EB-2012-0055

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), as amended;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an order or orders approving the clearance or disposition of amounts recorded in certain deferral or variance accounts.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

December 10, 2012

ENBRIDGE GAS DISTRIBUTION INC.
DISPOSITION OF 2011 BALANCES IN CERTAIN DEFERRAL AND VARIANCE ACCOUNTS

EB-2012-0055

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the issues that were not completely settled in the matter of an application by Enbridge Gas Distribution Inc. ("EGD") for an order of the Board approving the clearance or disposition of amounts recorded in certain deferral or variance accounts.

A Settlement Conference was held on August 1, 2012 and August 2, 2012. EGD filed the Settlement Agreement on August 24, 2012. The Board accepted the Settlement Agreement in its Decision and Order on Settlement Agreement dated September 17, 2012.

In that Decision and Order the Board noted that two accounts remained unsettled: 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 being the allocation of costs between regulated gas storage activities and unregulated gas storage activities for the purposes of the 2011 earnings sharing calculation, and the amount of the provision for uncollectibles for the purpose of the 2011 earning sharing calculation. As part of the Settlement Agreement, it was agreed that the first of these issues that relates to the allocation of costs between regulated and unregulated gas storage activities would be addressed and decided in EGD's 2013 cost of service proceeding (EB-2011-0354).

B - SUBMISSIONS

a) Has Enbridge treated the upstream transportation optimization revenues appropriately in 2011 in the context of Enbridge's existing IRM Agreement?

EGD has optimized their upstream transportation portfolio in three ways: base exchanges, STS RAM credit transactions and capacity releases (Tr. Vol. 1, page 6). The first of these ways, base exchanges, have been utilized by EGD since the mid 1990's, and was described by Mr. Small (Tr. Vol. 1, pages 6-7). Energy Probe has no issue with this type of transactional service.

Energy Probe's submissions deal with the latter two ways in which EGD has generated upstream transportation optimization revenues, namely capacity releases and STS RAM credit transactions.

i) Capacity Releases

The first way of generating transactional services revenue is through the use of capacity releases. As described (Tr. Vol. 1, pages 11-14), the capacity releases involve EGD providing gas purchased for use by ratepayers at Empress to a counterparty and assigning that counterparty a portion of its long haul capacity on TCPL with the counterparty giving the gas back to EGD at Dawn. In other words, it is a way to reduce the overall cost of gas to consumers through an exchange. The gas purchased at Empress is required to serve the ratepayers and is delivered to Dawn for their use.

Energy Probe submits that EGD's capacity release is similar in nature to Union's FT RAM optimization revenues. In fact, EGD agreed that while they do not explicitly take advantage of the FT RAM program, the counterparties with which EGD is dealing are most likely taking advantage of the program and the FT RAM credit is one element in what makes the deal attractive to the counterparty and therefore of value to EGD.

Energy Probe submits that the effect of these capacity releases is that the higher upstream transportation costs being paid for by EGD's ratepayers have been replaced with lower cost landed gas through the upstream transportation arrangements used. This saving, in its entirety, should be passed on to the ratepayers.

The use of the capacity release appears to be very similar to the use of STS RAM credits and IT transportation to supply gas to EGD's ratepayers noted below in part (iii). EGD credits this STS RAM related reduction in costs to ratepayers through the purchased gas variance account. Energy Probe submits that there is no reason why the reduction in gas costs (including delivery costs) through the use of capacity releases should be treated any differently. In both cases, the gas purchased at Empress is delivered to EGD at Dawn for the ultimate use by EGD ratepayers. The fact that EGD can get the gas at Dawn at a lower landed price through the use of capacity releases should be a benefit that is passed through in its entirety to ratepayers.

Energy Probe further submits that capacity releases are done on a planned basis. In the example given by Mr. Small (Tr. Vol. 1, page 11), EGD cannot take all of the gas at 100% load factor that is destined for Ottawa in the summer. The excess supply over demand can be diverted to Dawn for injection into storage. This summertime diversion creates STS credits that are needed to move the gas from Dawn to Ottawa in the wintertime when demand is in excess of supply. However, as Mr. Small indicated, each and every year EGD's gas control group evaluates what they think is required to accumulate these STS credits for wintertime use and it then becomes their decision as to the amount of STS capacity that is released to the transactional services group to take to the market (Tr. Vol. 1, pages 12-13). Clearly this is an ongoing, annual planning exercise.

In the response to Exhibit J1.1, EGD states that *"the purpose of Transactional Services is to generate revenue from transportation and storage assets that are surplus to the utilities need on a short term or seasonal basis."* Energy Probe submits that capacity releases, as described by EGD, do not use surplus transportation or storage assets on a short term or seasonal basis. Indeed, as described by Mr. Small capacity releases involved EGD delivering gas to Dawn that it has purchased for its system gas customers. This gas is required and does not result in surplus transportation or storage assets. It simply results in an exchange to get the needed gas where EGD wants it to be delivered.

<u>ii) Y Factor Treatment</u>

Energy Probe notes that in the EB-2007-0615 Settlement Agreement updated on February 4, 2008, it was agreed in Section 5.1 that, among other things, upstream gas costs and upstream transportation, storage and supply mix costs were to be treated as Y factors. This means that the costs associated with these items would be passed through to rates.

Energy Probe believes that capacity releases should be treated in the same manner as the net reduction in costs associated with the STS RAM credits used by EGD to move gas for use by its own customers. In other words, it is a pass through to ratepayers using the purchased gas variance account.

