

CCC/VECC #52

INTERROGATORY

Ref:

Issue Number: 3.1 and 3.2

**Issue: 3.1 How should the X factor be determined?
3.2 What are the appropriate components of an X factor?**

With regard to the PEG Study Table 1, please provide the average heating degree days for each US utility and the average heating degree days for Enbridge and Union. If the method used to determine US and Canadian average degrees is different, please provide an explanation of that difference.

RESPONSE

Please see section 3.3.1 of the working papers provided in response to Enbridge's data request question 2.

Witness: Mark Lowry

CCC/VECC #53

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**Issue: 3.1 How should the X factor be determined?
3.2 What are the appropriate components of an X factor?**

With regard to the PEG Study page 90, equation 26, would you expect that changes in revenue to equal changes in cost if the change in revenue is measured in terms of actual revenue and the change in cost is measured in terms of economic cost under the following conditions:

- a) For a rate of return regulated utility
- b) For a specific time period such as between 200-2005, or would the equal be true only in the long run?

RESPONSE

- a) We are not sure what is meant here by “economic” cost but will assume that what is meant is cost calculated using capital quantity indexes and capital (service) price indexes, which include a competitive rate of return. In that event, we would expect the revenue of a utility operating under cost of service regulation to track its cost in the longer run, especially when using the COS approach to capital costing,
- b) The result is not certain to hold for any specific utility over a specific time period. It has a better chance of holding for a specific time period on average for a sizable sample of utilities.

Witness: Mark Lowry

CCC/VECC #54

INTERROGATORY

Ref:

Issue Number: 3.1 and 3.2
Issue: 3.1 How should the X factor be determined?
3.2 What are the appropriate components of an X factor?

In its evidence at Exhibit B/T1/pp. 32-34 Union argues that there is no justification for a stretch factor during its next IR plan. Please review Union's evidence and provide PEG's views on the appropriateness of Union's proposal to adopt PEG recommendations excluding the stretch factor.

RESPONSE

Union's evidence in support of excluding a stretch factor from its price cap index is seriously flawed and should be given no weight in this proceeding.

- The PEG proposal is not ad hoc, since it is supported by a sophisticated incentive power study.
- The stretch factor does not have to flow from the index logic used to support other X factor terms to be valid.
- There is an expectation of improved performance for Union under the plan since it will be operating with longer regulatory lag than it has had in recent years. The regulatory lag that Union has operated under in recent years is in fact fairly normal for North American utilities.
- Union will be receiving under the proposed PCI considerable compensation for declining average use. The other risks that it discusses are not markedly different from those of other utilities that have operated under PCIs containing stretch factors.

Witness: Mark Lowry

CCC/VECC #55

INTERROGATORY

Ref:

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**Issue: 3.1 How should the X factor be determined?
3.2 What are the appropriate components of an X factor?**

In its evidence at Exhibit B/T1/pp. 36-37 Union has rejected PEG's approach to establish a PCI for residential customers and proposes a different approach that establishes a PCI for general service customers of 2.24 and 1.12 for all other classes. Please review Union's evidence and provide PEG's views regarding the appropriateness of Union's approach.

RESPONSE

Union's brief criticisms of the PEG approach are invalid.

- Productivity studies by service class need not be undertaken to implement the PEG approach under certain simplifying assumptions.
- The PEG approach has a clear theoretical rationale. In contrast, Union provides *no* theoretical rationale for its approach.
- Their approach, while simpler, is not "intuitive" as they claim since if the PCI for general service customers has an X factor *below* the summary X, PCIs for other customers must intuitively have X factors *above* the summary X.

Witness: Mark Lowry

CCC/VECC #56

INTERROGATORY

Ref:

Issue Number: 3.1 and 3.2
Issue: 3.1 How should the X factor be determined?
3.2 What are the appropriate components of an X factor?

In its evidence at Exhibit B/T4/S1 EGD provides a discussion regarding the challenges it faces with respect to capital investments in the context of an IR plan. In addition at Exhibit B/T4/S1/p. 13 EGD proposes to treat certain categories of capital as Y factors during the term of its IR plan. Please review EGD's evidence and provide PEG's views as to whether or not EGD's proposals are appropriate.

RESPONSE

EGD witnesses provide little evidence to substantiate their claim that needed new investments cannot be funded by the proposed price cap index or a suitable adaptation. Their proposal to Y factor a significant share of capital spending would require a major revision to the TFP research that is the basis for the X factor since the TFP trends of sampled U.S. utilities are slowed by the *entire amount* of their capital spending. If we excluded a like amount of capex from the U.S. sample the TFP target for Enbridge would be materially higher. Since Enbridge witnesses have made no attempt to adjust the TFP numbers in our study for this complication they have, effectively, ventured no alternative value for X that should carry weight in this proceeding.

Witness: Mark Lowry