Ontario

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

SETTLEMENT PROPOSAL AND DRAFT RATE ORDER

Enbridge Gas Distribution Inc.

2016 Earnings Sharing and Deferral & Variance Account Disposition

EB-2017-0102

August 16, 2017

Background

Enbridge Gas Distribution Inc. (Enbridge) filed an application dated May 9, 2017 with the Ontario Energy Board (OEB) under section 36 of the *Ontario Energy Board Act, S.O. 1998, c.15, (Schedule B)* for an order approving the disposition of balances in certain deferral and variance accounts. The application also includes a request for approval to share earnings with ratepayers in accordance with the 2014-2018 Custom Incentive Regulation Framework[1].

In Procedural Order No. 1, dated June 14, 2017, the OEB scheduled a Settlement Conference with the objective of reaching a settlement among the parties on all of the issues in the proceeding. The Settlement Conference was held on July 26, 27 and 28, 2017.

Enbridge filed a settlement proposal on August 11, 2017 (revised August 15, 2017), which reflects full settlement on all of the issues in the proceeding. Enbridge attached the proposed unit rates associated with the clearance of the deferral and variance account balances (including the earnings sharing mechanism deferral account) and the bill impacts resulting from the settlement proposal (the Draft Rate Order) as Appendix B.

OEB Staff Submission on Settlement Proposal and Draft Rate Order

OEB staff reviewed the settlement proposal filed by Enbridge in the context of Enbridge's 2014-2018 Custom Incentive Regulation Framework[2], other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff has no concerns with the settlement proposal as filed.

OEB staff is of the view that the settlement proposal appropriately reflects Enbridge's 2014-2018 Custom Incentive Regulation Framework, other relevant decisions and applicable policies of the OEB. OEB staff submits that the OEB's approval of the settlement proposal is in the public interest. OEB staff is satisfied that the calculations underpinning the balances in the deferral and variances accounts are in accordance with the relevant accounting orders previously approved by the OEB. OEB staff also submits that the accompanying explanation and rationale is adequate to support the settlement proposal.

[1] EB-2012-0459.
[2] EB-2012-0459.

OEB staff will provide specific comments with respect to Enbridge's application and the settlement proposal below.

Deferral and Variance Accounts

As set out in Appendix A to the settlement proposal (and reproduced below), the deferral account balances total to a $33.955 million debit to be collected from ratepayers (including interest).[3] OEB staff notes that this represents a decrease from the cumulative total debit balance of $42.183 million (including interest) as originally filed in Enbridge's application. The amount is also lower than the cumulative deferral and variance account debit balance for 2015 ($67.258 million).[4]

ENBRIDGE GAS DISTRIBUTION INC.
DEFERRAL & VARIANCE ACCOUNT
ACTUAL & FORECAST BALANCES

			Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	
			Actual at March 31, 2017		As Filed Forecast for clearance at October 1, 2017		Settlement Agreement Forecast for clearance at October 1, 2017		
Line No.	Account Description	Account Acronym	Principal ($000's)	Interest ($000's)	Principal ($000's)	Interest ($000's)	Principal ($000's)	Interest ($000's)	
	Non Commodity Related Accounts								
1.	Demand Side Management V/A	2015 DSMVA	825.5	13.4	825.5	18.2	-	-	1
2.	Demand Side Management V/A	2016 DSMVA	(704.0)	(1.9)	-	-	-	-	2
3.	Lost Revenue Adjustment Mechanism	2015 LRAM	(72.3)	(0.2)	(72.3)	(0.8)	-	-	1
4.	Demand Side Management Incentive D/A	2015 DSMIDA	6,068.6	22.3	6,068.6	55.9	-	-	1
5.	Deferred Rebate Account	2016 DRA	7,712.2	62.5	7,712.2	105.1	7,712.2	105.1	3
6.	Manufactured Gas Plant D/A	2017 MGPDA	570.4	41.1	-	-	-	-	4
7.	Gas Distribution Access Rule Impact D/A	2016 GDARIDA	-	-	280.3	-	280.3	-	5
8.	Average Use True-Up V/A	2016 AUTUVA	13,152.5	36.2	13,152.5	108.8	13,152.5	108.8	6
9.	Earnings Sharing Mechanism Deferral Account	2016 ESMDA	(3,400.0)	(8.8)	(3,400.0)	(27.4)	(3,400.0)	(27.4)	7
10.	Customer Care CIS Rate Smoothing D/A	2016 CCCISRSDA	(779.9)	(8.1)	-	(14.1)	-	(14.1)	8
11.	Customer Care CIS Rate Smoothing D/A	2015 CCCISRSDA	1,124.2	8.3	-	16.7	-	16.7	8
12.	Customer Care CIS Rate Smoothing D/A	2014 CCCISRSDA	2,927.0	21.5	-	43.1	-	43.1	8
13.	Customer Care CIS Rate Smoothing D/A	2013 CCCISRSDA	4,634.9	34.1	-	68.3	-	68.3	8
14.	Transition Impact of Accounting Changes D/A	2017 TIACDA	70,972.8	-	4,435.8	-	4,435.8	-	9
15.	Post-Retirement True-Up V/A	2016 PTUVA	(9,660.7)	(26.6)	(5,000.0)	(80.0)	(5,000.0)	(80.0)	10
16.	Constant Dollar Net Salvage Adjustment D/A	2017 CDNSADA	37,853.9	-	-	-	-	-	11
17.	Credit Final Bill D/A	2016 CFBDA	(1,524.4)	(4.2)	(1,524.4)	(12.6)	(2,004.4)	(13.0)	12
18.	GTA Incremental Transmission Capital Rev. Req	2016 GTAITCRRDA	4,281.4	30.0	4,281.4	53.4	4,281.4	53.4	13
19.	Greenhouse Gas Emissions Impact D/A	2016 GGEIDA	939.8	6.9	840.3	12.3	-	-	14
20.	Rate 332 D/A	2016 R332DA	(1,651.6)	(5.0)	(1,651.6)	(14.0)	(1,651.6)	(14.0)	15
21.	OEB Cost Assessment V/A	2016 OEBCAVA	1,928.0	5.3	1,928.0	16.1	1,928.0	16.1	16
22.	Total non commodity Related Accounts		135,198.3	226.8	27,876.3	349.0	19,734.2	263.0	
	Commodity Related Accounts								
23.	Transactional Services D/A	2016 TSDA	(4,036.3)	(12.8)	(4,036.3)	(35.0)	(4,036.3)	(35.0)	17
24.	Storage and Transportation D/A	2016 S&TDA	9,618.3	80.3	9,618.3	133.1	9,618.3	133.1	17
25.	Unaccounted for Gas V/A	2016 UAFVA	7,921.4	26.9	7,921.4	70.7	7,921.4	70.7	18
26.	Unabsorbed Demand Cost D/A	2016 UDCDA	282.8	1.0	282.8	2.8	282.8	2.8	19
27.	Total commodity related accounts		13,786.2	95.4	13,786.2	171.6	13,786.2	171.6	
28.	Total Deferral and Variance Accounts		148,984.5	322.2	41,662.5	520.6	33,520.4	434.6	

