

## D: OPERATING COSTS

### 1. Is the 2013 O&M budget appropriate?

[Complete Settlement]

In its prefiled evidence, Enbridge requested a total O&M budget of \$438.1 million, comprised of five elements as set out below (Exhibit D1, Tab 3, Schedule 1):

Customer Care service charges	\$89.4 million
DSM	\$31.4 million
Pension costs	\$37.3 million
RCAM	\$32.1 million
All other O&M	\$247.8 million
	\$438.1 million

As set out below (Issues D9 and D13), the DSM and Customer Care costs have already been approved in separate proceedings. All parties agree that the amounts for the RCAM and “All other O&M” budgets will be combined, that Enbridge will include its OPEB costs of \$5.5 million with pension costs (and not with the “All other O&M” costs) and that Enbridge will reduce ~~this~~the resulting combined “All other O&M” budget for 2013 by \$22.8 million. All parties agree, for the purposes of settlement, that Enbridge’s O&M budget for pension costs and OPEB costs is accepted as filed, subject to the variance account treatment described below.

As a result, parties agree, for the purposes of settlement, that Enbridge’s 2013 O&M budget is appropriately set at \$414.9 million, which represents a reduction of \$22.8 million from the as-filed budget as set out in Impact Statement #2 (Exhibit M2). The budget is comprised of the following:

Customer Care service charges	\$89.4 million
DSM	\$31.4 million
Pension <u>and OPEB</u> costs	<del>\$37.3</del> <u>42.8</u> million
All other O&M	<del>\$256.8</del> <u>251.3</u> million
	\$414.9 million

The “All other O&M” amount is an envelope amount, and is not specifically allocated to any particular O&M expenses.

The updated O&M budget, reflecting the impact of these changes, is seen in the attached ADR Financial Statements (Exhibit N, Tab 1, Schedule 1, Appendix A, parts 1 and 2) at page 6.

The parties acknowledge that issues related to pension and OPEBs expenses, including the volatility of such expenses (the “Pensions Issue”) affect many entities regulated by the Board, and that the Board may determine at the appropriate time to institute a generic review of the Pensions Issue. Unless and until the Board issues a generic decision or other policy determination on the Pensions Issue, applicable to regulated entities that would include Enbridge during the term of its upcoming IR plan, the parties have agreed to a variance account that will function so as to effect a true-up of pension and OPEBs expenses, as well as a smoothing of pension and OPEBs differences over future years. All parties agree that if the Board does undertake a generic review of the Pensions Issue, then all parties will support

Enbridge's continuing recovery of its pension and OPEB expenses throughout the term of Enbridge's upcoming IR plan, provided that such recovery is designed in a manner to ensure that Enbridge recovers no more or less than its actual pension and OPEB expenses during each year of the IR plan.

~~All~~To effect this result, all parties agree that the 2013 pension ~~costs amount is~~expenses and OPEBs expenses, totalling \$42.8 million (\$37.3 million in pension expenses plus \$5.5 million in OPEBs expenses, both determined on an accrual basis) are to be true-up, such that Enbridge ultimately recovers in rates only the actual ~~amount~~amounts of its 2013 pension and OPEBs expense. ~~To accomplish this, all~~All parties agree to the creation of a Pension Post-Retirement True-Up Variance Account (PTUVA) which will record any differences between the Company's forecast pension and OPEBs expense and the actual pension and OPEBs expense (both determined on an accrual basis). ~~All parties agree that the PTUVA will function so as to effect a true-up of pension expenses, as well as a smoothing of pension expense differences over future years in the event that the amounts recorded in the PTUVA are significant. To effect these outcomes, in future years~~In future years, and in the absence of any new Board decision or policy on the Pensions Issue that is made to apply to Enbridge during the term of its upcoming IR plan, the PTUVA will include any uncleared balances from previous years, as well as the difference between the amount otherwise included in that year's forecast rates, and actual pension and OPEBs expenses for that year (again, on an accrual basis). For the Test Year, the 2013 PTUVA will record differences between the forecast 2013 pension and OPEBs expense of \$37.342.8 million and the actual 2013 pension expense. In the event that the balance (positive or negative) of the 2013 PTUVA is \$5 million or less, then the entire amount will be cleared along with the Company's other 2013 deferral and variance accounts. In the event that the balance (positive or negative) of the 2013 PTUVA is more than \$5 million, then half of the accumulated balance will be cleared along with the Company's other 2013 deferral and variance accounts and the remainder will be transferred to the next year's PTUVA to be addressed in the same manner. and OPEBs expense. To be clear, the OPEB expenses that are subject to the true-up approach described in this paragraph are the current year OPEB expenses. This true-up approach does not apply to the \$90 million of OPEB costs allowed for recovery commencing in 2013, which is addressed in Issues D4 and DV2, below.

The parties agree that the 2013 PTUVA will be cleared in a manner that will allow for all variances between \$42.8 million and actual pension and OPEB expenses to be recorded and cleared, subject to the condition that any amounts in excess of \$5 million (credit or debit) will be transferred into the next year's account, so that large variances can be cleared over time (smoothed). Under this approach, the maximum amount (debit or credit) that will be cleared from the 2013 PTUVA will be \$5 million, and any remaining amounts will be transferred to the 2014 PTUVA for future clearance.

