Enbridge Gas Inc.

2020 Deferral and Variance Account Disposition and Utility Earnings

EB-2021-0149

OEB STAFF INTERROGATORIES

August 13, 2021

Staff-1
Ref: Exhibit A, Tab 3, pp. 1-2

In its evidence, Enbridge Gas has proposed that the impact resulting from the disposition of 2020 deferral and variance account (DVA) balances be implemented with the first available Quarterly Rate Adjustment Mechanism application following the OEB's approval of this application, as early as October 1, 2021. The DVA balances along with the interest calculation is presented at Exhibit C, Tab 1, Schedule 1.

a) Please confirm that interest amounts in Exhibit C, Tab 1, Schedule 1 are calculated up to September 30, 2021.
b) Please provide a similar table as Exhibit C, Tab 1, Schedule 1 that calculates interest up to December 31, 2021.

Staff-2
Ref: Exhibit B, Tab 1, Schedules 1 and 2

At the above-mentioned reference, Enbridge Gas provides a high-level description of adjustments included in column 3. Enbridge Gas made an adjustment to its utility earnings calculation to account for "Reclassification of Union rate zone optimization revenue as a cost of gas reduction" ($15.9 million). The Note of adjustment (i) indicates a total amount of ($33.6) million subtracted from the total Gas sale and distribution.

a) Is the calculation of utility earnings consistent with the methodology used to calculate the earnings in prior years? If not, please explain any differences and provide rationale for any deviations from the approach used in prior years.

b) Please explain in further detail the ($33.6M) adjustment in line 1 column 3 briefly described in note (i) in Schedule 2 (Exhibit B).
c) Please explain the Purchase Price Discrepancy in Note (vi) and provide a breakdown of the underlying transactions resulting in the ($22.5M) adjustment.
d) Please detail the nature of interest income from affiliates ($14.5M) in Note viii and describe the source of funds relied upon to generate the interest.
e) Please explain how the $5.6M storage revenue presented in EGI Utility Income line 3, column 4 reconciles with Exhibit E, Tab 1, Schedule 2.

Staff-3

Ref: Exhibit B, Tab 3, Schedule 1, pp. 4-5, Table 2

At the above reference, Enbridge Gas states:

> "While savings were achieved, there were associated costs that enabled those savings. Integration-related costs (Line 15) comprise severance costs and other post-amalgamation costs to support harmonization and drive synergies. Severance costs increased by $36M over 2019 as a result of the voluntary departure program".

Integrations costs have increased substantially in 2020 as compared to 2019.

a) Please confirm that the 2020 integration costs have increased by 156% as compared to 2019. Please provide reasons for the substantial increase in integration costs.
b) Please provide a more detailed breakdown of the O&M integration costs and the drivers for the changes.
c) Please provide a summary of the savings achieved during 2020 and forecasted savings for 2021.

Staff-4

Ref: Accounting Policy Changes Deferral Account
Exhibit C, Tab 1, pp. 2-3

Enbridge Gas continues to track the annual revenue requirement impact of accounting policy changes made as of the amalgamation date, January 1, 2019, as well as any further accounting policy changes adopted since that time. The cumulative balance in the Accounting Policy Changes Deferral Account (APCDA) as of December 31, 2020 is a receivable of $164.926 million.

Please indicate if Enbridge Gas implemented any further accounting policy changes in 2020 that are in addition to or different from those made in 2019. If yes, please provide details.

Staff-5

Ref: Accounting Policy Changes Deferral Account
Exhibit C, Tab 1, pp. 9-12

As a result of the Enbridge Inc. (EI) and Spectra merger in 2017, EI recorded the acquisition of Union Gas through a purchase price allocation. As a result, Union Gas's pension assets were adjusted on EI's books to fair value and the unamortized Actuarial Losses of $250 million were reclassified from Accumulated Other Comprehensive Income (AOCI) to Goodwill. Approximately, $39 million of Actuarial Losses were amortized between February 27, 2017 and December 31, 2018, resulting in a balance of $211 million remaining on Union Gas's AOCI at amalgamation (January 1, 2019). Enbridge Gas continues to draw down the regulatory asset by amortizing the balance as part of pension expense resulting in a regulatory asset balance of $181 million recognized in the APCDA at December 31, 2020. Enbridge Gas proposes to continue the annual amortization and inclusion as part of the accrual-based pension costs recognized as part of O&M expense. This proposal will draw down the balance in the APCDA throughout the deferred rebasing period.

