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

BY EMAIL

October 13, 2022

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

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc.
2023 Rates Application
OEB File Number: EB-2022-0133

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: 2022.10.13 15:28:51 -04'00'
Applications Division

Encl.

cc: All parties in EB-2022-0133

ONTARIO ENERGY BOARD

OEB Staff Submission

ENBRIDGE GAS INC.

2023 Rates Application

EB-2022-0133

October 13, 2022

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 2019 to 2023 deferred rebasing period. 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, 2022, 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 fifth and final annual rate adjustment application under the IRM framework approved in the MAADs decision.

Enbridge Gas does not plan to file a request for Incremental Capital Module (ICM) funding for 2023. Therefore, there will be no Phase 2 for Enbridge Gas's 2023 Rates proceeding.

In Procedural Order No. 1 issued on August 18, 2022, 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 the proceeding, namely:

1. The proposed price cap rate adjustment for 2023 rates in EGD and Union Rate Zones.

2. The proposed pass-through costs included in 2023 rates in the EGD and Union Rate Zones.

3. The proposed capital pass-through cost adjustments for 2023 rates in the Union Rate Zones.

4. The proposed Parkway Delivery Obligation (PDO) cost adjustment for 2023 in the Union Rate Zones.

5. Rider M (Hydrogen Gas Rider) and Retail Service Charges.

6. The timing for implementation of the proposed changes to 2023 rates.

7. Integrated Resource Planning.

Enbridge Gas filed a settlement proposal for the OEB's consideration on October 7,

[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).

2022.

OEB Staff Position

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 has reviewed the draft 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 higher than that provided in the original application, as shown in Table 1 below. This is due to the settlement with respect to the PDO cost adjustment and the inclusion of the impact of updated gas costs arising from the October 2022 Quarterly Rate Adjustment Mechanism (QRAM) application, which was filed after Enbridge Gas's 2023 rate application.

Table 1: Annual Bill Impact (Residential)

Rate Zone	Annual Consumption	Bill Impact as Filed	Bill Impact as per Settlement
EGD	2,400 m^3	$ 22.61	$ 22.61
Union South	2,200 m^3	$ 19.84	$ 20.97
Union North West	2,200 m^3	$ 31.51	$ 32.22
Union North East	2,200 m^3	$ 36.22	$ 36.99

In the submission below, OEB staff provides additional comments and context for the settled items.

<u>Price Cap Adjustment</u>

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 rates 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 2023 rates application, Enbridge Gas has used an inflation factor of 3.9%. The resulting price cap adjustment for calculating 2023

[2] EB-2019-0194 Phase 1 Settlement Proposal, November 28, 2019, p. 9.

IRM rates is 3.6% (3.9% - 0.3% stretch factor).

The parties to the settlement proposal agreed that the price cap adjustment of 3.6%, as proposed in the application, is appropriate, and OEB staff agrees. OEB staff submits that the price cap adjustment was calculated in accordance with the MAADs Decision and the approved settlement proposal in Enbridge Gas's 2020 rates application.

Change in Revenue

In its application filed on June 30, 2022, Enbridge Gas provided a table showing the change in revenue by rate zone. OEB staff produced Table 2 below, depicting the proposed changes to revenue by rate zone, updated by Enbridge Gas in the settlement proposal, to reflect the agreement with respect to the PDO cost adjustment and to take into account the October 2022 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 2022 QRAM ($ 000's)
Summary Change in Revenue 2023 Proposed 2022 Approved	 1,357,824 1,304,232	 1,395,977 1,356,437	 1,417,639 1,373,730
Net Change	53,592	39,540	43,909
Detail Change in Revenue 2023 Price Cap Index (3.6%)	44,400	35,974	36,522
2023 DSM Budget Change	9,192	961	961
2023 Capital Pass-Through Change	-	739	739
2023 Parkway Delivery Obligation Change	-	1,866	5,687
Total IRM	**53,592**	**39,540**	**43,909**

Pass-through Costs

The pass-through costs include the following adjustments:

- Demand Side Management (DSM) costs for 2023
- 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

The DSM costs filed in this application reflect the proposed 2023 DSM budget and rate class allocations as filed in the 2022-2027 DSM Plan application.[3] The 2023 DSM

[3] EB-2021-0002, Exhibit F, Tab 1, Schedule 2.

budget for the EGD rate zone is $76.9 million and $65.3 million for the Union rate zones. A decision has not yet been issued in the 2022-2027 DSM Plan application. As in previous years, the difference between the 2023 DSM budget in rates and actual 2023 DSM costs will be captured in the relevant Demand Side Management Variance Accounts (DSMVA).

All parties accepted that Enbridge Gas properly calculated the pass-through amounts for DSM, LRAM and average use as included in the application.

OEB staff has no concerns with the proposed adjustments to the pass-through costs and submits that Enbridge Gas properly calculated these amounts for the purposes of setting 2023 rates.

Capital Pass-through Costs

Enbridge Gas updated the capital pass-through projects to reflect the 2023 revenue requirement of each approved project, consistent with the rate treatment in previous years.

