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

Reference: Exhibit B1 / Tab 1 / Schedule 1/ p. 6

Preamble: EGI's evidence states: *The EGD rate zone's October 1, 2018 EB-2018-0249 rates have a Purchased Gas Variance Account ("PGVA") reference price of $163.524 103m3. The PGVA reference price is comprised of commodity, transportation and load balancing costs. In order for adjustments to gas cost rates to only capture / reflect the impacts of the plan mix change in the 2019 gas supply portfolio versus the 2018 portfolio, the cost of the 2019 portfolio is based on the October 1, 2018 QRAM PGVA reference price of $163.524 103m3. This approach ensures that the proposed rate impacts are a function of the year-over-year changes in gas supply portfolio only and net of price / cost changes that are otherwise captured through the QRAM methodology.*

Question:

Being respectful of PO No. 2 which excludes gas supply costs which are the subject of a future proceeding, we are interested in understanding the year over year changes associated with gas supply or load balancing costs that are embedded in the distribution rates.

For gas supply or load-balancing costs included in distribution rates:

a) Please provide a brief summary of the principles used to separate gas supply or load balancing costs between gas supply costs and distribution costs.
b) Please provide any changes to cost allocation methodologies, practices or assumptions from to 2018 to 2019.
c) Please provide a summary of the categories of gas supply or load balancing costs that are allocated to distribution rates.
d) Please provide a comparison of the 2018 and 2019 costs for each of those categories of cost.
e) Please explain the drivers associated with any material changes in the quantum of costs allocated to distribution rates.

Response

a) Enbridge Gas would like to highlight that gas cost rates and distribution rates are derived on a stand-alone / separate basis. As stated in the evidence at Exhibit B1, Tab 1, Schedule 1, Page 8, starting at line 3, it is for customer billing purposes that the unit rates developed to recover the elements of the gas costs which support the provision of delivery service to customers (i.e., contracted storage and associated transportation, lost and unaccounted for gas) are added to the distribution rates and recovered through the delivery charges on customers' bills. And similarly, while the distribution costs are recovered in rates primarily through the delivery rates, some distribution related costs and associated unit rates are recovered through the Company's commodity, transportation, and load balancing charges.

This Board-approved approach ensures that charges on customers' bills reflect / are based on cost causality for the services provided and that only customers who subscribed for specific services pay for the costs of those services. For example, the cost of facilitating the Sales service (i.e., system gas) supply option (which is part of the Company's distribution costs) should be recovered from customers who take the Sales service. The cost of unaccounted for gas, given it represents gas losses on the gas distribution system, should be recovered from all customers through delivery charges regardless of the type of service (i.e., Sales service, Western T-service, etc.) they are taking.

As described in evidence at Exhibit B1, Tab 1, Schedule 1, Appendix C, the EGD rate zone operated under Custom Incentive Rate ("IR") rate setting framework approved by the Board under EB-2013-0202 for the 2014 to 2018 period.

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.

As noted above, 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 (given that such distribution costs (i.e., system gas administration, bad debt commodity, or return on gas in inventory) support provisions of these services to customers). Similarly, some gas costs, storage and related transportation, and lost and unaccounted for gas (i.e., commodity) costs are recovered through the Company's delivery rates.

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.

The pass through (Y-factor) costs, such as DSM and gas costs, are not subject to the PCI and are passed through to customers at cost. The pass through (Y-factor) costs reflect forecast of costs for these elements for the test year. For this reason, Enbridge Gas is able to update not only the forecast level of pass through costs but also allocations of pass through costs each year of an IR rate setting period.

b) There are no changes to cost allocation methodologies, practices, or assumptions from 2018 to 2019.

c, d, and e) The categories of gas costs that are recovered through the Company's delivery charges, as discussed above, can be found for 2019 at Exhibit F1, Tab 1, Schedule 9, Page 2, Items 3.1 to 4.1 and for 2018 at Exhibit F1, Tab 1, Schedule 4, Appendix A, Attachment 1, Items 3.1 to 4.1.

For 2019, approximately $187.8 M of the total gas cost forecast of approximately $1,598.1 M will be recovered from customers through the delivery charges.

For 2018, approximately $184.2 M of the total gas cost forecast of approximately $1,547.8 M was recovered from customers through the delivery charges.

The difference in allocated costs is driven by year-over-year change in demand / volumetric requirements and in the gas supply mix.

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 delivery charge unit rates for each customer class