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January 23, 2018
Our File: EB20170086

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2017-0086 – Enbridge 2018 – DAO Comments

We are counsel to the School Energy Coalition ("SEC"). Pursuant to the Decision and Rate Order, dated December 7th 2017, please find SEC's comments on the Draft Accounting Order ("DAO") submitted by Enbridge Gas Distribution Inc. ("Enbridge").

In its oral decision, the Board directed Enbridge to resubmit its accounting order included as part of the originally filed Settlement Proposal "removing, where appropriate, the December 31st 2018, date as an end date, the objective being that these accounting orders could persist over time and do not end with that fiscal year [emphasis added]."[1] Enbridge has refiled the DAO removing the December 31st 2018 end date on most of the accounts. SEC submits that in most of the accounts, doing so is not appropriate, as they were explicitly approved in the EB-2012-0459 Decision and Order only until the end of the IR plan, which is 2018.

During the oral hearing, the Board appeared to be concerned with Enbridge's existing practice of having its many deferral and variance accounts established annually. Each year it requires approval for a new account on the same terms as the previous year's account, and then transferring the year end balances from the previous year to the new account. This is an unusual practice, which appears to simply be an artifact of historical practice, and not necessarily for any good reason, at least anymore.[2] The Board appeared to be of the view, quite correctly, that the practice leads to some regulatory inefficiency.[3]

SEC accepts that Enbridge's practice for each of its approved accounts, creating a new specific version of the account every year, is inefficient. The concern SEC has is that by removing the specific end date reference to December 31st 2018 is approving the accounts past the current Board-approved IR plan which is subject to another on-going proceeding. If this was any other year of

[1] Transcript Vol.1, p.47-48
[2] Transcript Vol.1, p.31
[3] Transcript Vol.1, p.31:

> MS. FRANK: Okay, since this is a very mechanical type change that one would have to do, you know, it's just taking out the word 2018, maybe adding one sentence, could you say how much effort it would take to make this kind of -- I am looking for an efficiency here, and I am always of the mind if you can do it today why wait for tomorrow. [emphasis added]

Enbridge's current IR term, SEC would support changing the accounting order for those accounts approved in the EB-2013-0459 proceeding to ensure that they have an end date of December 31st 2018, instead of December 31st 2014, 2015, 2016 or 2017, as the case may have been.

In its Decision and Order in EB-2012-0459 the Board approved a number of new or existing deferral and variance accounts proposed by Enbridge which would "be in place for the full IR term".[4] The approved IR plan term is set to expire at the end of 2018.[5] Those accounts were <u>not</u> approved for an indefinite or undefined period.

Enbridge, as part of its rate framework application (EB-2017-0307) for the proposed amalgamated company, is seeking to continue many of the accounts. SEC submits it is for the panel in that proceeding to determine if those accounts should continue past December 31st 2018.[6] For many of the accounts, Enbridge itself is not seeking to continue them past December 31st 2018.[7] If that application as filed is approved, then SEC would agree, the accounting order for the accounts should allow for the accounts to continue for the entirety of the proposed rate framework, not only for a single year.

SEC submits that for the specifically approved accounts in EB-2012-0459, the end date on the approved accounting order should remain December 31st 2018. An excerpt of the EB-2012-0459 Decision and Order listing those accounts is attached to these comments (see Appendix A).

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and interested parties (by email)

[4] *Decision and Order* (EB-2012-0459), July 17 2014, p.65-66 (see Appendix A)
[5] *Decision and Order* (EB-2012-0459), July 17 2014, p.4 (see Appendix A)
[6] EB-2017-0307 – Pre-filed Evidence Exhibit B, Tab 1, Attachment 4 (Appendix B)
[7] EB-2017-0307 – Pre-filed Evidence Exhibit B, Tab 1, p.23 ((see Appendix C)

A

Deferral and Variance Accounts

Enbridge has a number of deferral and variance accounts in place. For some, it has proposed to retain the accounts unchanged; for a few accounts Enbridge has proposed changes. Enbridge also proposed several new accounts. Each category is addressed below.

