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January 11, 2018

VIA RESS, EMAIL and COURIER

Ms Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms Walli:

Re: EB-2017-0307 – Enbridge Gas Distribution Inc. and Union Gas Limited – Rate Setting Mechanism – Evidence Addendum

On November 2, 2017 Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") filed for approval to amalgamate and to defer rate rebasing from 2019 to 2029 ("deferred rebasing period") under EB-2017-0306. On November 23, 2017 EGD and Union filed for approval of the rate setting mechanism and associated parameters during the deferred rebasing period, under EB-2017-0307.

The enclosed evidence addendum arises from the Settlement Proposal in EGD's 2018 Rate Adjustment proceeding, EB-2017-0086, which was approved by the Ontario Energy Board on December 7, 2017.

If you have any questions on this matter, please contact me.

Yours truly,

(Original Signed)

Andrew Mandyam
Director, Regulatory Affairs and Financial Performance

cc: Mark Kitchen, Union
Fred Cass, Aird & Berlis
EB-2017-0306 and EB-2017-0307 Intervenors

This addendum to the EB-2017-0307 evidence arises from the Settlement Proposal (the "Settlement Proposal") in EGD's 2018 Rate Adjustment case, EB-2017-0086 dated December 6, 2017. The Settlement Proposal was approved by the Board on December 7, 2017. The Settlement Proposal directly impacts this Amalco rate setting mechanism application in two particular areas, namely, Pension and Other Post-Employment Benefits ("OPEB") costs and Site Restoration Costs ("SRC"). The impact of the Settlement Proposal in each of these areas is explained under the two headings that follow.

Pension and OPEB Costs

In EGD's 2018 Rate Adjustment case, the Board expressed concerns related to the inclusion of certain Pension and OPEB costs in the revenue requirement, as initially agreed to by all parties given that $6.5 million of such costs stemmed from the new *Pension Benefits Act* legislation in Bill 177, which had not yet been formally passed. As a result, the Settlement Proposal removed $6.5 million in Pension and OPEB and related tax treatment costs and related revenue requirement that had been included in EGD's application.

All parties agreed in the Settlement Proposal that EGD would recover the actual amount of its Pension and OPEB costs and related revenue requirement in 2018 through amounts to be recorded in the Post-Retirement True-Up Variance Account ("PTUVA").

On December 14 2017, Bill 177 was given third reading and received Royal Assent. The associated changes to the *Pension Benefits Act* that were incorporated in EGD's original forecast of Pension and OPEB costs and related revenue requirement in EB-2017-0086 were passed on December 14, 2017. These changes will be in force during 2018 and the impact of the legislative changes on EGD's pension costs will continue beyond 2018. For 2018, this impact is an additional $6.5 million in costs.

In this proceeding, the Applicants are therefore providing this addendum to their evidence to reflect the impact of the legislative changes that were passed on December 14, 2017, thereby increasing the Allowed Revenue requirement by $6.5 million previously omitted from EGD's Pension and OPEB costs as approved in EB-2017-0086. This will bring Allowed Revenue requirement to the appropriate level that takes into account the effect of the now-passed pension reform legislation and reduces reliance on variance account.

Site Restoration Costs

The Settlement Proposal discontinues the refund of SRC by EGD that resulted from determinations made by the Board in EGD's 2014-2018 Custom Incentive Regulation proceeding, EB-2012-0459. However, EGD's Allowed Revenue continues to include the impact of tax deductions associated with the SRC refund.

In EB-2012-0459, the Board approved a revised methodology, the Constant Dollar Net Salvage ("CDNS") approach, to determine net salvage percentages to be used in the calculation of EGD's depreciation rates. In doing so, the Board approved a proposed change to the net salvage percentage component included in ongoing depreciation rates and it also approved a proposal to return to ratepayers, through a rate rider (Rider D), certain amounts that had been recovered through past depreciation rates based on the traditional method for determining net salvage percentages.

A related impact of the SRC refund to ratepayers (Rider D) was the inclusion of a further reduction in the Allowed revenue requirement for the impact (*i.e.*, credit to ratepayers) of tax deductions arising from SRC amounts returned to customers during the term of EGD's Custom IR plan. Specifically, EGD's 2018 Allowed revenue requirement includes an $11.2 million credit to ratepayers related specifically to the tax deductions associated with the Rider D refund..

The evidence in EB-2017-0086 indicated that EGD expected to have returned to ratepayers, by the end of 2017, more than the total SRC refund approved by the Board in EB-2012-0459. Accordingly, EGD proposed in EB-2017-0086 to conclude the SRC refund approved in EB-2012-0459 and to discontinue Rider D. Given the proposed discontinuance of Rider D, EGD also proposed to remove from 2018 Allowed Revenue requirement the related credit to ratepayers of $11.2 million arising from tax deductions specifically associated with the SRC refund and to include the impact of the tax deductions in the Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA").

In the Settlement Proposal, parties agreed to discontinue Rider D. It was also agreed that EGD would reflect the credit to ratepayers of $11.2 million arising from tax deductions associated with the SRC refund in 2018 Allowed Revenue. However, given there is no longer any ongoing SRC refund, EGD will not receive any related and associated tax deductions in years following 2018.

The Allowed Revenue Requirement in the pre-filed evidence within EB-2017-0306 reflects EGD completing its remittance of the SRC refund and the $11.2 million associated tax deduction being removed. The Applicants are therefore providing this addendum to their evidence to remove the impact of tax deductions associated with the SRC refund that will no longer be available beyond 2018 and to ensure consistency between both the SRC refund and the related tax deduction in the revenue requirement and related rates. The impact is an increase of $11.2 million in EGD's Allowed Revenue requirement over the amount approved in EB-2017-0086.

Specific Approvals Requested

As a result of the impact of the Settlement Proposal in the two areas set out above, the Applicants request the following approvals in addition to those listed at Exhibit B, Tab 1, pages 4-5 of the evidence:

1. An adjustment of $6.5 million to increase EGD's 2018 Board-approved revenue, reflecting the appropriate level of Pension and OPEB costs given the enactment of pension reform legislation in December of 2017; and

2. An adjustment of $11.2 million to increase EGD's 2018 Board-approved revenue, reflecting the removal of the tax deduction associated with the SRC refund that has been discontinued.

This addendum expands on the evidence filed in the Rate Setting Mechanism EB-2017-0307 at;

- Exhibit A, Tab 3, page 1,
- Exhibit B, Tab 1, pages 1 and 5, and
- Exhibit B, Tab 1, pages 16 through 20 with respect to Base Rate Adjustments.

and on the evidence filed in the MAAD application EB-2017-0306 at;

- Exhibit B, Tab 1, page 22.