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February 4, 2021

VIA EMAIL AND RESS

Ms. Christine Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: Enbridge Gas Inc. (Enbridge Gas)
Ontario Energy Board (OEB) File No. EB-2020-0134
2019 Utility Earnings and Disposition of Deferral & Variance Account Balances
Supplementary Evidence

In accordance with the directions provided in the OEB's Decision on Settlement Proposal dated January 25, 2021, the supplementary evidence of Enbridge Gas in this proceeding is enclosed with this letter.

If you have any questions, please contact the undersigned.

Sincerely,

Anton Kacicnik

Digitally signed by Anton Kacicnik
Date: 2021.02.04 15:59:49 -05'00'

Anton Kacicnik
Manager, Regulatory Applications

c.c.: David Stevens, Aird and Berlis LLP
Fred Cass, Aird and Berlis LLP
EB-2020-0134 Intervenors

SUPPLEMENTAL EVIDENCE – TAX VARIANCE DEFERRAL ACCOUNT (“TVDA”)

1. The purpose of this evidence is to summarize changes that led to the accounting direction regarding Bill C-97 for Capital Cost Allowance (“CCA”) and recording of related revenue requirement impacts in the TVDA, the Ontario Energy Board’s (“OEB” or the “Board”) historical treatment of impacts of tax changes, and Enbridge Gas Inc’s (“EGI” or “Enbridge Gas”) proposal for the disposition of the TVDA balance.

2. The evidence is organized as follows:
   1.0 Overview
   2.0 Bill C-97 and CCA Changes
   3.0 OEB Treatment of the Impacts of Tax Changes
   4.0 Proposed Disposition of the TVDA Balance

1.0 Overview

3. The OEB’s letter of July 25, 2019 provided accounting direction regarding Bill C-97. As noted below, the OEB expects utilities to record the impacts of Bill C-97 / CCA rule changes for the period from November 21, 2018 until the effective date of the utility’s next cost-based rate order. The OEB expects utilities to record full revenue requirement impacts of CCA changes not reflected in base rates.

4. Establishment of the Enbridge Gas TVDA was approved in the Board’s 2019 Rates (EB-2018-0305) Final Rate Order Decision[1]. The purpose of this account is to record 50% of the revenue requirement impact of any tax rate changes, versus the tax rates included in rates that affect Enbridge Gas. In accordance with the OEB’s July 25, 2019 letter, Accounting Direction Regarding Bill C-97 and Other Changes

[1] EB-2018-0305, Final Rate Order Decision dated September 30, 2019, Exhibit F1, Tab 3, Rate Order, Appendix I, page 10.

in Regulatory or Legislated Tax Rules for CCA, also accumulated in this account is 100% of the revenue requirement impact of any changes in CCA that are not reflected in base rates. This includes impacts related to Bill C-97 CCA rule changes, which became effective November 21, 2018, as well as any future CCA changes instituted by relevant regulatory or taxation bodies. Tax rate and CCA rule change impacts recorded in the account will, however, exclude tax rate and rule change impacts that are captured through other deferral account mechanisms (i.e. through the Incremental Capital Module Deferral Account and respective Capital Pass-through Project Deferral Accounts).

5. The approved TVDA Accounting Order, inclusive of amendments to its purpose/parameters is presented in Appendix A.

6. The balance in the TVDA as of December 31, 2019 was $30.03 million not including interest, comprised of the following:
    - 2018 impact of the enactment of Bill C-97 which contains accelerated CCA measures - $4.897 million
    - 2019 impact of the enactment of Bill C-97 which contains accelerated CCA measures - $25.134 million

7. Aside from the impacts of Bill C-97, there were no further tax rate changes that impacted the balance in the TVDA account through 2019.

8. To calculate the income tax (or earnings) impact of the accelerated CCA, Enbridge Gas determined total capital additions which qualified for accelerated CCA and removed additions related to any capital pass-through/incremental capital module projects. For the remaining qualifying additions, CCA was calculated utilizing the accelerated rates and compared against CCA calculated at the non-accelerated rates. The income tax (or earnings) impact of the variance between the two

methodologies was then grossed-up for taxes to determine the revenue requirement impact. This amount, representing 100% of the revenue requirement impact, was recorded in the Enbridge Gas – TVDA. Please see Exhibit C, Tab 1, Schedule 3 for the calculation of the accelerated CCA impact in the Enbridge Gas – TVDA. The accelerated CCA impact related to capital pass-through projects/incremental capital module project was fully reflected in the determination of the variances recorded in the respective project deferral accounts.

