

Pacific Economics Group Research, LLC

Answers to LPMA Interrogatories

Preamble: In the November 10, 2011 letter from Union Gas re: EB-2011-0210 - Union Gas Limited - 2013 Rebasing Application, Union stated that it was not proposing the next generation incentive regulation mechanism as part of this proceeding and that it would bring forward a separate application to establish the mechanism for setting rates for 2014 and beyond after the Board renders a decision on this application.

On April 27, 2012, Board staff filed a revised report entitle *Assessment of Union Gas Ltd. And Enbridge Gas Distribution Inc. Incentive Regulation Plans* dated April 2012 by Pacific Economics Group Research, LLC ("PEG").

Each interrogatory noted below refers to this revised PEG report.

Interrogatory #1

a) Please indicate which issue or issues approved by the Board that the PEG report is to address.

b) For each issue identified in part (a) above, please provide the relative section(s) of the PEG report that relate to the specific issue. Please provide a summary of the PEG report related to each issue addressed by the PEG report.

Interrogatory #2

On page 65 of the revised report it is stated that "*There appear to be more regulatory issues associated with the ESM applications, especially for Union's 2010 rate year.*"

a) Please provide a summary of the issues associated with the ESM calculation for Union's 2010 rate year.

b) Please provide a summary of any issues related to the ESM calculations for Union in 2008 and 2009.

Responses:

Interrogatory #1:

- a) The PEG report addresses two issues relevant to the Board approved Issues List in this proceeding: 1) Are sustainable efficiency improvements (or efficiency gains) achieved under incentive regulation reflected in Union's CoS estimates? (Issue D1); and 2) Do the capital expenditures outlined in Union's CoS estimates represent a deferment of capital expenditures that should have been made under Union's incentive regulation plan? (Issues B1 and B4).

The PEG report was not prepared exclusively for the purpose of this proceeding, and many parts of the report are therefore not relevant to this proceeding. Board staff undertook to file the report in both the Union and Enbridge cost of service proceedings in a letter dated September 30, 2011.

- b) Chapter Three of the PEG report directly addresses the sustainable efficiency improvements issue and in particular section 3.2 of the Report discusses the methodology for assessing benefit sharing/distribution of productivity gains. Also, section 6.2 of the PEG Report assesses the distribution of benefits, and TFP gains, under the IR plans.

The issue of whether the proposed test year rate base does or does reflect inappropriate capital deferrals is addressed in the following passage on page viii of the Executive Summary of the PEG report:

The issue of cost deferrals also merits attention during the upcoming rate rebasing. It is not possible to evaluate whether a Company is acting on incentives to defer costs to a base year used to rebase rates without examining the Company's base year rate application. This is a critical issue, however, for ensuring that the incentives created by an IR plan are not undermined by what occurs when the plan expires.

In its upcoming review of the Companies' rate rebasing proposals, the Board can request information that can help it assess the cost deferral issue. In particular, the Board can evaluate whether large scale cost deferrals have taken place by requesting information from the Companies on whether any of the capital expenditures reflected in the proposed rate base for the test year represent either: 1) delayed reactions to a previous request for service; or 2) requests for service that were previously rejected because they failed to satisfy the profitability index but have now been reconsidered and deemed to be sufficiently profitable. Any such capital expenditures reflected in a Company's rate rebasing proposal should be subject to greater scrutiny by the Board.

Also, this issue is discussed in detail in section 6.1.2 of the PEG Report

Interrogatory #2:

- a) Please see the Board's Decision and Order on Draft Rate Order EB-2011-0038 dated February 29, 2012 which is posted on the Board's website.
- b) Please see the Board's Decision and Order EB-2009-0101 dated June 18, 2009 and EB-2010-0039 dated August 10, 2010 which are posted on the Board's website.