

EB-2017-0306
EB-2017-0307

**Enbridge Gas Distribution Inc.
and
Union Gas Limited**

**Application for approval to amalgamate
Enbridge Gas Distribution Inc. and Union Gas Limited
and
for approval of a rate-setting mechanism
and associated parameters from January 1, 2019 to
December 31, 2028**

**VECC
COMPENDIUM
PANEL 3
MAY 15, 2018**

TAB 1



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND RATE ORDER

EB-2017-0087

UNION GAS LIMITED

Application for 2018 Rates for the Distribution, Transmission and Storage of Natural Gas Effective January 1, 2018

BEFORE: Michael Janigan
Presiding Member

Susan Frank
Member

January 18, 2018

IGUA argued that the only prejudice to the opposing parties associated with the interim rate remedy it sought was the fact that their constituents might actually have to pay the costs for the facilities built to serve them. IGUA submitted that there was an inequity pending in the determination of 2018 rates in that the application of existing cost allocation methodology would result in an additional \$4.142 million paid by certain classes of customers for benefits enjoyed by other customer rate classes

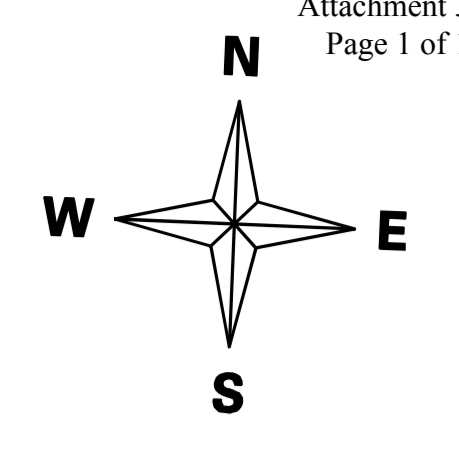
Findings

The OEB will not provide for interim rates associated with Panhandle Project costs. The issue of the allocation of these costs on a going-forward basis to Union rate classes will be dealt with in Union's 2019 rates proceeding as provided by the OEB decision in the Panhandle leave to construct decision.


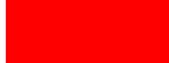





As IGUA emphasizes, this is a rates proceeding, albeit one that is setting rates for the final year of an IRM term. IGUA is not proposing a change to the cost allocation model for the rates collected for Panhandle Reinforcement Project costs for the 2018 IRM term at this time. IGUA instead urged that the use of the existing cost allocation methodology to devise 2018 rates to collect for the Panhandle Reinforcement Project costs presents an inequity that must be corrected retrospectively when the allocation of those costs are made in Union's proposed 2019 rates proceeding.

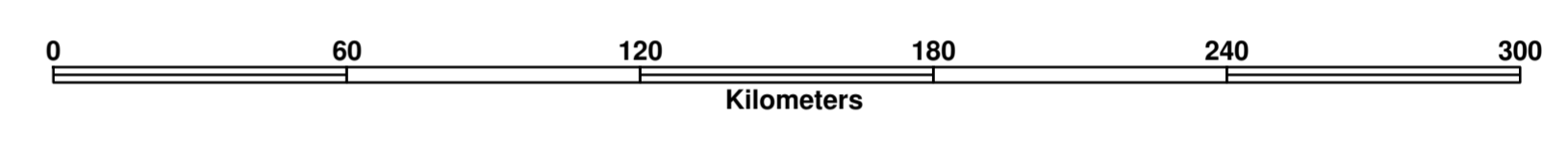
The OEB is of the view that any change to the existing cost allocation model should be done with the assistance of a comprehensive system-wide full cost allocation study. Cost allocation is a zero sum exercise. A full study ensures that all changes to facilities, operations and use in the transmission system since the development of the previous cost allocation model are recognized across all customer classes. This form of study provides that positive and negative changes in costs throughout the system are accounted for. A finding that current rates are inequitable because of the underlying allocation of costs for one project could introduce other inequalities by an incomplete analysis of the changing cost impacts on customers. Equitable cost causality is only possible with a full study. The OEB will not vary the Panhandle leave to construct decision that declined to change the cost allocation methodology for Panhandle Project costs and directed that any change should be considered in the next Union rates proceeding. Consistency in OEB decisions is important to regulatory clarity and predictability.

