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BY EMAIL

December 1, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Enbridge Gas Distribution Inc.
2018 Rate Adjustment
OEB Staff Submission on Settlement Proposal
Board File Number: EB-2017-0086

Please find attached OEB staff's submission on the Settlement Proposal filed on November 29, 2017.

Yours truly,

Original Signed By

Lawrie Gluck
Case Manager

cc: All parties in EB-2017-0086

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Ontario

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

Enbridge Gas Distribution Inc.

2018 Rate Adjustment

EB-2017-0086

December 1, 2017

Background

Enbridge Gas Distribution Inc. (Enbridge) filed an application dated September 25, 2017 (updated October 17, 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 or orders approving rates for 2018. Enbridge updated its 2018 rates application in accordance with the OEB's Letter of Direction, dated October 16, 2017. In the letter, the OEB directed Enbridge to remove its cap-and-trade related proposals from its application and re-file those proposals (and related evidence) in a standalone proceeding[1].

In its Decision with Reasons with respect to Enbridge's Custom Incentive Ratemaking (IR) application, the OEB approved a five-year Custom IR framework (2014-2018). The Decision with Reasons regarding Enbridge's Custom IR framework established placeholder revenues and costs for each year of the Custom IR term. It was acknowledged that updated forecasts of some of the revenue and cost elements would be desirable in order to produce more accurate rate outcomes over the course of the 5-year Custom IR term. Therefore, the Custom IR framework decision provided for annual updates to the placeholders for a limited list of revenue and cost items.[2]

Enbridge's current application for 2018 rates is based on the Custom IR framework previously approved by the OEB. 2018 is the final year of the 5-year term.

In Procedural Order No. 1, dated October 25, 2017, 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 16 and 17, 2017.

In Procedural Order No. 2, dated November 23, 2017, the OEB set November 29, 2017 as the deadline for the filing of the settlement proposal. In accordance with Procedural Order No. 2, Enbridge filed a settlement proposal on November 29, 2017. The settlement proposal addresses all of the relief sought in the proceeding and includes both the draft rate order and draft accounting order. OEB staff notes that if the OEB approves the settlement proposal, there is a single issue (the disposition methodology for the Constant Dollar Net Salvage Adjustment Deferral Account – CDNSADA) that will remain unsettled. However, this issue has no impact on 2018 rates and therefore, the

[1] EB-2017-0319.
[2] EB-2012-0459, Enbridge Custom IR Decision with Reasons, July 17, 2014.

2018 rates can be set through the approval of the settlement proposal and the associated draft rate order.

Enbridge requested that the OEB approve the settlement proposal, including the draft rate order and the draft account order, by December 5, 2017 to permit the new 2018 rates to be implemented with Enbridge's January 1, 2018 Quarterly Rate Adjustment Mechanism (QRAM) application.[3]

The following are OEB staff's submissions on the settlement proposal, the draft accounting order and the draft rate order. Overall, OEB staff has no concerns with the settlement proposal as filed and submits that the OEB should approve Enbridge's 2018 rates as set out in the draft rate order. In addition, OEB staff has no concerns with the agreement that the unsettled issue with respect to the appropriate disposition methodology for the CDNSADA should be considered as part of the current proceeding and notes that this issue has no impact on 2018 rates.

Settlement Proposal

OEB staff submits that the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers. OEB staff also submits that the accompanying explanation and rationale is adequate to support the settlement proposal.

OEB staff's comments on the key issues included as part of the settlement proposal are set out below.

Annual Custom IR Adjustments

The Decision with Reasons in Enbridge's Custom IR framework proceeding[4], established a set of items that would be subject to annual updates during the course of the IR term.[5]

The list of allowable annual updates includes: (a) volumes and the impact on revenues; (b) gas costs and the impact on rate base; (c) customer care and Customer Information

[3] EB-2017-0086, Settlement Proposal Cover Letter, November 29, 2017, p. 2.
[4] EB-2012-0459, Enbridge Custom IR Decision with Reasons, July 17, 2014.
[5] EB-2012-0459, Enbridge Custom IR Rate Order, August 22, 2014, Appendix E.

