



ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL FILED ON MAY 29, 2019

**ENBRIDGE GAS INC.
2019 Rates Application
EB-2018-0305**

June 3, 2019

Background

In November 2017, Enbridge Gas Distribution Inc. (Enbridge Gas Distribution) and Union Gas Limited (Union Gas), filed an application to amalgamate and sought approval of a rate setting mechanism and associated parameters, effective January 1, 2019.¹

On August 30, 2018, the Ontario Energy Board (OEB) approved the amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited. In its decision, the OEB also approved a rate-setting framework and associated parameters for the deferred rebasing period of 2019 to 2023. The companies amalgamated effective January 1, 2019, and the new company is called Enbridge Gas Inc. (Enbridge Gas).

Enbridge Gas filed a complete application with the OEB on December 14, 2018 under section 36(1) of the *Ontario Energy Board Act, 1998* seeking approval for changes to its natural gas rates effective January 1, 2019. On December 3, 2018, the OEB declared the current rates of Enbridge Gas to be interim effective January 1, 2019 until the OEB issues a final rate order in this matter.

The approved rate-setting framework uses a price cap adjustment to set rates on an annual basis. The annual rate escalation is determined by a price cap index (PCI), where PCI growth is driven by an inflation factor, less a productivity factor of zero and a stretch factor of 0.30%. The PCI as calculated for 2019 is 1.07%.

The mechanism also allows for pass through of routine gas commodity and upstream transportation costs, demand side management cost changes, lost revenue adjustment mechanism changes for the contract market and average use/normalized average consumption adjustments.

Enbridge Gas also requested incremental funding for four capital projects in this application. The applicant filed a Utility System Plan and separate Asset Management Plans for the Enbridge Gas Distribution and Union Gas rate zones for the period 2019 to 2028 in support of its ICM request.

In Procedural Order No. 1 issued on February 22, 2019, the OEB approved a list of intervenors, made provision for filing submissions on the issues list, scheduled a process for further discovery through interrogatories and a technical conference, and scheduled a settlement conference. In Decision and Procedural Order No. 2 dated April 1, 2019, the OEB approved an Issues List for the proceeding. In that decision, the OEB determined that gas supply planning is out of scope in this proceeding and the OEB

¹ EB-2017-0306 / EB-2017-0307.

would not review the gas cost consequences of the 2019 Gas Supply Plan for the Enbridge Gas Distribution rate zone.

A settlement conference was held on May 13 and 14, 2019. The parties reached a settlement on a few issues but most of the significant issues were left unresolved.

Position of OEB Staff

OEB staff has reviewed the settlement proposal filed by Enbridge Gas in the context of applicable OEB policies and the OEB's statutory obligations. OEB staff supports the settlement of the issues and is of the opinion that the settlement is in the public interest. Moreover, in OEB staff's view, the explanation and rationale provided by the parties is adequate to support the settlement proposal.

In the submission below, OEB staff has provided comments and context to the issues that have been settled or remain unsettled. The submission does not follow the issues list but discusses the larger issues in general.

Price Cap Adjustment

The parties accepted Enbridge Gas' calculation of the PCI (1.07%) for purposes of setting 2019 rates. However, the issue of the PCI that should be used for determining the Union Gas rate zone's ICM materiality threshold will proceed to hearing. OEB staff agrees with the inflation value used to set 2019 rates.

Parties also agreed to escalate all rates by the PCI including the monthly customer charge across all service rate classes. In the settlement proposal, Enbridge Gas has presented bill impacts when the PCI is applied to customer charges for both the Enbridge Gas Distribution and Union Gas rate zones (Attachment 1b and 2b). However, there is no bill impact for the Union Gas rate zone; the attachment only shows the delivery rate impact. In addition, the annual consumption volumes for both the Enbridge Gas Distribution and Union Gas rate zones differ which makes an accurate comparison of bill impacts difficult. OEB staff's view is that total bill impact that uses the same consumption volumes (2,200 m³) for both, Enbridge Gas Distribution and Union Gas rate zones would assist the panel in understanding the impact of just the PCI adjustment. Although not a requirement for determining whether to accept the settlement proposal, OEB staff requests Enbridge Gas to file total bill impacts if possible, prior to the presentation of the settlement proposal.

