ONTARIO ENERGY BOARD

STAFF SUBMISSION ON
SETTLEMENT PROPOSAL OF ENBRIDGE GAS INC.
DATED OCTOBER 6, 2020

ENBRIDGE GAS INC.
2021 Rates Application
EB-2020-0095

October 15, 2020

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 June 30, 2020, 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, 2021. This application is Enbridge Gas's third annual rate adjustment application under the IRM framework approved in the MAADs decision.

Like the 2020 rates proceeding, Enbridge Gas filed for approval of the IRM mechanistic adjustments and pass through costs first; the request for ICM funding will be filed in Phase 2 of the application. The OEB in a letter dated July 14, 2020 informed Enbridge Gas that it would review Phase 1 and Phase 2 filings as separate applications. Enbridge Gas is expected to file its Phase 2 evidence in mid-October 2020.

In Procedural Order No. 1 issued on August 18, 2020, the OEB scheduled an initial discovery process (interrogatories) followed by a settlement conference between the parties (applicant and intervenors). The parties reached a settlement on all issues in Phase 1 of the proceeding, namely:

1. The proposed price cap adjustment (PCI) for 2021 rates.
2. The proposed pass-through costs included in 2021 rates.
3. The proposed capital pass-through cost adjustments for 2021 rates.
4. The proposed Parkway Delivery Obligation (PDO) cost adjustment for 2021 in the Union Gas rate zones.

Enbridge Gas filed a settlement proposal for the OEB's consideration on October 6, 2020.

The intervenors who have agreed to the settlement proposal have essentially accepted the application as filed and updated to reflect the relevant items included in Enbridge

[1] EB-2017-0306 / 0307 Decision and Order August 30, 2018, application by Enbridge Gas Distribution and Union Gas Limited to amalgamate under the OEB's policy on mergers, acquisition, amalgamation and divestiture (MAADs Decision).

Gas's October 1, 2020 Quarterly Rate Adjustment Mechanism (QRAM) application.[2] The higher gas costs resulting from Enbridge Gas's October 2020 QRAM application have impacted the revenue requirement calculation for the Union Gas rate zone, specifically the costs related to managing the PDO.

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. In addition, the explanation and rationale provided by the parties is adequate to support the settlement proposal. OEB staff notes that the rates effective January 1, 2021 are interim as Enbridge Gas is expected to file a separate application related to 2021 ICM funding.

OEB staff has reviewed the draft interim rate order and is satisfied that the rates appropriately reflect the price cap and other adjustments as well as the settlement proposal between the parties. The bill impact resulting from the settlement proposal for a typical system sales residential customer in the Union rate zones is slightly different from that provided in the original application. This is due to the impact of updating the gas costs from the October 2020 QRAM application. All other items have either been approved the OEB in a prior proceeding or are pass through costs that have been reviewed for accuracy.

Table 1: Annual Bill Impact

Rate Zone	Annual Consumption	Annual Impact as Filed	Bill Impact as per Settlement
Enbridge Gas	**2,400 m^3**	**$ 1.99**	**$ 1.99**
Union South	**2,200 m^3**	**$ 8.91**	**$ 9.06**
Union North West	**2,200 m^3**	**$ 10.40**	**$ 10.44**
Union North East	**2,200 m^3**	**$ 10.72**	**$ 10.76**

In the submission below, OEB staff has provided additional comments and context to some of the settled items.

[2] October 1, 2020 Quarterly Rate Adjustment Application, EB-2020-0195.

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 the 2020 rate application Phase 1 settlement proposal, parties agreed that going forward, Enbridge Gas would use an inflation factor that has only one decimal place in line with the approach used for OEB-regulated electricity distributors.[3]

Accordingly, Enbridge Gas has used an inflation factor of 2.0%. The resulting price cap adjustment for calculating 2021 IRM rates is 1.7% (2.0% - 0.3% stretch factor). Parties also agreed that the inflation factor of 2.0% is appropriate and will not be revised further for calculating 2021 IRM rates.

OEB staff notes that Statistics Canada on occasions has revised the inflation factor based on updated information. As per the settlement proposal, the inflation factor used for calculating Enbridge Gas's 2021 rates will not be revised further. OEB staff has no concerns with the proposed approach and notes that any revisions and updates are likely to have a minimal impact on the inflation factor agreed to in this settlement proposal. OEB staff is of the opinion that an agreed to final PCI number provides greater certainty and rate predictability to all parties including ratepayers.

Table 1: Proposed Change in Revenue by Rate Zone

Particulars	**EGD Rate Zone ($ 000's)**	**Union Rate Zones ($ 000's)**	**Union Zone Updated for Oct 2020 QRAM**
Summary Change in Revenue			
2021 Proposed	1,272,320	1,311,693	1,315,241
2020 Approved	1,252,169	1,292,681	1,295,703
Net Change	20,151	19,012	19,538
Detail Change in Revenue			
2021 Price Cap Index (1.7%)	20,151	16,257	16,302
2021 DSM Budget Change	-	-	-
2021 Capital Pass-Through Change	-	2,250	2,250
2021 Parkway Delivery Obligation Change	-	505	985
Total IRM	**20,151**	**19,012**	**19,538**

[3] EB-2019-0194 Phase 1 Settlement Proposal, November 28, 2019, p. 9.

