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

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an order or orders approving or fixing rates for the sale, distribution, transmission and storage of gas commencing January 1, 2014.

EB-2012-0459

Submissions of

The Association of Power Producers of Ontario (APPrO)

Regarding Enbridge's Draft Rate Order

August 14, 2014

Written Submissions of APPrO Regarding Enbridge's Draft Rate Order

Introduction

1. The Association of Power Producers of Ontario (APPrO) provides these written submissions in respect of Enbridge's proposed Draft Rate Order ("DRO") filed on July 31, 2014. Enbridge has incorporated in the DRO its interpretation of the various elements of the Board's July 17, 2014 Decision in this proceeding.
2. APPrO represents Enbridge's large volume customers. These customers primarily take service under Rate 125. All customers in this rate class are power generators.
3. While APPrO did not participate directly in the DRO Technical Conference, it has reviewed the transcripts and understands that the primary issues that have arisen in that discussion relate to:
    a. The timing of the increased SRC related refunds during the period of the Customized Incentive Rate Period (Custom IR) 2014-2018.
    b. Whether the weighted average cost of debt should be used to determine Enbridge's debt costs in future years.
    c. The refund period for Rider E (Revenue Adjustment Rider).

Submissions

4. Subject to the following comments, APPrO has reviewed the elements of the DRO that affect large volume customers and believes that the DRO accurately reflects the Board's decision in this proceeding.
5. Enbridge proposes to refund to its customers, a portion of the SRC funds that had been previously collected to retire its assets. In its application, Enbridge proposed to

refund $259.8 million over the Custom IR Period. These amounts would be refunded through Rate Rider E. Enbridge also proposed to refund the total amount using the following percentages:

- 2014 25.5%
- 2015 23.8%
- 2016 22.1%
- 2017 20.4%
- 2018 8.2%

The Board approved a higher SRC refund amount of $379.8 million[1]. Enbridge proposes to maintain these same annual refund percentages using the higher Board approved amounts[2]. The net impact of the rate changes for each year of the Custom IR Period, including the SRC amounts, is found in TCU-RO 1.7. In general this refund profile results in a large net decrease in 2014 rates over 2013 rates, followed by larger net rate increases in each of 2016, 2017 and 2018.

APPrO supports the schedule of SRC refunds as proposed by Enbridge rather than deferring the refund to later periods to smooth out the net year to year rate change.

6. Enbridge has interpreted the Board's decision on Cost of Capital to mean that

> *….. for rate setting purposes the cost of short-term debt and preference shares will be updated and set in each of the 2014 to 2018 rate applications. With regards to long-term debt, Enbridge interprets the Board's finding to mean that for rate setting purposes, the forecast magnitude and timing of new debt issuances will be set now, as identified in Appendix H, in congruence with 2014 to 2018 rate base values which are being set now (with the exception of annual updates for gas in storage and working cash allowance). <u>For rate setting purposes the cost rates for each year's forecast new debt issuances will be established and set in each year's annual rate application, and then remain fixed for the remainder of the Customized Incentive Regulation term</u>. To clarify, the cost rates for the forecast 2014 new debt issuances will be set in this proceeding and then remain*

[1] Decision page 62
[2] TCU-RO 1.2

> *fixed in each of the 2015 to 2018 rate applications. Cost rates for the forecast 2015 new debt issuances will be set in the 2015 rate application and remain fixed in each of the 2016 to 2018 rate applications, and so on for fiscal years 2016 to 2018. Any variances that occur in the actual magnitude, timing, or cost of new debt issuances, as a result of actual business and market conditions, will be incorporated into earnings sharing results[3].*[Emphasis added].

It is apparent that Enbridge is proposing to forecast the rate for long term debt issuance for the subsequent year and use this debt rate for the balance of the Custom IR term regardless of the actual debt rate that was incurred when the debt was issued. APPrO opposes this approach, and does not believe that it is consistent with the Board's decision. APPrO believes that to the extent that the actual debt rates for long term debt differ from forecasted rates, the actual debt rates should be reflected in the cost of capital in subsequent rate setting periods.

The Board indicated in its decision at page 55:

> *Having already determined that the return on equity and cost of debt should be determined on a consistent basis, the Board concludes that the cost of debt should also be set each year through the annual rate adjustment proceeding.*

APPrO believes that it was the Board's intention to set the cost of debt for the following year using the most current information each year, including actual debt rates on previously issued debt.

7. Enbridge is proposing Rider E which will be applied to the bills in the month of October 2014 and it is intended to refund the excess amounts that customers were charged during the earlier part of 2014 as a result of the lower rates for 2014 not being implemented until October 2014. Some stakeholders may have concerns that the

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[3] Final Rate Order Appendix A Schedule 1 paragraph 9

amount that is to be refunded may need to be adjusted to reflect the colder than normal winter that occurred during the initial part of 2014 and therefore greater sales volume to which the higher rates were applied. Parties may also be concerned that the amount to be refunded will occur during October 2014 which has historically been a month with highly variable volumes which can lead to higher or lower amounts being refunded than what was forecast.

APPrO believes that the refund amount and the refund mechanism should not result in variances to either Enbridge or the customers.

Large volume customers rates are set based on contract demand levels and these do not vary throughout the year, so the amount of the over collection that occurred in 2014 can be precisely determined and will not vary as it might for those rate classes where sales rates are based on volume. Similarly, since the contract demand does not change, the refund amounts will also not vary and there should be no risk of over or under refunding amounts for these customers. APPrO therefore does not have any concern with the refund amount or the refund mechanism proposed by Enbridge for these large volume customers.

Other stakeholders may however have concern with the refund amounts as 2014 was a colder than normal year, and consumption volumes were presumably higher, therefore the amounts that were over collected may also be higher than forecast. APPrO believes that the refund amounts should reasonably reflect the over collected amounts.

Similarly, since the refund period could have variable weather, the consumption volumes to which the refund would apply could also result in more or less amounts being refunded to customers. While this does not affect the large volume customers as noted above, to the extent that other stakeholders propose a 3 month refund period (October to December 2014), APPrO would not oppose extending the refund period over these 3 months to reduce the volume variance risk. APPrO would have a concern though if this refund period extended beyond December 2014.

All of which is respectfully submitted this 14th day of August, 2014.

Original signed by John A.D. Vellone
John A.D. Vellone