OEB Staff Compendium

Panel 14 – Overhead Capitalization Policy

Enbridge Gas Inc.

EB-2022-0200

OEB Staff Compendium

Index

TAB 1

CAPITALIZATION OF OVERHEAD

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1. The purpose of this evidence is to request OEB-approval for Enbridge Gas's harmonized overhead capitalization methodology and resulting capitalized overhead amounts for the 2024 Test Year. This evidence summarizes the overhead capitalization methodologies previously in place for EGD and Union. This evidence also sets out the harmonized overhead capitalization methodology, identifies how the harmonized overhead capitalization methodology addresses OEB guidelines, accounting standards and other relevant policies, and summarizes the change in capitalization resulting from application of the harmonized overhead capitalization methodology. Ernst & Young (EY) was retained by Enbridge Gas to assist management in its determination of the Company's harmonized overhead capitalization methodology.

2. Enbridge Gas is also requesting approval of the amounts contained within the Accounting Policy Change Deferral Account (APCDA) associated with the change in overhead capitalization methodology adopted in 2020. This evidence details the 2020 and 2021 actual amounts, along with the 2022 and 2023 forecasted amounts, determined by comparing the overhead capitalization methodologies of EGD and Union to the Enbridge Gas harmonized overhead capitalization methodology. Please see Exhibit 9, Tab 2, Schedule 1, Attachment 3 for the resulting revenue requirement impact recorded in the APCDA.

3. This evidence is organized as follows:
    1. Background and Purpose of Overhead Capitalization
    2. History of Overhead Capitalization
    3. Proposed Harmonized Methodology

1. Background and Purpose of Overhead Capitalization

4. The objective of overhead capitalization is to ensure all indirect costs associated with the creation of capital assets are captured as part of the asset cost. Costs that are directly related to asset creation (e.g., construction labour costs, materials/supplies) are identifiable and directly assigned to the appropriate capital projects. These costs are not subject to overhead capitalization. Indirect overhead are costs associated with the activities that support asset creation but cannot be directly associated with any particular asset or asset group. Indirect overhead costs include, but are not limited to, supervision and oversight of capital activities or support functions such as Finance, Legal, Supply Chain, Human Resources, Technology and Information Services (TIS), etc. Cost drivers are used to associate indirect overhead costs with capital activity.

5. Overhead capitalization has historically been in place at EGD and Union based on separate and distinct OEB-approved methodologies. The amalgamation of EGD and Union, effective on January 1, 2019, required an alignment of accounting policies. The capitalization of indirect overheads was one such area of alignment to provide a harmonized approach for the Company that meets the guidelines specified by the OEB Uniform System of Accounts for Class A Gas Utilities, and US GAAP.

2. History of Overhead Capitalization

6. Prior to amalgamation, EGD and Union applied overhead capitalization methodologies that were approved by the OEB and conformed to US GAAP. The following sub-sections establish the underlying regulatory approvals, the cost categories, and cost drivers for each of the pre-amalgamated Company's methodologies. Cost category represents a grouping of costs based on the inherent nature of the cost. Cost drivers are determined by the nature of the underlying causal activity and ultimately determine the degree of capitalization.

2.1. EGD Overhead Capitalization

7. EGD's overhead capitalization methodology prior to amalgamation consisted of two categories: Capitalized Administrative & General Overhead (A&G) and Departmental Labour Costs (DLC).

8. A&G represented common services that support capital activities. The OEB-approved methodology and rates were applied to A&G costs, such as Finance, Legal, Supply Chain, Human Resources, Benefits and TIS, to determine a total amount of A&G eligible for capitalization. The total amount was then allocated to capital projects proportionally based on capital expenditures.

9. DLC were salaries and employee expenses for the departments within Operations and Engineering where the respective functions of these departments contributed to capital projects but were not directly attributable to specific capital projects. Examples of these functions include system capacity planning, distribution plant drafting, pipeline inspection, field operations, customer attachment and records management. Capitalization rates were applied to each eligible department's O&M and allocated to Mains, Services and Measurement and Regulation assets. Any

costs within A&G and DLC, that were directly tied to capital projects, were directly charged and not subject to overhead capitalization.

10. A&G capitalization rates were determined by cost drivers based on the classification of activities into the following three types:
    a) Consultative: This cost type refers to activities of a 'consulting' nature where the activity is primarily project-specific and the level of activity is not consistent year-over-year. Examples of such activities would be found in functions such as Legal services or Finance. The use of time is considered practical and appropriate as the driver for these activities and provides the strongest link between costs and services provided.
    b) Administrative: This cost type refers to activities that support other activities. Examples of support activities include functions performed by administrative support staff (e.g., mail distribution, telephone support, etc.) and in some cases department management. As these activities and related costs typically directly support other activities, they are usually best allocated in the same proportion as the activities which they are supporting.
    c) Repetitive: This cost type refers to activities that are repetitive in nature and are consistent over time in terms of the level of effort per unit of service provided. Examples of such activities are Payroll, Human Resources, and Accounts Payable. Processes are standardized and consistent and costs track accordingly. As such, this category of costs is best allocated based on volumetric measures reflecting or causing the activity to be performed and therefore the cost to be incurred. For example, headcount related to the various programs or capital assets is a suitable driver for Human Resource support or the Payroll function.

11. OEB approval of the A&G methodology was granted in 1998 as part of the 1999 Test Year Rates Application[1]. The Application detailed the capitalization study undertaken and formalized the definitions and approach for A&G. Subsequent settlement agreements and OEB decisions have approved the continued application of the A&G methodology. The DLC capitalization methodology has been referenced and included in the determination of O&M and capital submissions that have received OEB approval. A&G and DLC were most recently approved in 2012 as part of the 2013 Cost of Service Application Settlement Agreement [2] and in 2014 as part of the 2014 to 2018 IRM Application[3].

2.2. Union Overhead Capitalization

12. Union's overhead capitalization methodology prior to amalgamation consisted of two categories: Loadings and Indirect Overhead.

13. Loadings are costs that can be attributable to capital activity, but due to the nature of the costs, it is difficult to allocate them to specific projects. These costs included benefits and incentive pay, non-productive labour (i.e., vacation and sick time), fleet maintenance, fleet depreciation, planning and dispatch, construction oversight and warehouse costs. A Loadings rate was used to assign these costs to specific capital projects based on the labour charged to the specific capital projects.

14. Indirect Overhead are costs that support the production or construction of an asset but cannot easily be directly associated with any particular asset or working group. These costs can be broken down as:

[1] In E.B.R.O 497 Decision, Issue 3.8.
[2] In EB-2011-0354, Settlement Agreement, Issue B.1 (Capital Expenditure) and Issue D.1 (O&M).
[3] In EB-2012-0459, OEB Decision, pp.30-33 (Capital Expenditure) and pp.44-51 (Other O&M).

a) Specific Capital costs which include evaluation, design, and implementation related to capital projects generally rather than to specific or identifiable projects;
b) Supervision costs which represent functions that support, supervise, and monitor direct project activities; and
c) Support Functions which include budgeting and reporting, building maintenance, TIS help desk, Human Resources, Strategic Development, Procurement, Plant Accounting, and Accounts Payable.

15. Overhead capitalization rates were determined by an appropriate cost driver for each department with costs eligible for capitalization. The four cost drivers were as follows:
    a) Time Analysis: An estimate was developed by the managers of each individual department to allocate each employee's time between capital and O&M. A weighted average of capital to O&M time was calculated among all employees in the department and applied to all costs.
    b) Work Plan: Support costs related to tasks carried out by front-line workers were allocated using a work plan. The work plan represented the type and volume of "jobs" that related to capital activity versus general O&M activity. As individuals within these groups supported front-line workers directly, their time was highly correlated to capital activity.
    c) Volume or Other: In certain situations, unit-based measures of work related to capital (such as for warehousing) or total capital spend relative to total spend (capital and O&M combined) was used as a way to determine how much of that department's costs were capital in nature.
    d) Composite Ratio: For support functions, departments and groups within the Company that supported various other parts of the business, a composite ratio was used to determine the rate at which overhead was capitalized.

16. Approval of Union's overhead capitalization methodology was obtained in 2006 as part of the 2007 Cost of Service Application[4] Settlement Agreement. Union submitted an update to the methodology, which was implemented in 2010, and approved as part of the 2013 Cost of Service Application[5] Settlement Agreement. The update introduced "Loadings" which facilitated the direct assignment of certain capitalized overheads to capital projects. The update was not deemed to be a change in the capitalization policy.

3. Proposed Harmonized Methodology

17. Prior to amalgamation, EGD and Union applied different OEB-approved overhead capitalization methodologies that used similar underlying principles, cost categories and cost drivers. As an amalgamated company, it was necessary for Enbridge Gas to establish a harmonized methodology that aligned to the Company's new structure and assess how the functional groupings contributed to capital activity.

18. Enbridge Gas retained EY to assist management in its determination of a harmonized capitalization methodology. EY was informed by the historical methodologies of EGD and Union, Enbridge Gas's structure and relevant accounting guidance. EY's assessment is documented in a report entitled "Enbridge Gas Inc: Overhead Capitalization Study" (EY Study). This report is provided at Attachment 1. The harmonized capitalization methodology was implemented January 1, 2020.

[4] In EB-2005-0520 Settlement Agreement, Issue 3.11.
[5] In EB-2011-0210 Settlement Agreement, Issue 3.1.

19. The following sub-sections outline the harmonized methodology's guiding principles and development, accounting guidance supporting overhead capitalization, cost categories and drivers, and the process to update overhead capitalization rates.

3.1. Guiding Principles and Development

20. For the harmonized overhead capitalization methodology to reflect the amalgamated operations of Enbridge Gas, the following guiding principles were identified:
    a) Establish a single, consistent methodology for Enbridge Gas;
    b) Promote accuracy and transparency through a streamlined model that reflects the underlying capital activity;
    c) Support the practical implementation of the model allowing for regular (annual) updates; and
    d) Comply with accounting standards and OEB policies.

    Application of these guiding principles result in a methodology that appropriately accounts for the geographical diversity of Enbridge Gas's operations and provides a consistent approach in determining how each department or function supports capital activity.

21. In helping management develop the methodology, EY used a combined approach of relying on accounting guidance, cost causation linkages (including the identification of cost categories and drivers), discussions with Enbridge Gas personnel, and understanding industry best practices. Further overview on accounting guidance and cost categories, drivers and causality can be found in Sub-Sections 3.2 Accounting Guidance and 3.3 Cost Categories and Cost Drivers for the EY Study.

