

OPERATING COST SUMMARY

1. This evidence sets out an overview of Enbridge's 2018 updated forecast operating Costs, which form part of the final 2018 Allowed Revenue.
  
2. Within EB-2012-0459, the Board approved most of Enbridge's operating cost components for the purpose of setting the Allowed Revenue amounts that would be recovered in rates in each of 2014 through 2018. However, as identified in Appendix E of the EB-2012-0459 Decision and Rate Order, dated August 22, 2014, the following operating cost forecasts, for each of 2015 through 2018, are subject to update in annual rate adjustment applications:
  - Gas costs will be updated as a result of the volumes reforecast and re-determined gas supply plan, and to reflect approved pricing;
  - Customer Care/CIS related O&M costs will be updated in accordance with the Board Approved EB-2011-0226 Settlement Agreement;
  - DSM related O&M costs will be updated annually;
  - Pension and OPEB related O&M costs will be re-forecast annually; and
  - Utility income taxes will be re-forecast annually to reflect impacts to taxable income from updated revenues, gas costs, O&M, and cost of capital.
  
3. In addition to the adjustments contemplated within Appendix E of the EB-2012-0459 Decision and Rate Order, the 2018 updated forecast operating costs have also been adjusted in accordance with the Board approved 2016 Rate Adjustment proceeding (EB-2015-0114) Settlement Agreement. The Settlement Agreement requires an allocation of base pressure gas and Lost and Unaccounted for gas ("LUF") to Unregulated Storage operations, as a result of the adoption of fully allocated costing for those items.

Witness: R. Small

4. The 2018 placeholder costs have also been adjusted in accordance with the Company's proposal to discontinue Rider D (return of Site Restoration Cost ("SRC") amounts to ratepayers) in 2018, and to move the associated tax deduction from Allowed Revenue to the 2018 Constant Dollar Net Salvage Adjustment Deferral Account ("CDNSADA"). The Company's proposal is detailed in Exhibit D2, Tab 2, Schedule 1.
  
5. Table 1 below, shows a summary of Enbridge's utility cost of service for each of the 2017 Board Approved (EB-2016-0215), the 2018 placeholder (EB-2012-0459), and the 2018 Updated Forecast operating costs presented within this proceeding.

TABLE 1  
OPERATING COST SUMMARY (INCLUDING CIS & CUSTOMER CARE)

Line No.	Col. 1	Col. 2	Col. 3
	EB-2016-0215 2017 Total Approved Costs and Expenses (\$Millions)	EB-2012-0459 2018 Total Costs and Expenses Placeholder (\$Millions)	2018 Total Updated Forecast Utility Costs and Expenses (\$Millions)
1. Gas costs	1,603.1	1,632.5	1,754.9
2. Operation and maintenance	459.9	442.8	467.5
3. Depreciation and amortization expense	297.7	305.5	305.5
4. Fixed financing costs	1.9	1.9	1.9
5. Municipal and other taxes	47.9	50.4	50.4
6. Operating costs	2,410.5	2,433.1	2,580.2
7. Income tax expense (incl. taxes on suff./def.)	14.4	57.1	55.8
8. Cost of service (excl. interest & return)	2,424.9	2,490.2	2,636.0

Witness: R. Small

6. The numeric impacts of each of the 2018 updated forecast operating cost adjustments are shown in Exhibit D1, Tab 1, Schedule 2. The tables set out therein show the updates that have been made to each of the operating cost elements listed above (gas costs, customer care / CIS costs, pension / OPEB costs and DSM costs).
7. The evidence with respect to the updated forecast of gas costs can be found at Exhibit D1, Tab 2, Schedules 1 to 11. The overall impact of the adjustment to the placeholder amount is an increase of \$122.4 million. This takes account of the updated 2018 gas volume forecast (inclusive of the allocation of LUF to Unregulated Storage), as well as the July 1, 2017 QRAM prices, and the 2018 gas supply plan.
8. The evidence with respect to the updated 2018 customer care/CIS costs can be found at Exhibit D1, Tab 3, Schedules 1 to 3. The impact of the adjustment to the placeholder amount for 2018 customer care / CIS costs is a decrease of \$2.6 million in operating costs.
9. Evidence with respect to the updated forecast DSM costs can be found at Exhibit D1, Tab 4, Schedule 1. The impact of the adjustment to the placeholder amount for 2018 DSM costs is an increase of \$32.7 million in operating costs.
10. Evidence with respect to the updated forecast pension and OPEB costs can be found at Exhibit D1, Tab 5, Schedule 1. The impact of the adjustment to the placeholder amount for 2018 pension and OPEB costs is a decrease of \$5.4 million in operating costs.

Witness: R. Small

11. A further adjustment to Allowed Revenue each year from 2015 to 2018 is to be made to reflect the updated utility income tax amount. As described within Appendix E to the EB-2012-0459 Final Rate Order, utility income taxes will be re-forecast annually to reflect impacts to taxable income stemming from the updating of revenues, gas costs, O&M and the re-determined approved overall rate of return on rate base. In addition to the impacts resulting from the adjustments described within Appendix E to the EB-2012-0459 Final Rate Order, the 2018 updated forecast of income tax also reflects impacts resulting from the allocation of LUF and base pressure gas to Unregulated Storage operations, as required per the EB-2015-0114 Settlement Agreement, and to reflect the Company's proposal to discontinue Rider D and move the associated tax deduction to the CDNSADA. . Evidence with respect to the updated forecast income tax amount can be found at Exhibit D1, Tab 6, Schedules 1 and 2.
  
12. Enbridge will also incur costs in 2018 related to compliance with Cap and Trade obligations and associated activities. However, in accordance with and to be consistent with direction and instructions from the OEB in the EB-2015-0363 Report on the Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities, Enbridge is not seeking approval of the Cap and Trade Unit Rates (or associated costs) in this Rate Adjustment Application. Instead, the Cap and Trade Unit Rates (as well as necessary additional Variance or Deferral Accounts) will be presented for approval within Enbridge's 2018 Compliance Plan (EB-2017-0224).