

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF a combined proceeding Board pursuant to section 21(1) of the *Ontario Energy Board Act, 1998*.

**INTERROGATORIES OF THE LONDON PROPERTY MANAGEMENT
ASSOCIATION (“LPMA”), THE WHOLESALE GAS SERVICE PURCHASERS
GROUP (“WGSPG”), AND THE BUILDING OWNERS AND MANAGERS
ASSOCIATION OF THE GREATER TORONTO AREA (“BOMA”)
TO
ENBRIDGE GAS DISTRIBUTION INC.**

1. Ref: Exhibit B, Tab 1, Schedule 1, page 17 – 18

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

Under the Enbridge proposal, would each of the following qualify as a Z factor? Please explain.

- a) changes in federal income tax rates and/or capital cost allowance rates?
- b) changes in provincial income tax rates and/or capital cost allowance rates?
- c) changes in provincial capital tax rates?
- d) new permit fees from municipalities?

2. Ref: Exhibit B, Tab 1, Schedule 1, page 18

Issue Number: 6.2

Issue: Should there be materiality tests, and if so, what should they be?

- a) Please confirm that the materiality threshold proposed by Enbridge of \$1.5 million is pre-tax and not after-tax.
- b) Is the materiality threshold a cumulative test or a year to year test? For example, assume that permit fees are an appropriate Z factor and that Enbridge pays \$1 million in fees in 2008 and \$2 million in 2009. Under one possible interpretation, in 2008, the \$1 million expense would not reach the materiality threshold of \$1.5 million. The increase in 2009 is a further \$1 million from 2008, which again, would not meet the materiality threshold. However under another possible interpretation, the increase in 2009 as compared to base rates is an increase of \$2 million, which would pass the materiality test. Which of these two interpretations does Enbridge's materiality test proposal envision?
- c) In the above scenario, if a deferral account had been set up for 2008 and at the end of 2008, it had the \$1 million expense recorded in it and the amount failed the materiality test, would the balance be set to \$0 at the beginning of 2009 or would Enbridge propose to carry forward this balance into 2009 and ultimately seek recovery of the 2008 amount if and when the balance in the account exceeded the materiality threshold?
- d) Please define a Z factor event in the context it is used in paragraph 42.
- e) If the provincial corporate tax rate decreased, resulting in a reduction to Enbridge of \$1 million and the provincial capital tax was reduced by a further \$1 million both the result of tax legislation, would each of these items be considered separate Z factor events, or would they be considered jointly as one Z factor event? Please explain.

3. Ref: Exhibit B, Tab 2, Schedule 1, page 3

Issue Number: 2.3

Issue: How often should the Board update the inflation factor?

- a) Please explain why the final factor in the formula is $AG^{Q3}_{\text{TestYear-1}}$ when the footnote on page 2 indicates that the Q2 value of the index would be available at the time of filing.
- b) Given that the Q3 value of the index would not be available until late November, is Enbridge proposing that the filing be updated to reflect the Q3 values, or should the final factor in the equation read $AG^{Q3}_{\text{TestYear-2}}$?

4. Ref: Exhibit B, Tab 3, Schedule 1, page 1

Issue Number: 3.1

Issue: How should the X factor be determined?

The Enbridge evidence states that the X factor should be -0.15, while the PEG report indicates an X factor for Enbridge under a revenue cap index of +2.25 using the GD capital cost approach, for a total difference of 2.40.

Please provide an estimate of the difference in the revenue requirement as the result of these two differing estimates.

5. Ref: Exhibit B, Tab 3, Schedule 1, Table 8

Issue Number: 3.2

Issue: What are the appropriate components of an X factor?

- a) Please replicate Table 8 using a discount rate equal to Enbridge's weighted average cost of capital that resulted from the EB-2006-0034 Decision.
- b) Assuming a discount rate of 10%, what is the projected benefit per year (in place of the \$265,000 used in the example) that would result in a NPV of \$0 in Scenario B for the Company?
- c) Does the example provided take into account the potential tax impact such as a reduction in income to reflect the original \$1 million expense, or the CCA on such an expense if it is capital in nature, in the analysis?

6. Ref: Exhibit B, Tab 3, Schedule 1, Table 13

Issue Number: 3.1

Issue: How should the X factor be determined?

