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VIA COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: Union Gas / Enbridge Gas Distribution Inc. - Incentive Rate Regulation for
Natural Gas Utilities
EB-2007-0606 / EB-2007-0615**

Please find enclosed VECC's interrogatories of Enbridge Gas Distribution Inc. with respect to the above noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

**VECC Interrogatories for Enbridge Gas Distribution Inc.
EB-2007-0615**

Issue 1: Multi-Year Incentive Ratemaking Framework

VECC 1

Reference-Exhibit B, Tab1, Schedule 1 page 11-12 Paras 26-31

Issue 1.2 What is the method for incentive regulation that the Board should approve for each utility?

- a) EGD has outlined why a Revenue Cap Index (RCI) is appropriate for EGD. Provide more details than provided on why a Price Cap Index (PCI) would NOT work, if the PCI formula had additional features such as a Y factor for changes in customer growth/volumes. In other words what features/additions would allow EGD to accept a PCI of the type proposed for Union Gas?
- b) Does EGD accept that there is considerable regulatory burden associated with the annual review under an RCI. Please compare the process and time/stakeholder engagement under an RCI and PCI.

VECC 2

Reference-Exhibit B, Tab1, Schedule 1 page 14 Paras 32

Issue 1.2 What is the method for incentive regulation that the Board should approve for each utility?

- a) Is the formulation, without growth factor shown, as
 $GDPIPI-X=1.86\%+0.15\%=2.01\%$
EGD's final proposal, or does EGD intend this to be subject to new analysis and revision.
- b) Provide historical growth factors
- c) Provide EGD's estimate of its proposed 2008/2007 growth factor.

VECC 3

No Reference

Issue 1.3 Should weather risk continue to be borne by the shareholders, and if so what other adjustments should be made?

- a) Provide EGD's position on weather risk.
- b) Provide a Table showing actual and approved normalized and un-normalized Returns on Equity for the period 1997-2006.
- c) Provide EGD's views and estimates of how many basis points on ROE is associated with weather risk, given its heat-sensitive volumes.

Issue 2: Inflation Factor

VECC 4

No Reference

Issue 2.4 Should the gas utilities ROE be adjusted in each year of the incentive regulation (IR) plan using the Board's approved ROE guidelines?

- a) Provide EGD's position on an annual adjustment to ROE.
- b) With reference to the 15 utilities in the Ecoanalysis (sic) Consulting Services survey [D-5-1]. How many have annual ROE adjustments?
- c) How many have Weighted Average Cost of Capital adjustments?
- d) If an annual ROE adjustment is proposed what, if any, materiality threshold would be appropriate in order to reduce regulatory burden.
- e) If other capital components are to be adjusted, for example debt cost, due to changes resulting from embedded debt replacement, what materiality threshold(s) would be appropriate?

Issue 3: X-Factor

VECC 5

Reference- Enbridge Exhibit B, Tab 1, Schedule 1, Page 1, Para. 4 and Table 1 Page 9

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: "A productivity challenge is inherent in the fact that the revenue growth provided by the proposed formula is significantly lower than revenue growth provided by recent cost of service regulation"

- a) Provide the following additional data on EGD's *distribution revenue requirement* and unit rates that support the statement in both tabular and graphical format for the 10 year period 1997-2006 [B-1-1 Table 1 Page 9]
 - i) All rates in aggregate:
Gross throughput, # customers, average volume per customer, approved revenue requirement, actual revenue, forecast and actual average unit rate.
 - ii) for Rate 1 (Residential):
volume throughput, # customers, average volume per customer, approved revenue requirement, actual revenue, forecast and actual unit rate.
 - iii) Show historical Inflation -CPI and GDPIPI on the same graphs.
- b) Provide a table showing EGD's total factor productivity for the period 1997-2006.

c) Highlight EGD's change total factor productivity in the TPBR plan period (October 1, 1999-September 30, 2002) relative to the average productivity over the 10 year period. Discuss the reasons for any observed differences.

VECC 6

Reference-Enbridge Exhibit B, Tab 3, Schedule 1, Page 30, Para. 73

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

- a) Provide a Table Similar to Table 11 Page 30 showing a side by side comparison of PEG's June 2007 recommendations for EGD's X factor and EGD's proposals summarized in the Table in the above reference. Comment on each difference/change in respect of why EGD disagrees with PEG's RCI formulation and X factor analysis as applied to EGD.

