Account
f. 179.94 OEB Cost Assessment Variance Account

<u>Union Gas Rate Zones</u>
g. 179-136 Parkway West Project Costs
h. 179-137 Brantford-Kirkwall/Parkway D Project Costs
i. 179-142 Lobo C Compressor/Hamilton to Milton Project Costs
j. 179-144 Dawn H/Lobo D/Bright C Compressor Project Costs
k. 179-149 Burlington Oakville Project Costs
l. 179-156 Panhandle Reinforcement Project Costs

The proposed changes for a. and c. – f. were settled.

b. 179.48 Open Bill Revenue Variance Account

Enbridge Gas proposes to adjust the wording of the existing EGD rate zone Account No. 179.48 Open Bill Revenue Variance Account to refer only to the most recently Board-approved Open Bill Access Settlement Agreement in EB-2013-0099.[10] As clarified in the Technical Conference, this adjusted wording does not change how the balances in the account are calculated.[11]

g. to l. Union Rate Zones – Capital Pass-Through Projects

Enbridge Gas proposes to change the deferral accounts related to the capital pass-through projects to only capture the revenue requirement impacts associated with utility tax timing differences. The proposed changes to the Union rate zones' deferral accounts are inextricably linked to the outcome of the Board's Decision on the Enbridge Gas proposal to cease Y factor treatment of the capital pass-through projects and implement a one-time capital pass-through base rate adjustment (Issue No. 7, part a) and are responsive to the Board's direction in its MAADs Decision, as further described in Issue 7 below.

[10] Exhibit B1, Tab 1, Schedule 1, pp. 17-18.
[11] Technical Conference Transcript, Day 1, pp. 66-67.

Issue 6

Should the following deferral and variance accounts be discontinued as proposed?
a. 179-100 Union North Tolls and Fuel
b. 179-105 Union North PGVA
c. 179-103 Unbundled Services Unauthorized Storage Overrun Deferral Account

This issue is settled.

Issue 7

Are any rate design proposals appropriate in the context of previous OEB decisions, including:
a. One-time adjustment for Capital Pass-Through Projects
b. General service monthly customer charge
c. Parkway Delivery Obligation adjustment
d. DSM budget allocations

With the exception of a., this issue is settled.

a. One-time adjustment for Capital Pass-Through Projects

Enbridge Gas proposes to recover the revenue requirement associated with the capital pass-through projects from Union's 2014-2018 IRM term as a component of base rates and no longer as a Y factor adjustment. As a component of base rates, the revenue requirement associated with the capital projects will be escalated over the deferred rebasing term and not subject to deferral.[12] Moving from a Y factor adjustment to base rates has no impact on what Enbridge Gas will recover from customers in 2019 but is essential to support the ICM threshold calculation in future years.

As noted in response to Exhibit I.STAFF.8:

> *As a direct result of the MAADs Decision, which directed Enbridge Gas to add rate base and depreciation associated with the capital pass-through projects to determine the ICM threshold value[13], Enbridge Gas requires: a one-time adjustment to rates to include the revenue requirement of the capital pass-through projects; and continuation of the capital pass-through deferral accounts to capture the utility tax timing differences only. These changes are required to*

[12] With the exception of utility tax timing differences, as discussed below.
[13] EB-2017-0306/EB-2017-0307, Decision and Order, August 30, 2018, pp. 32-34.

> *align the ICM threshold value with the capital investment that can be supported by rates.*

The inclusion of the projects' rate base and depreciation expense, including applying the ICM growth factor to both, in determining the ICM materiality threshold value implies that rates can support an equivalent investment in capital. This is not the case when the projects' annual revenue requirement included in rates is passed through directly to customers as a Y factor adjustment.[14] By definition, a Y factor adjustment does not create incremental revenue to support any capital in excess of the revenue requirement related to the Y factor project.

The proposal for a one-time adjustment aligns rates with the amount assumed to be funded through rates, as determined in the ICM threshold value calculation and addresses the disconnect that would otherwise be created between the annual capital investment supported by rates and the ICM threshold value calculation.[15] As set out in Undertaking JT1.17, the adjustment is consistent with the threshold value definitions for rate base and depreciation used in calculating the ICM materiality threshold. In the Supplemental Report of the Board, p. 33, "RB" is defined as rate base included in base rates and "d" is defined as depreciation expense included in base rates.

Further, as Ms. Mikhaila explained, "*The ICM threshold, because of those amounts included it, assume[s] we can fund additional capital in the future. And we are trying to align the disconnect that exists between the rates and what the ICM threshold assumes we can fund through our rates.*"[16] Indeed, the 2019 ICM threshold value for the Union rate zone is <u>$80.7 million higher</u> than what rates can support and this discrepancy will continue each year during the deferred rebasing period, to a cumulative amount of $410 million by 2023, without the proposed one-time adjustment.[17] The one-time adjustment provides base rates with the ability to support the capital spending required by the ICM threshold during the remaining years of the deferred rebasing period.

