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

Reference: Exhibit B1/Tab 1/Schedule 1/pgs. 19-21

Question:

The MAADs Decision directed Enbridge Gas to add rate base and depreciation associated with Union Gas' capital pass-through projects to the 2013 OEB-approved rate base and depreciation in determining the eligible incremental capital amount for the Union Gas service territory. Enbridge Gas has therefore proposed to fix the capital pass-through revenue requirement in rates and discontinue the use of capital pass-through deferral accounts, except for the purpose of capturing utility tax timing variances.

a) Please provide further details as to why Enbridge Gas is proposing to amend the capital pass-through deferral accounts so that it only captures a portion of the revenue requirement impact related to the projects.
b) For the capital pass-through projects, please confirm that the variances between Enbridge Gas' revenue requirement adjustment excluding utility tax timing differences in this application and actual revenue requirement excluding utility tax timing differences could be material.
c) Table 6 shows the actual/forecast utility tax timing differences from 2014 to 2018, and table 7 shows the forecast utility tax timing difference for 2019 to 2023. For 2014 to 2018, and 2019 to 2023, please provide a table showing the difference between approved (or forecasted to be approved) and forecasted revenue requirement recorded in the capital pass-through deferral accounts, broken down by the portion relating to tax timing differences and the remaining revenue requirement.

Response

a) As a direct result of the MAADs Decision, which directed Enbridge Gas to add rate base and depreciation associated with the capital pass-through projects to determine the ICM threshold value[1], Enbridge Gas requires: a one-time adjustment to rates to include the revenue requirement of the capital pass-through projects; and continuation of the capital pass-through deferral accounts to capture the utility tax timing differences only. These changes are required to align the ICM threshold value with the capital investment that can be supported by rates.

<u>One-time Adjustment</u>
The capital pass-through funding as a Y factor provides for incremental revenue to support the revenue requirement of the capital pass-through projects only. It does not support the funding of any additional capital. When the actual revenue requirement of the projects is passed through to customers each year through rates or the deferral account, customers benefit from the normal decline in return on the capital pass-through projects rate base and there is no incremental revenue related to PCI or growth for these projects. As a Y factor, there is no opportunity to fund incremental capital investments as assumed when the depreciation and rate base are added to the ICM threshold value calculation.

By adding the 2019 forecast rate base and depreciation of the capital pass-through projects in the ICM threshold calculation, the 2019 ICM threshold value for the Union rate zones is $80.7 million[2] higher than what rates can support when capital pass-through projects are treated as a Y factor.

Enbridge Gas has proposed to include a one-time adjustment for the capital pass-through revenue requirement in 2019 rates[3] to address the disconnect that would otherwise be created between the annual capital investment supported by rates and the ICM threshold value calculation. The proposal for a one-time adjustment aligns rates with the amount assumed to be funded through rates, as determined in the ICM threshold value calculation. The basis of the ICM threshold value calculation assumes that rate base, as supported by rates, is maintained through the reinvestment of the depreciation amount and additional capital funding is available from applying the PCI and growth to that rate base annually.

[1] EB-2017-0306/EB-2017-0307, Decision and Order, August 30, 2018, pp. 32-34.
[2] The ICM threshold value without the capital pass-through rate base and depreciation is $294.5 million compared to the $375.2 million including the capital pass-through rate base and depreciation.
[3] The capital pass-through revenue requirement has been updated to reflect the 2019 forecast. Refer to Exhibit I.LPMA.7 c).

To illustrate this disconnect, Enbridge Gas has provided a comparison at Attachment 1 of the proposed ICM threshold value to the threshold value supported by rates assuming Enbridge Gas continued to pass-through the annual revenue requirement of the capital pass-through projects over the deferred rebasing period. The cumulative difference of $410 million represents the potential capital investment amount not supported by rates when changes in rate base are passed through to customers.

<u>Changes to Deferral Accounts to Capture Utility Tax Timing Differences Only</u>
The proposed one-time adjustment by itself does not support the level of capital investment assumed by the ICM threshold value because of the impact the utility tax timing differences have on the revenue requirement of the projects. Normal decreases in annual revenue requirement as a result of the annual decline in rate base are more than offset by increases to annual revenue requirement resulting from decreases in the utility tax timing benefits in each year of the deferred rebasing period. The ICM threshold value calculation does not consider the impact changes in utility tax timing differences has on funding incremental capital projects. The utility tax timing differences related to the capital pass-through projects create significant impacts to the revenue requirement that are not within the normal course of business because of the large addition to rate base over a short period of time and the differences in capital cost allowance and depreciation expense on the assets.

Enbridge Gas has proposed to change the capital pass-through deferral accounts to address the utility tax timing differences only to support the level of capital investments as assumed by the ICM threshold value calculation through the revenue requirement in rates of the projects. Enbridge Gas has proposed to continue to record the utility tax timing variance component of the revenue requirement in the deferral accounts because otherwise, over the deferred rebasing period, customers would receive a benefit of $57.9 million greater than the actual tax benefit that Enbridge Gas will receive over the same time period. In the absence of changing the deferral accounts as proposed, Enbridge Gas's rates cannot support the changes in utility tax timing differences or the required level of incremental capital investment prior to ICM funding.

b) Confirmed. The higher revenue requirement in rates during the deferred rebasing period as a result of the one-time adjustment is required to support the level of capital investment prior to ICM funding as discussed in part a). Please also refer to Exhibit I.SEC.6, Attachment 1.

c) Please see Attachment 2.