

# AIRD & BERLIS LLP

Barristers and Solicitors

David Stevens

Direct: 416.865.7783

E-mail: [dstevens@airdberlis.com](mailto:dstevens@airdberlis.com)

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## DELIVERED AND FILED VIA RESS

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

Dear Ms Walli:

**Re: EB-2011-0354: Enbridge Gas Distribution application re. 2013 rates  
Submissions re. Issues List**

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We represent Enbridge Gas Distribution Inc. ("Enbridge" or the "Company").

In Procedural Order No. 2, the Board set out a process for addressing "contested issues" on the Draft Issues List in this proceeding. The Board's Procedural Order directed that any party who proposes a contested issue may file written submissions in respect of that issue by June 6th. Other parties will have an opportunity to respond to any such submissions by June 8<sup>th</sup>.

Enbridge has reviewed the Draft Issues List prepared on June 5, 2012, and agrees that there are only three contested issues to be addressed (Issues B1, F2 and O6). In this letter, Enbridge sets out its position on Issue F2. The Company will provide responding submissions on June 8<sup>th</sup> in respect of the other two contested issues, as those are matters being advanced by other parties.

Issue F2 asks "Is the overall change in revenue requirement reasonable given the impact on consumers?". While Enbridge does not dispute that the impact on consumers of rates determined in this proceeding is a relevant issue for the Board to consider, the Company believes that this is an issue of rate implementation, not an issue of revenue requirement. As such, the issue of rate impact on consumers should be listed and considered as one of the "Other Issues", not as one of the issues under the "Revenue Sufficiency/Deficiency" heading.

Under cost of service regulation, a utility is entitled to recover its costs and earn a fair return on its investment in its distribution system. That is the revenue requirement. In its recent Discussion Paper titled "Approaches to Mitigation for Electricity Transmitters & Distributors" (EB-2010-0378), Board Staff explained (under the heading "Traditional cost of service regulation") that:

The Board sets rates to enable a utility to recover the forecasted costs which the distributor will prudently incur to provide regulated services. This cost includes a return on capital. Rate reviews are held periodically in which estimates are made for the test year of the cost of capital, labour, and other inputs that reflect the provision of regulated services. This becomes the utility's base rate revenue requirement.

In setting the base revenue requirement, the Board will consider the reasonableness of the utility's costs on an individual basis. However, the determination of the overall revenue requirement is not premised on what is reasonable in any subjective overall sense or from one overriding criterion such as impact on consumers.

Enbridge submits that the introduction of a subjective question about whether a revenue requirement is reasonable given the impact on customers confuses the process that the Board will follow in approving rates. Contrary to the implication of Issue F2, it is at the time that new rates are calculated, using the updated revenue requirement and Board-approved cost allocation and rate design, that the Board will look at how the proposed new rates impact upon consumers, and potentially also on the Company (to the extent that the Board is considering changes to the rates). If appropriate, changes may be made to the proposed rates as a result of that examination. With that in mind, Enbridge proposes to replace the currently proposed Issue F2 with the following "Other Issue":

O8: In the context of implementation of rates, are the impacts on customers and the Company of the proposed changes to rates reasonable?

Another approach that could be considered if the Board is not persuaded to replace Issue F2 with the proposed Issue O8 is to broaden Issue F2, to make it more balanced. That issue, if retained, should allow the Board to take into account not only the interests of consumers, but also the requirements of the utility, when determining whether the change in revenue requirement is "reasonable". To accomplish this, Enbridge suggests that the wording of the issue would be changed, so that it asks: "Is the overall change in revenue requirement reasonable given the impact on consumers and the Company?". This will allow all parties the opportunity to advance any arguments about how the "reasonableness" of the overall revenue requirement should be assessed.

Should you have any questions, please do not hesitate to contact me.

Yours very truly,

AIRD & BERLIS LLP



David Stevens

cc. Enbridge Gas Distribution  
All parties registered in EB-2011-0354

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