



July 22, 2011

Mr. Michael Lister  
Manager, Regulatory Policy & Strategy  
Enbridge Gas Distribution  
500 Consumers Road  
North York, ON M2J 1P8

**RE: Equity Thickness Filing**

Dear Michael,

Concentric Energy Advisors, Inc. ("Concentric") appreciates the opportunity to provide Enbridge Gas Distribution ("EGD" or the "Company") with this proposal letter to provide regulatory support services. Specifically, Concentric understands that EGD seeks support in determining the Company's appropriate level of equity thickness for inclusion in EGD's 2013 rate application.

This proposal letter provides a brief introduction to Concentric and the proposed project team, a scope of work, as well as budget and terms. In addition, I have included our proposed project team resumes, Standard Billing Rates and our Standard Terms and Conditions as Attachments A, B and C, respectively.

**INTRODUCTION TO CONCENTRIC**

Concentric is a management consulting and economic advisory firm focused almost exclusively on the North American energy industry. Headquartered in Marlborough, Massachusetts, with an office in Washington, DC, Concentric specializes in energy market and regulatory strategies, market assessments, regulatory and litigation support, transaction-related financial advisory services, energy commodity contracting and procurement, economic feasibility studies, and capital market analyses and negotiations. The firm's principals and affiliates have held executive positions with management consulting firms, utility companies, regulatory agencies, accounting firms, competitive energy suppliers and investment banks.

Concentric's staff has a significant breadth and depth of regulatory experience, having assisted clients throughout the U.S. and Canada with federal, state and provincial regulatory issues, including among other things, rate policy, strategic analyses/studies, resource planning, cost of service, cost allocation, rate design, rate of return, market power, tariff development, incentive rate programs, demand forecasting, terms and conditions of service, the development of new services, and prudence-related matters.

**PROPOSED SCOPE OF WORK**

We understand that Enbridge would like to make a submission to the Ontario Energy Board ("OEB", or "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)
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."<sup>1</sup>
3. Regulatory Analysis
  - Research recent OEB 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

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



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

**Milestones**

Task	Completion
Initiate work with a call with Enbridge	Week of August 1 <sup>st</sup> (or sooner if possible)
Complete research	August 26
Review and discuss with Enbridge, and initial recommendation	Week of August 29
Draft evidence	September 9
Finalize evidence	September 30

**PROPOSED PROJECT TEAM**

I will serve as the Responsible Officer for this assignment and Julie Lieberman will act as the Project Manager, overseeing the day-to-day management of the project and research. Ms. Lieberman and I both have substantial experience working with EGD on regulatory matters in recent years, and Concentric is currently engaged by EGD to support the Company with its proposal for its next generation Incentive Regulation Plan. Therefore, we are uniquely qualified to assist EGD with this important matter. The project team will also draw from our pool of experienced consultants for cost-effective research and analysis support. Short biographies for the project team members are shown below and resumes are provided as Attachment A.

*James M. Coyne, Senior Vice President*, is an industry expert who provides financial, regulatory, strategic, and litigation support services to clients in the power and utilities industries. Drawing upon his industry and regulatory expertise, he regularly advises utilities, public agencies and investors on business strategies, investment evaluations, and matters pertaining to rate and regulatory policy, capital costs, valuation, fuels, and power markets. Prior to Concentric, Mr. Coyne worked in senior consulting positions focused on North American utilities industries, in corporate planning for an integrated energy company, and in regulatory and policy positions in Maine and Massachusetts. He has authored numerous articles on the energy industry and provided testimony and expert reports before the Federal Energy Regulatory Commission and jurisdictions in Alberta, British Columbia, California, Connecticut, New Jersey, Ontario, Maine, Texas, Vermont, and Wisconsin. Mr. Coyne holds a B.S. in Business from Georgetown University with honors and an M.S. in Resource Economics from the University of New Hampshire.

*Julie Lieberman, Project Manager*, is a financial and economic consultant with over 25 years of experience in the energy industry. Her broad base of experience includes: financial and economic consulting in the energy sector, risk management, asset valuation and modeling, wholesale and retail energy trading and operations, energy procurement and scheduling, hedging strategies, regulatory policy and compliance, utility ratemaking, due diligence and litigation support and analysis. She has



performed a variety of economic analyses, extensive regulatory research and assisted in the preparation of testimony and research reports in both regulatory and non-regulatory proceedings. Ms. Lieberman is versed in option theory and option modeling, portfolio theory and optimization, financial engineering, Process and Monte Carlo simulations, and VAR analysis. Prior to joining Concentric, Ms. Lieberman served in the financial and risk related fields in the unregulated energy trading and marketing sector. She holds a Masters in Finance from Boston College, a B.S. in Accounting from Indiana University, and is a FINRA licensed securities professional (Series 7, 63, and 79).

In addition, Concentric will rely on research support from its experienced regulatory and financial analysts.

#### **BUDGET AND TERMS**

Concentric proposes to bill EGD on a time and materials basis, based on our Standard Billing Rates which are provided as Attachment B, plus reasonable out-of-pocket expenses. Our estimated hourly fees for this assignment are US\$ 75,000 through preparation of evidence for filing. Concentric's Standard Terms and Conditions are included as Attachment C.

We would appreciate this opportunity to work with you and the Enbridge regulatory team on this matter and please do not hesitate to call me should you have any questions.

Sincerely,

James M. Coyne  
Senior Vice President  
508.263.6255  
[jcoyne@ceadvisors.com](mailto:jcoyne@ceadvisors.com)

#### Attachments:

- A. Project Team Resumes
- B. Concentric's Standard Billing Rates
- C. Concentric's Standard Terms and Conditions