August 14, 2014

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2012-0459
Enbridge Gas Distribution Inc. – 2014-2018 Customized IR Plan
Energy Probe – Submissions on DRO & DAO

Pursuant to the Decision With Reasons, issued July 17, 2014, please find attached the Submissions of Energy Probe Research Foundation (Energy Probe) in respect of the Draft Rate Order and the Draft Accounting Order in the EB-2012-0459 proceeding for the consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Norm Ryckman, Enbridge Gas Distribution Inc. (By email)
Andrew Mandyam, Enbridge Gas Distribution Inc. (By email)
Fred Cass, Aird & Berlis LLP (By email)
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EB-2012-0459

Ontario Energy Board

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

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 commending January 1, 2014.

SUBMISSIONS ON THE DRAFT RATE ORDER & DRAFT ACCOUNTING ORDER OF ENERGY PROBE RESEARCH FOUNDATION ("ENERGY PROBE")

August 14, 2014

ENBRIDGE GAS DISTRIBUTION INC.
EB-2012-0459

ENERGY PROBE RESEARCH FOUNDATION
SUBMISSIONS ON THE DRAFT RATE ORDER & DRAFT ACCOUNTING ORDER

1. INTRODUCTION

In the Decision with Reasons dated July 17, 2014, the Ontario Energy Board ("Board") directed Enbridge Gas Distribution Inc. ("Enbridge") to file a Draft Rate Order ("DRO") and a Draft Accounting Order ("DAO"). The DRO and DAO would contain sufficient detail and supporting documentation to allow the Board and parties to verify that the Board's findings were properly addressed.

The Board also provided for a technical conference, which took place on August 6, 2014. Submissions from parties on the DRO and/or DAO were to be filed by August 14, 2014.

Energy Probe believes that the use of a technical conference significantly aided the parties in understanding the material filed by Enbridge on July 31, 2014.

These are the submissions of Energy Probe Research Foundation ("Energy Probe") on the DRO and DAO. Based on this information, Energy Probe submits that Enbridge has provided sufficient detail and supporting information for parties and the Board that its' findings have been properly addressed in all areas except for those noted below.

The submissions that follow all deal with components of the DRO. Energy Probe has no issues with the DAO, except as any changes that may be required resulting from the submissions below.

2. LONG TERM DEBT

As noted in paragraph 9 of the DRO, Enbridge has interpreted the Board's Decision with respect to long term debt 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 to the DRO. This would allow the amount of long term debt to be set now such that the amount balances (along with equity, preference shares and short term debt) with rate base that has been determined in this proceeding for each of 2014 through 2018.

Enbridge further asserts that for rate setting purposes the cost rates for each year's forecast new debt issuances would established and set in each year's annual rate application, and then remain fixed for the remainder of the Customized Incentive Regulation term.

As clarification, Enbridge provides an example where the rates for the forecast 2014 new debt issuances will be set in this proceeding and then remain fixed in each of the 2015 to 2018 rate applications. Cost rates for the forecast 2015 debt issuances would be set in the 2015 rate application and remain unchanged in each of the 2016 to 2018 rate applications. As indicated earlier, the forecast debt issuances in each year would be that proposed by Enbridge in this proceeding.

Enbridge indicates that any variances that occur in the actual magnitude, timing, or cost of new debt issuances, as a result of actual business and market conditions, would be incorporated into earnings sharing results.

Energy Probe submits that the Board should reject Enbridge's interpretation of the Board's finding with respect to long term debt. The Board's Decision states (page 55):

> *"... the Board concludes that the cost of debt should also be set each year through the annual rate 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."*

Energy Probe submits that the "cost of debt" should not be interpreted to only mean the rate on the new debt issuances. The cost of debt is determined by more than just the rate on new debt issuances. The cost of debt is also determined by the amount of new debt issuances, the term, or mixture of terms of new debt issuances, and the amount, term and rate of debt issuances in the previous years.

Further, Enbridge has changed the amount and timing of future debt issues. In particular, as shown in the response to Undertaking TCU-RO 1.3, Enbridge re-evaluated its long term debt needs in light the Board's decision on the change in rate base resulting from the Site Restoration Costs ("SRC"). In particular, Enbridge has provided, in Appendix H to the DRO, an increase of $120 million in long term debt, including timing ($50 million in each of 2015 and 2017 and $20 million in 2016) broken out by forecasted terms.

