ONTARIO ENERGY BOARD

OEB STAFF COMMENTS ON DRAFT RATE ORDER

ENBRIDGE GAS INC.
2024 RATES APPLICATION – PHASE 1
EB-2022-0200

March 1, 2024

Background

Enbridge Gas Inc. (Enbridge Gas) filed an application with the Ontario Energy Board (OEB) under section 36 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15 (Schedule B), seeking approval for changes to the rates that Enbridge Gas charges for natural gas distribution, transportation and storage, effective January 1, 2024.

The OEB is reviewing the application in phases. The OEB approved a settlement proposal between the applicant and intervenors on some Phase 1 issues with the remaining issues going to hearing. In its Decision and Order issued on December 21, 2023, the OEB made a determination on all the remaining issues in Phase 1 of the proceeding (Phase 1 Decision). The Phase 1 Decision required Enbridge Gas to file a draft rate order that included a proposed Rate Handbook, accounting orders, customer bill impacts and detailed supporting information showing the calculation of interim 2024 rates and the associated rate adjustment rider for the period from January 1, 2024 to the implementation date.

Enbridge Gas filed a draft rate order on February 16, 2024 reflecting the OEB’s findings in the Decision. The draft rate order is based on January 1, 2024 rates as approved in the January 1, 2024 Quarterly Rate Adjustment Mechanism (QRAM) updated for the Decision. Enbridge Gas proposed to implement the interim 2024 rates and rate adjustment rider on May 1, 2024. Given that the proposed implementation date of interim 2024 rates is subsequent to the April 2024 QRAM, Enbridge Gas proposed to file an updated draft rate order to incorporate all approved rate changes from the April 2024 QRAM prior to the implementation of 2024 rates.

Comments of OEB Staff

With the exception of certain items noted below, OEB staff is generally satisfied with Enbridge Gas’s draft rate order including the calculation of interim rates, the deferral and variance account rider, the rate adjustment rider and the draft accounting orders.

Implementation Date and Filing of Updated Rate Order

OEB staff supports an implementation date of May 1, 2024. Considering that the implementation date is after the April 2024 QRAM, the draft rate order will have to be updated for the rate changes resulting from the April 2024 QRAM decision. In its reply submission, Enbridge Gas is requested to provide the timeline for filing an updated draft rate order and comment on whether Enbridge Gas is requesting that the OEB issue a Decision on Draft Rate Order with respect to the current draft rate order filing and a subsequent Rate Order after the updated draft rate order is filed.

Integration Capital

In the Phase 1 Decision, the OEB determined that $119 million of undepreciated integration capital was not recoverable from ratepayers.[1] Accordingly, this amount should not be included in the opening balance of 2024 rate base.

In the draft rate order, Enbridge Gas stated that the $119 million, as cited by the OEB in its Phase 1 Decision, was an estimate of the undepreciated value of the integration assets calculated by applying OEB-approved depreciation rates to the cost of the integration assets. Enbridge Gas clarified that the noted amount ($119 million) did not represent the forecast net book value embedded in opening rate base because it is not possible to isolate the net book values of individual assets under group depreciation. Enbridge Gas stated that the majority of the integration assets were classified as computer software and indicated that the computer software plant accounts had large accumulated depreciation balances. Consequently, Enbridge Gas stated that only $91 million of net book value related to integration assets was remaining to be written off. Enbridge Gas explained that the difference of $28 million ($119 million minus $91 million) represents depreciation expense that had already been recognized during the deferred rebasing period. Accordingly, Enbridge Gas reduced the 2024 rate base by $91 million instead of the $119 million ordered by the OEB.

OEB staff notes that, throughout the proceeding, Enbridge Gas referenced $119 million to be the net book value of integration assets. This amount was not adjusted at any point during the proceeding, including in reply argument even though OEB staff and intervenors submitted specific arguments on the appropriate treatment of integration capital.

OEB staff submits that it is unfortunate that Enbridge Gas introduced an adjustment to the opening rate base amount associated with integration capital at this late stage of the proceeding. OEB staff submits that the large accumulated depreciation balances in

[1] EB-2022-0200, Decision and Order, Page 74.

computer software plant referred to by Enbridge Gas is not new information and the applicant could have derived the updated amount ($91 million) much earlier in the proceeding. OEB staff submits that intervenors and OEB staff did not have an opportunity to test the revised number. OEB staff submits that, unless Enbridge Gas can provide convincing evidence to corroborate the revised amount and a satisfactory explanation of why this amount could not have been revised earlier in its reply submission, the OEB should reject Enbridge Gas's adjustment and revert to the original disallowed amount of $119 million.