[3] The $33.955 million debit amount includes the disposition of the 2016 earnings sharing amount ($3.427 million credit including interest).
[4] EB-2016-0142, Decision and Order, August 11, 2016 at Appendix A to Settlement Proposal.

The revised bill impacts resulting from the settlement proposal are set out at Appendix B to the proposal. The bill impact for a typical residential customer is a charge of $4.10 in each of October and November. The bill impact for a typical commercial customer is a charge of $55.00 in each of October and November.

OEB staff will provide comments on each deferral and variance account in the same order as is set out in the settlement proposal.

Demand Side Management (DSM)-related Deferral and Variance Accounts

OEB staff notes that as discussed in the response to OEB Staff Interrogatory #3, the OEB's audit of Enbridge's 2015 DSM program and results is still ongoing. On that basis, Enbridge has not been able to file its 2015 DSM deferral account disposition application. Therefore, at this time, there has been no final approval of the amounts recorded in the 2015 Demand Side Management Variance Account (DSMVA), the 2015 Lost Revenue Adjustment Mechanism (LRAM) account, and the 2015 Demand Side Management Incentive Deferral Account (2015 DSMIDA).[5]

The parties have agreed that the balances in the 2015 DSM-related deferral accounts will be cleared in a future proceeding after the balances in these accounts have been approved by the OEB in a separate application.[6] This has resulted in the removal of the balances in these accounts from the proposed disposition in the current proceeding.

OEB staff submits that the removal of the request to dispose of these balances in the current proceeding is appropriate as the balances in the noted accounts are properly considered for approval after the audit of Enbridge's 2015 DSM program results is completed.

OEB staff also notes that Enbridge proposed that the 2016 DSM-related deferral and variance accounts should be cleared as part of a future proceeding (after the OEB's audit of the 2016 DSM program results).[7] OEB staff submits that the proposal to clear the 2016 DSM-related deferral and variance accounts as part of a future proceeding is appropriate for the same reason that the 2015 DSM-related account balances should be cleared as part of a future proceeding.

[5] EB-2017-0102, Interrogatory Responses, OEB Staff 3.
[6] EB-2017-0102, Settlement Proposal, pp. 6-7.
[7] EB-2017-0102, Exhibit C, Tab 1, Schedule 1 at p. 1.

2016 Deferred Rebate Account (2016 DRA)

The 2016 DRA is designed to record any amounts payable to, or receivable from, customers as result of clearing Enbridge's previous deferral and variance account balances, which remain outstanding due to Enbridge's inability to locate such customers.

The 2016 balance in the DRA is a $7.7 million debit to be collected from ratepayers. The $7.7 million debit recorded in the account reflects the under collection associated with the disposition of the 2015 deferral and variance accounts[8] and the 2014 DSM-related deferral accounts[9].[10]

OEB staff submits that Enbridge has properly calculated the balance in the account in accordance with the OEB-approved accounting order and has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[11]

2016 Gas Distribution Access Rule Impact Deferral Account (2016 GDARIDA)

The 2016 GDARIDA is designed to record the cost impacts associated with Enbridge maintaining compliance with the OEB's Gas Distribution Access Rule (GDAR) directives.

