ENBRIDGE

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VIA RESS AND EMAIL

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

Dear Nancy Marconi:

Re: Enbridge Gas Inc. (Enbridge Gas, or the Company)
EB-2022-0200 – 2024 Rebasing – Response to Intervenor Comments

Enbridge Gas filed its 2024 Rates Application and the majority of its supporting evidence on October 31, 2022 and the balance of its evidence on November 30, 2022. In this Application, Enbridge Gas requests approval of rates for the sale, distribution, transmission, and storage of gas commencing January 1, 2024. Enbridge Gas also applied for approval of an incentive rate-making mechanism (IRM) for the years from 2025 to 2028.

On December 21, 2023, the OEB issued its Decision and Order on Phase 1 of the 2024 Rates Application (Decision) and directed Enbridge Gas to file a Draft Rate Order, including a proposed Rate Handbook, reflecting the OEB’s findings in the Decision. Enbridge Gas filed its Draft Rate Order on February 16, 2024 and received comments from intervenors and OEB staff on March 1, 2024. Procedural Order No. 7 directed Enbridge Gas to file any reply by March 15, 2024.

Through this letter, and the associated attachments, Enbridge Gas sets out its response to the requests, comments and positions of other parties about the Draft Rate Order.

In a separate letter also being sent today, Enbridge Gas is filing an updated Draft Rate Order that reflects the most recent rate changes from the April 2024 QRAM (EB-2024-0093). The originally filed Draft Rate Order was based on January 1, 2024 rates as approved in the January 2024 QRAM (EB-2023-0330) updated for the Decision and required an update to reflect the April 2024 QRAM changes prior to implementation of interim 2024 rates on May 1, 2024. The updated Draft Rate Order also reflects two corrections and incorporates one other change resulting from the intervenor comments on the Draft Rate Order (described below).

Response to Comments on Draft Rate Order

On March 1, 2024, OEB staff and six intervenors[1] filed comments on the Draft Rate Order. The comments did not raise fundamental concerns but included a number of items requiring supporting information and/or explanations. In the subsections below, Enbridge Gas addresses each of the topics raised by other parties.

a. Capital Budget – Allocation of $250 million Reduction

Within the Draft Rate Order, Enbridge Gas provided information and calculations showing how the Company has implemented the OEB's directions to reduce the capital envelope by $250 million, and to expense $50 million of capitalized overheads as O&M for 2024.[2]

SEC asserted that a proper interpretation of the OEB's Decision is that all of the capital cost reductions should come from the Company's system renewal budget and asked the OEB to "clarify its intent".[3] ED indicated that Enbridge Gas has correctly interpreted the $250 million capital reduction as applying to the entire capital envelope such that Enbridge Gas has flexibility within that envelope.[4]

On March 8, 2024, the OEB issued a letter "confirming that the $250 million reduction to the 2024 capital budget applies to the entire 2024 capital envelope."[5]

b. Capital Budget Updates – Impact on Rate Base and Revenue Requirement

Within the Draft Rate Order, Enbridge Gas provided information and calculations showing how the Company has implemented the OEB's directions to reduce the capital envelope by $250 million, and to expense $50 million of capitalized overheads as O&M for 2024.[6] Parties made a number of information requests in response.

Below, Enbridge Gas sets out responses to each of these requests.

<u>(i) How does a reduction in capital expenditures increase revenue requirement?</u>

OEB staff requested that Enbridge Gas provide details about why a reduction of $250 million in capital expenditures results in an increase to revenue requirement.[7]

Enbridge Gas notes that the reduction of $250 million to the 2024 Test Year capital budget was implemented in a manner that profiled in-service reductions on a monthly basis in the same manner as the original in-service additions. The result is a reduction

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[1] The intervenors who filed submissions are Canadian Manufacturers and Exporters (CME), Environmental Defence (ED), Industrial Gas Users Association (IGUA), London Property Management Association (LPMA), School Energy Coalition (SEC) and Vulnerable Energy Consumer Coalition (VECC).
[2] Draft Rate Order Overview, pp. 4-5 and associated Schedules.
[3] SEC Submission, pp. 1-2; see also LPMA Submission, p. 1.
[4] ED Submission, p. 1.
[5] https://www.rds.oeb.ca/CMWebDrawer/Record/843160/File/document.
[6] Draft Rate Order Overview, pp. 4-5 and associated Schedules.
[7] OEB staff Submission, p. 3.

to rate base of $75 million representing the reduction to Enbridge Gas's Average Investment for revenue requirement purposes. The in-service capital reduction results in a reduction to required return on investment and a reduction to depreciation expense which are both more than offset by the removal of the favourable tax implications of accelerated CCA deductions on $250 million of in-service capital.