Energy Probe notes that this proposal (amount, timing, loan terms, etc.) has not been reviewed by the Board and parties have not had an opportunity to review the proposal. It is this proposal that Enbridge is asking the Board to approve and lock in place for the five year term of the customized plan.

Energy Probe submits that it is this type of information that will determine the cost of debt that the Board has indicated should be provided in each annual filing and is open to discovery and negotiation by the parties.

In addition, Energy Probe submits that the update to the cost of debt in each annual filing should reflect the actual embedded cost of debt, including any new debt issuances during the term of plan that have taken place in previous years. For example, in setting the rate for long term debt for 2017, any actual long term debt issuances in 2014, 2015 and 2016 (up to the time of the filing of the 2017 application) should be included in the actual embedded cost of debt. In addition to this embedded rate, the forecasted cost of any planned issuances in 2017 (and after the filing in 2016) would be included in the determination of the cost of debt for the 2017 year.

Energy Probe does not believe that the cost of debt should be set or approved by the Board based on forecasted costs for previous years when actual costs are known and can be incorporated in the forecast of costs in the test year.

3. RIDERS D & E

Energy Probe submits that there are a number of sub-issues related to the Enbridge proposals related to Riders D and E. Each of these is discussed below.

Rider D deals with the Site Restoration Costs while Rider E deals with the difference in base (interim) rates and final rates between January 1, 2014 and October 1, 2014.

Energy Probe has no issues with the amounts calculated to be refunded to ratepayers for either of these rate riders. However, Energy Probe submits that the method to refund the amounts should be altered to provide more predictability and assurance that the amounts calculated are the actual amounts returned to ratepayers.

a) Use of Forecast vs. Actual data for January 1, 2014 to September 30, 2014

Enbridge has used forecast data for January 1, 2014 through September 30, 2014 to calculate the amounts to be returned to customers through Rider E. The amount based on the forecast is $43.9 million and is, as noted above, related to the reduction in rates as a result of proceeding applied to volumes from January 1, 2014 through September 30, 2014 in rates.

Ms. Collier explained the rationale for using forecasted volumes versus actual volumes that are now available for at least most of the months in the January through September period (TC TR. pages 46-47). In the response to Undertaking TCU-RO 1.5, Enbridge again reiterated the rate making principles of matching forecasted volumes with costs and developing rates based on a forward test year. Energy Probe supports this approach.

Energy Probe notes that the 2014 rates are based entirely on forecasted volumes. The difference between the approved rates and the interim rates in place over the first months of 2014 should be applied to volumes on the same basis as the new rates were derived. .

b) Rebate Based on Actual Consumption

While the calculation of the amount to be rebated to ratepayers in aggregate should be based on forecasted volumes, Energy Probe submits that the fair and equitable way to refund the amounts to customers is based on individual customer consumption over the period that creates the refund. Energy Probe notes that the Enbridge proposal will refund nearly $120 million to customers through Riders D and E based on one month (Rider E) or three months (Rider D) of actual consumption. Clearly this is a substantial amount and ensuring it is given to the right customers is important.

The most accurate way to give back money that has been over paid by customers would be on a customer by customer basis. Each individual ratepayer has over paid based on the price differential applied to their specific consumption. The rebate, however, will not be based on the level of consumption over which ratepayers over paid. Rather it will be based on their actual consumption in October (Rider E) or October through December (Rider D).

Energy Probe submits that this creates a mismatch between what individual ratepayers have paid and the amount that they will receive as a rebate. This is Option 3 which is discussed in the response to Undertaking TCU-RO 1.6.

Enbridge does not support this option because of the obstacles that would have to be overcome from a billing perspective and the delay in providing the rebates to ratepayers.

Energy Probe submits that this option is the most fair approach to refunding appropriate amounts to the ratepayers based on what they have over paid. The Enbridge proposal creates winners and losers depending on consumption profiles.

Even more significant, from Energy Probe's point of view, is that the Enbridge proposal does not guarantee that the nearly $120 million is returned to customers in aggregate. Using the rate riders as proposed by Enbridge means the amount returned to customers is based entirely on consumption over the proposed payback periods. If consumption is lower than forecast, Enbridge will pocket the difference. If consumption is higher than forecast, Enbridge would face additional costs, that may be reflected in earnings and result in reduced earnings sharing.

In either event, Energy Probe notes that there would be winners and losers, which is not appropriate.