- a) Do the approved revenues shown in Table 13 include any items that would be characterized as Y or Z factors in an incentive regulation mechanism? If yes, please provide a revised Table 13 that includes a column to reflect these Y and Z factor amounts, the approved revenues after their removal and the annual percent change in this revenue growth.
- b) Please add the following columns to Table 13:
 - i) the percent change in the GDPIPI FDD;
 - ii) the percent change in the average number of customers served (use the method proposed by Enbridge in this proceeding to calculate the average); and

- iii) the percent change in the revenue requirement based on the figures provided in (a) and (b) above, and Enbridge's proposed -0.15 X factor, assuming no Y or Z factors.
- c) Please update Table 13 to include the 2007 figures that reflect the EB-2006-0034 Decision.
- d) Please provide an updated Table 13 that includes the 2007 information along with columns that show the average number of customers for each year, the approved revenues per customer, and the annual revenue per customer growth percentage.

7. Ref: Exhibit B, Tab 3, Schedule 1, page 37

Issue Number: 8.1

Issue: What is the appropriate plan term for each utility?

- a) If the company is concerned about the potential compounding of the risks associated with reduced output and increased input requirements going forward, why is Enbridge proposing a five year term?
- b) If the term plan was three years, would the compounding problem be as severe as with a five year plan?

8. Ref: Exhibit B, Tab 4, Schedule 1, page 3 - 4

Issue Number: 5.1

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

The evidence indicates that an IR model provides shareholders with no incentive to invest any capital in the business than the minimum amount to maintain total rate base at the approved 2007 levels.

- a) What is the incentive to the shareholder to maintain rate base at 2007 levels as compared to letting rate base decline, thereby earning a higher return on equity?
- b) Does Enbridge believe that it would increase capital spending near the end of the IR term in order to increase rate base in time for the COS rebasing? If not, why not?

9. Ref: Exhibit B, Tab 4, Schedule 1, page 5

Issue Number: 5.1

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

The evidence states that currently a residential customer attachment will take

approximately 12 years to observe the cross-over from revenue deficiency to revenue sufficiency.

Based the average cost of approximately \$2,500 of capital expenditure per attachment, please provide the associated total cost of service associated with this attachment, including the O&M expenditures of \$70 per year, depreciation, return on capital, capital taxes, income taxes and any other component of the cost of service. Please show the above costs separately and identify all assumptions used in their calculation.

10. Ref: Exhibit B, Tab 4, Schedule 1, page 5

Issue Number: 5.1

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

The evidence states that during the first 12 years the investor is earning less than the allowed COS equivalent ROE.

a) Given that rates are set in COS to earn the ROE, does this mean that after the first 12 years in the example provided, the investor is earning more than the allowed COS equivalent ROE? If not, why not?

b) What portion of Enbridge's current residential customers have been customers for more than 12 years?

c) Are the customers that were added more than 12 years ago providing the shareholder with a return above the COS ROE determined in the 2007 rates proceeding? Please explain.

11. Ref: Exhibit B, Tab 4, Schedule 1, page 8 - 9

Issue Number: 5.1

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

a) Please confirm that any reduction in O&M costs or any economies of scope due to the addition of customers and/or load are also impacts that accrue entirely to the shareholder.

b) Please provide all calculations and assumptions used to generate the \$8 million figure.

c) Does the calculation of the \$8 million figure include cost reductions to the capital cost allowance available? If not, why not?

d) What assumptions are included in the reduction of O&M costs related to repair and maintenance and emergency response costs?

e) What assumptions have been made related to the longer term impact on depreciation rates? If no change has been assumed, please explain why.

f) What assumptions have been made about the removal of the net book value of the pipe being replaced?

12. Ref: Exhibit B, Tab 4, Schedule 1, page 9

Issue Number: 5.1

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

The evidence states that for any incremental non-revenue generating capital investment during IR the Company earns zero ROE during the IR period.

a) Please confirm that some non-revenue generating capital investments will reduce O&M costs and/or increase productivity.

b) Please confirm that non-revenue generating capital investments qualify for capital cost allowance that results in reductions in come tax.

c) Please provide all the assumptions used to conclude that the company earns zero ROE during the IR period on any incremental non-revenue generating capital investment.

13. Ref: Exhibit B, Tab 4, Schedule 1, page 11

Issue Number: 5.1

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

The evidence states that shareholders must be adequately compensated for their investments and therefore the IR plan must appropriately address this issue.

a) In light of this statement, does Enbridge believe that the weather risk should continue to be borne by the shareholders? If yes, please explain.

b) In light of this statement, why has Enbridge not proposed a balancing account that would ensure that the revenue requirement is ultimately recovered?