The 2016 debit balance of $0.28 million in the account reflects the 2016 revenue requirement impact resulting from capital expenditures incurred by Enbridge to modify its billing / customer information system to comply with the Low Income Customer Service Rule changes that came into effect on January 1, 2013. Enbridge noted that the cost of these modifications are not reflected in Enbridge's 2013 rates (which serve as the basis for rates set during the 2014-2018 Custom Incentive Regulation period).[12]

OEB staff submits that Enbridge has properly calculated the balance in the account and notes that the OEB has approved the recovery of the revenue requirement associated with the GDAR compliance capital expenditures in each of the 2014 and 2015 earnings

[8] Approved in EB-2016-0142.
[9] Approved in EB-2015-0267.
[10] EB-2017-0102, Exhibit C, Tab 1, Schedule 8.
[11] EB-2017-0102, Settlement Proposal, p. 7.
[12] EB-2017-0102, Exhibit C, Tab 1, Schedule 7, pp. 1-3; and EB-2017-0102, Interrogatory Responses, BOMA 23.

sharing mechanism (ESM) and deferral account disposition proceedings[13]. OEB staff has no concerns with agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[14]

2016 Average Use True-Up Variance Account (2016 AUTUVA)

The 2016 Average Use True-Up Variance Account is designed to record the revenue impact (exclusive of gas commodity costs) of the difference between the forecast of average use per customer in Rate 1 (residential) and Rate 6 (commercial) included in rates and the actual weather-normalized average use experienced in a year.

For 2016, the budgeted annual use was 2,480 m^3 per customers in Rate 1 and the actual normalized average use was 2,401 m^3 per customer (a variance of 79 m^3 per customer). The revenue impact of this variance in average use is $9.54 million. The budgeted annual use was 28,753 m^3 per customers in Rate 6 and the actual normalized average use was 28,203 m^3 per customer (a variance of 550 m^3 per customer). The revenue impact of this variance in average use is $3.61 million. Overall, $13.15 million is proposed to be collected from Rate 1 and Rate 6 customers in relation to the variance in average use.[15]

OEB staff submits that the balance in the account was calculated correctly in accordance with the OEB-approved accounting order. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[16]

OEB staff has no concerns with the requirement set out in the settlement proposal that Enbridge file incremental evidence in the 2018 annual rate adjustment proceeding with respect to its forecasting of average use. OEB staff also has no concerns with the filing of incremental evidence, in the 2018 ESM and deferral account disposition proceeding, regarding Enbridge's calculation of actual average use. This will allow parties and the OEB to better understand the appropriateness of Enbridge's 2018 average use forecasting and also the calculation of the balance in the 2018 AUTUVA.

[13] EB-2015-0122 and EB-2016-0142.
[14] EB-2017-0102, Settlement Proposal, p. 8.
[15] EB-2017-0102, Exhibit C, Tab 1, Schedule 5.
[16] EB-2017-0102, Settlement Proposal, pp. 8-9.

Finally, OEB staff has no concerns with the requirement that Enbridge file a study as part of its next rebasing proceeding regarding best practices for the true-up of average use (if it requests an average use true-up mechanism at the time of its next rebasing).[17] OEB staff submits that the appropriate time to re-evaluate the overall average use true-up framework is Enbridge's next rebasing. OEB staff notes that this aspect of the settlement proposal (i.e. the filing of additional information in future proceedings with respect to Enbridge's average use forecasting and average use true-up) was agreed to in the context of some potential issues with the average use forecasting models that may have occurred in 2016.[18]

2016 Earnings Sharing Mechanism Deferral Account (2016 ESMDA)

As part of Enbridge's 2014-2018 Custom Incentive Regulation framework, a provision for earnings sharing was established. If the actual return on equity (ROE) from utility operations, calculated on a weather normalized basis, is greater than the OEB-approved ROE (updated annually by the application of the OEB's ROE formula), the excess earnings are shared 50:50 between Enbridge and its ratepayers.[19] Based on Enbridge's actual 2016 utility earnings, the amount to be shared with ratepayers is a $3.4 million credit.[20]

OEB staff submits that Enbridge properly calculated the 2016 earnings sharing amount in accordance with the OEB's Decision with Reasons for the 2014-2018 Custom Incentive Regulation framework[21] and notes that the amount was calculated in the same manner as in the past. OEB staff has no concerns with the agreement in the settlement proposal that the earnings sharing amount (as recorded in the 2016 ESMDA), as originally filed, should be refunded to ratepayers as part of the current proceeding.

OEB staff also has no concerns with the agreement in the settlement proposal with respect to the potential review of the capitalization rates applied to certain expenses (discussed at BOMA Interrogatory 18) at Enbridge's next rebasing.[22] OEB staff submits that rebasing is the appropriate time to review capitalization rates.