2.0 BILL C-97 AND CCA CHANGES

9. CCA is the portion of the capital cost of depreciable property that is deductible for tax purposes each year, with the CCA rate for each class of property prescribed in the Income Tax Regulations. With some exceptions, CCA deductions are claimed by class of property and are calculated on a declining-balance basis.

10. The CCA allowed in the first year that capital property is available for use is generally limited to half the amount that would otherwise be available in respect of that property (the "half-year rule"). This rule applies to the net addition to the class for the year (i.e., the amount by which acquisitions exceed dispositions). It is a simplifying provision that assumes capital property is, on average, acquired halfway through the year.

Bill C-97

11. On June 21, 2019, Bill C-97, Budget Implementation Act, 2019, No.1, received Royal Assent, which implemented the CCA measures announced in the November 21, 2018 federal Fall Economic Statement, and certain tax measures announced in the 2019 Federal Budget.

12. One measure included within Bill C-97 (which was included within the 2018 federal Fall Economic Statement), which has significantly accelerated CCA for capital investments made by Enbridge Gas., is the Accelerated Investment Incentive (“AII”).

13. The AII allows taxpayers to write off a larger share of the costs of essentially any newly acquired capital assets in the year the investment is made or the asset becomes available for use (excluding property subject to the full expensing measures described below).

14. In general terms, the AII is composed of two elements:
    - A 50% increase in the available CCA deduction (calculated on the net capital cost addition to a class) in respect of property acquired after November 20, 2018 that becomes available for use before 2024 (i.e., by the end of 2023),
    - The suspension of the existing CCA half-year rule in respect of property acquired after November 20, 2018 that becomes available for use before 2028 (i.e. by the end of 2027).

15. In the case of Class 12, which is already eligible for a 100% CCA rate, the incentive applies only to suspend the half-year rule for Class 12 property additions that would otherwise be subject to that rule.

16. The AII will not change the total amount that can be deducted over the life of a property – the larger deduction taken in the first year will be offset by smaller deductions in future years (i.e. the undepreciated capital cost in the class, on which the CCA is calculated, will be reduced is subsequent years). The AII is temporary. As indicated in the bullets above, both aspects of the AII are

completely eliminated (or expire) for property that becomes available for use after 2027.

17. Additional CCA measures within Bill C-97, but which have not been applicable to Enbridge Gas., include the temporary Full Expensing of Manufacturing and Processing (M&P) Machinery and Equipment, Clean Energy Equipment, and Zero-emission Vehicles.

Bill C-97 Impacts on Enbridge Gas

18. With respect to EGI's capital additions that are subject to CCA for income tax purposes, all amounts which have been incurred and which have become available for use after November 20th, 2018, have been eligible for the AII. Similarly, EGI anticipates that all amounts that will be incurred and which will become available for use by December 31st, 2027, will be eligible for the AII, based on the AII terms in place in the year the assets become available for use.

19. As a result of capital additions which have qualified for AII in 2018 and 2019, EGI has been able to claim more CCA than it otherwise would have been able to under normal/prior CCA measures, which has resulted in lower corporate/utility income taxes. This would have resulted in higher income, had it not been for recognition of the grossed-up earnings benefit (i.e. the revenue requirement impact) in deferral accounts, as per EGI's approved accounting orders.

20. The recognition of AII impacts within deferral accounts has been through entries which debit/reduce revenues, with a corresponding credit/payable amounts recognized in deferral accounts. Within the Tax Variance Deferral Account, as discussed in the Overview section, EGI has recognized 100% of the revenue requirement impact that the AII has had in respect of qualifying utility capital additions, with the exception of revenue requirement impacts of qualifying capital

additions which are captured in other deferral and variance accounts (i.e. capital pass-through and ICM deferral accounts).

21. In 2018, this resulted in a $4.9 million credit recorded in the TVDA, while in 2019 it resulted in a $25.1 million credit. EGI expects that further credits will be recognized in the TVDA over the remainder of the deferred rebasing term.

22. The magnitude of future annual credits will however depend on the actual level and mix (between classes of property) of qualifying capital additions. Enbridge Gas however generally expects the level of credit to decline from the amount recorded for 2019 (the first full year of the AII), as the AII benefit of future current year additions will be offset by the impact of lower available deductions in relation to prior year additions that were subject to the AII.

