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

BY EMAIL

October 6, 2021

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

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc.
2022 Rates Application – Phase 1
OEB File Number: EB-2021-0147

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Petar Prazic Petar Prazic Digitally signed by Petar Prazic Date: 2021.10.06 13:13:36 -04'00'
Applications Division

Encl.

cc: All parties in EB-2021-0147

ONTARIO ENERGY BOARD

OEB Staff Submission

ENBRIDGE GAS INC.

2022 Rates Application – Phase 1

EB-2021-0147

October 6, 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] 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, 2021, 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, 2022. This application is Enbridge Gas's fourth annual rate adjustment application under the IRM framework approved in the MAADs decision.

As in the 2021 rates proceeding, Enbridge Gas filed for approval of the IRM mechanistic adjustments and pass-through costs first; the request for 2022 ICM funding will be filed at a later date as a separate application.

In Procedural Order No. 1 issued on August 9, 2021, 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 rate adjustment for 2022 rates in EGD and Union Rate Zones.

2. The proposed pass-through costs included in 2022 rates in the EGD and Union Rate Zones (including the Enbridge Gas request for an accounting order for the COVID-19 Emergency Deferral Account).

3. The proposed capital pass-through cost adjustments for 2022 rates in the Union Rate Zones.

4. The proposed Parkway Delivery Obligation (PDO) cost adjustment for 2022 in the Union Rate Zones, including Enbridge Gas's current and future obligations in relation to the review of the PDO.

5. The timing for implementation of the proposed Phase 1 changes to 2022 rates.

[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, acquisitions, amalgamations and divestitures (MAADs Decision).

Enbridge Gas filed a settlement proposal for the OEB's consideration on September 29, 2021.

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 proposal and is of the opinion that it 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, 2022 will be interim, as Enbridge Gas is expected to file a separate application related to 2022 ICM funding later this year.

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 residential customer in the Union rate zones is slightly different from that provided in the original application, as shown in Table 1 below. This is due to the impact of updating gas costs arising from the October 2021 Quarterly Rate Adjustment Mechanism (QRAM) application, which was filed after Enbridge Gas's 2022 rate application on June 30, 2021.

Table 1: Annual Bill Impact (Residential)

Rate Zone	Annual Consumption	Bill Impact as Filed	Bill Impact as per Settlement
EGD	**2,400 m^3**	**$ 7.76**	**$ 7.76**
Union South	**2,200 m^3**	**$ 8.71**	**$ 9.00**
Union North West	**2,200 m^3**	**$ 10.55**	**$ 10.56**
Union North East	**2,200 m^3**	**$ 11.42**	**$ 11.41**

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

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 Enbridge Gas's 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.[2] Accordingly, in its 2022 rate application Enbridge Gas has used an inflation factor of 1.7%. The resulting price cap adjustment for calculating 2022 IRM rates is 1.4% (1.7% - 0.3% stretch factor).

The parties to the settlement proposal agreed that an inflation factor of 1.7%, as proposed in the application, is appropriate, and OEB staff also agrees.

OEB staff notes that the OEB has recently (August 2021) initiated a proceeding on its own motion to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022.[3] As indicated in the Notice of Hearing for that proceeding and Procedural Order No. 1, the review was prompted by the unusually high (7%) increase in Statistics Canada's "Average Weekly Earnings (Ontario, All Businesses)" (AWE) metric from 2019 to 2020, which Statistics Canada attributes largely to COVID-related impacts.

The GDP IPI FDD inflation factor, which as mentioned above was approved for use in Enbridge Gas's annual rate adjustments in the MAADs Decision, does not include a separate labour component, and therefore is not impacted by changes to the AWE. By contrast, the inflation factors for other Ontario utilities do rely on the AWE.

Since the focus of the generic proceeding is on the AWE, which is not a component of the approved inflation factor for Enbridge Gas, OEB staff's view is that it is not necessary or advisable to wait for the outcome of that proceeding before approving the settlement proposal in this case. OEB staff would add that written submissions in that proceeding have been filed and no party has suggested that Enbridge Gas use anything other than GDP IPI FDD.

The parties to the settlement also agreed that the 1.7% inflation factor will not be revised further for calculating 2022 rates in the event of an update by Statistics Canada. OEB staff has no concerns with the proposed approach and notes that any revisions and updates by Statistics Canada are unlikely to have a material impact on the inflation factor agreed to in this settlement proposal. This approach is consistent with the OEB-approved settlement proposal for 2021 rates.[4] OEB staff is of the opinion that an agreed-to final PCI number provides greater certainty and rate predictability to both ratepayers and the utility.

