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BY EMAIL and RESS

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Our File No. 20120459

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2012-0459 – Enbridge 2014-2018 Rates – Draft Rate Order

We are counsel for the School Energy Coalition. Pursuant to the Decision with Reasons in this matter, this letter constitutes SEC's submissions with respect to the Draft Rate Order filed by the Applicant on July 31, 2014.

SEC generally finds the DRO package complete and correct, but has the following concerns.

Amount of Rider E

Rider E adjusts for the fact that rates have changed for the entire 2014 year, but the change cannot be implemented before October 1, 2014.

Enbridge has proposed that it will calculate the amount that it has over-collected in rates (i.e. the difference betwee the rates arising out of the Decision, and the rates actually charged), using the original forecast volumes for 2014. SEC believes that Enbridge should refund the actual amount over-collected, which would be based on actual volumes for 2014, not forecast volumes.

The difference in volumes is significant. Overall, the difference for the seven months January to July (the most recent actuals Enbridge has been able to provide) is 15.33% [TCU-RO 1.5,

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Attachment, Table 1]. For Rate 6, which includes schools, volumes for those seven months were 20.1% higher than forecast [op.cit.].

Using Rate 6 as an example, the revenue difference between existing rates, and rates from the Decision, for the seven months January through July, is $13.6 million if the forecast numbers are used [Final Rate Order, Schedule 1, p. 4]. However, if the actuals are used for those seven months, the over-collection for Rate 6 is $16.0 million [TCU-RO 1.5, Attachment, Table 2]. There are similar impacts in other classes.

Enbridge takes the position [TCU-RO 1.5] that it is entitled to calculate these refunds of over-collections based on the lower forecast amounts, because in past years when it has had an under-collection to recover from ratepayers, it has also use forecast amounts.

This is incorrect on two counts. First, the winter of 2014 was unusually cold, causing a larger volume variation than is normally seen. Second, recoveries of over-collections like this take place because the Applicant failed to complete the process for getting new rates in a timely manner. That is largely within the Applicant's control, and they should not be permitted to benefit from that delay.

SEC therefore submits that the amount to be refunded in Rider E should be based on actuals for at least the seven months that are currently known. The fact that August and September will still be forecasts is less of a concern, because volumes do not vary as significantly in those months. The basis of the refund would still be almost completely accurate.

Payment Period for Rider E

The Applicant proposes to refund the entire amount of Rider E in one month, October 2014, using the volumes for that month. They acknowledge that using that approach creates winners and losers, since some customers will have relatively high volumes in that month, and others lower volumes. It can also benefit or hurt the Applicant, as weather, and therefore volume, is unpredictable in October.

Enbridge has agreed that it can refund Rider E over 3 months [TCU-RO 1.6, p. 3]. SEC believes this is an appropriate solution.

Refund Pattern for Site Restoration Costs

The Decision increases the adjustments for SRC in two ways. First, depreciation over the five years is decreased by $85 million. Second, the refund of past SRC is increased from $259.8 million to $379.8 million. These both have material impacts on tax payable each year, and on rate base and therefore cost of capital each year.

The effect of these changes is to alter the overall pattern of rate increases and decreases expected over the next five years. SEC is concerned with the large decreases and increases that result.

SEC has no concerns with the approach taken to decrease the depreciation by $85 million. While it has significant impacts, those impacts are most easily dealt with through the refund pattern of the existing SRC, rather than through the more complicated route of adjusting depreciation rates.

With respect to the refund of $379.8 million of SRC, Enbridge proposes to use the same front-loaded refund pattern that it proposed in its Application to refund the lower amount. That pattern, SEC submits, is no longer appropriate given the higher amount to be refunded, and the other changes to customer bills arising out of the Decision. The overall effect is bill increases and decreases each year that surpass reasonable levels.

SEC and others have asked Enbridge to provide a table showing the result if the pattern of SRC refunds was changed to back-loaded, in order to smooth rate increases and decreases over the five years. Enbridge has declined to do so, so SEC has prepared that calculation based on the information already provided by Enbridge. This was provided to Enbridge last night for their review.

