

BOARD STAFF INTERROGATORY #9

INTERROGATORY

Ref: F1/T1/S1/table 1

Table 1 shows the Utility Revenue deficiency / sufficiency for 2015 Board-approved, 2016 Placeholder, and 2016 Updated Forecast.

Please provide an explanation of the main drivers of the differences between Board-approved 2015 and 2016 Updated Forecast.

RESPONSE

Attachment #1 to this response provides a comparison between each of the components of 2016 Updated Forecast allowed revenues, revenues at existing rates, and resultant deficiency, relative to the 2015 Approved values, and identifies the main drivers for the variances.

Witness: R. Small

ALLOWED REVENUE AND SUFFICIENCY/(DEFICIENCY)

Line No.	Col. 1 2016 Updated Forecast Allowed Revenue (\$Millions)	Col. 2 EB-2014-0276 2015 Allowed Revenue (\$Millions)	Col. 3 Variance (\$Millions)	Col. 4 Note
Cost of capital				
1. Rate base	5,812.3	4,956.5	855.8	a)
2. Required rate of return	6.37	6.52	(0.15)	b)
3.	370.3	323.4	46.9	c)
Cost of service				
4. Gas costs	1,767.3	1,694.2	73.1	d)
5. Operation and maintenance	463.7	432.4	31.3	e)
6. Depreciation and amortization	288.9	261.7	27.2	f)
7. Fixed financing costs	1.9	1.9	-	
8. Municipal and other taxes	45.5	43.1	2.4	g)
9.	2,567.3	2,433.3	134.0	
Miscellaneous operating and non-operating revenue				
10. Other operating revenue	(42.7)	(42.7)	-	
11. Interest and property rental	-	-	-	
12. Other income	(0.1)	(0.1)	-	
13.	(42.8)	(42.8)	-	
Income taxes on earnings				
14. Excluding tax shield	43.2	56.8	(13.6)	
15. Tax shield provided by interest expense	(47.0)	(41.4)	(5.6)	
16.	(3.8)	15.4	(19.2)	h)
Taxes on sufficiency / (deficiency)				
17. Gross sufficiency / (deficiency)	(103.7)	-	(103.7)	
18. Net sufficiency / (deficiency)	(76.2)	-	(76.2)	
19.	27.5	-	27.5	h)
20. Sub-total revenue requirement	2,918.5	2,729.3	189.2	
21. Customer Care Rate Smoothing V/A Adjustment	0.8	(1.1)	1.9	i)
22. Allowed revenue	2,919.3	2,728.2	191.1	
Revenue at existing Rates				
23. Gas sales	2,550.0	2,458.9	91.1	
24. Transportation service	259.3	265.3	(6.0)	
25. Transmission, compression and storage	1.9	4.0	(2.1)	
26. Rounding adjustment	0.1	-	0.1	
27. Revenue at existing rates	2,811.3	2,728.2	83.1	j)
28. Gross revenue sufficiency / (deficiency)	(108.0)	-	(108.0)	

2016 UPDATED FORECAST VERSUS 2015 APPROVED VARIANCE EXPLANATIONS

Note: Explanation

a) Rate Base

As seen below, the increase in 2016 updated forecast ratebase is primarily due to the increase in forecast net property plant and equipment that was reviewed and approved within Enbridge's CIR proceeding EB-2012-0459, reflecting an additional year of core capital spending and the full year impact of the GTA project. The property, plant, and equipment increase was partially offset by reductions in gas in storage and working cash allowance which were updated in accordance with CIR plan parameters, and reflect an updated volume forecast, gas supply plan, PGVA reference price, and O&M inputs.