3.2. Accounting Guidance

22. Overhead capitalization is allowable based on the accounting guidance noted in Section VI of the EY Study. The OEB's Uniform System of Accounts provides support for this conclusion in the Overhead Charged to Construction section of Appendix A. US GAAP Accounting Standards Codification (ASC) 360 – Property, Plant, and Equipment specifies that asset capitalization includes "costs incurred for activities to bring them to the condition and location necessary for their intended use". Furthermore, US GAAP ASC-980 – Regulated Operations allows the capitalization of overhead costs if future recovery through rates is probable. As provided at Exhibit 2, Tab 4, Schedule 1, Enbridge Gas is requesting approval to continue capitalizing overheads, as previously approved by the OEB for EGD and Union.

3.3. Cost Categories and Cost Drivers

23. The harmonized overhead capitalization methodology uses four cost categories. These categories are Operations Costs, Business Costs, Shared Services Costs and Pension and Benefits Costs. Each cost category has a cost driver applied, typically determined by the nature of the underlying cost relationship or linkage to capital activity. Cost drivers include capital expenditures, time analysis, weighted average rates, and burdening. Please see pages 6-9 and pages 15-16 of the EY Study for additional detail.

Operations Costs

24. The Operations Costs category consists of groups that support Enbridge Gas's core field operations within the Company's seven geographic regions which were realigned post amalgamation. These groups provide oversight for and support direct capital activity related to the natural gas delivery infrastructure.

25. To determine overhead capitalization for the Operations Costs category, the following methodology is applied:
    a) Operations Regional groups apply each region's proportion of capital spending, resulting in seven separate rates. Due to the diversity of each region, both in geographic features (i.e., urban and rural) and infrastructure, it was concluded that allocation rates for each region would best reflect the capitalizable portion of overhead. Regional capital spend was determined to be an appropriate driver as it represents the actual allocation of labour and material resources by Enbridge Gas to capital projects versus O&M.
    b) Operations Services and Governance (OSG) group (excluding 'c' and 'd'), which provides support services to the regions, uses a weighted average of the seven Operations Regional rates.
    c) Customer Attachment group is considered 100% capital due to the fully capitalizable nature of activity supported.
    d) Leak Survey and Locates are considered 100% O&M as they are preventative measures not contributing to asset creation.[6]
    e) Operations VP Admin uses a weighted average of the preceding rates in a), b), c) and d).

Business Costs

26. The Business Costs category includes certain departments/groups within Enbridge Gas that support core operations. Although their work can be linked to capital activity, it cannot be directly associated with any particular asset or asset group. Examples of these support areas include Engineering, Asset Management, System Improvement, and Integrity. Time spent on work was determined to be an

[6] Locate costs are included in O&M in the 2024 Test Year Forecast. As a result of Bill 93, other utilities may begin charging Enbridge Gas for locate delivery services for its own operations. At which time, a portion of the locate costs may be capitalized.

appropriate driver given the varied nature of these groups and their activities. Time analysis is necessary to appropriately identify the relationship between the functions of these groups and capital activities.

27. To determine overhead capitalization for the Business Costs category, the following time analysis methodology is conducted annually:
    a) Managers in the groups identified in this cost category identify all the activities carried out by their teams. Each employee's time is allocated among the various activities in an activity template. The activities are classified as Capital or O&M based on US GAAP and OEB guidance.
    b) A weighted average rate of capital time relative to O&M time is calculated using the employee activities within the manager group.
    c) Each resulting rate per manager group is grouped within their respective director group and weighted to derive an average rate for the director group.
    d) Validation is performed within each director group using a comparison of the current and prior year director level rates. For any significant increases or decreases, activities are reviewed to identify key activities driving the change and assess if their categorization is appropriate.
    e) Director level weighted average rate is applied to all costs incurred within the director group to determine the overhead capitalization amount.

Shared Services Costs

28. The Shared Services Costs category contains groups that support overall business activities including general functions required to complete capital projects. Examples of these services are Finance, Legal, Real Estate and Workplace Services, TIS, etc. Human Resources employee labour costs and related expenses are included in this category, and Pension and Benefits costs are treated separately (see Pension and Benefits Costs below). Shared Service Costs are incurred by

Enbridge Gas through the Central Functions Cost Allocation Model (CFCAM). EY's report categorizes Shared Services and CFCAM costs as separate overhead capitalization categories. However, as the Central Functions departments within Enbridge evolved post-merger with Spectra Energy, most Shared Services costs are incurred by Enbridge Gas via CFCAM. Therefore, they are combined in this evidence except for Pension and Benefits. Please see Exhibit 4, Tab 4, Schedule 3 Program Delivery Costs and Variance Analysis for more detail on CFCAM.

29. For Shared Services Costs, a single overhead capitalization rate was calculated by taking a weighted average of Operations Costs and Business Costs rates and non-capitalizable costs (groups that do not support capital activity). A single rate was determined to be most appropriate for overhead capitalization as the groups in this cost category support all of the business activities of Enbridge Gas.

Pension and Benefits Costs

30. The Pension and Benefits Costs category contains pension and benefits incurred by Enbridge Gas. In the context of this evidence, benefits are defined as Short-Term Incentive Pay (STIP), Long-Term Incentive Pay (LTIP) and employee medical, dental, disability and statutory benefits as provided at Exhibit 2, Tab 4, Schedule 3. For labour that is directly charged to capital projects, a burden rate for pension and benefits is applied to appropriately reflect the entire compensation cost associated with employees. Pension and benefits costs for indirect labour need to be similarly treated as the same cost relationship exists. Salary grade burden rates provided by Human Resources are used as an input to calculate a single weighted average burden rate for all employees. The weighted average burden rate is determined by:

a) Calculating capitalized labour by applying the capitalization rate to gross labour costs for each employee (based on the cost categories identified in Operations Costs, Business Costs and Shared Services Costs). The results are summarized by salary grade excluding directors and above and contractors to reflect only employees likely to be involved with capital activity.
b) Associating the current year's burden rate, obtained from Enbridge Gas Human Resources, with each eligible salary grade. Please see Exhibit 2, Tab 4, Schedule 3 for further information on the Human Resources burden rate.
c) Calculating the single Enbridge Gas burden rate by taking a weighted average of the salary grade burden rates from (b) and weighing it by the proportion of capitalized labour from (a).

The single weighted average burden rate allows for ease of application across all direct and indirect capitalized labour, regardless of employee salary grade, as part of the burdening process to layer on pension and benefits.

31. Enbridge Gas's harmonized overhead capitalization methodology calculates a weighted average burden rate of 41.7% for the 2024 Test Year budget. The weighted average burden rate more appropriately capitalizes pension and benefits costs because it is applied to the capitalized labour. This results in a better association of total employee compensation to capital activity as employee involvement in capital activity shifts annually. Table 1 outlines the calculation used to determine the harmonized weighted average burden rate.

Table 1
Pension and Benefits Burden Rate Calculation

Line No.	Organizational Level	2024 Test Year HR Burden Rate	Weighting	EGI Burden Rate
		(a)	(b)	(c)
1	E310 – Clerical	42.4%	0.1%	0.1%
2	E320 – Clerical / Technical	45.1%	1.1%	0.5%
3	E400 – Technical / Professional	43.4%	2.0%	0.9%
4	E410 – Technical / Professional	41.9%	8.0%	3.3%
5	E420 – Technical / Professional	40.5%	19.4%	7.9%
6	E500 – Specialist	44.2%	9.8%	4.3%
7	E510 – Specialist	43.1%	14.9%	6.4%
8	E600 – Manager	61.5%	5.7%	3.5%
9	Unionized Staff	38.1%	39.0%	14.8%
10	Total			41.7%

Notes:

(1) Weighting in column (b) calculated using estimated capitalized labour for each organization level as a proportion of total estimated capitalized labour.

3.4 Update Process

32. To ensure that the overhead capitalization rates closely reflect the underlying capital activity, the inputs to harmonized methodology are updated annually. Calculations are carried out on the latest actuals and applied to the prospective year. For instance, capitalization rates applied in 2022 are based on the 2020 actuals as those would have been the most recent actuals at the time the 2022 budget is prepared. Identical capitalization rates are applied for both actuals and budget within the same year. Capitalization for the 2024 Test Year is based on 2021 actuals and are identical to those used for the 2023 budget.

4. Comparison to EGD and Union Methodologies

33. EGD and Union previously applied separate overhead capitalization methodologies that identified cost categories, drivers and causal relationships relevant to each

company. The amalgamation provided an opportunity to streamline and improve the efficiency of the previously approved methodologies into a harmonized methodology that complies with relevant accounting and OEB guidance. Table 2 depicts how the cost categories from the prior methodologies align to the harmonized methodology.

Table 2
Harmonized and Historical Cost Category Alignment

Harmonized Cost Categories	Historical Cost Categories					
	EGD		Union			
	DLC	A&G	Loadings	Specific	Supervision	Support Functions
Operations Costs	X		X		X	
Business Costs	X			X	X	
Shared Services Costs		X		X		X
Pension & Benefits Costs		X	X			

34. EGD's DLC cost category, which was primarily comprised of Operations and Engineering costs, is now captured under the Operations and Business cost categories in the harmonized methodology. The A&G cost category, which was comprised of common or support costs, is now captured under the Shared Services and Pension & Benefits cost categories.

35. Union's Loadings cost category, which included benefits and incentive pay, non-productive labour (i.e., vacation and sick time), fleet maintenance, fleet depreciation, planning and dispatch, construction oversight and warehouse costs, is now captured under the Operations and Pension & Benefits cost categories depending on the nature of the cost. Union's Indirect Overhead cost category could be broken down into Specific, Supervision and Support costs. Specific, which included evaluation, design, and implementation costs, is now captured under the

Business and Shared Services cost categories. Supervision, which included support and monitoring costs for direct capital activity, is now captured under the Operations and Business cost categories. Support, which included costs for functions that provided overall support to business activities, is now captured under the Shared Services cost category.

36. By aligning cost categories and assigning appropriate drivers, the harmonized methodology better accounts for the geographical diversity of Enbridge Gas's operations and provides a consistent approach in determining how each department or function supports capital activity. The methodology also improved efficiency by simplifying the calculation of capitalization rates which reduces the number of capitalization rates that need to be maintained. For example, Operations Regional and Director level rates, Business Unit Director level rates, a single Shared Services rate and a single Pension and Benefits burden are simpler to update on an annual basis as opposed to capitalization rates set using more financial segments. Fewer rates also make system updating less complicated and allow for better understanding and visibility of departmental financial results.

37. Table 3 compares capitalized overhead by cost category under the harmonized methodology to the EGD and Union methodologies using 2024 Test Year costs. The calculation of capitalized overhead using prior methodologies was performed by applying the combined EGD and Union capitalization rates based on the proportion of capitalization for each department to the eligible 2024 Test Year costs. These proportional calculations were performed using the 2020 budget which was the last instance where the previously approved OEB capitalization rates were used.