23. Taking these considerations into account Enbridge Gas estimates that the total cumulative balance in the TVDA account for the 2019 to 2023 period will be in the range of $80 to $115 million. It should be highlighted that this range is a ball-park estimate and that the actual balance recorded in the account will be a function of the actual level and asset mix of qualifying capital additions.

3.0 OEB TREATMENT OF THE IMPACTS OF TAX CHANGES

24. The OEB's longstanding practice is that the impacts of income tax changes during the term of an IR plan are shared between utility ratepayers and shareholders on a 50/50 basis. The OEB has followed this practice since two decisions in rate cases for Union Gas Limited ("ULG"), the RP-2001-0029 decision in September of 2002[2] and the EB-2007-0606/0615 decision in July of 2008.[3]

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[2] RP-2001-0029 Decision with Reasons, September 20, 2002.
[3] EB-2007-0606/EB-2007-0615 Decision, July 31, 2008.

25. In the EB-2007-0606 decision, with regard to UGL's 2008 rates, the OEB found that 50/50 sharing was a reasonable balance on the evidence before it. The OEB also noted that a 50% allocation was the same solution agreed to in the EB-2007-0615 settlement proposal with respect to 2008 rates for Enbridge Gas Distribution Inc. ("EGD").

26. The OEB referred to the EB-2007-0606/0615 decision in its 2008 supplemental report on 3rd generation incentive regulation for electricity distributors.[4] The OEB said it had not identified any reasons to adopt a different approach than that in place for the gas distributors. Therefore, the OEB determined that 50/50 sharing of the impact of tax changes, as applied to the tax level reflected in OEB-approved base rates, was appropriate.

27. The OEB's longstanding practice with respect to sharing of impacts of tax changes is referred to in the 2020 edition, for 2021 rate applications, of the filing requirements for electricity distribution incentive rate-setting applications.[5] These filing requirements say that OEB policy, as described in the 2008 supplemental report, prescribes a 50/50 sharing of impacts of legislated tax changes from distributors' tax rates embedded in the OEB-approved base rate. The filing requirements also refer to the OEB's letter of July 25, 2019 regarding the impacts of CCA rule changes, indicating that sharing of impacts on a 50/50 basis will not necessarily apply in respect of CCA rule changes.

28. Immediately prior to the amalgamation of UGL and EGD, UGL had a Tax Variance Deferral Account. The TVDA was agreed to in the settlement agreement for UGL's

[4] EB-2007-0673 Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors September 17, 2008, page 35.
[5] Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 14, 2020, page 21.

2014-2018 IRM term approved by the OEB in the EB-2013-0202 decision.[6] The parties agreed in the settlement agreement, that through the IRM term, the impact of tax changes resulting from changes to federal and/or provincial legislation and/or regulations would be shared 50:50. The OEB-approved settlement provided for UGL to record in the TVDA 50% of the variance in costs resulting from the difference between actual tax rates and approved tax rates included in rates approved by the OEB.[7]

29. Immediately prior to the amalgamation of UGL and EGD, EGD did not have a Tax Variance Deferral Account. The evidence in the EB-2012-0459 proceeding with respect to EGD's 2014-2018 IR plan was that there was no tax rate sharing mechanism in Enbridge Gas's proposed plan. Tax changes, all else being equal would be shared with ratepayers through the Earnings Sharing Mechanism in years where EGD's earnings exceeded the relevant threshold.[8] Under the ESM approved in the EB-2012-0459 decision, all over-earnings (with no dead band) were shared 50:50 between ratepayers and shareholders.[9]

30. In the OEB's EB-2017-0306/0307 proceeding regarding the amalgamation of UGL and EGD, UGL and EGD proposed that UGL's TVDA be closed and that any significant changes in taxes during the deferred rebasing period outside of management's control would be addressed through the Z factor. The OEB did not accept this proposal. In respect of the amalgamated company's 2019-2023 rate framework, the OEB retained UGL's TVDA and expanded the account to record the impact of any tax rate changes for EGD and UGL legacy areas.

[6] EB-2013-0202 Decision and Order, October 7, 2013
[7] EB-2013-0322 ULG Settlement Agreement, July 31, 2013, pages 23-4 and Appendix F.
[8] EB-2012-0459 Exhibit I.A10.EGDI.EP.7.
[9] EB-2012-0459 Decision with Reasons, July 17, 2014, page 15.