However, the proposed one-time adjustment by itself does not support the level of capital investment assumed by the ICM threshold value. This is due to the impact utility tax timing

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[14] Exhibit B1, Tab 1, Schedule 1, p. 27.
[15] Exhibit I.STAFF.8.
[16] Tr.1, p. 9.
[17] Exhibit I. STAFF.8, Attachment 1; and Tr. 1, p. 8.

differences has on the revenue requirement of the projects.[18] The capital pass-through revenue requirement proposed for the one-time adjustment includes the temporary tax benefits provided to ratepayers for 2019. Absent continuation of the capital pass-through deferral accounts to record utility tax timing differences, the higher utility taxes in the remainder of the deferred rebasing period take away from the ability of rates to support capital already invested in the projects, let alone fund incremental capital.

As further explained in response to Exhibit I.STAFF.8:

> *Normal decreases in annual revenue requirement as a result of the annual decline in rate base are more than offset by increases to annual revenue requirement resulting from decreases in the utility tax timing benefits in each year of the deferred rebasing period. The ICM threshold value calculation does not consider the impact changes in utility tax timing differences has on funding incremental capital projects. The utility tax timing differences related to the capital pass-through projects create significant impacts to the revenue requirement that are not within the normal course of business because of the large addition to rate base over a short period of time and the differences in capital cost allowance and depreciation expense on the assets.*

In the absence of changing the deferral accounts as proposed, Enbridge Gas's rates cannot support the changes in the revenue requirement of the capital pass-through projects themselves, due to changes in utility tax timing differences, or the required level of incremental capital investment that results from their inclusion in the ICM materiality threshold calculation.[19] The proposed one-time adjustment to base rates and the continuation of the capital pass-through deferral accounts to capture utility tax timing differences are inextricably linked, and simply creates the mechanic for implementation of the MAADs Decision on the ICM materiality threshold calculation.

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[18] Exhibit I.STAFF.8, Attachment 1.
[19] Exhibit I.STAFF.8.

This proceeding is the first opportunity for Enbridge Gas to propose this adjustment and changes to the deferral accounts to address the Board's findings in the MAADs Decision.[20]

Issue 8

Are there any necessary rate schedule changes, and if so, are the changes appropriate?

This issue is settled.

Issue 9

Do the USP and AMPs support approval of the ICMs?

In Exhibit C1, Tab 1, Schedule 1, Enbridge Gas filed its USP. Enbridge Gas submits the USP and AMPs support approval of the ICM projects.

In the MAADs Decision, the Board found it "reasonable that a consolidated USP will not be available for 2019 and 2020 rates, but expects the applicants to file separate USPs as planned."[21] Nevertheless, Enbridge Gas worked diligently to prepare a consolidated USP for this Application.

The USP covers the period from 2019 to 2023 and includes an AMP for each of the EGD and Union rate zones. The USP describes how the Company plans to drive operational effectiveness through strong asset management while meeting the expectations set out in the OEB's Renewed Regulatory Framework ("RRF"). Enbridge Gas intends to file an updated consolidated USP as part of its 2021 rate application which will further harmonize the AMPs. Fundamentally, however, strong asset management that balances cost, risk and performance, while delivering value to customers has been at the core of EGD and Union's business for years and is demonstrated throughout the USP and AMPs.

As explained, the USP and AMPs were developed in accordance with the OEB's *Filing Requirements for Natural Gas Rate Applications* and in alignment with the RRF. Enbridge Gas also had regard to the OEB's guidelines for natural gas utilities' transportation and distribution system projects (E.B.O. 134 and E.B.O. 188)[22] and Chapter 5 of the *Filing Requirements for Electricity*

[20] Exhibit JT1.17.

[21] EB-2017-0306/EB-2017-0307 Decision and Order, August 30, 2018, pp. 33-34.

[22] Gas Filing Requirements, February 16, 2017, p. 21.

Distributor Applications[23], which provides further guidance on components of a Distribution System Plan, which was informative relative to certain components of the USP.

Enbridge Gas's values of integrity, safety and respect, along with its strategic priorities, guide decision making in the EGD and Union rate zones. Asset management provides the necessary structure to make informed asset decisions and execute the resulting actions, as aligned with the RRF framework.

As described in the USP, the Company's capital budget process ensures that capital is allocated in a way that maximizes the value of life cycle-based capital while mitigating risk to the lowest practical level. This requires a combined effort from the Asset Management team, the business, and Finance to govern, prioritize, and execute the capital projects.

There are two primary objectives of the capital budget process:

1. Ensure the proper governance structure and level of management oversight to enable the company to invest capital in the most efficient and effective way to meet the Company's obligations, ensure safety, and maximize the value of the investments; and

2. Enable the business to plan and execute work in a timely fashion with minimal administrative burden, responding quickly to the demands of the customers that the Company serves.