Table 3
Comparison of Overhead Capitalization Methodologies - 2024 Test Year

Line No.	Particulars ($ millions)	Historical Method		EGI Harmonized Method		Variance
		Capitalized Amount	Capitalization Rate	Capitalized Amount	Capitalization Rate	Capitalized Amount
		(a)	(b)	(c)	(d)	(c) - (a)
1	Operations Costs	121.9	36.0%	118.2	35.0%	(3.6)
2	Business Units Costs	56.1	11.1%	54.5	10.8%	(1.6)
3	Shared Services Costs	63.8	20.5%	72.7	23.4%	8.8
4	Pension & Benefits Costs (1)	53.2	35.9%	65.1	43.9%	11.9
5	Total	295.1	22.7%	310.5	23.8%	15.4

Notes:

(1) Pension and Benefits costs include total net periodic pension costs and postretirement benefit costs to align with utility income statement presentation, however only the service cost component is eligible for capitalization. The capitalization rates after removing the non-service cost components of pension and OPEB are 23.9% for the historical methodologies and 29.3% for the harmonized methodology.

38. The harmonized methodology results in total overhead capitalization of $310.5 million for the 2024 Test Year, which represents an overall capitalization rate of 23.8%. The prior methodologies used by EGD and Union would have resulted in total overhead capitalization of $295.1 million which represent an overall capitalization rate of 22.7%. The net change is an increase of $15.4 million in overhead capitalization and 1.1% in the overall capitalization rate. The main drivers of the increase in capitalization are discussed below.

39. Operations Costs $3.6 million decrease in capitalization is primarily due to the harmonized methodology resulting in lower regional capitalization rates based on the proportion of capital spend to total spend. The lower regional rates reduced Regional Operations capitalization by $9.7 million. This was offset by higher support services (OSG and VP Admin) capitalization of $6.1 million resulting from the harmonized methodologies weighted average of regional capitalization rate being higher than the previously approved rates. OSG and VP Admin capitalization is now

more reflective of the groups they support as their rate is a weighted average of the Regional Operations rates.

40. Business Unit Costs capitalization has remained stable with a $1.6 million decrease. Historical rates and harmonized rates were closely aligned after conducting a time analysis for the functions in this costs category.

41. Shared Service Costs $8.8 million increase in capitalization is primarily due to a 2.9% higher harmonized weighted average rate as compared to previously approved rates. The harmonized methodology better associates EGI's level of capital activity built into Operations and Business Unit rates and the Shared Services that support those groups.

42. Pension and Benefits Costs $11.9 million increase in capitalization is primarily due to the introduction of a weighted average burden rate that reflects all components of employee compensation apart from base salary. Furthermore, the burden rate is applied to all direct and indirect capitalized labour. In Attachment 1, page 16, EY asserts that burdening is one of the most evident forms of cost causality that allows for associating pension and benefits with capitalized labour.

5. Impact of Methodology Change (including APCDA)

43. The Accounting Policy Change Deferral Account (APCDA) was established as an outcome of the MAADs proceeding to record the impact of accounting policy changes. The APCDA amount for overhead capitalization changes is calculated as the difference between the capitalization rates from the EGD and Union methodologies and the capitalization rates from the harmonized methodology, applied to each respective year's cost base since implementation in 2020. Table 4 outlines the actual O&M impact for 2020 and 2021, along with the forecasted O&M

impact for 2022 and 2023. Please see Exhibit 9, Tab 2, Schedule 1 for the resulting revenue requirement impact recorded in the APCDA.

Table 4
Change in Overhead Capitalization Methodology - O&M Impact

Line No.	Particulars ($ millions)	Utility	2020 Actual	2021 Actual	2022 Estimate	2023 Bridge Year
			(a)	(b)	(c)	(d)
1	EGI Harmonized Methodology	EGI	(224.3)	(234.2)	(268.9)	(301.1)
2	Historical Methodology	EGI	(218.7)	(228.0)	(260.0)	(284.4)
3	O&M Impact	EGI	(5.6)	(6.2)	(8.9)	(16.6)

Notes:
(1) Negative amounts represent a decrease to Operating & Maintenance (O&M) expense and an increase to capital expenditures

44. The impact from the change in overhead capitalization is a reduction in O&M because of an increase in overhead capitalization under the harmonized methodology due to a higher average capitalization rate. This higher average capitalization rate is primarily driven by the harmonized weighted average Shared Service rate and weighted average burden rate for Pension and Benefits as outlined in Section 4 of this evidence. From 2020 to 2023, the magnitude of the change increases from $5.6 million to $16.6 million because of increasing overhead capitalization rates as capital expenditures increase and an increasing pool of eligible capitalizable costs as gross O&M is forecasted to increase. Exhibit 4, Tab 4, Schedule 2 provides details on gross O&M.

6. Allocation of Capitalized Overheads to Plant Assets

45. Historically, EGD and Union allocated capitalized overheads to assets using different methods. EGD allocated based on cost category. A&G overheads were allocated proportionally to projects based on actual monthly capital expenditures

and as a result, were attributed to specific plant assets. DLC was allocated to Mains, Services and Measurement and Regulation asset classes based on the nature of work typically performed by the source departments or functions. Union allocated capitalized overheads to individual plant assets based on forecasted capital expenditures for the corresponding year. The individual plant assets were based on the asset groups defined by the OEB (Distribution, Storage, Transmission and General Plant).

46. A specific allocation of capitalized overheads to projects would be the most precise method; however, this is administratively difficult to implement as overheads are collected as a pool of costs and are not directly attributable to specific projects. As such, the Union approach of allocating capitalized overheads based on forecasted capital additions by asset class was adopted for both the EGD and Union rate zones. The Union approach offers the following benefits compared to the EGD approach:
    a) Aligns capitalized overhead to the asset classes they are supporting in a given year.
    b) Administrative ease and cost of implementation.
    c) Annual adjustments to allocations based on forecasted capital.

    The capitalized overhead allocation methodology was reviewed in 2021 to ensure that it aligned with the EY Study. The revised allocation methodology was implemented in 2021 for the EGD rate zone with no change in process for the Union rate zone. The change in allocation resulted in a $1.0 million increase to depreciation expense in 2021 which is immaterial in terms of total depreciation expense for Enbridge Gas. The amount was not recorded in the APCDA as this is a change in estimate and not a change in policy.

47. Enbridge Gas is proposing to align the presentation of overheads as part of PPE reporting. Enbridge Gas intends to eliminate the use of regulatory overhead asset accounts for the Union rate zone and adopt the EGD rate zone approach of presenting capitalized overheads within PPE asset classes. The December 31, 2023, balances of Union rate zones' regulatory overhead asset accounts will start being presented within the related asset groups on January 1, 2024, in alignment with the implementation of the new depreciation study provided at Exhibit 4, Tab 5, Schedule 1, Attachment 1. This presentation change results in an immaterial impact to depreciation expense as the depreciation rates of the Union rate zone's regulatory overhead asset accounts historically already represented the average for each asset group.

7. Summary

48. Enbridge Gas's harmonized overhead capitalization policy delivers an approach consistent with the previous OEB-approved methodologies, the guiding principles set out prior to the development process and relevant accounting guidance. The cost categories identified best reflect the Company's organizational structure, functions and geographical diversity which allows for the assignment of appropriate costs drivers. The result is an improvement in the causal linkage between overhead costs and capital activity, along with a more efficient process of updating inputs annually.

TAB 2

Enbridge Gas Inc: Overhead Capitalization Study

15 May 2020

VI. Accounting guidance

Whilst this list is not comprehensive in nature, as part of our study, the following guidance was considered:

"Ontario Energy Board: Uniform system of accounts for Class A gas utilities – Appendix A"

"Overhead Charged to Construction: includes engineering, supervision, administrative salaries and expenses, construction engineering and supervision, legal expenses, taxes and other similar items. The assignment of overhead costs to particular jobs or units shall be on the basis of a reasonable allocation of actual costs. The records supporting the entries for overhead charged to construction costs shall be maintained so as to show the total amount for each element of overhead for the year and the basis of allocation."

US GAAP

ASC 360–10: *"Property, plant and equipment should be recorded at historical cost, which includes the costs incurred for activities to bring them to the condition and location necessary for their intended use. Interest costs incurred during the period the assets are brought to that condition and location are also included in the historical cost of acquiring the asset, if material."*

ASC 980-340: *"25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:*

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date."

Based on the accounting guidance above, the OEB allows for the capitalization of overhead. Further, US GAAP calls for the capitalization of all costs *incurred for activities to bring assets to the condition and location necessary for their intended use*. The guidance as per the regulatory standard (ASC 980) further allows for any costs to be included as long as future recovery through rate base is probable.

TAB 3

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Ref 1: Exhibit 2, Tab 4, Schedule 1, pp.3-6
Ref 2: Exhibit 9, Tab 2, Schedule 1, pp.7-8

Question(s):

It states that after the amalgamation, Enbridge Gas identified differences in the historical capitalization treatment for certain costs between EGD and Union Gas due to how EGD and Union Gas applied USGAAP to specific costs. USGAAP Accounting Standard Codification (ASC) 360 – Property, Plant, and Equipment requires these costs to be expensed as incurred, while ASC 980 – Regulated Operations allows the programs and costs to be capitalized if approved by a regulator. The costs Enbridge Gas identified with different capitalization treatments were capitalized by EGD in accordance with ASC 980 and expensed as incurred by Union Gas in accordance with ASC 360.

a) Please explain whether there were costs Union Gas capitalized in accordance with ASC 980, but would have been expensed in accordance with ASC 360 if ASC 980 were not applied.

    i. If yes, please identify and explain the types of these costs, and quantify the annual revenue requirement impact for each type of cost from January 1, 2019, to December 31, 2023.

b) Please also explain whether there were costs EGD capitalized in accordance with ASC 980, but would have been expensed in accordance with ASC 360 if ASC 980 were not applied, beyond those already identified in the Accounting Policy Changes Deferral Account resulting from harmonization.

    i. If yes, please identify and explain the types of these costs, and quantify the annual revenue requirement impact for each type of cost from January 1, 2019, to December 31, 2023.

c) Please explain whether Enbridge Gas has proposed to capitalize any costs that would be expensed in accordance with ASC 360 if ASC 980 is not applied.

i. If yes, please identify and explain the types of these costs, and quantify the annual revenue requirement for each type of cost from 2024 to 2028.

Response:

a-b) Prior to amalgamation both EGD and Union Gas did capitalize some costs in accordance with ASC 980, based on regulatory approval. These costs would have been expensed in accordance with ASC 360, had ASC 980 not applied. The remaining undepreciated balances for these assets are included in the opening 2024 rate base.

