



ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL OF ENBRIDGE GAS INC.

**ENBRIDGE GAS INC.
2019 Deferral and Variance Account Disposition and
Earnings Sharing Application
EB-2020-0134**

January 15, 2021

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 The companies amalgamated to form Enbridge Gas Inc. (Enbridge Gas) on January 1, 2019. Following the amalgamation, Enbridge Gas maintained the existing rates zones of EGD and Union Gas (the EGD rate zone, and the Union North West, Union North East and Union South rate zones).² Enbridge Gas has also maintained most of the existing deferral and variance accounts for each rate zone.

In this application, Enbridge Gas requested approval to dispose of principal balances in certain deferral and variance accounts (DVAs) as at December 31, 2019, and interest up to December 31, 2020. The net balance in the various 2019 deferral accounts is a debit balance of \$2.96 million. This includes a credit of \$1.78 million for the EGI accounts, a debit balance of \$9.47 million for the EGD rate zone accounts and a credit balance of \$4.73 million for the Union rate zones account. EGI accounts are those DVAs that were approved in the MAADs Decision for the amalgamated utility (new DVAs for Enbridge Gas).

Enbridge Gas's actual utility earnings did not exceed the OEB-approved return on equity (ROE) by more than the threshold for sharing. Accordingly, no Earnings Sharing Mechanism (ESM) amount is proposed to be shared with ratepayers.

Consistent with the 2018 Deferral and Variance Account clearance proceeding³, Enbridge Gas proposed to dispose of the DVA balances consistent with the past practices of its predecessors EGD and Union Gas. The account balances will be allocated to the customer classes using the same methodologies that the OEB approved in previous years. For the EGI accounts (newly established Enbridge Gas DVAs), the balances will be split between EGD and Union rate zones in proportion to the 2018 actual rate base.

For the EGD rate zone, the DVA disposition is a one-time adjustment for both general service and contract rate classes. For the Union rate zones, Enbridge Gas has requested disposition of the DVA balances over a three-month period for general

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).

² Collectively Union North West, Union North East and Union South are referred to as the Union rate zones.

³ EB-2019-0105

service customers and as a one-time adjustment for in-franchise contract and ex-franchise customers.

A settlement conference was convened between the applicant (Enbridge Gas) and intervenors (together referred to as the “parties”) on December 3, 4 and 7, 2020 with the objective of reaching a settlement on the issues. The parties reached a complete agreement on all DVAs with the exception of the Enbridge Gas Tax Variance Deferral Account. The parties propose that this issue proceed to a hearing.

Enbridge Gas filed a settlement proposal for the OEB’s consideration on January 5, 2021.

Position of OEB Staff

OEB staff has reviewed the settlement proposal filed by Enbridge Gas in the context of 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 and will result in just and reasonable rates. Moreover, in OEB staff’s view, the explanation and rationale provided by the parties is adequate to support the settlement proposal.

In the submission below, OEB staff has provided comments and context to the issues that have been settled or remain unsettled.

The list of all DVAs and the associated account balances is provided in the table below including those DVAs that are not being requested for disposition.

