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Enbridge Gas Inc. (EGI)

2020 Utility Earnings
and
Disposition of Deferral Variance Account Balances

EB-2021-0149

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

November 29, 2021

Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
613-562-4002
piac@piac.ca

Submissions TDVA

Two issues remain upon the Board acceptance of the agreement among parties in this proceeding – the treatment of the Tax Variance Deferral Account (TDVA) which among other things records the revenue requirement impact of accelerated CCA tax change and the 2020 scorecard. Our submissions are restricted to the treatment of the TDVA.

VECC has reviewed, and discussed with those parties, the preliminary submissions of School Energy Coalition (SEC), the London Property Management Association (LPMA) and Energy Probe.

As per the Board's decision in EB-2020-0134, EGI is required to record 100% of the revenue requirement impacts of accelerated cost allowance (CCA) for the tax period beginning in 2018. 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. We have no dispute with this accounting of the TDVA.

Enbridge Gas did not include the accelerated CCA impacts for amalgamation/ integration related projects The amalgamation/transition projects (Transition Projects) as well as the impact of the accelerated versus regular CCA are shown in the table below[1].

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

The treatment of the $3,736,257 associated with the Transition Projects is in dispute. EGI's position is that "[G]*iven that 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 TVDA*." [2]

Strictly speaking during the rate deferral period no capital projects other than approved ICM investments are recovered explicitly in rates. The entire premise of the incentive rate mechanism is to de-link actual costs from rates. In their argument EGI concludes that

[1] 1.Staff.7a

[2] Enbridge Gas EB-2021-0149, Argument-in-Chief, November 18, 2021, page 7

amalgamation/integration projects are notionally excluded from rates since the Board requires the Utility to exclude those capital projects in the calculation of the materiality threshold for an ICM[3].

To the extent that Transition Projects are either fully depreciated prior to rebasing or that any undepreciated amounts remain outside the calculation of future cost of service rates then we would agree with Enbridge. Further it is implicit that the Board believed amalgamation and transition costs would be fully exhausted prior to rebasing as highlighted by EGI who note[4]:

> Effectively MAADs transaction costs (or amalgamation/integration costs) and associated savings are excluded from ratemaking over the deferred rebasing term. This is confirmed for Enbridge Gas in its MAADs Decision: "*The OEB approves a deferred rebasing period of five years. The next rebasing application will therefore be expected for 2024 rates. The OEB finds that five years provides a reasonable opportunity for the applicants to recover their transition costs*."

We read this to mean that the Board expects that none of the $18.9 million in Transition Project capital costs to be reflected in a cost of service derived rate. Under this scenario, and as noted in the arguments of both LPMA and SEC, EGI would be entitled to 100% of the impact of accelerated CCA.

However, this is not the proposal of Enbridge. Enbridge has confirmed that it will request the addition of the net property, plant, and equipment value of amalgamation/ integration capital projects to rate base at rebasing in 2024. That is, it is EGI intent to seek to recover the undepreciated costs of Transition Projects in rebased rates[5].

EGI proposal raises the question as to what distinguishes Transition Projects from all other incremental capital invested during the rate deferral period. The argument of the Utility is that the exclusion of this capital from the calculation of the ICM threshold is demonstrative of its exclusion (notionally) in rates. However ,the Board's ICM policies set many requirements such as an evidentiary consideration of the Utility system plan. It also requires a review of past earnings and undertakes a number of other considerations based on specific circumstances of the ICM proposal. A utility is not prohibited from making investments excluded by the Board for the purpose of calculating the ICM threshold or from seeking to recover later in rates those same investments. If it were otherwise then a utility might be prohibited at the time of rebasing from including in rate base any misalignment between a past reviewed system plan (distribution system plan) and their actual spending. This is clearly not the case.

[3] Ibid, page 4, par. 12
[4] Ibid, page 8
[5] I.Staff.28

Yet suppose the Utility is correct. The Board has excluded Transition Projects from the ICM threshold calculation as it does not consider these investments to be (again notionally) included in rates. This simply reinforces the overarching policy related to costs of utility merges and acquisitions. If the Board has excluded the costs from the calculation because they are not to be collected from ratepayers during the rate deferral period then why would these same investments be recoverable later in future rate calculations?

EGI's argument is that Transition Projects are not in rates during the deferral period but will be later when rates are recalculated based on actual costs. That is, they are - conveniently -not part of rates when accelerated CCA provides a greater tax shield, but will be later when that timing benefit is largely exhausted. If ratepayers are in the future required to absorb the any capital costs of Transition Projects, then, in our submission, they are entitled to the continuity of the accounting of those assets from their inception.

We not believe that a proration of the accelerated CCA is just or reasonable. The Transition Projects have either been since inception part of rate base or they have not. It cannot be the rate making equivalent of being half pregnant - not existing notionally in rates during the deferral period but magically reappearing for rate relief upon rebasing in 2024. Respectfully, the choice is binary – these investments either did or did not form part of regulated rate base when they went into service. If they did not in the past then they cannot in the future.

LPMA and SEC have made similar calculations in their submission with respect to the impact of accelerated CCA showing an impact of $327,700 in tax benefits that would be due ratepayers should the depreciated value of the Transition Projects eventually find their way into the calculus of regulated rates. LPMA makes submissions suggesting that accelerated CCA be prorated for the period during the rate deferral and the subsequent period (resulting in a 32.5 / 67.5 split). These submissions require the Board dispense with VECC's argument that it is possible to conclude that 100% of the accelerated CCA should be imputed into the calculation of future rates if any of the undepreciated amounts find their way into that same calculation.

The submissions of Energy Probe go to the problematic issue of discussing the details of the Transition projects in this proceeding. Energy Probe explores the possibility that portions of certain investments may be allowable in rate base while others may not. This is a difficult argument (as noted by Energy Probe), or determination to make, in the absence of comprehensive evidence and an actual proposal from the Utility.

The fact is that the Board is not in a position to consider the question of what part, if any, of the Transition Projects should be recovered in future rates. This proceeding was not constituted to address that question. In any event EGI has only indicated its intentions and not actually applied for that specific relief. It follows that if the Board is not in the position to decide what, if any part, of these Transition Projects are justifiably part of future rates then it cannot be in the position to decide how CCA (accelerated or otherwise) should impact that future calculation. Fundamentally, the Board is not in the position to make a finding on the continuity of the assets in question in this proceeding.

As such it is our submission that the Board should make no determination at this time and that EGI should be required to maintain a deferral account for the entire $3.7 million until such time that the matter can be dealt with in a comprehensive manner.

Reasonably Incurred Costs

These are our respectful submission. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 29, 2021