Please see Table 1 and Table 2 for the details and breakdown of the revenue requirement calculation.

Table 1
Rate Base Calculation - $250 million Capital Expenditure Reduction

($ millions)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Average of Monthly Averages
Monthly In-service reduction	4%	3%	7%	2%	3%	5%	7%	3%	13%	12%	8%	35%	100%	
Reduction-Monthly millions)	9	7	17	5	7	12	18	7	33	29	20	86	250	
Reduction-Cumulative	9	15	33	38	45	57	75	82	114	143	163	250		75

Table 2
Revenue Requirement Impact Calculation – Reduction to In-Service Capital

Line No.	Particulars ($ millions)	2024	
		(a)	
	Rate Base Investment Impact		
1	Capital Expenditures	(250.0)	
2	Cumulative Capital Expenditures	(250.0)	
3	Average Investment	(75.0)	
	Revenue Requirement Impact Calculation:		
4	Depreciation Expense (1)	(5.0)	
5	Required Return (2)	(4.4)	
6	Total Operating Expense and Return		(9.4)
	Income Taxes:		
7	Income Taxes - Equity Return (3)	(0.8)	
8	Income Taxes - Utility Timing Differences (4)	15.0	
9	Total Income Taxes		14.2
10	Total Revenue Requirement Impact		4.8

Notes:
(1) Depreciation expense at 2024 OEB-approved depreciation rates.
(2) The required return assumes a capital structure of 62% long-term debt at 4.17% and 38% common equity at the 2023 OEB formula return of 8.66%. The annual required return calculation is as follows:

Average Investment (row 3) * 62% * 4.17% plus Average Investment (row 3) * 38% * 8.66%
(3) Taxes related to the equity component of the return at a tax rate of 26.5%.
(4) Taxes related to utility timing differences reflecting that the capital cost allowance deduction in arriving at taxable income exceeds the provision of book depreciation in the year.

(ii) Impact of overhead capitalization reduction on rate base

IGUA requested that Enbridge Gas provide details about why the reduction of $50 million in overhead capitalization results in a reduction of only $14 million in rate base.[8]

[8] IGUA Submission, pp. 4-5.

The rate base impact of the $50 million reduction in gross overheads is an average of monthly averages calculation where the gross reductions to in-service capital are profiled monthly in the same manner as the amounts were initially included in rate base. The result of the profile is that rate base for the 2024 Test Year is reduced by $14 million. Please see Table 3 for the profile and calculation of the rate base decrease.

Table 3
Rate Base Calculation – Overhead Capitalization Reduction

($ millions)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Average of Monthly Averages
Monthly In-service Reduction	4%	3%	7%	2%	3%	5%	7%	3%	13%	12%	8%	35%	100%	
Reduction-Monthly	2	1	3	1	1	2	4	1	7	6	4	17	50	
Reduction-Cumulative	2	3	7	8	9	11	15	16	23	29	33	50		14

(iii) Detailed schedules

SEC requested that Enbridge Gas provide detailed schedules to show the implementation of the 2024 capital expenditures reduction, including adjustments and details about how this translates into in-service capital, so other parties can review and comment.[9]

Attachments 1 to 5 provide updates to several Exhibit 2, Tab 2 schedules, as listed below, that provide the continuity of changes (from Capital Update to the DRO) in 2024 Gross Property, Plant & Equipment (PPE) and associated Accumulated Depreciation:

- Attachment 1 - Exhibit 2, Tab 2, Schedule 1, pages 3-4 – Updated for Draft Rate Order
- Attachment 2 - Exhibit 2, Tab 2, Schedule 1, page 8, Tables 3-4 – Updated for Draft Rate Order
- Attachment 3 - Exhibit 2, Tab 2, Schedule 1, Attachment 1, pages 3-4 – Updated for Draft Rate Order
- Attachment 4 - Exhibit 2, Tab 2, Schedule 1, Attachment 2, page 6 – Updated for Draft Rate Order
- Attachment 5 - Exhibit 2, Tab 2, Schedule 1, Attachment 8 – Updated for Draft Rate Order

A summary of the changes in Gross PPE and Accumulated Depreciation between the Settlement and Draft Rate Order is provided in Table 4.