The capital budgeting process is underpinned by the AMP for each rate zone. The AMPs use risk assessment methodologies to assess capital projects. These risk assessment methodologies, in combination with defined risk tolerances, form the basis for the selection and prioritization/optimization process for capital investments, including the ICM projects at issue in this case.

Overall, the USP is intended and does meet the needs of customers in the EGD and Union rate zones through strong asset management that supports the delivery of safe and reliable service.

[23] Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 5 Consolidated Distribution System Plan, July 12, 2018.

Issue 10

Are the costs of the ICM projects appropriate, to the extent that they differ from the costs considered by the OEB in granting leave to construct?

Issue 11

Is the NPS 30 Don River Replacement Project in the EGD rate zone eligible for Incremental Capital Module (ICM) funding?

a. If yes, is the ICM rate rider for the NPS 30 Don River Replacement Project calculated appropriately?

Issue 12

Are the Sudbury Replacement Project in the Union North rate zone and the Kingsville Transmission Reinforcement and Stratford Reinforcement projects in the Union South rate zone eligible for ICM funding?

a. If yes, are the ICM rate riders for the Sudbury, Kingsville and Stratford projects calculated appropriately?

Issues 10 to 12 are related and, therefore, are discussed together below beginning with the eligibility for ICM funding.

In Enbridge Gas's submission, each of the four ICM projects meets the OEB's requirements, is eligible for funding at the level of costs proposed and should be approved. Please see the table below for an overview of the ICM funding request in the Application.

ICM Funding Request by Rate Zone

Line No.	Particulars ($ millions)	ICM Funding Request
	EGD Rate Zone	
1	Don River Replacement	13.1
	Union South Rate Zone	
2	Kingsville Reinforcement	118.2
3	Stratford Reinforcement	25.1
	Union North Rate Zone	
4	Sudbury Replacement	91.9
5	Total ICM Funding Request	248.3

Eligibility for ICM Capital

In the MAADs Decision, the Board confirmed the availability of ICM funding for Enbridge Gas.[24] As set out in section 4.1.5 of the "Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219" ("ACM Report"), to be eligible for recovery, capital projects must meet the following criteria: materiality, need and prudence. Each of these criteria is described below in relation to Enbridge Gas's ICM funding request for 2019.

Materiality

Threshold Test

As defined by the Board, "a capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the Board-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing."[25]

The Board's ICM materiality threshold calculation results in a 2019 threshold value of $468.5 million for the EGD rate zone and $375.2 million for the Union rate zones. The materiality threshold establishes the minimum capital expenditures a utility must fund through base rates. The maximum incremental capital investment eligible for ICM funding is the amount of capital expenditures in the year in excess of the threshold value. The calculation of the ICM materiality threshold value for the EGD and Union rate zones is provided at Exhibit B1, Tab 2, Schedule 1, Table 3 and includes consideration of the Price Cap Index, growth factor, rate base and depreciation amounts.

Price Cap Index. The OEB's threshold value calculation uses PCI to recognize the increase in revenue generated through annual rate increases in a price cap plan that could be used toward capital investment. The calculation uses a current year PCI, which does not recognize the actual

[24] EB-2017-0306/EB-2017-0307, Decision and Order, August 30, 2018, pp. 30-34.

[25] EB-2014-0219 Report of the OEB – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 17.

change in rates experienced over a multi-year price cap IR term and can result in a threshold value that does not represent the actual revenue increase during that period.

To reflect the actual rate increases during the price cap IR term, Enbridge Gas proposes to use a simple average of the actual annual PCI that has been used to increase rates during the price cap IR term since its last rebasing. The average PCI more accurately reflects the impact PCI has had on rates and revenue since the base year (2013 rates for Union and 2018 rates for EGD) than the use of the current year PCI. During Union's 2014-2018 IRM rates were adjusted by 60% of inflation, and not subject to the Board's prescribed I – X formula. As such, Union's rates do not currently reflect an increase of 1.07% over its last IRM. The use of the average PCI also reduces the year-to-year fluctuations in the threshold value that would occur by using the current year PCI and helps the utility plan and prioritize capital investments through a more stable threshold value. This also aligns with customer preferences of a steady rate of investment, over a less predictable pace.

The PCI used for the EGD rate zone threshold calculation of 1.07% is the 2019 value since 2019 is the first year of its price cap plan. In future years, the average PCI will be used. The PCI used for the Union rate zones threshold calculation of 0.72% is the average of the actual annual PCI used to increase rates during its price cap plan which began in 2014.

