ENBRIDGE GAS INC.
Answer to Interrogatory from
Association of Power Producers of Ontario (APPrO)

Reference: Exhibit B1, Tab 1, Schedule 1 Section 2.2.6 Capital Pass Through Deferral Accounts – Union Rate Zones

Preamble: Enbridge proposes to make adjustments to rate base and depreciation based on the Board's direction in the EB-2017-0306/0307 to reflect certain capital pass-through during prior IRM. Enbridge has indicated that it proposes to continue to capture the utility tax timing variances in the respective deferral accounts to recognize the reversal of the benefits customers received in rates from 2014-2018. Over the following PCI period, Enbridge notes that it would receive $124.1 million of utility tax timing differences based on the current forecast and without capturing the reversal in the deferral account, customers would receive a benefit of $182.0 million.

Question:

Please identify if Enbridge raised the issue of tax timing differences in the above noted proceedings and if so, the Board's ruling on the matter.

Response

No. At the time of the MAADs proceeding, Enbridge Gas intended to continue with Union's capital pass-through deferral accounts to capture the impact of changes in income tax timing differences.

In the MAADs Decision, the Board approved Enbridge Gas's proposal for the deferral and variance accounts that would continue upon amalgamation[1] including Union's capital pass-through deferral accounts. Enbridge Gas's proposal to fix the capital pass-through revenue requirement in rates and discontinue the deferral account treatment for the projects with the exception of the utility tax timing differences was made following the MAADs Decision. For further details of why Enbridge Gas is proposing to adjust the capital pass-through deferral accounts please see Exhibit I.STAFF.8 a).

[1] EB-2017-0306/EB-2017-0306 Decision with Reasons, p. 45.

ENBRIDGE GAS INC.
Answer to Interrogatory from
Association of Power Producers of Ontario (APPrO)

Reference: i) Exhibit B Tab 2 Schedule 1

Preamble: Enbridge is seeking approval for revenue requirement associated with the replacement of the Sudbury lateral that was constructed in 2018. APPRO would like to better understand this investment. The Sudbury lateral LTC application was filed on May 5, 2017 and was approved by the Board on September 28, 2017 and was planned to be in service in 2018.

Question:

a) Please confirm that the project is operational and went into service in 2018. If it failed to go into service in 2018, please explain why Enbridge failed to meet its planned in service date.
b) Enbridge notes that $3.4 million is to go into service in 2019. Please explain what this amount is in relation to (i.e. is it related to remediation work or is a portion of the pipeline that will not go into service until 2019 or some other reason).
c) Given that this project was approved for construction in 2017, did Enbridge seek approval for a capital pass through in its 2018 rate case? If no, why not? If yes, what was the determination?
d) Please confirm that the 2014-2018 IRM expired on December 31, 2018.
e) If the project went into service in 2018, please outline the income tax effects, if any, that were captured in 2018.
f) If the Board does not approve the request to provide the full year revenue requirement of approximately $9 million in 2019, how many basis points would this reduce Enbridge's ROE in 2019?

Response

a) The Sudbury Replacement Project went into service in October of 2018.

b) The $3.4 million in spend includes construction clean up, baseline integrity inspection, painting of impacted pipeline stations and anode installation on some services lines off the replaced pipeline.

c) The Sudbury Replacement Project did not qualify for capital pass through treatment in 2018 because there were only two months of revenue requirement, but within 2019 there is a full year's revenue requirement that would make it eligible.

d) Confirmed.

e) The income tax captured in 2018 provided a benefit to the project nearly offsetting the operating cost and return components of the 2018 revenue requirement. The 2018 income tax effect can be found in the ICM revenue requirement calculation which is filed as Exhibit B1, Tab 2, Schedule 1, Appendix E.

f) At present, without knowing what Enbridge Gas's 2019 actual utility rate base will be, Enbridge Gas is only able to provide an approximate ROE impact. Assuming Enbridge Gas's revenue stream was $9.8 million lower than it otherwise would have been due to the Sudbury ICM amount not being approved it would result in an after tax reduction in utility earnings of approximately $7.2 million (assumed tax rate of 26.5%). Further, assuming that Enbridge Gas's 2019 utility rate base will be in the range of $13 billion to $14 billion, which would result in a 36% deemed equity level of $4.68 billion to $5.04 billion, a $7.2 million reduction in utility income would translate into a utility ROE reduction in the range of 14 to 15 basis points.

ENBRIDGE GAS INC.
Answer to Interrogatory from
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Reference: i) Exhibit B1 Tab 2 Schedule 1

Preamble: The ICM materiality threshold within the Union Rate Zone for 2019 is $375.2 million. Enbridge is seeking ICM funding for amounts in excess of this threshold for several specific projects. Enbridge is seeking funding in 2019 to cover the $91.9 million in capital associated with the Sudbury Lateral, as well as $146.1 million associated with the Kingsville and Stratford reinforcements. $2.8 million of these capital amounts may be below the threshold amounts and therefore not eligible for incremental ICM funding. Enbridge has applied this $2.8 million to reduce the costs of the Kingsville and Stratford laterals.

