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

DECISION AND ORDER

EB-2019-0194

ENBRIDGE GAS INC.

Application for 2020 Rates

BEFORE: Susan Frank
Presiding Member

Emad Elsayed
Member

May 14, 2020

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1 INTRODUCTION AND SUMMARY

On August 30, 2018, the Ontario Energy Board (OEB) approved the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union Gas) under the OEB's policy on mergers, acquisition, amalgamation and divestiture (MAADs).[1] In its decision, the OEB also approved a rate-setting framework and associated parameters for the deferred rebasing period of 2019 to 2023 (MAADs Decision). 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 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 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, Phase 1 of the proceeding addressed the IRM related elements and certain deferral and variance accounts. The applicant and intervenors reached a settlement on all issues in Phase 1 of the proceeding. In a decision issued on December 5, 2019, the OEB accepted the settlement proposal which included an interim rate order for rates reflecting the IRM adjustments effective January 1, 2020. As part of the Phase 1 Decision and Order, the OEB also set procedural timelines for Phase 2 of the proceeding.

Phase 2 of the proceeding addressed the following issues:

1. ICM Funding
2. Cost Allocation Update
3. Unaccounted for Gas (UFG) Report
4. E-billing

For reasons that follow, the OEB has made the following key determinations:

1. The Don River Replacement Project and the Windsor Line Replacement Project are found to be eligible for ICM funding of $30.1 million and $82.9 million, respectively.

2. The OEB finds that changes to the methodology and implementation of Enbridge Gas's cost allocation shall be examined as part of its 2024 rebasing proceeding.

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[1] EB-2017-0306 / 0307 (the MAADs Decision)

3. The OEB agrees with Enbridge Gas's proposed approach to examine the implementation of the UFG Report recommendations and other related matters as part of its 2024 rebasing proceeding.

4. The OEB agrees with Enbridge Gas that e-billing would be the default for new and moving customers. Consent is required for existing customers before moving to e-billing. There will be no penalty for remaining on, or going back to, paper billing for any customer.

2 THE PROCESS

In the 2019 rates proceeding, the OEB 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] Accordingly, for the current 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.

A Notice of Hearing was issued on October 29, 2019. 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, Phase 1 of the proceeding addressed the IRM related elements and certain deferral and variance accounts.

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 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 on November 28, 2019.

As part of the settlement, the parties agreed to deal with certain billing practices implemented by Enbridge Gas in 2019 in Phase 2 of the proceeding. In 2019, Enbridge Gas changed its billing practices to make e-billing the default method for new customers and to switch existing paper bill customers who have previously provided an e-mail address to e-billing.

In a decision issued on December 5, 2019, the OEB accepted the settlement proposal which included an interim rate order for rates reflecting the IRM adjustments effective January 1, 2020. The OEB also set procedural timelines for Phase 2 of the proceeding.

In the MAADs Decision, the OEB ordered Enbridge Gas to update the cost allocation to account for certain projects that were completed by Union Gas during its 2014-2018 IRM period.[3] Accordingly, Enbridge Gas filed a cost allocation study for the legacy Union Gas rate zones for consideration in this proceeding. Further, as per the settlement proposal, Enbridge Gas filed evidence related to e-billing on January 15, 2020.

[2] EB-2018-0305, Decision and Order on Effective Date, September 23, 2018, p. 5.
[3] Decision and Order, EB-2017-0306/0307, August 30, 2018, p.41.

In the 2016 Earnings Sharing Mechanism proceeding, Enbridge Gas agreed to review Unaccounted for Gas (UFG).[4] In the MAADs Decision, the OEB directed Enbridge Gas to file a report on UFG for both the legacy Union Gas and legacy EGD service areas by December 31, 2019.[5] Accordingly, Enbridge Gas filed a report at the end of 2019 which the OEB included for review in the current proceeding.[6]

Phase 2 of the proceeding addressed the following issues:

1. ICM Funding
2. Cost Allocation Update
3. Unaccounted for Gas Report
4. E-billing

Enbridge Gas filed its argument-in-chief on March 11, 2020. Intervenors and OEB staff filed their submissions between March 26, 2020 and April 10, 2020. The following intervenors filed submissions in this proceeding:

- Association of Power Producers of Ontario (APPrO)
- Building Owners and Managers Association (BOMA)
- Canadian Manufacturers and Exporters (CME)
- Consumers Council of Canada (CCC)
- Energy Probe Research Foundation (Energy Probe)
- Federation of Rental-housing Providers of Ontario (FRPO)
- Industrial Gas Users Association (IGUA)
- London Property Management Association (LPMA)
- Ontario Greenhouse Vegetable Growers (OGVG)
- Pollution Probe
- Quinte Manufacturers Association (QMA)
- School Energy Coalition (SEC)
- TransCanada Pipelines Limited (TCPL)
- Vulnerable Energy Consumers Coalition (VECC)

Enbridge Gas filed its reply on May 1, 2020.

The OEB received two letters of comment. The OEB considered the comments in assessing the applicant’s proposal.

[4] EB-2016-0142
[5] EB-2017-0306 / EB-2017-0307.
[6] PO No. 2, January 9, 2020.

3 DECISION

The following matters are addressed in this decision:

- Incremental Capital Funding
    - Don River Replacement Project
    - Windsor Line Replacement Project
    - Rate Riders
- Cost Allocation
- Unaccounted for Gas
- E-billing

3.1 Incremental Capital Funding

As set out in the OEB's ICM Policy, the ICM is a funding mechanism available to distributors whose rates are established under a Price Cap IR regime.[7] The ICM is a regulatory tool that allows for recovery of the revenue requirement for qualifying material and incremental capital additions, beyond what is funded through approved rates. An ICM must meet the tests for materiality, need and prudence.

In its application, Enbridge Gas requested ICM funding for two projects: one in each of the EGD and Union Gas rate zones, namely the Don River Replacement Project and the Windsor Line Replacement Project respectively.