Capital Expenditures

In the Phase 1 Decision, the OEB ordered a reduction of $250 million to Enbridge Gas's proposed 2024 capital budget.[2] Accordingly, Enbridge Gas reduced the 2024 rate base by $75 million.[3] OEB staff notes that the reduction to rate base has resulted in a $4.8 million increase to the revenue requirement.[4] OEB staff understands that there are tax benefits in the first year of adding certain assets to rate base that reduce the revenue requirement. However, Enbridge Gas has not provided a detailed explanation to support the increased revenue requirement amount resulting from a decrease to rate base. Enbridge Gas is requested in its reply submission to identify the reasons for the increase in revenue requirement resulting from a significant reduction to rate base.

Demand-side Management Budget Adjustment and Implementation of Uniform Rate

Enbridge Gas's draft rate order includes the impact of forecast demand-side management (DSM) spending in 2024. Parties to the approved settlement proposal agreed that the settled net O&M Budget envelope of $821 million is exclusive of DSM costs, and that DSM costs should reflect the 2024 forecast.[5] Parties also agreed that Enbridge Gas would reflect and implement proposed uniform residential DSM unit rates in conjunction with the implementation of new interim 2024 rates.[6] The implementation of uniform residential DSM unit rates is in response to the OEB's Decision and Order on the DSM Plan Draft Rate Order, which ordered Enbridge Gas to propose a methodology

[2] EB-2022-0200, Decision and Order, Page 57.
[3] Draft Rate Order, Working Papers, Schedule 1, Page 2.
[4] *ibid*
[5] Settlement Proposal, Tab 1, Schedule 1, Pages 10, 44.
[6] Settlement Proposal, Tab 1, Schedule 1, Page 13.

to recover the approved 2024 residential DSM budget amounts equally from residential customers through a uniform residential DSM rate for implementation as part of 2024 rates.[7]

As part of the draft rate order, Enbridge Gas calculated DSM unit rates, which were updated based on the forecast DSM budget spend by rate class for 2024. As per the approved settlement proposal, the DSM unit rates included Enbridge Gas's proposed uniform residential DSM unit rate across all rate zones. The DSM unit rates also reflect Enbridge Gas's proposed changes to the allocation of DSM costs by rate class, to more accurately reflect forecast DSM spending by rate class.[8]

The approved settlement proposal indicates that for the purposes of setting 2024 rates, DSM will be treated differently than other delivery-related costs and will reflect the 2024 Test Year forecast. OEB staff interpret this to mean that 2024 DSM rates should reflect both the change to the overall 2024 DSM budget and Enbridge Gas's proposed changes to allocation of DSM costs by rate class, including its proposed uniform residential DSM unit rate. Based on this interpretation, OEB staff submits that Enbridge Gas's approach to calculating DSM rates is appropriate and is consistent with the approved settlement proposal.

OEB staff requests that Enbridge Gas provide the supporting calculations it used to derive the forecast 2024 DSM budget spend by rate class.[9] Enbridge Gas indicated that the 2024 DSM budget and its allocation by rate class had been calculated using the OEB-approved annual budget escalation methodology whereby the full 2023 budget approved as part of the DSM Framework proceeding was increased annually by inflation plus an additional 3% for all program related costs, but did not provide supporting calculations for the escalation methodology.

Site Restoration Costs Variance Account

In the Phase 1 Decision, the OEB directed Enbridge Gas to discontinue using site restoration amounts collected through depreciation recovered in rates to offset other costs. Starting in 2024, the OEB directed Enbridge Gas to start funding the site restoration cost liability. The OEB explained that a tracking account could be established to record the amounts collected through rates and to track actual spending

[7] EB-2021-0002, Decision and Order, March 2, 2023.
[8] Exhibit 7, Tab 1, Schedule 4, Pages 18-20.
[9] Draft Rate Order, Working Papers, Schedule 22, Page 1.

related to site restoration.[10] Accordingly, Enbridge Gas requested approval for a Site Restoration Costs Variance Account (SRCVA) in the draft rate order which will act as a separate tracking and reporting mechanism for site restoration costs. The account will record and track the amount of site restoration costs collected through depreciation in rates and actual spending related to site restoration, net of any proceeds.[11]

Enbridge Gas stated that the balance in the account will not be brought forward for annual disposition since the purpose of the funds is to offset future decommissioning, abandonment or site restoration costs. In the event that a deficit balance occurs in the variance account as a result of site restoration costs exceeding amounts recovered through rates, Enbridge Gas proposed that the deficit will be offset to the cumulative pre-2024 site restoration costs liability, of approximately $1.6 billion, currently reflected in accumulated depreciation.

OEB staff submits that the proposed establishment of the SRCVA is generally in accordance with the intent of the Phase 1 Decision. Specifically, the SRCVA operates to ensure that amounts collected for the purposes of site restoration are only used for that purpose. In addition, the amounts collected for site restoration and amounts spent on site restoration are tracked in the account. OEB staff also agrees with the proposed mechanics of the account, with one exception discussed below, and is satisfied that the account meets the OEB’s causation, materiality and prudence tests for deferral and variance accounts.