Consistent with the treatment of Y factors, Energy Probe submits that EGD should not keep any percentage of the net cost reductions it generates for its system gas purchases. Providing any incentive to EGD would be contrary to the long standing regulatory principle that the cost of gas and upstream transportation are to be treated as pass through items and EGD should not be allowed to profit from the procurement and delivery of gas supply for its customers.

iii) STS - Own Use

The second way of generating transactional services revenue is through the use of STS RAM credit transactions.

EGD has indicated that some of these credits are used to reduce the costs associated with the transportation of gas needed by EGD ratepayers. EGD further indicated that any of the credits used to reduce costs through the use of interruptible ("IT") transportation for the purposes of the utility business are used to offset the IT transportation costs and this benefit flows to the utility customers as part of the gas acquisition costs through the purchase gas variance account (Tr. Vol. 1, pages 8-10). Energy Probe submits that this credit to utility customers is appropriate.

iv) STS - Counterparty Use

However, not all of the STS RAM credits are associated with moving gas on an IT basis for EGD utility ratepayers. As Mr. Small indicated, some of these credits can be used to facilitate the use of IT transportation by a counterparty, allowing EGD to utilize those credits to facilitate transactional services revenues.

As shown in the response to part (i) in the attachment to Exhibit I, Tab 2, Schedule 2, EGD received total STS RAM credits in 2011 of $2.3089 million. Of this amount, $0.2031 million was assigned in full to ratepayers and represents the reduction in costs that were flowed through the purchased gas variance account noted above. This leaves a STS RAM credit of $2.1057 million that EGD has "optimized" and used to create net TS revenue of $0.8194 million, of which 75% is returned to ratepayers.

The issue, in the view of Energy Probe, is whether or not the net impact resulting from the use of these credits should be recorded as transactional services revenue or as a reduction in the cost of upstream transportation.

Energy Probe submits that the transactions related to these STS RAM credits should be treated as transactional services revenues. In this situation, EGD does not need to utilize the credits to move gas for its own ratepayers. Since no gas associated with this type of transaction is being purchased or moved on behalf of EGD ratepayers, it would not be appropriate to include any net revenues as a reduction to gas costs.

This type of transaction is a true optimization of assets (STS RAM credits) not needed for EGD ratepayers. Use of these assets generates additional value, 75% of which is provided to ratepayers. EGD could chose to not use these credits, and there would be no impact on the actual cost of gas or on upstream transportation costs. This is in contrast to the capacity release situation, where the actions taken by EGD have a direct impact on the landed cost of gas for use by EGD's ratepayers.

b) Is the amount of the provision for uncollectibles for the purposes of the 2011 earnings sharing calculation appropriate?

EGD's provision for uncollectibles rose significantly in 2011 to $21.542 million from $11.5 million in 2010 (Exhibit B, Tab 4, Schedule 2, page 1). EGD explained that this increase of approximately $10 million was mainly due to adjustments required to correct deficiencies in accounts receivable reporting that were recognized in 2011 (Exhibit I, Tab 1, Schedule 5) and that there were two categories of the deficiencies in the account receivable reporting.

The first deficiency relates to the impact of adjustments in 2010 and 2011 related to the true-up of the general ledger and accounts receivable subledger that was identified through the use of the company's new CIS system. This accounted for about $7 million of the $10 million increase from 2010 to 2011.

The second deficiency relates to an understatement in the mass market arrears balances which are used in the determination of uncollectible amounts. EGD indicated that these arrears balances were understated for sales related to the latter part of 2009 to 2011. This was partially offset by improvements in the collections for large accounts, with the result being a net increase in provision of uncollectible accounts of $3 million from 2010 to 2011.

EGD characterized the change it made as a refinement, rather than as a correction of an error (Tr. Vol. 1, pages 67-68). Energy Probe agrees with this characterization and believes the change simply reflects a better forecast for the provision of uncollectibles based on more precise information now being available.

Energy Probe does not dispute the increase in the amount of the provision of uncollectibles in 2011 from that shown for 2010. The question is whether or not this adjustment is appropriate in the calculation of the earnings sharing amount as set out in the EB-2006-0615 Board Approved Settlement Agreement.

In particular, at page 27 of that Settlement Agreement (Exhibit N1, Tab 1, Schedule 1) it was agreed that:
"for the purpose of the ESM, Enbridge shall calculate its earnings using the regulatory rules prescribed by the Board, from time to time, and shall not make any material changes in accounting practices that have the effect of reducing utility earnings".

Energy Probe notes that the change in the provision for uncollectibles does have a material effect of reducing utility earnings in 2011. The increase of $10 million due to the two adjustments made reduced the ratepayer portion of the earnings sharing by about $5 million.

However, Energy Probe does not believe that the change made by EGD constitutes a material change in accounting practices. Rather, it is simply a refinement of the methodology used to provide an estimate of the provision for uncollectibles based on new and more accurate information becoming available.

Energy Probe further notes that if the refinement had been in place in 2009 and 2010, the earnings sharing would have been reduced in those years and increased in 2011 as a result of the shift in the timing of the recording of the provision for uncollectibles. On an aggregate basis, Energy Probe does not believe that this would have changed the amount ultimately rebated to ratepayers through the earnings sharing calculation over the 2009 through 2011 period. As a result, the adjustments applied in 2011 have no net adverse impacts on ratepayers.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe has attempted to minimize its time on this application, while at the same time ensuring a thorough review.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

December 10, 2012

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