[17] EB-2017-0102, Settlement Proposal, pp. 8-9.
[18] EB-2017-0102, Interrogatory Responses, Energy Probe 7.
[19] EB-2012-0459, Decision with Reasons, pp. 14-15.
[20] EB-2017-0102, Exhibit B, Tab 1, Schedule 1.
[21] EB-2012-0459.
[22] EB-2017-0102, Settlement Proposal, pp. 9-10.

2013-2016 Customer Care CIS Rate Smoothing Deferral Account (2013-2016 CCCISRSDA)

The purpose of the CCCISRSDA deferral accounts is to capture the difference between the forecast customer care and CIS costs[23] and the amount to be collected in revenues each year.

For the Customer Care CIS Rate Smoothing Deferral Accounts (2013-2016), Enbridge is seeking only the disposition of the interest amount associated with the principle held in those accounts in accordance with the approved settlement agreement in the CIS and Customer Care costs proceeding.[24] The principle balance (if any remains after the IR term) will be cleared after 2018.

In the current proceeding, Enbridge is seeking disposition of only the interest balances in each of the 2013-2016 CCCISRSDAs (a cumulative disposition of a $0.114 million debit).[25]

OEB staff submits that the disposition of only the interest amounts associated with the 2013-2016 CCCISRSDAs as part of the current proceeding is in accordance with the approved settlement agreement in the CIS and Customer Care costs proceeding.[26] OEB staff has no concerns with the agreement in the settlement proposal that the interest balances in the noted account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[27]

2017 Transition Impact of Accounting Changes Deferral Account (2016 TIACDA)

The purpose of the 2016 TIACDA is to track the undisposed portion of the Other Post Employment Benefit (OPEB) costs, which the OEB approved for recovery. The OEB previously approved, in Enbridge's 2013 rates proceeding[28], the recovery of $88.7 million of OPEB costs evenly, over a 20 year period, commencing in 2013. For 2017, the balance in the account is a debit of $4.436 million (reflecting 1/20 of the approved $88.7 million cost).[29]

[23] Approved in EB-2011-0226.
[24] EB-2011-0226.
[25] EB-2017-0102, Exhibit C, Tab 1, Schedule 10.
[26] EB-2011-0226.
[27] EB-2017-0102, Settlement Proposal, p. 10.
[28] EB-2011-0354.
[29] EB-2017-0102, Exhibit C, Tab 1, Schedule 9.

OEB staff submits that the balance in the account has been calculated correctly in accordance with the methodology approved by the OEB in Enbridge's 2013 rates proceeding[30] and notes that the same amount was previously disposed of in each year during the 2013-2016 period. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[31]

2016 Post-Retirement True-Up Variance Account (2016 PTUVA)

The 2016 PTUVA records the differences between the forecast pension and post-employment benefit expenses included in rates and the actual pension and post-employment benefit expenses.

For 2016, the forecast pension and post-employment benefit expenses included in rates were $34.6 million. The actual 2016 pension and post-employment benefit expenses were $24.9 million. Therefore, the variance between forecast and actual is a $9.7 million credit. However, as set out in the approved settlement agreement for Enbridge's 2013 rates proceeding[32], the maximum disposition for the Post-Retirement True-Up Variance Account is $5 million. Any balances in excess of $5 million are carried forward to the following year. In this way, large variances can be smoothed over time. As such, in this proceeding, the amount proposed for clearance is the maximum of a $5 million credit to ratepayers (with a $4.7 million credit being transferred to the 2017 PTUVA).[33]

OEB staff submits that the balance in the account has been calculated correctly in accordance with the OEB-approved accounting order and that it is appropriate to dispose of only a $5 million credit (as opposed to the total credit balance of $9.7 million) as part of the current proceeding. This is consistent with the methodology established in Enbridge's 2013 Rates approved settlement agreement[34] and adequately results in the smoothing of large variances recorded in the account. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[35]

[30] EB-2011-0354.
[31] EB-2017-0102, Settlement Proposal, p. 11.
[32] EB-2011-0354.
[33] EB-2017-0102, Exhibit C, Tab 1, Schedule 6.
[34] EB-2011-0354.
[35] EB-2017-0102, Settlement Proposal, p. 11.

2016 Credit Final Bill Deferral Account (2016 CFBDA)

The purpose of the Credit Final Bill Deferral Account is to address a billing issue which Enbridge had previously identified as resulting from the 2009 CIS implementation (specifically related to final bills with credit balances). The account tracks non-refunded final bills with credit balances.

As originally filed, for 2016, the balance in the account is a credit of $1.524 million, which reflects amounts that Enbridge has been unable to refund to specific customers (who were owed these credits) and is now proposing to refund to all customers that are in the rate classes where these accounts resided before they were closed. In response to OEB Staff Interrogatory 11, Enbridge stated that its final attempt to refund credit final balances was complete and that there is an additional $0.48 million amount to be added to the balance originally recorded in the 2016 CFBDA.

OEB staff has no concerns with the agreement in the settlement proposal which increases the principle balance from a $1.524 million credit to $2.004 million credit to reflect the inclusion of the additional balance that is now available to be disposed of as part of the current proceeding.[36] OEB staff submits that it is appropriate to dispose of the additional $0.48 million balance as part of the current proceeding as Enbridge has completed its efforts to refund the amounts to the specific customers that were owed these credits and these amounts are now properly refunded to Enbridge's other customers.

