ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL OF ENBRIDGE GAS INC. DATED NOVEMBER 28, 2019

ENBRIDGE GAS INC.
2020 Rates Application – Phase 1
EB-2019-0194

December 2, 2019

Background

On August 30, 2018, the Ontario Energy Board (OEB) approved the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union Gas).[1] In its decision (the MAADs Decision), the OEB also approved a rate-setting framework and associated parameters for the deferred rebasing period of 2019 to 2023. The companies amalgamated to form Enbridge Gas Inc. (Enbridge Gas) on January 1, 2019.

Enbridge Gas filed an incentive rate-setting mechanism (IRM) application with the OEB on October 8, 2019 under section 36 of the *Ontario Energy Board Act*, *1998* seeking approval for changes to its natural gas distribution rates to be effective January 1, 2020. This application is Enbridge Gas's second annual rate adjustment application under the IRM framework approved in the MAADs decision.

In the 2019 rates proceeding, the OEB in its determination on the effective date for rates, noted that Enbridge Gas could have filed its 2019 rate application at an earlier date, or could have bifurcated the application such that the more mechanistic base rate adjustment was filed in advance of the more complicated aspects of the application.[2] For the 2020 rate application, Enbridge Gas requested that the application be processed and adjudicated in a bifurcated manner to allow for updated interim rates to be in place for January 1, 2020. Enbridge Gas proposed that rate adjustments relating to the IRM component be processed and adjudicated first. Matters related to the incremental capital module (ICM) funding and the cost allocation study can be addressed in Phase 2 of the proceeding.

In Procedural Order No. 1 dated November 12, 2019, the OEB accepted Enbridge Gas's request to process and adjudicate the application in a bifurcated manner. Accordingly, the first phase of the proceeding addressed the IRM related elements and certain deferral and variance accounts. These elements include the annual rate escalation, pass through-costs, capital pass-through adjustments and Parkway Delivery Obligation rate adjustments.

In Procedural Order No. 1, the OEB set an accelerated schedule for Phase 1 of the application to facilitate rates to be implemented January 1, 2020. A settlement conference was held between the applicant and the intervenors (collectively, the parties) on November 21 and 22, 2019. The parties reached a settlement on all issues in Phase 1 of the proceeding. Enbridge Gas filed a settlement proposal for consideration of the OEB on November 28, 2019.

[1] EB-2017-0306 / 0307 (the MAADs Decision), August 30, 2018.
[2] EB-2018-0305, Decision and Order on Effective Date, September 23, 2018, p. 5.

Parties reached a settlement on the following issues:

1. The proposed price cap adjustment (PCI) for 2020 rates.
2. The proposed pass-through costs included in 2020 rates.
3. The proposed capital pass-through cost adjustments for 2020 rates.
4. The proposed Parkway Delivery Obligation cost adjustment for 2020 in the Union Gas rate zones.
5. The timing for implementation of the proposed Phase 1 changes to 2020 interim rates (January 1, 2020).
6. The accounting order for the deferral and variance accounts for 2020.

In addition, the parties agreed to deal with certain billing practices implemented by Enbridge Gas in 2019 in Phase 2 of this proceeding. As the settlement proposal explains, Enbridge Gas changed its billing practices in 2019 to make e-billing the default method for new customers and to switch existing paper bill customers to e-bill who have previously provided an email address to the company. In the settlement proposal, Enbridge Gas maintains that its change in practice is appropriate and it does not believe that OEB approval was or is required, but other parties disagree. Enbridge Gas did not file any evidence on e-billing in its application but has agreed to do so by January 15, 2020 (or earlier, if possible).

For settlement purposes parties agreed to a number of temporary measures on e-billing until the OEB issues a decision on matters deferred to Phase 2 of the proceeding. These measures include:

1. Enbridge Gas will only convert those existing customers to e-bill who have expressly agree to the switch.
2. New customers will be provided the option for e-bill or paper bill service which will be implemented no later than December 31, 2019.
3. Customers (new and moving) that sign up for service online will receive notice in their confirmation e-mail that they have the option to choose paper bills. Additionally, if such customers incur late payment penalty (LPP) charges, they will be contacted by phone to confirm receipt of e-bills and informed of the option to receive paper bills.
4. Enbridge Gas will post a message on its website, and on its e-bills, informing customers that there is a dispute regarding the company’s e-bill service before the OEB, and customers can contact the call centre if they have questions about their account or LPP charges.

5. Enbridge Gas will refund 2019 LPP amounts paid by customers who have been switched to e-bill in 2019 (for customers with no history of repeated LPP charges). However, parties will be free to make arguments regarding the LPP refund amounts during Phase 2 of the proceeding.
6. Enbridge Gas will not charge extra amounts for paper bills without receiving OEB approval.
7. Enbridge Gas will ensure that no customer who was switched to e-bill in 2019 is reported to credit agencies based on late payments.
8. Enbridge Gas will inform all parties to the settlement proposal when it has completed implementing the actions described in items 2, 3 and 4.