VECC 7

Reference- Enbridge Exhibit B, Tab 3, Schedule 1, Pages 3-5, Paras. 7-14

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: Para 14 States

"Using U.S. data to establish a proxy for Canadian firms is only reasonable if there is a simultaneous adjustment to account for the measured productivity gap."

- a) With regard to Table 1-Canadian Utility Average Annual TFP Productivity Growth Rates, Please Indicate:
- i) Number of utilities in the Canadian sample compared to PEG's US Sample.
 - ii) Number of Utilities in Ontario sample compared to PEG's US sample.
 - iii) Statistics for Canadian and Ontario groups (standard deviation and t-statistic, if available)
- b) What is your conclusion (as relevant to EGDs historic TFP Growth) from Table 1 and para 10?
- c) With reference to Table 2 please provide
- i) Number of utilities in the Canadian and US sample compared to PEG's US Sample.
 - ii) Statistics for Canadian and Ontario groups (standard deviation and t-statistic, if available)

VECC 8

Reference-Enbridge Exhibit B, Tab 3, Schedule 1, Pages 6-9, Para. 15- 22

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: Para 15 states

“To estimate the Company’s historical TFP trend an output quantity index is measured relative to an input quantity index. The output quantity index is created as a function of customer numbers residential/commercial volumes (RC) and other volumes”

- a) For a revenue cap formulation based on a revenue requirement per customer why, when estimating TFP, is an output index that includes RC volumes and other volumes appropriate? Please explain.
- b) For a pure RCI formulation based on a revenue requirement per customer, why is weather-related volumetric normalization a factor to be included in the output index?
- c) Calculate the EGD historical output quantity index for EGD on the same basis as Table 3, using *only* the number of customers (revenue per customer). Provide the corresponding TFP index assuming the same input quantity formulation as Table 4.
- d) Provide a side by comparison of the PEG and EGD calculated EGD Output Quantity index based on Table 3. Include all relevant references
- e) Why is fuel/power cost not a significant input cost for a gas distribution utility? Indicate the relative importance of this compared to labour and capital.
- f) Please provide details of calculation and all data used to recalculate EGD’s Input Quantity Index in Table 4. Provide all relevant references
- g) Provide a side-by-side tabulation of PEG and EGD calculated Input Quantity Indices.
- h) Provide a comparison of the EGD and PEG Historical TPP Indices based on Table 5. Provide all relevant references.

VECC 9

Reference-Enbridge Exhibit B, Tab 3, Schedule 1, Page 11, Chart 1

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: Dr. Bernstein has criticized PEG’s overall US sample for its weighting toward southern utilities and suggested a Northeast utility sample would be more appropriate.

- a) In reference to Chart 1, how many utilities are in the DRA Northeast Group. Please list them and their primary relevant metrics.
- b) Provide the statistics (Std. Dev. and t-statistic) for the TFP Index for the DRA Northeast Group.
- c) Discuss and compare PEG's EGD peer group to the DRA Northeast Group.

VECC 10

Reference-Enbridge Exhibit B, Tab 3, Schedule 1, Page 12, 13, Paras 26-30

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: Dr Bernstein and EGD criticize PEG's Econometric model.

- a) What specific components of the model are of concern? Please be specific and provide relevant references.
- b) What methodological approach(es) do Dr. Bernstein and EGD suggest to replace/modify PEG's Econometric Modeling approach? Please be as specific as possible and provide relevant references.

VECC 11

Reference- Enbridge Exhibit B, Tab 3, Schedule 1, Pages 14, Para 32-36

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: The Brattle Group concludes that the U.S. Northeast is the most applicable region for peer group representation for EGD.

- a) Provide the complete analysis that underlies this conclusion in terms of the comparators used and the significance/weighting of each.
- b) In reference to Table 6, please provide all the significant metrics of the proposed peer group.
- c) Discuss and compare this peer group to the PEG peer group and to PEG's total U.S. Sample.

VECC 12

Reference- Enbridge Exhibit B, Tab 3, Schedule 1, Pages 22-24, Para 49-54

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: EGD Claims that including a positive stretch factor will only serve to diminish incentives. The result is that potentially productivity enhancing projects may be delayed, deferred, or cancelled.

