ONTARIO ENERGY BOARD

STAFF COMMENTS ON
DRAFT RATE ORDER DATED SEPTEMBER 30, 2019
ENBRIDGE GAS INC.
2019 RATES APPLICATION
EB-2018-0305

October 4, 2019

Background

On September 12, 2019, the Ontario Energy Board (OEB) issued its decision and order on Enbridge Gas Inc.'s 2019 rates application. The decision and order directed Enbridge Gas Inc. (Enbridge Gas) to file a draft rate order with the attached rate schedules and accounting orders. Enbridge Gas was also required to provide revised customer bill impacts and the supporting information and calculation showing the derivation of rates and charges.

In a decision issued on September 23, 2019, the OEB determined that the effective date for base rates shall be April 1, 2019. In its September 12, 2019 decision and order, the OEB required Enbridge Gas to provide options with respect to the duration of the recovery of the forgone revenue. The forgone revenue represented recoveries from the effective date to the implementation date of rates which was November 1, 2019. In its draft rate order, Enbridge Gas calculated the total revenue recovery for the forgone period (April 1, 2019 to October 31, 2019) to be $6.1 million for the Enbridge Gas Distribution (EGD) rate zone and $0.7 million for the Union Gas rate zones.

Enbridge Gas has submitted the appropriate rate schedules, accounting orders and working papers showing the derivation of rates and calculation of rate riders.

Staff Comments on Draft Rate Order

OEB staff has reviewed the draft rate order and accounting orders and is satisfied (subject to comments below) that they appropriately reflect the OEB's decisions of September 12 and 23, 2019.

Forgone Revenues

With respect to the forgone revenues (revenue recovery for the period April 1, 2019 to October 31, 2019), Enbridge Gas has proposed a two-month recovery period, from November 1, 2019 to December 31, 2019 for the EGD and Union Gas rate zones.

The total amount (forgone revenue) that will be recovered from a typical residential customer in the EGD zone is $1.68. Enbridge Gas has proposed to recover this amount over a two-month period which translates to $0.84 per month. Considering the minimal bill impact, OEB staff supports the two-month recovery period.

For the Union Gas rate zone, the recovery of forgone revenues results in a total impact of approximately $1.00 in Union North and $2.00 in Union South for a typical residential customer. Given the relatively small bill impact, Enbridge Gas has proposed to recover this amount over a two-month period. This will result in a monthly bill impact of $0.50 in Union North and $1.00 in Union South. Considering the quantum of the bill impact, OEB staff supports the proposed two-month recovery period. Enbridge Gas did provide calculations for alternative recovery periods as directed by the OEB, but considering the bill impacts, OEB staff is of the opinion that a longer period is not necessary.

Incremental Capital Module (ICM)

In its September 12, 2019 decision, the OEB approved ICM funding for two projects: Kingsville Transmission Reinforcement and Stratford Reinforcement. While the entire requested amount for the Kingsville Transmission Reinforcement was approved, only $1.8 million was approved for the Stratford Reinforcement project. Enbridge Gas has used a capital expenditure amount of $118.2 million for the Kingsville Transmission Reinforcement project and $1.8 million for the Stratford Reinforcement project in its draft rate order as per the OEB’s decision. OEB staff confirms that the revenue requirement calculation does not include any OM&A or property taxes, which is consistent with the decision and order dated September 12, 2019. OEB staff further confirms that Enbridge Gas has used an average revenue requirement for the IRM period to determine the rate rider for 2019 rates as per the OEB’s decision and order.

Deferral and Variance Accounts

Open Bill Revenue Variance Account and Capital Pass-Through Deferral Accounts

In its cover letter enclosing the draft rate order, Enbridge Gas has provided a list of updated accounting orders. The list includes the Open Bill Revenue Variance Account (EGD rate zone) and existing capital pass-through deferral accounts (Union Gas rate zones). The OEB in its decision on the Open Bill Revenue Variance Account maintained the status quo and made no changes to the description of the account. Similarly, for the existing capital pass-through deferral accounts, the OEB denied Enbridge Gas’ request to only record the tax treatment in the deferral accounts. The existing treatment was maintained. OEB staff is not clear of the update to the above deferral and variance accounts (DVAs). If the update is in relation to what Enbridge Gas proposed in its application, OEB staff submits that an update to the DVAs is not required as the OEB has retained the existing description. Enbridge Gas in reply is requested to provide clarification on the above mentioned DVAs.

Tax Variance Deferral Account

Per the draft accounting order for the Tax Variance Deferral Account, the purpose of the account is to “record 50% variance in costs of any tax rate changes, versus the tax rate changes included in rates that affect Enbridge Gas”.

OEB staff submits that further clarity in the purpose of the account would be helpful. The purpose of this account is to record 50% variance in costs that are the result of changes in tax rates or rules from those included in Enbridge Gas' existing rates.

In the September 12, 2019 decision, the OEB found that it was appropriate for Enbridge Gas to follow the directions in the July 25, 2019 letter, *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance* for the Tax Variance Deferral Account. Per the July 25, 2019 letter, utilities are expected to establish a separate sub-account for the purpose of tracking changes in capital cost allowance (CCA) rules as discussed in the letter. The letter also stated "all Utilities will record the full revenue requirement impact of any changes in CCA rules that are not reflected in base rates."

OEB staff submits that a separate draft accounting order should be filed for the Tax Variance Deferral Account sub-account that is specific for accelerated capital cost allowance. The purpose of the account is to record 100% of the revenue requirement impact from the change in CCA rules, effective November 21, 2019 until Enbridge Gas' next cost-based application.

2019 Gas Supply Plan Cost Consequences Deferral Account

As directed in Procedural Order No. 3, the 2019 Gas Supply Cost Consequences Deferral account should identify the major cost components of the gas supply to be tracked separately within the account (e.g. commodity, transportation, storage, renewable natural gas, etc.). OEB staff submits that the description in the draft accounting order should include reference to this direction.

Earnings Sharing Mechanism Deferral Account

As directed in the amalgamation application[1], the earnings sharing mechanism will be on an actual basis and not normalized for weather. OEB staff submits that this clarification should be included in the draft accounting order.

Bill Impacts

The rate changes result in an annual bill impact of $4.35 for a typical residential system sales customer consuming 2,400 cubic metres annually in the EGD rate zone. The rate impact for a Union South residential system sales customer consuming 2,200 cubic metres annually is $9.38 while for the Union North zone, the rate impact for a typical residential customer ranges from approximately $2.00 to $3.15 annually. The rate

[1] EB-2017-0306/EB-2017-0307

impacts provided are annual and do not represent recoveries for the implementation period, November and December 2019. The annual rate impact has been provided for illustration purposes. As per the OEB's decision and order, Enbridge Gas will be recovering the rate change from April 1, 2019 to December 31, 2019 (or the effective date for 2020 rates as determined by the OEB in the 2020 rates application). The actual impact for the 2019 calendar year will be slightly lower as the rate change will be recovered for nine months versus the 12 months as presented in the bill impact calculation.

OEB staff has reviewed the rate impacts for all rate classes and they largely seem to be consistent across rate classes. However, it is not clear what the drivers are for the significant reduction in the distribution charge for EGD Rate 170. The rate reduction in the distribution charge for the average industrial customer (Rate 170) ranges from 15% to 22%.[2] Enbridge Gas in reply is requested to explain the significant reduction in distribution charges for this rate class.

- All of which is respectfully submitted -

[2] Exhibit F1, Tab 1, Appendix A.1, p.8.