TAB 2

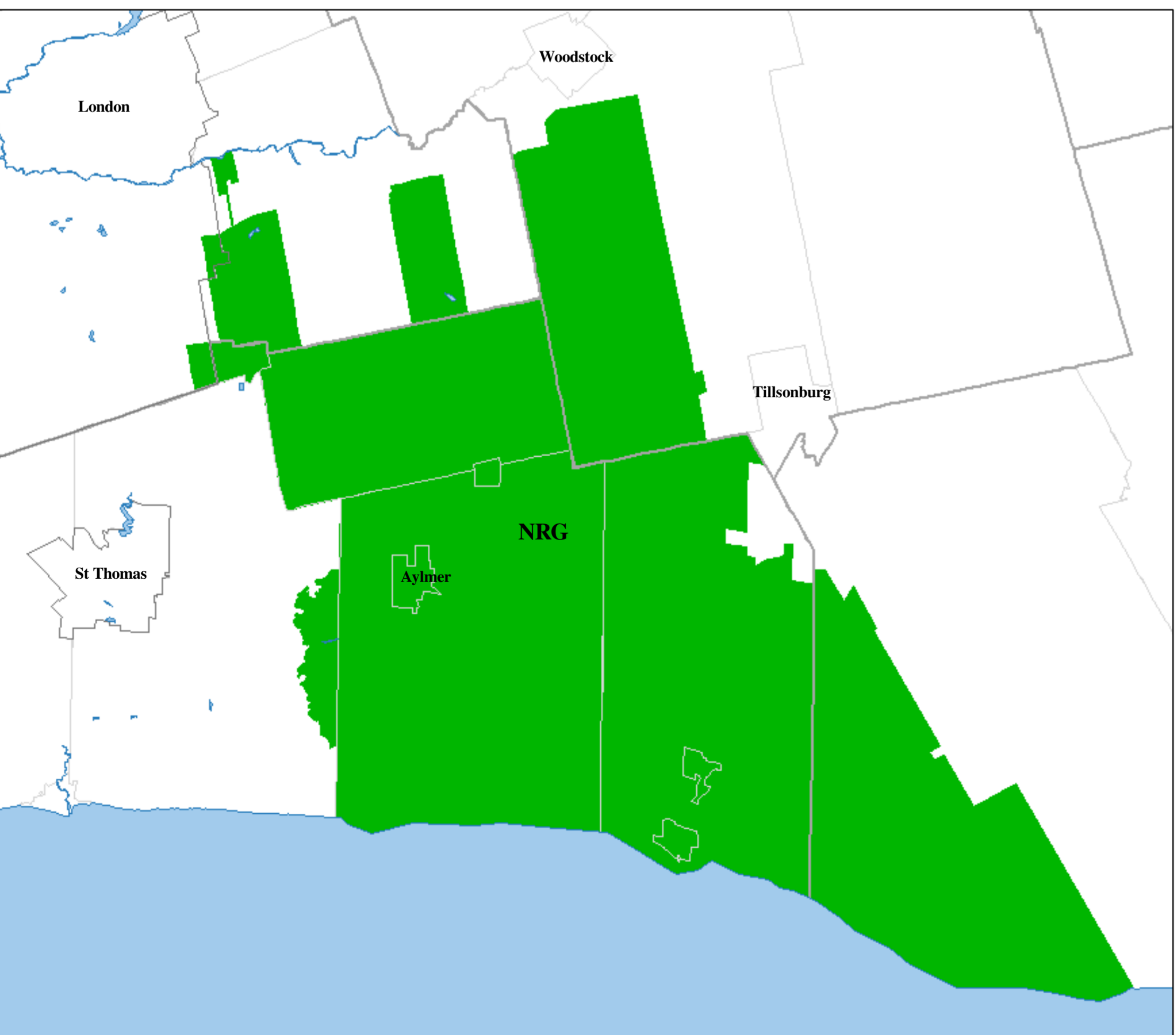
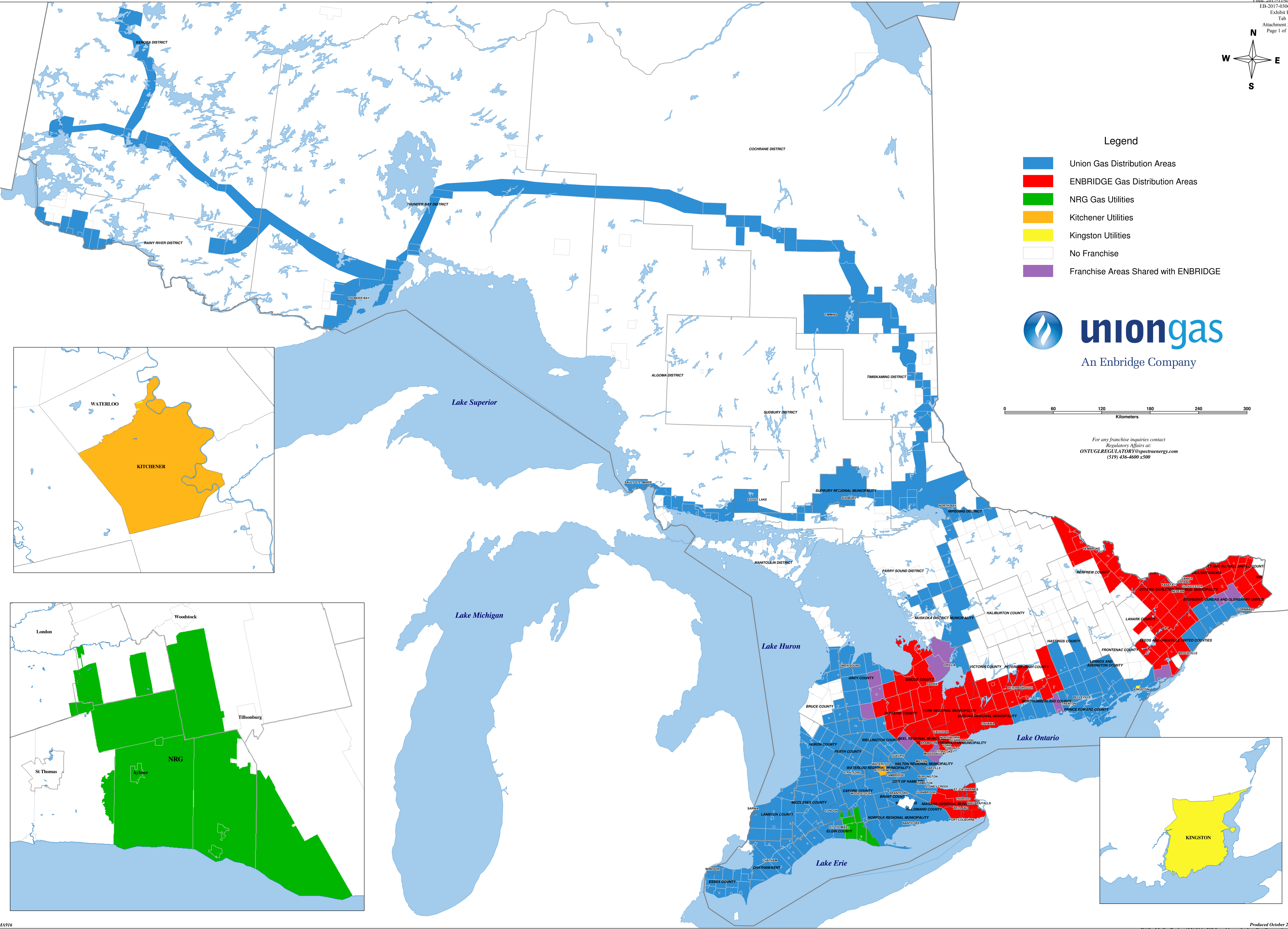