3.1.1 Don River Replacement Project

The Don River Replacement Project will replace 0.25 km of nominal pipe size (NPS) 30 XHP on the Don River crossing with a new NPS 30 XHP under the Don River through the use of trenchless technology. The project was identified in the 2019 AMP and the OEB granted leave to construct (LTC) approval in November 2018.[8]

In the 2019 rates application,[9] Enbridge Gas requested ICM funding for the Don River Replacement Project but based on the ICM materiality threshold calculation, the OEB

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[7] *Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,* EB-2014-0129, September 18, 2014.
[8] EB-2018-0108
[9] EB-2018-0305

found that there was no room for ICM funding in the EGD rate zone. However, the project was delayed and Enbridge Gas submitted a Request to Vary the LTC approval on October 15, 2019. Enbridge Gas indicated that as a result of certain permit delays, it was unable to complete the final tie-in of the pipeline until the next planned maintenance shut-down of a large volume customer which was scheduled for April 2020. The OEB approved the Request to Vary in a letter dated December 5, 2019. Considering that the project was then expected to go into service in 2020, Enbridge Gas requested ICM funding for the project in this proceeding. The total project cost is estimated at $35.4 million which is unchanged from that requested in the 2019 rates application.

OEB staff submitted that the need and prudence of the project had already been established in the LTC proceeding and that the project has a significant impact in improving Enbridge Gas's operations. Accordingly, OEB staff submitted that the project qualifies for ICM funding. However, OEB staff submitted that a $7.0 million reduction in Enbridge Gas's Information Technology (IT) spending should be subtracted from the forecast capital budget to determine the ICM materiality threshold as there was no convincing evidence that the proposed new capital expenditures to replace the IT spending were required for 2020. Accordingly, OEB staff submitted that only $23.1 million ($30.1M - $7.0M) should be eligible for ICM funding in the EGD rate zone. The $30.1 million is the maximum eligible incremental capital for this project.

In reply, Enbridge Gas submitted that the $7.0 million reduction in IT expenditures for the EGD rate zone was more than compensated by the $18.5 million that was added to the budget to reflect the impact of the OEB's 2019 Rates Decision in which the OEB directed Enbridge Gas to revert back to its 2013 customer connection policy. Enbridge Gas argued that these are new costs that must be funded by, or absorbed in, Enbridge Gas's existing rates.

SEC argued that in the 2019 Rates Decision, the OEB indicated to Enbridge Gas that it had sufficient funding in base rates, after reductions to IT spending, to complete projects proposed in 2019. SEC submitted that the OEB should deny ICM eligibility for the Don River Replacement Project in 2020. CCC, CME and Pollution Probe similarly argued that a shift in the in-service date was not a valid reason for the OEB to revisit the 2019 Rates Decision in which the project was found to be ineligible for incremental funding.

BOMA noted that the project was near completion with the exception of the tie-in when the current application was filed. BOMA and VECC argued that a project nearing completion should not be approved for ICM funding, as the purpose of ICM is to facilitate the funding of projects that the utility is unable to finance without severe strain on its financial integrity. VECC and LPMA submitted that if the project was to be approved then it would imply that the timeline of any project could be manipulated to maximize the benefit to the shareholder.

In reply, Enbridge Gas clarified that ICM treatment for the Don River Replacement Project was not denied on the merits in the 2019 rates proceeding, but simply because the OEB found that Enbridge Gas did not have room for ICM funding. Enbridge Gas argued that this is not a “res judicata” type scenario, where an applicant seeks a different substantive decision from the decision maker on the same question as has previously been determined. Enbridge Gas submitted that in the 2019 rates proceeding, there was no review of the merits of the project or the application of ICM criteria. Enbridge Gas clarified that the unanticipated delay was not caused by Enbridge Gas, but from decisions and circumstances of third parties. Enbridge Gas further noted that it informed the OEB of the delay as soon as it was known and it was granted a Request to Vary.

The result of the in-service delay to April 2020 resulted in the project becoming a 2020 project for purposes of ICM eligibility. Enbridge Gas referenced the OEB’s ICM policy to clarify that ICM recovery is not available until a project goes into service, even where some or most of the related expenditures were incurred in a prior year.

Enbridge Gas further submitted that there was no gaming on its part to defer the project and request ICM funding in a subsequent year. No amounts related to the project were included in the 2019 in-service capital expenditures. Enbridge Gas clarified that it did not underspend on in-service capital projects in 2019, even with the deferral of the Don River Replacement Project into 2020.

Pollution Probe and BOMA submitted that indirect overheads should be excluded from the ICM funding request. In reply, Enbridge Gas reiterated that indirect overhead costs are attributable to the project and are properly included as part of the in-service capital costs and recovered through ICM unit rates. Enbridge Gas referred to the OEB’s 2019 Rates Decision wherein the OEB accepted that Enbridge Gas’s ICM funding requests are based on fully burdened costs and approved the inclusion of indirect overheads in the ICM project costs.[10]

[10] EB-2018-0305 Decision and Order, September 12, 2019, p. 29.

Findings

An ICM must meet tests for materiality, need and prudence. The need and prudence for this project have already been established in the November 29, 2018 LTC decision. The materiality test considers both the total cost and the materiality threshold calculation. At a forecast cost of $35.4 million, this project is material in comparison to Enbridge Gas's overall capital budget.

Enbridge Gas submitted that the maximum eligible incremental capital for the EGD rate zone is $30.1 million. OEB staff suggested the removal of $7 million in IT expenditures from the 2020 in-service capital forecast resulting in lowering the eligible capital to $23.1 million. The OEB accepts Enbridge Gas's reply argument that the $7 million was more than offset by the OEB's direction from the 2019 Rates Decision that Enbridge Gas must revert back to its 2013 customer connection policy adding $18.5 million above what had been previously forecast for 2020.