Since amalgamation in 2019, other than the capitalization of indirect overheads, noted below, Enbridge Gas has not capitalized costs in accordance with ASC 980, that would have otherwise been expensed in accordance with ASC 360.

Indirect overheads are not capitalized under US GAAP. Both EGD and Union Gas had OEB approved overhead capitalization policies that supported capitalization under ASC 980. Enbridge Gas has proposed a combined methodology for 2024 that continues this treatment.

It should be noted that there is a portion of Enbridge Gas's overheads that are direct in nature but are being capitalized as indirect because Enbridge Gas's current processes are not designed for these costs to be directly capitalized to specific capital projects. These direct in nature costs can be capitalized under US GAAP by applying the guidance in ASC 360.

Enbridge Gas is unable to isolate and quantify the revenue requirement for this subset of costs due to the lack of visibility within the current system that pools all direct and indirect overhead costs and does not segregate this detail at a capitalization level.

c) Other than the capitalization of overheads, as noted in part a-b), Enbridge Gas has not proposed to capitalize any further costs that would be expensed in accordance with ASC 360 if ASC 980 is not applied.

TAB 4

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Exhibit 2, Tab 4, Schedule 2, pp.13-14, 21

Question(s):

Enbridge Gas noted that the inputs to the harmonized methodology are updated annually to ensure that the overhead capitalization rates closely reflect the underlying capital activity.

Furthermore, Enbridge Gas intends to eliminate the use of regulatory overhead asset accounts for Union Gas and adopt the EGD approach of presenting capitalized overheads within PPE asset classes.

a) Please explain if Enbridge Gas performs any year-end review or analysis to determine if the capitalized overhead amounts are appropriate. If yes, please describe the review or analysis, and the results of the most recent review or analysis.

b) It states that overhead capitalization rates for 2024 is based on 2021 actuals and is identical to those used for the 2023 budget. Please explain whether Enbridge Gas considered using an average of prior year actuals instead of only using 2021 actuals, and explain Enbridge Gas's rationale for only using 2021 actuals.

    i. Please quantify the capitalized amount if capitalization amounts were based on an average of 2020, 2021 and 2022 actual rates and compare this capitalized amount with the proposed one.

c) With regards to eliminating the use of regulatory overhead asset accounts, please explain whether Enbridge Gas will still be able to quantify the total amount of overhead capitalized if required.

    i. If no, please explain why Enbridge Gas does not feel that this information is necessary.

Response:

a) Overhead capitalization rates are determined for the upcoming year during the budget process. This process replaces the overly administrative, time-consuming, and costly process of time sheeting for support departments. For certain components of the harmonized methodology, such as the Business Costs category activity analysis, the inputs from the prior year are reviewed as an initial step in determining the overhead capitalization rates for the new year. Capitalized overhead is trued up based on actual O&M costs each month. Monthly variance analysis is performed to confirm variances compared to budget.

b) Within Enbridge Gas's capitalization model for the 2023 budget, only regional operations capitalization rates are based on 2021 actuals. Business unit capitalization rates are based on future estimates of activity performed. The rationale for using one-year actuals instead of a three-year average is that since amalgamation the regional operations groups have undergone multiple organizational changes therefore the historical information dated three to four years back will not be comparable to the current organization structure. Also, at the time the 2023 and 2024 budget was developed, 2022 actuals were not available and 2021 actuals were the most recent and relevant data available. Enbridge Gas will continue to monitor the overhead capitalization process and will update if needed to reflect the most accurate rates.

   i. Since the regional operations capitalization rates were the only rates based on 2021 actuals, the 2024 overhead capitalization for this group was recalculated using the actual capitalization rates from 2020, 2021 and 2022. The recalculated regional operations capitalization using the three-year average is $114.5 million. This is $3.7 million lower than the current calculated 2024 overhead capitalization amount of $118.2 million. This variance is mainly due to increased direct capital spend relative to direct O&M spend in Operations in 2021 compared to 2020 as result of increased customer connections work.

c) Enbridge Gas will be able to quantify the total amount of capitalized overhead as the amounts will be gathered into a single overhead capital project prior to being allocated and unitized to plant accounts as provided at Exhibit 2, Tab 4, Schedule 2, pages 19 to 21.

TAB 5

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Ref 1: Exhibit 2, Tab 4, Schedule 2, Attachment 1 - EY Report
Ref 2: Exhibit 1, Tab 8, Schedule 2, p.3
Ref 3: Exhibit 2, Tab 4, Schedule 1, Attachment 1 - Enterprise Wide Policy, p.23
Ref 4: Exhibit 2, Tab 4, Schedule 2, pp.11, 17

Question(s):

As noted in the EY Report, EY used a combined approach of relying on accounting guidance, cost causation linkage, discussion with Enbridge Gas personnel, and understanding industry best practices. Page 11 of the EY Report indicates that EY provided alternatives and best practices within the industry.

a) Please discuss the alternatives EY provided and explain the rationale for the overhead capitalization methodology Enbridge Gas adopted.

b) Please indicate whether Enbridge Gas has compared its overhead capitalization methodology and rates with industry peers. If yes, please discuss the results of this comparison.

c) On page 17 of Reference 4, Table 3 shows that compared with the capitalized amounts of $295.1 million from using the historical method, the capitalized amounts of $310.5 million from using the harmonized method has increased by $15.4 million. Please provide the revenue requirement impact of the increase in $15.4 million capitalized amount, considering the impact to OM&A and depreciation.

d) In Reference 2, Enbridge Gas indicated that it believes that it is appropriate to continue to use USGAAP for ratemaking purposes in this application and for the next IR term. One of the differences between USGAAP and IFRS is that IFRS does not allow for administration and other general overheads to be capitalized while USGAAP does. Please indicate which of Enbridge Gas's four cost categories (e.g. Shared Services cost) administration and other general overheads would be capitalized.
   i. Please approximate the amount of administration and other general overheads included in 2024 that would not be eligible for capitalization under IFRS?

e) In the Enterprise Wide Capitalization Policy in Reference 3, Appendix 3 indicates that general and administrative costs which are not directly attributable to capital projects are expensed as incurred. This would include items such as office support services, human resources, IT, accounting, legal, and executive costs which are not chargeable to a capital project. On page 4 of Reference 4, it defines Shared Services Cost as services from Finance, Legal, Real Estate and Workplace Services, Technology and Information Services. A single capitalization rate was calculated for Shared Services Cost. Please reconcile the capitalization of Shared Services Costs with the Enterprise Wide Capitalization policy which requires costs that are not directly attributable to projects be expensed.

f) Please explain whether Enbridge Gas has incurred incremental costs to implement the harmonized capitalization policy. If yes, please quantify and explain how these incremental costs are treated for regulatory purposes. If it is included in this application for recovery, please provide the reference to this.

Response:

The following response was provided by Ernst & Young LLP (EY):

a) EY held discussions with Enbridge Gas management on the alternative overhead capitalization methodologies based on accounting guidance, cost causation linkage, discussion with Enbridge Gas personnel, and an understanding of industry best practices. EY provided a vast array of alternative methodologies for Enbridge Gas management to evaluate in determining the harmonized overhead capitalization methodology to adopt.

   EY shared alternative methodologies which ranged from a fully direct costing approach, where costs would be directly charged to projects, to a broader costing method where costs would be pooled into a category such as Operations, IT, HR, etc. based on their nature and then have a rate applied per pool.

   Specific rationale for the chosen harmonized overhead capitalization methodology has been documented in the EY Report provided at Exhibit 2, Tab 4, Schedule 2, Attachment 1, in the following sections as noted below:

   i. The types of costs discussed in Section III (pages 6 to 9)
   ii. Accounting guidance considered in Section VI (page 13)
   iii. The cost causality linkage discussed in Section VII (pages 15 to 16)
   iv. Industry best practices discussed in Section VIII (pages 17 to 18)

   The following responses were provided by Enbridge Gas:

The goal of the harmonization of the overhead capitalization methodologies was to align treatment and process across EGD and Union, simplify the process, provide flexibility, transparency and efficiency. The premise was that like costs and assets needed to be treated the same to allow for better and more efficient management decision making.

Aligned with the guiding principles noted above, the adopted methodology resulted in a simplification of the process by reducing the number of overhead capitalization rates from 412, under the legacy methodologies, to 25. This allows for better visibility and transparency of results and drivers. Further, there were effectively 4 models used to allocate overheads under the old methodologies, that have now been harmonized under one, which is considered much more efficient to maintain and is aligned with best practices. With this simplicity comes the flexibility required to adapt to the changing needs of the business so that if time sheeting is implemented, for example, or there is an organizational change, the model is more easily able to accommodate such changes.

b) No, Enbridge Gas has not compared its overhead capitalization methodology and rates with industry peers.

c) The revenue requirement impact in 2024 of the $15.4 million increase in capitalization is a reduction to revenue requirement of approximately $13.2 million considering the impacts to O&M, depreciation, rate base and income taxes.

d) Please see response at Exhibit I.1.8-STAFF-18.

e) The full statement in Reference 3, Appendix 3 states, "For clarity, general and administrative costs may only be Capitalized in accordance with Section 7.5 – Overhead-related Costs (Some G&A Costs may be Capitalized according to rate regulated rules or guidelines)." This reference reconciles the Enterprise-Wide Capitalization Policy's recognition of the ability to capitalize applicable Shared Service costs. In addition, further clarification regarding Enbridge Gas’s Overhead Capitalization Study is provided at Exhibit I.1.2.4-EP-9.

f) Costs to implement the harmonized overhead capitalization policy amounted to $0.2 million and were expensed as incurred in 2020. There are no further implementation costs included in the 2024 Test Year Forecast related to the harmonized overhead capitalization policy.

TAB 6

ENBRIDGE GAS INC.

Answer to Interrogatory from
Pollution Probe (PP)

Interrogatory

Reference:

The capitalization of indirect overheads was one such area of alignment to provide a harmonized approach for the Company that meets the guidelines specified by the OEB Uniform System of Accounts for Class A Gas Utilities, and US GAAP. [Exhibit 2, Tab 4, Schedule 2, Page 2]

Question(s):

a) Please provide the specific guideline language Enbridge is referring to above.

b) Please confirm that capitalization of indirect overheads under US GAAP is only allowed when a regulatory decision in place to enable that approach (i.e. if the OEB does not provide put it in place as a regulatory approval Enbridge would not be able to capitalized indirect overheads under US GAAP). If that is not correct, please explain.

c) Please confirm what amount and portion of annual capital costs are related to indirect overheads.