31. The OEB's decision in respect of 2019 rates for EGI discussed the OEB's July 25, 2019 letter about the impact of the changes in CCA rules that had become effective on November 21, 2018. The decision noted that the July 25, 2019 letter was issued after the close of the record for the 2019 rates proceeding. In the decision, the OEB found it was appropriate for EGI to follow the directions in the July 25, 2019 letter.[10]

4.0 PROPOSED DISPOSITION OF THE TVDA BALANCE

32. As highlighted in the previous sections of the evidence, on June 21, 2019, Bill C-97 (the *Budget Implementation Act, 2019, No. 1*) was given Royal Assent. Included in Bill C-97 were various changes to the federal income tax regime. One of the changes introduced by Bill C-97 was the AII which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018.

33. Anticipating that these Bill C-97 CCA rule changes may have a material impact on the taxes payable of electricity and natural gas utilities, the OEB issued a letter on July 25, 2019 providing accounting direction to utilities in respect of the impacts of these and future legislative or regulatory changes to the tax rates or rules for CCA.

34. The OEB's accounting direction regarding Bill C-97 stated the following:

> " The OEB expects Utilities to record the impacts of CCA rule changes in the appropriate account (Account 1592 - PILs and Tax Variances and similar accounts for natural gas utilities and OPG) for the period November 21, 2018 until the effective date of the Utility's next cost-based rate order. For the purposes of increased transparency, the OEB is establishing a separate sub-account of Account 1592 - PILs and Tax Variances – CCA Changes specifically for the purposes of tracking the impact of changes in CCA rules. Natural gas utilities are to create separate sub-accounts within their respective similar accounts to record the same impacts."

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

35. The OEB also noted in its July 25, 2019 Accounting Direction that the OEB's long-standing practice of sharing the impact of changes in taxes due to regulatory or legislated tax changes during an incentive rate-setting period between utility shareholders and ratepayers on a 50/50 basis should not be expected to necessarily apply in respect of CCA rule changes, and determinations as to the appropriate disposition methodology will be made at the time of each utility's cost-based application.

36. In this proceeding Enbridge Gas proposed, in accordance with the OEB's July 25, 2019 letter*,* that impacts arising from CCA rule changes, together with carrying charges, would be disposed of in the manner designated by the Board in a future rate hearing. This proposal reflected the OEB's direction that stated, "Unless the OEB orders otherwise, this would generally coincide with the Utility's next cost-based rate application."

37. The Settlement Proposal filed on January 5, 2021 (2019 Deferral and Variance Account Clearance Application) noted that the balance in the TVDA should be disposed of in this proceeding. Furthermore, the parties to the Settlement Proposal indicated that all issues related to the TVDA, including the calculation of the recorded balance, the disposition of the balance as between customers and Enbridge Gas, and the allocation of any disposition to customers are issues that remain unsettled and will proceed to a hearing.

38. In its Decision of Settlement Proposal issued on January 25, 2021, the OEB accepted the Settlement Proposal and determined timelines for a condensed written hearing schedule with respect to the unsettled TVDA item.

39. Enbridge Gas agrees with intervenors that the OEB should determine clearance of the TVDA balance at this time, notwithstanding the direction provided by the OEB in the July 25, 2019 letter.

40. In Enbridge Gas' view, all parties would benefit from an OEB Decision that would clarify the treatment or use of the TVDA balance at this time, rather than at the next cost-based application.

41. Enbridge Gas recognizes that the 2019 balance could be cleared now in accordance with the OEB's longstanding practice of 50/50 sharing, but also notes that a) the OEB indicated that sharing on a 50/50 basis should not be expected to necessarily apply in respect of CCA rule changes, and b) the clear indication from the OEB is that disposition of the balance will coincide with a utility's next cost-based application.

42. In light of the considerations above, Enbridge Gas' preferred proposal (the preferred option) is to use the 100% TVDA balance for purposes that will deliver significant public and ratepayer benefits (beyond the monetary/financial value of the account balance which would translate to a refund of about $3 per customer per year based on 50/50 sharing of the TVDA balance).