<u>Pass-through Costs</u>

The pass-through costs include the following adjustments:

- Demand side management costs for 2021
- Lost Revenue Adjustment Mechanism for the contract market
- Average Use adjustment for EGD rate zone and Normalized Average Consumption adjustment for the Union rate zones
- Capital pass-through adjustment for 2021 related to capital projects in the Union rate zones
- PDO cost adjustment

Adjustments to the above items were agreed to as proposed in the pre-filed evidence with further adjustments resulting from the October 2020 QRAM.

OEB staff has no concerns with the proposed adjustments to the pass-through costs as Enbridge Gas properly calculated the pass-through amounts. OEB staff also confirms that Enbridge Gas has updated the Retail Service Charges for both the EGD and Union Gas rate zones to reflect an inflation factor of 2.0% as required by the OEB's Report on Energy Retailer Service Charges.[4]

Parkway Delivery Obligation Cost Adjustment
Enbridge Gas updated the PDO and Parkway Delivery Commitment Incentive (PDCI) costs included in 2021 rates for the Union rate zones to reflect the 2021 Rate M12 Dawn-Parkway toll and compressor fuel, based on the October 2020 QRAM. All parties agreed that Enbridge Gas has appropriately calculated the PDO rate adjustment. As noted earlier, updating the commodity costs to reflect the October 2020 QRAM has resulted in higher PDO costs than those filed in the original evidence. The increase in commodity costs in the October QRAM has increased the cost of the compressor fuel required to move the gas from Dawn to Parkway. This has resulted in the higher bill impact for the Union rate zones as compared to that filed in the original evidence.

Large volume direct purchase customers in the Union rate zone east of Dawn have an obligation to deliver gas at Parkway (west of Mississauga) rather than the convenient location of Dawn (the liquid trading and storage hub). This obligation to deliver gas at Parkway is called the PDO. In the 2013 rates proceeding,[5] direct purchase customers requested that the former Union Gas eliminate the PDO and allow customers to deliver

[4] EB-2015-0304
[5] EB-2011-0210

gas at Dawn because the cost to these customers to deliver gas at Parkway exceeded the delivery rate benefit of the obligation. In Union Gas's 2014 rates application,[6] the OEB approved a framework for reducing the PDO. In the 2014 rates proceeding, Union Gas reached an agreement with parties on the PDO issue. The costs of the change in delivery obligation are borne by all customers in the Union rate zones. This is because direct purchase customers with a PDO are conferring a benefit on all users of the Dawn-Parkway transmission system in terms of the avoided costs to build additional infrastructure to transport the gas from Dawn to Parkway. Customers in the Union rate zones bear the costs of transporting the gas from Dawn to Parkway or an incentive is paid to direct purchase customers who still opt to deliver gas at Parkway (Parkway Delivery Commitment Incentive, PDCI). The total PDO costs are therefore a combination of the costs to move gas from Dawn to Parkway and an incentive (PDCI) to direct purchase customers who opt to deliver at Parkway.

As part of the settlement on the PDO, Enbridge Gas agreed that in its 2022 rate application, it will file evidence detailing infrastructure and market-based alternatives in order to determine whether it is cost-effective to eliminate or reduce the PDO and/or PDCI for 2022 and future years.

Over the years, the total costs recovered from ratepayers to reduce the PDO is approximately $25 million per year ($26 million for 2021). The question is whether there is a facility alternative (constructing or reinforcing a pipeline to move gas from Dawn to Parkway) or some other market-based alternatives (third party deliveries, exchanges and/or additional transportation contracts) that is more cost-effective than the current PDO costs paid by ratepayers.

In response to a supplemental interrogatory, Enbridge Gas provided a rough estimate on the cost of building infrastructure to eliminate the PDCI payment paid to customers for continued obligated deliveries at Parkway.[7] The PDCI payment included in rates is $13.5 million (of the $26 million for PDO) for 2021. Enbridge Gas has estimated that the annual revenue requirement related to the cost of building facilities to move gas without the obligated deliveries at Parkway is approximately $34 million. Accordingly, a build does not appear to be a cost-effective option to eliminate the PDO. However, Enbridge Gas committed to providing a more detailed response in the 2022 rate application. Considering the significant annual costs for the PDO program, OEB staff submits that

[6] EB-2013-0365
[7] Response to Energy Probe Interrogatory # 5 (Supplementary), October 1, 2020.

additional information regarding evaluation of other alternatives to reduce or eliminate the PDO will shed further light on the justification of the current PDO arrangement.

Implementation of Interim Rates

All parties agreed that it was appropriate for Enbridge Gas to implement the 2021 IRM rate adjustments and other items in the settlement proposal on an interim basis, to be effective January 1, 2021. The interim rate changes will be implemented in conjunction with the January 1, 2021 QRAM application.

If the settlement proposal is accepted as filed, OEB staff does not see any concerns with implementing the interim rates effective January 1, 2021.

– All of which is respectfully submitted –