Based on the above, the OEB finds that the Don River Replacement Project satisfies the required tests for materiality, need and prudence.

Several intervenors questioned if it was appropriate that this project be allowed for 2020 ICM since Enbridge Gas had previously requested ICM approval for the same Project in 2019. In the 2019 Rates Decision, the Project was found not to qualify for ICM funding as the materiality threshold calculation had no room available. The Decision was based on the materiality threshold calculation, not on the merits of the Project.

The OEB's ICM Policy[11] clearly states that the in-service year is the appropriate time for inclusion of a project in the ICM. In both the LTC proceeding and the 2019 rate proceeding, this Project was projected to be placed in service in September 2019. However, in October 2019, Enbridge Gas submitted a request to the OEB to vary the in-service date to April 2020 due to circumstances beyond its control (permit delays). This request to vary the in-service date was approved by the OEB in December 2019.

For the above reasons, the OEB accepts that the inclusion of this Project in the 2020 ICM request is appropriate.

[11] EB-2014-0219, *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014, p. 13.

Finally, intervenors submitted that the inclusion of indirect overheads should not be allowed. The OEB had clarified in the 2019 Rates Decision that indirect overheads are included in the calculation of rate base and should be included in the assessment of ICM. The OEB sees no reason to depart from this Decision.

The OEB approves $30.1 million in ICM funding for the Don River Replacement Project.

3.1.2 Windsor Line Replacement Project

Enbridge Gas proposed to construct approximately 64 km of nominal pipe size (NPS) 6 natural gas pipeline (project) in order to replace a section of the existing Windsor NPS 10 pipeline (along with short sections of NPS 8 pipe) in the Union Gas South rate zone. Enbridge Gas filed a LTC application with the OEB for the proposed pipeline on August 9, 2019.[12]

The total budget of the project was $106.8 million with an in-service date of November 2020. Of the $106.8 million, $91.9 million was forecast to be spent in 2020. The OEB granted LTC approval on April 1, 2020. In its LTC decision, the OEB determined that the need for the project is supported by the integrity concerns identified and the age of the pipeline.[13] However, the OEB reduced the total cost of the project from $106.8 million to $105.5 million.

OEB staff in its submission agreed that the proposed pipeline was a discrete project with a significant capital outlay when compared to the total 2020 capital budget of Enbridge Gas, and the OEB had already established the need in the LTC proceeding. Accordingly, OEB staff submitted that the project should qualify for ICM funding to the maximum eligible incremental capital of $84.2 million.

In reply, Enbridge Gas acknowledged that the OEB had reduced the overall cost of the project by $1.3 million in the LTC decision. Accordingly, Enbridge Gas reduced the ICM funding request, from $84.2 million to $82.9 million.

Like OEB staff, CCC, VECC, LPMA, OGVG, SEC and QMA did not object to Enbridge Gas's ICM funding request for the project. However, VECC and LPMA suggested that the OEB should adjust the ICM funding amount to take into account the undepreciated value of the current Windsor Line that is being replaced. LPMA submitted that ratepayers will be paying for both the Windsor Line Replacement Project through the

[12] EB-2019-0172
[13] EB-2019-0172, Decision and Order, April 1, 2020, p. 5.

ICM and for the assets that are currently in rate base but are no longer used or useful during the IRM period. LPMA argued that the stated double recovery was neither just nor reasonable.

In reply, Enbridge Gas noted that during IRM, costs are decoupled from rates and there is no direct relationship between specific assets supporting service and rates charged for that service; base rates are not adjusted for specific items added to or removed from service. Enbridge Gas submitted that it is appropriate for the net book value of a retired asset to remain in rate base for rate setting purposes as it offsets the potential over-depreciation of other assets in the pool (if the average life of all assets in the pool is consistent with the life captured in the depreciation rate).

LPMA further noted that actual in-service capital additions ($507.8 million) for the Union Gas rate zones were materially lower than forecast for 2019 ($539.9 million). Actual 2019 in-service capital additions were $32.1 million lower ($539.9M – $507.8M) than forecast in the application and $10.7 million lower than the figure used to determine the amount of eligible ICM funding for 2019 ($518.5M[14] – $507.8M). In light of the material over forecast in in-service capital additions for 2019, LPMA, CCC and VECC submitted that the OEB should reduce the 2020 in-service capital addition by $10 million. SEC submitted that the OEB should ensure that such a deviation does not occur in 2020 and reduce the 2020 forecast capital additions for the Union Gas rate zone by a similar proportion that occurred in 2019, which amounts to $10.6 million.[15] This would reduce the ICM funding for the project from $84.2 million to $73.6 million.

In reply, Enbridge Gas maintained that no adjustment to the ICM request was necessary to account for any previous under-spending. Although there was some under-spending of in-service capital in 2019, Enbridge Gas explained that this was due to the timing of spend on one approved ICM project (the Kingsville Transmission Reinforcement project). Enbridge Gas noted that the impact of any difference related to spending of the ICM project will be captured in the ICM deferral account and will be addressed at rebasing. Enbridge Gas submitted that it would not be fair to bear the consequences of the underspend twice if it were required to not only credit 2019 over collection amounts to ratepayers at rebasing through the deferral account, but also to reduce ICM eligibility for 2020 to recognize the over collection. Enbridge Gas noted that the OEB's ICM policy sets the eligible funding based on forecast amounts and there is no adjustment to reflect prior year spending.

[14] EB-2018-0305, response to LPMA IR#13.
[15] $518.5M - $507.8M = $10.7M (2%), 2% of $528.3M (2020 capital forecast) = $10.6M.

BOMA argued that replacement of a section of a pipeline due to age and integrity issues should be considered part of the normal year over year business of the utility and not the subject of an ICM funding request. In reply, Enbridge Gas noted that the LTC decision confirmed the need for the project and the prudence of the associated costs.