Legend

-  Union Gas Distribution Areas
-  ENBRIDGE Gas Distribution Areas
-  NRG Gas Utilities
-  Kitchener Utilities
-  Kingston Utilities
-  No Franchise
-  Franchise Areas Shared with ENBRIDGE



For any franchise inquiries contact
Regulatory Affairs at:
ONTUGLREGULATORY@spectraenergy.com
(519) 436-4600 x500



TAB 3

1 The analysis and evidence provided by NERA finds that an X factor of zero is appropriate. EGD
2 and Union's productivity growth is in line with the economy as whole and the economy-wide
3 inflation is appropriate for setting rates during the deferred rebasing period.

4
5 Further, over the deferred rebasing period Amalco expects to experience increasing cost
6 pressures, such as line locates, potential stricter pipeline safety regulations, increased municipal
7 infrastructure activity that impacts natural gas infrastructure (e.g. roads, bridges, etc.) and
8 depreciation increases even when managing maintenance capital expenditures to the level of
9 depreciation. In addition, economists currently believe the Canadian economy will be exposed to
10 increasing interest rates over the next decade. Both EGD and Union have refinanced virtually all
11 of their existing long-term debt based on historically low interest rates that have existed over the
12 past 10 years. Amalco will be required to refinance approximately 50% of its existing long-term
13 debt during the deferred rebasing period. Higher interest rates combined with refinancing a
14 significant portion of existing long-term debt could put significant pressure on Amalco's
15 earnings.

