BOARD INTERROGATORY #24

INTERROGATORY

Issue 4 – Deferral and Variance Accounts - Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

Exhibit 6 – Deferral and Variance Accounts

Topic: Deferral and Variance Accounts

Ref: Exhibit F, Tab 1, Schedule 1, pp. 1-2 Preamble:

Enbridge proposes to bring forward its 2016 administrative costs either at the time it seeks clearance of other 2016 deferral and variance accounts or as part of its 2018 Compliance Plan filing (in August 2017).

Further, Enbridge proposes to establish a new variance account entitled the Greenhouse Gas Emissions Customer and Facility Costs Variance Account ("GGECFCVA") to track any over or under recovery between actual and forecast customer and facility-related obligation costs incurred in 2017. Enbridge has proposed to clear any variance in the GGECFCVA as part of its 2018 True-up filing or at the OEB's discretion.

Questions:

a) How does Enbridge propose to dispose of any balances? For example, would this be as a one-time adjustment or would the balances be spread over time? If so, over what period of time? Would the recovery of these balances be included in the Delivery Charge or presented as a separate line item?

RESPONSE

With regards to the 2016 Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"), which has been used to record administrative costs incurred (through the end of 2016) in preparation for the implementation of Cap and Trade, where no corresponding compliance plan was approved or required, the Company plans to seek approval for disposition through the 2016 ESM and Deferral and Variance Accounts Clearance proceeding to be filed in the spring of 2017.

Witnesses: A. Kacicnik
R. Small

With regards to 2017 Cap and Trade related deferral and variance accounts (GGEIDA and GGECFCVA) to be approved within this compliance plan proceeding, the Company proposal for disposition is as follows.

In the Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities the Board directed that any required true-ups should be done annually[1], and that deferral and variance account balances sought for disposition must be included as part of the annual compliance plan filings[2].

Accordingly, the Company plans / expects to file a proposed disposition of the 2017 GGECFCVA balance as part of the 2018 True-up filing, which would occur as part of the 2019 Compliance Plan in August 2018.

While the most suitable approach / manner in which to dispose a variance account balance is best determined / devised once the magnitude of the account balance and the disposition timing are known, the Company anticipates that the proposed disposition of the 2017 GGECFCVA balance would be similar to the Board-approved methodology for disposition of the Company's other / existing Deferral and Variance account balances to customers.

Following the current Board-approved methodology for disposition of deferral and variance account balances, the 2017 GGECFCVA balance would be cleared as a one-time credit or debit and would be administered to customers as a one-time billing adjustment (note that the 2017 GGECFCVA balance would be apportioned between customer-related and facility-related obligations. The amount of credit or debit each customer would be allocated would be a function of the total 2017 GGECFCVA balance, each customer's responsibility for customer and facility-related costs, and each customer's 2017 actual volumes). The one-time adjustment would appear as a separate line item on customer's bills. As is the case with its current methodology for disposing of clearing deferral and variance account balances, if the one-time billing adjustment is considered too large to be administered in a single installment, the Company would propose to clear the balance over multiple installments (i.e., over multiple months).

The Company will seek to clear and recover the administrative cost amounts recorded in the 2017 GGEIDA at the same time and in a similar manner as the 2017 GGECFCVA.

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[1] Report of the Board, Regulatory Framework for the Assessment of Costs of Natural Gas Utilities Cap & Trade Activities, (EB-2015-0363), September 26, 2016, s 6.2.1
[2] Ibid, Appendix A: Filing Guidelines, Exhibit 6

Witnesses: A. Kacicnik
R. Small

The same annual process would be followed with respect to approved Cap and Trade related deferral and variance accounts for 2018 and beyond. Further, should timing allow, the Company's preference would be to administer the one-time billing adjustment from the disposition of Cap and Trade related deferral and variance account balances in conjunction with the disposition of its other deferral and variance account balances approved for clearance within the respective year (i.e., account balances approved for clearance through ESM and Deferral and Variance Accounts Clearance proceedings). Such an approach would be most efficient from billing and customer communication perspectives.

The Company, however, recognizes that given the August 1st timing of the annual compliance plan filings, it may not be possible to achieve clearance approval in time to allow for disposition in conjunction with other deferral and variance accounts approved for clearance through the annual ESM and Deferral and Variance Accounts Clearance proceeding.