Energy Probe and Pollution Probe submitted that the proposed fall 2020 in-service date for the project is a tight timeline and could be further impacted by the current provincial state of emergency related to COVID-19. Accordingly, Pollution Probe suggested that it would be speculative to approve the request for ICM funding at this time. In reply, Enbridge Gas confirmed that construction is expected to commence in May 2020 with the project being in-service in November 2020.

OGVG noted that the total revenue requirement for the Windsor Line Replacement Project for 2020 is negative $3.453 million due to the Accelerated Investment Incentive that provides an enhanced first year allowance for eligible capital investments. OGVG suggested that as a result of the materially negative revenue requirement in 2020 there was no immediate need for the OEB to implement a rate rider in 2020.

In reply, Enbridge Gas argued that such a measure was not contemplated in the MAADs Decision or the OEB's ICM policy. Enbridge Gas reiterated that any differences from forecast will be captured in the ICM deferral account.

Findings

As described under the Don River Replacement Project, an ICM must meet tests for materiality, need and prudence. The Windsor Line Replacement Project LTC was approved by the OEB on April 1, 2020. This approval satisfies the ICM requirements for need and prudence of the project. The materiality considers both the total cost and the materiality threshold calculation. At a forecast cost of $105.5 million, this project is material in comparison to Enbridge Gas's overall capital budget, and the threshold calculation yielded availability of $82.9 million for the Union Gas rate zones.

Several intervenors suggested deviations from the current ICM Policy:

- BOMA submitted that the Project ICM funding be rejected as it was a replacement of an aging asset. The OEB finds that this is not a criterion included in the Policy and shall not be accepted.
- VECC and LPMA suggested removing the costs of undepreciated assets that were being replaced. The OEB finds that, during the deferred rebasing term, costs are decoupled from rates. The OEB does not agree to adjusting for specific items removed from service.

- CCC, SEC, LPMA and VECC suggested the lowering of the allowable ICM level to reflect $10 million underspend in 2019 in-service additions. The OEB continues to support that the materiality threshold calculation is based on forecast costs and not on prior spending.
- OGVG noted that capital costs are subject to change because of the COVID-19 pandemic and suggested a “tracking account” in 2020 replacing the ICM rider. While the OEB acknowledges that it may be challenging to get work completed on schedule under the current circumstances, there is already a mechanism to track variances in actual spending and make the necessary adjustments in the future.
- SEC questioned the inclusion of overhead in project costs. As noted above, this issue was already addressed in the 2019 Rates Decision.

The OEB does not accept any of the above submissions.

OEB staff questioned the 2020 in-service additions forecast, noting that reductions in IT spending had been replaced with the advancement of certain projects. Enbridge Gas’s reply submission clarified that the London Rapid Transit project was advanced following the federal funding announcement in August 2019. In the case of the Hamilton Gate Station, some immediate work was done to address pressing safety issues but subsequent failures highlighted integrity concerns that required the advancement of the project. The OEB accepts that Enbridge Gas has provided sufficient explanation of the replacement projects and no reduction in the in-service forecast is required.

In its reply argument, Enbridge Gas agreed to reduce the overall cost of the project from $106.8M to $105.5M consistent with the LTC decision. The OEB approves the ICM treatment of the Windsor Line Replacement Project and approves the 2020 ICM funding request of $82.9 million.

3.1.3 Rate Riders

Enbridge Gas requested approval of ICM unit rates to be effective from the implementation date in rates for the duration of the deferred rebasing period to recover the total revenue requirement of the Don River and Windsor Line Replacement projects from 2020 to 2023. In reply, Enbridge Gas confirmed that it will update ICM unit rates to reflect recovery of the total revenue requirement of the ICM projects for the deferred rebasing period beginning with the OEB’s indicated implementation date. Consistent with the treatment of 2019 approved ICM project unit rates, Enbridge Gas proposed to embed the ICM unit rates in the delivery and transportation charges on the applicable rate schedule and customer bill.

Findings

The standard approach for an ICM is to calculate rate riders that persist until the next rate rebasing application, i.e. until December 31, 2023. The OEB directs Enbridge Gas to calculate rate riders based on the following criteria:

1. The approved ICM capital is $30.1 million for the Don River Replacement Project and $82.9 million for the Windsor Line Replacement Project.
2. The implementation date for the rate riders shall be July 1, 2020 to align with Enbridge Gas's next Quarterly Rate Adjustment Mechanism (QRAM) rate change.
3. Enbridge Gas shall calculate the revenue requirement based on the approved ICM capital until the next rebasing rate application, i.e. from 2020 to 2023.
4. The smoothed rate rider will recover the approved revenue requirement for the ICM projects until the next rebasing application. The rate rider will not be changed during this period.
5. The charge for the ICM rate riders will be included with the delivery and transportation charges (as applicable for the customer class) on natural gas bills.

In the next rebasing application, the OEB will review the spending against plan. The OEB has approved ICM funding to the Maximum Eligible Incremental Capital. It would be inappropriate for Enbridge Gas to seek additional funding beyond the approved amount for the ICM projects during the 2019 to 2023 period, therefore the ICM deferral account for 2020 ICM approved projects is only relevant to underspending.

3.2 Cost Allocation

In the MAADs proceeding, a number of intervenors raised concerns regarding inequities in cost allocation and the over-allocation of costs for some rate classes.[16] In the absence of rebasing, intervenors argued that Enbridge Gas should be required to update the cost allocation to account for certain projects that were completed by Union Gas during its 2014-2018 IRM period. The OEB noted in the MAADs Decision:

[16] APPrO, IGUA, City of Kitchener, SEC and TransCanada raised concerns regarding cost allocation in EB-2017-0306/0307.

