ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION ON DRAFT RATE ORDER

Enbridge Gas Distribution Inc.

2014-2018 Customized IR Application

Board File No. EB-2012-0459

August 14, 2014

Introduction

Enbridge Gas Distribution Inc. (“Enbridge” or “EGD” or “Company”) filed an application on July 3, 2013 with the Ontario Energy Board (the “Board”) under section 36 of the Ontario Energy Board Act, S.O. 1998, c.15, Schedule B for an order or orders approving rates for a five year period commencing January 1, 2014.

Enbridge filed a Draft Rate Order (“DRO”) and a Draft Accounting Order (“DAO”) on July 31, 2014 pursuant to the Board’s July 17, 2014 Decision with Reasons (the “Decision”). The Board held a Technical Conference on August 6, 2014 to allow parties an opportunity to address matters related to rate implementation. In the Decision, the Board found that the implementation date of the 2014 rates would be October 1, 2014 and the effective date would be January 1, 2014.

These are the submissions of Board staff in relation to the Draft Rate Order and Draft Accounting Order. The submissions will address matters related to the clearance of 2014 year-to-date revenue sufficiency and SRC amounts, the SRC refund pattern, the cost of debt, the DAO, and the appendices to the Final Rate Order.

Clearance of 2014 Year-to-Date Revenue Sufficiency and SRC Amounts

As a result of the findings in the Board’s Decision, Enbridge proposed two Rate Riders related to 2014.

Rider E

Rider E relates to the amount of the revenue sufficiency in 2014 for the period between January 1, 2014 and September 30, 2014. The Company calculated an amount of $62.1million as the revenue sufficiency for the full year. Enbridge calculated the revenue sufficiency for the period between January 1 to September 30, 2014 to be $43.9 million. The $43.9 million represents the difference in revenue at base rates compared to Final rates for 2014 applied to the 2014 Board approved forecast volumes for the period of January 1, 2014 and September 30, 2014. Enbridge’s proposal is to refund the $43.9 million as a one-time refund in October 2014. Enbridge further proposed that the refund be carried out on the basis of applying a unit rate to actual volumetric consumption for each customer for the month of October 2014. Enbridge calculated the unit rate by dividing the $43.9 million amount by forecast volumes for the month of October 2014.

Rider D

Rider D relates to the amount of site restoration costs (SRC) refund for the 2014 year for to the period between January 1, 2014 and September 30, 2014 stemming from the Board's Decision. Enbridge calculated a total refund of $96.8 million for the full year 2014. Enbridge calculated that the amount pertaining to the January 1 to September 30, 2014 period to be $74.0 million. Enbridge proposed to refund the $74.0 million over 3 months (i.e. through October to December 2014).

The refund would be carried out for 3 months (in contrast to Rider E which is only one month) based on actual volumetric consumption for each customer for the months of October, November and December 2014.

During the technical conference, Enbridge agreed that there are 2 issues at play for the clearances:

1. What should be the quantum of the refund? Should it be calculated using actual or forecast volumes?
2. How should this amount be refunded? Should it be calculated and applied to customers' actual consumption year to date, or on the basis of forecast volumes and applied prospectively based on customers' actual consumption over a future period?

In the technical conference, Enbridge characterized it this way:

> MS. COLLIER: No, I understand -- I agree with that separation of the two issues. First is the dollar amount of the give-back. The second is: How do you give that dollar amount back, whether it's over customer's actual volumes from January to whatever actuals you have available or is it spread over the three remaining months of the year, or is it done on October, as we proposed.
>
> So I appreciate there's two issues there.[1]

Historically, Enbridge has had a Rider E in place 5 times since 2006 to account for in-year revenue variances arising from the rate implementation date occurring after the effective date of the rate changes. Enbridge stated that in each of those years, the Board approved Rider E derivation was based on forecast volumes. [2] Enbridge also stated in response to TCU-RO 1.6 that in the past, Rider E was cleared over different time periods but the clearing was always done on a prospective basis.

