



ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL OF ENBRIDGE GAS INC.

**ENBRIDGE GAS INC.
2020 Deferral and Variance Account Disposition and
Earnings Sharing Application
EB-2021-0149**

October 7, 2021

Background

Enbridge Gas Inc. filed an application with the Ontario Energy Board (OEB) on June 4, 2021, under section 36 of the *Ontario Energy Board Act, 1998*, for an order approving the disposition of amounts recorded in certain deferral and variance accounts (DVAs) and to determine amounts for earnings sharing purposes for the calendar year 2020.

On August 30, 2018, the 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 the former 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 maintained most of the existing deferral and variance accounts for each rate zone.

The net balance of all (EGD, Union Gas and Enbridge Gas) 2020 deferral and variance account (DVA) balances requested for disposition is a debit balance of \$4.047 million. The net balance excludes interest and represents the as-filed number. The net balance is comprised of a credit balance of \$16.874 million for the EGI accounts, a debit balance of \$251,200 for the EGD rate zone accounts and a debit balance of \$20.670 million for the Union rate zones account. Enbridge Gas (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 (in excess of 150 basis points). Accordingly, no earnings sharing amount was proposed to be shared with ratepayers for the year 2020.

Enbridge Gas proposed to dispose of the 2020 DVA balances as a one-time billing adjustment. The billing adjustment will appear as a separate line item on customers' bills.

A settlement conference was convened between the applicant (Enbridge Gas) and intervenors (collectively referred to as the "parties") on September 13 and 14, 2021 with

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.

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 (TVDA). The parties have proposed that this issue proceed to a written hearing.

Enbridge Gas filed a settlement proposal for the OEB's consideration on October 4, 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 settlement did not result in a change to any of the DVA balances. Parties agreed that it was appropriate for Enbridge Gas to clear the as-filed balances for all DVA's requested for disposition with the exception of the TVDA.

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

As can be observed from Table A, the settlement proposal has resulted in the overall net balance to increase from the as-filed number of \$4.047 million to \$20.921 million (excluding interest). This is because the credit balance of \$16.874 million related to the TVDA (unsettled issue) has been excluded from the overall balance as the appropriate amount for this account has to be determined by the OEB.

TABLE A
ENBRIDGE GAS
DEFERRAL & VARIANCE ACCOUNT (ACTUAL & FORECAST BALANCES)