43. Enbridge Gas proposes to use the balance that will accumulate in the TVDA over the 2019-2023 period as a source of funding for two kinds of capital initiatives that will deliver public and ratepayer benefits as described in the sections below: Economic Development Projects[11] and Integrated Resource Planning ("IRP") Pilot Projects. By using the TVDA balance in this way, the dollar value of the amounts

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[11] Besides the Economic Development Projects described in the subsequent sections of the evidence the TVDA balance could also be used as a source of funding for other future projects that would provide public and ratepayer benefits and contribute to post-pandemic economic recovery.

recorded in the account will be augmented to deliver public and ratepayer benefits of greater value.

44. The two initiatives are also aligned with and supportive of the original premise of the accelerated CCA program which is to "encourage more businesses to invest in assets that will help drive business growth over the long term, setting the stage for more good middle class jobs."[12] as well as, the Ontario government's "Access to Natural Gas Act, 2018".

45. In practical terms, once the referenced projects are closer to their implementation, which is expected in the last quarter of 2022, Enbridge Gas would draw down the accumulated TVDA balance to help fund the projects. This approach is analogous to how contribution in aid of construction ("CIAC") is used as a source of funding for projects.

46. The following paragraphs explain the two potential funding options, their purpose, and their benefits in more detail.

Economic Development Projects

47. Economic Development projects are a subset of expansion projects and are proposed to serve growing business needs in an area where access to affordable energy has been limited.

[12] Speech by the Honourable Bill Morneau - Fall Economic Statement 2018: Investing in Middle Class Jobs (November 21, 2018) https://www.canada.ca/en/department-finance/news/2018/11/speech---fall-economic-statement-2018-investing-in-middle-class-jobs.html. Additional references are provided in Appendix B. - Canadian Government References to Accelerated Investment Incentives (AII)

48. In response to the Board's Natural Gas Expansion Program ("NGEP") (EB-2019-0255), Enbridge Gas employed an Expression of Interest process[13] that ran from May to June of 2020 to gather customer input on their future natural gas needs. As part of the process, customers submitted signed bid forms identifying their future gas needs as well as their estimates of job creation and direct local investment associated with their expansion plans. These Economic Development project proposals resulted from requests from businesses that require incremental access to natural gas to fuel their business expansion plans.

49. The bids were submitted by a mix of customers in the heavy industrial sectors, including steel and petrochemical, as well as in the manufacturing, large commercial, and agricultural sectors, the latter of which includes greenhouses.

50. Based upon the bids submitted, Enbridge Gas designed and proposed four Economic Development projects[14] and filed them with the Board in August of 2020 along with 204 community expansion projects:
    - Hamilton Airport Regional Expansion
    - Haldimand - Nanticoke Regional Expansion
    - Haldimand - Dunnville Regional Expansion
    - Grimsby - Lincoln Regional Expansion

51. The NGEP and these proposals support the Ontario government's intentions with respect to "Access to Natural Gas Act, 2018", which amended the Ontario Energy Board Act, to provide a mechanism to "financially support the expansion of natural

[13] Part 3.1 of each of Schedules 8S, 8T, 8U, 8V – filed Nov. 18, 2020, EB-2019-0255, EGI Batch 7 (redacted). This was consistent with the process used and approved in CK Rural (EB-2018-0188).
[14] EB-2019-0255, EGI Batch 7 (redacted) – Schedules 8S, 8T, 8U, 8V – filed Nov. 18, 2020

gas distribution for projects that would otherwise be considered uneconomic under existing policies."[15]

52. The four Economic Development proposals will require significant investment by the customers and businesses, who submitted the bid forms, municipalities and Enbridge Gas. Fostering and encouraging investment like these proposals is aligned with the aims and objectives of the AII:

> "The proposed Accelerated Investment Incentive is a broad-based measure available to all businesses and is designed to promote investments and growth across all sectors of the economy, providing benefits to all Canadians. Direct benefits would accrue to businesses that leverage this incentive and their employees. This measure may benefit capital-intensive sectors, such as the resource, transportation, telecommunications, utilities, manufacturing, primary metals and chemicals sectors."[16]

53. Each area is currently constrained in that some of the bidders have existing natural gas service, however, significant expansion projects would be required to open up and create the capacity needed for their incremental requests.

54. Business and customers participating in the process collectively identified that their expansions would lead to the creation of over 14,000 new jobs and $1.75 billion of direct investment in their facilities and communities. Customers' contractual commitment to gas distribution service of approximately 15 years underpins a substantial portion of the projects' costs. Nevertheless, considered as individual proposals, these four projects would require an additional $169 million in funding.