OEB staff is concerned with Enbridge Gas’s proposal to offset any deficit in the variance account against pre-2024 site restoration costs of approximately $1.6 billion, which is currently recorded as accumulated depreciation and operates to offset rate base. OEB staff is concerned that this approach may result in a double recovery of site restoration costs.

With respect to the potential double recovery concern, OEB staff submits that Enbridge Gas has, historically, collected amounts for site restoration costs through its rates. These collected amounts have been recorded as accumulated depreciation and offset rate base. If Enbridge Gas were to offset debit balances in the SRCVA with the $1.6 billion related to site restoration costs recorded as accumulated depreciation, the rate

[10] EB-2022-0200, Decision and Order, Page 94.
[11] More specifically, actual spending on abandonment, decommissioning, or site restoration, net of any proceeds/salvage value received, will be recorded in the variance account in recognition that the amount collected through depreciation rates reflects a net salvage value.

base amount will increase and notionally ratepayers will be asked to pay for site restoration costs twice – once when the amount were recovered through depreciation in the first instance and again through increased rate base. OEB staff requests that Enbridge Gas, in its reply submission, explain why its proposal is reasonable and does not result in double recovery of site restoration costs.

OEB staff submits that if the OEB, after receiving Enbridge Gas's reply submission, has concerns with Enbridge Gas's approach with respect to the use of accumulated depreciation amounts to offset debit balances in the SRCVA, the OEB should approve the establishment of the SRCVA but order that it operates as follows. If there is a deficit in the account in a given year, it can be carried forward, or in case of a material deficit the amount can be brought forward for disposition in the next available rebasing proceeding. In other words, only a deficit in the account would be brought forward for disposition; a positive balance would be maintained in a distinct interest-bearing bank account. If this approach is accepted, the wording in the draft accounting order would need to be modified to remove reference to the pre-2024 site restoration cost liability. This approach will ensure that going forward, from 2024, the amounts collected for the purposes of site restoration are directed only towards site restoration activities.

With respect to the existing unfunded liability, the OEB, in the Phase 1 Decision, stated:

> To address the existing unfunded liability, the OEB directs Enbridge Gas to file evidence in Phase 2 indicating how the annual amounts are calculated and to provide a long-term forecast of the total funds required to pay for site restoration costs. The forecast may be aggregated for the amalgamated utility for 2025, with the expectation that further segmentation may be warranted based on the ten asset accounts to be tracked.[12]

Therefore, OEB staff notes that there will be further opportunity to address the existing unfunded liability that is currently recorded in accumulated depreciation (and how that amount should interact with the SRCVA) in Phase 2 of the proceeding.

Finally, Enbridge Gas proposed that a net positive balance in the variance account will be set aside and maintained in a distinct interest-bearing bank account for the duration of the incentive rate-setting mechanism term. Enbridge Gas will contact multiple Canadian financial institutions to ensure the balance in the account gets the best

[12] Decision and Order, December 21, 2023, Page 94.

available rate of interest. Enbridge Gas indicated that the proposed establishment of an interest-bearing bank account is an interim step until an appropriate investment policy can be reviewed by the OEB. Enbridge Gas expects to present an investment policy that describes the investment goals, objectives, strategies, risk tolerances and liability requirements at its next rebasing application. OEB staff submits that an interest-bearing bank account is an appropriate interim investment strategy until the OEB review and approves an investment policy.

Disposition of Property Deferral Account

The Phase 1 Decision approved the establishment of a deferral account to track any proceeds from property dispositions with the objective that non-depreciable property dispositions will be shared 50/50 between Enbridge Gas and ratepayers, and 100% of the benefits from depreciable property disposition continue to accrue to ratepayers.[13] Accordingly, Enbridge Gas proposed to establish the Disposition of Property Deferral Account to record 50% of the grossed-up after tax gain/loss resulting from the disposition of non-depreciable land. The after-tax gain/loss will be calculated as the difference between the net proceeds (or sale price net of any transaction costs) and the regulatory book value of the property, less applicable capital gain/loss taxes. OEB staff submits that the methodology for calculating after tax gain/loss is appropriate.

Enbridge Gas further proposed that 100% of the net proceeds from the disposition of depreciable buildings continue to benefit ratepayers and be recorded as a credit to the SRCVA. OEB staff opposes Enbridge Gas's proposed approach. OEB staff submits that the recording of the net proceeds should follow Enbridge Gas's historical approach. Historically, Enbridge Gas debited 100% of the costs and credited 100% of the proceeds from the retirement or disposition of depreciable assets (including buildings) to accumulated depreciation, consistent with the treatment prescribed in the Uniform System of Account for Class A Gas Utilities. OEB staff is of the view that mixing costs and proceeds of depreciable assets in the SRCVA will increase the complexity of the account and distort the intended purpose.

If OEB staff's proposed approach is accepted, the reference to the SRCVA will have to be removed from the accounting order for the Disposition of Property Deferral Account.

– All of which is respectfully submitted –

[13] EB-2022-0200, Decision and Order, Page 110.