System (CIS) related costs; (d) DSM-related costs; (e) Pension and OPEB expense amounts; (f) income taxes; (g) return on equity and cost of debt.[6]

OEB staff notes that the parties have agreed to Enbridge's requested annual updates with two adjustments relative to the pre-filed evidence.[7] OEB staff has no concerns with any of the 2018 annual updates proposed by Enbridge. OEB staff will provide specific comments on the two adjustments agreed to by parties that result in changes to the revenue deficiency relative to the pre-filed evidence.

2018 Volume Forecast

Parties have agreed that it is appropriate to incorporate the impact of the Green Investment Fund (GIF) program in Enbridge's 2018 volume forecast. This results in a reduction of about 5.6 10^6m^3 to the 2018 forecast volumes for Rate 1 and an increase to the revenue deficiency of about $0.43 million (relative to the pre-filed evidence).[8] OEB staff notes that this volume update was implemented in accordance with the OEB's Decision with Reasons in Enbridge's 2017 Cap and Trade compliance plan proceeding.[9] OEB staff has no concern with this update as it properly implements a previous OEB decision that Enbridge was unable to reflect in its pre-filed evidence due to the timing of the compliance plan decision.

2018 Cost of Capital Updates

Parties have agreed that it is appropriate for Enbridge to update its cost of capital to reflect:

a) An update to the return on equity (ROE) to reflect the OEB's Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-Setting Applications.[10] This update increases the 8.84% ROE that was included in the pre-filed evidence to 9.0% as established in the OEB's update letter. The impact of this change is to increase the revenue deficiency by $4.9 million.[11] OEB staff

[6] EB-2017-0086, Settlement Proposal, November 29, 2017, pp. 6-7.
[7] EB-2017-0086, Settlement Proposal, November 29, 2017, pp. 7-8.
[8] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 8.
[9] EB-2016-0296 / EB-2016-0300 / EB-2016-0330, Decision and Order, September 21, 2017, p. 18.
[10] Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-Setting Applications, November 23, 2017.
[11] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 8.

has no concerns with this update. OEB staff submits that it is appropriate to use the most updated ROE information available, which is reflected in the OEB's recent Cost of Capital Parameter update letter.[12]

b) An update to Enbridge's forecast 2018 cost of debt based on the latest available information. The result of this adjustment is to decrease the revenue deficiency by about $0.5 million.[13] OEB staff has no concerns with this update. OEB staff submits that it is appropriate to use the most updated cost of debt information available, which is based on a November 2017 forecast undertaken by Enbridge.

OEB staff notes that, in total, the settlement proposal results in an increase of about $4.8 million to the revenue deficiency (from about $86.0 million to about $90.8 million).

<u>Other Settled Issues</u>

Parties agreed to settle a number of other items as part of the settlement conference. These items result in no changes to the 2018 allowed revenue (nor the revenue deficiency) as originally proposed in the pre-filed evidence. OEB staff notes that in Enbridge's previous annual Custom IR rates proceedings it has been common for parties to reach agreements on matters that are related to the application generally but do not form part of the list of allowable annual updates (or do not directly impact the revenue requirement). The OEB has previously approved settlement proposals that include agreements on these types of issues.

The other settled issues in the current proceeding include: (a) amendment to the scope of the 2018 Post-Retirement True-Up Variance Account (PTUVA); (b) future contracting for incremental storage; (c) removal of planned update to Enbridge's Conditions of Service; (d) reporting on unaccounted for gas (UAF); (e) incremental contracting for NEXUS capacity; (f) C1 transportation capacity; and (g) the disposition methodology for the CDNSADA.[14] OEB staff has no concerns with any of the other settled issues. OEB staff will provide specific comments on three of these issues below.

<u>Amendments to the PTUVA</u>

[12] Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-Setting Applications, November 23, 2017.
[13] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 8.
[14] EB-2017-0086, Settlement Proposal, November 29, 2017, pp. 9-11.