a) Please confirm if the unamortized Actuarial Losses of $250 million refer to the underfunding of pension assets related to the legacy Union Gas. Please provide a detailed response.
b) The evidence notes that $39 million of Actuarial Losses were amortized between February 27, 2017 to December 31, 2018. Please explain how the amount was amortized. Were these amounts recovered through rates?
c) The regulatory asset balance as of December 31, 2020 was $181 million. It is expected that the balance will be reduced during the deferred rebasing period. Please confirm that the balance will be reduced because pension expenses will be recovered through rates. Is it possible for Enbridge Gas to estimate the

balance in the APCDA related to pension amounts at the end of the deferred rebasing period? If yes, please provide the estimated amount.

d) Does the legacy EGD have any unamortized Actuarial Losses or underfunding of its pension as of December 31, 2020. If yes, please provide details including the account in which these balances are recorded.

<u>Staff-6</u>

Ref: Enbridge Gas Tax Variance Deferral Account
Exhibit C / Tab 1 / p. 13

The balance in the 2020 Enbridge Gas Tax Variance Deferral Account (TVDA) is a credit of $16.874 million, plus forecast interest to September 30, 2021 of $0.160 million, for a total of $17.034 million. Of the principal balance in the account, $0.285 million relates to a true-up of the 2019 accelerated CCA impact.

Please explain the above mentioned true-up to the 2019 accelerated CCA and identify the timing of the true-up.

<u>Staff-7</u>

Ref: Enbridge Gas Tax Variance Deferral Account
Exhibit C / Tab 1 / pp. 14-15

The balance in the 2020 TVDA is a credit of $16.874 million plus interest. The accelerated CCA impacts related to Bill C-97 were the only tax rate changes that impacted the 2020 balance. The evidence notes that the TVDA does not include the accelerated CCA impacts related to capital pass-through and incremental capital module projects, and amalgamation/integration capital projects. Enbridge Gas noted that it is expected to fund amalgamation/integration type projects during the deferred rebasing period through synergies. In such cases, Enbridge Gas does not believe that it is appropriate to credit ratepayers for 100% of the accelerated CCA benefit associated with amalgamation/integration projects through the TVDA.

a) Please provide the capital costs incurred for amalgamation/integration type projects in 2020. Please provide a table identifying the specific projects and the accelerated CCA amount associated with each project (that has not been recorded in the TVDA).

b) Did Enbridge Gas incur capital costs for amalgamation/integration projects in 2019? If yes, please provide capital costs incurred and the accelerated CCA benefits associated with such projects. Were the accelerated CCA benefits related to 2019 amalgamation/integration projects included in the 2019 TVDA and cleared to the benefit of ratepayers?

c) In its evidence, Enbridge Gas noted that it funded amalgamation/integration type projects in 2020 through synergies. Please identify the type of synergies referred to in the evidence and explain how these synergies were used to fund amalgamation/integration projects. Please also establish a link between the achieved synergies and the related amalgamation/integration projects.

d) Please confirm that Enbridge Gas will include any undepreciated capital costs associated with integration/amalgamation as part of its opening rate base figures at its next rebasing application, and the undepreciated capital costs would be recovered from ratepayers through the revenue requirement. If not, please provide a detailed response.

e) Please confirm that when Enbridge Gas rebases, absent inclusion of the accelerated CCA impacts in the TVDA, customers will also be responsible for funding a greater amount of taxes payable embedded in the revenue requirement (by virtue of Enbridge Gas having less CCA deductions available in the test year). If this is not the case, please clarify.

Staff-8

Ref: Transactional Services Deferral Account - EGD
Exhibit D / Tab 1 / p. 4 and Exhibit D / Tab 1 / Schedule 2

Transactional services refer to optimization of storage and transportation assets. Storage optimization transactions rely on the storage of or the loan of gas between two points in time at the same location. The evidence indicates that there was no storage optimization revenues for 2020.

a) Why was Enbridge Gas not able to optimize any storage transactions for the EGD rate zone in 2020?

b) Please provide the total third-party storage capacity contracted for the EGD rate zone in 2018, 2019 and 2020.