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[15] Letter from Minister of Energy to OEB - https://www.oeb.ca/sites/default/files/Letter-to-OEB-natural-gas-expansion-20191212.pdf
[16] https://www.budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf

Synergies of Combining Several Projects:

55. Three of the projects (Nanticoke, Dunnville, and Hamilton Airport) are in relatively close proximity and all require a significant investment in transmission reinforcement. If Enbridge Gas were to integrate all three projects, significant synergies and economies of scale would be realized. Should these three projects receive funding in concert on an integrated basis then the funding needed to make the combined project economic is reduced by $45 million.

56. Enbridge Gas proposes that a portion of the TDVA balance up to $115 million be directed towards funding the capital investment of the combined Hamilton-Nanticoke-Dunnville project to help accomplish the goals of the projects and AII (helping business grow with investment and jobs).

IRP Pilot Projects

57. Enbridge Gas believes that there is a compelling opportunity to use amounts recorded in the TVDA as funding towards the costs of IRP pilot projects that Enbridge Gas expects to implement after the OEB approves an IRP Framework in the EB-2020-0091 proceeding. Using TVDA balance for this purpose will benefit ratepayers, who would otherwise be paying for cost of the pilot projects, because they are not funded through Enbridge Gas's base rates.

58. As explained in its evidence and interrogatory responses in the EB-2020-0091 IRP proceeding, Enbridge Gas proposes to develop and implement two IRP pilot projects to continue to inform natural gas IRP in Ontario. Enbridge Gas plans to engage in a stakeholdering process before choosing the proposed pilot projects. Enbridge Gas expects that any pilot project would be presented to and approved by the OEB before being implemented.

59. Enbridge Gas expects to receive further guidance about the nature, timing and expectations for IRP pilot projects, when the OEB issues its EB-2020-0091 IRP Framework for Enbridge Gas.

60. At this time, Enbridge Gas has not determined the details of potential IRP pilot projects (including the location, timing or potential integrated resource planning alternatives ("IRPAs") that might be pursued). However, pilot projects that might provide the most value now include implementation of a low carbon technology solution program (e.g. geothermal systems, and/or natural gas heat pumps) and a demand response program.

61. Enbridge Gas expects that the IRP pilot projects would target implementation no later than the end of 2022 and would be targeted at an area anticipated to have a future capacity need relevant to a reinforcement project from the Asset Management Plan. The pilot projects would be developed to ensure that the area includes a broad diversity of customer types and complexities so as to effectively test planning, stakeholdering, deployment, tracking, and reporting the results of the IRP pilot projects.

62. Enbridge Gas proposes that it be able to access up to $20 million of the TVDA balance to use towards the IRP pilot projects. The TVDA balance would be available to fund the costs of the pilot projects that would otherwise be recovered from ratepayers. The current (and potentially future) TVDA funds that are allocated towards funding of IRP pilot projects would not be used for that purpose until the specific IRP pilot project (including forecast costs and benefits) is approved by the OEB.

63. Essentially, the available TVDA funds would function as an “enabling fund” for specific Board-approved IRP pilot projects, allowing Enbridge Gas to proceed without additional cost to ratepayers. In effect, there are some similarities between this proposal and the IESO’s grid innovation fund, which is used to fund learning initiatives such as the York Region Non-Wires Alternative (“NWA”) pilot, and to the FortisBC Clean Growth Innovation Fund, which is used to invest in clean innovation projects.

<u>Secondary Option</u>

64. As set out above, Enbridge Gas proposes that 100% of the TVDA balance be used as a source of funding for Economic Development projects and IRP pilot projects. In the alternative, though, if the OEB does not accept the proposal that 100% of the TVDA balance be used for these purposes, Enbridge Gas proposes that the TVDA balance be cleared in accordance with the OEB’s longstanding practice that the impacts of tax changes during the term of an IR plan are shared between utility ratepayers and shareholders on a 50/50 basis.

ENBRIDGE GAS INC.

Accounting Entries for
Tax Variance Deferral Account
Deferral Account No. 179-383

The purpose of the Tax Variance Deferral Account is to record 50% of the revenue requirement impact of any tax rate changes, versus the tax rates included in rates that affect Enbridge Gas Inc. As part of the EB-2017-0306/EB-2017-0307 Decision and Order, the Board amended the former Union Gas Limited Tax Variance Deferral Account to expand its applicability to record the impact of any tax rate changes for both the legacy Enbridge Gas Distribution and Union Gas Limited areas (i.e. to all of Enbridge Gas Inc.).