Enbridge's forecast of its 2018 pension costs includes the impact of proposed changes to Ontario pension legislation and regulations. The parties agreed that the inclusion of the impact of the proposed changes to Ontario pension legislation and regulations in Enbridge's pension costs is acceptable for ratemaking purposes. However, given that these legislative changes are only proposed at this time, all parties agreed that the scope of the PTUVA should be amended. For 2018, the PTUVA will be used to record any revenue requirement impact resulting from actual 2018 pension and OPEB-related amounts (both accrual-based expenses and cash-based funding) which are different than what has been included in rates. This would include any revenue requirement impact resulting from the proposed legislative and regulatory pension changes not being enacted (or changed).[15]

OEB staff has no concerns with the agreement to amend the scope of the PTUVA for 2018. This change reflects an expansion of the types of variances that are to be captured in the noted account. Previously, only the variances between forecast and actual pension and OPEB expenses determined on an accrual basis were to be captured in the PTUVA.[16] Based on the settlement, the PTUVA will also now capture the revenue requirement impact of variances related to the cash-based amounts (which have a tax impact that affects revenue requirement[17]). Given the current uncertainty with respect to the Ontario pension legislation and regulation changes, OEB staff is of the view that it is appropriate for both ratepayers and Enbridge to be held harmless from the revenue requirement impacts of variances between actual and forecast pension and OPEB accrual and cash-based amounts.

Incremental Contracting for NEXUS Capacity

The parties agreed that prior to Enbridge exercising its option (available under its contract) to increase its capacity on the NEXUS pipeline from 110,000 dth/day to 150,000 dth/day, Enbridge would seek approval of the OEB through the filing of an application to be heard in a public process as to be determined by the OEB.[18] OEB staff has no concerns with this aspect of the agreement. OEB staff submits that it would be in the public interest for the OEB to have the opportunity to review and approve evidence

[15] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 9.
[16] EB-2017-0086, Pre-filed Evidence, Exhibit D2, Tab 1, Schedule 1, p. 22.
[17] EB-2017-0086, Interrogatory Responses, SEC-10.
[18] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 10.

with respect to the prudence of a potential decision made by Enbridge to increase its contracted capacity on the NEXUS pipeline prior to the decision being finalized.

Disposition Methodology for the CDNSADA

All parties agreed to the discontinuation of Rider D subject to the inclusion of the appropriate disposition methodology for the CDNSADA as an issue in the current proceeding.[19]

As noted by Enbridge, Rider D was established by the OEB to return a total of $379.8 million in site restoration costs (SRC) to ratepayers over the Custom IR term (including 2018). However, by the end of 2017, Enbridge noted that it will have returned more than the total approved SRC amount to ratepayers (when totalled across all rate classes). Therefore, Enbridge's evidence is that it is appropriate to discontinue Rider D at the end of 2017 to avoid an over-refund that would later need to be recovered by ratepayers through the CDNSADA. Enbridge also proposed to include the revenue requirement impact of the 2018 tax deduction (which is a credit to ratepayers) in the CDNSADA.[20]

OEB staff has no concerns with the discontinuation of Rider D at the end of 2017 and the inclusion of the SRC-related tax credit in the CDNSADA. The CDNSADA is to be disposed of as part of the 2017 deferral account disposition proceeding. OEB staff is of the view that the discontinuation of Rider D is appropriate in order to avoid an unnecessary over-refund to customers that would later need to be collected. OEB staff is also satisfied that the inclusion of the revenue requirement credit associated with the SRC-related tax deduction in the CDNSADA is appropriate as it will operate as an offset to the otherwise expected debit balance in the account. Overall, based on the current forecast, the balance in the CDNSADA will be a credit to ratepayers of $7.6 million (based on a $3.7 million over-refund to ratepayers through Rider D offset by an $11.3 million revenue requirement credit associated with the 2018 tax implication of the SRC refund).[21]

The parties' agreement to discontinue Rider D is subject to the establishment of the appropriate clearance methodology (by rate class) for the CDNSADA balance as part of the current proceeding. The parties agreed that it is appropriate to resolve all SRC

[19] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 10.
[20] EB-2017-0086, Settlement Proposal, November 29, 2017, pp. 10-11.
[21] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 17.

refund related matters in the current proceeding (which includes establishing a clearance methodology for the CDNSADA).[22]