| <u>ENBRIDGE GAS</u> <u>DEFERRAL & VARIANCE ACCOUNT</u> <u>ACTUAL & FORECAST BALANCES</u> | | | | | Col. 1 | Col. 2 | Col. 3 |
|--|---|---------------------|---------------|--|--|-----------------------|--------------------|
| | | | | | Forecast for clearance at January 1, 2021 | | |
| Line No. | Account Description | Account Acronym | | | Principal (\$000's) | Interest (\$000's) | Total (\$000's) |
| <u>EGD Rate Zone Commodity Related Accounts</u> | | | | | | | |
| 1. | Storage and Transportation D/A | 2019 S&TDA | | | 2,472.3 | 34.5 | 2,506.9 |
| 2. | Transactional Services D/A | 2019 TSDA | | | 134.3 | 1.8 | 136.1 |
| 3. | Unaccounted for Gas V/A | 2019 UAFVA | | | 4,879.7 | 70.6 | 4,950.3 |
| 4. | Total commodity related accounts | | | | 7,486.3 | 106.9 | 7,593.3 |
| <u>EGD Rate Zone Non Commodity Related Accounts</u> | | | | | | | |
| 5. | Average Use True-Up V/A | 2019 AUTUVA | | | (8,768.8) | (120.6) | (8,889.4) |
| 6. | Gas Distribution Access Rule Impact D/A | 2019 GDARIDA | | | - | - | - |
| 7. | Deferred Rebate Account | 2019 DRA | | | 991.2 | 27.1 | 1,018.3 |
| 8. | Transition Impact of Accounting Changes D/A | 2019 TIACDA | | | 4,435.8 | - | 4,435.8 |
| 9. | Electric Program Earnings Sharing D/A | 2019 EPESDA | | | (174.7) | (5.1) | (179.8) |
| 10. | OEB Cost Assessment V/A | 2019 OEBCAVA | | | 3,233.1 | 77.5 | 3,310.6 |
| 11. | Dawn Access Costs D/A | 2019 DACDA | | | 2,152.7 | 29.6 | 2,182.3 |
| 12. | Gas Supply Plan Cost Consequences D/A | 2019 GSPCCDA | | | - | - | - |
| 13. | Pension and OPEB Forecast Accrual vs. Actual Cash F | 2019 P&OPEBFVACPDVA | | | - | - | - |
| 14. | Total EGD Rate Zone (for clearance) | | | | 9,355.6 | 115.4 | 9,471.1 |
| <u>Union Rate Zones Gas Supply Accounts</u> | | | | | | | |
| | | | <u>Number</u> | | | | |
| 15. | Upstream Transportation Optimization | 179-131 | 2019 | | 12,122.4 | 165.9 | 12,288.3 |
| 16. | Spot Gas Variance Account | 179-107 | 2019 | | - | - | - |
| 17. | Unabsorbed Demand Costs Variance Account | 179-108 | 2019 | | (11,957.6) | (311.1) | (12,268.7) |
| 18. | Deferral Clearing Variance Account - Supply | 179-132 | 2019 | | (1,096.1) | (27.9) | (1,123.9) |
| 19. | Deferral Clearing Variance Account - Transport | 179-132 | 2019 | | 69.2 | 1.8 | 71.0 |
| 20. | Total Gas Supply Accounts | | | | (862.0) | (171.3) | (1,033.4) |
| <u>Union Rate Zones Storage Accounts</u> | | | | | | | |
| 21. | Short-Term Storage and Other Balancing Services | 179-70 | 2019 | | 2,821.9 | 32.9 | 2,854.8 |
| <u>Union Rate Zones Other Accounts</u> | | | | | | | |
| 22. | Normalized Average Consumption | 179-133 | 2019 | | (4,675.9) | (120.2) | (4,796.1) |
| 23. | Deferral Clearing Variance Account | 179-132 | 2019 | | (721.6) | (18.4) | (739.9) |
| 24. | OEB Cost Assessment Variance Account | 179-151 | 2019 | | 1,562.8 | 36.3 | 1,599.1 |
| 25. | Unbundled Services Unauthorized Storage Overrun | 179-103 | 2019 | | - | - | - |
| 26. | Gas Distribution Access Rule Costs | 179-112 | 2019 | | - | - | - |
| 27. | Conservation Demand Management | 179-123 | 2019 | | (137.6) | (4.5) | (142.1) |
| 28. | Parkway West Project Costs | 179-136 | 2019 | | (493.0) | (12.5) | (505.5) |
| 29. | Brantford-Kirkwall/Parkway D Project Costs | 179-137 | 2019 | | (39.0) | (0.3) | (39.3) |
| 30. | Lobo C Compressor/Hamilton-Milton Pipeline Project C | 179-142 | 2019 | | 277.0 | 2.3 | 279.3 |
| 31. | Lobo D/Bright C/Dawn H Compressor Project Costs | 179-144 | 2019 | | (1,569.1) | (30.1) | (1,599.2) |
| 32. | Burlington-Oakville Project Costs | 179-149 | 2019 | | (49.0) | (0.7) | (49.7) |
| 33. | Panhandle Reinforcement Project Costs | 179-156 | 2019 | | (1,180.0) | (17.8) | (1,197.8) |
| 34. | Sudbury Replacement Project | 179-162 | 2019 | | - | - | - |
| 35. | Parkway Obligation Rate Variance | 179-138 | 2019 | | - | - | - |
| 36. | Unauthorized Overrun Non-Compliance Account | 179-143 | 2019 | | (432.4) | (14.2) | (446.6) |
| 37. | Base Service North T-Service TransCanada Capacity | 179-153 | 2019 | | - | - | - |
| 38. | Pension and OPEB Forecast Accrual vs. Actual Cash F | 179-157 | 2019 | | - | (961.4) | (961.4) |
| 39. | Unaccounted for Gas Volume Variance Account | 179-135 | 2019 | | 1,560.9 | 19.4 | 1,580.4 |
| 40. | Unaccounted for Gas Price Variance Account | 179-141 | 2019 | | 458.5 | 6.6 | 465.1 |
| 41. | Total Other Accounts | | | | (5,438.4) | (1,115.3) | (6,553.7) |
| 42. | Total Union Rate Zones (for clearance) | | | | (3,478.5) | (1,253.7) | (4,732.3) |
| <u>EGI Accounts</u> | | | | | | | |
| 43. | Accounting Policy Changes D/A - Pension - EGI | 179-120 | 2019 | | (1,749.5) | (26.9) | (1,776.5) |
| 44. | Earnings Sharing D/A | 179-382 | 2019 | | - | - | - |
| 45. | Expansion of Natural Gas Distribution Systems V/A | 179-380 | 2019 | | - | - | - |
| 46. | Total EGI Accounts (for clearance) | | | | (1,749.5) | (26.9) | (1,776.5) |
| 47. | Total Deferral and Variance Accounts (for clearance) | | | | 4,127.6 | (1,165.2) | 2,962.3 |
| <u>Not Being Requested for Clearance</u> | | | | | | | |
| 48. | Accounting Policy Changes D/A - Pension - EGI | 179-120 | 2019 | | 193,753.1 | - | 193,753.1 |
| 49. | Incremental Capital Module Deferral Account | 179-159 | 2019 | | (6,869.6) | (94.6) | (6,964.2) |
| 50. | Tax Variance - Accelerated CCA - EGI | 179-383 | 2019 | | (30,030.4) | (697.6) | (30,728.0) |
| 51. | Total of Accounts not being requested for clearance | | | | 156,853.1 | (792.2) | 156,060.9 |