Staff-9

Ref: Transactional Services Deferral Account - EGD
Exhibit D / Tab 1 / pp 4-5

During 2020, Enbridge Gas generated a total of $17.6 million in net transactional services revenue applicable to the EGD rate zone. The revenues were generated as a result of available temporary surplus capacity.

The OEB approved the Unabsorbed Demand Cost Deferral Account for the legacy EGD rate zone in the Custom Incentive Regulation proceeding (2014-2018).[1] The account captured the costs of unutilized capacity on contracted long haul TCPL capacity.

a) Please confirm if Enbridge Gas has discontinued the EGD Unabsorbed Demand Cost Deferral Account for the deferred rebasing period. If the account has been discontinued, please identify the account where the unabsorbed demand costs are recorded.
b) Do the current rates of EGD include any costs for unabsorbed demand charges? If yes, please provide the costs included in current rates.

Staff-10

Ref: Unaccounted For Gas Variance Account - EGD
Exhibit D / Tab 1 / pp. 6-9 and FRPO Interrogatory #17 (EB-2019-0194)

Unaccounted for Gas (UAF) is the difference between natural gas delivered into the distribution system and natural gas consumed by customers in the EGD rate zone as well as EGD own use gas and line pack gas. In the 2020 rates application (EB-2019-0194), Enbridge Gas filed the 2019 UAF study. The report found that the primary sources for UAF include physical losses, retail meter variation and gate station meter variations.

In response to an interrogatory (FRPO #17) with respect to the UAF report filed as part of the 2020 rates proceeding (EB-2019-0194), Enbridge Gas confirmed that it is in the process of redesigning the Victoria Square Gate Station in order to reduce gate station meter variations. The project is scheduled to commence in 2020. Please confirm if the Victoria Square Gate Station project has been completed. If yes, please indicate if

[1] EB-2012-0459

Enbridge Gas has measured the benefits of redesigning the Victoria Square Gate Station with respect to UAF.

<u>Staff-11</u>

Ref: Average Use True-Up Variance Account - EGD
Exhibit D / Tab 1 / p. 11

The Average Use True-Up Variance Account shows a total credit balance of $7.88 million. The refund is attributed to actual Rate 1 (residential) uses being higher than 2020 forecast levels, partially offset by actual Rate 6 (apartment, small commercial and industrial) uses being slightly lower than 2020 forecast levels. Enbridge Gas has attributed the higher average use for Rate 1 customers to “Stay at-home orders” in response to the pandemic.

a) Has Enbridge Gas identified any probable causes for the decrease in Rate 6 average consumption? If yes, please provide details.
b) Does Enbridge Gas have further breakdown of Rate 6 on the basis of consumption for apartments, small commercial and industrial customers. If yes, please provide the data for 2019 and 2020.

<u>Staff-12</u>

Ref: 2019 Deferred Rebate Account - EGD
Exhibit D / Tab 1 / p. 13 and Exhibit E / Tab 1 / p. 19

The $2.5 million recorded in the 2020 Deferred Rebate Account reflects the outstanding amount resulting from the clearance of DVAs in the EGD rate zone which occurred during 2020 and the inability to locate all the intended customers.

a) Please explain what the inability to locate all the intended customers means. Will Enbridge Gas try to locate the intended customers or does the balance form part of the overall 2020 DVA balance that will be disposed of according to the proposed methodology in this proceeding?
b) In case of the Union Gas Deferral Clearance Variance Account, the evidence provides a list of all proceedings and the related over and under recovery that has resulted in the overall debit balance. Please provide a similar breakdown and explanation for the EGD Deferred Rebate Account.

<u>Staff-13</u>

Ref: Dawn Access Costs Deferral Account - EGD
Exhibit D / Tab 1 / pp. 16-17

The $2.067 million debit balance in the Dawn Access Costs Deferral Account reflects the 2020 revenue requirement associated with the capital spending incurred to accommodate the Dawn Transportation Service (DTS) and heat value changes, which were placed into service in 2017. Capital costs of $6.5 million were incurred to develop, test and integrate enhancements to the functionality of Enbridge Gas's EnTRAC and connected systems.

In response to staff interrogatory #17 in EB-2020-0134, Enbridge Gas confirmed that the legacy Union Gas has similar functionality in relation to Large Volume Distribution Contracting and Direct Purchase services. Does Enbridge Gas intend to continue to use two different systems (for legacy EGD and Union Gas) that provide similar functionality? If not, please explain when and how Enbridge Gas intends to integrate the two systems.

