



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

Enbridge Gas Distribution Inc.

**2015 Earnings Sharing Mechanism and Deferral and Variance Account
Clearances**

OEB File No. EB-2016-0142

July 26, 2016

Introduction

On July 21, 2016 Enbridge Gas Distribution Inc. (Enbridge) filed a settlement proposal (Settlement Proposal) with the Ontario Energy Board (OEB) concerning its application for an OEB order approving the clearance of balances recorded in certain deferral or variance accounts to its customers (application). The matters considered in the Settlement Proposal include the balances in 17 accounts as well as the 2015 earnings sharing mechanism calculation and the amount recorded in the 2015 earnings sharing mechanism deferral account.

Custom IR Context

The context of the application is that a review and disposition of certain deferral and variance accounts will take place annually. This review is a required process within Enbridge's 2014 to 2018 Custom Incentive Regulation framework which was approved in OEB proceeding EB-2012-0459 (Custom IR). Included with the application were reports on Enbridge's productivity and gas supply planning, and status updates on a number of major Enbridge initiatives (GTA project, WAMS, System Integrity, Benchmarking and Asset Management) pursuant to the OEB decision on the Custom IR.¹ There is no relief sought by Enbridge in relation to these reporting items.

The Custom IR provides for annual earnings sharing on a 50:50 ratepayer-shareholder basis as well as the review and disposition of certain deferral and variance account balances.

Settlement Proposal

The Settlement Proposal is a complete settlement among all participating parties on all issues.² The main points of settlement are the following:

1. The total amount in all the deferral and variance accounts to be recovered from customers is \$67.3 million. The largest contributor is the unabsorbed demand cost deferral account with a debit balance of \$66.6 million (see discussion below).
2. The earnings sharing mechanism deferral account amount is \$6.45 million which represents one-half of Enbridge's earnings above the OEB-approved

¹ EB-2016-0142 pre-filed evidence, Exhibit D, Reporting and Reference Material.

² As noted in the Settlement Proposal, TransCanada PipeLines participated in the settlement conference and is a party to the settlement, but took no position on any issue.

ROE. This amount is to be credited to ratepayers. The balance was settled with no adjustment to the as-filed amount.

3. Other than the earnings sharing mechanism account, there are 17 other deferral and variance account balances proposed for clearance. All accounts were settled with only minor adjustments being made to the 2014 DSM-related accounts to recognize an OEB decision to not allow interest for the period July 1, 2016 to October 1, 2016 for these DSM accounts.³ Each account being cleared is listed in the Settlement Proposal and includes the associated evidentiary references.
4. Apart from the deferral and variance accounts, the parties agreed to three other items. These items have no financial impact in this application and all relate to commitments by Enbridge to provide evidence in future proceedings.⁴
 - i. Enbridge will commence a review of interruptible rates. The objective is to consider whether there are cost-effective changes that could be made to interruptible distribution service that would make that service more attractive to customers, and thereby avoid incremental firm transportation capacity or other costs. Enbridge will report on this review in its 2017 rate adjustment application.
 - ii. Enbridge will file evidence about storage optimization transactional services. It will include revenue trends and information on the separation of responsibilities and activities between utility and non-utility optimization storage accounts. This evidence will be filed in Enbridge's 2016 ESM application.
 - iii. Enbridge has agreed that before it develops or acquires additional storage capacity for utility purposes, it will file an analysis setting out the need and justification for the incremental storage.
5. The unit rates and timing of the clearances is proposed for implementation as a bill adjustment in conjunction with Enbridge's October 1, 2016 QRAM application. The bill adjustment will occur over the months of October 2016 and November 2016 in two equal installments. The QRAM application is expected to be filed in early September 2016.

³ EB-2015-0267 May 26, 2016.

⁴ EB-2016-0142, Settlement Proposal, p.14 & 15 of 22.

Unabsorbed Demand Cost Deferral Account

The OEB approved the establishment of the Unabsorbed Demand Cost Deferral Account (UDCDA) for 2015.⁵ A consequence of contracting for incremental long haul capacity is the possibility of unabsorbed demand charges. The UDCDA account records the actual cost consequences of unutilized transportation capacity to meet Enbridge's peak day requirements.

A UDC management plan was developed with stakeholders in March 2015 and was the subject of a supplementary settlement agreement in the 2015 rate adjustment proceeding.⁶ The agreement was subsequently approved by the OEB. The 2015 UDCDA final balance settled by all the parties is a debit of \$66.6 million. At the time of the 2015 rate adjustment application, UDC for 2015 was forecast to be \$166.4 million. This means that approximately \$100 million of UDC was mitigated through actions of Enbridge, in concert with the implementation of the UDC management plan, during 2015.

Submission

OEB staff has reviewed the Settlement Proposal filed in the context of Enbridge's Custom IR, other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is of the view that the application and Settlement Proposal adequately reflects the OEB's direction in the Custom IR and that acceptance of the Settlement Proposal is in the public interest.

OEB staff supports the Settlement Proposal on the following basis:

- The bill impacts have been mitigated. The billing adjustment will be carried out in two equal installments for all customers. A typical residential customer will see a separate line item of \$10.70 (customer debit) on their bills in the months of October 2016 and November 2016. The bill impacts for both months

⁵ EB-2015-0276, Accounting Order dated May 14, 2015.

⁶ EB-2015-0276, Supplementary Settlement Proposal dated April 9, 2015, Settlement of Upstream Capacity Management Issue.

together represent about \$21.40 which translates to an extra 2.6% on the total 2016 residential customer bill as filed in the July 1, 2016 QRAM.⁷

- The deferral and variance accounts conform to the accounting orders approved by the OEB.⁸ The earnings sharing amount was calculated in a manner consistent with previous years.⁹

In terms of implementation, OEB staff is supportive of the agreement to clear the balances in conjunction with the October 2016 QRAM. This approach is consistent with previous OEB decisions.¹⁰

In conclusion, OEB staff submits that the OEB's acceptance of the Settlement Proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

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.

All of which is respectfully submitted.

⁷ EB-2016-0184, Q3-3/T4/S6/p2. Annual bill \$822.17 at 2,400 cubic meters per annum.

⁸ See for example OEB accounting order in EB-2014-0276 dated May 14, 2015.

⁹ See for example the OEB order in EB-2015-0122 dated August 15, 2016.

¹⁰ Ibid.