ENBRIDGE GAS INC.
Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario (FRPO)

Reference: Exhibit B1 / Tab 1 / Schedule 1/ p. 8

Preamble: EGI's evidence states: *Similarly, the distribution costs are recovered in rates primarily from the delivery rates, however, some distribution related unit rates / costs are recovered from the Company's commodity, transportation, and load balancing charges*

Question:

Please provide the total forecasted cost for each of the above categories:

a) 2018
b) 2019
c) Please provide the drivers for any material difference between the two years.
d) Please provide any changes to cost allocation methodologies, practices or assumptions from to 2018 to 2019.

Response

a) Enbridge Gas would like to highlight that gas cost rates and distribution rates are derived on a stand-alone / separate basis, which was also noted in the lead-in to the response to Exhibit I.FRPO.1.

   Further, as described in Exhibit I.FRPO .1, until 2019 the Company used the fully allocated cost study ("FACS") to allocate the Allowed Revenue to the customer classes and develop rates to recover the Allowed Revenue based on the results of the FACS. The FACS was updated annually to reflect forecast costs and forecast cost drivers with the results being used as the starting point for rate design. The rates designed based on the results of the FACS (i.e. based on cost causality) have most of the distribution costs recovered through the Company's delivery rates, however, some distribution related costs are recovered from the commodity, transportation and load balancing rates. Similarly, some gas costs are recovered through the Company's delivery rates.

The total 2018 forecast distribution costs recovered through the Company's gas supply commodity, transportation, and load balancing charges are provided for each customer class in the evidence at:

Exhibit F1, Tab 1, Schedule 4, pages 1 to 11, Col. K, Line 8 to 11, and
Exhibit F1, Tab 1, Schedule 5, pages 1 to 22, Col. B, Line 8 to 11.

For 2018, approximately $42.2 M of the total forecast distribution cost of approximately $1,212.4 M was recovered from customers through the gas supply commodity, transportation, and load balancing charges.

The categories of distribution costs recovered through these charges include:

<u>For the gas supply commodity charges</u>:
system gas fee (cost of facilitating Sales (i.e., system gas) service)
commodity related working cash requirement
commodity related bad debt expense

<u>For the transportation charges</u>:
part of the transmission segment (Segment A) of the GTA project[1]

<u>For the load balancing charges</u>:
carrying cost of gas in inventory
part of the transmission segment (Segment A) of the GTA project[1]

> Note (1): The OEB approved Segment A of the GTA project for Enbridge Gas to improve diversity and security of its upstream supplies, to facilitate the shift in gas supplies from long haul to short haul, and to accommodate more supply purchases at Dawn. The recovery reflects cost causality / usage of Segment A.

b) The total 2019 forecast distribution costs and associated unit rates recovered through the Company's gas supply commodity, transportation, and load balancing charges are provided for each customer class in the evidence at:

Exhibit F1, Tab 1, Schedule 5, pages 1 to 22, Col. G and J, Line Nos 8 to 11.

The Price Cap Index adjustment of 1.07% on the 2018 amount of approximately $42.2 M results in approximately $0.45 M of additional revenue to be recovered from customers in 2019.

Exhibit F1, Tab 1, Schedule 6, pages 1 to 3 shows how distribution and gas cost unit rates are added together in order to derive the proposed unit rates for gas supply commodity, transportation, and load balancing charges for each customer class.

c) As described in evidence at Exhibit B1, Tab 1, Schedule 1, Appendix C, the EGD rate zone will adopt Price Cap IR rate setting framework for the 2019 to 2023 period. Under Price Cap IR distribution related revenues and rates are derived based on a Price Cap Index ("PCI"), which is comprised of an inflation factor, a productivity factor, and a stretch factor.

   Accordingly, the year-over-year change in these costs for the 2019 to 2023 IR period will be a function of the Price Cap Index as shown at Exhibit F1, Tab 1, Schedule 5, pages 1 to 22, Line 8 to 11.

d) Under Price Cap IR distribution related revenues and rates are derived based on a Price Cap Index (i.e., formulaic derivation). Consequently, cost allocation will not be carried out for these cost elements during the 2019 to 2023 IR period.