> However, the OEB is concerned about the cost allocation issues raised by parties for Union Gas' Panhandle and St. Clair systems. The OEB therefore requires Amalco [Enbridge Gas] to file a cost allocation study in 2019 for consideration in the proceeding for 2020 rates that proposes an update to the cost allocation to take into account the following projects: Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D and the Hagar Liquefaction Plant. This should also include a proposal for addressing TransCanada's C1 Dawn to Dawn TCPL service. The OEB accepts that this proposal will not be perfect, but is intended to address the cost allocation implications of certain large projects undertaken by Union Gas that have already come into service.[17]

Following the OEB's directive, Enbridge Gas filed a cost allocation study for the legacy Union Gas rate zones. Enbridge Gas prepared the cost allocation study based on a 2019 test year. In its evidence, Enbridge Gas did not recommend changes to rates as a result of the cost allocation update. Rather, Enbridge Gas suggested that the cost allocation changes should be implemented at rebasing. However, Enbridge Gas requested approval for changes to the cost allocation methodology (without implementation) related to the Panhandle System and St. Clair System, Parkway Station and Dawn Station in this application.

Enbridge Gas submitted that in the event that the OEB determines that the cost allocation changes should be implemented prior to rebasing, then the changes should be implemented with 2021 rates (the next rate application). Enbridge Gas estimated that it would require three months following the OEB's direction in this proceeding to file a draft rate order incorporating the cost allocation study results including a rate design proposal to adjust the unit rates.

Parties were generally split between implementing the proposed cost allocation methodology changes during the IRM term and deferring any changes to rebasing with a larger proportion of intervenors supporting changes at rebasing.

BOMA, CCC, LPMA, OGVG, Pollution Probe, SEC, QMA, TCPL, VECC and OEB staff essentially agreed with Enbridge Gas to defer cost allocation changes to rebasing. Large rate changes during an IRM regime were not appropriate according to OEB staff as customers expect a certain amount of rate stability and predictability during IRM. BOMA, TCPL, VECC and OEB staff further noted that at rebasing, the cost allocation changes will include other adjustments to rate base, possible rate harmonization

[17] Decision and Order, EB-2017-0306/0307, August 30, 2018, p. 41.

proposals and rate design changes. OEB staff, TCPL and VECC argued that the proposed changes therefore did not present a complete picture of the costs and revenues. OGVG added that the threshold for making cost allocation changes during an IRM should be relatively high, given the fundamental decoupling of rates from changes in costs during an IRM period.

Further, OEB staff, CME and SEC disagreed with Enbridge Gas's request for approval of the proposed changes to the cost allocation methodology as part of this proceeding. CME and OEB staff preferred any changes to the cost allocation methodology to be adjudicated at rebasing when the OEB has complete information on cost allocation. SEC submitted that the hearing panel should not fetter the rebasing panel's discretion on cost allocation methodology, especially since that panel will be reviewing Enbridge Gas's comprehensive cost allocation.

LPMA questioned the proposed changes to the methodology. LPMA submitted that the review of and potential changes in transmission allocators should not be done on a piecemeal basis but rather at the time of rebasing when all changes can be examined.

In reply, Enbridge Gas maintained that its proposed approach of having the OEB approve the largely uncontested cost allocation methodology changes in this proceeding for later implementation at rebasing is appropriate Nevertheless, between the option of immediate implementation and deferral, Enbridge Gas preferred the option of waiting for consideration and implementation of cost allocation changes in the rebasing proceeding.

Conversely, Energy Probe, APPrO and IGUA preferred to implement the cost allocation update during the IRM period. Energy Probe argued that deferring implementation of the appropriate cost allocation for Dawn Parkway transportation represents an undue large cross-subsidy of $10.2 million between the Union Gas and EGD rate zones.[18] With the exception of Dawn-Parkway costs, Energy Probe did not support other proposed cost allocation changes as these were not considered significant. Accordingly, Energy Probe submitted that the OEB should direct Enbridge Gas to bring forward the updated cost allocation for Dawn-Parkway costs for 2021 rates.

APPrO and IGUA noted that in the Panhandle Reinforcement Project proceeding,[19] Union Gas proposed a change to the cost allocation of Panhandle and St. Clair system costs. However, the OEB did not approve the cost allocation changes as the company was expected to rebase in 2019. As a result of the amalgamation of EGD and Union

[18] Response to SEC IR#8.
[19] EB-2016-0186

Gas, rebasing did not occur in 2019 and the inequities continue to exist according to APPrO and IGUA.

APPrO and IGUA dismissed Enbridge Gas's justification around rate stability, rate design and other changes that are likely to happen at rebasing as valid reasons to defer implementing of the proposed cost allocation changes to rebasing. APPrO and IGUA argued that the OEB was aware of these issues when it ordered Enbridge Gas in the MAADs Decision to update the cost allocation for the Union Gas rate zones.

In reply, Enbridge Gas acknowledged that it had agreed to address the cost allocation of the Panhandle and St. Clair in the 2019 rates application but significant events did take place in 2018 (amalgamation of EGD and Union Gas) that changed the rate setting context for Enbridge Gas and its customers. While the OEB did order Enbridge Gas to file an updated cost allocation study in 2019, Enbridge Gas noted that there was no assurance that changes to the cost allocation study would be implemented immediately.

APPrO and IGUA maintained that if the implementation of the cost allocation is delayed until 2024, the existing inequity will continue for another four years and large customers will overpay by a cumulative $4.4 million. Accordingly, APPrO and IGUA submitted that the OEB should not delay implementation of the cost allocation study and that implementation should occur in 2021.