[1] Transcript August 6, 2014 page 60
[2] TCU-RO 1.5 page 2 last paragraph.

Board Staff Submission

The first issue is whether the amount pertaining to the revenue sufficiency and SRC for the January 1 to September 30, 2014 period should be calculated based on actual or forecast volumes.

In response to TCU-RO 1.5, Enbridge calculated that the revenue variance between the base and Decision rates applied to the actual volumes for the January to July 2014 period is approximately $6.7 million higher than the revenue variance between the base and Decision rates applied to the forecast volumes. This is the result of actual volumes being greater than forecast volumes.

Board staff agrees with Enbridge's approach to use forecast volumes to calculate the cumulative revenue sufficiency as of September 30, 2014. Board staff submits that the approach of calculating adjustments on the basis of a test year forecast is consistent with previous Board decisions in both the natural gas and electricity sector.

Board staff also submits that the use of actual volumes, which are not weather normalized, would be counter to the forward test year approach where the revenue requirement and the load forecast is based on a weather normalized forecast. Board staff notes that the Board, in Horizon Utilities Corporation proceeding EB-2010-0131 in which a DRO was being considered, rejected the use of actual volumes to calculate foregone revenues for the period between the effective date and the implementation date of the rate change.[3] Board staff submits that the Board should not waver from this practice – irrespective of whether there is a customer charge or refund and whether actual volumes were lower or higher than forecast.

The second issue is whether the refund should be calculated and applied to customers' actual consumption year to date, or on the basis of forecast volumes and applied prospectively based on customers' actual consumption over a future period.

Board staff notes that under the first approach (i.e. the refund is calculated and applied to a customer's actual consumption year to date), the amount that would be credited back to customers should be the same as the amount calculated to be refunded to customers. Under the second approach, a difference may arise as a result of actual volumes being different than forecast volumes. In other words, a volumetric risk is introduced that could either benefit customers, or Enbridge.

In response to TCU-RO 1.6, Enbridge indicated that as a result of significant programming changes that would be required to implement the first approach, the implementation date would need to be pushed back to December 1, 2014. While

Enbridge indicated that this option could be accomplished technically from a rate design and billing implementation perspective, Enbridge did not support it on the grounds that this would constitute a departure from the existing Board approved methodology, and would require changes to the billing system and additional communications to customers.

While the first approach would minimize any variance between the forecast Rider E refund and the actual refund, Board staff is of the view that the timing of the refund is also paramount. As such, Board staff submits that the second approach (i.e. Enbridge's proposal) should be adopted by the Board. This approach is consistent with previous Board decisions and would expedite the timing of issuing refunds to customers. It would also reduce opportunity losses due to the time value of money. For these reasons, Board staff supports Enbridge's proposal to refund Rider E as a one-time adjustment in October 2014.

With respect to Rider D, Board staff notes the response to TCU-RO 1.6 (page 2) where Enbridge points out that the new Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA") has been designed to true up variances on SRC recovery amounts so that the amount eventually refunded at the end of the plan term will be no more or less than the Board sanctioned $379.8 million.

> Please note that the Board approved the Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA") to record and track the difference between the forecast SRC amount to be given back to customers based on forecast volumes and the actual amounts cleared to customers. <u>This approach ensures that the entire SRC amount is in fact credited back to customers and not a different amount</u>.[4]
>
> (emphasis added)

Board staff is satisfied that the CDNSADA will deal with the variances between forecast and actual amounts refunded. Also, while Board staff also has no issue per se with the proposed refund period of October through December 2014, Board staff invites Enbridge in Reply to provide the rationale for why the Rider D extends for 3 months, and not a shorter period, while Rider E exists for only October.