Therefore, the Company would be amenable to the possibility of altering the process/timing for the review of Cap and Trade related deferral and variance account balances, such that the return or recovery of approved amounts would either occur in conjunction with the disposition of its other deferral and variance account balances approved for clearance within the respective year or in a more expeditious / timely fashion.

Witnesses: A. Kacicnik
R. Small

APPrO INTERROGATORY #5

INTERROGATORY

ISSUE 4 – DEFERRAL AND VARIANCE ACCOUNTS

Reference: Exhibit F, Tab 1, Schedule 1.

Questions:

(a) Is one practical consequence of the GGEIDA and the GGECFCVA that Enbridge will be held harmless from any cost consequences associated with its GHG compliance efforts?

(b) Did Enbridge consider any mechanisms that might serve to financially incent Enbridge to minimize the net cost consequences of its compliance efforts on ratepayers? If no, why not. If yes, please elaborate on each of these mechanisms.

RESPONSE

a) The GGEIDA and the GCECFCVA are regulatory financial accounts which are intended to keep ratepayers and the Company whole while it meets the statutorily imposed obligations under the *Climate Change Act.* Ratepayers benefit from the fact that the Board has included in this proceeding, as an issue, the reasonableness of the cost consequences of the Company's Compliance Plan. Ratepayers are further protected by the fact that where costs actually incurred differ from amounts recovered in rates, the difference will be reviewed and approved for clearance by the Board. The implication in the question asked that these accounts are one sided is inaccurate.

b) Enbridge has been statutorily tasked to comply with the requirements of the *Climate Change Act* which will necessarily require it to undertake the activities identified in its Compliance Plan. This plan has been developed in response to the Board's Regulatory Framework for Cap & Trade (EB-2015-0363) and the guiding principles stated in the Framework. The first of these guiding principles is: "Cost-Effectiveness: cap and trade activities are optimized for economic efficiency and risk

Witnesses: A. Langstaff
J. Murphy
F. Oliver-Glasford

management"[1]. Enbridge believes that its Compliance Plan fully accomplishes this objective.

The question posed on the other hand asks whether Enbridge has considered any mechanisms whereby it would be financially rewarded to minimize the net cost consequences of its compliance efforts. This question and the application of a financial incentive must be considered in the context of Cap and Trade activities where the vast majority of forecast costs in 2017 will be incurred purchasing allowances, credits and/or other financial instruments. These costs, unlike traditional gas distribution activities, cannot be reduced simply by being more efficient and lowering Operations, Maintenance and Administrative costs. Unlike gas and electricity distribution activities, which operate in incentive regulation ("IR") environments, the Company is unaware of any jurisdiction or proposal that is being seriously considered whereby a formulaic IR type approach is being used or is under consideration for the regulation of Cap and Trade activities.

Leaving aside the many practical concerns that would arise, the question is really asking whether the Utilities should be getting into the business of speculating in the Cap and Trade market. Such a strategy would necessarily require an assumption of risk by the Company and ratepayers. Enbridge does not believe that such a strategy or the acceptance of risk associated with market speculation is contemplated by the Framework. Certainly such risks have not been considered from the perspective of Enbridge's approved return on equity.

[1] Report of the Board – Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities (EB-2016-0363), pg. 7

Witnesses: A. Langstaff
J. Murphy
F. Oliver-Glasford

IGUA INTERROGATORY #6

INTERROGATORY

Issue: Deferral and Variance Accounts – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

Reference: Exhibit F, Tab 1, Schedule 1, Page 1.

Preamble: EGD proposes to use two Cap and Trade related deferral accounts: the Greenhouse Gas Emissions Impact Deferral Account and the Greenhouse Gas Emissions Customer and Facility Costs Variance Account.

Questions:

(a) Why has EGD chosen to combine the customer-related and facility-related costs variances into a single deferral account?

(b) Does EGD consider it advantageous to have a single combined deferral account for customer-related and facility-related costs variances instead of two separate accounts? Please explain the rationale for EGD's answer.

RESPONSE

a) and b)

In the Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities the Board stated / concluded (at page 29) that for emissions units procurement, the utilities will be indifferent as to whether they are purchasing emissions units for their customers, their facilities, or both. Consequently, the Board will expect that the emissions units procurement costs will be a total cost that includes both customer-related and facility-related obligations. The Company agrees with the Board's conclusion. In other words, the Company will procure emissions units to meet its total emissions obligations. The Company will not procure emissions units specifically for customer-related or facility-related obligations.