Change in Revenue

In its application filed on June 30, 2021, Enbridge Gas submitted change in revenue by rate zone. Table 2 below depicts the proposed changes to revenue by rate zone, updated by Enbridge Gas in its settlement proposal to take into account the October

[2] EB-2019-0194 Phase 1 Settlement Proposal, November 28, 2019, p. 9.
[3] EB-2021-0212
[4] EB-2020-0095

2021 QRAM for the Union rate zones.

Table 2: Proposed Changes in Revenue by Rate Zone

Particulars	EGD Rate Zone ($ 000's)	Union Rate Zones ($ 000's)	Union Zone Updated for Oct 2021 QRAM
Summary Change in Revenue			
2022 Proposed	1,293,067	1,346,489	1,352,570
2021 Approved	1,276,136	1,329,977	1,334,769
Net Change	16,931	16,512	17,801
Detail Change in Revenue			
2022 Price Cap Index (1.4%)	16,931	13,673	13,733
2022 DSM Budget Change	-	-	-
2022 Capital Pass-Through Change	-	1,434	1,434
2022 Parkway Delivery Obligation Change	-	1,405	2,635
Total IRM	**16,931**	**16,512**	**17,801**

Pass-through Costs

The pass-through costs include the following adjustments:

- Demand Side Management (DSM) costs for 2022
- Lost Revenue Adjustment Mechanism (LRAM) for the contract market
- Average Use adjustment for EGD rate zone and Normalized Average Consumption adjustment for 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 2021 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 1.7%, as required by the OEB's Report on Energy Retailer Service Charges.[5]

Parkway Delivery Obligation Cost Adjustment

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 Dawn (the liquid trading and storage hub). This obligation to deliver gas at Parkway is called the PDO. In the 2013 rates proceeding, direct purchase customers of the former Union Gas Limited

[5] EB-2015-0304

(Union Gas) requested that it allow customers to deliver 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, the OEB approved a framework for reducing the PDO.[6] 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. Customers in the Union rate zones bear the costs of transporting the gas from Dawn to Parkway or the incentive paid to direct purchase customers who still opt to deliver gas at Parkway (the Parkway Delivery Commitment Incentive, "PDCI"). The total PDO and PDCI costs included in this application are $27.7 million, of which $12.9 million are related to the annual demand costs of the PDO shift and $14.8 million are related to the annual PDCI costs.

All parties accepted that Enbridge Gas has appropriately calculated the PDO rate adjustment for 2022.

In the 2021 OEB-approved Rate Adjustment (Phase 1) Settlement Proposal, Enbridge Gas agreed to file evidence within its 2022 Rate Adjustment Application, identifying pipeline, non-pipeline and market-based alternative approaches to determine whether it is cost-effective to eliminate or reduce the PDO and/or PDCI for 2022 and future years.[7] In the current settlement proposal, Enbridge Gas agreed to continue to consider cost-effective pipeline and non-pipeline (including market-based) alternatives to eliminate or further reduce PDO/PDCI obligations in the future, and to include in its annual rates filings evidence detailing such considerations. OEB staff supports Enbridge Gas's continuing efforts to identify and implement least cost alternatives to reduce PDO/PDCI obligations, thereby reducing costs for ratepayers.

In response to the commitment made in the 2021 settlement proposal, Enbridge Gas assessed pipeline and market-based alternatives to reduce or eliminate the PDO. Infrastructure alternatives were not found to be cost-effective (revenue requirement related to capital projects were higher than PDO/PDCI costs).

To assess market-based alternatives, Enbridge Gas issued a Request for Proposal (RFP) to the market to determine market availability for firm exchange service between Dawn and Parkway. The response to the RFP provided a firm exchange from Dawn to Parkway for 37 TJ/day which would reduce the PDO obligation to a certain extent for an initial term of five years.

Parties agreed that Enbridge Gas should proceed to offer to PDO-obligated customers a further PDO reduction of up to 37 TJ/day (in aggregate) that would be enabled by Enbridge Gas contracting for the offered exchange service. If customers take up such PDO reduction, parties agreed that Enbridge Gas should be permitted by the OEB to recover the fees paid under such contract from all Union South customers, in the same

[6] EB-2013-0365
[7] EB-2020-0095

manner as Enbridge Gas currently recovers PDCI costs.

Parties further acknowledged that the exchange service that has been offered to Enbridge Gas is for 37 TJ/day, and that if the total demand from PDO-obligated customers to reduce their PDO is less than 37 TJ/day, Enbridge Gas will contract instead for exchange service capacity equal to the total demand from PDO-obligated customers to reduce their PDO.

Parties further agreed that:

a) Any cost saving realized as a result of the foregoing initiative in 2022 will be addressed through the Parkway Obligation Rate Variance Account in the application to clear 2022 deferral and variance account balances.

b) Future (2023 and beyond) rate applications will include net PDO/PDCI/exchange service (associated with PDO relief) costs in proposed rates.

OEB staff has no concerns with the agreement reached between the parties, as noted above, and is of the view that the firm exchange service will reduce the total PDO/PDCI costs recovered from ratepayers.

Implementation of Interim Rates

All parties agreed that it was appropriate for Enbridge Gas to implement the 2022 IRM rate adjustments and other items in the settlement proposal on an interim basis, to be effective January 1, 2022. The interim rate changes will be implemented in conjunction with the January 1, 2022, QRAM application. OEB staff has no concerns with the proposed approach, and notes that this approach has been used in previous settlement agreements.

In its cover letter to the settlement proposal, Enbridge Gas indicated that intervenors and OEB staff had not reviewed the draft interim rate orders that were attached to the settlement proposal, as the rate schedules could not be prepared until the OEB had issued its decision on the October 2021 Quarterly Rate Adjustment Mechanism application. Although in OEB staff's view the proposed rates were appropriately calculated and are in accordance with the ratemaking framework approved in the MAADs Decision and the settlement proposal, OEB staff notes that intervenors have not had an opportunity to review and provide comments on the draft interim rate orders.

~All of which is respectfully submitted~