Rate C1 Dawn to Dawn-TCPL Service

In the MAADs Decision, the OEB directed Enbridge Gas to include a proposal to address TCPL's Rate C1 Dawn to Dawn-TCPL service for consideration in the 2020 rate application. The Rate C1 Dawn to Dawn-TCPL service was approved by the OEB in 2010. The service required modifications to Dawn facilities to allow for custody transfer metering at a capital cost of $3.3 million. The OEB approved the recovery of the capital cost over an accelerated 5-year period from 2010 to 2015 using a 20% depreciation rate in order to ensure that the cost was solely recovered from TCPL.[20]

TCPL noted that the calculation of the demand rate provides for the recovery of approximately $548,000 per year associated with the Dawn facilities. Although the cost of the facilities has been fully recovered since 2015, no adjustments have been made to the rate. TCPL argued that the continuation of the existing rate for the Rate C1 Dawn to Dawn-TCPL service is inconsistent with cost causation principles and results in charges that are not just and reasonable. Accordingly, TCPL submitted that Enbridge Gas

[20] EB-2010-0207, Decision and Order, August 12, 2010, p 6.

should be directed to revise the rate schedule to incorporate the decrease in revenue requirement for implementation January 1, 2021.

Findings

OEB staff and most intervenors submitted that approval of the cost allocation methodology should be deferred until Enbridge Gas's next rebasing application in 2024. Little value was attributed to approving the changes in methodology arising out of the 2019 cost allocation study now and then addressing the implementation of such changes in 2024. TCPL submitted that usage of system facilities by shippers, and gas flows could all change between now and implementation in 2024. The OEB supports the suggestion that the review and approval of any cost allocation methodology changes should occur as close as possible to the time the changes are proposed to be implemented. The OEB finds that when the full cost allocation study is filed for 2024 implementation, that would be the appropriate time to examine these changes.

The OEB acknowledges that the existing cost allocation over time has resulted in changes to the costs and benefits to certain parties since the OEB approved Union Gas's 2013 cost allocation study.[21] Accordingly, Enbridge Gas responded to the OEB's direction in the MAADs Decision to undertake a new cost allocation study. However, the OEB notes that, consistent with the approved rate setting mechanism, the rates for 2020 continue to be decoupled from costs. Rate stability and predictability offered through incentive regulation also rely on the decoupling of rates from the allocating utilities' costs among different customer classes. At the next rebasing, potential changes to the comprehensive cost allowance are anticipated including other adjustments to rate base, possible rate harmonization proposals and rate design changes.

APPrO supported the material changes to specific customer classes, particularly T2 and M12, identified in the cost allocation study. IGUA promoted the removal from rates T2, M16 and C1 of the Panhandle system costs identified in the cost allocation study as being inappropriately and inequitably recovered from these customers. Enbridge noted the Panhandle Reinforcement Project was unique as it involved incremental costs not considered in the 2013 cost allocation study. The OEB acknowledges that the current cost allocations are outdated; however, attempting to make selected changes at this time will be disruptive to the predictability of rates and result in more changes in 2024. The OEB reiterates that rate stability and predictability offered through incentive

[21] EB-2011-0210, Decision and Order, October 25, 2012.

regulation rely on the decoupling of rates from the allocating utilities' costs among different customers classes.

The OEB acknowledges that the Rate C1 Dawn to Dawn-TCPL service approved in 2010 has allowed for recovery of these specific capital costs. However as noted earlier, the OEB does not make changes for specific costs during an IRM period. These will be assessed at the 2024 rebasing.

The OEB finds that changes to the methodology and implementation of Enbridge Gas's cost allocation shall be examined as part of the 2024 rebasing application.

3.3 Unaccounted for Gas

In the 2016 Earnings Sharing Mechanism proceeding, Enbridge Gas agreed to review potential metering issues that might be contributing to UFG and to report on that review.[22] In the MAADs Decision, the OEB stated that it considers the issue of UFG important and directed Enbridge Gas to file a report on this issue for both the legacy Union Gas and EGD service areas by December 31, 2019.[23]

Accordingly, Enbridge Gas filed a report at the end of 2019 which was included for review in the current proceeding.[24] Enbridge Gas retained ScottMadden to prepare a report that reviewed and evaluated factors contributing to UFG.

UFG is broadly defined as the difference between gas receipts and gas deliveries, where gas receipts are volumes that enter the distribution system and gas deliveries are volumes that exit the distribution system. Essentially, UFG is gas that is "lost" and cannot be accounted for by the operator as usage or through appropriate adjustment. The main sources of UFG are retail meter variations, gas station meter variations, leaks, fugitive emissions, third-party damage, theft, company use and accounting adjustments.

The UFG report by ScottMadden (UFG Report) showed that over the past 10 years, the legacy companies (EGD and Union Gas) demonstrated lower UFG levels than comparable gas utilities. OEB staff and LPMA acknowledged the lower levels of UFG within the EGD and Union Gas rate zones as compared to select U.S. and Canadian gas utilities. In its argument-in-chief, Enbridge Gas committed to report on its progress

[22] EB-2016-0142
[23] EB-2017-0306 / EB-2017-0307.
[24] PO No. 2, January 9, 2020.

in implementing the recommendations set out in the UFG Report in its 2022 rates application. SEC and QMA supported this commitment.

LPMA, Pollution Probe, FRPO and Energy Probe raised concerns about Enbridge Gas's clarification that any comparison between the UFG for the legacy utilities is not an "apples to apples" comparison. FRPO submitted that Enbridge Gas should have made an equivalent comparison and should have included storage facilities of EGD similar to Union Gas.

Energy Probe submitted that Enbridge Gas was taking the issue of UFG too lightly and the OEB should not accept the steps that Enbridge Gas has taken or intends to implement. Energy Probe argued that UFG is a significant contributor to greenhouse gas emissions and ratepayers pay for UFG in rates. VECC similarly noted that the utility had no incentive to manage UFG as it is held whole regardless of its performance with respect to UFG.

VECC was also critical of the UFG Report noting that the report did not explain a number of items including "best practices" across industry to monitor and reduce UFG, heat content variability and the reasonableness of the cost allocation methodology for the disposition of variance accounts. VECC submitted that the study is insufficient to dispense with the matter and a more robust examination is required, and therefore this matter should be addressed in detail at the next rebasing application.