Deferral and Variance Accounts

As part of the application, Enbridge Gas requested the following:

- Establishment of new deferral accounts
- Changes to certain deferral accounts
- Discontinuation of some deferral accounts
- Continuation of other deferral accounts

New Deferral Accounts

Parties agreed to the proposed wording of the Earnings Sharing Mechanism, Tax Deferral and Accounting Policy Changes deferral accounts as per the wording in response to OEB staff interrogatory 19. OEB staff supports the proposed wording.

Parties also agreed to the establishment of a separate Incremental Capital Module Deferral Account for the Enbridge Gas Distribution and Union Gas rate zones. Enbridge Gas has agreed to track any ICM funding request in the deferral accounts on a project-by-project basis. OEB staff supports the establishment of the deferral accounts.

Issues related to the treatment of the deferral accounts will go to hearing including whether incremental O&M and property taxes should be included.

Existing Deferral Accounts

As per the MAADs Decision, Enbridge Gas proposed to make changes to the wording of certain existing deferral accounts. Parties agreed to the proposed changes with the exception of the Enbridge Gas Distribution Open Bill Revenue Variance Account. However, the proposed changes to the accounting orders for the Union Gas rate zone related to capital pass-throughs during the IRM period remain unsettled. The proposed changes to the Union Gas rate zones' deferral account are tied to the unsettled issue of the one-time capital pass-through base rate adjustment.

In its application, Enbridge Gas proposed to include the revenues from the sale of surplus Dawn-Parkway capacity of 30,393 GJ per day into rates. Parties did not agree to the proposed approach. Parties agreed to continue the existing approach, which is to track the disposition of the surplus capacity as part of the annual deferral and variance

account proceeding in the Lobo D/Bright C/Dawn H Compressor Project Deferral Account. OEB staff has no concerns with maintaining the status quo.

Discontinuation of Deferral and Variance Accounts

Parties accepted the discontinuation of the Union Gas North Tolls and Fuel and Union North Purchased Gas Variance Accounts. These deferral accounts have been replaced with the new Union Gas North deferral accounts as part of the Dawn Reference Price Settlement Proposal.²

However, parties agreed to continue the Union Gas Unbundled Services Unauthorized Storage Overrun Deferral Account as Enbridge Gas accepted to not make any housekeeping related rate schedule changes until rebasing. The deferral account would have been discontinued along with the Rate U2 rate schedule but this will now have to wait until rebasing. OEB staff agrees with the proposed approach as the OEB had clearly indicated in its decision on the issues list that rate schedule changes that are not vital can wait until the next rebasing application.³

Rate Design Proposals

Enbridge Gas made four rate design proposals in its application:

- One-time adjustment for capital pass-through projects
- General service monthly customer charges
- Parkway Delivery Obligation Adjustment
- Demand Side Management budget allocations

One-time Adjustment for Capital Pass-throughs

In its application, Enbridge Gas proposed a one-time adjustment (credit of \$10.4 million) associated with the capital pass-through projects that were included in Union Gas' rates during the 2014-2018 IRM term. The proposed adjustment represents the difference between the 2018 project revenue requirement of \$127.6 million included in 2018 rates and the 2019 forecasted project revenue requirement of \$117.2 million.

Enbridge Gas proposed this one-time adjustment as a result of the MAADs decision which directed Union Gas to add the rate base and depreciation associated with the capital pass-through projects to the 2013 OEB-approved rate base and depreciation in determining the eligible incremental capital amount of the Union Gas service territory.

² EB-2015-0181.

³ Decision and Procedural Order No. 2, April 1, 2019.

Enbridge Gas' view is that continuation of the existing treatment of the deferral accounts would create a mismatch between calculation of the ICM materiality threshold and the funding of any additional capital that can be supported through rates. Parties did not reach a settlement on this issue.

General Service Monthly Customer Charges

In its application, Enbridge Gas did not apply the PCI adjustment to the monthly customer charge of all general service rate classes. As part of the settlement, parties agreed that Enbridge Gas will update its proposed calculation of the general service monthly customer charge by applying the PCI of 1.07% to all charges, including the general service monthly customer charge. OEB staff supports the proposed approach as the OEB's rate-setting policy for IRM envisions an escalation of all distribution related charges, including the fixed monthly charge.