2016 GTA Incremental Transmission Capital Revenue Requirement Deferral Account (2016 GTAITCRRDA)

In the OEB's Decision and Order for Enbridge's GTA Project Leave to Construct proceeding[37], the OEB approved the GTA project, including the upsizing of Segment A (from an NPS 36 to an NPS 42 pipeline) to accommodate distribution and transportation requirements. The decision also approved the rate methodology for transportation service on Segment A under Rate 332. Rate 332 was designed to recover 60% of the annual revenue requirement of Segment A through contract demand charges to transportation customers.

[36] EB-2017-0102, Settlement Proposal, p. 12.
[37] EB-2012-0451.

The above noted decision directed that Enbridge's distribution customers should not automatically bear the costs associated with the incremental pipeline capacity (i.e. the cost difference between NPS 36 and NPS 42 pipelines) which was required to provide Rate 332 service. Specifically, the decision directed that once Segment A is in service, if there is no Rate 332 service / Rate 332 customers, the annual revenue requirement impact of $55 million (representing the forecast cost difference between the NPS 36 and the NPS 42 pipelines) will be recorded in a deferral account for eventual recovery from Rate 332 customers.

On that basis, the GTAITCRRDA was established to record the revenue requirement related to an incremental $55 million of forecast capital costs in the situation where there are no Rate 332 customers taking service on the pipeline in 2016. The revenue requirement recorded in the account would be held for recovery from Rate 332 customers until after they begin taking service.

In its 2016 rates proceeding[38], Enbridge forecast that there would be no revenues collected from Rate 332 customers during 2016 (due to uncertainty with respect to the completion of third-party pipelines). Therefore, it was originally forecast that $4.9 million would be recorded in the account (this reflects the revenue requirement associated with the $55 million of incremental Segment A capacity upsizing costs). On an actual basis, Rate 332 customers began taking service on November 16, 2016. Therefore, for 87.5% of the year there were no revenues collected from Rate 332 customers. The balance recorded in the account and proposed to be recovered from Rate 332 customers as part of the current proceeding is $4.281 million (which represents 87.5% of the 2016 revenue requirement associated with $55 million pipeline upsizing costs).[39]

OEB staff notes that this is the first proceeding in which Enbridge has requested disposition of the GTAITCRRDA.

OEB staff submits that the balance in the account has been calculated appropriately in accordance with the OEB-approved accounting order and with the intent of the account established by the OEB in the GTA Project Leave to Construct Decision[40]. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the

[38] EB-2015-0114.
[39] EB-2017-0102, Exhibit C, Tab 1, Schedule 14.
[40] EB-2012-0451

account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[41]

2016 Greenhouse Gas Emissions Impact Deferral Account (2016 GGEIDA)

The 2016 GGEIDA is designed to record Enbridge's administrative costs arising from regulations related to GHG emissions requirements (such as the cap and trade program). The costs associated with Enbridge achieving its cap and trade requirements were not included in the base amounts upon which its 2016 rates were determined. Therefore, all of Enbridge's 2016 administrative costs related to its cap and trade compliance are recorded in the GHG Impact Deferral Account.

Enbridge proposed to recover a $0.84 million debit balance in the 2016 GGEIDA as part of the current proceeding. The balance includes costs associated with staff resources, consulting support, education and outreach, external legal services, and a revenue requirement credit associated with its IT billing system changes (tax impact). It is expected that IT billing system changes will reflect a revenue requirement debit in future years.[42]

OEB staff notes that this is the first proceeding in which Enbridge has requested disposition of the GGEIDA.

In Procedural Order No. 2, dated June 29, 2017, the OEB determined that it is appropriate to defer consideration of the final disposition of Enbridge's 2016 GGEIDA account balance to a future proceeding. However, the OEB decided that it will consider whether the balance recorded in the account should be disposed on an interim basis in the current proceeding.

OEB staff has no concerns with the agreement in the settlement proposal that there should be no interim disposition of the amount recorded in the 2016 GGEIDA as part of the current proceeding and a review of the balance in the account should occur as part of a future proceeding.[43] OEB staff submits the balance recorded in the account is properly reviewed as part of a cap and trade related proceeding and there is no need for interim disposition of the balance in the account as it is not material.

[41] EB-2017-0102, Settlement Proposal, p. 12.
[42] EB-2017-0102, Exhibit C, Tab 1, Schedule 11.
[43] EB-2017-0102, Settlement Proposal, p. 12.

2016 Rate 332 Deferral Account (2016 R332DA)

The R332DA is also related to Enbridge's GTA Project.

As discussed previously, the Decision and Order in Enbridge's GTA Project Leave to Construct proceeding[44] approved the recovery of 60% of the annual revenue requirement of Segment A through contract demand charges to transportation customers. Given the uncertainty around Rate 332 customers taking service on the pipeline in 2016, no revenues were forecast to be collected from Rate 332 customers during 2016. Therefore, 2016 rates for Enbridge's distribution customers were designed to recover an incremental $13.1 million which reflects 60% of the forecast 2016 Segment A revenue requirement ($18 million) net of the $4.9 million forecast to be recorded in the 2016 GTAITCRRDA for the incremental upsizing costs.