There is no agreement as to the clearance methodology that will be applied to the PTUVA in future years beyond 2013. No party will raise any procedural objection if Enbridge or any other party seeks approval of a different clearance methodology for the PTUVA as part of Enbridge's 2014 rates proceeding (which is anticipated to be an application for approval of an IR methodology, which is not the type of case where such issues would ordinarily be raised). All parties are free to take whatever positions they determine with respect to the PTUVA clearance methodology at that time.

~~By way of example, if the actual pension expenses for 2013 exceed forecast pension expenses by \$8 million, then that amount will be recorded in the 2013 PTUVA, and \$4 million will be cleared to the credit of Enbridge, at the time that Enbridge's 2013 deferral and variance~~

~~accounts are cleared. The remaining balance of \$4 million will be transferred to the 2014 PTUVA, which will also record the difference between 2014 forecast and actual pension expenses. After the end of 2014, the balance of the 2014 PTUVA (if it is less than \$5 million) will be cleared. If the balance of the 2014 PTUVA is greater than \$5 million, then half of the balance will be cleared and the other half will be transferred to the 2015 PTUVA.~~

~~All parties agree that a different approach to the clearance of balances in the PTUVA may be agreed upon in future proceedings considering the disposition of such balances, if the approach set out above is deemed to be inappropriate in the circumstances.~~

The parties agree that this approach will continue until the earlier of a) a decision by the Board to implement a policy respecting the Pensions Issue that is applicable to Enbridge during the term of its upcoming IR plan, and b) the next rebasing application for Enbridge.

~~The updated O&M budget, reflecting the impact of these changes, is seen in the attached ADR Financial Statements (Exhibit N, Tab 1, Schedule 1, Appendix A, parts 1 and 2) at page 6.~~

The parties further agree that their commitment to support Enbridge's recovery of pension and OPEB expenses on an actual basis during the term of its upcoming IR plan should not be interpreted as any broad precedent or endorsement of that approach. To the contrary, the parties are agreeing to this approach in the specific circumstances of the overall settlement of this case, which include tradeoffs and compromises on a variety of items to arrive at an overall resolution in the interest of ratepayers and the Company.

**Evidence:** The evidence in relation to this issue includes the following:

A2-1-1	Introductory Evidence
A2-1-2	Benchmarking Study
A2-2-1	2013 Regulatory Budget Assumptions and Guidelines Directive
D1-1-1	Operating Cost Summary
D1-3-1	Operating Maintenance Costs
D1-3-2	Employee Expenses and Workforce Demographics
D1-4-1	Corporate Cost Allocation ("CAM")
D1-4-2	Updated Corporate Cost Allocation ("CAM")
D1-24-1	Regulatory Adjustments and Eliminations – CAM Elimination to Adjust for RCAM
D1-24-2	Updated Regulatory Adjustments and Eliminations - CAM Elimination to Adjust for RCAM
D1-7-1	Demand Side Management Budget
D1-9-1	Open Bill Access
D1-10-1	Finance Department - O&M Budget
D1-12-1	CIS / Customer Care – A Review of the Treatment of CIS/Customer Care Costs as a Result of the ADR Settlement in EB-2011-0226
D1-13-1	Energy Supply, Storage Development and Regulatory – O&M Budget
D1-14-1	Law Department – O&M Budget
D1-15-1	Operations – O&M Budget
D1-16-1	Information Technology – O&M Budget
D1-17-1	Business Development and Corporate Strategy
D1-18-1	Human Resources – O&M Budget
D1-20-1	Pipeline Integrity and Safety – O&M Budget
D1-21-1	Public and Government Affairs – O&M Budget
D1-22-1	Non Departmental Expenses – O&M Budget
D2-3-1	Compensation Study – A Comparison of the EGD I Compensation Program
D3-1-1	Cost of Service 2013 Test Year
D3-2-1	Cost of Service Comparison of Utility Cost and Expenses Budget 2013 and Estimate 2012
D3-2-2	Operating and Maintenance Expense by Department 2013 Test Year
D3-2-3	Operating and Maintenance Expense by Cost Type - 2013 Test Year vs. 2012 Bridge Year
D3-2-4	Salaries and Wages and FTE Forecast 2013 Test Year
D4-1-1	Cost of Service 2012 Bridge Year
D4-2-1	Cost of Service Comparison of Utility Cost and Expenses 2012 Estimate and 2011 Historic
D4-2-3	Operating and Maintenance Expense by Department 2012 Estimate

D4-2-4	Operating and Maintenance Expense by Cost Type 2012 Estimate and 2011 Historic
D4-2-5	Salaries and Wages and FTE Estimate 2012 Bridge Year
D5-1-1	Cost of Service 2011 Historic
D5-2-1	Cost of Service Comparison of Utility Costs and Expenses Actual 2011 and 2007 Board Approved
D5-2-2	Operating and Maintenance Expense by Department 2011 Historic
D5-2-3	Operating and Maintenance Expense by Cost Type 2011 Historic and 2007 Board Approved
D5-2-4	Salaries and Wages and FTE 2011 Historic
D5-2-5	O&M Variances 2007 - 2011
I-D1-1.1 to 20.5	Interrogatories on Issue D1
I-D2 to D26	Other Interrogatories on D series issues
I TR 82 to 160	Evidence at Technical Conference (September 5, 2012)
JT1.11 to 1.22	Undertakings from Technical Conference (September 5, 2012)
2 TR 182 to 184	Evidence at Technical Conference (September 6, 2012)
JT2.27	Undertaking from Technical Conference (September 6, 2012)

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