1. Settled Issues

All parties agreed to dispose of the as-filed balances for all DVAs with the exception of three accounts: Accounting Policy Changes Deferral Account (no disposition at this time) and the OEB Cost Assessment Variance Accounts (revised amounts to be disposed at this time for the EGD and Union rate zones).

Accounting Policy Changes Deferral Account (Enbridge Gas)

In its application, Enbridge Gas requested disposition of credit amounts related to the revenue requirement impact of post-amalgamation accounting policy changes (other than pension related amounts). The changes result from the harmonization of accounting policies across the EGD and Union rate zones. Enbridge Gas proposed to split the account balance of \$1.776 million (credit) in proportion to the 2018 actual rate base resulting in \$0.938 million being allocated to the EGD rate zone and \$0.839 million being allocated to the Union rate zones. Enbridge Gas further proposed to allocate the split balances (for each legacy utility) to rate classes in proportion to the 2018 rate base for the EGD rate zone and the 2013 rate base for the Union rate zones.

In accordance with the settlement, parties agreed to postpone the review, allocation and disposition of balances in the Accounting Policy Changes Deferral Account (APCDA) until the end of Enbridge Gas's deferred rebasing term (2023). Intervenors noted that they required more information regarding the treatment of the balances and the extent of rate harmonization post-rebasing before approval of the balances and the disposition methodology can be considered.

OEB staff notes that there is a credit balance in the account and this balance would in the normal course be refunded to ratepayers. However, the balance is not significant (\$1.776 million) and OEB staff has no concerns with the agreed approach. OEB staff is of the opinion that changes to rate design and rate harmonization at rebasing would provide the appropriate framework to review the disposition methodology including the allocation of these balances.

OEB Cost Assessment Variance Account (EGD Rate Zone)

The balance in the OEB Cost Assessment Variance Account to be recovered from EGD ratepayers is a debit of \$3.311 million (including interest). The amount reflects the variance between the OEB's costs assessed to Enbridge Gas (relevant to the EGD rate zone) in each quarter of fiscal 2019, utilizing the OEB's Revised Cost Assessment

Model (CAM), and EGD's average quarterly OEB cost assessment under the prior CAM that is included in rates.

Parties agreed to reduce the balance by \$221,548 to reflect the amount recovered by Enbridge Gas through rates for this item. OEB staff agrees with the proposed approach as the base rates are adjusted on an annual basis which would increase the recovery of amounts related to OEB cost assessments. Further, increase in customer numbers would also contribute to recovery of variances in cost assessments. For purposes of the 2019 amounts, the parties agreed to apply inflation (annual CPI as calculated by Statistics Canada) to the base amount as a rough approximation of the changes in amounts being recovered through rates. OEB staff is satisfied that the CPI is an appropriate proxy to capture changes resulting from the annual Price Cap Adjustment and growth in customer numbers.