Question:

a) Please explain why Enbridge is proposing to apply all of the capital amounts falling below the threshold amounts (i.e. $2.8 million in this case) to the Union South projects only? Given that there are ICM projects in other rate zones, why wouldn't a proportionate allocation among both rate zones be more appropriate? Since projects occur in each rate zone, what is the rate impact in each rate zone under this alternate allocation methodology?
b) In the event some of the other regularly occurring capital amounts are elevated over the historical average (e.g. General Plant) in the same year a major reinforcement project is also proposed, this could have the effect of increasing the ICM amount attributable to reinforcement than had these other capital expenditures not occurred. If the allocation methodology for the major reinforcements is different from the allocation methodology for the other asset types also experiencing higher spending, then the resulting rates could be distorted. APPrO would like to understand the cost allocation principles that Enbridge intends to apply during the IRM period should these situations occur.
c) To the extent that the threshold capital amounts are not exceeded in any year, is it the company's intention to "bank" the differences to apply against future amounts that do exceed the threshold?

Response

a) The $2.8 million reduction in project capital is a result of the Union rate zones capital spend exceeding the maximum eligible incremental capital for the Union rate zones identified at Exhibit B1, Tab 2, Schedule 1, Table 7. Since the reduction is attributable to the Union rate zones calculation, it has been applied to the Union rate zones.

   There is no 2019 in-service capital forecast for the Union North rate zone, therefore the reduction for the Union rate zones has been applied to the Union South rate zone only.

b) As per the OEB's ICM policy, Enbridge Gas is required to propose cost allocation and associated recovery of the incremental revenue requirement from customer classes for each discrete project that exceed the ICM materiality threshold. Note that projects proposed for incremental capital funding during the IRM period must be discrete projects rather than programs or regularly occurring capital amounts. Enbridge Gas's proposed cost allocation and incremental revenue recovery from customers in this application (as will also be the case in future applications) are based on cost causality (i.e., customers' usage of the ICM project assets) for each discrete ICM project. The proposed cost allocation methodology for 2019 ICM projects is provided at Exhibit B1, Tab 2, Schedule 1, pages 32 to 34.

   Also note that in-service capital expenditures / additions below the ICM materiality threshold are recovered through Enbridge's base rates during the IRM period. Accordingly, cost allocation is not carried out or proposed for those assets.

c) No.

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Reference: i) Exhibit B1 Tab 2 Schedule 1, Table 10

Preamble: Enbridge has provided projections on the 2019 Incremental Revenue Requirement for the ICM projects.

Question:

Enbridge notes that there were no material incremental O&M expenses associated with the 2019 eligible projects and therefore excluded in the incremental revenue requirement calculation.

a) Please confirm that the Sudbury lateral in fact lowers the O&M costs, due to the high historical integrity issues. If so, please explain why there would not be a reduction in O&M costs due to this ongoing savings.
b) Similarly, the Don River crossing replacement would also be expected to lower O&M costs as a result of removing exposed pipeline and a bridge that would otherwise require increased maintenance and inspection. Please explain why there would not be a credit to O&M expenses as a result of this replacement.
c) Please provide the annual O&M expenses incurred for each section of pipe that is being replaced for each of the above noted projects for the last 5 years.
d) Please indicate if potential O&M savings form a part of the business case to replace these facilities, if so please provide a copy of the respective business case.

Response

a) The Sudbury lateral replacement project is replacing an existing pipeline. The regular maintenance on the pipeline (such as leak survey, corrosion survey, valve inspections, etc.) will still be required, so it will not lead to O&M savings. Although the inline inspection interval will be decreased from every 7 years to 10 years, these savings are not significant. The majority of the repair costs, that will be avoided in the future, are attributed to replacement of discrete sections of pipe due to integrity concerns. These discrete replacements have therefore been addressed with maintenance capital rather than O&M expense.

b) The Don River crossing replacement project (starting in April) is replacing above ground pipe bridge crossing (approx. 45 metres) with below ground crossing of the river. The regular maintenance on the pipe (such as leak survey, corrosion survey, valve inspections, etc.) will still be required and will not lead to O&M savings. As this is a short section of pipeline, the regular pigging activities that are a continued requirement will not result in O&M savings.

c) O&M costs are not allocated to sections of pipe, thus, unable to provide a response to this question.

d) There is no business case incorporating O&M savings related to the Sudbury lateral and Don River crossing replacement project mentioned in a) and b) above.