

ENBRIDGE GAS INC.

Answer to Interrogatory from  
School Energy Coalition (SEC)

Interrogatory

Reference:

6

Question(s):

In addition to any changes required by the OEB's decision, please provide a list of all elements of the revenue requirement or any other aspect of the requests sought in the application that Enbridge proposes to update at the time of the final rate order process.

Response:

In addition to the changes required by the OEB's Decision in this Application, Enbridge Gas will incorporate other OEB-approved changes as part of the final rate order, including the following:

- The equity return component of cost of capital for the 2024 Test Year for the OEB's formula ROE for 2024 (expected in the fall of 2023).
- The reference price and upstream transportation tolls based on the most recent QRAM at the time of implementation, depending on the approval timing of the final rate order in this Application.
- The Parkway Delivery Commitment Incentive (PDCI) rate and fuel costs for the October 2023 QRAM and the facility carbon charge, as per the Parkway Delivery Obligation Framework provided at Exhibit 4, Tab 7, Schedule 1, Attachment 1.
- Rider M for Hydrogen Gas to reflect the 2024 distribution rates and gas cost unit rates from the most recent QRAM at the time of implementation.
- The OEB-approved 2024 DSM budget costs, if different than the DSM budget costs included in the 2024 Test Year. Please see response at Exhibit I.7.1-STAFF-241 part a).

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Answer to Interrogatory from  
School Energy Coalition (SEC)

Interrogatory

Reference:

6-1-2, Attach 2, p.2

Question(s):

Please provide the underlying calculations used to derive the 'Drivers of the Revenue Deficiency' table.

Response:

Following are further details on the drivers of deficiency.

1. Net sustainable synergies and productivity: \$67.2 million

Table 1  
Integration Costs/Savings

Driver	(Deficiency)/Sufficiency in \$millions	Reference
Synergy savings and productivity	121.2	Exhibit 4, Tab 4, Schedule 2, Page 8, Table 2
Revenue requirement of undepreciated amount of integration capital investments (at existing depreciation rates)	(54.0)	Exhibit I.1.9-SEC-89, part a
<b>Total</b>	<b>67.2</b>	

2. Changes in accounting policy and methodologies: \$25.6 million

Table 2  
Accounting Policy change and methodologies

Driver	(Deficiency)/Sufficiency in \$millions	Reference
Accounting policy change	16.8	
Unregulated Storage cost Allocation	8.8	Exhibit 1, Tab 13, Schedule 2, Page 12
<b>Total</b>	<b>25.6</b>	

3. Impact related to ICM, Capital Pass Through and cost of capital: \$42 million

The deficiency is mainly driven by rebasing capital investments made during the deferred rebasing period, offset by a lower cost of capital. The \$42 million impact consists of the following drivers:

- i. The ten percent deadband inherent in the ICM threshold calculation resulted in a \$23 million deficiency,
- ii. The use of current year PCI in the determination of ICM Threshold was inconsistent with the actual annual rates escalations that have occurred since the last rebasing and resulted in a deficiency of \$50 million relative to the threshold,
- iii. Capital pass-through, treated as a Y-Factor, assumed to support capital funding through ICM Threshold was inconsistent with treatment in rates and resulted in a deficiency of \$47 million relative to the capital threshold,
- iv. Higher cost of debt embedded in existing rates relative to the forecast debt cost for 2024 resulted in a sufficiency of \$71 million,<sup>1,2</sup>
- v. Higher OEB-approved ROE embedded in existing rates relative to the forecast ROE for 2024 resulted in a sufficiency of \$11 million, and
- vi. ICM unit rates for the projects that went into service from 2019 to 2022 are fixed for each approved ICM project throughout the deferred rebasing term in order to

<sup>1</sup> Please see Union Gas's 2013 Rates Application for Union rate zones' OEB-approved cost of capital parameters (EB-2011-0210, Rate Order, Working papers, Schedule 3, December 13, 2012)

<sup>2</sup> Please see EGD's 2018 Rates Application for EGD's cost of capital parameters (EB-2017-0086, Rate order, Exhibit N2, Tab 1, Schedule 1, Appendix B, page 8, December 7, 2017).

smooth the recovery of forecasted revenue requirement, resulting in a deficiency of \$4 million when compared to 2024 Forecast revenue requirement for these projects.