A one-time rebate to customers based on their actual consumption over the January, 2014 through September, 2014 period is the most appropriate approach. However, Energy Probe notes that Enbridge has indicated it has only done such adjustments (deferral account rebates) based on 12 months of volumes. Energy Probe submits that the Board should order Enbridge to calculate the rate rider over the most recent 12 months of actual consumption and to provide the customer specific rebates in the first bill after October 1.

While not a perfect reflection of the consumption in the January through September period, Energy Probe submits that this approach would be more reflective of individual consumption over the relevant period than basing the rebate on one or three months of future consumption. It also eliminates the need for Enbridge to design a new system or modify an existing system to change to 9 months of actual consumption data.

This would be equivalent of changing the rate riders to deferral accounts. The key difference, in the view of Energy Probe, is that there is no true up associated with rate riders and they are applied to future volumes whereas a rate used to clear amounts in a deferral account is based on historical volumes (12 months) and applied to historical consumption on a customer by customer basis.

Energy Probe submits that the Board should direct Enbridge to clear the amounts through a deferral account rather than through Riders D and E.

c) Extended Rebate Period and/or Need for a Variance Account

If the Board determines that the nearly $120 million should be returned through rate riders, as proposed by Enbridge, then Energy Probe submits that two changes should be made to the proposal.

First, Rider E should be changed from a one month (October) prospective clearance to a three month (October through December) prospective clearance.

Using a one month clearance introduces a significant level of uncertainty into the rebate given that volumes can fluctuate significantly, especially in a shoulder month like October. Extending the period to three months, and matching that proposed for Rider D should help reduce the variance between forecast and actual volumes.

The second change is the introduction of a variance account to track the difference between the amount that the Board has directed Enbridge to give back associated with each rider ($74.0 million for Rider D and $43.9 million for Rider E) and the amount actually refunded to ratepayers over the October through December period. Any balance would be brought forward in conjunction with the clearance of other deferral and variance accounts.

The addition of the variance account ensures that neither Enbridge nor ratepayers win or lose. It also creates an approach that mirrors the disposition of deferral account balances.

4. RESULTING RATE CHANGES AND RATE STABILITY

The estimated average bill impacts for 2014 through 2018 have been provided in the response to Undertaking TCU-RO 1.7 and 1.8, inclusive of the SRC impact. The resulting average impact on Rate 1 (residential) customers is a reduction of 10.5% in 2014, followed by increases of 3.1%, 5.8%, 3.2% and 6.2%, respectively, in 2015 through 2018.

Energy Probe acknowledges that the changes for 2015 through 2018 will change based on the annual filings based on such changes as the cost of long term debt, return on equity and forecast volume changes. However, these changes are likely to be relatively small in comparison to the changes shown in the undertaking response.

Energy Probe is concerned about the potential swings in rates, from a decrease of 10.5% this year, followed by increases that total more than 18% over the following four years. Energy Probe is also aware that some parties may suggest that the SRC refund should be adjusted so as to result in less rate volatility over the five years and provide rate increases over the five years that are more stable than that calculated by Enbridge.

Energy Probe notes that in theory, stable rate increases would appear to be better for customers. However, from the perspective of a residential customer under Rate 1, this is not necessarily true.

As shown in the response to Undertaking TCU-RO 1.8, the dollar impact on a residential customer using 3,064 m^3 per year is a reduction of \$70 in 2014, followed by increases in 2015 through 2018 of \$18, \$36, \$21 and \$42, respectively. In other words, a residential customer will enjoy a reduction from current (2013) rates not only in 2014, but also in 2015 and 2016. It is not until 2017 that the up front reduction of \$70 is offset by the increases. Even then, the result is that in 2017, a residential customer would be paying only \$5 more (18+36+21-70) than they did in 2013.

Energy Probe submits that this is better for residential customers than if there was no reduction in 2014 rates followed by small or no increases in 2015 through 2018.

In addition to the above, Energy Probe notes, as indicated in the response to Undertaking TCU-RO 1.1, changing the SRC refund profile would change a number of factors that determine the revenue requirement through the change in rate base associated with a change in the SRC profile. Energy Probe notes that the Board indicated that the DRO and DAO should contain sufficient detail to allow parties to verify that the Board's findings were properly addressed and to *"allow the decision to be implemented as soon as possible"* (Decision with Reasons, page 84).

As well, Energy Probe is concerned with the potential of a significant increase in 2019, following the current customized IR plan of deviating from the SRC refund profile. The evidence in this proceeding is that the profile is designed to mitigate significant rate increases following the IR plan term.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

August 14, 2014

Randy Aiken

Consultant to Energy Probe Research Foundation