Enbridge's pre-filed evidence did not include a proposal with respect to the disposition methodology by rate class for the CDNSADA. In the settlement proposal, Enbridge provided its proposed methodology for the clearance by rate class of the forecast balance included in CDNSADA. However, parties have not been able to agree whether Enbridge's proposed approach is appropriate. As such, parties have agreed that discussions should continue in the current proceeding and have agreed to meet for a further alternative dispute resolution (ADR) session to attempt to resolve this single issue. If the issue cannot be resolved through settlement, the parties will then request the OEB to proceed to hearing to determine this issue.[23]

OEB staff has no concerns with the proposal that all of the SRC refund related matters (including the appropriate clearance methodology for the CDNSADA) be dealt with as part of the current proceeding. OEB staff submits that the most efficient manner to address this issue would be the establishment of a one-day ADR session.

OEB staff notes that only the determination of the appropriate disposition methodology for the CDNSADA remains at issue in this proceeding. The actual clearance of the final balance in the CDNSADA would occur as part of Enbridge's 2017 deferral account disposition proceeding (which will be filed at some time in mid-2018).

Draft Accounting Order

In connection with the approval of 2018 rates, Enbridge requested the approval of the establishment of certain 2018 deferral and variance accounts. Enbridge noted that all of the deferral and variance accounts proposed for 2018 were approved by the OEB previously.[24] The accounts for which Enbridge is seeking approval are set out in the draft accounting order that was filed along with the settlement proposal.

OEB staff notes that the accounts that Enbridge has proposed are not in fact "new" in the sense of capturing new activities but rather are the continuation of accounts approved by the OEB in prior proceedings. OEB staff is aware that the OEB has in the

[22] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 17.
[23] EB-2017-0086, Settlement Proposal, November 29, 2017, pp. 17-18.
[24] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 7.

past approved for Enbridge formal new accounts to match each fiscal/calendar year. OEB staff has no concerns with continuing the proposed accounts for 2018[25].

Enbridge has filed an application for approval of a new ratemaking framework beginning in 2019.[26] As part of that proceeding, the OEB will need to consider the deferral and variance accounts that will form part of the ratemaking framework going forward. This may include the continuation of existing accounts, discontinuation of certain existing accounts and potentially the addition of new accounts. However, with the exception of any new accounts or existing accounts that require changes to their descriptions or to the nature of the costs to be tracked, OEB staff is of the view that there is no need for Enbridge to seek approval of new accounting orders each year. Instead, Enbridge may, if it wishes, seek approval to maintain its existing accounts that have been previously approved by the OEB[27]. This approach would relieve the requirement for new draft accounting orders and new approvals by the OEB each year but may require a one-time revision to Enbridge's deferral account descriptions, for its existing accounts that the OEB determines should form part of the ratemaking framework going forward, so that they are not specific to any given year.

However, for the purposes of this proceeding, OEB staff accepts the proposal as filed (and agreed to by parties) but submits that this approach of establishing new accounts each year (that are really new vintages of existing accounts) should cease going forward.

OEB staff submits that the language in the draft accounting order for each deferral / variance account accurately reflects previous OEB approvals and the current settlement proposal, which required updates to the language in the draft accounting orders for the CDNSADA and the PTUVA.

Draft Rate Order

[25] The 2018 proposed accounts include an account to address the requirements of the OEB's Report regarding the Regulatory Treatment of Pensions and OPEBs Costs issued on September 14, 2017, which established the accounting to be implemented by rate regulated utilities and found that no further accounting orders would be required. While this is an account that Enbridge did not have in 2017, the OEB already approved this account for all rate regulated utilities.

[26] EB-2017-0307.

[27] In fact, OEB staff is of the view that approval to continue existing accounts is also not required. The Filing Requirements for Natural Gas Rate Applications require that utilities identify accounts that are to be discontinued, and to identify new accounts that are proposed to be established with supporting evidence. There is no requirement to seek the continuation of existing accounts.

OEB staff reviewed the draft rate order filed with Enbridge's application and has no concerns. OEB staff submits that the proposed rates set out in the draft rate order were calculated based on cost allocation and rate design methodologies previously approved by the OEB. OEB staff also submits that the draft rate order accurately reflects the settlement proposal. OEB staff notes that the unsettled issue related to the clearance methodology for the CDNSADA has no impact on 2018 rates. For the noted reasons, OEB staff is of the view that the draft rate order should be approved as filed.