Attached to these submissions is a table showing the annual impacts on distribution bills from the Enbridge front-loaded proposal, and calculations of an alternative approach.

The Enbridge front-loaded approach [see line 6] produces a sharp bill decrease for 2014, which customers would see all in the last three months of this year. That is followed by sharp bill increases in each of the next four years, in each case three times inflation, or more. This happens because the deficiency from operations increases each year, causing a bill increase [see line 11], and because the reduction in the SRC refund each year exacerbates that bill increase even more.

The pattern seen is directionally similar to the figures provided by Enbridge [TCU-RO 1.7], but is based on changes to revenue requirement, rather than rates. There will be adjustments to these figures for changes in customer numbers and volumes, but those changes will not bring the bill changes close to a smooth pattern.

SEC has then adjusted the figures, using the same methodology as Enbridge (and adjusting taxes, cost of capital, and other factors in the same manner as Enbridge), but on the assumption that the SRC refund is used in a back-loaded way to smooth the bill increases for customers. The effect of this approach [see line 19] is that ratepayers see a small decrease in their bills, followed by a small increase each year for the next four years.

This is a classic bird-in-the-hand problem. Do customers prefer a big refund now, followed by big increases each year for four years? Or, do customers prefer stable rates?

SEC went to its members to seek input on this point, and their view is that stability over the five year period is to be preferred over the roller-coaster effect proposed by Enbridge.

Enbridge has expressed a concern that this leaves bills too low in 2018, and there will then be rate shock in 2019 on rebasing.

SEC disagrees with this assessment, for three reasons.

First, there is no assurance that the SRC refunds will end in 2018. The Applicant may still have a substantial over-collection amount at that time, and the issue will have to be addressed in the next rebasing (if the Board has not looked at it before that time).

Second, Enbridge will just be completing five years of IRM. In 2014, it has a rate decrease. If Enbridge is able to drive productivity during IRM, there could be lower costs by the time we get to 2019. At the very least, Enbridge should not set rates today on the assumption that its IRM productivity initiatives will be entirely unsuccessful.

Third, the rate shock in 2019 that worries Enbridge is a possibility only. The Enbridge proposal builds in certainty of rate shock, for multiple years. SEC believes that customers – and undoubtedly this is true of schools – would prefer the risk of a risk shock in the future to the certainty of multiple rate shocks in the interim.

We note, in addition, that the back-loaded approach also reduces the incremental cost of capital, arising due to the refund and their effect on rate base, from $94 million over five years to $50 million over five years. This $44 million difference is a permanent saving for ratepayers.

For these reasons, SEC submits that the Board should require Enbridge to change the SRC refund pattern to produce less volatile bill changes, using a pattern similar to that in the attached example.

Annual Resetting of Debt Rate

In its proposals on annual adjustments during the IR plan, Enbridge has proposed that it will forecast the cost of incremental debt each year, and that amount will be built into rates for all years going forward, whether or not the forecast turns out to be accurate. When the cost of incremental debt the following year is forecast, the actual results for the previous year will not be adjusted or trued-up in any way.

The Applicant's rationale for this is that the actual amount of debt in the year will depend in large part on the actual growth of rate base. Since the amount of the rate base is not trued up during IRM, the Applicant argues that the cost of debt also cannot be trued up.

SEC generally agrees with this with respect to the actual cost of debt. However, that does not hold true for the weighted average interest rate on the debt.

In making a forecast of the cost of debt for a year, the Applicant has two inputs: the deemed amount of debt based on the IR plan, and the weighted average interest rate on that debt. In the case of the weighted average interest rate, that in turn has two components: the embedded weighted interest rate for debt already issued, and the forecast interest rates on incremental debt in the forecast period.

What Enbridge proposes is that the embedded weighted interest rate for debt already issued be a construct, using actuals until the end of 2013, but then using forecast amounts each year during IRM. If actual interest rates are higher or lower, that would not be corrected until rebasing in 2019.

SEC disagrees. The Board has ordered the Applicant to reset their cost of debt each year. In our submission, any such reset should use the best information available. For embedded debt, the best information on the rate being paid is the actual rate being paid, not some prior forecast that has already been superceded by those actuals.