Growth Factor. The 2019 growth factor compares the percentage difference in annual revenues between 2017 (the most recent complete year) and the approved base year[26] for each rate zone. The revenue amounts are calculated at the approved base year's rates. To determine the 2017 revenue from general service rate classes, Enbridge Gas used the actual customer count and held the normalized average consumption/average use ("NAC/AU") per customer constant with the NAC/AU in base rates. If the NAC/AU is not held constant, then any change in NAC/AU would have to be offset by a proportionally similar rate adjustment to keep the revenue per customer constant. Both the EGD and Union rate zones have deferral accounts that record the revenue impact associated with the difference between the forecast normalized average use per customer embedded in rates and the actual normalized average use experienced during the year. By using the NAC/AU per customer and the rate that is in base rates to calculate 2017 revenue, the growth factor will

[26] 2018 for the EGD rate zone and 2013 for the Union rate zones.

account for both the weather normalized actual general service revenue and the revenue amounts collected/refunded in the NAC/AU deferral account.

The use of the NAC/AU in base rates also normalizes the general service revenue for variability in weather during the year. Enbridge Gas assumes normal weather when developing all forward looking plans, including the gas supply plan, the AMP, and the annual budget and long range plan. Using a growth factor that compares revenues on a weather-normalized basis is therefore consistent with the development of the USP and corresponding AMP.

While the OEB considered and did not change the approach of comparing weather-normalized revenues to weather-actual revenues in the EB-2014-0219 Supplemental Report[27] it did so having regard to the high proportion of electric revenues from fixed charges that are non-weather sensitive. This is not the case for Enbridge Gas. It has a considerably higher proportion of volumetric charges that are weather sensitive for general service customers and calculating the growth factor on weather-normalized general service revenues reduces the year-to-year fluctuations in the threshold value that would occur if it were to use weather-actual results.

Rate Base and Depreciation. The threshold calculation uses the rate base and depreciation expense last approved by the OEB. Accordingly, the threshold value for the EGD rate zone is based on EGD's 2018 Board-approved rate base and depreciation. Pursuant to the MAADs Decision, the threshold value for the Union rate zones is based on Union's 2013 Board-approved rate base and depreciation plus the 2019 forecast amount of rate base and depreciation associated with projects that were eligible for capital pass-through treatment and included in Union's base rates during Union's 2014-2018 IRM term.[28] The capital pass-through forecast revenue requirement for 2019 is provided at Exhibit F1, Tab 2, Rate Order, Working Papers, Schedule 16, pp. 4-5.

Eligible Capital Amount

The maximum eligible incremental capital for the EGD rate zone and Union rate zones is $13.1 million and $143.3 million, respectively and is calculated at Exhibit B1, Tab 2, Schedule 1, Table 7. Enbridge Gas is seeking incremental ICM funding for specific discrete projects that fit within the

[27] EB-2014-0219Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016, p. 14-15.

[28] EB-2017-0306/EB-2017-0307, Decision and Order, August 30, 2018, p. 33.

maximum eligible incremental capital amount planned for each of the EGD and Union rate zones. The request by rate zone is set out in Exhibit B1, Tab 2, Schedule 1, Table 8 and is reproduced below for convenience.

Table 8
2019 Incremental Capital Funding Request by Rate Zone

Line No.	Particulars ($ millions)	Total Project In-service Amount	Total Project ICM Funding Request	Difference
		(a)	(b)	(c) = (b-a)
	2019 In-service Capital Forecast			
	EGD Rate Zone			
1	Don River Replacement (1)	34.2	13.1	(21.1)
	Union South Rate Zone			
2	Kingsville Reinforcement	118.2	118.2	-
3	Stratford Reinforcement (1)	27.9	25.1	(2.8)
4	Total Union South Rate Zone	146.1	143.3	(2.8)
	2018 In-service Capital Forecast			
	Union North Rate Zone			
5	Sudbury Replacement[29]	91.9	91.9	-
6	Total Incremental Capital Funding Request	272.2	248.3	(23.9)

Notes:

(1) The total project in-service amounts of the Don River Replacement and Stratford Reinforcement project were reduced to recognize the total capital spend on the eligible projects exceeds the maximum eligible incremental capital from Table 7. In Union rate zone, there is no impact to customers of reflecting the reduction in only one project because the Kingsville and Stratford Reinforcement projects will be allocated to rate classes using a common allocator.

[29] The 2019 spend for the Sudbury Replacement Project will be managed under the ICM Threshold.

Need

Means Test

A distributor must also pass the Means Test in order to be eligible for ICM funding. As defined by the Board, if a distributor's regulated return in its most recent calculation exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates, the funding for any incremental capital project will not be allowed.[30] As set out in evidence, the EGD and Union rate zones meet the Means Test.

Discrete and Material Projects

As defined in the Board ACM report, "amounts must be based on discrete projects, and should be directly related to the claimed driver. The amount must be clearly outside of the base upon which the rates were derived".[31] Further, pursuant to the MAADs Decision, any individual project for which ICM funding is sought must have an in-service capital addition of at least $10 million.[32]

Each eligible capital project as identified for the EGD rate zone and Union rate zones is a discrete project that exceeds the materiality level of $10 million. These projects have been evaluated as part of the capital planning process, described in the USP and AMPs. Each project is distinct, with significant influence on Enbridge Gas's operations. As set out below, leave to construct has been granted for the Projects.