Table 3  
Impact Related to ICM, Capital Pass Through and Cost of Capital

Driver	(Deficiency)/Sufficiency in \$millions
10% dead band	(23)
Current Year PCI Assumption	(50)
Capital Pass-through Y-Factor Treatment	(47)
Lower cost of debt	71
Lower cost of equity	11
ICM Projects 2019 to 2022 Rate Smoothing	(4)
<b>Total</b>	<b>(42)</b>

4. Cost pressures: \$135 million

This deficiency driver represents primarily O&M incremental cost pressures in the 2024 forecast and any other drivers not already captured in the Delivery Revenue Deficiency analysis. During the deferred rebasing term, revenues and costs were decoupled, and each year's deficiency is subject to variability from fluctuations in revenue each year and the costs to provide service. As a result, to quantify cost of service impacts, a high-level analysis has been performed by reviewing the 2024 Forecast against a notional level of O&M costs recovered in rates by escalating O&M from 2018 to 2023 at PCI. As provided at Exhibit 4, Tab 4, Schedule 1, updated March 8, 2023, Enbridge Gas faces significant cost pressures, including rising inflation, and such impacts have been mitigated by integration savings and productivity. With savings from integration and productivity highlighted in section I above, major items driving cost pressures are included in Table 4 and further details are provided at Exhibit 4, Tab 4, Schedule 2, updated March 8, 2023.

Table 4  
Cost Pressures

Driver	(Deficiency)/Sufficiency in \$millions
Increased TIS costs	(75)
Higher DSM costs than in rates	(33)
Higher integrity program costs	(25)
Higher locate costs	(15)
Higher bad debt	(10)
Higher loss within insurance deductibles, net of savings from premiums	(6)
Costs previously in Deferral and Variance accounts during IR term	(7)
Lower Pension and OPEB costs	50
Other	(14)
<b>Total</b>	<b>(135)</b>

5. Higher depreciation resulting from new depreciation study: \$160.4 million

Table 5  
Depreciation Proposal

Driver	2024 Depreciation at Existing rates in \$millions	2024 Depreciation at Proposed rates in \$millions	(Deficiency)/Sufficiency in \$millions	Reference
Increase in depreciation expense	771.6	891.9	(163.7) <sup>3</sup>	Exhibit 4, Tab 5, Schedule 1, Attachment 2, updated March 8, 2023 for depreciation at existing rates. Exhibit 4, Tab 5, Schedule 1, Page 16 for depreciation at proposed rates.
Decrease in rate base <sup>4</sup>	16,336	16,281	3.3	
<b>Total</b>			<b>(160.4)</b>	

6. Increase equity thickness from 36% to 38% in 2024: \$26.3 million.

Please see Table 2 in Exhibit 5, Tab 3, Schedule 1, updated March 8, 2023 for the detailed calculation.

<sup>3</sup> Grossed up for taxes

<sup>4</sup> Reduction in rate base because of increase in depreciation expense under the depreciation proposal

ENBRIDGE GAS INC.

Answer to Interrogatory from  
Vulnerable Energy Consumers Coalition (VECC)

Interrogatory

Reference:

Exhibit 6, Tab 1, Schedule 1

Question(s):

a) Please update Table 1 to show 2022 actual results.

Response:

a) Please see Attachment 1 for the Excel, for a full update of all tables included in Exhibit 6 to include actual data for 2022.