[9] SEC Submission, p. 2; see also LPMA Submission, p. 1.

Table 4
Comparison of Gross PPE and Accumulated Depreciation

Particulars ($ millions)	2024 DRO	2024 Settlement	Variance
Gross Plant - Opening 2024	23,813.9	24,024.1	(210.2)
In-service Additions	973.1	1,274.3	(301.2)
Retirements	(125.9)	(176.3)	50.4
Adjustments	(37.5)	(60.6)	23.1
Gross Plant - Closing 2024	24,623.6	25,061.5	(437.8)
A/D - Opening 2024	(8,612.8)	(8,710.1)	97.4
Depreciation	(695.0)	(866.2)	171.2
Retirements	180.3	228.7	(48.4)
Adjustments	6.1	6.1	0.0
A/D - Closing 2024	(9,121.3)	(9,341.5)	220.2
Net Book Value	15,502.3	15,720.0	(217.6)

c. Integration Capital

In the Draft Rate Order, Enbridge Gas explained that the write-off of integration capital amounts from opening rate base was $91 million rather than $119 million, because that was the full remaining undepreciated value in the impacted plant accounts.[10]

Several parties objected to Enbridge Gas's adjustment to the undepreciated value of the integration capital assets.[11] These parties suggest that this is a last-minute adjustment that should not be allowed. OEB staff submits that this change should only be permitted if Enbridge Gas provides evidence to establish the amount and explain why the evidence could not have been provided earlier.[12]

As set out below, Enbridge Gas maintains that its approach is proper and should be approved. As a first point, Enbridge Gas would like to emphasize that the undepreciated integration capital balance of $119 million was written off and is not included in the opening balance of 2024 Test Year rate base. Enbridge Gas maintains that the $119 million is the most appropriate estimated net book value of the integration assets as it represents the total forecasted costs depreciated at OEB-approved rates. The amount is an estimate as it is not possible to isolate the net book values of individual assets under group depreciation.

However, the write-off resulted in a negative net book value in a computer software plant account in the EGD rate zone. This means that the assets in the computer software plant account were already fully expensed through depreciation. An adjustment of $28 million was required to correct the negative net book value in the

[10] Draft Rate Order Overview, pp. 3-4.
[11] SEC Submission, p. 3; IGUA Submission, p. 4; VECC Submission, pp. 1-2; LPMA Submission, p. 1; and CME Submission, p. 1.
[12] OEB staff Submission, pp. 2-3.

computer software plant account (i.e., bring the balance to zero), resulting in a net rate base reduction of $91 million at the time of the write-off.[13]

Please see Attachment 6 for a continuity schedule showing the impact of the integration capital write-off on the associated plant accounts:

- Columns (d), (e) and (f), illustrate how each of the plant accounts has been adjusted to remove the integration capital assets, totaling to the disallowed amount of $119 million in line 8, column (f).
- Line 1, column (i) illustrates the negative net book value of $28 million after the write-off and removal of integration assets from the related plant account.
- To correct the negative balance in the plant account, an adjustment of $28 million was reflected in columns (k) and (l), and updated in Exhibit 2, Tab 2, Schedule 1, Attachment 8, pages 4 and 9.

A negative plant balance in any account does not comply with the Uniform System of Accounts (USoA) for Class A Gas Utilities, as there is no anticipated cost of retirement/net salvage value. The USoA states the following:

> *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.*[14]

To comply with the guidance in the USoA, which prohibits depreciation from being recorded once the plant balance is equal to the corresponding accumulated depreciation balance,[15] a $28 million adjustment to accumulated depreciation was required to bring the balance of the account to zero.