Response:

The following response has been updated to reflect the Capital Update provided at /u
Exhibit 2, Tab 5, Schedule 4, filed on June 16, 2023.

a) The specific guidance language Enbridge Gas is referring to is provided at Exhibit 2, Tab 4, Schedule 2, Attachment 1, page 13.

b) Confirmed. Outside the application of ASC 980 and the referenced regulatory approval, indirect overheads are not capitalized under US GAAP. However, it should be noted that a portion of Enbridge Gas's indirect overheads are indeed direct in nature but are being capitalized as indirect because Enbridge Gas's processes do not allow for these costs to be directly capitalized to specific capital projects. These costs can be capitalized under US GAAP by applying the guidance in ASC 360.

c) Indirect overheads are calculated as a percentage of direct capital costs. As direct capital fluctuates from year to year, so does the portion of indirect overheads. Please see Table 1 for a summary of overheads and the allocation % from 2023 to 2025.

Table 1

($ millions)	2023 Bridge Year	2024 Test Year	2025 Forecast	
Direct Capital(1)	1,066	1,057	1,237	/u
Total Overhead(2)	306	278	323	/u
Overhead %	28.71%	26.27%	26.10%	/u

Notes:

(1) Core and Integration capital. Integration capital applies to 2023 only. Excludes amounts for PREP: $17.6 million in 2023, $154.3 million in 2024 and $5.3 million in 2025 /u

(2) Total overheads are inclusive of allocations from O&M, loadings, and interest during construction. Excludes amounts for PREP: $5.1 million in 2023, $40.6 million in 2024 and $1.4 million in 2025 /u

TAB 7

ENBRIDGE GAS INC.

Answer to Undertaking from
Ontario Energy Board Staff (STAFF)

Undertaking

Tr: 4

To calculate the capitalized amount flowing through the impacts of all the affected cost categories.

Response:

The total impact on the operations regional groups, and flow through impacts to operations services and governance, operations VP admin and shared service cost categories of capitalized amounts using a three-year average (2020, 2021 and 2022) rather than discrete one-year (2021) for 2024 is estimated to be $5.35 million; which is a decrease in overhead capitalization and increase in O&M.

TAB 8

PARTIAL SETTLEMENT PROPOSAL

Enbridge Gas Inc. Application for approval of 2024 Rates

June 28, 2023

3.2.6.1	General Service Customer Additions Unlocks – Customer Additions
3.2.6.2	General Service Customer Additions Unlocks – Average Number of Customers
3.6.1	Heat Value Calculation
3.6.1.1	Heat Value Calculation – Measurement Data
Exhibit I.3.2	Exhibit 3, Tab 2 Interrogatories
Exhibit I.3.6	Exhibit 3, Tab 6 Interrogatories
3 TC Tr. 41 - 163	Technical Conference Panel 3
JT3.5 - JT3.25	Panel 3 Undertakings

D. Operating Expenses (Exhibit 4)

12. Are the proposed 2024 Test Year operating and maintenance expenses appropriate?

Partial Settlement

Parties agree to an overall O&M budget envelope as follows.

The 2024 as-filed O&M budget, net of overhead capitalization and exclusive of DSM costs set and approved in the EB-2022-0002 DSM Framework proceeding, will be reduced by $50 million to $821 million. Applying Enbridge Gas's proposed overhead capitalization methodology, this adjustment results in a gross O&M budget of $1,113 million, exclusive of DSM-related amounts, which represents a reduction in the gross O&M budget of $68 million. Capitalized overhead is consequently reduced to $292 million, which represents a $18 million reduction from the as-filed amount. The net O&M budget, after $292 of overhead capitalization, is $821 million ("Net O&M Budget").

Parties agree that this gross O&M budget is reasonable in the context of a proposed capital budget (before updates) of $1,491 million.

It will be open for Parties to argue that a different capitalized overhead amount would be appropriate if a different overhead capitalization methodology is approved and/or if a different capital budget is approved. In the event that the OEB approves a capitalized overhead amount that is different from $292 million, all Parties agree that any resulting adjustment of the O&M budget envelope to account for the reduced/increased portion of gross O&M being recovered as capitalized overhead is an item for Parties to argue and the OEB to consider. Other than as set out in this paragraph and in relation to NGV (see below), the settled Net O&M Budget envelope of $821 million (exclusive of DSM) is not subject to adjustment.

The Parties have agreed to variance account treatment for two aspects of the O&M budget – (i) DIMP and EDIMP costs; and (ii) pension and OPEB costs.

The Parties agree to a DIMP Variance Account that will track Enbridge Gas

TAB 9

ONTARIO ENERGY BOARD

FILE NO.: **EB-2022-0200** **Enbridge Gas Inc.**

VOLUME: **Technical Conference**

DATE: **March 30, 2023**

expense. Sorry, the approved amount that was ultimately collected in rates between rates and utilization of the PTUVA. Subject to check. I will help confirm that.

MS. KWAN: So will you confirm through an undertaking?

MR. VINAGRE: Yes.

MR. MILLAR: That's JT7.17.

UNDERTAKING NO. JT7.17: TO CONFIRM PENSION AND BENEFIT AMOUNTS PREVIOUSLY COVERED BY THE PTUVA ARE NOW RECOVERED THROUGH DVAS

MS. KWAN: Okay, my next question is still on this attachment. In the last table on the attachment there, it shows -- if we can go back to the previous page.

The last table as in the bottom of the page there. That's the table I'm looking at, the fourth -- the fifth table there.

So, my question is on how the split between the capital and the O&M amounts are calculated.

I asked this question to an earlier panel, I think panel 4, and was referred to this panel for this question. So, I just wanted to get an understanding on how the split is determined.

So if we look at the 2024 column it says there is a credit of 1.6 million total and I believe that's taken from the actuarial report.

Then in the line 13 included in capital it shows a debit amount of 13.4 million.

And my understanding is that it's determined using the burdening methodology where O&M is multiplied by the burden

rate and the burden rate is determined based on the annual current service costs; is that correct?

MR. VINAGRE: Jason Vinagre here, Ms. Kwan.

As noted, I believe in the IR response, we had indicated on a best-efforts basis this as a proxy with regard to actually what you were speaking to there, that the process at a very high-level is the burden rate multiplied by the current service cost component of pension expense.

Definitively being able to specifically segregate this in the amount of capitalization is very difficult if not impossible with the current service costs being built into a number of different cost pools ultimately that overhead cost capitalization is applied to.

MS. KWAN: And then the O&M amount in line 14, that's just the difference between the 1.6 credit and the debit 13.4, right?

MR. VINAGRE: Correct.

MS. KWAN: So based on this methodology would the capital amount ever be in a credit position?

MR. VINAGRE: Jason Vinagre here again, Ms. Kwan.

Only if the current service cost component of forecast pension expense would flip to a negative position, which I don't expect that would ever be the case. Subject to check.

MS. KWAN: Okay, my next question is in the same IR response. Can we go to part (d) now.

So part (d) is asking if Enbridge Gas, Union, or EGD

TAB 10

Mercer

EGI Pension and Benefit Plans

Estimated 2022-2024 Net Periodic Benefit Costs

May 2022

welcome to brighter

Based on the projected financial positions, the resulting US GAAP accrual costs for the plans over 2022 – 2024 are summarized below.

Company's Share US GAAP ('000s)	EI RPP	EGD RPP	Pension Choices	M&S	BU	Salaried	Group 1	Group 3
2022								
DB Current service cost (employer)	52,553	6,245	208	-	-	-	-	-
Interest cost	6,479	29,493	16,708	3,877	3,406	1,515	207	188
Expected return on plan assets	(13,139)	(77,801)	(37,320)	(8,706)	(8,235)	(3,643)	(491)	(500)
Amortization of past service costs	-	-	-	-	-	-	-	-
Amortization of net actuarial loss (gain)	-	7,775	-	-	-	-	-	-
Total DB Net Periodic Benefit Cost	45,893	(34,288)	(20,404)	(4,829)	(4,829)	(2,128)	(284)	(312)
DC Current Service Cost	2,547	69	294	-	-	-	-	-
Total (DB & DC) Net Periodic Benefit Cost	**48,440**	**(34,219)**	**(20,110)**	**(4,829)**	**(4,829)**	**(2,128)**	**(284)**	**(312)**
2023								
DB Current service cost (employer)	31,334	3,532	138	-	-	-	-	-
Interest cost	10,146	43,911	22,884	6,108	5,362	2,400	338	308
Expected return on plan assets	(14,450)	(71,522)	(33,799)	(7,186)	(6,828)	(3,009)	(429)	(440)
Amortization of past service costs	-	-	-	-	-	-	-	-
Amortization of net actuarial loss (gain)	-	51	-	-	-	-	-	-
Total DB Net Periodic Benefit Cost	27,030	(24,028)	(10,777)	(1,078)	(1,466)	(609)	(91)	(132)
DC Current Service Cost	3,409	72	266	-	-	-	-	-
Total (DB & DC) Net Periodic Benefit Cost	**30,439**	**(23,956)**	**(10,511)**	**(1,078)**	**(1,466)**	**(609)**	**(91)**	**(132)**
2024								
DB Current service cost (employer)	30,879	3,463	129	-	-	-	-	-
Interest cost	12,531	43,518	22,719	5,869	5,144	2,300	340	310
Expected return on plan assets	(16,028)	(72,618)	(34,294)	(7,013)	(6,693)	(2,944)	(427)	(440)
Amortization of past service costs	-	-	-	-	-	-	-	-
Amortization of net actuarial loss (gain)	-	-	-	-	-	-	-	-
Total DB Net Periodic Benefit Cost	27,382	(25,637)	(11,446)	(1,144)	(1,549)	(644)	(87)	(130)
DC Current Service Cost	4,149	74	246	-	-	-	-	-
Total (DB & DC) Net Periodic Benefit Cost	**31,531**	**(25,563)**	**(11,200)**	**(1,144)**	**(1,549)**	**(644)**	**(87)**	**(130)**