Existing Accounts – no changes proposed

Enbridge proposed to maintain a number of previously approved accounts. Each would be in place for the full IR term, with the exception of the Design Day Criteria Transportation Deferral Account, which would be in place for 2014 only:

- Design Day Criteria Transportation Deferral Account (“DDCTDA”) (2014 only)
- Purchased Gas Variance Account (“PGVA”)
- Unaccounted for Gas Variance Account (“UAFVA”)
- Storage and Transportation Deferral Account (“S&TDA”)
- Deferred Rebate Account (“DRA”)
- Customer Care CIS Rate Smoothing Deferral Account (“CCCISRSDA”)
- Average Use True Up Variance Account (“AUTUVA”)
- Manufactured Gas Plant Deferral Account (“MGPDA”)
- Ontario Hearing Costs Variance Account (“OHCVA”)
- Electric Program Earnings Sharing Deferral Account (“EPESDA”)
- Ex-Franchise Third-party Billing Services Deferral Account (“EFTPBSDA”)
- Post-Retirement True-Up Variance Account (“PTUVA”)
- Lost Revenue Adjustment Mechanism Variance Account (“LRAM”)
- Demand Side Management Incentive Deferral Account (“DSMIDA”)
- Transition Impact of Accounting Changes Deferral Account (“TIACDA”)
- Open Bill Revenue Variance Account (“OBRVA”)

Parties only made submissions on two of the accounts: the OHCVA and the DDCTDA.

Board staff, CCC, SEC and EP all submitted that the OHCVA should be discontinued. They argued that hearing costs are part of a normal business activity and that no other Ontario utility has a similar account. Enbridge argued that the account is necessary because the expenses are unpredictable and out of company control. The company noted that the account has been in place for 15 years, often under the framework of a settlement agreement.

FRPO submitted that the DDCTDA should be retained beyond 2014 and kept separate from the new UDCDA to ensure transparency. In FRPO's view, it is not appropriate to merge accounting of a number of factors given the current uncertainty about infrastructure development and possible National Energy Board decisions. Enbridge responded that the account does not need to be maintained, arguing that it would not be possible to distinguish the amounts due to historic changes in design day and those related to procuring long haul Firm Transportation ("FT") rather than short haul.

Board Findings

The Board will discontinue the OHCVA. The Board finds no evidence of an ongoing need for a cost pass-through for what is a standard activity for a regulated utility.

The Board concludes that the DDCTDA should be discontinued after 2014, as proposed by Enbridge. The Board agrees with the company that it will be impractical to attempt to distinguish the balances in the way proposed by FRPO. The Board notes the extensive gas supply reporting agreed to by the company and finds that this information will provide sufficient transparency in this area.

All the other accounts in the list above are approved for continuation.

Existing Accounts – changes proposed

Enbridge proposed to make modifications to a number of previously approved accounts:

- Gas Distribution Access Rule Impact Deferral Account ("GDARIDA")
- Demand-Side Management Variance Accounts ("DSMVA")
- Transactional Services Deferral Account ("TSDA")

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

The GDARIDA is used to record all incremental unbudgeted capital and operating costs associated with the development, implementation, and operation of the Gas Distribution Access Rule ("GDAR") and any amendments to the rule. The GDARIDA was previously approved as, and known as, the Gas Distribution Access Rule Cost Deferral Account, ("GDARCDA"). The company is proposing an alteration to the scope of the account to include all financial impacts which could arise as a result of changes in GDAR. No party objected to this proposal.

Demand-Side Management Variance Accounts ("DSMVA")

Enbridge has three DSM deferral and variance accounts for 2014. The company proposed to establish that same group of accounts for 2015 through 2018, but indicated that it has not received any direction from the Board. Additionally, Enbridge proposed that any further variances in DSM spending and results, beyond those included within the 2014-2018 forecasts, which occur as a result of Board decisions in any other proceeding be included within each of the 2014-2018 DSM variance accounts. Enbridge explained that it has included the approved or projected level of DSM spending in each of its 2014-2018 forecasts of costs. No party objected to this proposal.

Transactional Services Deferral Account ("TSDA")

The proposal for the 2014-2018 TSDA is to record the incremental net revenue from transportation and storage related Transactional Services, to be shared 90/10 between Enbridge's ratepayers and shareholders. While Enbridge proposed to continue to include a forecast of $12 million in Transactional Services revenue as an offset to rates, the company proposed to remove the $8 million guarantee (a maximum $4 million credit to the company). The result would be that up to the full $12 million could be returned to Enbridge. Enbridge justified this proposal on the basis of recent changes in TCPL tolls and the resulting uncertainty about future prices and potential related impacts.

A number of parties objected to this proposal. Board staff argued that the base amount should be increased to $24 million from $12 million, based on performance in 2012 and 2013, and that the maximum credit should be increased from $4 million to $8 million. The net effect would be a $16 million guarantee to ratepayers. FRPO considered staff's position, but acknowledged that the company will be managing significant exposure to unabsorbed demand charges and submitted that increasing the amount and the guarantee would not be justified. FRPO concluded that no change should be made to the account. BOMA and CCC also argued that the guarantee should remain unchanged. Enbridge responded that the current approach is not appropriate because of current and expected changes in TCPL's tolls and services, as well as the company's own service changes.

