STAFF INTERROGATORY #16

INTERROGATORY

Issue 3 – Deferral and Variance Accounts

Topic: Context and Background
Regulatory Treatment of Programs

Ref: Exhibit B / Tab 1 / Schedule 1/ p. 8, #24 and p. 10, #30

Preamble:
Enbridge Gas indicates that it used the OEB's E.B.O. 188 Guidelines in the determination of the charges for these services. This approach aims to ensure that existing ratepayers will not subsidize these new programs.

Enbridge Gas also indicates that the best methodology will be to treat the annual utility revenue deficiencies and sufficiencies as credits or debits to the cost of carbon. Therefore, Enbridge proposes that any deficiencies / sufficiencies would be captured in the GHG-Customer VA and be periodically cleared to ratepayers.

Questions:
a) Please explain how existing ratepayers would not be subsidizing Enbridge Gas' RNG Enabling Program if the balances in the GHG-Customer VA are to be cleared to these ratepayers?

b) Please explain how existing ratepayers would not be subsidizing Enbridge Gas' GES Program if the balances in the GHG-Customer VA are to be cleared to these ratepayers?

c) Please explain why customers who procure these services from Enbridge Gas should not be solely responsible for any deficiencies / sufficiencies related to these new Programs?

d) Please explain whether Enbridge Gas considered establishing (for OEB approval) three new variance accounts (one for its RNG Enabling Program – Upgrading Service, another one for its RNG Enabling Program – Injection Service and one for its GES Program) that would capture any deficiencies / sufficiencies related to these Programs and that these balances would be cleared to those customers? If not, why not?

e) Please explain Enbridge Gas' disposition methodology for the balances in its GHG-Customer VA.

RESPONSE

a) The methodology employed by the Company to determine fees applicable to services provided under the RNG Enabling Program are consistent with the Board approved EBO 188 feasibility test. This test is designed to ensure that existing customers do not subsidize new customers on a discounted cash flow basis over the life of the assets provided to serve new customers. Inherent in this feasibility testing methodology is a temporal subsidy where new customers are subsidized by existing customers for a period of time until the revenues provided by the new customers exceed the cost of serving them.

b) The methodology employed by the Company to determine fees applicable to services provided under the GES Program are consistent with the Board approved EBO 188 feasibility test. This test is designed so as to ensure that existing customers do not subsidize new customers on a discounted cash flow basis over the life of the assets provided to serve new customers. Inherent in this feasibility testing methodology is a temporal subsidy where new customers are subsidized by existing customers for a period of time until the revenues provided by the new customers exceed the cost of serving them.

c) The abatement programs being proposed are forecast to benefit all ratepayers over the life of the programs. Not only will all ratepayers benefit from the forecast revenue sufficiency, there will also be benefits from the fact that the Company's compliance obligation will be reduced from what it would otherwise be.

d) Enbridge did not consider establishing three new variance accounts for its RNG Enabling Program – Upgrading Service, RNG Enabling Program – Injection Service and GES Program. The reason that this was not considered is that all three of these programs are GHG abatement initiatives and that the Company views it as appropriate that the costs and benefits of such programs be treated in the same manner is other Cap and Trade compliance costs and benefits.

e) Enbridge proposes that any revenue deficiencies and sufficiencies associated with these programs will be periodically cleared in the same manner that any other amounts captured in the GHG-Customer VA would be dealt with.

APPrO INTERROGATORY #8

INTERROGATORY

Issue 3

Reference: i) Exhibit B Tab 1 Schedule 1,

Preamble: APPrO would like to understand the long term effects of the proposals.

Questions:

(a) At paragraph 24 Enbridge notes that: "*The Company has used the Board's EBO 188 Guidelines as a guide in the determination of the charges for these services. This approach aims to ensure that existing ratepayers will not subsidize these new programs".*
 i. Does this rate structure create any risks of intergenerational rate inequity? Please explain fully.
 ii. Please explain why Enbridge would not propose a standalone rate structure whereby the rates are developed without any deferral or variance accounts and all costs and risks are fully borne either by the users of the particular program or Enbridge?

(b) Did Enbridge consider any economic test other than the test included on EBO 188. If so please indicate what they were and why there were rejected.

RESPONSE

(a)
 i. Please see the Company's response to APPrO Interrogatory #2, parts c) and d) filed at Exhibit I.1.EGDI.APPrO.2.
 ii. Please see the Company's responses to SEC Interrogatory #3 filed at Exhibit I.1.EGDI.SEC.3 and the Company's response to FRPO Interrogatory #4, part a) filed at Exhibit I.2.EGDI.FRPO.4.

(b) No, Enbridge did not consider any economic test other than the test included on EBO 188. Enbridge believes that EBO 188 is the appropriate approach.