SRC Refund Pattern

[3] Horizon Utilities Corporation. OEB Decision and Order on Draft Rate Order EB-2010-0131 dated August 3, 2011.
[4] TCU-RO 1.6

In the DRO, Enbridge presented updated SRC amounts in response to the Board's SRC findings. Board staff notes that the 5-year refund pattern is in direct proportion to the profile proposed in its original evidence, as explained in TCU-RO 1.1. Enbridge provided its rationale for the refund profile in its evidence at D1/T5/S1 paragraphs 34 through 37. In essence, the pattern is designed to mitigate rate shock issues at the end of the plan term. Board staff also notes that the Board in its Decision with Reasons did not raise any concerns with Enbridge's original proposed refund pattern.

As such, Board staff has no issues with Enbridge's proposal.

Cost of Debt

Enbridge's proposal is to establish a plan of debt issuances and cost rates for the plan term and to re-forecast the cost rates, as applicable, each year for the debt components of its capital structure (i.e. long term debt, preference shares, and short term debt). This would be done within each annual rate application during the IR plan term. Once a re-forecast is done for a particular debt issuance, it would be held at that rate for years beyond the rate setting year (presumably until a cost of service re-basing is carried out).

Enbridge's updated forecast of debt issuances was included in the DRO at Appendix H. Included was $120 million of new long term debt added to the capital structure as a result of increases to rate base stemming from SRC adjustments contained in the Board's decision on SRC.

The Company's proposal to annually re-set cost of debt rates is outlined as follows:

> 9. Enbridge has provided updated required/planned levels of debt issuances for each of the years 2015 - 2018 within the Draft Rate Order results. The cost rates for the debt issuances planned for each rate setting year, will be re-forecast at the time of the application and then held at that rate for prospective years beyond the rate setting year. The forecast short term debt cost rate and preference share rate will be re-forecast within each annual rate application process.[5]

Board staff submits that the Company's proposal must be consistent with the wording in the Board's July 17, 2014 Decision with Reasons 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

[5] DRO Appendix F Line 9

> adjustment proceeding. The Board accepts that setting the cost of debt may be somewhat more contentious than setting the return on equity since it will not be formulaic; however, there is evidence in this proceeding which provides an indication of the expected timing for future debt issues and, as a result, the issue may be amenable to negotiation among the parties.

Board staff takes issue with the Company's proposal to effectively freeze the cost rates forecasted for debt issuances beyond the rate setting year in question. Board staff's view is that the cost rates should be updated each year and take into account actual debt issuances and associated actual cost rates. In other words, the cost of capital should be reset annually to reflect the forecast cost of debt for new issuances and actual information on previous issuances and associated cost rates. This would be consistent with the Board's decision to have the ROE and cost of debt determined on a consistent basis each year.

On the matter of the incremental $120 of debt resulting from the SRC decision, Board staff is satisfied that this proposal is appropriate.

Draft Accounting Order

Board staff has no concerns with respect to the filed Draft Accounting Order. Board staff's view is that the Board may proceed to issue a final Accounting Order on the deferral and variance accounts.

Appendices

Staff proposes the following sequence and content with respect to the Appendices to be attached to the Final Rate Order. Staff invites Enbridge to comment on the appropriateness of its suggestions for the appendices of the Final Rate Order.

Title in DRO	**Contents**	**Staff Proposal for the Final Rate Order**
Appendix A	Annual Financial Statements years 2014 to 2018 inclusive	Include as Appendix A
Appendix B	Rate Handbook 2014	Include as Appendix B
Appendix C	Rider E derivation	Include as Appendix C
Appendix D	Estimated rate impacts	Include as Appendix D updated T-service bill impacts per TCU-RO 1.7 and typical customer bill impacts per TCU-RO 1.8
Appendix E	Reporting Commitments	Include as Appendix E
Appendix F	Annual Update Elements 2015 to 2018 Custom IR	Include as Appendix F
Appendix G	Schedule of Depreciation Rates	Include updated version per TCU-RO 1.9 as Appendix G

Appendix H	Updated Planned Debt Issuances	Include as Appendix H

~ All of which is respectfully submitted ~