OEB Cost Assessment Variance Account (Union Rate Zones)

The variance account records differences between the OEB's cost assessments currently built into rates and the cost assessments that result from the new CAM. The balance in the account is a debit of \$1.563 million plus interest of \$0.036 million for a total of \$1.599 million. The balance represents the difference between the actual cost assessment of \$4.063 million and the \$2.5 million included in rates for the Union rate zones.

Similar to the Cost Assessment Variance Account for the EGD rate zone, parties agreed to reduce the balance in the account by \$293,789 for the Union rate zones. For reasons outlined for the EGD rate zone account, OEB staff supports the proposed approach for the Union rate zones OEB Cost Assessment Variance Account.

Enbridge Gas has agreed to propose in the 2020 deferral and variance account disposition application an adjustment for determining the base OEB costs (for both the EGD and Union rate zones) to be used for each of the remaining years of the deferred rebasing term. OEB staff supports Enbridge Gas's proposed approach for subsequent years of the deferred rebasing period as it aims to capture additional amounts recovered through base rate adjustments.

The settlement proposal on the three DVAs noted above impacts the as-filed net balance. While there is a reduction of \$515,337 to the debit balance (recoverable from ratepayers) of the two OEB Cost Assessment Variance accounts (EGD and Union rate zones), postponement of the disposition of the APCDA (credit balance of \$1,776,500) increases the net debit balance of all DVAs requested for disposition, by approximately

\$1.26 million (\$1,776,500 - \$515,337). If the settlement proposal is accepted, the overall net balance of \$2,962,300 to be recovered from ratepayers will therefore increase by \$1,261,163 to a total debit balance of \$4,223,463 (approximately \$4.2 million).

Although the settlement proposal results in an increase to the overall debit balance for disposition in this proceeding, OEB staff notes that the credit balance in the APCDA will remain and is merely being deferred for future disposition. The increase in the debit balance is not significant and OEB staff is not concerned about the overall increase to the net balance. All the other items agreed to in the settlement proposal are non-financial and require Enbridge Gas to file additional or more detailed information in future applications. These items are discussed below.

Earnings Sharing Deferral Account

As noted earlier, the achieved return on equity for 2019 was below the threshold required for sharing. Accordingly, no amount was recorded in the Earnings Sharing Deferral Account. As part of the settlement proposal, the parties accepted Enbridge Gas's 2019 earnings sharing calculation and the determination that there is no 2019 amount to be shared with ratepayers. For future years, Enbridge Gas agreed to provide additional information in support of the earnings sharing calculations.

Future evidence will include a full reconciliation between corporate income in the Enbridge Gas financial statements and utility income included for earnings sharing purposes. Enbridge Gas will also provide further information regarding storage expenditures and the allocation of expenditures to non-utility storage operations. The additional information will also include year-over-year comparison of utility O&M expenditures from the prior year and evidence related to internal allocations (corporate cost allocation) and recoveries in a format agreed to in the settlement proposal.

OEB staff supports the filing of additional information as it would provide greater clarity regarding the calculation of earnings and assist in the determination of the appropriate earnings sharing amount.

Storage and Transportation Deferral Account

With respect to this account, Enbridge Gas agreed to file documents summarizing its Request for Proposal process for market-based storage capacity acquired for 2019 utilization. The information provides greater transparency on storage transactions.

Given the confidential and commercially sensitive nature of the information, Enbridge Gas has filed the unredacted version of the documents confidentially with the OEB, pursuant to the OEB's *Practice Direction on Confidential Filings*. The redacted version of the documents was filed as Appendix B to the settlement proposal.

OEB staff understands the sensitive nature of the information and has no concerns with the confidential treatment of the above-noted documents.

2019 Gas Supply Plan Cost Consequences Deferral Account

In its application, Enbridge Gas did not request clearance of the 2019 Gas Supply Plan Cost Consequences Deferral Account (GSPCCDA), which has a balance of \$3.9 million to be collected from ratepayers. Enbridge Gas indicated that the balance will not be carried forward and it will not maintain the account in future years. In Enbridge Gas's 2019 rate proceeding⁴, the OEB directed Enbridge Gas to no longer include gas supply related evidence for the EGD rate zone in annual rate applications. Enbridge Gas was permitted to establish the 2019 GSPCCDA to capture the revenue deficiency impact of changes to the 2019 gas supply portfolio, for disposition at a later date.