Prudence

The capital expenditures for which Enbridge Gas is seeking ICM funding are prudent and represent the most cost effective option for ratepayers.

Leave to construct has already been granted by the OEB in respect of each of the ICM projects.

For ease of reference, the business case summaries detailing each of the ICM projects are attached as **Appendix A** to this Argument.

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[30] EB-2014-0219 Report of the OEB – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 15.

[31] EB-2014-0219 Report of the OEB – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 17.

[32] EB-2017-0306/EB-2017-0307, Decision and Order, August 30, 2018, pp. 32-33.

In relation to the Sudbury Replacement project, due to its October 2018 in-service date, it falls between qualifying for incremental rate treatment under Union's 2014-2018 capital pass-through mechanism and qualifying for incremental rate treatment under the ICM. The project meets Union's 2014-2018 IRM capital pass-through criteria, including a full year revenue requirement[33] of approximately $9 million in 2019, but was not in-service for a full year during the 2014-2018 term of Union's last IRM. However, there was a significant need to replace the pipeline in order to continue to maintain safe and reliable service to the Sudbury market. Delaying the leave to construct application and construction in order to confirm the funding mechanism for the project was simply not an option. If the project was delayed, integrity concerns could have become more serious, with the risk of a potential failure increasing over time.

Given the magnitude of the $95.3 million investment in the Sudbury Replacement project, incremental funding of the project is required. The cumulative revenue requirement of the project from 2018 through 2023 is over $47 million. Union was not able to reprioritize 2018 capital investment in order to fund this investment using existing rates. The purpose of the capital pass-through mechanism was to provide a means for Union to make significant investments under its price cap plan. Given that the timing of the investment in the Sudbury Replacement project occurred in late 2018, Enbridge Gas will be impacted by the first full year revenue requirement in 2019, during which time the ICM will apply. Enbridge Gas is seeking recovery of the prudently incurred Sudbury Replacement project costs beginning in 2019 under the ICM mechanism because of the transition to ICM from the capital pass-through funding mechanism for the deferred rebasing period.

The costs of the Projects. The costs of all of the ICM projects are appropriate. To the extent the costs of the projects differ from the costs considered in the relevant leave to construct applications, these differences are detailed in Exhibit I.EP.16. In the main, the differences relate to the inclusion of indirect overhead (i.e. burden) in the costs of the projects in this Application. The nature of the overhead, the components and overall burden rate are further detailed in Exhibit I.Staff.32, Exhibit I.BOMA.21, 23 and 63 and Undertakings JT1.7 and JT1.12.

[33] The annual revenue requirement criteria of Union's 2014-2018 IRM capital pass-through mechanism was 'a minimum increase, or a minimum decrease, of $5 million in net delivery revenue requirement for a single new project (the "Rate Impact Threshold")'.

The inclusion of indirect overhead costs reflects the nature of this Application compared to a leave to construct application. In the latter, economic feasibility is conducted on an incremental basis and considers only the direct revenues and costs of the proposed project (E.B.O. 188 and E.B.O. 134). Here, consistent with rate-making principles, the OEB's Filing Guidelines for Natural Gas Rate Applications (section 2.2.4) and, as with all capital assets included in rate base, the projects have been costed on a fully burdened basis.

Fully burdened costs include indirect overheads that are allocated to all projects, irrespective of whether these projects are ICM or not. Indirect overheads are allocated to projects within the EGD and Union rate zones and are required for the successful completion of all projects. These costs represent the support costs for departments such as Planning, HR, Finance and IS that support each project through to completion. These costs are not self-sustaining and are incurred to support the implementation of capital projects required to deliver safe and reliable service to customers.

Issue 13

Is Enbridge Gas' customer connection policy and Profitability Index calculation for consumers appropriate and in accordance with OEB guidelines?

Yes, the customer connection policy and Profitability Index calculation for consumers in the EGD rate zone is appropriate and in accordance with OEB guidelines.

In EB-2018-0131, Enbridge Gas Distribution agreed that, in this Application, it would file evidence detailing its refined approach to conducting feasibility analysis for residential infill customers. As explained in Exhibit B1, Tab 1, Schedule 1, Appendix H, Enbridge Gas enhanced its approach to assess the economic feasibility of residential infill customers in the EGD rate zone during its previous custom IR term. The improvement was designed to better align with the analysis with requirements of E.B.O. 188.

In Procedural Order No. 2, the OEB determined that it would add a new issue relating to the change in Customer Connection Policy in the EGD rate zone.

Refined approach to estimation methodology

Pursuant to the requirements of E.B.O. 188, Enbridge Gas uses a portfolio approach to manage its system expansion activities and ensures that the required profitability standards are achieved at both the individual project and the portfolio level. Investment Portfolio and Rolling Project Portfolio are the two Board-prescribed portfolio approaches.