No.	Account Description	Acronym	Actual			Forecast			
			Principal (\$000's)	Interest (\$000's)	Total (\$000's)	Principal (\$000's)	Interest (\$000's)	Total (\$000's)	
EGD Rate Zone Commodity Related Accounts									
1.	Storage and Transportation D/A	2020 S&TDA	(229.6)	(29.1)	(258.7)	(229.6)	(29.8)	(259.4)	
2.	Transactional Services D/A	2020 TSDA	(3,884.9)	(16.6)	(3,901.5)	(3,884.9)	(27.7)	(3,912.6)	
3.	Unaccounted for Gas V/A	2020 UAFVA	221.7	(0.2)	221.5	221.7	0.4	222.1	
4.	Total commodity related accounts		(3,892.8)	(45.9)	(3,938.7)	(3,892.8)	(57.0)	(3,949.8)	
EGD Rate Zone Non Commodity Related Accounts									
5.	Average Use True-Up V/A	2020 AUTUVA	(7,883.1)	(33.7)	(7,916.8)	(7,883.1)	(56.2)	(7,939.3)	
6.	Gas Distribution Access Rule Impact D/A	2020 GDARIDA	-	-	-	-	-	-	
7.	Deferred Rebate Account	2020 DRA	2,518.2	27.1	2,545.3	2,518.2	34.3	2,552.5	
8.	Transition Impact of Accounting Changes D/A	2020 TIACDA	4,435.8	-	4,435.8	4,435.8	-	4,435.8	
9.	Electric Program Earnings Sharing D/A	2020 EPESDA	-	-	-	-	-	-	
10.	OEB Cost Assessment V/A	2020 OEBCAVA	3,006.4	30.4	3,036.8	3,006.4	38.6	3,045.0	
11.	Dawn Access Costs D/A	2020 DACDA	2,066.7	8.8	2,075.5	2,066.7	14.7	2,081.4	
12.	Pension and OPEB Forecast Accrual vs. Actual Cash Payment D2020 P&OPEBFAVACPVA		-	-	-	-	-	-	
13.	Total EGD Rate Zone (for clearance)		251.2	(13.3)	237.9	251.2	(25.7)	225.5	
Union Rate Zones Gas Supply Accounts									
		OEB Account Number							
14.	Upstream Transportation Optimization	179-131	2020	12,123.6	51.6	12,175.2	12,123.6	86.4	12,210.0
15.	Spot Gas Variance Account	179-107	2020	-	-	-	-	-	-
16.	Unabsorbed Demand Costs Variance Account	179-108	2020	(1,749.6)	(40.9)	(1,790.5)	(1,749.6)	(45.9)	(1,795.5)
17.	Deferral Clearing Variance Account - Supply	179-132	2020	(1,031.6)	(3.8)	(1,035.4)	(1,031.6)	(6.7)	(1,038.3)
18.	Deferral Clearing Variance Account - Transport	179-132	2020	823.1	3.0	826.1	823.1	5.3	828.4
19.	Base Service North T-Service/TransCanada Capacity	179-153	2020	28.3	0.1	28.4	28.3	0.2	28.5
	Total Gas Supply Accounts			10,193.8	10.0	10,203.8	10,193.8	39.4	10,233.2
Union Rate Zones Storage Accounts									
21.	Short-Term Storage and Other Balancing Services	179-70	2020	1,271.8	5.4	1,277.2	1,271.8	9.0	1,280.8
Union Rate Zones Other Accounts									
22.	Normalized Average Consumption	179-133	2020	7,181.8	96.4	7,278.2	7,181.8	116.9	7,298.7
23.	Deferral Clearing Variance Account	179-132	2020	4,503.1	16.5	4,519.6	4,503.1	29.4	4,532.5
24.	OEB Cost Assessment Variance Account	179-151	2020	1,233.7	13.0	1,246.7	1,233.7	16.0	1,249.7
25.	Unbundled Services Unauthorized Storage Overrun	179-103	2020	-	-	-	-	-	-
26.	Gas Distribution Access Rule Costs	179-112	2020	-	-	-	-	-	-
27.	Conservation Demand Management	179-123	2020	-	-	-	-	-	-
28.	Parkway West Project Costs	179-136	2020	(470.0)	(4.0)	(474.0)	(470.0)	(5.3)	(475.3)
29.	Brantford-Kirkwall/Parkway D Project Costs	179-137	2020	(32.0)	(0.3)	(32.3)	(32.0)	(0.3)	(32.3)
30.	Lobo C Compressor/Hamilton-Milton Pipeline Project Costs	179-142	2020	121.0	0.3	121.3	121.0	0.7	121.7
31.	Lobo D/Bright C/Dawn H Compressor Project Costs	179-144	2020	(1,189.5)	(7.6)	(1,197.1)	(1,189.5)	(11.0)	(1,200.5)
32.	Burlington-Oakville Project Costs	179-149	2020	(48.0)	(0.3)	(48.3)	(48.0)	(0.5)	(48.5)
33.	Panhandle Reinforcement Project Costs	179-156	2020	(2,100.8)	(3.5)	(2,104.3)	(2,100.8)	(9.5)	(2,110.3)
34.	Sudbury Replacement Project	179-162	2020	-	-	-	-	-	-
35.	Parkway Obligation Rate Variance	179-138	2020	-	-	-	-	-	-
36.	Unauthorized Overrun Non-Compliance Account	179-143	2020	-	-	-	-	-	-
37.	Pension and OPEB Forecast Accrual vs. Actual Cash Payment D179-157	179-157	2020	-	(1,005.8)	(1,005.8)	-	(1,005.8)	(1,005.8)
38.	Unaccounted for Gas Volume Variance Account	179-135	2020	-	-	-	-	-	-
39.	Unaccounted for Gas Price Variance Account	179-141	2020	4.9	0.3	5.2	4.9	0.4	5.3
40.	Total Other Accounts			9,204.2	(895.0)	8,309.2	9,204.2	(869.1)	8,335.1
41.	Total Union Rate Zones (for clearance)			20,669.8	(879.6)	19,790.2	20,669.8	(820.6)	19,849.2
EGI Accounts									
42.	Earnings Sharing D/A	179-382	2020	-	-	-	-	-	-
43.	Tax Variance - Accelerated CCA - EGI	179-383	2020	(16,874.3)	(159.9)	(17,034.2)	-	-	-
44.	Expansion of Natural Gas Distribution Systems V/A	179-380	2020	-	-	-	-	-	-
45.	Total EGI Accounts (for clearance)			(16,874.3)	(159.9)	(17,034.2)	-	-	-
Total Deferral and Variance Accounts (for clearance)				4,046.7	(1,052.8)	2,993.9	20,921.0	(846.3)	20,074.7
48.	Tax Variance - Accelerated CCA - EGI	179-383	2020	-	-	-	(16,874.3)	(207.7)	(17,082.0)
Not Being Requested for Clearance									
48.	Accounting Policy Changes D/A - Pension - EGI	179-120	2020	181,465.2	-	181,465.2	181,465.2	-	181,465.2
49.	Accounting Policy Changes D/A - Other - EGI	179-120	2019	(1,749.5)	(34.4)	(1,783.9)	(1,749.5)	(39.4)	(1,788.9)
50.	Accounting Policy Changes D/A - Other - EGI	179-120	2020	(14,789.5)	(94.2)	(14,883.7)	(14,789.5)	(136.3)	(14,925.8)
51.	Incremental Capital Module Deferral Account-EGD		2020	(259.8)	(0.5)	(260.3)	(259.8)	(1.3)	(261.1)
52.	Incremental Capital Module Deferral Account - UGL	179-159	2019	(6,869.6)	(123.9)	(6,993.5)	(6,869.6)	(143.6)	(7,013.2)
53.	Incremental Capital Module Deferral Account - UGL	179-159	2020	(5,683.8)	(32.6)	(5,716.4)	(5,683.8)	(48.9)	(5,732.7)
54.	Covid-19 Emergency Incremental Cost D/A	2020 COVEICDA	2020	1,377.5	5.9	1,383.4	1,377.5	9.8	1,387.3
55.	Total of Accounts not being requested for clearance			153,490.5	(279.7)	153,210.8	153,490.5	(359.7)	