CBA INTERROGATORY #14

INTERROGATORY

3. Deferral and Variance Accounts:

3.1. Is the proposal to include the annual sufficiency / deficiency of the RNG Enabling and Geothermal Energy Service Programs within the Cap and Trade Compliance Obligation Variance Accounts reasonable and appropriate?

REF: Exhibit B/Tab 1 Schedule 1 page 10

PREAMBLE:

Enbridge proposes that these differences (deficiencies in early years and sufficiencies in later years) be captured within the Greenhouse Gas Emissions Compliance Obligation-Customer-Related Variance Account ("GHG-Customer VA") and be periodically cleared to ratepayers. The recovery of these amounts through the GHG-Customer VA is appropriate because the objective of these initiatives is to reduce GHG emissions associated with natural gas deliveries and customers' consumption of natural gas.

a) Would the inability to protect itself against revenue shortfalls related to the proposed RNG Enabling Program cause EGD to abandon its plans to provide RNG upgrading and injection services in the market?

b) How does EGD intend to track and clear variances between the costs related to RNG services and the revenues from RNG services in the event government policy with respect to Cap and Trade changes in the future and EGD is no longer able to recover Cap and Trade related costs from ratepayers?

c) In the absence of an RNG Injection service as proposed in this application how would an RNG producer local to EGD inject RNG into EGD's system?

RESPONSE

a) With respect to revenue shortfalls associated with its RNG enabling program the Company is prepared to accept a level of risk comparable to that associated with its ongoing regulated utility business. If the Company were faced with financial risk that exceeds this level it would re-evaluate its decision to embark upon these lines of business. Please see the Company's response to FRPO Interrogatory #4 filed at Exhibit I.2.EGDI.FRPO.4.

b) Any RNG enabling services the Company undertakes will be underpinned by service agreements between itself and counterparties to such agreements. These counterparties will be obligated to pay for the enabling services regardless as to what may change in terms of government policy with respect to Cap and Trade. Under the Company's proposal all costs related to the provision of RNG enabling services will be recovered from those that have contracted for these services over the life of the contracts between these parties and the Company.

c) In the absence of an RNG Injection service RNG producers local to Enbridge's franchise area will not be able to inject RNG into the Company's gas distribution system.

CBA INTERROGATORY #15

INTERROGATORY

3. Deferral and Variance Accounts:

3.1. Is the proposal to include the annual sufficiency / deficiency of the RNG Enabling and Geothermal Energy Service Programs within the Cap and Trade Compliance Obligation Variance Accounts reasonable and appropriate?

REF: Exhibit B/Tab 1 Schedule 1 page 10

PREAMBLE:

As time goes on and the assets' net book value decreases, these assets will deliver annual revenues in excess of their revenue requirements thereby returning and to some extent exceeding the revenue deficiency underwritten by ratepayers in the early years.

a) With respect to the RNG Enabling Program under what circumstances will the revenue exceed the cost (assuming the cost includes EGD's proposed return on its capital investment)?

b) Please explain how revenue in excess of the costs will be allocated as between EGD, its ratepayers, and the RNG producers paying for the RNG Enabling Program services, and why EGD believes that allocation is appropriate.

RESPONSE

a) With respect to RNG upgrading, please see Exhibit B, Tab 1, Schedule 1, Appendix 6. For the example provided this exhibit shows that years one through four will deliver after tax net revenue sufficiencies. Years 5 through 12 incur revenue deficiencies since after year four the tax shield provided by the capital cost allowance will be exhausted. From years 13 to 20 revenues exceed costs and the project will again deliver net revenue sufficiencies to ratepayers. Exhibit B, Tab 1, Schedule 1, Appendix 6 (Row 22, Column 22) indicates that the net benefit to ratepayers over the twenty year life will be $733,495 on a discounted cash flow basis.

   With respect to RNG injection, please see Exhibit B, Tab 1, Schedule 1, Appendix 8. For the example provided years one and two will deliver after tax net revenue deficiencies. Beginning in year three revenues exceed costs and the project will again deliver net revenue sufficiencies to ratepayers in years three through 20. Exhibit B, Tab 1, Schedule 1, Appendix 7 (Row 22, Column 22) indicates that the net benefit to ratepayers over the twenty years will be $544,297 on a discounted cash flow basis.

b) Producers electing to utilize the RNG Enabling Service will be subjected to levelized cost based charges. This means that there will be a revenue sufficiency in some years and revenue deficiency in others. The benefit to the producer is in being able to bring RNG to market at a lower cost and a stable rate. The benefit to ratepayers is GHG abatement. Overall, revenues equal or exceed costs over the life of a project with any sufficiencies (that is revenues greater that costs) flowing to the rate payer, while Enbridge only recovers its cost of capital. This results in an appropriate allocation of costs and benefits between ratepayers and RNG producers and has regulatory precedence in how natural gas expansions are assessed.