Enbridge noted that the FT-RAM program (which has been a large proportion of Transactional Services revenues) has been discontinued, the amount of capacity available for release is high, there will be reduced reliance on long-haul because of the GTA project, and the revenue from storage continues to decline. Enbridge concluded that the opportunities to earn Transactional Services will be reduced, so it would be appropriate to remove the $8 million guarantee.

Board Findings

The proposed changes to DSMVA and GDARIVA were unopposed and will be accepted by the Board. The Board notes that further direction regarding DSM accounts may arise from the current DSM consultation.

The Board approves the proposed change to the TSDA. The Board accepts the company's evidence that a number of significant changes have taken place in the market and these changes are likely to reduce the opportunities for Transactional Services and therefore the associated revenues. Once there is more experience under the new market conditions, the Board will consider whether a ratepayer guarantee should be reinstated.

Proposed New Accounts

Enbridge proposed eight new accounts:

- Earnings Sharing Mechanism Deferral Account (“ESMDA”) (2014-2018)
- Unabsorbed Demand Cost Deferral Account (“UDCDA”) (2014 only)
- Customer Care Services Procurement Deferral Account (“CCSPDA”) (2014-2016)
- Greenhouse Gas Emissions Impact Deferral Account (“GGEIDA”) (2014-2018)
- Constant Dollar Net Salvage Adjustment Deferral Account (“CDNSADA”) (2014-2018)
- Greater Toronto Area Project Variance Account (“GTAPVA”) (2014-2018)
- Relocation Mains Variance Account (“RLMVA”) (2017-2018)
- Replacement Mains Variance Account (“RPMVA”) (2017-2018)

Earnings Sharing Mechanism Deferral Account (“ESMDA”)

The purpose of the ESMDA is to record the ratepayer share of annual utility earnings that result from the earnings sharing mechanism throughout the term of the Custom IR.

This issue has been addressed earlier in this decision, and the account will be structured accordingly. Simple interest will be calculated on the opening monthly balance of the account using the Board approved EB-2006-0117 interest rate methodology.

Unabsorbed Demand Cost Deferral Account ("UDCDA") (2014 only)

Enbridge intends to contract for incremental one-year long-haul FT capacity on TCPL to meet its Peak Day requirements in 2014. If the company is unable to use 100% of its capacity, then the associated Unabsorbed Demand Costs "UDC" will be debited in the UDCDA (excluding the amounts that will be captured in the DDCTDA). Enbridge's forecast of UDC costs for 2014 is $62.8 million (excluding amounts that may be recorded in the 2014 DDCTDA), and that is the maximum amount that may be recorded in the 2014 UDCDA. Enbridge committed to using its best efforts to mitigate the UDC and will provide the balance in the UDCDA and DDCTDA through the QRAM process. Simple interest will be calculated on the opening monthly balance of the account using the Board approved EB-2006-0117 interest rate methodology.

Board Findings

No party objected to this account, and the Board will approve it.

Customer Care Services Procurement Deferral Account ("CCSPDA")

Enbridge proposed that the CCSPDA be in place for 2014, 2015 and 2016 to capture the costs associated with the benchmarking, tendering and potential transition of customer care services to a new service provider(s). Enbridge would then bring forward the costs recorded in this account for recovery in rates in 2017. Simple interest is to be calculated using the Board approved EB-2006-0117 interest rate methodology.

Energy Probe supported the account, but submitted that there should be a cap of $5 million to provide an incentive to Enbridge to manage its costs. BOMA supported Energy Probe's position. Enbridge responded by accepting the $5 million limitation proposed by Energy Probe.

Board Findings

The Board will approve the account, with the $5 million limit.

Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA")

The GGEIDA would be used to record the impacts of provincial and federal regulations related to greenhouse gas emission requirements along with the impacts resulting from the sale of, or other dealings in, earned carbon dioxide offset credits. This new account would replace the more limited Carbon Dioxide Offset Credits Deferral Account ("CDOCDA"). Simple interest is to be calculated on the opening monthly balance using the Board approved EB-2006-0117 interest rate methodology.

Board Findings

No party objected to this account, and the Board will approve it.

Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA")

The CDNSADA is part of the company's proposal related to site restoration costs (the SRC issue). The SRC issue has been addressed earlier in this decision, and the CDNSADA account will be structured accordingly. Because the balance in the account will offset rate base, Enbridge proposed that no interest be calculated for this account. The Board accepts this approach.