Also, a negative plant balance would imply there is an amount to be credited to ratepayers within rate base (i.e., an additional liability and cost to Enbridge Gas above the write-off of integration capital assets). There should not be a credit (or liability) because, Enbridge Gas has already recognized the costs giving rise to the $28 million surplus accumulated depreciation balance through past depreciation expense. Leaving a negative plant balance (or credit) in rate base would effectively require Enbridge Gas to write-down assets from rate base that have not been disallowed.

The surplus accumulated depreciation balance within the EGD software plant account was discussed in evidence[16] and, in the absence of integration capital being disallowed, would have been mitigated by implementing lower depreciation rates which would have slowed depreciation prospectively, and a positive net book value would have been maintained.

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[13] -$91 million = -$119 million + $28 million.
[14] Ontario Energy Board Uniform System of Accounts for Class A Gas Utilities Part I April 1, 1996, Section 7. Plant Accounting Instructions, Part 5 Depreciation, Subpart B.
[15] Net salvage is not estimated or recorded on software assets.
[16] Exhibit 4, Tab 5, Schedule 1, pp. 6-7.

Parties might suggest that Enbridge Gas could apply the negative plant balance against other assets. Transferring (or netting) the negative plant balance to (or against) other plant accounts (e.g., software plant accounts in the Union rate zone) would not be in compliance with U.S. GAAP because the EGD and Union rate zones were applying different depreciation methodologies and rates and were subject to separate regulatory approvals. This would also not be appropriate as it would reduce balances for assets that were not related to integration capital.

Contrary to what parties have suggested, Enbridge Gas is not inappropriately attempting to reduce the impact of the Decision. In fact, the revenue requirement impact of the removal of the integration capital is larger than forecast. As demonstrated in Table 5, the Draft Rate Order reduced rate base by $91 million which resulted in a $34 million reduction to the 2024 revenue requirement. In contrast, calculating the revenue requirement on a stand-alone basis, in alignment with how the $119 million net book value was originally estimated, would have resulted in only a $28 million reduction to the 2024 revenue requirement.[17]

As seen in Table 5, the main driver of the additional $6 million reduction in revenue requirement is lower depreciation expense. The removal of integration assets has reduced certain software plant balances to zero. Since no new assets are permitted to be added to these plant accounts after January 1, 2024[18], depreciation on these pools will no longer be recorded.

Table 5
2024 Revenue Requirement – Impact of Writing off Integration Capital

($ millions)	Stand-alone basis per Exhibit JT1.12	Per Draft Rate Order
Rate base reduction	(119)	(91)
Depreciation	(15)	(20)
Interest Expense	(3)	(2)
Return on Equity	(5)	(4)
Income tax	(5)	(7)
Revenue Requirement reduction	(28)	(34)

Finally, Enbridge Gas disagrees with the characterization from parties that it was inappropriate to raise the impacts of other adjustments on the integration capital write-off at this late stage. Throughout this proceeding Enbridge Gas believed and still believes that the undepreciated integration capital balance of $119 million should be recoverable from ratepayers and should be included in rate base. It was only once Enbridge Gas received a decision ordering disallowance of this balance that it conducted the detailed analysis to understand the full consequences of the write-off, including the impacts of the surplus accumulated depreciation balance. The impact of the $28 million adjustment to accumulated depreciation does not negatively impact ratepayers and in fact has provided an incremental reduction to 2024 revenue

[17] Exhibit JT1.12.
[18] Exhibit 4, Tab 5, Schedule 1, pp. 6-7

requirement when compared to the isolated impact of the specific integration asset write-off.