Company's Share US GAAP ('000s)	EGD SERP	EGD SSERP	EI SPP	LSE SERP	OPEB	Total Pension	Grand Total
2022							
DB Current service cost (employer)	-	-	1,212	-	1,833	60,218	62,051
Interest cost	311	56	631	1,440	4,252	64,311	68,563
Expected return on plan assets	(417)	(228)	(932)	-	-	(151,412)	(151,412)
Amortization of past service costs	-	-	-	-	(27)	-	(27)
Amortization of net actuarial loss (gain)	204	-	12	38	(922)	8,029	7,107
Total DB Net Periodic Benefit Cost	98	(172)	923	1,478	5,136	(18,854)	(13,718)
DC Current Service Cost	-	-	-	-	-	2,910	2,910
Total (DB & DC) Net Periodic Benefit Cost	**98**	**(172)**	**923**	**1,478**	**5,136**	**(15,944)**	**(10,808)**
2023							
DB Current service cost (employer)	-	-	885	-	1,144	35,889	37,033
Interest cost	574	131	937	2,151	6,057	95,250	101,307
Expected return on plan assets	(376)	(211)	(737)	-	-	(138,987)	(138,987)
Amortization of past service costs	-	-	-	-	(27)	-	(27)
Amortization of net actuarial loss (gain)	169	-	-	-	(3,731)	220	(3,511)
Total DB Net Periodic Benefit Cost	367	(80)	1,085	2,151	3,443	(7,628)	(4,185)
DC Current Service Cost	-	-	-	-	-	3,747	3,747
Total (DB & DC) Net Periodic Benefit Cost	**367**	**(80)**	**1,085**	**2,151**	**3,443**	**(3,881)**	**(438)**
2024							
DB Current service cost (employer)	-	-	907	-	1,144	35,378	36,522
Interest cost	573	126	989	2,105	6,063	96,524	102,587
Expected return on plan assets	(372)	(208)	(809)	-	-	(141,846)	(141,846)
Amortization of past service costs	-	-	-	-	(27)	-	(27)
Amortization of net actuarial loss (gain)	138	-	-	-	(3,476)	138	(3,338)
Total DB Net Periodic Benefit Cost	339	(82)	1,087	2,105	3,704	(9,806)	(6,102)
DC Current Service Cost	-	-	-	-	-	4,469	4,469
Total (DB & DC) Net Periodic Benefit Cost	**339**	**(82)**	**1,087**	**2,105**	**3,704**	**(5,337)**	**(1,633)**

TAB 11

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Ref 1: Exhibit 4, Tab 4, Schedule 3, p.8
Ref 2: Exhibit 9, Tab 2, Schedule 1, Attachment 9.
Ref 3: January 27, 2023 Evidence Correction and Updates, Attachments 1

Question(s):

Table 2 in Reference 1 provides total compensation expense broken down by salary & wages, as well as total benefits and incentive pay for 2024 and Table 1 in Reference 3 provides updated pension and Other Post-Employment Benefit (OPEBs) amounts.

a) For the total benefits and incentive pay, please provide a breakdown of the amounts for pension and OPEBs for 2024.

b) For the period from the last rebasing to 2024 for EGD, Union Gas and Enbridge Gas, as applicable, please provide the following annual pension as well as annual OPEB amounts:
   i. included in rates
   ii. actual/forecasted accrual amounts
   iii. actual/forecasted cash contributions made

c) For the annual pension and annual OPEB amounts included in rates and actual/forecasted accrual amounts provided in response to part b above, please provide an annual breakdown of the amounts included in OM&A versus the amounts included in capital.

d) Please indicate if Enbridge Gas, EGD or Union Gas was eligible for a pension contribution holiday from the last rebasing to 2024. If yes, please provide further details.

e) On page 2 of Reference 2, it states that from EGD RPP's inception to 2011, all DC contributions had been drawn from the DB provision's surplus. Starting in 2012, DC contributions were remitted from cash rather than the DB provision surplus. Please explain the rationale for the change in contribution treatment in 2012.
   i. Please explain the implications to pension and OPEBs when DC contributions are drawn from the DB provision's surplus (e.g. impact to obligation)

ii. For the actual/forecasted cash contributions made from last rebasing to 2024 as provided in response to part b(iii) above, please indicate the portion of cash contributions that could have been drawn from the DB provisions' surplus.

Response:

a) With regard to the updated Pension and Other Post-Employment Benefit (OPEBs) amounts noted in Reference 3 above, the Pension and OPEB amount for 2024 within total benefits and incentive pay in the updated $111 million in Exhibit 4, Tab 4, Schedule 3, Table 2 is a credit of $1.3 million. The remaining $0.3 million credit within 2024 forecast Pension and OPEB amounts is included in Central Functions Benefits.

b)
i.-iii. Please see Attachment 1.

c) Please note that EGD and Union prior to 2020 had overhead capitalization methodologies that differed in approach (details provided at Exhibit 2, Tab 4, Schedule 2). Prior to implementation of the Harmonized Overhead Capitalization Methodology for Enbridge Gas, EGD did not capitalize any portion of pension based benefits costs nor did it include any capitalized amounts in rates. Previous to 2018, Union had capitalized a portion of net pension benefit costs and included approximately $6.6 million of capitalized amounts in rates.

With the implementation of the Harmonized Overhead Capitalization Methodology in 2020, Enbridge Gas began capitalizing a portion of the current service cost component of pension based benefit costs across both rate zones. This is provided at Exhibit 2, Tab 4, Schedule 2, page 17, Table 3. As described in that exhibit, Enbridge Gas capitalizes pension and benefit costs using a burdening approach with capitalization rates across 4 categories of costs including pension and benefits, therefore capitalization of the current service cost as a component of total benefits costs is not tracked separately. As a result, in order to respond to this request Enbridge Gas utilized assumptions on a best effort basis to support the request to provide estimates of the breakdown of capital and O&M amounts. Please see Attachment 1 for details of these estimates along with the assumptions used. Since the details in Attachment 1 are based on the assumptions as noted, this information should be utilized for illustrative purposes only.

d) The following response was provided by Mercer:

Enbridge Gas, EGD or Union was eligible for a pension contribution holiday from the last rebasing to 2024. Specifically:

- The BU Plan was eligible for a pension contribution holiday in 2020 and 2021; and
- The G3 Plan was eligible for a pension contribution holiday in 2018 and 2020.

In accordance with applicable pension legislation, the plan's actuary must demonstrate to the pension regulator each year that sufficient excess assets are available using prescribed filings. No such filings have been submitted in 2023, however it is expected that Enbridge will do so for the EI RPP, EGD RPP and pension choices. Eligibility for a pension contribution holiday in 2024 cannot be established until after January 1, 2024.

e) The following response was provided by Mercer:

Certain financial and statutory conditions must be met prior to using DB surplus to pay DC contributions. Specifically, the plan's actuary must demonstrate to the pension regulator each year that sufficient excess assets are available. Starting in 2012, the EGD RPP did not meet the financial and statutory conditions to pay DC contributions from the DB portion of the plan.

i. A pension and OPEB plan's obligations are not affected when DC contributions are drawn from the DB pension provision's surplus.

ii. If eligible to take a pension contribution holiday, Enbridge has elected to do so. Accordingly, none of the contributions made from the last rebasing, as provided at Exhibit I.4.4-STAFF-132 part b) iii. could have otherwise been drawn from DB plan surplus.

Pension and OPEB Amounts
EGI

Line No.	Particulars ($ millions)	2018 Actual	2019 Actual (6)	2020 Actual	2021 Actual	2022 Actual	2023 Forecast (1)	2024 Forecast (1)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Actual/Forecasted Accrual Amounts (Net Benefit Cost)							
1	Pension (2) (6)	36.1	24.0	20.0	13.0	-15.9	-3.9	-5.3
2	OPEB	8.4	7.0	8.0	7.0	5.1	3.5	3.7
3	Total	44.5	31.0	28.0	20.0	-10.8	-0.4	-1.6
	Actual/Forecasted Cash Contributions Made (includes DC Amounts)							
4	Pension	42.0	44.0	54.0	39.0	40.0	9.0	9.7
5	OPEB	7.0	5.0	5.0	5.0	5.0	7.1	7.2
6	Total	49.0	49.0	59.0	44.0	45.0	16.1	16.9
	Pension and OPEB Amounts Included in Rates							
7	Pension (2)	54.9	55.0	55.0	55.0	55.0	55.0	-5.3
8	OPEB	13.2	13.2	13.2	13.2	13.2	13.2	3.7
9	Total	68.1	68.2	68.2	68.2	68.2	68.2	-1.6
	Pension and OPEB Amounts Included in Rates							
10	Included in Capital (3)	6.6	6.6	6.6	6.6	6.6	6.6	13.4
11	Included in O&M	61.5	61.6	61.6	61.6	61.6	61.6	-15.0
12	Total	68.1	68.2	68.2	68.2	68.2	68.2	-1.6
	Actual/Forecast Pension and OPEB Amounts							
13	Included in Capital (4) (5)	5.7	6.7	23.9	21.7	17.7	13.8	13.4
14	Included in O&M	38.8	24.4	4.1	-1.7	-28.5	-14.2	-15.0
15	Total	44.5	31.0	28.0	20.0	-10.8	-0.4	-1.6

Notes:

(1) Updated for Mercer December 2022 update
(2) As of 2019 the 2018 EGD and 2013 Union amounts are embedded in rates, $20.8 million and $47.4 million respectively. The amount in rates excludes the Employee Pension Credit Cost established in 2018 as part of the Enbridge Harmonized Pension Plans
(3) Represents Union capitalized amount in rates since 2013, EGD has not had capitalized amounts in rates
(4) Represents estimated capitalization on only the Current Service Cost component of Net Benefit Cost annually since 2018 ASU implementation
(5) EGD rate zone did not capitalize any pensions costs prior to 2020, beginning in 2020 with Overhead Capitalization Harmonization
EGI capitalized the current service cost component of penion costs applicable to both rate zones
(6) In 2019, upon amalgamation, Union adopted the corporate basis for pension expense with the unamortized pre-2017 actuarial loss/past service costs reclassified to the APCDA.

