



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

Enbridge Gas Distribution Inc.

2017 Rate Adjustment

OEB File No. EB-2016-0215

November 29, 2016

Background

Enbridge Gas Distribution Inc. (Enbridge) filed an application on August 31, 2016 (updated October 4, 2016) with the Ontario Energy Board (OEB) pursuant to section 36 of the *Ontario Energy Board Act, 1998*, for an order or orders approving rates for the distribution, transmission and storage of natural gas, effective January 1, 2017.

Enbridge's 2017 rate application was made in the context of annual rate adjustments allowed under the terms of Enbridge's 2014 to 2018 Custom Incentive Regulation ratemaking framework (Custom IR) approved by the OEB¹. In the Custom IR proceeding, the OEB approved nine elements to be updated annually from 2015 to 2018². The list of the annual update elements is included in the evidence and each element is addressed in the application.³ The Custom IR framework also permitted a suite of deferral and variance accounts to be effective during the Custom IR.

The OEB issued a Notice of Hearing on October 17, 2016. In Procedural Order No. 1 dated October 25, 2016, the OEB scheduled a settlement conference with the objective of reaching a settlement among the parties on the issues in the proceeding. The settlement conference was held on November 17 and 18, 2016.

Enbridge filed a settlement proposal on November 28, 2016 (Settlement Proposal) which reflects a complete settlement on many, but not all, of the matters in the proceeding.

Enbridge requested that the OEB issue its decision by December 2, 2016 to allow the 2017 rates to be implemented in conjunction with Enbridge's January 1, 2017 QRAM. The QRAM application is expected to be filed by about December 9, 2016.

The following are OEB staff's submissions on: (a) the items that do not form part of the Settlement Proposal; and (b) the Settlement Proposal. Overall, OEB staff has no concerns in regard to any of the items not addressed in the Settlement Proposal.

The Settlement Proposal represents a full agreement on the issues set out in the Notice of Hearing (referred to in the Settlement Proposal as the "Settled Items").

There are no amounts or impacts included in Enbridge's 2017 rate adjustment application in relation to the Government of Ontario's cap and trade initiative.

¹ EB-2012-0459

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

³ EB-2016-0215, A1/T3/S1 Appendix A

Submission on Unaddressed Matters

OEB staff has identified matters that are relevant to the application, but were not addressed by the parties to the Settlement Proposal. These are:

1. Customer Care / CIS
2. DSM
3. Pension and OPEBs
4. Return on Equity
5. Deferral and Variance accounts
6. Draft Rate Order and Draft Accounting Order

OEB staff will make a submission on each of these items.

Customer Care / CIS

Item number 4 on the Custom IR list of annual updates is as follows:

O&M related Customer Care/CIS costs will be updated annually in accordance with the Board Approved EB-2011-0226 Settlement Agreement.⁴

The annual Customer Care/CIS cost calculation follows a prescribed formulaic adjustment using an updated forecast of the number of customers each year. The mechanism covers the period of 2013 through 2018 and is set out in detail in the EB-2011-0226 Settlement Agreement. OEB staff has reviewed the cost update proposed for 2017. OEB staff notes that the amount represents an increase relative to the 2016 approved amount (\$126.6 million versus \$122.4 million). OEB staff observes that the increase is explained in the evidence and is due to higher forecast customer numbers in 2017 and a higher customer care revenue requirement per customer in 2017.⁵ The drivers of the annual updates were set out in the EB-2011-0226 Settlement Agreement. OEB staff has reviewed the evidence and submits that the calculations are performed in accordance with the EB-2011-0226 Settlement Agreement. OEB staff submits that the treatment is consistent with that of prior years and that parties have agreed to the annual update in past years. As a further check, staff notes that the amount is in line with what was expected, as evidenced by the 2017 Customer Care/CIS placeholder (\$128.6 million). OEB staff has no concerns with the 2017 Customer Care/CIS amount.

⁴ EB-2016-0215, A1/T3/S1 Appendix A, List item number 4.