Parties have agreed that the above steps related to e-billing are being implemented on an interim basis and there is no agreement that the measures are appropriate or necessary on an ongoing basis.

Position of OEB Staff

OEB staff has reviewed the settlement proposal filed by Enbridge Gas in the context of the ratemaking framework approved in the MAADs Decision, applicable OEB policies and the OEB's statutory obligations. OEB staff supports the settlement of the issues and is of the opinion that the settlement is in the public interest. Moreover, in OEB staff's view, the explanation and rationale provided by the parties is adequate to support the settlement proposal.

OEB staff has reviewed the draft rate order and accounting orders and has no specific concerns. The draft rate order appropriately reflects the changes to rates as per the settlement proposal. OEB staff notes that the rates are interim for 2020 and only reflect rate changes for items that are included in Phase 1 of the application. Final rates will be implemented after the OEB makes a determination on Phase 2 of the application. The bill impact for a typical system sales residential customer in the EGD and Union Gas rate zones for adjustments related to Phase 1 of the application is presented below:

Table 1: Annual Bill Impact

Rate Zone	Annual Consumption	Annual Impact
Enbridge Gas	**2,400 m^3**	**$ 7.33**
Union South	**2,200 m^3**	**$ 4.08**
Union North West	**2,200 m^3**	**$ 5.56**
Union North East	**2,200 m^3**	**$ 4.84**

In the submission below, OEB staff provides additional comments and context.

Price Cap Adjustment

In the MAADs Decision, the OEB determined that the inflation factor would be the calendar year-over-year percentage change in the annualized average of four quarters of Statistics Canada's Gross Domestic Product Implicit Price Index Final Domestic Demand (GDP IPI FDD). In its pre-filed evidence, the inflation factor was 1.66% for 2020. The inflation number has been revised to 1.61% to reflect updated data from Statistics Canada. Accordingly, the PCI for 2020 is 1.31% based on the inflation factor of 1.61% and a stretch factor of 0.30% (1.61% - 0.30% = 1.31%).

Going forward, Enbridge Gas has agreed to use an inflation factor that has only one decimal place in line with the approach used for OEB-regulated electricity distributors.

OEB staff has no concerns with the proposed PCI number for 2020 and supports a future approach of using only one decimal place for the inflation factor used in the PCI calculation. In OEB staff's view, the number of decimal places used should be consistent with the approach used for electricity distributors.

The revised PCI (1.31%) has impacted the 2020 revenue requirement. The 2020 PCI related revenue requirement has been reduced by $586,000 for the EGD rate zone and by $473,000 for the Union Gas rate zones as compared to the original filing.

Table 1: Change in Revenue Requirement as per Settlement Proposal

Particulars	**EGD Rate Zone ($ 000's)**	**Union Rate Zones ($ 000's)**
Summary Change in Revenue		
2020 Proposed in EB-2019-0194	1,250,630	1,287,688
2019 Approved	1,233,954	1,270,666
Net Change	16,675	17,022
Detail Change in Revenue		
2020 Price Cap Index (1.36%)	15,440	12,383
2020 DSM Budget Change	1,335	1,081
2020 Capital Pass-Through Change	-	3,237
2020 Parkway Delivery Obligation Change	-	320
Total IRM	**16,675**	**17,022**

Pass-through Costs

The pass-through costs include the following adjustments:

- Demand side management costs for 2020.
- Loss Revenue Adjustment Mechanism for the contract market
- Average Use adjustment for EGD rate zone and Normalized Average Consumption adjustment for the Union Gas rate zones.
- Capital pass-through adjustment for 2020 related to Union Gas's capital projects.
- Parkway Delivery Obligation cost adjustment.

Adjustments to the above items were agreed to as proposed in the pre-filed evidence. However, parties raised concerns about the predictive force of the forecasting methodologies for average use, normalized average consumption and degree day forecasts for the EGD and Union Gas rate zones. As part of the settlement proposal, Enbridge Gas has agreed that it will file a rigorous study at rebasing that will examine the current forecasting methodologies and consider other ratemaking options available to address average use and weather variations. OEB staff supports the proposed approach considering that the current model for degree day forecasts appears to lack the required precision and statistical validity.[3]

OEB staff has no concerns with the proposed adjustments to the pass-through costs.

Deferral and Variance Accounts

Enbridge Gas has attached draft rate orders and accounting orders to the settlement proposal. The accounting order is for the continuation of previously approved deferral and variance accounts (DVAs) for each of the EGD and Union Gas rate zones that were approved in the 2019 rates proceeding. There have been no changes to the approved DVAs with the exception of two accounts.

Enbridge Gas has proposed to discontinue the Post-Retirement True-Up Variance Account (PTUVA) for the EGD rate zone. In accordance with the MAADs Decision, beginning in 2019, the PTUVA was only to be used to carry-forward any residual balance from 2018, which could not be cleared as result of the smoothing mechanism related to the account (i.e. any balance in excess of $5 million was to be carried forward and cleared at a later date/through a subsequent proceeding). Within Enbridge Gas's

[3] Technical Conference Transcript, pp. 55-58; Exhibit JT1.5.

