



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

Enbridge Gas Distribution Inc.

2016 Rate Adjustment

OEB File No. EB-2015-0114

December 2, 2015

Introduction

Enbridge Gas Distribution Inc. has filed with the Ontario Energy Board (OEB) a settlement proposal (Settlement Proposal) dated December 1, 2015 concerning its application for an order approving or fixing rates commencing January 1, 2016.

Custom IR Context

Enbridge's 2016 rate application was made in the context of rates being adjusted under the terms of the 2014 to 2018 Custom Incentive Regulation ratemaking framework (Custom IR) approved by the OEB¹. In that proceeding, the OEB approved nine elements to be updated annually from 2015 to 2018².

Submission

OEB staff has reviewed the Settlement Proposal in the context of the approved Custom IR framework and applicable OEB policies and practices.

OEB staff supports the Settlement Proposal on the following basis:

- The Settlement Proposal is consistent with the Custom IR framework established by the OEB
- The Settlement Proposal is favourable to customers as it represents a reduction to the 2016 revenue deficiency from the as-filed amount of \$108.0 million to \$79.3 million.³ OEB staff however notes that the main driver for the reduced deficiency is the exclusion of the proposed 2016 DSM budget amount which is the subject of another regulatory proceeding. OEB staff also notes that the parties agreed that the treatment of \$5.8 million in profits from Enbridge's 2015 sale of base pressure gas will be subject to the 2015 ESM calculation. While the proposed treatment will not impact the 2016 revenue requirement (because it is a fiscal 2015 transaction), it will be beneficial to customers as it will serve to increase the 2015 utility earnings that will be shared with customers.

¹ EB-2012-0459

² Decision and Rate Order EB-2012-0459, Appendix E

³ Settlement Proposal EB-2015-0114 Appendix B, page 2 of 8.

- The Settlement Proposal adequately addresses an OEB directive from the Custom IR Decision concerning cost allocations in respect of Utility and Non-Utility Storage.
- The Settlement Proposal will be beneficial to stakeholders in terms of fostering an enhanced understanding of the Enbridge's gas supply planning process because beginning with the 2017 rate adjustment application, Enbridge has agreed to include an explanation of the principles driving the gas supply plan, and how those principles are being implemented in respect of its gas procurement and transportation activities (see page 9 of the Settlement Proposal).
- The rate schedules and accompanying explanations included with the Draft Rate Order (DRO) support the correct allocation of the revenue requirement to the rate classes. The rates in the DRO are designed to recover the revenue requirement.
- The Draft Accounting Order properly reflects the Custom IR-approved deferral and variance accounts.
- The Unabsorbed Demand Cost Deferral Account is appropriately continued into 2016 because it is a pre-established account linked to the UDC Management Plan, a process set out in a supplementary settlement agreement reached in connection with the 2015 rate adjustment application.⁴
- The new Rate 332 deferral account is beneficial to customers because it will return money to bundled customers in the event that gas transportation service becomes available on the GTA Project in 2016.

In light of the above, staff submits that the OEB's acceptance of the Settlement Proposal will adequately reflect the public interest. OEB staff is also of the view that the explanation and rationale accompanying the Settlement Proposal is sufficient to support its acceptance by the OEB.

OEB staff offers the following additional commentaries on selected items within the Settlement Proposal.

⁴ Supplementary Settlement Proposal "Settlement of Upstream Capacity Management Issue" EB-2014-0276 dated April 9, 2015.

Non-Utility Storage Cost Allocation

Enbridge has agreed to move to a fully allocated approach for the allocation of costs to non-utility storage operations for base pressure gas (BPG) and lost and unaccounted-for gas (LUF). The change will increase the allocations of BPG and LUF costs to the unregulated storage operations resulting in savings of \$1.1 million to utility customers. The new approach will prevail for at least the duration of the Custom IR. Staff observes that a fully allocated approach to costing regulated and non-regulated lines of business is an established method used in economic regulation.

The cost allocation matter was addressed in response to an OEB directive in its Custom IR Decision to file a proposal in either of its 2015 or 2016 rate applications. The new approach is described on pages 9, 10, 14 and 15 of the Settlement Proposal.

Rate Impacts

Including the settlement adjustments, the 2016 residential customer rate impact shows an increase of 4.3% on a T-service basis, i.e. total bill excluding gas supply charges. An average residential customer will see a \$25 annual bill increase.⁵

It is noteworthy that the Custom IR contemplated significant rate base increases in 2016. Moving from 2015 to 2016, the Custom IR indicated a rate base increase of \$849 million, or about 18%.⁶ The rate base increases are in large part due to major capital projects such as the GTA Project and the Work and Asset Management System (WAMS) project impacting rates for the full year 2016. OEB staff notes that the capital plan was fixed at the outset of the Custom IR.

Draft Rate Order

OEB staff has reviewed the Draft Rate Order and has no concerns. OEB staff submits that it is appropriate for the OEB to proceed to issue an Interim Rate Order to give effect to the 2016 rates on an interim basis (see Implementation Plan below for a discussion on the need for interim rates).

⁵ Draft Rate Order – Attachment 3 – Supporting documentation EB-2015-0114 dated December 1, 2015 page 3 of 6.

⁶ Rate Order EB-2012-0459 dated August 22, 2014 Appendix A page 18 of 40.

Draft Accounting Order

OEB staff has reviewed the Draft Accounting Order and has no concerns. OEB staff submits that it is appropriate for the OEB to proceed to issue an Accounting Order for the 2016 deferral and variance accounts.

Implementation Plan

The Settlement Proposal includes a plan to implement the 2016 rates on an interim basis in conjunction with Enbridge's January 1, 2016 QRAM application. The rates are interim as a result of one outstanding budget matter which is the level of the 2016 DSM budget. Pending an OEB determination in the DSM proceeding⁷, the parties agreed to hold the DSM budget at the 2015 level of \$35 million. The final rates will be implemented once the 2016 DSM budget is known, and with Enbridge's next available QRAM application.

~ All of which is respectfully submitted ~

⁷ EB-2015-0049