- a) Confirm that EGD is requesting a Capital Adjustment Y factor for leave to construct and system expansion projects.
- b) Confirm that two major potentially productivity enhancing capital projects –Envision and CIS/Customer Care are already underway and shareholder risk is subject to recent agreements with intervenors.
- c) Why is the example in Table 8 Para 50 relevant, given the context in parts a) and b) above?
- d) What other major capital projects is EGD concerned about that require the elimination of the stretch factor?
- e) Given that the Company has an approved DSM plan and built-in incentive in the form of an SSM why is this relevant to elimination of the stretch factor?[B-3-1 para. 54]
- f) Provide any other rationale for elimination of the stretch factor.

VECC 13

Reference-Enbridge Exhibit B, Tab 3, Schedule 1, Pages 36, Para 87-89

Issues:

3.1 How should the X factor be determined?

3.2 What are the appropriate components of an X factor?

Preamble: EGD Compares its RCI estimate to historic revenue requirement from 1994-2006.

- a) Update Table 13 to include the 2007 approved distribution revenue requirement. Provide the average, mean and Standard deviation of the revenue growth.
- b) Provide a version of Table 13 that uses EGD's proposed GDPIPI-X formulation to produce an annual revenue requirement (1994-2007). If an estimate of Y factors is available this should be shown in a separate column. Provide appropriate statistics and explanatory notes.

Issue 4: Average Use Factor

VECC 14

Reference-Enbridge Exhibit B, Schedule 1, Tab 1 Page 1, Para. 19-

Issue 4.1 Is it appropriate to include the impact of changes in average use in the annual adjustment?

Preamble: "It is essential that the IR Plan provide appropriate mitigation from the impact of the decline in average use on utility earnings".

- a) Confirm that under a revenue cap, as proposed by EGD, the test year revenue requirement is based on the number of customers not volume per customer.
- b) Confirm that under EGD's proposed IR mechanism, the allocation of the revenue requirement to customer classes is based on a volume forecast (or forecast with true-up?) to produce unit rates.
- c) What approach does EGD propose to address declining Normalized Average Use per Customer under the IRM? Contrast this with the current approach based on EGD's econometric models.
- d) Does EGD propose a true-up for forecast-actual volumes and if so, what process will be used under the proposed rate filing process and reporting requirements [B-6-1]. If not, why not-explain.
- e) Does EGD agree/disagree (plus explanations) with the following of PEG's statements:
 - i. "For the RCI, a balancing account would ensure that the allowed revenue requirement is exactly recovered and, therefore an AU factor is not required." [D-T3-S1, P11]; and
 - ii. "If the revenue requirement is allocated, and rates are designed by traditional means, there is no need for AU or ADJ terms in the X factor formula." [D-T3-S1, P 12]; and
 - iii. "A revenue cap index (RCI) caps the growth in a company's revenue requirement. Such an index is commonly paired with a balancing account that ensures that the revenue requirement is ultimately recovered. This tandem of IR plan provisions provides automatic compensation to the utility for declines in average use. The ratepayer therefore absorbs the risk of average use trends"(emphasis added) . [D-T3-S1 Pages 14-15]
- f) Has EGD considered a "balancing account" as suggested by PEG. If so what would be covered, for example normalized volumes or total volumes. Please explain.

Issue 5: Y-Factor

VECC 15

Reference- Enbridge Exhibit B, Schedule 1, Tab 1 Page 17, Para. 39 and specific references as noted

Issue 5.1 What are the Y factors that should be included in the IR plan?

General

- a) Other than gas supply and ex-franchise costs such as upstream transportation tolls, why should any Y factors be necessary? Please explain why all other costs should not be managed within the distribution revenue requirement cap.

Capital Investment

- b) For capital investment what/where is the dividing line between new residential customer attachments and leave to constructs for new communities? Explain in detail, including references to EBO 188. [B-T4-S1 Page 12 Para 30]
- c) Provide a schedule summarizing Board-Approved historic budgets (10 years) and calculated growth rates in capital expenditures for each of System Safety and Integrity, and Leaves to Construct. Show Approved Total Capital Budgets for comparison and calculate the percentage of the total represented by each of System Safety and Integrity and Leaves to Construct. Provide the 10 year average, mean and standard deviation. [B-T4-S1 Page 14, Para 6]
- c) Do leaves to construct include system expansion and/or reinforcements or both? [B-T4-S1 Page 14, Para 5] Provide a breakdown of the 10 year history for each category.