Pension and OPEB Amounts
EGD

Line No.	Particulars ($ millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual
		(a)	(b)	(c)	(d)	(e)
	Actual Accrual Amounts (Net Benefit Cost)					
1	Pension	41.0	26.0	34.0	22.0	17.0
2	OPEB	6.0	6.0	6.0	5.0	5.0
3	Total	47.0	32.0	40.0	27.0	22.0
	Actual Cash Contributions Made (includes DC Amounts)					
4	Pension	39.0	42.0	4.0	2.0	48.0
5	OPEB	3.0	5.0	5.0	5.0	4.0
6	Total	42.0	47.0	9.0	7.0	52.0
	Pension and OPEB Amounts Included in Rates					
7	Pension	37.3	31.4	31.6	29.0	19.6
8	OPEB	5.5	5.9	5.8	5.6	5.2
9	Total	42.8	37.3	37.4	34.6	24.8
	Pension and OPEB Amounts Included in Rates					
10	Included in Capital	0.0	0.0	0.0	0.0	0.0
11	Included in O&M	42.8	37.3	37.4	34.6	24.8
12	Total	42.8	37.3	37.4	34.6	24.8
	Actual/Forecast Pension and OPEB Amounts					
13	Included in Capital	0.0	0.0	0.0	0.0	0.0
14	Included in O&M	47.0	32.0	40.0	27.0	22.0
15	Total	47.0	32.0	40.0	27.0	22.0

Pension and OPEB Amounts
UGL

Line No.	Particulars ($ millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual
		(a)	(b)	(c)	(d)	(e)
	Actual Accrual Amounts (Net Benefit Cost)					
1	Pension	38.0	26.0	29.0	24.0	22.0
2	OPEB	5.0	4.0	4.0	4.0	3.0
3	Total	43.0	30.0	33.0	28.0	25.0
	Actual Cash Contributions Made (includes DC Amounts)					
4	Pension	60.0	24.0	12.0	10.0	22.0
5	OPEB	3.0	2.0	2.0	2.0	2.0
6	Total	63.0	26.0	14.0	12.0	24.0
	Pension and OPEB Amounts Included in Rates					
7	Pension	39.8	39.8	39.8	39.8	39.8
8	OPEB	7.6	7.6	7.6	7.6	7.6
9	Total	47.4	47.4	47.4	47.4	47.4
	Pension and OPEB Amounts Included in Rates					
10	Included in Capital	6.6	6.6	6.6	6.6	6.6
11	Included in O&M	40.8	40.8	40.8	40.8	40.8
12	Total	47.4	47.4	47.4	47.4	47.4
	Actual/Forecast Pension and OPEB Amounts					
13	Included in Capital	6.7	4.3	4.9	4.2	4.8
14	Included in O&M	36.3	25.7	28.1	23.8	20.3
15	Total	43.0	30.0	33.0	28.0	25.0

TAB 12

ONTARIO ENERGY BOARD

UNIFORM SYSTEM OF ACCOUNTS FOR

CLASS A GAS UTILITIES

PART I

APRIL 1, 1996

GENERAL INSTRUCTIONS INDEX

1. Introduction

This Uniform System of Accounts ("USOA") includes the latest changes in accounting and regulatory practices and terminology. In addition, this USOA has been refined in certain areas to accommodate the deregulated natural gas environment, as well as regulated and non-regulated activities of gas utilities.

Inclusion of any item or account in this prescribed USOA does not necessarily imply the Board's acceptance of any expenditure, revenue or procedure suggested by the use of such an account.

2. Generally Accepted Accounting Principles

The Board recognizes that generally accepted accounting principles ("GAAP") are the accepted medium for the communication of financial information to the public.

The Board therefore acknowledges that Class A gas utilities in Ontario are expected to maintain accounting records in accordance with GAAP, the principal source of which in Canada is the Handbook of the Canadian Institute of Chartered Accountants ("CICA").

The Board recognizes that the regulatory process introduces certain specific cause-and-effect relationships in the matching of a utility's revenues and expenses, which may require special applications of GAAP.

Accordingly, utilities are required to use this USOA in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices, but with due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of GAAP.

3. Records

The records shall be kept in such form as to permit determination of the correctness of the accounting, and with sufficient detail to show fully the facts pertaining to all entries made in the accounts.

Where full information is not recorded in the general books, the entries therein shall be supported by other records in which full details shall be shown. The general book entries shall contain sufficient reference to the detailed records to permit ready identification, and the detailed records shall be filed in such a manner as to be readily accessible for examination by representatives of the Board.

Unless otherwise provided for in the accounts prescribed in this USOA, companies shall subdivide any and all applicable accounts to record non-gas utility transactions or items which are not normally includible in Ontario gas utility assets, liabilities, revenues or expenses for purposes of the Board setting or fixing just and reasonable rates and other charges under section 19 of the Ontario Energy Board Act ("the Act"), as amended from time to time.

For new gas related business activities, for example, Natural Gas Vehicle ("NGV"), Demand Side Management ("DSM") and for Non-Utility activities, the utilities shall record all transactions in sufficient detail to segregate such activities. In conjunction

906. TELEPHONE SYSTEM EXPENSES

This account shall include expenses of maintaining and operating the utility's telephone system, switchboard and mobile radios.

UNIFORM SYSTEM OF ACCOUNTS

FOR CLASS A GAS UTILITIES

APPENDIX A

PLANT ACCOUNTING INSTRUCTIONS

1. PLANT ACQUIRED OR CONSTRUCTED

The detail plant accounts shall record the cost to acquire or construct utility plant, except as otherwise provided in these instructions. If consideration given for such plant is other than cash, the cash equivalent shall be charged to the applicable accounts and sufficient details of the actual consideration shall be retained.

When the utility purchases all or part of the existing facilities of a non-affiliated gas company, the cost to acquire gas plant shall be distributed to the accounts, unless the Board determines that a portion of the acquisition cost is not properly includible as utility plant. Such amounts shall then be included in Account No. 104, "Utility Plant Acquisition Adjustments". If the facilities are purchased from an affiliated company, both the cost to the affiliated company and the accumulated depreciation to the date of acquisition shall be recorded in the utility's books.

If the plant is constructed by or for the utility, the cost to be recorded shall include the cost of labour, material and supplies, special machine and heavy work equipment expense, transportation, contract work, insurance, injuries and damages, privileges and permits, overhead charged to construction and allowance for funds used during construction. These items are defined as:

A. Components of Construction Costs

(a) Labour: includes the amount paid for labour, (including fringe benefits) to the utility's own employees. When employees are specifically assigned to construction work, their pay, while thus engaged, shall be included in the cost of the work. No charge shall be made to detail plant accounts for the pay of

employees whose services in connection with construction are merely incidental, except as provided for in the cost of overhead charged to construction.

The travelling and other incidental expenses of employees shall be distributed in accordance with distribution of the pay of such employees.

(b) Material and Supplies: includes the net purchase price of material and supplies including the cost of small tools, taxes, inspection, transportation and loading; where appropriate, a suitable proportion of stores expenses.

In charging the detail plant accounts with material and supplies used, proper allowance shall be made for the value of unused portions and other salvage, the material recovered from temporary pipe scaffolding and other temporary structures used in construction, and small tools recovered and usable for other purposes.

(c) Special Machine and Heavy Work Equipment Expense: includes the cost of labour, material and supplies, depreciation and other expenses incurred in maintaining and operating power shovels, scrapers, pile drivers, dredges, ditchers, material loaders and other labour saving machines; also amounts paid to others for rent and maintenance of such machines. It does not include the cost of small tools and other individual items of small value or short life that are included in the cost of material and supplies.

When a construction project necessitates the purchase of equipment to be used exclusively on the project until its work on the project is completed, the cost of such equipment shall be included in the accounts representing the cost of the work. No charge shall be made to expenses for depreciation on such equipment while the cost remains so charged. The amount realized from any subsequent sale, or the appraised value of equipment retained after the completion of the work for which it was purchased, shall be credited to the accounts charged with its cost. The appraised value of such equipment retained shall be debited to the appropriate plant account, and thereafter, for the purposes of accounting, such appraised value shall be considered as the cost of the equipment.

(d) Transportation: includes the cost of transporting employees, materials and supplies, special machine outfits and appliances and tools for construction purposes. The cost of the transportation of construction material to the point at which material is received by the utility shall be included, so far as practicable, as part of the cost of such material.

(e) Contract Work: includes amounts paid for work performed under contract by other companies or individuals.

(f) Insurance, Injuries and Damages: includes that portion of premiums incurred for insuring plant and personnel during construction; also the charges for protection against fire and wilful destruction and the cost of injuries to persons, damage to property of others and damages to plant incident to construction. Insurance recovered shall be credited to the accounts chargeable with the expenditures necessary to restore the damaged plant. The injuries and damages incident to the removal of the old structures or parts thereof shall be charged to the account recording retirement costs. Incidental damages settled during the course of construction should be expensed and charged to Account No. 724, "Injuries and Damages".

(g) Privileges and Permits: includes compensation for temporary privileges such as the use of public property or streets and the cost of hearings, permits and rights in connection with construction work.

(h) Overhead Charged to Construction: includes engineering, supervision, administrative salaries and expenses, construction engineering and supervision, legal expenses, taxes and other similar items. The assignment of overhead costs to particular jobs or units shall be on the basis of a reasonable allocation of actual costs. The records supporting the entries for overhead charged to construction costs shall be maintained so as to show the total amount for each element of overhead for the year and the basis of allocation.

(i) Allowance for Funds Used During Construction: includes the cost to the utility for funds used for the purposes of construction, whether or not long-term debt has been incurred. The basis of calculation of the cost shall be as outlined in Account No. 324, "Allowance for Funds Used During Construction - Credit".

B. Contributions and Grants

Contributions or grants in cash, services or property from governments or government agencies, corporations, individuals, and others for contributions in aid of construction shall be applied as a reduction of the detail plant accounts to which they refer, if not recorded separately in Account No. 499, "Contributions and Grants".

C. Date Placed In Service

On the date the plant is placed in service, the utility should cease to record an allowance for funds used during construction on such plant. From that date the utility shall compute and charge to expenses or other appropriate accounts an amount representing depreciation as determined under Section 5, "Depreciation", of these Instructions. Operating revenues received and operating expenses incurred after the date that the asset is placed in service shall be included in the appropriate operating revenue and expense accounts.

D. Work Order and Property Record System

Each utility shall record all construction and retirements of utility plant by means of work orders or job orders. Separate work orders may be opened for additions to and retirements of utility plant. Retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and also that any maintenance costs involved in the work shall likewise be segregated.

Each utility shall keep its work order system so as to show the nature of additions to or retirements of utility plant, the total cost thereof, the source or sources of costs, and the utility plant account or accounts to which charged or credited. Work orders covering jobs of short duration may be cleared monthly.

Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and cost of the various retirement units or other appropriate record units.

2. ADDITIONS

Additions are increases in utility plant through the purchase or construction of additional plant and/or replacement of existing gas plant. The cost of additions to or replacement of plant shall be charged to the appropriate plant account.

A description of typical elements of construction are referred to in Section 1.A, "Components of Constructions Costs". All expenditures relevant to new construction shall be capitalized. After the completion of initial construction, only the costs directly connected to additions or replacements of plant shall be capitalized.

To avoid undue refinement in accounting for additions and replacements of utility plant, all property charged within the plant accounts shall be considered as consisting of Plant Units and Minor Items of Plant.

A. Plant Units

Each company shall use its own list of plant units. Such lists shall be filed with and subject to the approval of the Board. A plant unit is not necessarily a complete structure but may be part of a structure where such a part is physically distinct , and the amount of money involved is material. It is contemplated that the list of plant units will be revised and amended from time to time as experience and conditions warrant, subject to Board approval.

Plant units shall be accounted for in the following manner:

Additions - The cost of a plant unit shall be charged to the appropriate plant account.

Retirements - The book value of the plant unit shall be credited to the appropriate plant account.

Replacements - The book value of the original plant unit shall be credited to the appropriate plant account, and the cost of the replacement shall be charged to the appropriate plant account.

