ENBRIDGE

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October 28, 2021

VIA RESS AND EMAIL

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

Dear Christine Long:

Re: Enbridge Gas Inc. (Enbridge Gas)
Ontario Energy Board (OEB) File No.: EB-2021-0149
2020 Utility Earnings/Disposition of Deferral Variance Account Balances
Supplementary Evidence

In accordance with the OEB's Decision on Settlement and Procedural Order #2 dated October 21, 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,

Richard Wathy
Digitally signed by Richard Wathy
Date: 2021.10.28 14:37:01 -04'00'

Richard Wathy
Technical Manager, Regulatory Applications

c.c.: David Stevens, Aird and Berlis LLP (via email)
Intervenors (EB-2021-0149) (via email)

ENBRIDGE GAS - TAX VARIANCE DEFERRAL ACCOUNT

1. As was noted in pre-filed evidence, at Exhibit C, Tab 1, pages 13 to 15, 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. 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*, also accumulated in the account is 100% of the revenue requirement impact of any changes in Capital Cost Allowance (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).

2. While the description of the Tax Variance Deferral Account articulates that (either through the Tax Variance Deferral Account or other deferral account mechanisms) the purpose is to record the revenue requirement impact of any CCA changes as compared to the CCA rates/rules included in rates, implicit within that description is that CCA has to be applied, or is relative to, capital that is recovered through rates. Said differently, the Tax Variance Deferral Account is intended to capture the variance in revenue requirement, caused by CCA changes, in relation to capital that is being recovered through rates. Enbridge Gas' position is that no aspect of the revenue requirement related to amalgamation/integration project capital additions is currently recovered in rates, and as a result, there is no variance to be captured in the Tax Variance Deferral Account (or other deferral accounts, including the ICM and capital pass-through deferral accounts). This is consistent with the OEB Accounting

Direction letter dated July 25, 2019[1] which specifically references recording tax rate and rule change impacts (inclusive of accelerated CCA) relevant to the tax amount that underpins rates.[2]

3. As was noted in Exhibit C, Tab 1, pages 13 to 15, the 2020 Tax Variance Deferral Account balance of $16.9 million (credit to ratepayers), which is solely comprised of Bill C-97 accelerated CCA impacts, reflects the exclusion of accelerated CCA impacts attributable to capital additions related to amalgamation/integration capital projects. The calculation supporting the balance was provided at Exhibit C, Tab 1, Schedule 3.

4. Under Enbridge Gas' approved rate-setting mechanism for the deferred rebasing term, capital projects related to the amalgamation/integration are not included in the determination of annual ICM eligible amounts. Specifically, amalgamation/integration related capital projects are excluded from the annual total in-service capital forecasts, which are compared to the annual ICM threshold values to determine maximum ICM eligible capital amounts, as part of the Company's annual rate proceedings over the deferred rebasing term. As such, amalgamation/integration related capital projects are not assumed to be recovered through base rates, cannot receive funding through ICM, nor can they cause other capital to be recovered through ICM. Enbridge Gas is expected to fund such projects during the deferred rebasing period through synergies/savings.

5. The exclusion of amalgamation/integration related capital costs from ICM determination is consistent with the intent of a deferred rebasing period following a MAADs transaction, as articulated in OEB policy, in that the deferred rebasing period provides an opportunity for distributors to offset transition and integration costs of a

[1] OEB letter, dated July 25, 2019, Re: Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance.

[2] It is also consistent with the OEB's findings in the Enbridge Gas 2019 Deferrals Account Decision (EB-2020-0134) where the OEB required Enbridge Gas to reflect accelerated CCA impacts in the TVDA because "current rates" are not set to reflect those impacts.

MAADs transaction with achieved savings and efficiencies over the deferred rebasing term. Effectively MAADs transaction costs (or amalgamation/integration costs) and associated savings are excluded from ratemaking over the deferred rebasing term.

6. However, during the deferred rebasing term, the Company does note that the accelerated CCA impact related to amalgamation/integration projects is reflected in the determination of actual utility results subject to earnings sharing, consistent with the inclusion of the associated capital costs and benefits (synergies/savings) related to those projects. As such, when the Company is in an earnings sharing position, ratepayers will share in the benefit of accelerated CCA related to amalgamation/integration projects.

7. The 2020 accelerated CCA revenue requirement impact associated with 2020 amalgamation/integration related capital additions, which has been excluded from the 2020 TVDA balance, was $3.7 million.[3] The calculation of the impact was detailed in the response to OEB Staff interrogatory #7 a), at Exhibit I.STAFF.7, and is reproduced below.

2020 Amalgamation/Integration Project Additions

	CCA Pool Capital Addition	CCA Class / Rate	Accelerated CCA	Regular CCA	CCA Variance	Earnings Impact (26.5% tax rate)	Grossed-up Earnings Impact
Scada and Gas Control Consolidation	711,933	Class 12 100%	711,933	355,967	355,967	94,331	128,342
Scada and Gas Control Consolidation	1,114,524	Class 50 55%	919,482	306,494	612,988	162,442	221,009
CIS Phase 1 (Hana Upgrade)	17,020,480	Class 50 55%	14,041,896	4,680,632	9,361,264	2,480,735	3,375,150
Customer Experience	44,854	Class 12 100%	44,854	22,427	22,427	5,943	8,086
Bill Print and Presentment	20,361	Class 12 100%	20,361	10,180	10,180	2,698	3,670
	18,912,152		15,738,526	5,375,700	10,362,826	2,746,149	3,736,257

[3] As was noted and detailed in the response to OEB Staff interrogatory #7 b), at Exhibit I.STAFF.7, EGI's treatment of the 2019 accelerated CCA revenue requirement impact associated with 2019 amalgamation/integration related capital additions, was not consistent with the current proposed treatment, as the $3.3 million impact was included in the 2019 TVDA balance for disposition to ratepayers. The change in treatment results from the evolution of the Company's believed appropriate treatment of accelerated CCA impacts, as informed by OEB's findings in the 2019 ESM TVDA decision. However, because the 2019 amalgamation/integration related capital additions were to the Class 12, 100% CCA rate pool, the credit provided to ratepayers through the 2019 TVDA was reversed as part of the determination of the 2020 TVDA balance.

8. Given the amalgamation/integration capital is not recovered in rates, the Company does not believe it is appropriate to credit ratepayers for 100% of the accelerated CCA benefit associated with these projects through the Tax Variance Deferral Account. Doing so effectively transfers one discrete component of the revenue requirement associated with these projects, or a benefit of these projects, to ratepayers, without recognition of the other associated costs/revenue requirement components. In addition, while accelerated CCA on these projects provides a favourable tax timing difference during the deferred rebasing term, as compared to regular CCA, the tracking of this benefit in the TVDA would not be consistent with other timing variances associated with these projects, that would not be captured in a deferral account. For instance, for many of the amalgamation/integration capital projects, the capital will be incurred before savings are realized (i.e. there will be a lag, or it will take time for savings to be generated).