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VIA RESS, EMAIL and COURIER

September 19, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0249 - October 1, 2018 QRAM Application
Enbridge Gas Distribution Inc. (Enbridge)
Responses to Intervenor Questions

Further to the submissions filed by Board Staff, APPrO, CME, and IGUA in the above noted proceeding, please find the responses of Enbridge below.

PGVA ADJUSTMENTS

Response to IGUA Submission:

IGUA suggests that EGD, in its reply comments:

a) Provide further information on the cited 2015 OEB audit, and in particular;
   i. clarify the relevance of this audit to the recovery sought by EGD in the current application; and
   ii. explain the *"one finding and three observations"* and what EGD has done in response to these.

In July 2015, the Audit and Performance Assessment group of the Ontario Energy Board, conducted an audit of Enbridge's PGVA, related commodity costs, accounting policies, procedures and processes associated with the PGVA, including disposition of the account from January 2014 to June 30th 2015. The relevance of this audit is that the Audit was conducted within the timeline discussed in the evidence and covered the period related to the under-collection of the true-up amounts in question. The Audit found, that with the exception of 1 finding and 3 observations, there was nothing to indicate that Enbridge's natural gas purchase and recording processes were not appropriately capturing the costs of natural gas and disposing of such costs in accordance with proper regulatory principles through the PGVA and related gas commodity costs.

The following is a summary of the finding, observations and Management's action plans:

Finding:

Enbridge had adjusted the Chicago index forward price, used in establishing part of the PGVA reference price, by a factor of 1.003, in order to better reflect the actual costs of its Chicago supply based on historical experience. The Audit noted that this adjustment was not in accordance with the intent of EB-2008-00106.

Management agreed with this finding but noted that the difference between actual costs and the reference price would be captured in the PGVA and that there is no overstatement of gas costs. In the Action Plan, the Company committed to incorporate any pricing premium or discount only for contracts that are established and known, and to disclose these in QRAMs . All other supply sources would be priced using the 21-day average of forward prices without any premium or discount.

Observation 1

The Audit noted that for four of the five straight purchases tested, documentation was not compiled to verify that the negotiated prices corresponded to the market price at the time of the purchase, making it difficult to test the reasonableness of the purchase price.

Management agreed with the finding, noting that pricing on electronic bulletin board used to gauge bids and offers through the day can change rapidly making it difficult to match prevailing traded market prices with the price of a particular straight purchase transaction. In response, Enbridge committed to develop a procedure to periodically sample and test straight purchase pricing to ensure that the purchase price is reasonably in line with the range of observed prices. The procedure was developed and included in the Gas Supply Procurement Policy in June 2016.

Observation 2

Enbridge did not maintain a list of non-performing suppliers; instead the Company kept a list of approved counterparties for the purchase of gas. Non-performing suppliers were however removed from the approved list and transactions could not be completed with any supplier that was not on the approved supplier list. The Company updated this procedure and included it in the Gas Supply Procurement Policy in June 2016.

Observation 3

In Observation 3, the Audit found that while Enbridge's internal audit department performed limited audit activities related to the PGVA balances or the QRAM process for setting rates, the function many not be able to detect a break down in internal controls which could result in errors in recording account balances, and errors in determining rates could go undetected without the internal audit department's attention.

Enbridge agreed with the observation but noted that the completeness and accuracy of the PGVA balance is a significant focus of within the Company's SOX program, including design and testing of controls through the course of the year. Nonetheless the Company agreed that Internal Audit will ensure that an appropriate level of focus is placed on testing regulatory and rate making risks.

b) Clarify how the atypical 24 month clearance period for the winter 2013-2014 QRAM balance addressed in the April 2015 QRAM influenced the error which resulted in EGD missing $20.7 million in gas cost recoveries and which EGD now seeks to rectify (perhaps by way of one or more examples).

The calculation of over/under collection of Rider C amounts typically embodies four different QRAMs. However the July 2014 QRAM Rider C was ordered by the Board to be spread over 24 months or eight quarters as opposed to the typical four quarters. This would require tracking differences between the forecasted and actual clearance amounts in Q3 and Q4 of 2014, Q1, Q2, Q3 and Q4 of 2015 and Q1 and Q2 of 2016. However, because of the timing of when actual information is available and when QRAM applications are prepared this would entail capturing any variances in the two QRAM's following the expiry of the July 2014 Rider. i.e., variances associated with Q1 of 2016 would be captured in the July 2016 QRAM and any variances in Q2 of 2016 would be captured in the October 2016 QRAM.