On an actual basis, Rate 332 customers began taking service on November 16, 2016 and generated $2.3 million of revenues. Therefore, $0.6 million less was recorded in the 2016 GTAITCRRDA than originally forecast.

The R332DA is designed to record for refund to Enbridge's bundled customers any Rate 332 revenues collected from transportation customers, net of any reduction in the amount forecast to be recovered through the 2016 GTAITCRRDA, in the situation where Rate 332 service begins during 2016. Therefore, based on the actual revenues generated by the Rate 332 transportation service, $1.7 million is to be refunded to Enbridge's customers ($2.3 million of Rate 332 revenues that were not previously forecast net of $0.6 million reduction of the balance in the 2016 GTAITCRRDA between forecast and actual). This account ensures that there is no over-recovery of costs related to the transportation component of Segment A across all of Enbridge's customers.[45]

OEB staff notes that this is the first proceeding in which Enbridge has requested disposition of the R332DA.

OEB staff submits that the balance in the account has been properly calculated in accordance with the OEB-approved accounting order. OEB staff has no concerns with

[44] EB-2012-0451.
[45] EB-2017-0102, Exhibit C, Tab 1, Schedule 15.

the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[46]

2016 OEB Cost Assessment Variance Account (2016 OEBCAVA)

The 2016 OEBCAVA is designed to record any material variances between the OEB cost assessed to Enbridge through the application of the revised Cost Assessment Model, effective April 1, 2016, and the OEB costs which were included in rates during the Custom IR term (which were determined through the application of the prior Cost Assessment Model).

Enbridge proposed to recover a $1.93 million debit balance in the OEBCAVA as part of the current proceeding. The amount was calculated by taking the 2016 / 2017 OEB costs invoiced to Enbridge during the first three quarters of the OEB's 2016 / 2017 fiscal year using the revised Cost Assessment Model and subtracting the average quarterly OEB cost assessment amounts invoiced to Enbridge during 2015 / 2016 fiscal year, which used the prior version of the Cost Assessment Model.[47]

OEB staff asked Enbridge questions regarding the methodology used to calculate the balance in the account at OEB Staff Interrogatory 12. Enbridge noted that the OEB cost assessment amount included in its 2016 rates were established as part of its 2014-2017 Custom Incentive Regulation application (EB-2012-0459). The OEB cost assessments were included as part of Enbridge's Ontario Hearing Cost budget ($6 million), which also included amounts for intervenor costs, legal fees and other costs of participating in regulatory proceedings. In preparing its budget, Enbridge estimated $2.6 million for OEB cost assessments, which was based on the 2012 / 2013 and 2014 / 2015 fiscal year OEB assessments charged to Enbridge. The Other OM&A budget (which included the Ontario Hearing Cost budget) was reduced as part of the OEB's decision in EB-2012-0459.

For the purposes of calculating the amounts to be recovered through the OEBCAVA, Enbridge used the OEB's 2015 / 2016 fiscal year cost assessment amount of $2.8 million (or $0.7 million per quarter) as the basis for calculating the variance to the amounts owed under the revised cost assessment model as this is the most up-to-date amount that Enbridge was expected to cover with its 2016 rates.[48]

[46] EB-2017-0102, Settlement Proposal, p. 13.
[47] EB-2017-0102, Exhibit C, Tab 1, Schedule 13.
[48] EB-2017-0102, Interrogatory Responses, OEB Staff 12.

OEB staff submits that the balance in the account was calculated in accordance with the OEB-approved accounting order. The description of the account states “the purpose of the 2016 OEBCAVA will be to record any material variances between the OEB costs assessed to Enbridge through application of the revised Cost Assessment Model, which became effective April 1, 2016, and the OEB costs which were included in rates during the Custom IR term, which were determined through application of the prior Cost Assessment Model.”[49] In calculating the variance to be recorded in the account, Enbridge is using the most recent information available with respect to the OEB cost assessment amount that was expected to be accommodated through its 2016 rates. OEB staff submits that this is the appropriate way in which the balance in the account should be calculated in the context of Enbridge’s 2014-2018 Custom Incentive plan. OEB staff notes that if Enbridge had used the originally budgeted amount for OEB cost assessments as established as part of the 2014-2018 Custom Incentive Regulation application instead of the most recent information, the debit variance recorded in the account would have been higher and would rely on outdated information.

OEB staff also submits that the balance recorded in the OEBCAVA is considered material in the context of Enbridge’s Z-factor materiality threshold of $1.5 million.[50]

For the above reasons, OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[51]

2016 Transactional Services Deferral Account (2016 TSDA)

The purpose of the 2016 TSDA is to capture the difference between the actual ratepayer share of transactional services revenue and the amount already included in rates.

Transactional services are the optimization of assets that were acquired to meet customer demands on a forecast basis and are not entirely required to meet those demands on an actual basis. When there is excess capacity available, Enbridge can optimize the capacity (storage and / or transportation) through different mechanisms to earn value from the unutilized capacity.