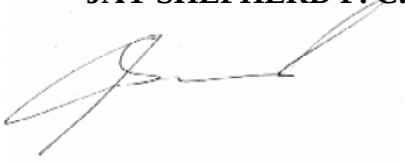
SEC therefore proposes that the annual reset of the cost of debt should start with the actual weighted average rate on embedded debt, to which would be added the forecast cost of future issuances. This would produce an overall weighted average interest rate, which would then be applied to the Board-approved rate base.

Conclusion

Subject to the comments above, SEC accepts the proposals of the Applicant in the Draft Rate Order.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties

Comparison of Refund Patterns - Proposed vs. Smoothed

Enbridge Proposal

Item	*Ln.*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Gross Revenue Requirement	1		$2,436.4	$2,634.1	$2,774.6	$2,829.8	$2,890.5
Gas Costs	2		$1,456.3	$1,606.8	$1,632.5	$1,632.5	$1,632.5
Net Distribution Revenue Requirement	3	$1,042.2	$980.1	$1,027.3	$1,142.1	$1,197.3	$1,258.0
Refund of SRC	4	$0.0	$96.8	$90.4	$83.9	$77.5	$31.1
Net Distribution Cost	5	$1,042.2	$883.3	$936.9	$1,058.2	$1,119.8	$1,226.9
Rate of Change (i.e Weighted Average Rate Increases)	6		-15.25%	6.07%	12.95%	5.82%	9.56%

Adjust to Remove SRC Impacts in Distribution Revenue Requirement

Distribution Revenue Requirement	7	$1,042.2	$980.1	$1,027.3	$1,142.1	$1,197.3	$1,258.0
Plus: Grossed Up Taxes on SRC Refund	8	$0.0	$34.9	$32.6	$30.2	$27.9	$11.2
Less: Grossed Up Cost of Capital on Rate Base Increase	9	$0.0	$4.5	$12.2	$19.7	$26.5	$31.1
Distribution Revenue Requirement Without SRC	10	$1,042.2	$1,010.5	$1,047.7	$1,152.6	$1,198.7	$1,238.1
Rate of Change (i.e Weighted Average Rate Increases)	11		-3.04%	3.68%	10.02%	4.00%	3.28%

Smoothed Alternative Refund Pattern

Refund of SRC	12	$0.0	$0.0	$19.0	$90.0	$121.0	$149.8
Distribution Revenue Requirement Without SRC	13	$1,042.2	$1,010.5	$1,047.7	$1,152.6	$1,198.7	$1,238.1
Less: Grossed Up Taxes on SRC Refund	14	$0.0	$0.0	$6.9	$32.4	$43.6	$54.0
Plus: Grossed Up Cost of Capital on Rate Base Increase	15	$0.0	$0.0	$0.9	$6.0	$15.1	$26.9
Adjusted Distribution Revenue Requirement	16	$1,042.2	$1,010.5	$1,041.8	$1,126.2	$1,170.2	$1,211.0
Less: Refund of SRC	17	$0.0	$0.0	$19.0	$90.0	$121.0	$149.8
Net Distribution Cost	18	$1,042.2	$1,010.5	$1,022.8	$1,036.2	$1,049.2	$1,061.2
Rate of Change (i.e Weighted Average Rate Increases)	19		-3.04%	1.21%	1.31%	1.26%	1.15%

Calculation of Grossed Up Cost of Capital Increase

Opening Increase in Rate Base	20	$0.0	$0.0	$0.0	$19.0	$109.0	$230.0
Incremental Rate Base Increase	21	$0.0	$0.0	$11.1	$52.6	$70.8	$87.6
Total Increased Rate Base in the Year	22	$0.0	$0.0	$11.1	$71.6	$179.8	$317.6
GU Cost of Capital from Enbridge Calculations	23	0.00%	8.03%	8.18%	8.34%	8.38%	8.48%
Total Grossed Up Cost of Capital	24	$0.0	$0.0	$0.9	$6.0	$15.1	$26.9