In summary, Enbridge Gas maintains that it has correctly reflected the disallowance of integration capital in the Draft Rate Order based on the following:

- Enbridge Gas has not re-valued the integration capital. The net book value of the integration capital is still estimated to be $119 million.
- Processing a write-down of $119 million resulted in negative plant balances which needed to be corrected because they were not in compliance with either the USoA or U.S. GAAP, necessitating a rate base adjustment of $28 million.
- The revenue requirement reduction (benefit to customers) resulting from the write-off reflected in the Draft Rate Order ($34 million) is higher than the original estimate calculated on a stand-alone basis ($28 million).
- There was no intent to mislead or misstate any facts.
- Requiring Enbridge Gas to remove $119 million from rate base for integration capital, with the confirmation that there is no further integration capital in rate base is punitive. Doing so would effectively require Enbridge Gas to write-down assets from rate base that have not been disallowed, because the maximum amount that Enbridge Gas can remove from rate base is $91 million, after adjusting for the surplus accumulated depreciation.

d. Regulated O&M Adjustment

In the Draft Rate Order, Enbridge Gas reflected the impacts of the agreed $50 million reduction in the 2024 O&M budget from the Settlement Proposal. Enbridge Gas explained that the allocation of the reduction resulted in an increase to revenue requirement of $900,000 as compared to what was shown in the Settlement Proposal, because of allocation of the O&M reduction between regulated and unregulated.[19]

In their Submissions, several parties objected to this adjustment, stating that the entire $50 million reduction, and all associated revenue deficiency impacts, should be directed to the regulated operations.[20] As such, the $900,000 increase to revenue requirement should be reversed.

Operating costs are allocated to the unregulated storage business based on the harmonized unregulated storage cost allocation methodology, which will be examined in Phase 2 of this proceeding. However, Enbridge Gas acknowledges the comments and accepts that a reduction of the full $50 million in net O&M was agreed to in the Settlement.

Having considered the positions of other parties, Enbridge Gas will remove the $900,000 adjustment (addition) to revenue deficiency that had been reflected. This has been implemented within the updated Draft Rate Order being filed under separate cover.

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[19] Draft Rate Order Overview, p. 2.
[20] SEC Submission, pp. 3-4; IGUA Submission, p. 4; and LPMA Submission, p. 2.

e. DSM

In the Draft Rate Order, Enbridge Gas set out the allocation of DSM budget costs by rate class and also implemented the uniform residential DSM rates as required by the OEB.[21]

OEB staff submitted that Enbridge Gas's approach to calculating DSM rates is appropriate. OEB staff requested that Enbridge Gas provide the supporting calculations used to derive the forecast 2024 DSM budget spend by rate class, including the supporting calculations for the escalation methodology used to increase the 2023 DSM budget as approved by the OEB.[22]

Please see Attachment 7 for a description of the 2024 DSM budget by rate class and supporting calculations.

f. Site Restoration Costs Variance Account

In the Draft Rate Order, Enbridge Gas set out its planned approach to reflect the OEB's findings and directions in the Decision to start using site restoration amounts collected to fund a site restoration cost liability. The OEB indicated this could be done by way of a tracking account. Enbridge Gas has proposed a Site Restoration Costs Variance Account (SRCVA) to record and track the amount of site restoration costs collected through depreciation in rates as well as actual spending on site restoration. Enbridge Gas proposes that the fund will not be brought forward for disposition since the funds are to be used for future decommissioning and site restoration. Enbridge Gas proposes to place the balance of the SRCVA in an interest-bearing bank account for the duration of the incentive regulation term. Enbridge Gas will seek to ensure that the best interest rate is obtained.[23]

OEB staff and intervenors generally agree that Enbridge Gas has properly reflected the OEB's intent from the Decision in the planned approach for the SRCVA. Three discrete items were noted for response from Enbridge Gas and/or the OEB.

<u>(i) There is no double-recovery</u>

In the Draft Rate Order, the Company indicated that a debit balance in the SRCVA would reflect an offset to the pre-2024 site restoration costs liability, of approximately $1.6 billion, currently reflected in accumulated depreciation.

OEB staff expressed concern that Enbridge Gas's proposal may result in a double recovery of site restoration costs and requested that Enbridge Gas explain why its proposal is reasonable and does not result in double recovery of site restoration costs.

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[21] Draft Rate Order, pp. 9-10 and Schedule 22.
[22] OEB staff Submission, p. 4.
[23] Draft Rate Order Overview, pp. 6-7 and 15-18.