[49] EB-2016-0367, Decision and Accounting Order, Schedule A.
[50] EB-2012-0459, Decision with Reasons, pp. 19-20.
[51] EB-2017-0102, Settlement Proposal, p. 13.

Revenues generated from transactional services are shared 90:10 to the benefit of ratepayers. Enbridge rates include $12.0 million of forecasted transactional services revenue. For 2016, Enbridge actually generated $17.74 million of transactional services revenue (with about $15.97 million of that amount being assigned to the benefit of ratepayers). Therefore, the balance in the account is about a $4 million credit.[52]

OEB staff submits that the balance in the account has been calculated correctly in accordance with the OEB-approved accounting order. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[53]

2016 Storage and Transportation Deferral Account (S&TDA)

The 2016 S&TDA is designed to record the difference between the forecast of storage and transportation rates (both cost of service and market based pricing) included in Enbridge's approved rates and the actual storage and transportation rates incurred by the company. The account also records the variance between the forecast storage and transportation demand levels and the actual storage and transportation demand levels. Enbridge proposed to recover an approximate $9.6 million debit balance in the 2016 S&TDA.[54]

OEB staff submits that the balance in the account has been calculated correctly in accordance with the OEB-approved accounting order. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[55]

2016 Unaccounted for Gas Variance Account (2016 UAFVA)

The 2016 UAFVA is designed to record the cost impact of the difference between the UAF forecast volume included in rates and the actual UAF volume. The forecast 2016 level of UAF was 84,766 10^3m^3. The actual 2016 level of UAF was 133,122 10^3m^3. The variance between forecast and actual is 48,346 10^3m^3, which underpins the balance in

[52] EB-2017-0102, Exhibit C, Tab 1, Schedule 3.
[53] EB-2017-0102, Settlement Proposal, p. 13.
[54] EB-2017-0102, Exhibit C, Tab 1, Schedule 3.
[55] EB-2017-0102, Settlement Proposal, p. 14.

the variance account. Therefore, Enbridge proposed to recover an approximate $7.9 million debit balance in the UAFVA.[56]

OEB staff submits that the balance in the account has been calculated correctly in accordance with the OEB-approved accounting order. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.

OEB staff also has no concerns with the agreement that Enbridge will file incremental evidence, as part of its 2018 annual rate adjustment proceeding, with respect to the actions that it has taken to address UAF that may be associated with metering differences at gate stations.[57] OEB staff notes that, in response to BOMA Interrogatory 21, Enbridge highlighted that these metering differences are one of the known causes driving UAF that it is currently working towards addressing. Therefore, the OEB and parties will benefit from evidence highlighting Enbridge's actions and the results of those actions in the 2018 rates proceeding.

2016 Unabsorbed Demand Cost Deferral Account (2016 UDCDA)

The purpose of the 2016 UDCDA is to record the actual cost consequences of unutilized contracted capacity contracted by Enbridge to meet its peak day requirements. In 2016, Enbridge incurred 0.1 PJs of UDC and is therefore seeking recovery of a debit balance of about $0.3 million.[58]

OEB staff submits that the balance in the account has been calculated correctly in accordance with the OEB-approved accounting order. OEB staff has no concerns with the agreement in the settlement proposal that the balance in the account, as originally filed, should be recovered from ratepayers as part of the current proceeding.[59]

Manufactured Gas Plant Deferral Account (MGPDA) and Constant Dollar Net Salvage Adjustment Deferral Account (CDNSADA)

Enbridge did not request the clearance of balances recorded in the MGPDA and the CDNSADA as part of the current proceeding. The balances contained in each of the noted 2016 accounts were transferred to the corresponding 2017 vintage of the

[56] EB-2017-0102, Exhibit C, Tab 1, Schedule 4.
[57] EB-2017-0102, Settlement Proposal, p. 14.
[58] EB-2017-0102, Exhibit C, Tab 1, Schedule 2.
[59] EB-2017-0102, Settlement Proposal, p. 15.

accounts.[60] OEB staff has no concerns with Enbridge's proposal to clear the balances in the noted accounts as part of a future proceeding in the context of the rationale provided in the pre-filed evidence[61] and the interrogatory responses[62]. OEB staff notes that the parties to the settlement have agreed to the clearance of the balances in the deferral and variance accounts listed in Appendix A to the settlement proposal. The parties have also agreed that the balances in the other accounts (including the MGPDA and the CDNSADA) for which clearance is not requested as part of the current proceeding will be carried forward for review in a future proceeding.[63]

<u>Status Updates</u>

As part of the Decision on the 2014-2018 Custom Incentive Regulation Framework[64], the OEB ordered Enbridge to file certain capital project updates and progress reports as part of its annual deferral account disposition application. The current application includes: (a) Status update for the GTA Project; (b) Status update for the Work and Asset Management Solution (WAMS) project; (c) Status update for the System Integrity Program; (d) Status update for the benchmarking study; (e) Status update for the Asset Management Planning Process; (f) the 2016 Productivity Initiatives Report; (g) a copy of the 2017 Stakeholder Day presentation; (h) a copy of the 2016 RRR annual filings with respect to the service quality indicators; and (i) the 2016 Consolidated Financial Statements. There are no direct approvals requested associated with the status updates and progress reports.