All parties accepted that Enbridge Gas properly calculated the capital pass-through costs as included in the application.

OEB staff has no concerns with the proposed adjustments to the capital pass-through costs and submits that Enbridge Gas properly calculated these amounts for the purposes of setting 2023 rates.

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 (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.[4] 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 the application are $30.8 million, of which $15.2 million is related to the PDO shift and $15.5 million is related to the PDCI costs.

[4] EB-2013-0365

In response to interrogatories, Enbridge Gas indicated that it expects four additional Parkway-obligated customers to move their capacity to Dawn, resulting in the shift of an additional 59 GJ/day of Parkway-obligated deliveries to Dawn.[5] Enbridge Gas agreed to update the PDO/PDCI costs to reflect the resulting reduction in PDO volumes. The draft rate order for the Union rate zones reflects the updated PDO and PDCI costs related to the reduction to PDO volumes and other changes to reflect the updated gas costs based on the October 1, 2022 QRAM. The updated total PDO and PDCI costs reflected in the draft rate order are $34.6 million, of which $16.7 million is related to the PDO shift and $17.9 million is related to the PDCI costs.

All parties accepted that Enbridge Gas has appropriately calculated the PDO rate adjustment for 2023. OEB staff supports the agreement reached between the parties with respect to the PDO/PDCI costs. OEB staff notes that the updated calculation of PDO/PDCI costs reflects the most up-to-date information available.

Retail Service Charges

In its application filed on June 30, 2022, Enbridge Gas updated the Retail Service Charges for both the EGD and Union Rate Zones to reflect an inflation factor (3.9%), as required by the OEB's *Report on Energy Retailer Service Charges*.[6] All parties accepted the updated Retail Service Charges. OEB staff submits that Enbridge Gas has properly updated the Retail Service Charges in accordance with the above noted OEB report.

Rider M (Hydrogen Gas Rider)

Enbridge Gas proposed an update to Rider M (Hydrogen Gas Rate Rider) to reflect the change in the price of natural gas experienced in 2022. Rider M applies for customers receiving blended gas (including up to 2% hydrogen) as part of the Low Carbon Energy Project. As hydrogen contains a lower energy content per cubic metre than conventional natural gas, Rider M compensates the 3,621 customers that receive blended gas for the additional volumes consumed to achieve the same energy output.

Enbridge Gas proposed to increase the credit to Rider M to reflect current high natural gas prices, and to build-in an additional amount to cover potential future price increases. The additional credit amount is included because Rider M is only adjusted once annually but the price of natural gas is adjusted quarterly. In this way, customers receiving blended natural gas will be compensated for potential increases in the price of natural gas over the course of 2023.

Enbridge Gas has agreed to update Rider M to reflect the October 1, 2022 QRAM price of natural gas, plus a small additional amount, to cover potential future increases in the price of natural gas.[7] The annual credit amounts for Rate 1 and Rate 6 are $20 and

[5] Enbridge Gas response to I.Staff.4
[6] EB-2015-0304
[7] Enbridge Gas response to I.Staff.3

$175, respectively.

All parties accepted Enbridge Gas's updated proposal for Rider M. Intervenors noted that the 2023 costs for Rider M are small, are funded by Enbridge Gas's existing rates, and are not being incrementally recovered from customers. Intervenors are not taking a position on the appropriateness of Enbridge Gas's methodology in determining the additional amount built into Rider M to protect blended hydrogen and natural gas customers from the impacts of potential increases in 2023 natural gas prices.

OEB staff supports the settlement agreement reached between the parties. OEB staff reiterates that the 2023 costs for Rider M are small and are funded by Enbridge Gas's existing rates. In the future, if the Rider M costs were to become more material, it may be appropriate to evaluate more precise approaches to calculating the credit amounts.

Timing and Implementation of Final Rates

All parties agreed that it was appropriate for Enbridge Gas to implement the 2023 IRM rate adjustments and other items in the settlement proposal on a final basis, to be effective January 1, 2023. Enbridge Gas requested that the OEB review and approve the IRM rate adjustments, including the draft rate order, by November 24, 2022, so that changes could be implemented in conjunction with the January 1, 2023 QRAM application. OEB staff agrees that it is appropriate to implement the 2023 IRM rate adjustment in conjunction with the January 1, 2023 QRAM on a final basis. As noted previously, Enbridge Gas stated there will not be a 2023 ICM application (Phase 2) and thus no need for interim rates.

Integrated Resource Planning

Intervenors expressed concern regarding the status of Enbridge Gas's compliance with the OEB's IRP Decision and Framework,[8] particularly with respect to the impacts on 2023 operating and maintenance costs and capital project planning/implementation. Enbridge Gas does not agree that it is out of compliance with the OEB's IRP Decision and Framework. The settlement proposal stated that no relief related to IRP is being sought by any party in the current proceeding.

As no party is seeking any relief related to IRP-related issues, OEB staff submits that no action is required by the OEB with respect to IRP in the current proceeding.

~All of which is respectfully submitted~

[8] EB-2020-0091