Bill Impacts

If the OEB accepts the settlement proposal as filed, the resulting bill impacts, on an annual basis, for typical residential customers who use 2,400 m^3 of natural gas per year is approximately $30 on a T-service basis (i.e. excluding commodity costs) and excluding the impact of the discontinuation of Rider D.[28] This is an increase of about $1 relative to the bill impacts set out in the pre-filed evidence (and set out in the Notice of Hearing).[29]

The bill impacts, on an annual basis, for typical residential customers who use 2,400 m^3 of natural gas per year is approximately $57 on a T-service basis including the discontinuation of Rider D.[30] OEB staff notes that this is not an insignificant bill impact. However, as previously discussed, OEB staff supports the discontinuation of Rider D as it avoids an unnecessary over-refund to customers (on a utility-wide basis) that would later be collected. The result of allowing Rider D to continue in 2018 is that a relatively large debit balance will accrue in the CDNSADA (on a utility-wide basis). The debit balance that accrues over 2018 in the CDNSADA will be collected from customers in 2019 and in the same year Rider D will be discontinued (as that is when Rider D was originally intended to be removed from rates). Therefore, customers will experience rate instability that is entirely avoidable by discontinuing Rider D at the end of 2017. OEB staff submits that customers have received the benefit of the Rider D refund since 2014 and ending that refund at the end of 2017 is appropriate for the reasons discussed above.

[28] EB-2017-0086, Draft Rate Order, Exhibit H2, Tab 7, Schedule 1, p. 2.
[29] EB-2017-0086, Pre-filed Evidence, Exhibit H2, Tab 7, Schedule 1, p 2.
[30] EB-2017-0086, Draft Rate Order, Exhibit H2, Tab 7, Schedule 1, p. 2.

Finally, OEB staff notes that the overall bill increase (including the discontinuation of Rider D) is less than 7% on a sales service (or total bill) basis for a typical residential customer (and significantly less than that for most other customers). The *Filing Requirements for Natural Gas Rate Applicati*ons state that a utility must file a mitigation plan if the total bill increase for any customer class is material. This settlement proposal does not include such a mitigation plan. OEB staff notes that the total bill impact is much lower than 10% (which is the number commonly used when analyzing the bill impacts resulting from electricity distributor rate applications). OEB staff does not take issue with the absence of a mitigation plan.

Implementation

The parties agreed that Enbridge's rates may be implemented on a final basis through the January 1, 2018 QRAM proceeding, subject to the OEB's interim and/or final decision in the 2018 compliance plan proceeding[31], which could result in adjustments to Enbridge's cap and trade unit rates.[32]

The OEB issued a Decision and Order in the combined 2018 compliance plan proceeding on November 30, 2017. The decision found that Enbridge's final approved 2017 cap and trade unit rates will continue until such time that the OEB completes its review and makes a determination with respect to the proposed 2018 cap and trade unit rates.[33] On the basis of the OEB's decision in the combined 2018 compliance plan proceeding, OEB staff submits that Enbridge's 2018 rates requested for approval in the current proceeding should be approved on a final basis.

Enbridge requested that a Decision and Rate Order be issued by December 5, 2017 to permit the 2018 rates to be implemented with its January 1, 2018 QRAM.[34] OEB staff notes that the oral hearing is scheduled for December 4, 2017. OEB staff submits that an oral decision provided on December 4, 2017 followed by a final Decision and Rate Order on December 7, 2017 would allow Enbridge's 2018 rates to be implemented along with Enbridge's January 1, 2018 QRAM adjustments.

All of which is respectfully submitted.

[31] EB-2017-0224.
[32] EB-2017-0086, Settlement Proposal, November 29, 2017, p. 19
[33] EB-2017-0224 / EB-2017-0255 / EB-2017-0275, Decision and Order, November 30, 2017, p. 3.
[34] EB-2017-0086, Settlement Proposal Cover Letter, November 29, 2017, p. 2.