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TR 2, page 114

To file the document describing the scope and project budget of Concentric's representation of Enbridge Gas Distribution

RESPONSE

As confirmed by Concentric in testimony at the Technical Conference (Tr 2, p. 114), Concentric was retained by Enbridge but is testifying as an independent expert.

The following scope of work was agreed to in the contract between EGDI and Concentric:

Proposed Scope of Work

We understand that Enbridge would like to make a submission to the Ontario Energy Board ("Board") as part of the 2013 rate application addressing the issue of the appropriate level of equity thickness for EGD. The submission should include supporting documentation, research, analysis, and conclusions. The timeline for completion should of initial draft evidence should be early September, providing time for internal review of the entire application, review by Counsel, and completion by the end of September. Concentric will prepare the submission with the following workplan and analysis:

1. Peer Group Analysis

- Research the allowed capital structures of Canadian and US natural gas distribution companies
 - i. Most recently allowed common equity ratios
 - ii. Trends in common equity ratios over the past 10 years
- Contrast the risk profile of EGD with the Canadian and US distributors, and determine an appropriate peer group
- Contrast EGD's currently allowed equity ratio with that of the peer group(s)

Witnesses: K. Culbert
R. Fischer
M. Lister
D. Yaworsky
J. Coyne – Concentric
J. Lieberman - Concentric

2. Financial Analysis

- Determine key financial metrics for EGD (current and projected over the rate period)
 - i. Funds from Operations/Interest
 - ii. Funds from Operations/Debt
 - iii. Debt/Total Capitalization
- Research and contrast EGD ratios with credit rating guidelines (Moody's and S&P) for an A rating
- Research recent credit rating opinions for EGD and on peer companies to assess the ratings agencies' view of the degree of permissible leverage for a Canadian regulated utility
- Research and contrast EGD ratios with those of peer group companies
- Test alternative equity ratios for impacts on projected EGD financial metrics (working with Enbridge Finance)
- Determine, with Enbridge, an appropriate strategy in response to the Board's December 11, 2009 Cost of Capital Decision where it determined that "a full reassessment of a gas utility's capital structure will only be undertaken in the event of significant changes in the company's business and/or financial risk."¹

3. Regulatory Analysis

- Research recent Board decisions on capital structure for gas and electric utilities
- Research recent decisions by other Canadian regulators on capital structure for gas utilities

4. Develop Draft Evidence and Recommendation

- Summarize research and analysis from 1-3 above
- Develop recommendation for EGD allowed common equity thickness
- Incorporate supporting exhibits

5. Review with EGD and Counsel

- Address comments or concerns

6. Finalize Evidence

7. Provide hearings support

- Respond to stakeholder and Board interrogatories
- Provide on-stand testimony
- Provide support to Counsel for intervening witnesses

8. Assist with drafting of briefs and/or final comments to the Board

The estimated cost of the project was US\$ 75,000.

¹ The Board was citing its Compendium to Draft Guidelines on a Formula-Based return on Common Equity for Regulated Utilities, March, 1997, p. 30.

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