Enbridge Gas would like to clarify that its proposal in the Draft Rate Order was not to actually debit accumulated depreciation in the event of a debit balance in the SRCVA. The balance in the SRCVA would only be combined with the $1.6 billion balance included in accumulated depreciation upon approval from the OEB. Rather, Enbridge Gas was noting that the balance in the SRCVA (debit or credit) and the $1.6 billion in accumulated depreciation should be considered in aggregate for the purposes of determining the net salvage component of depreciation rates in future depreciation studies.

Enbridge Gas agrees that it has historically collected amounts for site restoration costs (negative net salvage), in advance over the life of assets, that have been included in accumulated depreciation and have reduced rate base. To date, $1.6 billion has been collected in excess of incurred negative net salvage costs, which is reflected in accumulated depreciation (i.e., over-depreciated by $1.6 billion). The $1.6 billion has been used to pay down the cost of the underlying assets (i.e., reducing financing requirements, or the cost of capital component of revenue requirement) and customers have benefited from lower revenue requirement as a result.

However, the advance collection of site restoration costs over the life of assets provides for, and is expected to be offset by, the actual costs of retirement. As such, the debiting of costs of retirement to accumulated depreciation, which on their own increase rate base, is what has always been done and what is intended to occur. The debit to accumulated depreciation offsets the over-depreciation that occurred over the life of the asset and simply stops/removes the carrying charge benefit that was provided by the advance collection, it does not result in a double recovery.

(ii) There is no imminent need to implement a different investment strategy

Some intervenors argue that Enbridge Gas should be required to make a proposal for a different investment strategy for the funds in the SRCVA as soon as possible, potentially as early as the 2025 rate adjustment case[24] or Phase 2 of this proceeding[25]. SEC argues that balances in the account should attract interest at the higher of 5% or the actual bank rate in the interim.

Enbridge Gas disagrees with ED and IGUA's suggestions that the OEB should direct Enbridge Gas to bring forward an Investment Policy for review earlier than the next rebasing application.

Enbridge Gas's view is that a well thought out and sound Investment Policy is critical to mitigating the risk of having insufficient funds available for future abandonment activities when they are required. Developing a diversified portfolio of investments to generate returns over time and meet expected obligations as they come due is in the best interest of both the Company and customers. The investment horizon is long, and Enbridge Gas believes taking time now to establish the right investment strategy and governance, to deliver on this future obligation, will benefit all stakeholders.

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[24] IGUA Submission, pp. 2-3; SEC Submission, p. 4; and LPMA Submission, p. 2.
[25] ED Submission, pp. 1-2.

In paragraph 50 of the Overview filed for the Draft Rate Order, Enbridge Gas outlined a non-comprehensive list of the key steps that are required to be performed before an Investment Policy can be submitted for review. Some of the steps would require inputs from studies that Enbridge Gas has been directed to undertake by next rebasing in the Phase 1 Decision. For example, the results of the net salvage study and the next depreciation study would inform an asset liability study. The accelerated timelines proposed by ED and IGUA would limit Enbridge Gas's ability to develop a well-informed investment strategy that appropriately considers the investment goals, objectives, strategies, risk tolerances, time horizons, expected liability obligations and funding amounts collected from customers, over the life of the portfolio.

The Company would also like to highlight the importance of maintaining liquidity in the near-term, which may be required to fund periodic shortfalls in amounts collected from customers compared to actual amounts spent, before a sizeable balance is accumulated. For example, the forecasted net balance of funds available to invest by the end of 2024 is approximately $36 million.[26] The annual net amount available for investment could vary from year-to-year based on actual site restoration activity. Enbridge Gas's proposal to invest the funds in an interest-bearing bank account is an appropriate interim step to maintain liquidity and to avoid the potential risk of investment losses from implementing a hasty or unsound investment strategy. OEB staff submitted that an interest-bearing bank account is appropriate as an interim investment strategy until the OEB reviews and approves an investment policy.[27]

Enbridge Gas disagrees with SEC's proposal to set the interest rate at the higher end of the actual bank rate or 5%. Enbridge Gas outlined in paragraph 47 of the Overview filed with the Draft Rate Order that it will contact multiple Canadian financial institutions to ensure the bank account has the best rate available. There is no evidence in this proceeding to support a rate of 5% in the interim. Arbitrarily selecting an interest rate unfairly burdens Enbridge Gas, as the Company has no control over the interest rates set by Canadian financial institutions. SEC's proposal also fails to recognize that interest rates are determined by short term demand and supply of funds in financial markets and are therefore expected to fluctuate over time.