Table 1  
Summary of Revenue (Deficiency)/Sufficiency - EGI

Line No	Particulars (\$ millions)	<u>2019</u> Actual	<u>2020</u> Actual	<u>2021</u> Actual	<u>2022</u> Actual	<u>2023</u> Bridge	<u>2024</u> Test
<u>Revenue at Existing Rates</u>							
1	Gas Sales, Transportation, and Storage	4,779.7	4,266.7	4,628.6	6,317.1	5,810.1	6,016.3
2	Gas Costs	(2,265.3)	(1,781.3)	(2,110.5)	(3,630.3)	(3,047.3)	(3,228.0)
3	Impact of (colder)/warmer weather (1)	(67.0)	33.0	55.0	(17.2)	-	-
4	Revenue, weather normalized, net of Gas Costs	<u>2,447.4</u>	<u>2,518.4</u>	<u>2,573.1</u>	<u>2,669.6</u>	<u>2,762.9</u>	<u>2,788.3</u>
<u>Revenue Requirement</u>							
5	Operating Costs	3,907.7	3,477.8	3,794.2	5,409.0	4,920.8	5,297.2
6	Cost of Capital (2)	789.2	792.3	800.2	882.8	901.5	955.8
7	Other Operating Revenues	(47.8)	(52.2)	(50.0)	(51.5)	(63.2)	(64.3)
8	Income Taxes	59.9	39.2	41.8	38.0	41.5	43.8
9	Taxes on Deficiency/(Sufficiency)	(25.5)	(3.5)	(15.3)	(14.0)	(3.4)	77.9
10	Total Revenue Requirement	<u>4,683.5</u>	<u>4,253.6</u>	<u>4,570.9</u>	<u>6,264.3</u>	<u>5,797.2</u>	<u>6,310.5</u>
11	Gas Costs	(2,265.3)	(1,781.3)	(2,110.5)	(3,630.3)	(3,047.3)	(3,228.0)
12	Revenue Requirement, excluding Gas Costs	<u>2,418.2</u>	<u>2,472.3</u>	<u>2,460.4</u>	<u>2,634.0</u>	<u>2,749.9</u>	<u>3,082.4</u>
<u>(Deficiency)/Sufficiency</u>							
13	(Deficiency)/Sufficiency, gross	96.2	13.1	57.7	52.8	12.9	(294.1)
14	(Deficiency)/Sufficiency, weather normalized	29.2	46.1	112.7	35.6	12.9	(294.1)
15	2024 Deficiency as % of 2024 Revenue Forecast (line 14/line 1)						4.9%
<u>Average Annual Growth 2019-2023</u>							
16	Revenue, weather normalized, net of gas costs (line 4)						3.1%
17	Revenue Requirement, excluding gas costs (line 12)						2.7%

Notes:

- (1) Financial impact of colder/warmer than normal weather. 2023 and 2024 forecasts are based on normal weather.
- (2) Cost of Capital amounts reflect the annual OEB-formula return on equity %s. 2023 and 2024 amounts reflect the 2022 OEB-formula equity %.

2022 Actual - Calculation of Total Revenue (Deficiency)/Sufficiency

Line No.	Particulars (\$ millions)	Reference	2022 Actual
<u>Cost of Capital</u>			
1	Rate Base	Exhibit 2 Tab 1 Schedule 1 Page 5	15,381.3
2	Required Rate of Return	Exhibit 5 Tab 2 Schedule 1 Attachment 4	5.74%
3	Required Return		<u>882.8</u>
<u>Cost of Service</u>			
4	Gas Costs	Exhibit 4 Tab 2 Schedule 1 Attachment 1	3,630.3
5	Operations and Maintenance	Exhibit 4 Tab 4 Schedule 1	1,002.6
6	Depreciation and Amortization	Exhibit 4 Tab 5 Schedule 1 Attachment 2	653.1
7	Fixed Financing Costs	Exhibit 5 Tab 2 Schedule 1	4.6
8	Municipal and Other Taxes	Exhibit 4 Tab 6 Schedule 2	118.5
9	Total		<u>5,409.0</u>
<u>Miscellaneous Operating and Non-Operating Revenue</u>			
10	Other Operating Revenue	Exhibit 3 Tab 1 Schedule 1	(53.6)
11	Other Income	Exhibit 3 Tab 1 Schedule 1	2.1
12	Total		<u>(51.5)</u>
<u>Income Taxes on Earnings</u>			
13	Excluding Tax Shield	Exhibit 4 Tab 6 Schedule 1 Attachment 1	144.9
14	Tax Shield Provided by Interest Expense	Exhibit 4 Tab 6 Schedule 1 Attachment 1	(106.9)
15	Total		<u>38.0</u>
<u>Taxes on (Deficiency)/Sufficiency</u>			
16	Gross (Deficiency)/Sufficiency	Exhibit 6 Tab 1 Schedule 1	52.8
17	Net (Deficiency)/Sufficiency	Exhibit 6 Tab 1 Schedule 1	38.8
18	Total		<u>(14.0)</u>
19	Revenue Requirement		<u>6,264.3</u>
<u>Revenue at Existing Rates</u>			
20	Gas Sales	Exhibit 3 Tab 2 Schedule 1 Attachment 1	6,164.5
21	Transmission, Compression & Storage	Exhibit 3 Tab 4 Schedule 1	152.5
22	Total Revenue at Existing Rates		<u>6,317.1</u>
23	Gross Revenue (Deficiency)/Sufficiency		52.8