B. Minor Items of Plant

These are the associated parts or items composing a plant unit, and shall be accounted for in the following manner:

Additions - The cost of a minor item of plant that did not previously exist shall be charged to the appropriate plant account unless excluded by the minimum rule, as set out in Section 2.C.

Retirements - The book value of a minor item of plant shall be credited to the appropriate plant account. If, however, the book value of the minor item retired and not replaced will be accounted for upon the retirement of the plant unit with which it is associated, no adjustment shall be made to the plant accounts when such a minor item is retired.

Replacements - The cost of a minor item of plant shall be charged to the appropriate expense account.

C. The Minimum Rule

This is intended for accounting convenience to provide a dollar limit on the charging of costs of Minor Items of Plant to plant accounts. When the costs of such items are less than a selected minimum dollar value, such costs shall be charged to the expense accounts. No change is to be made in the selected minimum dollar amount except by approval of the Board.

D. Repairs Made During Plant Changes

For particulars see Section 4, "Maintenance".

E. Relocation of Pipe Line

For particulars see Section 3, "Retirements".

F. Second-Hand Plant

When second-hand plant is acquired in such a physical condition that it is necessary to make extensive repairs to bring it to the standard required by the utility, the cost of such repairs shall be included in the appropriate plant account.

G. Major Renewals and Repairs

A plant unit is considered as rebuilt when the cost of renewals to parts of such unit, excluding the expense of dismantling and/or repairing old parts reused, exceeds 50% of the replacement cost of a similar new unit.

The rebuilt plant unit shall be accounted for as an addition and the old plant unit accounted for as retired from service. The term "cost of renewals" means the cost of material, other than second-hand parts remaining in the rebuilt plant unit, plus the cost of labour used in the rebuilding process, exclusive of the expense of dismantling and repairing old parts reused.

The charge to the appropriate plant account for the rebuilt plant unit shall be the sum of:

(a) the value of second-hand parts remaining in the rebuilt plant, appropriately valued; and

(b) the cost of labour and additional material applied;

both exclusive of the expense of dismantling and repairing second-hand parts reused.

3. RETIREMENTS

A. Depreciable Plant

When a plant unit is retired from gas operations, the book value shall be eliminated by crediting the appropriate plant accounts. When plant comprising less than a plant unit is removed from service, no adjustment shall be made to the plant accounts if the book value of the retired plant will be removed upon the retirement of the plant unit with which it is associated. When a plant unit is retired, the book value less the net salvage value and/or insurance recovered, if any, shall be charged to accumulated depreciation.

Book Value - This is the amount at which the plant is carried in the accounts of the utility before deducting accumulated depreciation. Book value is normally the cost of the plant. If the book value of any portion of plant is not shown separately, the book value of that portion shall be its proportionate share of the book value of the entire group in which the particular plant is included.

Salvage Value - This represents the value of material recovered from plant retired. If sold, this value will be the proceeds realized from the sale of material. This value shall be the book value of the material, if retained for use by the utility and charged to Account No. 150, "Materials and Supplies", or other accounts of this USOA. Net salvage value means the salvage value less removal costs. In cases where removal costs exceed salvage value, the net salvage value will be negative.

Ordinary Retirements - result from causes reasonably assumed to have been contemplated in prior depreciation provisions, and normally may be expected to occur when plant reaches the end of its expected service life. In the case of such a retirement, accumulated depreciation shall be charged with the book value of the asset and the cost of removal, and credited with amounts realized for salvage and insurance. There is no charge or credit to income for an ordinary retirement. For particulars see Section 5, "Depreciation".

Extraordinary Retirements - result from causes not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions. Such causes include unusual casualties due to fire, storm, flood, etc., sudden and complete obsolescence, or unexpected and permanent shutdown of an operating assembly or plant. An extraordinary retirement results in a loss (or gain) to the extent that the net charges (or credits) would unduly deflate (or inflate) the accumulated depreciation or amortization accounts.

A loss (or gain) is comprised of the difference between the book value of the plant plus cost of removal less salvage and insurance recoveries and the related depreciation or amortization determined in an equitable manner.

Losses as a result of an extraordinary retirement shall be charged to Account No. 171, "Extraordinary Plant Losses". Gains, if any, as a result of an extraordinary retirement shall be credited to income as an extraordinary item.

B. Non-Depreciable Plant

When non-depreciable plant is no longer required for utility purposes but is retained by the utility, its book value shall be transferred to Account No. 110, "Other Utility Plant". When non-depreciable plant is sold, the book value of such plant shall be credited to the applicable plant account. Any profit or loss, if material, shall be recorded in the income statement as an extraordinary item, or in Account No. 171, "Extraordinary Plant Losses", as applicable.

If the profit or loss on disposal of non-depreciable plant is immaterial, such profit or loss shall be recorded in Account No. 319, "Other Income", or to an appropriate income account.

C. Pipe Relocations

When a pipe line is relocated, the part of the line changed shall be considered plant retired and the book value of such plant shall be credited to the appropriate plant account. The new line shall be considered an addition and its cost charged to the appropriate plant account. The cost of such pipe line changes that involve less than a unit of line pipe or an equivalent length shall be charged to expense.

When a utility's pipe line or any part thereof is located in accordance with an agreement, the terms of which may require the utility to relocate all or part of its pipe line and the circumstances are such that the utility has no reasonable alternative but to relocate a unit or more of line pipe and such relocation would be a replacement as defined in Section 2, "Additions", unless otherwise provided, the utility shall, with the approval of the Board, charge the cost of relocation to expenses of the period in which the work was done. When such relocation results from action by a governmental authority it shall be accounted for in a similar manner.

D. Pipe Replacements

When the retired line pipe is replaced with other pipe in the same location, the cost of opening and back-filling the trench, together with the cost of hauling, laying and connecting the pipe, and other costs of pipe line construction, including the cost of material and supplies, shall be charged to the appropriate plant account. The cost of removing the retired pipe from the trench shall be accounted for as negative salvage. The cost of reconditioning the line pipe not removed shall be accounted for as maintenance and not as retirements and replacements.

If the retired line pipe is not replaced in the same location, the cost of opening and back filling the trench from which the pipe is removed, together with the cost of removing the pipe, shall be accounted for as the cost of recovering the salvage.

4. MAINTENANCE

The cost of repairs to be included in the maintenance accounts shall include the cost of inspection to determine what repairs are necessary; also the cost of adjusting, repairing, or replacing parts, and the cost of inspection, testing and running of parts to determine that the repairs were properly made and that the repaired items are ready for service.

When repairs are made to existing plant concurrent with a plant addition or replacement, the cost of new repair material, plus the labour cost actually incurred, shall be charged to the appropriate plant account. If such repairs do not include a plant addition or replacement, the cost shall be charged to the expense account appropriate for repairs to the plant being repaired.

There shall be included in the cost of repairs, incidental costs such as the construction and removal of faulty work in connection with maintenance; the cost of relocating pipe line when retirement accounting for units of plant is not involved; and the cost of repairing fences, sidewalks, driveways and streets within or adjacent to such grounds.

The elements of maintenance shall include labour, materials and supplies, special machine and heavy work equipment service, transportation, contract work, privileges and permits, protection from casualties and injuries and damages, as outlined in Section 1, "Plant Acquired or Constructed", for similar elements of cost of plant acquired or constructed. Royalties paid for patent rights on mechanical appliances used in repairs shall be included in the cost of repairs.

5. DEPRECIATION

A. There shall be charged monthly to Account No. 303, "Depreciation", or other appropriate accounts, with concurrent credits to the account for accumulated depreciation, amounts that will allocate the service value of the plant over its estimated service life in a systematic and rational manner.

The service value of the plant, for depreciation purposes shall be its cost less its estimated net salvage value.

The service life is the period of time between the date on which the plant is placed in service and its retirement for accounting purposes.

B. The charges for depreciation shall be computed in conformity with the group system under the straight-line method or other methods approved by the Board. The group system contemplates that some part of the investment in a group of assets probably will be recovered through salvage realizations, and that probably there will be variations in the service lives of the assets constituting the group, even among assets of the same class. The depreciation provision determined for the group is a weighted average of the various provisions for the respective assets in the group.

For purposes of reporting to the Board, summaries shall be maintained so that the accumulated depreciation can be subdivided to show separately the amount applicable to each detail account or to each group of detail accounts comprised of plant that performs similar functions.

When the retirement or disposal of any individual asset in a group occurs under circumstances reasonably provided for through accumulated depreciation, it may be assumed such provision has been made. Thus, whether the period of service life is shorter or longer than the average service life, accumulated depreciation attributable to an asset at the time of retirement under such circumstances is equal to the cost, except for that portion reasonably assumed to be recoverable through salvage realization. Assets remaining in use after reaching the average life expectancy are not regarded as fully depreciated until actual retirement. For particulars, see Section 3, "Retirements".

If a primary account is fully depreciated (i.e., when the plant balance is equal to the corresponding accumulated depreciation plus or minus the estimated net salvage) further accumulation of depreciation on that plant account should cease.

C. All detail plant accounts, with the exception of all "Land" accounts and Account No. 458, "Base Pressure Gas", are classified as accounts covering assets that are depreciable. In addition, Account No. 401, "Franchises and Consents",

Account No. 402, "Other Intangible Plant", and "Land Rights" accounts are classified as depreciable assets to the extent that they are subject to the same "cost allocation over the useful life" process as depreciable assets.

D. Monthly depreciation charges under the straight-line method shall be computed by applying the annual percentage rate to the cost of plant as of the first of each month and dividing the result by twelve. The utility may, at its option and when the amount is material, compute depreciation charges commencing on the date the plant was actually placed in service rather than the first of the month following. If this method is followed, depreciation should cease at the date of retirement rather than at month end.

E. A separate rate for each group of detail accounts or sub-accounts shall be used in computing depreciation charges. The established rate may be a composite rate due to the different classes and types of assets in the detailed account. The rate shall be approved by the Board except that when no rate for each group of detail accounts or each detail account has been approved previously, an interim rate as estimated by the utility shall be used until approved by the Board.

F. Depreciation rates shall be based on the estimated service values and estimated service lives of the plant developed by a study of the utility's history and experience and such engineering and other information as may be available with respect to future conditions. Non-depreciable plant should not be included in calculating the rates or applying them.

The rates, when filed, shall be accompanied by a statement showing the bases for the rates and the methods employed in their computation, and shall be developed by the utility by the method deemed most appropriate in the light of the utility's retirement experience.

G. Records shall be maintained so that when plant is retired, details will be available to show the service life, cost of removal, and the proceeds from salvage of each class of depreciable plant.

The utility shall be prepared at any time, upon direction of the Board, to compute and submit for its approval revised rates in cases where existing rates are deemed inapplicable.

H. All new depreciation rates and modifications to existing rates are subject to approval by the Board.