In place of adjusting the 2019 GSPCCDA, Enbridge Gas adjusted the 2019 Storage and Transportation Deferral (S&TDA) and the 2019 Unaccounted for Gas Price Variance Account (UAFVA) against 2018 forecast costs. Consequently, changes were made to the 2019 S&TDA and UAFVA to capture changes resulting from the decision not to use the 2019 GSPCCDA. All parties agreed that Enbridge Gas's approach was acceptable and consistent with the OEB's determination not to approve changes resulting from annual gas supply plans for ratemaking purposes. In addition, parties agreed that the GSPCCDA should be discontinued. In response to additional information requests in the settlement conference, Enbridge Gas provided the financial impact to the 2019 S&TDA and UAFVA resulting from not using the 2019 GSPCCDA.⁵

OEB staff has reviewed the filed information and is satisfied with the resulting changes to the 2019 S&TDA and UAFVA. Furthermore, OEB staff supports the closure of the 2019 GSPCCDA.

The settlement proposal did not result in any other changes to the remaining DVAs and OEB staff has no concerns with the other DVA balances.

⁴ EB-2018-0305

⁵ Information Request #5, January 5, 2021.

2. Unsettled Issues

Tax Variance Deferral Account – Enbridge Gas

The purpose of the Tax Variance Deferral Account (TVDA) is to record 50% of the revenue requirement impact of any tax rate changes, versus the tax rates included in existing rates. In accordance with the OEB's July 25, 2019 letter, also accumulated in this account is 100% of the revenue requirement impact of any changes in Capital Cost Allowance (CCA) related to Bill C-97 that are not reflected in base rates.

The balance in this deferral account is a credit balance \$30.030 million plus interest to December 31, 2020 of \$0.698 million, for a total of \$30.728 million. In its application, Enbridge Gas did not request disposition of the balances. Of the total balance in the TVDA, there is a credit balance of \$4.897 million related to the 2018 impact of accelerated CCA (Bill C-97) and a credit balance of \$25.134 million related to the 2019 impact of accelerated CCA measures. All amounts in the deferral account are related to CCA changes resulting from Bill C-97.

While Enbridge Gas did not propose disposition of the balances, some intervenors are of the opinion that the balances in the account should be disposed of in this proceeding. Accordingly, this issue will proceed to hearing.

Performance Scorecard

The purpose of the performance scorecard is to measure and monitor performance during the deferred rebasing period. In the MAADs Decision, the OEB approved an amended scorecard and this is the first year that Enbridge Gas has filed a consolidated scorecard for the merged utility.

OEB staff notes that there was no agreement or reference to the performance scorecard in the settlement proposal. OEB staff understands that the OEB does not explicitly approve the results of the performance scorecard in rate proceedings, but the performance of the utility is reviewed against the metrics established by the OEB. Accordingly, OEB staff recommends that parties and OEB staff should be permitted to make submissions on the 2019 performance scorecard as part of the hearing on the unsettled issue.

3. Next Steps

In its cover letter to the settlement proposal, parties agreed that the unsettled issue (TVDA) should be addressed through a written hearing process. Enbridge Gas further submitted that it may wish to file supplementary written evidence about the OEB's historic treatment of the sharing of tax savings. Accordingly, Enbridge Gas suggested a discovery process (filing of interrogatories) related to the supplementary evidence followed by written arguments on the unsettled issue.

Considering the nature of the unsettled issue, OEB staff supports a written hearing process. OEB staff further notes that the supplementary evidence as described by Enbridge Gas is not likely to be lengthy and the OEB could schedule an expedited process for filing and discovery of the evidence.

OEB staff does not agree with the timelines suggested in Enbridge Gas's cover letter to the settlement proposal (15 days for filing of supplementary evidence and 14 days for responses to interrogatories) and is of the opinion that a shorter duration for filing of supplementary evidence and discovery should suffice (10 days for filing of supplementary evidence, 7 days for filing interrogatories and 7 days for responses to interrogatories). The filing of supplementary evidence is not generally contemplated in DVA proceedings and a condensed schedule related to the supplementary evidence as suggested by OEB staff, appears to be proportionate to the supplementary evidence that is expected to be filed. Further, a condensed schedule would assist the OEB in meeting the targeted decision date of May 6, 2021 included in its performance standard.⁶

– All of which is respectfully submitted –

⁶ The OEB is undertaking a pilot project to provide greater transparency of OEB proceedings. Enbridge Gas's DVA application is part of the pilot project. The OEB provides updates schedules for the proceeding on its website: <https://www.oeb.ca/industry/applications-oeb/pilot-project-status-applications>