2022 Utility (Deficiency)/Sufficiency Calculation and Required Rate of Return - EGI

Line No.	Particulars	Principal	Component	Cost Rate	Return
		(\$ millions)	(%)	(%)	Component (%)
		Estimate	Estimate	Estimate	Estimate
		(a)	(b)	(c)	(d) = (b x c)
	<u>Debt</u>				
1	Long and Medium Term Debt	9,049.8	58.84	4.25	2.502
2	Short Term Debt	794.2	5.16	2.31	0.119
3	Total Debt	<u>9,844.0</u>	<u>64.00</u>		<u>2.622</u>
4	<u>Common Equity</u>	5,537.3	36.00	8.66	3.118
6	Total	<u>15381.3</u>	<u>100.00</u>		<u>5.739</u>
7	Rate Base	15,381.3			
8	Utility Income	921.6			
9	Indicated Rate of Return	5.992%			
10	(Deficiency)/Sufficiency in Rate of Return	0.252%			
11	Net (Deficiency)/Sufficiency	38.8			
12	Gross (Deficiency)/Sufficiency	52.8			
13	Revenue at Existing Rates	6,317.1			
14	Revenue Requirement	6,264.3			
15	Gross Revenue (Deficiency)/Sufficiency	52.8			
	<u>Common Equity</u>				
16	Allowed Rate of Return	8.660%			
17	Achieved Rate of Return on Equity	9.361%			
18	(Deficiency)/Sufficiency In Common Equity Return	0.701%			

2022 Net Utility Income - EGI

		<u>2022</u>
Line No.	Particulars (\$ millions)	Actual
<u>Operating Income</u>		
1	Gas Sales and Distribution	6,164.5
2	Transportation	145.7
3	Storage	6.9
4	Other Operating Revenue	53.6
5	Other Income	(2)
6	Total Operating Revenue	<u>6,368.6</u>
<u>Operating Cost</u>		
7	Gas Costs	3,630.3
8	Operation and Maintenance	1,002.6
9	Depreciation and Amortization Expense	653.1
10	Fixed Financing Costs	4.6
11	Municipal and Other Taxes	118.5
12	Cost of Service	<u>5,409.0</u>
13	Utility Income Before Income Taxes	<u>959.6</u>
14	Income Tax Expense	<u>(38.0)</u>
15	Utility Income	<u>921.6</u>

2022 Utility Rate Base - EGI

Line No.	Particulars (\$ millions)	<u>2022</u> Actual
	<u>Property, Plant and Equipment</u>	
1	Gross Property, Plant and Equipment	22,585.9
2	Accumulated Depreciation	(8,320.1)
3	Net Property, Plant and Equipment	<u>14,265.9</u>
	<u>Allowance for Working Capital</u>	
4	Materials and Supplies	102.6
5	Customer Security Deposits	(61.0)
6	Prepaid Expenses	6.1
7	ABC Receivable/(Payable)	(19.4)
8	Balancing Gas	59.5
9	Gas in Storage	1,005.1
10	Working Cash Allowance	22.6
11	Total Working Capital	<u>1,115.4</u>
12	Utility Rate Base	<u>15,381.3</u>