ONTARIO ENERGY BOARD

STAFF SUBMISSION

Enbridge Gas Distribution Inc.

2011 EARNINGS SHARING & DISPOSITION OF BALANCES IN DEFERRAL & VARIANCE ACCOUNTS

EB-2012-0055

December 7, 2012

Introduction

Enbridge Gas Distribution Inc. (“Enbridge”) filed an application dated May 11, 2012 with the Ontario Energy Board (the “Board”) under section 36 of the *Ontario Energy Board Act, 1998*, S.O. c.15, Sched. B, for an order or orders approving the disposition of balances in certain deferral or variance accounts established by the Board’s Decision and Order in EB-2010-0146 dated November 25, 2010. The Board assigned File Number EB-2012-0055 to this Application.

On June 4, 2012, the Board issued its Notice of Application and Procedural Order No. 1 which included an Issues List, a process for written interrogatories, and dates for a Settlement Conference as well as the filing of a Settlement Proposal.

The Settlement Conference was held on August 1, 2012 and August 2, 2012. Enbridge filed a proposed partial Settlement Agreement on August 24, 2012. On September 17, 2012 the Board issued a Decision and Order on the Settlement Agreement accepting the proposed Settlement Agreement and setting November 22, 2012 as the date for an oral hearing of the unsettled issues.

The unsettled issues pertain to the 2011 Earnings Sharing Mechanism Deferral Account (“ESMDA”) and the 2011 Transactional Services Deferral Account (“TSDA”). There were two unsettled issues with respect to the 2011 ESMDA and one issue with respect to the 2011 TSDA. The two issues relating to the 2011 ESMDA were:

a) the allocation of costs between regulated gas storage activities and unregulated gas storage activities for the purposes of the 2011 earnings sharing calculation, and
b) the amount of the provision for uncollectibles for the purposes of the 2011 earnings sharing calculation.

The accepted Settlement Agreement established that the issue relating to the allocation of costs between regulated and unregulated gas storage activities be dealt with in accordance with the outcome of Enbridge’s 2013 Cost of Service proceeding (EB-2011-0354). This issue was settled in the EB-2011-0354 proceeding and the Board has accepted this issue as having been settled in this proceeding.

The unsettled issue with respect to the 2011 TSDA related to whether Enbridge has treated the upstream transportation optimization revenues appropriately in 2011 in the context of Enbridge's existing IRM agreement.

The examination of these matters was heard orally by the Board on November 22, 2012.

The Board issued Procedural Order No. 2 on November 29, 2012 which set out dates for submissions and reply submissions.

The following is Board Staff's submission.

Treatment of Upstream Transportation Optimization Revenues

Board staff notes that over the IRM term, Enbridge has generated transportation optimization revenue in three ways which include base exchanges, Storage Transportation Service Risk Alleviation Mechanism ("STS-RAM") credit transactions, and capacity releases.

The essential characteristic of transactional services is that they are arrangements made to generate revenue from an unplanned, temporary surplus transportation capacity that Enbridge may have, from time to time, as part of its gas supply arrangements. The portion of utility gas supply assets that is available to support transactional service activities is only the portion of those assets that are temporarily surplus because of factors beyond Enbridge's control (i.e. weather, market demand).

During periods of reduced demand, Enbridge has optimized underutilized transportation capacity by conducting base exchanges with a third party between two points (i.e. receive gas at Dawn and redeliver to the Central Delivery Area). This would arise in an instance where a third party wants gas at a specific location but has no way of getting it there and thus Enbridge would conduct an exchange for a fee to the third party.

The second method that Enbridge used to generate transportation optimization revenues is through STS-RAM credit transactions. In 2007 TransCanada offered RAM credits to firm shippers under short-term services if they did not fully utilize their contracted capacity.[1] Therefore, if Enbridge does not fully utilize 100 percent of its contracted capacity under its STS contract it would generate RAM credits which are

[1] EB-2012-0055 Oral Hearing Transcript, Volume 1

available from November 15 to April 15. These RAM credits accumulate and can bring value in two ways:

- By applying credits to interruptible transportation ("IT") needed to meet utility demand; or
- By applying credits to an STS-RAM exchange transaction conducted with a third party.

The credits expire at the end of the month and cannot be carried forward. If they expire they provide no value. Furthermore, if IT is required for the utility business the credits offset the IT cost and in turn benefit ratepayers as they reduce gas costs. These gas cost reductions would be reflected in the Purchase Gas Variance Account ("PGVA").

If Enbridge anticipates that IT will not be needed for the utility business (Enbridge has indicated that it waits until near the end of the month), Enbridge's transactional services group looks for a potential deal with a third party that needs to move IT. The transactional service group factors in the cost of the IT and the benefit of the credits, which get rolled into the revenue associated with that exchange deal and is recorded in the Transactional Services account ("TS") and shared 75/25 between ratepayers and shareholders. If this transaction was not conducted, the credits would expire and ratepayers would receive no benefit. In 2011, the total revenue from STS-RAM transactions recorded in the TS account was approximately $800,000.