The Company manages both its portfolio approaches to achieve a Profitability Index ("PI") of greater than 1.0 as required by the Board under E.B.O. 188. The minimum PI required for individual projects is 0.8. For projects with a PI less than 0.8, the customer shall be required to pay a Contribution-in-Aid-of-Construction ("CIAC") to bring the project up to the required PI level.

Prior to August 2015, Enbridge Gas applied a simplified approach to assess the economic feasibility of residential service connections. Residential services were deemed feasible to a threshold length (20 metres) beyond which customers would be required to pay a CIAC. The CIAC amount was determined at a rate of $32 per additional metre as prescribed in Rider G of the Rate Handbook. The approach assumed that the revenues and associated costs of all or the majority of residential services would be sufficiently consistent.

The underlying assumptions of like circumstances and sufficient cost recovery which allowed Enbridge Gas to maintain the simplified approach have changed.

Since August 2015, Enbridge Gas has refined its approach to determine feasibility using the "grid method" which uses actuals for each Forward Sorting Area (FSA). Under this approach, Enbridge Gas is able to account for variability in customer circumstances when assessing the CIAC amount for residential infill service connections. The CIAC amount for residential infill customers is now determined by individually estimating the following for each service connection:

(a) Revenue allowance, which is driven by customer consumption and represents the amount of capital Enbridge Gas can invest to achieve the required feasibility threshold (i.e. PI of 1.0).

(b) Service cost estimate, which is typically a regionally tailored estimate based on historical data from similar services in the same area (FSA).

The amount of service cost estimate in excess of the revenue allowance is the CIAC amount recoverable from a residential infill customer. This enhancement was required to ensure that the Company’s Investment Portfolio achieves a PI of greater than 1.0 and to remain compliant with E.B.O. 188. As Mr. Kacicnik explained:

> *MR. VIRANEY: It's Staff 2, section F, if you read the response of Enbridge, and it says:*
> *"The policy change was required to ensure that the company's investment portfolio achieves a PI of greater than 1." So under the prior approach was the PI lower than 1, the investment portfolio?*
>
> *MR. KACICNIK: Yes, you can see that if we bring up Energy Probe number 25, please. Page 2. The top graph shows the historical PI achieved for both Union Gas and EGD investment portfolios. For EGD you can see that PI was skirting 1 and dipped a little bit below 1 in 2015 and was skirting PI equal 1 in 2014 and '16.*

Enbridge Gas’s refined approach is intended to improve the accuracy of project feasibility assessment of residential services and ensures that new customers pay an appropriate amount of CIAC as prescribed in E.B.O. 188, and does not cause undue burden on existing ratepayers. The new cost estimation process reflects the impact of the regional diversity and resulting variability in costs being incurred across the franchise area.

All of which is respectfully submitted this 17th day of June, 2019.

ENBRIDGE GAS INC.

By its counsel, Lax O'Sullivan Lisus Gottlieb LLP

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Crawford Smith

Business Case Summaries for ICM Projects by Rate Zone

EGD Rate Zone

<table>
<tr><th colspan="2">NPS 30 Don River Replacement</th></tr>
<tr>
<td>Budget:
$35.4 million

In-Service Date:
December, 2019

In-Service Capital Spend:
$34.2 million 2019 in-service;
$1.1 million 2020 in-service</td>
<td><u>Category of Investment</u>: System Renewal

<u>Project Description and Drivers</u>:

Replacement of approximately 0.25 km of NPS 30 XHP on the Don River Bridge crossing with a new NPS 30 XHP under the Don River through the use of trenchless technology (microtunnel), and abandonment of the existing pipeline. Removal of the bridge and the abandoned pipeline to follow.
Studies have identified structural issues with the Bridge that can become further impaired during flood events which could cause the Bridge to fail resulting in catastrophic failure of the pipeline.
The pipeline is a critical feed to the densely populated urban Toronto area. Damage to this crossing at peak design temperature would result in the loss of ~ 92,500 customers, and may take days or weeks to restore service, once the pipeline issue has been addressed.

<u>Other Options Considered</u>:

Bridge Remediation:
This option would not require the NPS 30 pipeline to be replaced. Rather, the Bridge itself would be remediated to ensure structural stability against future flood events. Preliminary discussions identified the need for the use of some kind of sheet pile structures as a permanent remediation for the erosion around the bridge abutments. Based on the sensitivity of the adjacent 1911 (107 year old) twin bell and spigot 30” cast iron sanitary sewer mains (on wood piles), this option was deemed not viable. Due to the associated risk with working in the vicinity of these twin sanitary sewers, the option to remediate the bridge was not considered to be an acceptable alternative and therefore an estimated cost and timeline were not completed.
Bridge Rebuild & Pipe Replacement:
Through the consultation process, TRCA provided Enbridge with options to consider for the replacement of the NPS 30 Don River Bridge crossing. One of these options included the possibility of using another above ground crossing. Enbridge explains how City of Toronto Bridges and Structures does not allow pipelines to be installed on bridges. The installation of structural supports to install the pipeline adjacent to existing bridges and create a new bridge to cross over the river would require very