However, when preparing the July 2016 and October 2016 QRAMs the variances from the July 2014 QRAM that occurred in Q1 and Q2 of 2016 were omitted and the respective QRAM's did not include the necessary true-up between forecasted and actual clearance amounts (as highlighted in yellow in the table below). This translates into an additional $20.4 million to be collected from customers.

QRAM	Jan'15	Apr'15	Jul'15	Oct'15	Jan'16	Apr'16	Jul'16	Oct'16
True-up for prev. QRAM					Jul'14	Jul'14	**Jul'14**	**Jul'14**
True-up for prev. QRAM	Oct'13	Jan'14	Apr'14	Jul'14	Oct'14	Jan'15	Apr'15	Jul'15
True-up for prev. QRAM	Jan'14	Apr'14	Jul'14	Oct'14	Jan'15	Apr'15	Jul'15	Oct'15
True-up for prev. QRAM	Apr'14	Jul'14	Oct'14	Jan'15	Apr'15	Jul'15	Oct'15	Jan'16
True-up for prev. QRAM	Jul'14	Oct'14	Jan'15	Apr'15	Jul'15	Oct'15	Jan'16	Apr'16

c) Provide detail on the *"additional analysis that provide [sic] better clarity on the outstanding gas cost balances in the PGVA are [sic] being cleared through Rider* C" [T1/S1/para. 18] which EGD reports to have developed as a result of its discovery of these historical errors.

As a result of the review of the PGVA reconciliation process, the Company developed a supplemental PGVA analysis that reconciles PGVA variance amounts recorded in the general ledger, against amounts sought for clearance through Rider C development, and against the amounts actually cleared through Rider C. The supplemental analysis improves the Company's ability to track the status of amounts cleared through the PGVA, and to identify discrepancies between amounts recorded in the PGVA, versus the amounts sought for disposition and actually cleared to ratepayers through the QRAM process. The new analysis is supplemental to existing analysis which was designed to validate activity / amounts recorded into or out of the PGVA. This analysis is being prepared by Finance and is reviewed by the Gas Supply team on a monthly basis.

d) Disaggregate the principal and interest amounts attributable to each of these unrecovered amounts.

Each unrecovered amount identified and sought for recovery as part of this proceeding reflects an outstanding principal balance.

<u>**Response to CME Submission:**</u>

1) What was the impetus for EGD to engage in a review of the PGVA reconciliation process?

The impetus for the review was the Company's commitment to continuous improvement. It was a commitment to continuous improvement stemming in part from Observation #3 from the 2015 OEB audit report. The outcome of the review was the supplemental PGVA analysis as discussed above.

2) Please describe, in more detail, the issue that occurred regarding the April 2015 QRAM that caused EGD to not fully capture the amount that resides in the PGVA account. How/why was this amount missed originally?

As indicated in Paragraph 16 (Exhibit Q4-2-1-1), when preparing the April 2015 QRAM exhibit, the purchase receipts and volumes for December 2014 reflected December 2014 estimate values and had not been updated to December actuals. As indicated in Q4-3, Tab 1, Schedule 6, page 1 (original April 2015 QRAM exhibit) Item #9 and columns 1 and 2, when the December estimate values are updated (see Q4-3, Tab 1, Schedule 6, page 2, item #9, columns 1 and 2), a difference of $7.5 million is shown in Item 13a as still requiring to be collected.

3) EGD states that one of the issues stems from the April 2015, QRAM. What transactions / time periods have been reviewed as part EGD's continuous improvement efforts?

As part of the PGVA reconciliation review process, the Company has reviewed PGVA transactions from January 2010, the time of the adoption of the rolling 12 month PGVA/Rider C clearance methodology, through to the current period.

4) Are there any further time periods that EGD intends to review in the future, which may disclose further PGVA debits or credits?

No. As indicated above, the recent review and PGVA reconciliation analysis has been performed on the January 2010 to current time period, and as a result the Company does not expect to uncover any further outstanding PGVA debits or credits. As indicated in Exhibit Q4-2, Tab 1, Schedule 1, paragraph 18, the Company is confident that the analysis performed has identified all outstanding true-ups.

5) EGD states that the PGVA and related commodity costs were audited by the OEB in 2015. Did this audit include the calculations in question as part of the April 2015 QRAM?

The outstanding true-ups to the PGVA balance included in this QRAM application (e.g., the $7.5 million from the April 2015 QRAM and the $20.4 million stemming from the July 2014 QRAM) were not audit findings by the OEB in 2015. See also the response provided to IGUA #1 in regards to the scope and findings of the Audit.