⁵ EB-2016-0215 OEB staff IR No. 15 found at Exh. I.D1.EGDI.STAFF.15

DSM

Item number 5 on the Custom IR list of annual updates is as follows:

O&M related DSM costs will be updated annually to reflect where available, updated Board Approved DSM costs resulting within the DSM Policy Consultation, EB-2014-0134 proceeding or subsequent proceedings. Any related rate base working cash allowance impacts will be re-forecast within annual revenue requirements.⁶

The 2017 DSM budget amount was approved by the OEB in the amount of \$62.9 million.⁷ That same amount is proposed for inclusion in Enbridge's 2017 rates. OEB staff has no concerns about the DSM amount.

Pension and OPEBs

Item number 6 on the Custom IR list of annual updates is as follows:

O&M related Pension and OPEB expense amounts will be updated annually through the use of re-forecasts performed by Enbridge's external pension Consultant, Mercer Canada Limited. Any related rate base working cash allowance impacts will be reforecast within annual revenue requirements.⁸

The 2017 Pension and OPEB expense amounts are included in the evidence and are underpinned by a letter from Mercer explaining the derivation of the 2017 proposed amount. OEB staff observes the amount is lower than the 2017 placeholder by \$3.8 million (\$24.8 versus \$28.5 million). Enbridge's 2017 update proposal is in accordance with OEB direction. OEB staff submits that the treatment is consistent with that of prior years. The amount will be reviewed against the actual pension expense in connection with the disposition of the deferral and variance accounts, expected in a future OEB application. OEB staff has no concerns about the pension and OPEBs forecast amount.

Return on Equity

Item number 8 on the Custom IR list of annual updates is as follows:

Return on Equity will be re-set each year within the results included in the Board Final Rate Order to reflect the Board Policy produced ROE%.⁹

⁶ EB-2016-0215, A1/T3/S1 Appendix A, List item number 5.

⁷ Decision and Order EB-2015-0049

⁸ EB-2016-0215, A1/T3/S1 Appendix A, List item number 6.

⁹ EB-2016-0215, A1/T3/S1 Appendix A, List item number 8.

OEB staff confirms that the OEB's 2017 Return on Equity (ROE) has been incorporated into the revenue and rate calculations of Enbridge at the correct percentage as prescribed in the OEB's cost of capital letter dated October 27, 2016.¹⁰ The ROE for 2017 is 8.78%.

OEB staff has no concerns about the ROE in the 2017 rate application.

Deferral and Variance Accounts

In the original Custom IR decision, the OEB addressed the deferral and variance accounts that will be applicable during the Custom IR term.¹¹ OEB staff notes that the deferral and variance accounts for 2017 included with the filed Draft Accounting Order are in accordance with the decision. OEB staff observes that some accounts arise out of OEB approvals in other proceedings that have occurred since the advent of the Custom IR (e.g. the OEB cost assessment account and the customer care services procurement account). Such accounts are eligible for inclusion given that they have obtained specific OEB approval, or were OEB-approved as part of a settlement proposal.

OEB staff observes that the OEB's practice in the past few years has been to issue an Accounting Order appending the complete set of deferral and variance accounts applicable to the rate year in question, including the full description of each account. This has proven to be beneficial in terms of ease of administration and verification upon disposition. OEB staff submits that the OEB should continue this practice in 2017 and issue a separate Accounting Order for the deferral and variance accounts.

Subject to a comment below concerning heating value costs, OEB staff has no concerns about the new deferral and variance accounts proposed in the 2017 rate application.

¹⁰ OEB Letter Cost of Capital Parameter Updates October 27, 2016

¹¹ EB-2012-0459 Decision with Reasons dated July 17, 2014, pages 65 to 70.

Submission on the Settlement Proposal

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

OEB staff understands that the Settlement Proposal addresses only the items included in the Notice of Hearing (the Settled Items), and that it represents a complete settlement within the confines of the Settled Items.

The Custom IR's nine elements to be updated annually were, as expected, filed as part of the application. OEB staff has reviewed each of them and has no concerns. The nine elements are reflected in the Draft Rate Order for the 2017 rates.

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 fair to customers. The Settlement Proposal contemplates no change to the revenues filed in the application (as adjusted for the final 2017 ROE). The revenue deficiency for 2017 is relatively modest at \$33.6 million.¹²
- The Settlement Proposal addresses the three items listed in the Notice of Hearing that fall outside of the list of nine update elements. They are rate 332, Dawn transportation service, and the customer care services procurement deferral account. These items were settled by the participating parties.¹³ OEB staff has no concerns with the settlement of these items.
- The rate impact to customers is relatively modest (an increase of \$7 annually or 1.2% on a typical residential customer's bill).
- The Settlement Proposal contains a number of commitments made by Enbridge that have no impact on 2017 revenues. The five (5) commitments are explained in the Settlement Proposal and specify the following: a study on future storage requirements; a review of firm transportation requirements that underpin gas deliveries; a heating value update and associated system change; launch of a stakeholder consultation on an Ontario Landed Reference Price for the setting of gas supply charges; and, a review of cap and trade

¹² Settlement Proposal EB-2016-0215 Appendix A, page 16 of 16.

impacts on Enbridge's volume forecasts.¹⁴ OEB staff has no concerns with the settlement of these matters.

- OEB staff acknowledges that the settlement of the heating value update issue contemplates recovery from ratepayers of associated system enhancement costs to Enbridge's systems to correct the heating value calculations.¹⁵ OEB staff observes the existing Dawn access costs deferral account description (which already contemplates system work related to Dawn access) is proposed to be upgraded in 2017 to include additional costs for the EnTrac system enhancement related to the heating value update issue. The cost is estimated to be less than \$500,000¹⁶. In light of the need to correct the heating value, staff does not have a concern with the additional costs for the system enhancement, provided the costs are kept to "reasonable" levels (which in fact the Settlement Proposal suggests).
- Information became available in the proceeding announcing the commencement of rate 332 service. Enbridge's rate 332 transportation service was initiated during November 2016.¹⁷ With the commencement of rate 332 transportation service, neither the 2017 Greater Toronto Area Incremental Transmission Capital Revenue Requirement Deferral Account nor the 2017 Rate 332 Deferral Account are required in 2017. The request for the accounts has therefore been removed. OEB staff is supportive of this aspect 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 Draft Accounting Order properly reflects the Custom IR-approved deferral and variance accounts.

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.

¹³ Settlement Proposal EB-2016-0215 page 12.

¹⁴ Settlement Proposal EB-2016-0215 pages 8 to 11.

¹⁵ See Settlement Proposal Commitment 3 Update to Heat Value, page 10 and 11.

¹⁶ Settlement Proposal EB-2016-0215 page 11.

¹⁷ EB-2016-0215 OEB staff IR No. 14 at Exh. I.D1.EGDI.STAFF.14

OEB staff offers the following additional comments related to the establishment of final rates for 2017.

Rate Impacts

The 2017 residential customer rate impact shows an increase of 1.2% on a T-service basis, meaning the total bill excluding the gas supply commodity charges. An average residential customer will see a \$7 annual bill increase.¹⁸

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 a Rate Order to give effect to the 2017 rates on a final basis.

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 2017 deferral and variance accounts.

Implementation Plan

Enbridge requested that the OEB review and approve the Settlement Proposal, as well as the Draft Rate Order and the Draft Accounting Order with the approval date requested being Friday, December 2, 2016. This would permit the Settlement Proposal and the Rate Order to be implemented within the upcoming EB-2016-0326 January 1, 2017 QRAM proceeding. OEB staff has no concerns with this proposal.

OEB staff submits that Enbridge's 2017 final rates, along with the January 1, 2017 QRAM adjustments, as well as the cap and trade related charges, can be implemented in conjunction with the QRAM effective January 1, 2017.

OEB staff understands that Enbridge will provide customers with notices of bill changes as part of its January 2017 QRAM proceeding as it will be the QRAM order that will supersede the rate order issued in this proceeding. OEB staff supports this proposal as the single customer bill notice will reflect all of the changes that customers will see on their bills beginning January 1, 2017 (including 2017 rates, cap and trade related charges, and the 2017 QRAM adjustments).

¹⁸ Draft Rate Order – Appendix “C” – Supporting documentation EB-2016-0215 page 3 of 4.

~ All of which is respectfully submitted ~