16 **2.3 Y FACTORS**

17 Y factors are costs associated with specific items that are subject to deferral account treatment
18 and passed through to customers and are not subject to escalation. Amalco will treat the
19 following costs as Y factors:

- 20 • Cost of gas and upstream transportation;

1 Cap-and-Trade

2 Costs associated with Cap-and-Trade costs will be filed in future proceedings.

3 **2.4 Z FACTORS**

4 To address material changes in costs associated with unforeseen events outside of the control of
5 management the OEB's Price Cap formula includes a Z factor mechanism.

6
7 The Applicants propose to use the criteria defined in the OEB's Filing Requirements for Natural
8 Gas Rate Applications that any Z factor must meet the following criteria to qualify for recovery:

- 9 1. Causation – the change in cost, or a significant portion of it, must be demonstrably linked
10 to an unexpected, non-routine event and must be clearly outside of the base upon which
11 rates were derived
- 12 2. Materiality – the effect of the change in cost on the utility's revenue requirement in a year
13 must be equal to or greater than the established threshold
- 14 3. Prudence – the change in cost must have been prudently incurred
- 15 4. Management Control - the cause of the change in cost must be: (a) not reasonably within
16 the control of utility management; and (b) a cause that utility management could not
17 reasonably control or prevent through the exercise of due diligence.

18

1 The Applicants propose using a materiality threshold of \$1.0 million for Amalco during the
2 deferred rebasing period. This is consistent with the threshold for electric distributors.⁷

3

4 Over the deferred rebasing period there is the potential for changes which could impact Amalco
5 that would be outside of the direct control of management. As indicated above, interest rates are
6 poised to increase. If there is a material impact on Amalco's ability to earn its allowed ROE,
7 Amalco may address this through an application to the Board. Another example is government
8 policy changes, including climate policy, which could have a significant impact on Amalco.
9 Amalco will evaluate each situation to determine whether Z factor treatment is appropriate.

10 **3. INCREMENTAL CAPITAL MODULE ("ICM")**

11 During the deferred rebasing period, Amalco will apply for rate adjustments using the OEB's
12 ICM to recover costs associated with qualifying incremental capital investment beyond what is
13 normally funded through approved rates consistent with the Board-established policy on ICM⁸.
14 The Consolidation Handbook provides the ICM option for funding incremental capital
15 investments during the deferred rebasing period. Capital projects related to the amalgamation
16 will be funded and managed by Amalco as an integral part of supporting achievement of
17 synergies through the deferred rebasing period.

⁷ Filing Requirements for Electricity Distribution Rate Applications July 14, 2016 at Section 2.0.8 (Materiality Thresholds) sets a materiality threshold of \$1 million for a distributor with a distribution revenue requirement of more than \$200 million.

⁸ [Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014](#) and [Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016](#). The ICM Filing Requirements are also documented in the OEB's Filing Requirements for Electricity Distribution Rate Applications.

TAB 4

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario (“FRPO”)

Rate Setting Issues List – Issue No. 1

Reference: EB-2017-0307, Exhibit B, Tab 1, Page 9 and EB-2017-0102

Preamble: *“Normalized Average Consumption/Average Use Adjustment The Applicants are proposing to continue to adjust rates annually to reflect the declining trend in use.”*

We would like to understand better the differences in the respective average adjustment methodologies and Amalco’s proposed approach upon merger.

Question:

For EGD’s establishment of rates and AUTVA true-up, please provide:

- a) The revenue classifications used to establish baseload for general rate
- b) The monthly budget baseload use per unlocked meter for each classifications
- c) How does Enbridge explain the incremental baseload for these classes in the heating season? Please provide a comprehensive explanation including tests run to ensure that the budgeted baseload is in fact baseload for these revenue classifications.

Response

- a) Baseload is established for each General Service heating revenue class on the basis of the average of each class’ July and August consumption. Monthly seasonality factors derived from the associated non-heating classes are applied on the average summer load to develop the seasonal baseload for the heating class.

<u>Heating Revenue Class</u>	<u>Heating Revenue Class Description</u>	<u>Associated Non-Heating Revenue Class</u>	<u>Non-Heating Revenue Class Description</u>
10 (Rate 1)	Residential Space Heating	60 (Rate 1)	Residential General Use
20 (Rate 1)	Residential Space Heating, Water Heating, Other Uses	61 (Rate 1)	Residential Water Heating
12 (Rate 6)	Apartment Space Heating	86 (Rate 6)	Apartment Water Heating & General Uses
48 (Rate 6)	Commercial Space Heating	79 (Rate 6)	Commercial Water Heating & General Uses
73 (Rate 6)	Industrial Space Heating	83 (Rate 6)	Industrial Water Heating &

General Uses

- b) Please see attachment.
- c) Incremental baseload that is inherent in winter and spring months is due to lower ground temperatures reducing customers' inlet water temperatures. More energy is required in the winter months to achieve and maintain a constant water temperature compared to other times of the year.

