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BY EMAIL, COURIER & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

**Re: EB-2018-0305 Enbridge Gas Inc. – 2019 Rate Application
Response to Decision and Procedural Order No. 2**

Enbridge Gas Inc. (“Enbridge Gas”) has reviewed the Ontario Energy Board’s (the “Board”) Decision and Procedural Order No. 2. We are writing to express our concerns over the scope of the proceeding as it relates to 2019 gas costs in the Enbridge Gas Distribution (“EGD”) rate zone. Specifically, and as set out below, it is our understanding of the Order that, as in prior incentive regulation years, gas costs would continue to be passed through as part of the annual rate adjustment and QRAM processes. However, it is apparent from certain interrogatories now filed by parties¹ that there is a different understanding. The difference is significant both from a financial and regulatory efficiency perspective.

At page 6/7 of the Procedural Order, the Board addressed “Gas Supply Planning.” There, the Board held:

The OEB has determined that gas supply planning is out of scope of this proceeding. In the MAADs proceeding that determined the rate-setting framework for Enbridge Gas, the OEB made clear that there was a separate process for the review and assessment of gas supply plans, and therefore this matter was not considered.

.....

The OEB recognizes that 2019 is a period of transition and that there is no approved gas supply plan for 2019. To the extent that any approvals are essential to the continued adjudication of QRAM applications, these can be identified by Enbridge Gas and filed in a stand-alone application. It is therefore appropriate that Enbridge Gas did not include gas supply planning on its proposed Issues List.

¹ See, for example, B. Staff 3.

As noted by the Board, Enbridge Gas had not included gas supply planning in its proposed Issues List. However, from Enbridge Gas' perspective, the issue of gas supply planning differs from the process by which gas costs have historically been adjusted by Enbridge Gas and how Enbridge Gas expected them to be adjusted in 2019. This is particularly the case given that the Gas Supply Planning Framework Review does not cover 2019 and begins with 2020 for the Enbridge Gas rate zone.

Unlike gas costs in the Union Gas rate zone which are adjusted and passed through entirely through the QRAM process, the Board approved methodology² in the Enbridge Gas Distribution rate zone contemplates adjustments to rates as part of the annual rate setting mechanism and through the QRAM. This is explained in the application at Exhibit B1, Tab 1, Schedule 1, page 6:

“The EGD rate zone has an approved methodology where the gas supply portfolio is updated in rates on an annual basis. Accordingly, gas cost rates have been adjusted for the EGD rate zone to reflect changes to the 2019 gas supply portfolio relative to the 2018 gas supply portfolio (i.e. impact of supply mix change, net of price changes that are otherwise captured through the QRAM methodology), as well as changes in contracted storage and associated transportation costs. **Changes to these cost elements are not captured through the QRAM methodology for the EGD rate zone.**”

In the MAADs Decision, the Board did not direct any changes to this methodology. The Board approved the “Y-Factors” “as proposed by the applicants.”³ Gas costs are a Y-factor and Enbridge Gas had not proposed any changes to the methodology for passing through those costs.

Moreover, in the MAADs proceeding, the Board differentiated (like Enbridge Gas does), between issues of gas supply planning and the methodology for passing through gas costs. In Procedural Order No. 3 in the MAAD's proceeding, and as noted in this case, the Board indicated that it “had initiated a separate process to consider the framework for the review and assessment of gas supply plans” and declined to add that issue to the approved Issues List in the MAAD's proceeding. The Board did approve however:

- (1) “Should there be pass through (Y factor) treatment for costs such as...(i) gas commodity and upstream transportation costs” (Issue 1(d)(i)); and,
- (2) “What changes to rates, regulated services, cost allocation or rate design should be permitted or required during the deferred rebasing period and what process should be required for such changes to be made.” (Issue 3)

In addition to the Board's findings in the MAAD's proceeding in relation to passing through of gas supply costs, there are other compelling reasons to address the continued recovery

² 2007 Rate application (EB-2006-0034), 2008-2012 Revenue Cap per Customer (EB-2007-0615), and 2014-2018 Custom IR (EB-2012-0459).

³ MAADs Decision and Order (EB-2017-0306/2017-0307)

of gas supply costs in this proceeding. First, the upcoming Gas Supply Planning Framework Review will address the gas supply plan for the 2020 to 2024 period and not address the 2019 gas supply plan for the EGD rate zone. Second, the necessary evidence has already been filed in this case, and notice given to affected parties. Third, currently there is no other Board-approved mechanism for EGD to recover the impact of the gas costs from the changes in the gas supply portfolio. Fourth, the impact of the year-over-year changes in the gas supply portfolio included in 2019 rates is approximately \$1.48⁴ for a typical residential customer and approximately \$4 M across all customers. Filing a separate application will result in regulatory inefficiency and a further delay in EGD's ability to recover these costs that have traditionally been passed through to customers.

In the absence of including the recovery of these costs in the 2019 rate application, Enbridge Gas will have to;

1. file an application with the Board to request a rate order to reflect the impact of gas costs from the changes in the gas supply portfolio, or
2. file an application to amend EGD's PGVA to facilitate recovery of rate impacts stemming from year-over year changes in gas supply portfolio, as well as, changes in contracted storage and associated transportation costs.

Neither of which seems desirable from the perspective of regulatory efficiency or cost.

For all of the above reasons, Enbridge Gas submits that its proposal to pass through its gas costs by updating 2019 rates to capture changes from the 2018 gas supply portfolio is within the scope of this proceeding and should not be precluded by Procedural Order No. 2.

Yours truly,

(Original Signed)

Rakesh Torul
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Regulatory Applications

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

⁴ See Exhibit F1, Tab 1, Rate Order, Working Papers, Schedule 3, Pages 2 and 10, Typical Residential Customer, Volume 2,400 m³ Item 3.6 Total Sales (\$4.26 at page 2 vs. \$5.74 at Page 10)