(iii) Enbridge Gas requires interim approval of the SRCVA methodology

SEC submits that while it supports the creation of the SRCVA, it urges the OEB not to approve any specific methodology of how certain calculations and entries are made until there is a full review process.[28]

Enbridge Gas is not clear about SEC's particular concern. The Company hopes that the above discussion has helped clarify the activity that will be captured in the SRCVA and supports approval of the accounting order as proposed. The Company notes that the

[26] Excludes the Dawn to Corunna Project. The forecasted net balance of funds available to invest by the end of 2024 including the Dawn to Corunna Project is approximately $27 million.
[27] OEB staff Submission, p. 7.
[28] SEC Submission, p. 4; see also LPMA Submission, p. 2.

accounting order provides a description of the activity to be captured in the account but does not provide detailed calculations for the determination of those amounts. The Company anticipates that details, or support, for the appropriateness of amounts recorded in the account will be provided as necessary during subsequent reviews of the account balance, where appropriate (such as at rebasing, as part of the establishment of future net salvage depreciation rates, or as part of addressing the long-term treatment of net salvage/site restoration requirements).

In order to reflect the OEB's direction, and to establish the SRCVA regulatory account as part of Enbridge Gas's corporate financial statements, an accounting order specifying the activity to be captured is required. Enbridge Gas requests approval of the SRCVA accounting order as proposed.

g. Depreciation

In the Draft Rate Order, Enbridge Gas set out the recalculation of depreciation expenses to reflect the findings in the Decision.[29]

No party identified specific concerns with the calculations presented by Enbridge Gas. In order to enable full validation of the revised depreciation expenses, IGUA requested that Concentric provide a reconciliation of the Draft Rate Order tables to Concentric's initial tables, identifying changes in capital amounts and depreciation rates.[30]

Enbridge Gas submits that in order to provide the requested reconciliation, the Capital Update tables are the appropriate starting point. The initial tables provided by Concentric are based on plant in-service balances as of December 21, 2021. To demonstrate the impact of changes in capital amounts, the starting point would need to include the 2024 forecast from the Capital Update.

Please see Attachment 8 for a continuity of the impacts and the variance at each iteration based on comparing the Capital Update to:

- Settlement Agreement impacts which includes the reduction in indirect O&M overheads and the removal of Dawn to Corunna
- Revised depreciation rates based on the Phase 1 Decision
- Impact of removing integration assets
- Impact of reduction in capital budget amounts

h. Disposition of Property Deferral Account

In the Draft Rate Order, Enbridge Gas proposed the details for the methodology for the new account that was ordered in the Decision. The Company's proposal is that the ratepayer share (50%) of the gains/losses from the disposition of non-depreciable land would be recorded in this new Disposition of Property Deferral Account (DPDA). Enbridge Gas proposes that 100% of the net proceeds from the disposition of depreciable buildings would benefit ratepayers and be recorded as a credit to the

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[29] Rate Order Overview, pp. 5-6 and Schedule 12.
[30] IGUA Submission, p. 2; see also SEC Submission, p. 3 and LPMA Submission, p. 1.

SRCVA. This is an update to the historical approach where the proceeds from the disposition of depreciable buildings have been credited to accumulated depreciation, consistent with the treatment of proceeds received on the retirement of other depreciable assets.[31]

OEB staff submits that the recording of impacts related to the disposition of depreciable buildings should follow the historical approach (credit to accumulated depreciation). OEB staff submits that mixing costs and proceeds of depreciable assets in the SRCVA will increase the complexity of the account and distort its intended purpose.[32]

SEC and LPMA submit that more detail would need to be known before concluding that it is appropriate to record the impacts of the disposition of depreciable buildings in the SRCVA. In the meantime, SEC and LPMA submit that these impacts should be recorded in the DPDA.[33]

