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VIA RESS

Ms. Christine E. Long
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
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Dear Ms. Long:

Re: EB-2020-0181 – Enbridge Gas Inc. (EGI) 2021 Rates Application on ICM Funding Request.

Industrial Gas Users Association (IGUA) – Final Argument.

Through this letter we provide IGUA's final submissions in respect of Phase 2 (ICM funding) of EGI's 2021 Rates Application.

In general (through the interrogatory and technical conference phases of this proceeding) IGUA has deferred to the active engagement of other ratepayer representatives in the matter of EGI's ICM funding requests. That remains the case in respect of final argument herein. There is, however, one issue in respect of which we wish to add comment; the issue of allocation of indirect overheads to the capital projects and their inclusion in the ICM rate riders.

We have had the opportunity to discuss this issue with a number of intervenor representatives and to review Energy Probe's argument on this topic (with which we agree), and will thus keep our additional comments on this issue brief.

EGI's *Argument in Chief* (AIC) notes that the OEB's decision on EGI's 2019 rates application *"confirmed the approach to be used to evaluate Enbridge Gas ICM requests during the deferred rebasing term, including… the inclusion of indirect overhead costs as part of the ICM project costs…"*.[1] The "confirmation" which EGI refers to is the following[2]:

> *The OEB approves the inclusion of indirect overheads in the ICM project costs. The OEB accepts Enbridge Gas' explanation that the ICM funding request is based on fully burdened costs, unlike a leave to construct application. Whether costs provided as part of a leave to*

[1] EGI AIC, paragraph 17.
[2] EB-2018-0305 *Decision and Order*, September 12, 2019, page 29, section 4.3.5.

construct proceeding should be inclusive of indirect overheads or not is out of scope in this proceeding. The OEB has never previously excluded indirect costs from ICM funding, and therefor the OEB considers Enbridge Gas' approach consistent with the OEB's policy for ICMs.

The foregoing finding reflects the issue that the Hearing Panel in that case addressed; whether indirect overheads capitalized to the project for which ICM treatment is being sought should be included in derivation of the ICM rate rider for the project. The OEB essentially determined that capitalization properly includes indirect overheads and thus capitalized overheads are appropriately included in ICM rate riders. This is a reasonable determination.

EGI's AIC goes on to point out that the OEB's decision in respect of EGI's 2020 rates *"also re-confirmed that it is appropriate for Enbridge Gas to include indirect overhead costs as part of ICM project costs to be recovered through the ICM rate rider"*.[3] The "re-confirmation" which EGI refers to is the following[4]:

Finally, intervenors submitted that the inclusion of indirect overheads should not be allowed. The OEB had clarified in the 2019 Rates Decision that indirect overheads are included in the calculation of rate base and should be included in the assessment of ICM. The OEB sees no reason to depart from this decision.

Again, as in the 2019 rate case, this passage reflects that the issue before the Hearing Panel was whether the allocation of indirect overheads capitalized to the project for which ICM treatment is being sought should be included in the derivation of the ICM rate rider for the project. Again the OEB determined that capitalization properly includes indirect overheads and thus capitalized overheads are appropriately included in ICM rate riders.

IGUA accepts that the Board has twice determined that, in accord with the policy of capitalizing indirect overheads to project capital, capitalized O&M amounts are properly included in ICM rate riders for the project. What the OEB has apparently not determined, however, is whether a corollary adjustment to the amount of O&M included in rates is thus required, in order to preclude double recovery by EGI. IGUA submits that such an adjustment is required. IGUA further submits that EGI's evidence and AIC implicitly acknowledges this.

EGI explains at paragraph 20 of its AIC that in order to *"ensure[ ] that neither the Company or ratepayers benefit or are harmed at the expense of the other"*, EGI proposes to record to its Accounting Policy Changes Deferral Account (APCDA) the revenue requirement impact of increasing capital through a revised (for Union South rate zones) overhead capitalization policy with *"a corresponding net decrease in the amounts expensed as part of operations and maintenance (O&M) costs… as compared to what would have occurred under the legacy overhead capitalization policies"*. That is, EGI acknowledges that capitalization of overheads results in a <u>corresponding</u> decrease in O&M expense.

[3] EGI AIC, paragraph 18.
[4] EB-2019-0194, *Decision and Order*, May 14, 2020, page 9, top.

In the result, if overheads capitalized to a project for which ICM treatment is being sought are to be included in derivation of the ICM rate rider (and thus EGI is to be allowed to recovery of a return of and on the capitalized amount), then the Board must direct that the corresponding decrease in O&M must also be reflected in a revenue adjustment. Otherwise EGI over-recovers relative to its Incentive Rate Mechanism (IRM) rate plan and, contrary to EGI's stated intention, the Company benefits at the expense of customers.

Accordingly, IGUA submits that the Board should direct EGI to recalculate its proposed ICM rate rider so as to include a decrease in O&M expense included in rates which corresponds to the allocation of indirect overheads to be included in derivation of the rider. Failure to do so would result in over-recovery to EGI and, in the words of the Company, a corresponding harm to customers.

Yours truly,

Ian A. Mondrow

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