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	large supports. These supports would require footings in the river or on the river bank and there are already a number of structures in this area that would conflict with this approach. In addition, from an Enbridge construction and maintenance perspective, the installation of a pipeline on a bridge is deemed to be a last resort. As a result of all the above, this was not considered a viable alternative and therefore, an estimated cost and timeline was not completed. • *Direct Pipe Construction Method*: Under this alternative, the bridge would not be utilized and it would eventually be removed. The difference with this alternative relative to the proposed Project is the utilization of a different construction method for replacing the NPS 30 pipeline below ground under the river. During consultation the Direct Pipe method of construction and route considered for that methodology did not satisfy stakeholder concerns and conditions related to possible impacts to the TRCA's existing West Flood Protection Landform (FPL) and/or their proposed East FPL. As such a cost estimate, timelines and environmental impacts were not completed for this option as it was not a viable option. The Don River Replacement project was subject to a leave to construct application in EB-2018-0108. In its Decision and Order dated November 29, 2018, the OEB found that this project is needed to ensure the safe operation and reliability of the Don Valley Pipeline, as failure to address the risk associated with potential damage to the 89-year old bridge and existing pipeline could have a significant adverse impact on the gas supply to a large number of residential, commercial and industrial customers. The OEB also found that EGD adequately addressed environmental issues, land matters, design and safety requirements and adequately discharged the duty to consult with impacted Indigenous communities.[1] The budget is updated from the EB-2018-0108 filing budget of $25.6 million. It covers all costs related to material, construction and labour, land costs, contingencies, overheads, and interest during construction.

[1] EB-2018-0108, Decision and Order, November 29, 2018, pp.1-9.

Union Rate Zones

Sudbury Replacement Project	
Budget: $95.3 million In-Service Date: October, 2018 In-Service Capital Spend: $91.9 million 2018 in-service; $3.4 million 2019 in-service	Category of Investment: System Service Project Description and Drivers: • Build 20 km of NPS 12 pipeline in the Sudbury area to replace two sections of NPS 10 pipeline in the City of Greater Sudbury, predominately constructed in 1958 • Union’s Integrity Management Program identified multiple integrity issues through inspections and investigative digs • Increasing the size of the pipeline to NPS 12 provides capacity for future growth on the Sudbury system Options Considered: • Union considered replacing the existing pipeline with another pipeline of the same size (NPS 10), or only replacing those segments of the pipeline identified as having integrity concerns • In addition to not serving the forecasted growth in the Sudbury area, replacing the NPS 10 pipeline with NPS 10 pipeline would not solve the pigging issues of having dual diameter pipelines • Replacing only those segments identified as having integrity concerns would result in inefficiencies related to the individual replacements and future integrity concerns that may require replacement • This alternative would also not meet future growth in the Sudbury area • Increasing the pipeline size from NPS 10 to NPS 12 is consistent with Union’s practice to provide capacity for anticipated demand growth • The incremental cost of the NPS 12 pipeline over the NPS 10 is forecast to be $1.5M (a 2% increase in the cost of project) resulting in an expected capacity increase of the Sudbury Lateral System of 5% • Installing NPS 12 pipeline is the lowest cost option to meet the capacity requirement in the Sudbury area The Sudbury Replacement project was subject to a leave to construct application in EB-2017-0180. In its Decision and Order dated September 28, 2017, the OEB found that the proposed pipeline was in the public interest. In reaching this decision, the OEB accepted Union’s evidence that the project “is needed to maintain a safe and secure supply of gas in the Sudbury area”[2] and

[2] EB-2017-0180, Decision and Order, September 28, 2017, p.6.

	found the cost estimates “acceptable to address potential safety and security issues from the existing pipeline”.[3] The OEB also found that Union adequately addressed environmental issues, land matters, design and safety requirements and adequately discharged the duty to consult with impacted Indigenous communities.[4] The budget is updated from the approved EB-2017-0180 filing budget of $74.1 million. It covers all costs related to material, construction and labour, environmental protection measures, land acquisitions, contingencies, overheads, and interest during construction.
Kingsville Reinforcement Project	
Budget: $121.4 million Projected In-Service Date: November, 2019 In-Service Capital Spend: $118.2 million 2019 in-service; $3.2 million 2020 in-service	Category of Investment: System Service Project Description and Drivers: • Approximately 19 kilometers of transmission pipeline in the Town of Lakeshore and the Town of Kingsville in the County of Essex • The Project is needed to respond to increasing natural gas demand in the Kingsville-Leamington market as well as increasing demand on the overall Panhandle Transmission System. • The Panhandle Transmission System is the primary pipeline to transport gas from Dawn to the Ojibway Valve Site in Windsor and feeds high pressure distribution pipelines servicing residential, commercial and industrial customers. • The Project reinforces the high-pressure Panhandle Transmission System to serve customers in the Kingsville-Leamington market area and to serve future development in the market served by the Panhandle Transmission System. Options Considered: • Union considered alternatives including: different diameter pipeline, increased deliveries from Ojibway, looping the Panhandle system with NPS 36 pipeline, and distribution reinforcement with delayed construction of the NPS 12 pipeline to 2020 • A NPS 16 pipeline would be more costly in the longer term in relation to the upfront cost for the NPS 20 pipeline due to future facility requirements • Increased deliveries at Ojibway would be more costly over both the near