The Company's weather normalization methodology was established in EBRO 465 and refined in EBRO 473 where baseload is defined as the average of July and August consumption. Seasonality factors as described in part a) are then applied to derive the annual baseload consumption for associated heating classes. This methodology has been applied consistently since its approval in 1992.

Average Baseload per Customer (m³) - Central Region

Rate Class	Revenue Class	Revenue Class Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1	10	Residential Space Heating	35.6	35.6	35.4	34.4	31.8	30.4	28.0	27.8	29.8	31.3	33.6	33.8	387.6
1	20	Residential Space Heating, Water Heating, Other Uses	76.2	79.8	76.2	74.3	68.0	60.5	52.0	49.2	50.9	58.0	64.3	70.9	780.3
6	12	Apartment Space Heating	5,954.3	6,321.1	6,096.2	5,607.9	5,226.3	4,502.6	3,917.3	3,518.0	3,937.0	4,343.8	5,070.0	5,410.9	59,905.4
6	48	Commercial Space Heating	498.5	498.6	488.3	478.9	451.4	433.5	415.1	414.6	419.6	445.5	465.0	483.3	5,492.2
6	73	Industrial Space Heating	3,528.7	2,843.8	3,066.4	2,495.4	2,334.6	1,957.9	2,496.9	2,590.8	2,648.9	2,421.7	3,170.7	3,340.6	32,896.3

TAB 5



ONTARIO ENERGY BOARD

FILE NO.: EB-2017-0306 Enbridge Gas Distribution Inc.
EB-2017-0307 Union Gas Limited

VOLUME: Volume 3

DATE: May 14, 2018

Lynne Anderson Presiding Member

Christine Long Vice-Chair and Member

Cathy Spoel Member

1 bring forward proposals that are sensible in our view, and
2 will support the Board making the finding that the rates
3 are just and reasonable.

4 As we all know, under the MAADs policy, price cap is
5 the only rate-setting methodology that is available to the
6 utilities, and the Board has some levers to possibly pull
7 and until price cap is in effect, that will yield in
8 appropriate and just are reasonable rates that customers
9 will pay.

10 And the longest timeframe that's available is ten
11 years and under the policy, that would make rates viable
12 and fair for the ten-year period.

13 MS. GIRVAN: Okay, but in -- would you agree with me
14 that in Union's case, it is really 18 years?

15 MR. KITCHEN: Yes, our last cost of service was for
16 2013.

17 MS. GIRVAN: Okay, thank you. And just briefly, Mr.
18 Culbert, we had a discussion --

19 MR. KITCHEN: Sorry, Ms. Girvan.

20 MS. GIRVAN: Yes?

21 MR. KITCHEN: Ms. Mikhaila just corrected me. That
22 wouldn't be 18 years; it would be 15 years.

23 MS. GIRVAN: It's 18 since you did the study, that's
24 2011.

25 MR. KITCHEN: It was a study done for 2013.

26 MS. GIRVAN: Yes, thank you. And, Mr. Culbert, the
27 other day we had talked about the \$47 million in over
28 earnings for Enbridge in 2017.

1 MR. CULBERT: Yes, 47.1 million, yes.

2 MS. GIRVAN: And you had said that you were going to
3 file your ESM proceedings soon where you will identify
4 those drivers. Have you identified those drivers yet?

5 MR. CULBERT: No, I don't have purview to all of the
6 drivers at this point in time. But that number -- in the
7 undertaking, I committed to determining whether that was
8 still the number and in the undertaking, it is still the
9 number.

10 MS. GIRVAN: So to the extent that that number is
11 related to efficiencies sustained savings, would you agree
12 that they will be sustained throughout the plan, that these
13 are related to a permanent savings?

14 MR. CULBERT: I agree that at the outset, they would
15 be at a level which hopefully we would be able to sustain.
16 That's one of the key elements of incentive regulation.

17 Of course, we will be an amalgamated entity going
18 forward, so determining, you know, our best practices,
19 total cost savings is one of the keys of these this
20 application, is to drive out further energy cost
21 reductions.

22 MS. GIRVAN: For example, back to the 266 employees, I
23 think your expectation over the term of the plan is to
24 further reduce your work force, so...

25 MR. CULBERT: Well, we will be forming a consolidated
26 entity and restructuring to the degree necessary in the
27 consolidated entity. So we haven't reached that goal.

28 MS. GIRVAN: So it's possible you will have sustained