However, in accordance with the OEB's July 25, 2019 letter, *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, within a sub-account of the Tax Variance Deferral Account, Enbridge Gas will record 100% of the revenue requirement impact of any changes in CCA rules that are not reflected in base rates. This will include impacts related to Bill C-97 CCA rule changes, which became effective November 21, 2018, as well as any future CCA changes instituted by relevant regulatory or taxation bodies.

Tax rate and CCA rule change impacts recorded in the account will however exclude tax rate and rule change impacts that are captured through other deferral account mechanisms (i.e. through the Incremental Capital Module Deferral Account).

Simple interest is to be calculated on the opening monthly balance of this account using the Board-approved EB- 2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner designated by the Board in a future rate hearing.

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No.179-383 Tax Variance Deferral Account
Credit	-	Account No. 300 Operating Revenues

To record as a debit (credit) in Deferral Account No. 179-383, 50% of the revenue requirement impact resulting from the difference between the actual tax rates and the approved tax rates included in rates as approved by the Board.

Debit	-	Account No.179-383 Tax Variance Deferral Account – CCA Changes
Credit	-	Account No. 300 Operating Revenues

To record as a debit (credit) in a sub-account of Deferral Account No. 179-383, 100% of the revenue requirement impact resulting from the difference between actual CCA rules and the approved CCA rules included in rates as approved by the Board.

Debit	-	Account No.179-383 Tax Variance Deferral Account
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-383, interest on the balance in Variance Account No. 179-383. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the OEB in EB-2006-0117.

Canadian Government References to Accelerated Investment Incentives (AII)

1. Accelerated Capital Cost Allowance (CCA) measures (Accelerated Investment Incentives) were introduced as part of the 2018 Fall Economic Statement (Canada) and were intended to inspire businesses to make larger capital investments. In the 2018 Fall Economic Statement, the intent of the Accelerated Investment Incentive was "to allow businesses in Canada to deduct the cost of their investments more quickly, thus increasing the attractiveness of making capital investments". (page 153, Annex 3)

   Reference: Investing in Middle Class Jobs: Fall Economic Statement 2018 *https://www.budget.gc.ca/fes-eea/2018/docs/statement-enonce/toc-tdm-en.html*

2. In his speech on November 21, 2018 in the House of Commons related to the 2018 Fall Economic Statement, Finance Minister Bill Morneau said:

   > *"And in response to requests from the business community, we are also introducing a new Accelerated Investment Incentive, an accelerated capital cost allowance for businesses of all sizes and across all sectors of the economy.*
   >
   > *This incentive will <u>encourage more businesses to invest in assets that will help drive business growth over the long term</u>, setting the stage for more good middle class jobs."*

   Reference: Speech by the Honourable Bill Morneau - Fall Economic Statement 2018: *Investing in Middle Class Jobs* *https://www.canada.ca/en/department-finance/news/2018/11/speech---fall-economic-statement-2018-investing-in-middle-class-jobs.html*

3. The press release associated with the 2018 Fall Economic Statement stated:

   > *"…and by introducing the Accelerated Investment Incentive to support investment by businesses of all sizes and across all sectors of the economy. These changes will <u>make it more attractive to invest in assets that will help drive business growth</u> and secure jobs for middle class Canadians."*

   Reference: Press Release - 2018 Fall Economic Statement: Investing in Middle Class Jobs *https://www.budget.gc.ca/fes-eea/2018/docs/nrc/2018-11-21-en.html#:~:text=2018%20Fall%20Economic%20Statement%3A%20Investing%20in%20Middle%20Class,class%20and%20people%20working%20hard%20to%20join%20it.*

4. One of the backgrounders to the 2018 Fall Economic statement indicated that the new investment incentives will allow businesses to write off a larger share of their costs in the year an investment is made and <u>make it more attractive to invest in assets that will help to drive business growth</u> and secure jobs for middle class Canadians.

   Reference: Backgrounder: Building a Canadian Investment Advantage with Targeted Business Tax Enhancements *https://www.canada.ca/en/department-finance/news/2018/11/building-a-canadian-investment-advantage-with-new-targeted-business-tax-measures.html*