FRPO submitted that the OEB should direct Enbridge Gas to file an updated report in its 2021 rate application and every subsequent year until rebasing that reports on initiatives undertaken to mitigate UFG. LPMA submitted that as part of the upcoming rebasing application, the OEB should direct Enbridge Gas to break down the UFG between Union North and Union South and between distribution related, storage related and transmission related volumes.

In reply, Enbridge Gas confirmed that it was not seeking approval for the UFG Report. However, it noted that it takes the issue of UFG seriously and is committed to manage UFG levels and improve forecasting. Enbridge Gas further committed to include information in the rebasing proceeding about the implementation of UFG Report's recommendations and other activities to address UFG. In response to intervenor suggestions (LPMA and FRPO), Enbridge Gas confirmed that as part of the rebasing application, it will provide UFG results segregated by rate zone and activity (distribution, transmission, storage). However, Enbridge Gas dismissed FRPO's suggestion to file a UFG report in 2021 and every subsequent year until rebasing. Enbridge Gas submitted that it will take time to identify and implement best practices and analyze data to monitor and manage UFG on a consistent basis. It therefore considered its proposal to provide a progress report in the 2022 rate application as appropriate.

Findings

The OEB notes that Enbridge Gas has already committed to assess its UFG forecasting methodology in the 2024 rebasing proceeding and to include information about the implementation of the UFG Report recommendations and other activities to address UFG, and the impacts of such activities.

Consistent with the submission of LPMA, Enbridge Gas has committed to provide reporting of UFG results, segregated by rate zone and activity (distribution, transmission, storage), with such recent historical information as is available as part of the rebasing filing.

The OEB agrees to the approach that Enbridge Gas has committed to in this proceeding.

3.4 E-billing

Enbridge Gas did not include evidence on e-billing or request any relief with respect to e-billing in its application. The issue was raised in the Phase 1 settlement proposal between Enbridge Gas and intervenors. 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-billing who had at some point previously provided an e-mail address to the company. As part of the Phase 1 settlement proposal, Enbridge Gas and intervenors agreed on a number of interim measures regarding e-billing. Enbridge Gas also agreed to file evidence on e-billing in Phase 2 of this proceeding.

The temporary measures on e-billing agreed to in the settlement proposal included:

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.

Enbridge Gas filed its e-billing evidence on January 15, 2020. In its evidence, Enbridge Gas submitted that its expansion of e-billing and myAccount (online information and transaction platform) are in line with OEB's expectations. Enbridge Gas also referred to the OEB's December 2018 Notice to Amend Codes and Rule in respect of the OEB's customer service rules, which states, "utilities are also expected to explore other opportunities for cost savings such as expansion of e-billing, enhanced and timely communication with customers, and improved collection processes."[25] Enbridge Gas also noted that its change in billing practice is appropriate and does not believe that OEB approval was or is required.

Pollution Probe submitted that the interim measures 1, 3, 5, 6 and 7 should continue into the future. Pollution Probe noted that approximately 42% of customers have selected to remain on paper billing regardless of the promotion and incentives provided and this demonstrates the value of retaining the paper default option unless consent is provided. BOMA submitted that the interim measures (1 to 7) should continue indefinitely. Energy Probe submitted that the OEB should establish rules that deal with billing practices by electricity and gas distributors. Until such time, Energy Probe submitted that the interim measures agreed to in the settlement proposal should remain in effect.

OEB staff, CCC, CME, LPMA, QMA and VECC were generally supportive of e-billing and recognized the lower costs of adopting e-billing which would be reflected in rates at

[25] EB-2017-0183, Notice of Proposal to Amend Codes and a Rule, December 18, 2018, p. 42.

rebasing. However, OEB staff, CCC, CME and VECC expressed concerns about the manner in which Enbridge Gas implemented its e-billing initiative. Specifically, throughout 2019, customers were involuntarily switched from paper billing to e-billing with inadequate notice. To help protect Enbridge Gas customers' preferences and interests, OEB staff submitted that the OEB should impose the following two conditions under which Enbridge Gas may continue its strategy of converting customers to e-Bills.

i. **New / Moving Customers**
Enbridge Gas should provide new and moving customers (residential and non-residential customers) with the option of paper or e-billing at the time of account opening. Customers should not be registered for e-billing without their consent.

ii. **Existing Customers on Paper Billing**
Enbridge Gas should not switch any existing customer from paper billing to e-billing without the customer's consent.

CCC made similar suggestions as OEB staff.

VECC submitted that the customer should have a clear choice and paper billing should remain the standard billing option until such time as the OEB determines otherwise. VECC further submitted that there should be no surcharge for paper billing, the online account set up should explicitly allow an option to select the method of billing and any customers involuntarily converted to e-billing should be contacted by telephone to confirm their billing choice.

LPMA submitted that e-Bills should be the default option for new customers but they should be informed of the option of receiving paper bills at no additional costs. For existing customers that were switched to e-billing, LPMA submitted that Enbridge Gas should have obtained consent prior to moving customers to e-billing. In addition, LPMA suggested that when a customer is switched to e-billing, the customer should receive both a paper and electronic bill for the next two invoices.

In reply, Enbridge Gas dismissed VECC's assertion that the increase in customer complaints and the number of customers that switched back to paper bills was evidence of customer dissatisfaction. Although Enbridge Gas agreed that the percentage of e-Bill related complaints increased in 2019, the actual number of complaints (less than 1,100) was low in the context of Enbridge Gas's 3.5 million customer base. Enbridge Gas further noted that 80% of new e-Bill customers continue to remain on e-billing.

Enbridge Gas further argued that e-billing had resulted in immediate and ongoing cost savings for Enbridge Gas and its ratepayers and contributes meaningfully towards the stretch targets established in the MAADs Decision that keep rate increases below inflation. Enbridge Gas noted that the cost savings will be reflected in Enbridge Gas's updated cost of service at rebasing.