14. Ref: Exhibit B, Tab 4, Schedule 1, Appendix A

Issue Number: 5.1

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

a) Is Enbridge proposing that any revenues generated by the LTC projects and the power

generation projects be used to offset the associated cost of service associated with the capital expenditures on projects as part of the Y factor? If not, why not?

b) Please confirm that the proposed Y factor is only for capital expenditures and not for any ongoing O&M costs associated with the additional customers.

c) Does the Y factor associated with capital expenditures as described include the following costs: interest cost on additional debt, approved return on additional equity, depreciation costs? What are other COS costs would be included in the pass through?

d) Does the Y factor associated with capital expenditures as described include the reduction in income taxes associated with the incremental CCA and interest costs available to reduce taxable income? If not, why not?

e) Given that the revenues generated annually from new customer additions are in excess of the incremental O&M costs (Exhibit B, Tab 4, Schedule 1, pp. 15) would these additional revenues be used to offset the pass-through costs? If not, why not?

f) Given that the assets to be covered under this proposal will need to be tracked separately from other assets, has Enbridge considered the possibility of estimating and using specific depreciation rates for these assets which could be considerably lower than the existing depreciation rates? If not, why not?

15. Ref: Exhibit B, Tab 4, Schedule 1

Issue Number: 5.2

Issue: What are the criteria for disposition?

a) Is Enbridge proposing any criteria for the disposition of the Y factor for the proposed capital expenditures?

b) Is Enbridge proposing how the proposed capital expenditure Y factor should be allocated among rate classes or would this be proposed as part of the annual filings? Please explain how this process would work.

16. Ref: Exhibit B, Tab 4, Schedule 2

Issue Number: 5.2

Issue: What are the criteria for disposition?

Is Enbridge proposing how the proposed Y factors for DSM program costs and CIS/Customer Care costs should be allocated among rate classes or would this be proposed as part of the annual filings? Please explain how this process would work.

17. Ref: Exhibit B, Tab 5, Schedule 1, page 15

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

- a) Is the 2008 Municipal Permit Fees Deferral Account a Y factor or Z factor adjustment in the Enbridge proposal?
- b) Union Gas has proposed that permit fees be a Z factor. If Enbridge is proposing that permit fees be a Y factor, please explain why Enbridge it has been classified as a Y factor instead of a Z factor.

18. Ref: Exhibit B, Tab 6, Schedule 1, page 1

Issue Number: 12.1.1

Issue: What should be the information requirements?

In the absence of cost allocation information, what type of supporting documentation will Enbridge file to support how rates would be adjusted to reflect the overall distribution revenue requirement?

19. Ref: Exhibit B, Tab 6, Schedule 1, page 3

Issue Number: 2.4.2

Issue: If not, what should be the criteria for adjusting these charges?

- a) Please explain why the company believes there would be no requirement for a formal hearing?
- b) Please confirm that the distribution revenue requirement is net of any revenues generated from miscellaneous and non-energy service charges.
- c) is the revenue requirement that is included in the revenue per cap formula based on the total revenue requirement of the company or the revenue requirement net of all costs associated with miscellaneous and non-energy service related costs?

20. Ref: Exhibit B, Tab 7, Schedule 1

Issue Number: 13.1

Issue: What information should the Board consider and stakeholders be provided with at the time of rebasing?

Enbridge proposes that the only cost of service information provided to the Board and other stakeholders at the time of rebasing be the historical year (2011), the bridge year (2012) and the test year (2013). In order to evaluate the trends, efficiencies, failures and successes associated with the IR plan, stakeholders may need to see historical data at the same level of detail as currently required under the Board's Minimum Filing Requirements for 2007 through 2011.

- a) Is there any reason why this information could not be assembled each year when the results for the previous year are available and made available to parties?
- b) Would this not ensure to the Board and to all stakeholders that this information would be available to them at the time of rebasing?
- c) Would this not have the potential to substantially reduce the number of interrogatories requesting historical information and trends over the IR plan term?

21. Ref: Exhibit D, Tab 5, Schedule 1

Issue Number: 10.1

Issue: Should an ESM be included in the IR plan?

Please confirm that the majority of the plans listed in Appendix 1 of the article include some form of earnings sharing.