Greater Toronto Area Project Variance Account ("GTAPVA")

This account request has already been addressed in the capital expenditure section.

Relocation Mains Variance Account ("RLMVA") and Replacement Mains Variance Account ("RPMVA")

These account requests have already been addressed in the capital expenditure section.

B

Amalco: List of Deferral Accounts to be Continued During Deferred Rebasing Period

Acct #	Acct Name
179.00_	Deferred Rebate Account
179.02_	Transition Impact of Accounting Change Deferral Account
179.04_	Demand Side Management Cost-efficiency Incentive Deferral Account
179.06_	Demand Side Management Variance Account
179.08_	Ex-franchise Third Party Billing Services Deferral Account
179.10_	Lost Revenue Adjustment Mechanism
179.20_	Gas Distribution Access Rule Impact Deferral Account
179.26_	Demand Side Management Incentive Deferral Account
179.30_	Manufactured Gas Plant Deferral Account
179.32_	Greenhouse Gas Emissions Impact Deferral Account
179.36_	Pension and OPEB Forecast Accrual versus Actual Cash Payment Differential Variance Account
179.40_	Dawn Access Costs Deferral Account
179.48_	Open Bill Revenue Variance Account
179.60_	Electric Program Earnings Sharing Deferral Account
179.66_	Average use True-up Variance Account
179.70_	Purchased Gas Variance Account
179.80_	Transactional Services Deferral Account
179.82_	Greenhouse Gas Emissions Compliance Obligation - Customer Related Variance Account
179.84_	Greenhouse Gas Emissions Compliance Obligation - Facility Related Variance Account
179.86_	Unaccounted for Gas Variance Account
179.88_	Storage & Transportation Deferral Account
179.94_	OEB Cost Assessment Variance Account
179-070	Short-term Storage and Other Balancing Services
179-075	Lost Revenue Adjustment Mechanism
179-100	Transportation Tolls and Fuel - Northern and Eastern Operations Area
179-103	Unbundled Services Unauthorized Storage Overrun
179-105	North Purchase Gas Variance Account
179-106	South Purchase Gas Variance Account
179-107	Spot Gas Variance Account
179-108	Unabsorbed Demand Cost (UDC) Variance Account
179-109	Inventory Revaluation Account
179-111	Demand Side Management Variance Account
179-112	Gas Distribution Access Rule (GDAR) Costs
179-123	Conservation Demand Management
179-126	Demand Side Management Incentive
179-131	Upstream Transportation Optimization
179-132	Deferral Clearing Variance Account
179-133	Normalized Average Consumption (NAC) Account
179-135	Unaccounted for Gas (UFG) Volume Variance Account
179-136	Parkway West Project Costs
179-137	Brantford-Kirkwall/Parkway D Project Costs
179-138	Parkway Obligation Rate Variance
179-141	Unaccounted for Gas (UFG) Price Variance Account
179-142	Lobo C Compressor/Hamilton to Milton Pipeline Project Costs
179-143	Unauthorized Overrun Non-Compliance Account
179-144	Dawn H/LoboD/Bright C Compressor Project Costs
179-145	Transportation Tolls and Fuel – Union North West Operations Area

C

Procurement Deferral Account as part of its 2018 Rates Application, EB-2017-0086. Union requested approval to close its Energy East Pipeline Consultation Cost deferral account in its 2018 Rates Application. [13]

The accounts to be continued during the deferred rebasing period are shown at Exhibit B, Tab 1, Attachment 4. Changes to accounting and reporting processes related to deferral and variance accounts as part of the integration activities will be proposed if required during the deferred rebasing period.

The following accounts will be eliminated as a result of the amalgamation, or are related to EGD's Custom IR period from 2014 through 2018.

Account Number	**Account Name**
EGD	
179.16_	Customer Care CIS Rate Smoothing Deferral Account
179.34_	Constant Dollar Net Salvage Adjustment Deferral Account
179.96_	Relocations Mains Variance Account
179.98_	Replacement Mains Variance Account
179.24_	Post-Retirement True-up Variance Account
179.58_	Earnings Sharing Mechanism Deferral Account
Union	
179-120	CGAAP to IFRS Conversion Costs
179-134	Tax Variance Deferral Account

Customer Care CIS Rate Smoothing Deferral Account - In accordance with EGD's Board-approved EB-2011-0226 CIS Customer Care Settlement Agreement, over the 2013 through 2018 period, the Customer Care CIS Rate Smoothing Deferral Account has been used to capture the

[13] EB-2017-0087, Exhibit A, Tab 1, pp. 15-16.