<u>Staff-14</u>

Ref: Unabsorbed Demand Costs (UDC) Variance Account – Union Gas
Exhibit E / Tab 1 / pp. 1-2

The 2020 Union Gas rates included planned unutilized pipeline capacity of 11.3 PJ in Union North West, 3.1 PJ in Union North East and 0 PJ in Union South. The actual unutilized capacity in 2020 was 28 PJ. The level of unutilized capacity experienced in 2020 was largely due to planned unutilized capacity (and resulting UDC) and warmer than normal weather.

a) Please provide the actual unutilized capacity in 2020 for Union North West, Union North East and Union South rate zones.

b) Enbridge Gas noted that the level of unutilized capacity experienced in 2020 resulted from warmer than normal weather. Were there any other reasons for the level of actual unutilized capacity in 2020?

Staff-15

Ref: Upstream Transportation Optimization Variance Account – Union Gas Exhibit E / Tab 1 / p. 5

Consistent with the method approved in EB-2011-0210 Decision and Rate Order, the legacy Union Gas credited $15.943 million in rates to ratepayers during 2020 with respect to the Upstream Transportation Optimization Variance Account, $2.517 million greater than the OEB-approved amount of $13.426 million.

Please provide the detailed calculation supporting the $15.943 million amount credited in 2020 rates.

Staff-16

Ref: Upstream Transportation Optimization Variance Account – Union Gas Exhibit E / Tab 1 / p. 6

Enbridge Gas has noted that the 2020 actual Upstream Optimization revenue in the Union rate zones is lower than 2013 OEB approved revenue primarily due to the elimination of the TransCanada FT-RAM program ($5.8 million) and changing market dynamics.

a) Does Enbridge Gas expect to continue to recognize lower transportation optimization revenues during the deferred rebasing period as compared to the revenues calculated according to the methodology approved in EB-2011-0210?

b) Please elaborate on the changing market dynamics and explain how these market dynamics have impacted optimization revenue opportunities.

Staff-17

Ref: Short-Term Storage & Other Balancing Services – Union Gas Exhibit E / Tab 1 / p. 9 – Figure 1

The graph on short-term firm peak storage values at Dawn (2012-2020) shows an increase in the price of storage for 2020.

a) What are the reasons for the increase in the price of storage?
b) Does Enbridge Gas expect storage prices to remain strong in 2021?

Staff-18

Ref: Normalized Average Consumption Deferral Account – Union Gas
Exhibit E / Tab 1 / p. 11

The 2020 target Normalized Average Consumption (NAC) used to calculate base rates for each rate class was approved by the OEB in Enbridge Gas's 2020 rates proceeding. The 2018 actual NAC (weather normalized using the 2020 weather normal) was used to determine the 2020 target NAC for each rate class to calculate base rates.

Please provide a rate class graphical representation of normalized average use per customer for the historic years (2014 to 2020) showing forecast and actual.

Staff-19

Ref: Normalized Average Consumption Deferral Account – Union Gas
Exhibit E / Tab 1 / pp. 12-15

The NAC deferral account balance is calculated by multiplying the variance between the weather normalized target NAC and the weather normalized actual NAC by the 2013 OEB-approved number of customers and the 2020 OEB-approved delivery and storage rates for each general service rate class. For the rate classes M1, M2, 01 and 10, two variances have been calculated for each rate class to determine delivery and storage revenues: one is the variance between target and actual NAC for base rates and the other similar variance for Y-factor rates.

a) Please explain why two variances are calculated for each rate class and why the target NAC defers for the two calculations (Base Rates and Y-Factor Rates)?
b) Please explain why the resulting variance is a credit for some rate classes in the Y-factor calculation but is a debit balance for all rate classes under the base rate calculation.

Staff-20

Ref: Unaccounted for Gas (UFG) Volume Deferral Account – Union Gas
Exhibit E / Tab 1 / pp. 29-30

The OEB approved UFG % is 0.219% and actual UFG for 2020 was 0.208%. Based on 2020 actual volumes, Enbridge Gas recovered $7.9 million in UFG costs for 2020. In comparison, Enbridge Gas's actual 2020 UFG costs were $7.5 million.

a) Please confirm that the UFG included in existing rates is 0.219%.
b) Please provide the actual UFG for the years 2014 to 2020 in tabular and graphical format.
c) Please provide detailed calculations supporting the 2020 actual UFG costs.