Parkway Delivery Obligation Adjustment

In Union Gas' 2014 rates application,⁴ the OEB approved a framework for reduction of the Parkway Delivery Obligation (PDO). Union Gas rate zone large volume direct purchase customers east of Dawn had an obligation to deliver gas at Parkway (the Parkway Delivery Obligation). In the 2013 rates proceeding,⁵ direct purchase customers requested that Union Gas eliminate PDO and allow customers to deliver gas at Dawn because the cost to these customers to maintain the obligation exceeded the delivery rate benefit of the obligation. In the 2014 rates proceeding, Union Gas reached an agreement with parties on the PDO issue. The agreement allowed direct purchase customers to deliver gas at Dawn and Union Gas would recover the cost of moving the gas from Dawn to Parkway from all customers because Union Gas needs gas at Parkway. Direct purchase customers that chose to deliver at Parkway received an incentive called the Parkway Delivery Commitment Incentive (PDCI). In this application, Enbridge Gas has updated the PDO and PDCI costs to reflect the 2019 Rate M12 Dawn-Parkway toll and Dawn-Parkway compressor fuel. For purposes of 2019 rates, parties agreed that the PDO adjustment was appropriate. OEB staff supports the proposal and confirms that the adjustment is consistent with the PDO Settlement Framework.

⁴ EB-2013-0365

⁵ EB-2011-0210

Demand Side Management Budget Allocations

Enbridge Gas has included the OEB approved DSM budget of \$66.4 million for the Enbridge Gas Distribution rate zone and \$63.3 million for the Union Gas rate zones.⁶ The difference between the budget and actual 2019 DSM costs by rate zone will be captured in the respective demand side management variance accounts. Parties agreed that the DSM budget allocations are appropriate. OEB staff has no concerns with the proposed DSM budget allocations.

Request for Incremental Capital Module Funding

In its application, Enbridge Gas requested Incremental Capital Module (ICM) funding for four capital projects:

Particulars (\$ millions)	Total Project In-service Amount (A)	Total Project ICM Funding Request (B)	Difference (C)	Updated Cost EP IRR#16 (D)
<u>Enbridge Gas Distribution Rate Zone</u> Don River Replacement	34.2	13.1	(21.1)	35.4
<u>Union South Rate Zone</u> Kingsville Reinforcement	118.2	118.2	-	121.4
Stratford Reinforcement	27.9	25.1	(2.8)	28.5
<u>Union North Rate Zone</u> Sudbury Replacement (2018 In-service project)	91.9	91.9	-	95.3
Total ICM Funding Request	272.2	248.3	(23.9)	280.6

The issue of ICM funding remains unsettled. The issue of the variance between initial estimated amounts approved in the leave to construct applications and the revised amounts as noted in Column A above, also remains unsettled, as does the issue of whether the Utility System Plan and Asset Management Plans support approval of the ICMs. OEB staff notes that it is not clear whether the response to Energy Probe interrogatory #16 which has updated capital costs (Column D) impacts the ICM funding request.

⁶ EB-2015-0029/EB-2015-0049.

Enbridge Gas Distribution Customer Connection Policy

In its submission on the issues list, OEB staff recommended that the change in customer connection policy of the Enbridge Gas Distribution rate zone should be examined in this proceeding. Since 2015, Enbridge Gas Distribution changed its connection policy and stopped providing a free threshold of 20 meters for standard residential service connections. Enbridge Gas now calculates a Profitability Index (PI) for each infill customer and customers are required to pay a capital contribution so that customer revenues match the costs to serve the customer over a specified number of years. The issue of whether the change in customer connection policy is appropriate remains unsettled.

Hearing of the Unsettled Issues

In its cover letter enclosing the settlement proposal, Enbridge Gas indicated that the parties have agreed on which of the unsettled issues should be dealt with by way of an oral hearing and which issues should be dealt with by way of a written hearing. OEB staff does not object to the parties' proposed manner of hearing.

– All of which is respectfully submitted –