In its application, Enbridge Gas proposed to dispose of the approved 2020 DVA balances on October 1, 2021 along with implementation of the October Quarterly Rate Adjustment Mechanism (QRAM) commodity rate change. However, in the settlement proposal, parties agreed to dispose of the balances in conjunction with Enbridge Gas's April 1, 2022 QRAM adjustment. The settlement proposal states that the proposed timing will allow for all relevant accounts to be cleared at the same time, including the TVDA which is expected to proceed to a hearing for which a decision and rate order may not be issued in time to implement a January 1, 2022 implementation date. Accordingly, in contrast to the original evidence, the interest for all account balances is calculated up to March 31, 2022.

In its cover letter to the settlement proposal, Enbridge Gas noted that it may wish to file supplementary evidence related to the TVDA. Considering that there would presumably be discovery related to the supplementary evidence followed by final arguments, OEB staff considers an April 1, 2022 implementation date for disposition of the 2020 DVA balances to be a reasonable timeline.

1. Settled Issues

All parties agreed to dispose of the as-filed balances for all DVAs with the exception of the TVDA. Below is a discussion of DVAs where there is a change to the reporting requirements resulting from the settlement or a further explanation has been provided by Enbridge Gas for the specific DVA.

COVID-19 Emergency Incremental Cost Deferral Account (COVEICDA) – Enbridge Gas

In response to the impacts that the COVID-19 pandemic may have on electricity and natural gas distributors, the OEB in March of 2020, established a deferral account in which electricity and natural gas distributors could record the incremental impacts resulting from the ongoing COVID-19 pandemic. The 2020 balance in the Enbridge Gas COVID-19 Emergency Incremental Cost Deferral Account (COVEICDA) is a debit of \$1.378 million.

Enbridge Gas did not initially propose disposition of the account in this proceeding. However, in response to an interrogatory, Enbridge Gas indicated that in light of the

OEB's Report: *Regulatory Treatment of Impacts Arising from the COVID-19 Emergency*³, it was now proposing the disposition of the COVEICDA in this application.

In a subsequent letter dated September 16, 2021, Enbridge Gas confirmed that it would defer disposition of the COVEICDA to its rebasing application. OEB staff supports the proposed approach. The OEB's report states that the "Account should be subject to evidence that the costs are not only reasonable, but also that recovery of the costs is necessary for the utility to maintain its opportunity to earn a fair return over the long run".⁴ Considering that the return over the long run is to be assessed to determine reasonableness of the cost recovery, OEB staff is of the opinion that it is appropriate to wait until rebasing to review and clear the balances in this account.