	2016	2015	
	<u>Forecast</u>	<u>Approved</u>	<u>Variance</u>
Net property, plant and equip.	5,448.8	4,573.8	875.0
A/R rebillable projects	1.4	1.3	0.1
Materials and supplies	34.6	33.7	0.9
Mortgages receivable	-	0.1	(0.1)
Customer security deposits	(64.6)	(65.1)	0.5
Prepaid expenses	1.0	0.9	0.1
Gas in storage	391.1	403.6	(12.5)
Working cash allowance	-	8.2	(8.2)
Total working capital	363.5	382.7	(19.2)
Total rate base	<u>5,812.3</u>	<u>4,956.5</u>	<u>855.8</u>

b) Required rate of return

The reduction in the 2016 updated forecast required rate of return reflects the impact of a reduction in the forecast ROE, 9.13% in 2016 versus 9.30% in 2015 Approved, and a reduction in the forecast weighted average cost of debt rate, which reflects updated forecast debt issuances and cost rates. ROE and cost of debt forecast updates are performed in accordance with CIR plan parameters.

c) Cost of capital

The increase in the 2016 updated forecast cost of capital results from financing a higher rate base (discussed in a) above), partially offset by a lower required rate of return (discussed in b) above).

d) Gas costs

The increase in 2016 updated forecast gas costs is primarily due to an increase in forecast volumes, partially offset by a lower PGVA reference. The updated forecast 2016 gas costs reflect an adjusted July 2015 PGVA reference price of \$196.253, while 2015 approved gas costs reflect an adjusted October 2014 PGVA reference price of \$204.293. Gas costs have also increased due to higher storage and transportation costs, and higher T-Service transportation costs resulting from higher TCPL tolls. Gas costs were updated in accordance with CIR plan parameters. Corresponding updates for price and volumetric impacts are also reflected in updated forecast revenue at existing rates.

2016 UPDATED FORECAST VERSUS 2015 APPROVED VARIANCE EXPLANATIONS

Note: Explanation

e) Operation and maintenance

The increase in 2016 updated forecast O&M is detailed below, but is primarily driven by a higher forecast DSM budget, which has been updated in accordance with CIR plan parameters and reflects the proposed budget included within Enbridge's DSM Multi-Year Plan proceeding EB-2015-0049. Customer Care and CIS costs have been updated in accordance with CIR plan parameters to reflect the EB-2011-0226 settlement agreement, which requires annual updates for the forecast number of customers and the current year's approved cost per customer. Pension and OPEB costs have been updated to reflect current forecast costs provided by Mercer, as per CIR plan parameters.

	2016 Forecast	2015 Approved	Variance	
Customer Care / CIS	99.3	95.9	3.4	Updated per CIR plan parameters
DSM	63.5	35.0	28.5	Updated per CIR plan parameters
Pension and OPEB	34.6	37.3	(2.7)	Updated per CIR plan parameters
RCAM	33.8	34.0	(0.2)	Reviewed and approved in EB-2012-0459
Other O&M	232.6	230.3	2.3	Reviewed and approved in EB-2012-0459
Total O&M	463.7	432.4	31.3	

f) Depreciation and amortization

The increase in 2016 updated forecast depreciation and amortization was reviewed and approved within Enbridge's CIR proceeding EB-2012-0459, and reflects the impact of growth in forecast gross property, plant, and equipment.

g) Municipal and other taxes

The increase in 2016 updated forecast municipal and other taxes was reviewed and approved within Enbridge's CIR proceeding EB-2012-0459, and reflects the impact of forecast capital growth and inflation.

h) Income taxes on earnings and deficiency

The increase in 2016 updated forecast income taxes is primarily attributable to a higher rate base (discussed in a) above) and the associated higher income taxes on the equity return component.

i) Customer Care Rate Smoothing V/A Adjustment

The Customer Care Rate Smoothing V/A Adjustment has been updated, similar to Customer Care & CIS O&M costs, to reflect the impact of the EB-2011-0226 settlement agreement which requires annual updates for the forecast number of customers, as well as the current year's approved cost per customer and normalized cost per customer.

j) Revenue at existing rates

The increase in 2016 updated forecast revenue at existing rates is due primarily to the updated 2016 volumetric forecast, partially offset by a lower gas commodity (PGVA) reference price embedded within rates (discussed in d) above). The 2016 updated forecast revenue at existing rates also do not include any Rate 332 revenues which are not forecast to be available in 2016. Rate 332 revenues were forecast and included within 2015 transmission, compression and storage revenues, but were not realized.