[3] *Ibid*, p.7.
[4] *Ibid*, pp.8-11.

	and longer term with higher distribution reinforcement requirements, which could become underutilized in the long term • Looping the Panhandle system with NPS 36 requires the Kingsville lateral within the 20 year timeline and could result in underutilization of distribution reinforcement • Delaying the NPS 20 constructed in 2020 would result in the distribution facilities constructed in 2019 becoming underutilized • The Project is the preferred alternative to address the need in both the five-year and longer-term horizon. The Kingsville Transmission Reinforcement project was subject to a leave to construct application in EB-2018-0013. In its Decision and Order dated September 20, 2018 the OEB found that the proposed pipeline was in the public interest. In reaching this decision, the OEB found that Union "demonstrated the need for this Project - a transmission line with broad benefits to the Panhandle Transmission System"[5] and found that Union "appropriately followed the OEB's E.B.O. 134 test for transmission projects".[6] In finding that the project is the preferred alternative, the OEB noted the Project, "has the highest net present value, addresses incremental demand in the Kingsville-Leamington area in 2019 and is consistent with other, longer-term considerations for the Panhandle Transmission System."[7] The OEB also found that Union adequately addressed environmental issues and land matters, and adequately discharged the duty to consult with impacted Indigenous communities.[8] The budget is updated from the EB-2018-0013 filing budget of $105.7 million. It covers all costs related to material, construction and labour, environmental protection measures, land acquisitions, contingencies, overheads, and interest during construction.
Stratford Reinforcement Project	
Budget: $28.5 million Projected In-Service Date:	<u>Category of Investment</u>: System Service <u>Project Description and Drivers</u>: • Approximately 10.8 kms of NPS 12 pipeline and ancillary facilities in order to increase the capacity of Forest, Hensall and Goderich

[5] EB-2018-0013, Decision and Order, September 20, 2018, p.4.
[6] *Ibid*, p.5.
[7] *Ibid*, p.6.
[8] *Ibid*, pp.7-8.

November, 2019 In-Service Capital Spend: $27.9 million 2019 in-service; $0.6 million 2020 in-service	Transmission System serving the Northern portions of the Counties of Middlesex and Lambton and the Counties of Perth and Huron (“FHG Transmission System”) • The Proposed Facilities are required to meet the increasing demands for natural gas starting in winter 2019 as the FHG Transmission System is forecasted to be fully utilized with no excess capacity available as of winter 2019 • In absence of the Project to increase capacity, Union will not be able to service additional customers • The budget covers all costs related to material, construction and labour, environmental protection measures, land acquisitions, contingencies, overheads, and interest during construction Options Considered: • Union considered many alternatives including: a different diameter pipeline, a different length of pipeline and upgrading the maximum operating pressure (“MOP”) of a portion of the FHG Transmission System • A NPS 10 pipe provides seven years of growth but significantly reduces the future capacity of the Stratford Line when compared to the NPS 12 option, it also does not adequately alleviate the constraint along the Stratford Line • The growth does not justify a NPS 16 reinforcement, and this size pipe would also require easement as it is too large to construct within the road allowance • There is insufficient growth to justify installing 15 km of NPS 12 pipeline, with potential for underutilization and different requirements for future reinforcement • Installing 7.6 km of pipeline does not provide the minimum of five years of growth and cannot accommodate any contract or large commercial growth, this alternative also has a significantly higher cost per-meter when compared to the proposed project • Upgrading the MOP of a portion of the FHG Transmission System does not provide the minimum of five years of growth and cannot accommodate any contract or large commercial growth until a Stratford Line reinforcement is completed • The Proposed Project is the most efficient project to provide the market with higher pressures and more robust gas supplies in order to meet the growing demand across the market region The Stratford Reinforcement project was subject to a leave to construct application in EB-2018-0306. In its Decision and Order dated March 28, 2019

	the OEB found that the proposed pipeline was in the public interest. In reaching this decision, the OEB found that "the project is needed to meet increased gas requirements and eliminate pressure-related constraints in the Forest-Hensall-Goderich Transmission System" [9] and found the "estimated cost and project economics acceptable"[10]. The OEB also found that Enbridge Gas adequately addressed environmental issues and land matters, and adequately discharged the duty to consult with impacted Indigenous communities.[11]

[9] EB-2018-0306, Decision and Order, March28, 2019, p.4
[10] *Ibid*, p.5.
[11] *Ibid*, p.7.