2018 Deferrals Disposition and Utility Earnings Sharing proceeding,[4] the company requested disposition of the entire outstanding 2018 PTUVA balance, which was less than $5 million. Therefore, there is no balance to be disposed of for 2019 and beyond, and as a result, the company requested closure of the account as at January 1, 2020. Parties have agreed to close the PTUVA. OEB staff supports the closure of the account as it is no longer required.

In its comments to the 2019 draft rate order, OEB staff noted that the description of the 2019 Gas Supply Cost Consequences Deferral account did not identify the major cost components of the gas supply to be tracked separately within the account (commodity, transportation, storage, renewable natural gas, etc.) as per the OEB's direction in Procedural Order No. 3.[5] In reply, Enbridge Gas provided an updated accounting order with the suggested revisions. However, this change was inadvertently excluded in the accounting order that was later submitted to the OEB and therefore the changes were not reflected in the final rate order for 2019 rates. Enbridge Gas has made the appropriate changes to the description of the account and this has been included in the current accounting order. OEB staff supports the proposed change as per its original comments on the draft rate order in the 2019 rates proceeding.[6]

Enbridge Gas has included all the DVAs for the EGD and Union Gas rate zones in the accounting order. No changes have been made (with the exceptions of the two accounts noted above) to any of the accounting orders as approved in the 2019 rates proceeding. Since the DVAs do not have a specific sunset date, OEB staff is of the opinion that the accounting orders do not require approval of the OEB on an annual basis for the DVAs that are being continued with no changes.

Enbridge Gas's E-bill Practices

As noted earlier, Enbridge Gas changed its billing practices in 2019 to make e-bill the default method for new customers and to switch existing paper bill customers who had previously provided an e-mail address. Enbridge Gas is of the opinion that it does not require approval of the OEB to make such changes, but other parties disagree. All parties agreed that the issues related to changes in billing practices should be included in Phase 2 of the proceeding. In the interim, all parties have agreed to a number of temporary measures outlined earlier. These measures would be in place until the OEB makes a determination on the issue.

[4] EB-2019-0105
[5] OEB staff comments on draft rate order, EB-2018-0305, October 4, 2019.
[6] EB-2018-0305

Enbridge Gas has also agreed to file evidence about its e-bill practices including the changes that were implemented in 2019. The evidence would be filed by January 15, 2020 (or earlier, if possible).

OEB staff does not object to including the e-billing issue in Phase 2 of this proceeding. In saying that, OEB staff is not at this time expressing a view on the issue or whether approval of the OEB for the billing changes was or is required. OEB staff notes that Enbridge Gas's changes to its billing practices has an impact on costs and service levels, and there is a benefit to further exploring these impacts. Moreover, OEB staff has no concerns regarding the interim measures related to e-billing that were agreed to between the parties, pending the OEB's determination in Phase 2 of this proceeding.

Energy Retailer Service Charges

In the OEB's report on energy retailer service charges (RSCs), the OEB determined that natural gas distributor RSCs will be adjusted annually commencing on January 1, 2020 based on the OEB's inflation factor.[7] In a written question for the technical conference, OEB staff asked Enbridge Gas to confirm that it intends to adjust the RSCs effective January 1, 2020 in Phase 1 of this application. At the technical conference, Enbridge Gas confirmed that it will update the RSCs using the inflation factor of 1.61%.

OEB staff confirms that Enbridge Gas has updated the RSCs for the EGD and Union Gas rate zones. The updated charges are provided in EGD's Rate Handbook[8] and in the Union Gas schedule of Miscellaneous Non-Energy Charges (Appendix E).

The OEB's Report outlined the process that the OEB would follow with respect to adjusting the energy retailer service charges by inflation. For electricity distributors, the Report stated that the OEB will issue a generic order annually to be effective January 1st of each year setting out the inflation-adjusted service charges. For natural gas distributors, the Report stated that the service charges would be inflation-adjusted on distributor-specific basis as part as part of the distributor's annual rate application. In the generic rate order[9] adjusting RSCs for electricity distributors effective January 1, 2020, the OEB used the inflation factor of 2.0% announced by the OEB on October 31, 2019, to adjust the RSCs.

In OEB staff's view, it is appropriate for Enbridge Gas to use 1.61% rather than 2.0%. The 2.0% approved for electricity rate changes in 2020 is the "two-factor" inflation

[7] Report of the Ontario Energy Board on Energy Retailer Service Charges, EB-2015-0304, November 29, 2018, p. 3.
[8] Pages 53-55
[9] Decision and Rate Order, EB-2019-0280, November 28, 2019.

factor, and includes labour costs. In the MAADs Decision, however, the OEB decided that Enbridge Gas should use the GDP IPI FDD inflation factor, which excludes labour costs. In addition, as noted above, the OEB's Report indicated that service charges for natural gas distributors would be inflation-adjusted on a distributor-specific basis. It makes sense for Enbridge Gas to use the same inflation factor for RSCs as for other rates that are escalated annually.

– All of which is respectfully submitted –