Operating Costs

- d) Provide a Table showing the following
 - i) projected 2008-2012 O&M budgets, including escalation at EGDI's proposed rate of 2.01%, for DSM Program costs and CIS/Customer Care costs per the Settlement Agreements.
 - ii) projected DSM Program costs and CIS/Customer Care costs per the Settlement Agreements 2008-2012 on a per customer basis assuming a growth rate of 50,000 customers per year and escalation of 2.01%.

Deferral Accounts

General

- e) If a Balancing Account related to volumes is established as suggested by PEG and as used in other jurisdictions, why would any volume related deferral accounts be necessary? Please explain why EGD's proposed RCI does not incorporate this feature in order to reduce regulatory complexity and burden.
- f) For all non-gas supply and transactional services-related deferral/variance accounts provide a schedule showing, for each, the historic (10 years) annual amounts accrued. Provide totals, averages, mean and standard deviation. [B-T4-S1 Page 6, Para 7, Items 5-16 inclusive]
- g) For DSM-related variance accounts why would an LRAMVA be required if prior year actual, rather than forecast, volumes (with/without volume-related balancing account) were used to set rates? Please explain in detail. [B-T4-S1 Page 7, Para 7, Items 17-19 inclusive]
- h) Why is an SSMVA required, if prior year audited net TRC results were available to provide the test year Y factor adjustment? Please explain.

Issue 8: Term of the Plan

VECC 16

Reference- Enbridge Exhibit B, Tab 1, Schedule 1, Pages 19-20, Para 48-49
Issue 8.1.- What is the appropriate plan term for each utility?

Preamble: EGD has rejected a symmetric ROE-based Off-ramp

- a) What is EGD's position on a mid-term review and if one was ordered by the Board, what would be the scope of any such review?
- b) What would EGD propose as the **financial** parameters that would determine if an off ramp was appropriate and how would these apply to the proposed RCI formulation?

Issue 10: Earning Sharing Mechanism (ESM)

VECC 17

Reference- specific references as noted

Issues:

10.1 Should an ESM be included in the IR plan?

10.2 If so, what should be the parameters?

- a) Provide a clear explanation of EGDs position on Earnings Sharing with appropriate supporting references.
- b) Confirm that the Econanalysis (sic) Survey provided as Exhibit D-T5-S1 in Appendix 1 shows that of the 15 PBR/IRM schemes reviewed 12 have some form of earnings sharing or over/under earnings adjustment.
- c) Since EGD is using the Econanalysis (sic) Survey as support for a revenue cap vs rate cap, Comment on the inclusion/exclusion of ES for each type of IRM.
- d) If EGD was requested by the Board to propose an earnings sharing /over/under earnings adjustment, outline the parameters of its proposal (for example symmetric/asymmetric, deadband etc.)

Issue 12: Rate Setting Process

VECC 18

Reference- Enbridge Exhibit B, Tab 6, Schedule 1, Page 1, Para 1

Issue 12.1 Annual Adjustment

12.1.1 What should be the information requirements

12.1.2 What should be the process, the timing, and the role of the stakeholders.

Preamble: "The devil is in the details"

- a) For the volume and customer forecasts- will year to date (Bridge year) information be provided.
- b) Compare the degree day/ volume forecast filing to the 2007 rate case filing in terms of a list of the Exhibits/Tabs to be provided.
- c) What process does EGD propose for regulatory review of forecasts for example IR's, Technical Conference(s)?
- d) Why would not EGD use historic year volumes combined with a balancing account?
- e) What other Cost of Service reviews are proposed for example Capital programs/projects, DSM Budgets deferral and variance accounts.
- f) Indicate relative to the 2007 rate case filing, the extent of evidence to be provided and the proposed regulatory process.

Issue 14: Adjustments to Base year Revenue Requirement and/or Rates

VECC 19

No Reference

Issues:

14.1 Are there adjustments that should be made to base year revenue requirements and/or rates?

14.2 If so, how should these adjustments be made?

- a) List all components and amounts of the 2007 revenue requirement that could change by virtue of Settlement Agreements (e.g. DSM, Envision, CIS/Customer Care, Open Bill Access)
- b) In EB-2006-0034 Phase II, Stock Based Compensation and Equity Financing are issues to be determined by the Board as to whether these are legitimate costs to be borne by EGD ratepayers. If the Board finds they are not, what would be the corresponding adjustment to the 2008 revenue requirement. Respond for each cost category.
- c) Does EGD have information and estimates on its proposed 2008 Y factors? If not when will this be available?