The third method that Enbridge uses to generate transportation optimization revenue is through capacity releases. Enbridge flows its Firm Transportation ("FT") at a 100 percent load factor even when it is greater than what its demand would be because Enbridge can move the gas back to storage. This allows Enbridge to enter into an exchange with a third party where Enbridge assigns a portion of its long haul capacity to the counterparty. Enbridge receives a credit from TransCanada Pipelines Limited ("TCPL") for the amount of the assignment which is greater than the amount being paid to the counterparty. The difference is recorded as Transactional Services revenue and is shared 75/25 between the ratepayer and shareholder. In 2011, Enbridge generated approximately $3 million through capacity releases. Furthermore, a total of approximately $3.8 million was generated by Enbridge in 2011 from capacity releases and STS-RAM credit transactions.

In Union's 2011 Earnings Sharing Mechanism decision on preliminary issue (Board File No. EB-2012-0087), the Board stated that "Union generated revenue by creating Unabsorbed Demand charges ("UDC") on a planned basis and then either concurrently assigned or exchanged its FT contracts on the TCPL Mainline to monetize the FT-RAM credit value of the unused FT contracts. Union was able to manage its upstream transportation by leaving the pipe empty and flowing on a different and cheaper path. The Board found that the effect of this activity is that higher upstream transportation costs that are paid for by Union's customers have been substituted with lower cost upstream transportation arrangements. The Board also found that Union has used TCPL's FT-RAM program to create a profit from the upstream transportation portfolio and has treated this profit as utility earnings, subject only to the provisions of the earnings sharing mechanism".[2]

Board staff submits that Enbridge is generating transportation optimization revenue in a different manner than Union. Enbridge's evidence is that it is flowing gas at a 100 percent load factor and not leaving the pipe empty on a planned basis. Enbridge generates credits when it does not fully utilize its STS capacity. When this occurs, Enbridge either uses the credits to offset IT service to meet utility demand, if the demand is needed, which reduces gas costs, or finds a third party with which to conduct an exchange transaction, and then the credits are used to offset these IT costs and the difference is shared 75/25 between ratepayers and shareholders.

Board staff submits that the first scenario (offsetting IT service) should result in a gas supply cost reduction because the STS-RAM credits were generated using unused capacity paid for by ratepayers. The capacity is a ratepayer asset and as such, if there is utility demand, the credits should offset the IT cost.

Board staff submits that the second scenario (exchange transactions) should result in transactional service revenue. If utility demand is not needed due to factors outside of Enbridge's control (i.e. weather, demand) and if Enbridge elected not to enter into the exchange transactions, the ratepayer would receive no benefit and the credit would expire. By engaging in transactional services, Enbridge benefits, but the ratepayers also receive 75% of the revenues through the sharing agreement.

Board staff submits that the current sharing of transactional services revenue of 75/25 is appropriate.

Board staff submits that no adjustment is required to the 2011 TSDA.

Provision for Uncollectibles

Enbridge stated that the Provision for uncollectibles increased by $10 million mainly due to adjustments required to correct deficiencies in accounts receivable reporting that

[2] EB-2012-0087, Decision on preliminary issue - Union's 2011 ESM

were recognized in 2011. Enbridge stated that during the conversion of its legacy system to the new Customer Information System (“CIS”), Enbridge became aware that the detail in its customer accounts did not agree to the balance in the General Ledger Account. Furthermore, Enbridge made an adjustment to the allowance for doubtful accounts to better reflect the uncollectibles.

Prior to making the adjustment, the write-off rate in Enbridge’s bad debt model was 0.44%. After making an adjustment in the allowance for doubtful accounts, the write off rate in Enbridge’s bad debt model became 0.56%. This was in line with the percentages from 2003 to 2008 which ranged from 0.47% to 0.58%.[3]

Subsection 05 (b) of the Canadian Institute of Chartered Accountants (“CICA”) handbook section 1506 provides the definition of changes in accounting estimates which indicates that they result from new information or new developments and, accordingly, are not corrections of errors.[4]

Board staff submits that Enbridge’s estimate of the allowance for doubtful accounts was made using the best information available at the time. Furthermore, Enbridge’s adjustment to the allowance for doubtful accounts is the result of new information provided by the implementation of the CIS rather than the correction of an accounting error.

Board staff submits that Enbridge’s Bad Debt Expense and Allowance for Doubtful Accounts are reviewed each year as part of Enbridge’s external audit and Enbridge has received a clean audit opinion each year including 2010 and 2011.

Board staff does not, therefore, oppose Enbridge’s provision for uncollectibles in 2011. Board staff submits that no adjustment is required to the 2011 ESMDA.

All of which is respectfully submitted.

[3] Allowance for Doubtful Accounts 2011, EB-2012-0055 IRR Responses, Exhibit I, Tab 2, Schedule 4
[4] Exhibit No. K1.4, General Accounting, Section 1506