Storage and Transportation Deferral Account - EGD

As part of the settlement, Enbridge Gas has agreed to file evidence in its rebasing application demonstrating that it has fully considered the opportunity to reduce storage costs through cost-effective market-based alternatives to the purchase of third-party storage.

OEB staff supports this initiative as it may reduce storage costs for customers.

Unaccounted for Gas Variance Account – EGD

The as-filed interest amount related to the Unaccounted for Gas Variance Account (UAFVA) is a credit of \$200. The interest in this case was calculated up to September 30, 2021. With the agreement to delay the disposition of the DVA balances to April 1, 2022, interest has now been calculated up to March 31, 2022. The resulting interest amount has reversed, from a credit of \$200 to a debit of \$400. Although the amounts are nominal, Enbridge Gas has provided an explanation for the reversal in the settlement proposal.

In accordance with the accounting order for the UAFVA, the December credit balance (which was the January opening balance) attracted interest in January 2021. In January 2021, the UAFVA estimate booked in December was revised and the actual number was recorded (based on actual December 2020 billed volumes). The result was a small

³ EB-2020-0133, June 17, 2021.

⁴ Report of the Ontario Energy Board, *Regulatory Treatment of Impacts Arising from the COVID-19 Emergency*, EB-2020-0133, June 17, 2021, p. 2.

debit in the UAFVA for 2020 (\$0.2 million). This small debit has attracted interest recognized for February 2021 through the anticipated clearance in April 2022. Due to the relatively small magnitude of the debit balance, it has taken about 10 months of interest calculated on the debit balance (\$0.2 million), to outweigh the one month of interest calculated on the December credit balance (approximately \$1.2 million) that was reflected in the UAFVA as per the original filing. This is the reason why the interest balance changed from a credit to a debit position.

OEB staff is satisfied with Enbridge Gas's explanation and does not have any concerns with the calculation of the interest amounts.

Unabsorbed Demand Costs Variance Account – Union Gas

As part of the settlement, Enbridge Gas agreed to include in future DVA and Earnings Sharing applications (during the deferred rebasing term), evidence reporting on Unabsorbed Demand Costs (UDC) and transportation capacity released by rate zone, and the costs and revenues transferred between rate zones (Union Gas).

OEB staff supports the additional disclosure regarding UDC for the Union rate zones as it will provide breakdown of UDC by rate zone and provide information on how the costs and revenues are allocated to the different rate zones.

Short-Term Storage and Other Balancing Services Account – Union Gas

As part of the settlement, Enbridge Gas agreed to file evidence about the determination of storage space and deliverability by rate class in future DVA and Earnings Sharing applications (during the deferred rebasing term). OEB staff supports the breakdown as it will provide information on how storage and deliverability are used by the different rate classes.

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.

In the 2019 DVA and Earnings Sharing proceeding, the OEB determined that 100% of the accelerated CCA benefits accumulated in the TVDA is to be credited to ratepayers.⁵ The balance in the 2020 TVDA is a credit balance of \$16.874 million plus interest of approximately \$208,000 to March 31, 2022, for a total of \$17.082 million. Of the principal balance in the account, \$285,000 relates to a true-up of the 2019 accelerated CCA impact that was not captured in the 2019 disposition of this account.

In response to an interrogatory, Enbridge Gas explained that the preliminary values (based on preliminary capital additions) are subject to change as a result of a year-end true-up. With respect to the \$285,000 true-up relating to the 2019 TVDA, the final balances used in the company's tax return were determined subsequent to the company filing its 2019 DVA and Earnings Sharing application. Considering the small amount of the true-up, Enbridge Gas included the true-up adjustment in this application.

Enbridge Gas did not include the accelerated CCA impacts for amalgamation/ integration related projects. The settlement proposal indicates that the intervenors do not agree that accelerated CCA impacts related to amalgamation/ integration capital projects should be excluded from the TVDA. 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. Accordingly, Enbridge Gas has filed a consolidated scorecard for the merged utility in this application.

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. Similar to the 2019 DVA and Earnings Sharing proceeding, OEB staff recommends that

⁵ EB-2020-0134 Decision and Order, May 6, 2021.

parties and OEB staff should be permitted to make submissions on the 2020 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 related to the TVDA. 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. Enbridge Gas has suggested a seven-day interval for filing of supplementary evidence and discovery related to the TVDA. OEB staff supports the condensed schedule which is in line with the process that was determined to deal with the unsettled issue (TVDA) in the 2019 DVA and Earnings Sharing proceeding.

– All of which is respectfully submitted –