Enbridge Gas disagrees with OEB staff's position that net proceeds from the disposition of depreciable buildings should continue to be charged to accumulated depreciation (consistent with past practice) as opposed to charged to the proposed SRCVA. In response to the OEB's Phase 1 Decision, the SRCVA is proposed to capture net salvage activity (net amounts collected versus net amounts incurred) for 2024 and beyond, instead of accumulated depreciation, such that any surplus in net recoveries over amounts incurred can be set aside to fund future net salvage liabilities. In conjunction with that proposal, the treatment of net salvage amounts (proceeds net of cost) realized on the disposition of depreciable buildings should be consistent with the treatment of net salvage amounts realized on disposition or retirement of all other depreciable assets. There is no reason for depreciable building net salvage amounts to differ. The consistent treatment of building net salvage amounts also creates a delineation between net salvage activity up to 2024 versus 2024 onwards, which could aid or provide clarity to the future review of net salvage amounts. Recording both pre-2024 and 2024 onward building net salvage amounts in accumulated depreciation obscures that delineation. Finally, proceeds that are credited to the SRCVA continue to benefit ratepayers as they will increase the quantum of any funds to be set aside to fund future net salvage liabilities.

While Enbridge Gas disagrees with OEB staff's position for the reasons noted above, should the OEB not agree, Enbridge Gas believes OEB staff's position to follow historical treatment is more appropriate than intervenor submissions suggesting that net proceeds from depreciable building dispositions be recorded in the DPDA.

With regards to comments received from SEC and LPMA that suggest that net proceeds on the disposition of depreciable buildings should be recorded in the DPDA, possibly for disposition, as opposed to the SRCVA, the Company disagrees and has the following comments.

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[31] Draft Rate Order Overview, pp. 21-23.
[32] OEB staff Submission, p. 7.
[33] SEC Submission, pp. 4-5. See also LPMA Submission, p. 2.

First, there is no reason for treatment to differ from the treatment of other depreciable assets. The SRCVA is proposed to capture all 2024 and prospective net salvage amounts recovered or credited through rates as well as all actual costs and proceeds incurred.

Second, net proceeds should not be disposed of through the DPDA because the proceeds may be needed to offset the undepreciated portion of a building upon disposition during its expected life, or to offset anticipated proceeds that were reflected and credited to ratepayers through prior net salvage depreciation rates. As a result of returning proceeds through the DPDA, it could mean that a positive net book value for a building could be left in rate base that needs to be subsequently recovered. It would not make sense to refund in whole or in part proceeds that would subsequently need to be recovered through depreciation rates charged on the remaining depreciable building asset pool.

i. Approvals Requested

In the cover letter accompanying the Draft Rate Order, Enbridge Gas explained that it requires an OEB decision by April 12, 2024 in order to implement rates for May 1, 2024. Enbridge Gas also noted that it will have to update the Draft Rate Order to take account of the rate changes that will be approved with its April 2024 QRAM Application.[34]

OEB staff indicated support for the May 1, 2024 implementation date, and asked Enbridge Gas to provide the timeline for filing an updated Draft Rate Order and comments on whether Enbridge Gas is requesting an OEB Decision on the Draft Rate Order for the original filing and for the updated Draft Rate Order.[35]

As noted earlier, Enbridge Gas is filing an updated Draft Rate Order today, reflecting the April 2024 QRAM impacts and the correction to Rider E and the removal of the $900,000 adjustment originally made in relation to the O&M budget reduction. If the OEB does not require any further changes as a result of the comment process, then the updated Draft Rate Order can be approved and implemented on May 1, 2024. As already noted, Enbridge Gas requires this approval by April 12, 2024.

If, after reviewing the submissions of all parties, the OEB determines that additional changes to the Draft Rate Order are required, then Enbridge Gas will require a decision and direction earlier than April 12, 2024 in order to effect implementation on May 1, 2024. The time required will depend on the magnitude of the changes required.

Should you have any questions, please let us know.

Sincerely,

Vanessa Innis Digitally signed by Vanessa Innis
Date: 2024.03.15 12:39:28 -04'00'

Vanessa Innis
Program Director, Strategic Regulatory Applications – Rebasing

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[34] Enbridge Gas letter dated February 16, 2024.
[35] OEB staff Submission, pp. 1-2.

Index of Attachments