Enbridge Gas submitted that continuing to treat paper bills as the default option is not appropriate and not consistent with modern customer service practice. Enbridge Gas indicated that it intends to continue to direct new and moving customers to the myAccount (online) platform to complete online transactions. Additionally, customers that provide an e-mail address to the company as part of a telephone or online transaction in the future will be moved to e-billing. Such customers will be provided with advance notice to the provided e-mail address indicating that their next bill will be an e-Bill. If any of these customers incur an LPP charge on their first e-Bill, Enbridge Gas indicated that it will follow up with the customer to confirm that the e-Bill was actually received. Furthermore, customers that do not want an e-Bill will be switched back to paper billing at no cost.

Enbridge Gas further agreed to continue three of the interim measures from the settlement proposal:

a. Enbridge Gas will not charge for providing paper bills.
b. Enbridge Gas will contact any existing paper bill customer who becomes an e-Bill customer and who incurs LPP charges on the first e-Bill to ensure that the customer has received the e-Bill and that the proper contact information is being used.
c. Enbridge Gas will ensure that no customer who has switched to e-Bill in 2019 is reported to credit agencies based on late payments.

Despite agreeing to continue some of the interim measures, Enbridge Gas did not believe that it is necessary for the OEB to impose additional utility-specific e-billing conditions or rules. Enbridge Gas submitted that it complies with all existing rules and if the OEB decides to address e-billing practices in the future, it will fully participate in such consultations. Until such time, no further measures were necessary according to Enbridge Gas.

Findings

There was widespread opposition from the intervenors to e-billing being the default option. Some parties suggested that the list of interim measures developed as part of

Phase 1 settlement proposal should continue until the OEB develops a comprehensive list of e-billing criteria. Other parties focused on the need for customer consent.

The OEB has previously indicated support for e-billing. Enbridge Gas noted that the OEB's December 2018 Notice to Amend Codes and Rule stated that "utilities are also expected to explore other opportunities for cost savings such as expansion of e-billing".[26] However, the OEB also noted in the 2019 Rates Decision that "it is important during an IRM period that charges to customers are not increased for providing the same services, and services to customers are not diminished."[27]

The OEB finds that there are two different circumstances with different approaches required for e-billing. For new or moving customers, the OEB agrees that e-billing should be the default. The OEB notes that the significant cost savings associated with e-billing that will persist into the rebasing period should be pursued. Enbridge Gas's proposal to notify each customer that their next bill be an e-Bill, followed by checking with customers that the e-Bill was received if the customer had an LPP charge on their first e-Bill, and allowing the customer to move to paper bill on request at no charge is accepted.

For existing customers who provide Enbridge Gas with an e-mail address as part of another interaction, the OEB finds that specific consent will be required prior to moving the customer to e-billing. The customer should be made aware of the convenience and self-service advantages of myAccount; however, there will be no penalty for remaining on, or going back to, paper billing.

The OEB notes that the move to e-billing is common in the service industry. Utilities should be encouraged to move to industry leading practices. Despite the requests by some intervenors for a comprehensive set of e-billing criteria prior to allowing the move to e-billing as the default, the OEB has decided that it is appropriate to approve the use of e-billing as a default in this case and only if there are material complaints should a review of e-billing practices be undertaken.

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[26] EB-2017-0183, Notice of Proposal to Amend Codes and a Rule, December 18, 2018, p. 42.
[27] EB-2018-0305 Decision and Order, September 12, 2019, p. 35.

4 EFFECTIVE AND IMPLEMENTATION DATE

Enbridge Gas filed its application on October 8, 2019. The interim rates effective January 1, 2020 include the IRM related adjustments. While this decision deals with four discrete issues, only one issue impacts 2020 rates, i.e. ICM funding.

As noted in section 3.1, no retroactive adjustment is required for the ICM rate riders. The implementation date of the rate riders will be July 1, 2020 to align with the utility's next QRAM rate change.

The OEB notes that the severity and duration of the current COVID-19 pandemic are unknown at this time. Therefore, the implementation of the ICM rate rider approved in this Decision and Order does not take into account the COVID-19 impact. The OEB recognizes that the COVID-19 emergency is having profound province-wide impacts and it leaves the option on the timing of implementation of the rate rider to Enbridge Gas. The OEB acknowledges that each distributor has its own unique circumstances that need to be factored into its decision making process keeping in mind the best interests of customers in the immediate and longer term. While the OEB has approved the implementation of the rate rider effective July 1, 2020, the OEB will consider any alternative proposal from Enbridge Gas in the draft rate order that seeks to delay implementation of the rate rider.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Enbridge Gas shall file with the OEB, and forward to all intervenors a draft rate order attaching a proposed Tariff of Rates and Charges reflecting the OEB's findings in this Decision by **May 25, 2020**. The draft rate order shall include customer rate impacts and the associated rate riders for the approved ICM projects.

2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB and forward them to Enbridge Gas on or before **June 1, 2020**.

3. Enbridge Gas shall file with the OEB and forward to the intervenors responses to any comments on its draft rate order on or before **June 8, 2020.**

4. Cost eligible intervenors shall file their cost claims with the OEB and forward them to Enbridge Gas on or before **June 15, 2020**.

5. Enbridge Gas shall file with the OEB and forward to the intervenors any objections to the claimed costs by **June 22, 2020**.

6. Intervenors shall file with the OEB and forward to Enbridge Gas any responses to any objections for cost claims by **June 29, 2020**.

All materials filed with the OEB must quote the file number, **EB-2019-0194,** be made in searchable / unrestricted PDF format electronically through the OEB's web portal at https://pes.ontarioenergyboard.ca/eservice. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.oeb.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below.

NOTE: The OEB is temporarily waiving the paper copy filing requirement until further notice. All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Khalil Viraney, at Khalil.Viraney@oeb.ca and OEB Counsel, Ian Richler, at Ian.Richler@oeb.ca

DATED at Toronto, May 14, 2020

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary