ENBRIDGE GAS INC.
Answer to Interrogatory from
Board Staff (STAFF)

Reference: Exhibit B1/Tab 1/Schedule 1/Appendix A/pg. 33 and Appendix B/pg.34

Question:

For the ICM Deferral Account, the main journal entry is to record the difference between the actual revenue requirement for approved ICM projects and the actual revenues collected through ICM rates approved by the OEB. The OEB has developed accounting guidance for ICM/ACMs for electricity distributors in the Accounting Procedures Handbook Guidance, March 2015, topic #13 and 14.

a) Please discuss the applicability of the accounting entries to Enbridge Gas Distribution and Union Gas rate zones and revise the accounting orders as needed.
b) Please indicate how Enbridge Gas plans to track ICM related capital assets and depreciation.

Response

a) Enbridge Gas has reviewed the Board's guidance for the Advanced Capital Module/Incremental Capital Module in both the Report of the Board: *New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*[1] *("Report of the Board")*, and the Ontario Energy Board Accounting Procedures Handbook Guidelines, dated March 2015 ("APH Guidelines"). Within the Report of the Board, Enbridge Gas perceives there to be a disconnect between Section 7.4, Reporting Requirements, and Section 7.5 Accounting Treatment (which is consistent with the accounting treatment identified in topics #13 and #14 of the APH Guidelines). In order to address the disconnect, Enbridge Gas has proposed the accounting orders as filed.

   Section 7.4, Reporting Requirements, of the Report of the Board states:

[1] EB-2014-0219, Report of the Board, *New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,* dated September 18, 2014.

> At the time of the next cost of service or Custom IR application, a distributor will need to file calculations showing the actual ACM/ICM amounts to be incorporated into the test year rate base. At that time, the Board will make a determination on the treatment of any difference between forecasted and actual capital spending under the ACM/ICM, if applicable, and the amounts recovered through ACM/ICM rate riders and what should have been recovered in the historical period during the preceding Price Cap IR plan term. Where there is a material difference between what was collected based on the approved ACM/ICM rate riders and what should have been recovered as the revenue requirement for the approved ACM/ICM project(s), based on actual amounts, the Board may direct that over- or under-collection be refunded or recovered from the distributor's ratepayers"(emphasis added).[2]

Enbridge Gas's understanding of the above reporting requirements is that it will need to report on the variance between the actual ICM revenues collected in rates and the actual revenue requirement of the approved ICM projects, namely the revenue sufficiency or deficiency. Based on that understanding, Enbridge Gas does not believe the Board's Section 7.5 Accounting Treatment meets that requirement. The Board's accounting treatment only calls for certain revenue requirement / revenue sufficiency (deficiency) elements to be tracked in the deferral account, including capital spend placed in service (an input into a revenue requirement calculation, but not a revenue requirement component itself), depreciation, accumulated depreciation (again an input into a revenue requirement calculation, but not a revenue requirement component itself), and rate rider revenues, while other revenue requirement / revenue sufficiency or deficiency elements, such as taxes and cost of capital (which were considered in the determination of the revenue requirement to be recovered through the ICM rate riders), will continue to flow through the income statement, and therefore not be properly matched against revenues. In addition to this, Enbridge Gas also observes the following:

- Under the Board's accounting treatment, carrying charges are to be calculated on the incremental capital expenditure (capital spend placed into service), as well as, on the rate rider revenue amounts recorded in the deferral account. As a result, even if the amounts collected through rate

[2] EB-2014-0219, Report of the Board, *New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,* dated September 18, 2014, Section 7.4 Reporting Requirements, Page 26.

riders exactly match the actual revenue requirement, an outstanding carrying charge would be calculated.[3]

- Under the Board's accounting treatment, when the deferral account is cleared, or amounts are reclassified out of the account at the next cost of service or Custom IR proceeding, the Company's income statement would be charged with cumulative amounts that relate to prior periods (i.e. out of period amounts that accumulated over the deferred rebasing / incentive regulation term)[4]

In order to address this Enbridge Gas has proposed to record the annual ICM revenue sufficiency/deficiency (for each of the EGD and Union rate zones) in its proposed ICM deferral accounts. Each year, the actual ICM revenues will be compared to the calculated ICM revenue requirement for approved ICM projects (for each of the EGD and Union rate zones), and any variance will be reflected as an adjustment to revenues, with an offsetting entry to the ICM deferral account. As a result of this proposal, each year the Enbridge Gas's financial statements will include all actual costs related to ICM projects, and a matched revenue stream, with any revenue sufficiency or deficiency recorded in the deferral account, which will appropriately attract carrying charges until the time of disposition.

b) Enbridge Gas will track ICM capital projects/assets by assigning distinct project numbers to each approved ICM project within its capital accounting systems. These distinct project numbers will be utilized to capture the capital costs associated with each approved ICM project.

[3] Ontario Energy Board Accounting Procedures Handbook Guidelines, dated March 2015, Section A.13, Pages 15-16.
[4] Ontario Energy Board Accounting Procedures Handbook Guidelines, dated March 2015, Section A.14, Pages 16-18.