With respect to the disposition of the greenhouse gas emissions costs variance account balance the Board also stated (at page 33) that deferral (or variance) account balances should be apportioned between customer-related and facility-related obligations. The Company agrees with the Board's statement.

Witness: A. Kacicnik

In light of the above, as well as, considering the Board Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities (at page 34) the most simple, transparent and efficient way to manage and administer such a variance account is to record in it a balance that reflects the difference between the cost / amount the utility actually paid for compliance instruments (such as emissions allowances) and the amount the utility actually recovered from customers through Cap and Trade charges. Once the account balance is known, it needs to be apportioned between customer-related and facility- related obligations.

The Company's proposed 2017 Greenhouse Gas Emissions Customer and Facility Costs Variance Account (GGECFCVA) is set up to operate as discussed above and will ensure that the Company neither over or under recovers its customer-related and facility related emissions obligation costs (said differently, both the customers and the Company will be kept whole with respect to emissions obligation costs).

The 2017 GGECFCVA will record the difference between actual customer-related and facility related emissions obligations costs incurred in 2017 and the actual amount recovered in 2017 through Cap and Trade charges from customers.

Further, to apportion the account balance between customer-related and facility-related obligations, Enbridge will track / determine actual customer-related and facility-related emissions and the Company's billing and financial reporting system will be able to track the Cap and Trade amounts collected from customers for customer-related and facility-related obligations. Consequently, the Company will be able to readily apportion the account balance between customer-related and facility-related obligations and appropriately clear the balance to customers.

Witness: A. Kacicnik

TCPL INTERROGATORY #2

INTERROGATORY

Issue 4 – Deferral and Variance Accounts

Reference:

1) EB-2016-0300, Application, Exhibit C, Tab 3, Schedule 6, Page 1 and 7 of 13

2) EB-2015-0363, Report of the Board, Section 6.1, Page 30

3) EB-2016-0215, Application, Exhibit G2, Tab 1, Schedule 1, Page 9 of 28

Preamble:

In Reference 1, Enbridge states that administrative costs incurred until January 1, 2017 will be recorded in the Greenhouse Gas Emissions Impact Deferral Account (“GGEIDA”). Enbridge Gas forecasts 2016 Cap and Trade administrative costs of $1,772,000.

In Reference 2, the Ontario Energy Board states that “[…] administrative costs relating the implementation and ongoing operation of the Cap and Trade program will be allocated and recovered from all customers in the same manner as existing administrative costs.”

In Reference 3, Enbridge states that “Administration and general costs are functionalized on the basis of the proportion of operating and maintenance costs forecast for each operating function.”

TransCanada requests additional information on the Cap and Trade administrative costs that it may be expected to pay in 2017.

Request:

a) Please provide the balance as of January 1, 2017 for the deferral account noted in Reference 1.

b) Please confirm that Enbridge intends to recover Cap and Trade administrative costs in the same manner as existing utility administrative costs.

c) Does Enbridge expect to recover Cap and Trade administrative costs through a commodity charge or an increase to the demand charge?

Witnesses: A. Kacicnik
A. Langstaff
R. Small

d) Please provide the percentage of total utility O&M costs allocated to Rate 332 customers in 2017.

e) Please confirm that Cap and Trade administrative costs will be allocated to Rate 332 in the same proportion as c). If not, please explain on what basis Enbridge will allocate Cap and Trade administrative costs to Rate 332 customers.

f) Using the updated deferral account balance provided in a), please provide the estimated amount expected to be allocated to Rate 332 customers, as well as the resulting unit rate impact. If an updated deferral account balance is unavailable, please utilize the balance noted in Reference 1.

RESPONSE

a) The balance recorded in the 2016 GGEIDA, as of January 1, 2017, was $939,800. The balance reflects incremental operating and maintenance administrative costs incurred through December 31, 2016, as a result of preparing for the implementation of Cap and Trade. In addition, $564,200 in capital costs related to billing system updates, for which annual revenue requirement recovery will be sought through the GGEIDA (as discussed in Exhibit C, Tab 3, Schedule 6), were also incurred as of December 31, 2016.

b) through f)

The Company plans to recover Cap and Trade administrative costs in the same manner as it currently recovers similar administrative costs from customers. Such administrative costs are currently recovered from the various customer classes based on the number of customers in each rate class. The Company serves more than 2 million customers. Hence, the proposed allocation of administrative costs to Rate 332 service will be negligible.

Witnesses: A. Kacicnik
A. Langstaff
R. Small