OEB staff submits that no findings of the OEB are required in relation to these reporting requirements as part of the current proceeding. As such, the status updates are not discussed in the settlement proposal.

<u>Allocation and Disposition of the Deferral and Variance Account Balances and the Draft Rate Order</u>

Allocation of the Deferral and Variance Account Balances

[60] EB-2017-0102, Exhibit C, Tab 1, Schedule 1 at p. 2.
[61] EB-2017-0102, Exhibit C, Tab 2, Schedule 1, pp.2-3.
[62] EB-2017-0102, Interrogatory Responses, OEB Staff 4.
[63] EB-2017-0102, Settlement Proposal, p. 6.
[64] EB-2012-0459.

Enbridge noted that the allocation of the deferral and variance account balances is consistent with the allocation methodologies approved by the OEB in previous proceedings.[65] However, for the following three accounts, for which disposition has been proposed and settled as part of the current proceeding, there has not been a previous disposition and therefore the allocation methodologies proposed have not been specifically approved:

a) 2016 GTAITCRRDA
b) R332DA
c) 2016 OEBCAVA

OEB staff submits that it has no concerns with respect to the methodologies used to allocate the balances in any of the deferral accounts for which Enbridge is seeking disposition as part of the current proceeding. OEB staff has no concerns with the agreement in the settlement proposal with respect to the allocation methodologies.[66] OEB staff will specifically discuss the methodologies used for the three accounts that have not been previously disposed below.

With respect to the 2016 GTAITCRRDA, Enbridge proposed to clear the balance directly to Rate 332 transportation customers.[67] The debit balance in this account is related to the incremental capital costs associated with upsizing Segment A of the GTA project from NPS 36 to NPS 42 (in the situation where there are no Rate 332 customers taking service on the pipeline in 2016). These incremental capital costs were incurred specifically to provide transportation service to Rate 332 customers. Therefore, OEB staff submits that the proposed allocation is appropriate as the balance in the account should be collected directly from Rate 332 customers.

For the 2016 R332DA, Enbridge proposed to clear the credit balance to all bundled customers (both system gas and direct purchase) based on the total deliveries allocator.[68] OEB staff submits that it is appropriate to dispose of the balance to all bundled customers as it was those customers there were originally allocated the costs of the transportation component of Segment A (under the assumption that no Rate 332 revenues would be generated in 2016). As Rate 332 transportation service did begin in late 2016, a refund is owed to Enbridge's bundled customers to reflect their

[65] EB-2017-0102, Exhibit C, Tab 2, Schedule 1.
[66] EB-2017-0102, Settlement Proposal, p. 15.
[67] EB-2017-0102, Exhibit C, Tab 2, Schedule 1 at p. 2.
[68] EB-2017-0102, Exhibit C, Tab 2, Schedule 1 at pp. 2-3.

overpayment towards the transportation component of Segment A of the GTA project. OEB staff also submits that using the total deliveries allocator is appropriate as it ensures that the balance is properly refunded to all bundled customers.

For the 2016 OEBCAVA, Enbridge proposed to clear the balance to all customers based on the rate base factor under the OEB approved cost allocation and rate design methodology. Enbridge noted that this is the same methodology that was used to allocate the balance in the previous Ontario Hearings Costs Variance Account, which dealt with similar costs as the OEBCAVA.[69] OEB staff submits that the allocation methodology for the OEBCAVA is appropriate as it is the same as the OEB-approved methodology that was used to allocate balances held in a similar account in the past.

Disposition of the Deferral and Variance Account Balances

Enbridge proposed to dispose of the deferral and variance account balances (including the earnings sharing amount and the three accounts being disposed for the first time) in two equal billing adjustments in October and November 2017. The billing adjustments are based on each customer's actual 2016 consumption volume.[70] OEB staff has no concerns with the proposed disposition methodology and notes that the methodology is in accordance with previous OEB approvals with respect to the disposition of Enbridge's deferral and variance accounts. OEB staff also submits that given the relatively small bill impacts arising from the disposition of the account ($4.10 in each of October and November for the typical residential customer) no further rate mitigation measures are necessary.

Draft Rate Order

Enbridge attached the proposed unit rates for clearing the deferral and variance account balances (including the earnings sharing mechanism deferral account and the three accounts being disposed for the first time) and the bill impacts resulting from the settlement proposal (the Draft Rate Order) as Appendix B to the Settlement Proposal.

OEB staff submits that the unit rates associated with the clearance of the deferral and variance account balances, which are used to determine the bill adjustments for each of October and November 2017, have been calculated appropriately. OEB staff submits that the OEB should approve Appendix A (deferral and variance account balances) and

[69] EB-2017-0102, Exhibit C, Tab 2, Schedule 1 at p. 4.
[70] EB-2017-0102, Exhibit C, Tab 2, Schedule 1 at p. 1.

Appendix B (unit rates) to the settlement proposal in its Decision and Rate Order for the current proceeding.

All of which is respectfully submitted.