6) If the answer above is no, does EGD intend to have the PGVA additions in this QRAM application (e.g. the $7.5 million from the April 2015 QRAM and the $20.4 million stemming from the July 2014 QRAM) audited, either by the OEB or by an external auditor, and, if so, when would this audit take place?

Given the evidence filed in this proceeding Enbridge does not intend to have an audit conducted of the two PGVA adjustments at this time. Having said that, Enbridge does expect that the OEB will conduct periodic PGVA audits as it has done in the past.

7) If the answer above is no, why not?

Please see response to #6) above.

<u>Response to Board Staff Submission:</u>

OEB staff submits that it would assist the OEB if Enbridge Gas provided an explanation as to why Enbridge Gas believes that disposing of these outstanding balances would not amount to retroactive ratemaking.

The Company submits that it is employing the implementation of true-ups within a Board-approved variance account that have not been reflected in any rate established by the Board and thus rate retroactivity does not arise. Implementation of the true-ups at this time is necessary to fulfill the purpose of the account, which is to ensure that actual costs are recovered from ratepayers and that the utility neither profits nor suffers a loss from prudently-incurred costs recorded in the account.

CAP AND TRADE-RELATED ADJUSTMENTS

<u>Response to IGUA and APPrO Submissions:</u>

As provided in the evidence at Exhibit Q4-2, Tab 5, Schedule 1, Pages 4 through 6, the Company has developed interim Cap and Trade clearance unit rates to dispose of the Customer Related, Facility Related, and administrative deferral (GGEIDA) and variance account balances related to Cap and Trade. Further, Enbridge understands that the OEB will undertake a prudence review which will be followed by a final true up of the amounts in the Cap and Trade accounts. In light of the submissions from IGUA and APPrO, Enbridge is providing the following clarifications and responses.

The interim Cap and Tarde clearance unit rates were derived based on actual deferral and variance account balances for each customer class for 2017 and for the Jan. 1, 2018 to July 3, 2018 period and an estimate of balances for the July 4, 2018 to Sept. 30, 2018 period.

For example, with respect to Customer-Related Clearance Unit Rates, for Rate 1 customers, the unit rate is derived based on the variance between actual Cap and Trade customer-related charges (which are based on actual Rate 1 volumes from 2017) collected from Rate 1 customers and the actual cost of compliance instruments (which are also based on actual Rate 1 volumes from 2017) for Rate 1 customers. The unit rate is derived in the same manner for the Jan. 1, 2018 to July 3, 2018 period. The variance in the account for these two periods can be seen at Line 1.1, Columns 4 and 5 respectively. The amounts collected for the July 4, 2018 to September 30, 2018 period, however, is estimated given that the Company will not have the final amount / balance for this period until after September 30th.

The Company followed the same approach as described above to derive clearance unit rates for Facility-Related variance amounts.

The administrative (GGEIDA) balance also reflects actual account balance for 2017 and the Jan. 1, 2018 to July 4, 2018 period and an estimated balance for the July 3, 2018 to September 30, 2018 period. The administration balance is allocated to all customers in the same manner as existing administrative costs are allocated to the customer classes.

Given the very short lead time (the Letter of Direction was issued by the OEB on August 30th), Enbridge can administer the interim clearance of Cap and Trade deferral and variance account balances to customers on a prospective basis over the month of October. The Company notes that the Cap and Trade charges are being collected from customers until September 30th at which point they will be eliminated. The Company does not have the actual customer consumption volumes at this time for the clearance period in question. The final true up of the amounts in the Cap and Tarde accounts will be administered to customers based on each customer's actual / historic consumption.

Enbridge groups customers into rate classes (such as Rate 110 and Rate 115) such that customers' consumption and load profile are uniform / homogeneous. Therefore, in the Company's view the proposed approach to interim clearance is appropriate.

Regarding Rate 125 customers (large power generating customers), the consumption and load profile characteristics of these customers are intermittent reflecting the dispatch nature of power generating plants. Enbridge will conduct final true ups for these customers on an account specific basis. The Company will determine the actual Cap and Trade customer-related charges collected from each Rate 125 customer and the actual cost of compliance instruments for each Rate 125 customer, and any variance for each customer will be trued up following the OEB's prudence review.

Yours truly,

(Original Signed)

Andrew Mandyam
Director, Regulatory Affairs
Encl.

cc: Mr. Fred Cass, Aird & Berlis LLP
All Interested Parties EB-2017-0086