Outline of Examination-in-Chief

Rate 125 and APPrO Evidence

Panelists:

Erik Naczynski

Jackie Collier

Anton Kacicnik

Rate 125: Extra Large Firm Distribution Service

Rate 125 is an unbundled distribution service. The customer who takes service under this rate receives firm service on the Company's XHP gas distribution network to their plant location. Rate 125 customers procure their own supply of natural gas and arrange for transportation of that supply to Enbridge. As well, Rate 125 customers procure their own storage and load balancing services.

Rate 125 also includes a limited load balancing service, which is provided on a "pay as you go" basis.

Rate 125 delivery charges are considerably lower than the delivery charges on other rates.

Enbridge's Cost Allocation Methodology

Enbridge's cost allocation study allocates the test year revenue requirement to the customer classes and acts a guide to rate design. The Company's cost allocation evidence is filed under G2 series of exhibits.

The Company operates a highly integrated system to provide service to its customers. Because of this integration, the Board has approved the use of postage stamp rates for Enbridge. That is, customers on a given rate in Niagara Falls are subject to the same charges as customers using the same rate in Toronto.

The use of postage stamp rates in such an integrated system is supported by the costing of each service at average cost. As an example, all customers share in the mix of investment vintages. In general, customers who are connected to the system that was installed a long time ago have a lower cost to serve than those customers who were connected more recently because of when the facilities were built and the level of depreciation of facilities. In fact, each customer on the system has a slightly different cost of service based on when the customer was connected to the system, the location of the customer, the load profile and the load factor of the customer, etc.

The result of the cost allocation study represents the best estimate of the forecast costs to serve each rate class based on the principles and conventions that underpin the cost allocation methodology. An approach using different principles and conventions would produce different results. However, it is the consistent year-to-year relationship between costs and revenues that is important for derivation of rates and rate impacts.

Economic Feasibility Analysis

Enbridge carries out economic feasibility analysis for any customer in any rate class as per the guidelines prescribed by the Board in EBO 188.

As laid out at Exhibit I.C30.EGDI.APPrO.12 all costs to serve new customers and revenues from new customers are incorporated in the economic feasibility assessment as per the Board's guidelines prescribed in EBO 188. As mentioned, the approach to feasibility assessment is consistent for all customers.

In the event that the Profitability Index (PI) of the economic feasibility is less than 1.0, then the customer is required to pay a contribution in aid of construction in the amount that results in PI being raised to 1.0.

On the topic of feasibility analysis, it is important to highlight the concept of Billing Contract Demand, which is only applicable to new Rate 125 customers on dedicated service. For these customers, if the Profitability Index (PI) of the economic feasibility is more than 1.0, then a Billing Contract Demand is established for such a Rate 125 customer that results in PI being lowered to 1.0.

In other words, such a Rate 125 customer does not get billed based on their Contract Demand (CD), i.e. peak demand at the plant, but based on their Billing Contract Demand which is less than the customer's Contract Demand. This translates to a lower annual bill for these customers, which remains in place each year of the contract term (typically 20 years for these customers).

APPrO's Evidence and Recommendations

APPrO asked a number of questions on Enbridge's cost allocation evidence and requested a number of scenarios to be conducted assuming various changes to Enbridge's Board-approved cost allocation methodology. Some of the scenarios resulted in more costs being allocated to Rate 125 customers and some resulted in less costs being allocated to Rate 125 customers.

In its evidence APPrO recommends that Enbridge's cost allocation methodology be refined in two ways, both of which would reduce the level of allocated costs to Rate 125.

First, APPrO proposes that the cost of the XHP system should be further broken down into those assets and expenses that can reasonably serve Rate 125 and the rest of the assets that cannot reasonably serve Rate 125 customers.

As noted at Exhibit I.C30.EGDI.APPrO 10 the minimum pipe size capable of serving an embedded Rate 125 customer is 6 inches in diameter. Also, in the same interrogatory response it can be seen that the impact on Rate 125 customers should the cost of XHP pipes of 4 inches and less not be allocated to Rate 125 customers is approximately $1 M/year (of less costs being allocated to Rate 125). The $1M/year would then be allocated to and recovered from Enbridge's other customers.

Second, APPrO recommends that Enbridge should be directed either to amend its economic feasibility analysis as it applies to Rate 125 customers or to modify its cost allocation methodology so that Rate 125 customers are not required to pay for excess capacity in the system in two ways.

Should Enbridge make a modification to its cost allocation methodology as suggested by APPrO, the impact on Rate 125 customers would be approx. $0.5 M in 2016 (of less costs being allocated to Rate 125). The $0.5 M would then be allocated to and recovered from Enbridge's other customers.

Note that the stated impact of $0.5 M would diminish each year for two reasons: i) the level of excess capacity would get smaller each year, and ii) as the pipeline depreciates the associated revenue requirement diminishes over time.

In their evidence APPrO also notes that "Most of the capacity that is being added is to facilitate a shift in gas supplies to accommodate purchases at Dawn and Niagara…"

Segment A of the GTA project that will facilitate such a shift. Note that the Company is not proposing to allocate any of the costs of Segment A to Rate 125 customers. The Company will use Segment A to improve diversity of supply, security of supply, and to lower supply costs for its customers. Rate 125 do not receive supply / upstream services from Enbridge, and therefore, will not be allocated any of those costs.

Wrap Up

The total cost consequences transferred from Rate 125 to the rest of Enbridge's customers from APPrO's proposals would be approximately $1M/year for 2014 and 2015, approximately $1.5 M in 2016 and somewhat lower than $1.5 M in 2017 and 2018.

The Company notes that APPrO's proposals would also affect the level of site restoration cost refund to be allocated to Rate 125 customers of approximately $100 thousand / year (i.e. approx. $100 thousand less refund to Rate 125 customers. That is approx. $650 thousand instead of $750 thousand in 2014).

The Company does not support APPrO's recommendations.

The Company's rates are designed to recover the test year revenue requirement of an integrated system. The use of postage stamp cost allocation and rate making is supported by the costing of each service at the customer class average. This approach to setting rates does not differentiate between specific investments or the mix of investment vintages. Enbridge's Board-approved cost allocation methodology appropriately and sufficiently determines the relative cost differences between customer classes.

In the Company's view it would be inappropriate to deviate from the established approach. If changes were to be made to Enbridge's Board-approved cost allocation methodology, then the Company's view is that the proposed changes would need to be evaluated on a comprehensive basis rather than only on the basis of treatment of specific investments. The Company is of this view because, as pointed out earlier, some of APPrO's scenarios (requested through interrogatories) resulted in more costs being allocated to Rate 125 customers and some resulted in less costs being allocated to Rate 125 customers.