Staff-21

Ref: UFG Price Variance Account – Union Gas
Exhibit E / Tab 1 / pp. 31

Enbridge Gas noted that the actual cost of UFG purchases for the Union South rate zone in 2020 was $6.744 / 10^3m^3 higher than the OEB-approved reference prices included in rates, which results in a $0.005 million balance to be collected from ratepayers.

Please provide a detailed calculation supporting the price variance of $6.744 / 10^3m^3.

Staff-22

Ref: Lobo C Compressor/ Hamilton Milton Pipeline Project Costs Deferral Account – Union Gas
Exhibit E / Tab 1 / pp. 33-35

The Lobo C Compressor/ Hamilton Milton Pipeline Project Costs Deferral Account tracks the difference between the actual revenue requirement related to costs for the Project and the revenue requirement included in rates. The balance in the account is a debit from ratepayers of $121,000. Operating and maintenance expenses were $238,000 higher than the costs included in 2020 OEB-approved rates as a result of higher overtime costs (salaries/wages).

a) Please provide the actual overtime costs related to salaries/wages incurred for the project.
b) Please explain why the overtime salaries/wages costs that are referred to in the evidence not capitalized.
c) Why were the additional overtime costs not captured in the forecasted contingency costs?

<u>Staff-23</u>

Ref: Lobo D / Bright C / Dawn H Compressor Project Costs Deferral Account – Union Gas
Exhibit E / Tab 1 / pp. 38-40

The account tracks the difference between the actual revenue requirement related to costs for the project and the revenue requirement included in rates. Operating and maintenance expenses were $685,000 higher than the costs included in 2020 OEB-approved rates. The increase is a result of higher salaries/wages as budget did not account for overtime costs, higher general maintenance costs and higher utility costs than budgeted.

a) Please explain why the increases in salaries/wages not capitalized and not captured in contingency costs.

b) Please explain how the forecasted contingency costs were accounted for in the total project costs.

c) Please provide a breakdown and comparison of actual 2020 operating and maintenance costs versus OEB-approved.

<u>Staff-24</u>

Ref: Panhandle Reinforcement Project Costs Deferral Account – Union Gas
Exhibit E / Tab 1 / pp. 48-51

The account tracks the difference between the actual net revenue requirement related to costs for the project and the net revenue requirement included in rates. The balance in the deferral account is a credit to ratepayers of $2.104 million. The credit balance results from higher than forecast incremental revenue from the greenhouse sector.

a) Please provide the underlying calculation supporting the actual incremental revenue of $7.1 million in 2020.
b) Please provide the number of new customers added within the greenhouse sector in 2020.

Staff-25

Ref: Performance Scorecard
Exhibit G / Tab 1 / p. 1 and Exhibit G / Tab 1 / Schedule 1

The measure Time to Reschedule Missed Appointments (TRMA) tracks the percentage of customers contacted to reschedule the work within two hours of the end of the original appointment time. The annual standard for TRMA is 100% and Enbridge Gas achieved 97.0% in 2019 and 97.3% in 2020. The company is striving to meet this target and has transitioned to the Click Mobile system in order to make it easier for employees and third-party providers to record appointments. However, this measure has not positively impacted the metric.

a) Please provide a brief explanation of the Click Mobile system and how it intends to help Enbridge Gas improve the TRMA metric.
b) In Enbridge Gas's opinion why has the implementation of the Click Mobile system not achieved its intended benefit?

Staff-26

Ref: Performance Scorecard
Exhibit G / Tab 1 / p. 1 and Exhibit G / Tab 1 / Schedule 1

The measure Meter Reading Performance represents the number of meters with no read for four consecutive months or more divided by the total number of active meters to be read. The target for the metric is 0.5% and Enbridge Gas achieved a level of 0.7% in 2019 and 4.4% in 2020. The evidence indicates that Enbridge Gas was unable to meet the Meter Reading Performance Measurement metric due to two main factors: extreme weather and the COVID-19 pandemic.

a) Is there a difference in the achieved performance between the former EGD and Union Gas service areas?

b) What are the reasons for further deterioration of the metric in 2020 as compared to 2019?

c) What measures has Enbridge Gas implemented or intends to implement to ensure that it is able to meet the metric in the future? Please provide a detailed response.