Exhibit L-22
EB-2011-0354

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 Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2013.

Joint Written Statement

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Enbridge Gas Distribution Inc.
EB-2011-0354
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Joint Written Statement

Table of Contents

I. Introduction to the Joint Expert Statement 3

II. Statements of Agreement and Disagreement 10

Discussion Point 1. Understanding of the Board's Capital Structure Policy (as contained in the EB- 2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities) 10

A. The Fair Return Standard 10
B. Board's Discussion of Capital Structure in 2009 11

Discussion Point 2. Application of the Fair Return Standard 13

A. Principal and Application 13

Discussion Point 3. Assessment of Business Risk 14

A. Definition 14
B. General Propositions 15
C. Comparability as it Relates to Satisfying the Fair Return Standard 17

Discussion Point 4. Assessment of Financial Risk 20

A. Definition 20
B. The Common Data Set 20
C. Enbridge's Financial Risk 21
D. Access to Capital 22

Discussion Point 5. Regulatory Tools to Manage Financial Risk 24

Discussion Point 6. Assessment of Capital Market Conditions 26

Discussion Point 7. Credit Ratings Agency Reports and the Assessment of the Potential for a Downgrade 30

Discussion Point 8. Development and Use of a List of Comparable Utilities 32

A. Common Core Datasets Shared by the Experts 32
B. Canadian Distributors 34
C. Utilities in the U.S. 34
D. Gas and Electricity Distribution 35

Discussion Point 9. Selection of the Recommended Equity Ratio for Enbridge 37

I. Introduction to the Joint Expert Statement

This Joint Written Statement ("Statement") is filed with the Ontario Energy Board (the "OEB" or the "Board") in connection with the application of Enbridge Gas Distribution Inc. ("Enbridge" or "EGDI", any references to the parent company, Enbridge Inc., will be explicit), for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2013.

In Procedural Order No. 5 dated October 15, 2012, the Board established that there would be an experts' pre-hearing conference (the "Experts' Conference") concerning Enbridge's request to increase the equity component of its capital structure from its existing level of 36% to 42%. The purpose of the Experts' Conference was to identify, scope, and narrow the relevant issues and sub-issues, identify the points on which the views of the experts differ and are in agreement, and prepare a joint written Statement to be filed as evidence at the oral hearing of this matter.

The Experts' Conference was held on October 22 and 23, 2012. Ken Rosenberg acted as the OEB-appointed facilitator for the Experts' Conference. This Statement arises from the Experts' Conference.

The form of this Statement was suggested by the facilitator. The structure of the Statement follows the nine discussion points, suggested by Board staff as the starting point for discussions by the experts, and listed in Appendix C of the Board's Decision on Settlement Agreement and Procedural Order No.5, EB-2011-0354, October 15, 2012. The Statement contains the positions of the experts on the evidence filed by James Coyne and Julie Lieberman of Concentric Energy Advisors on behalf of the applicant, Enbridge Gas Distribution Inc., and Laurence Booth on behalf of The Canadian Manufacturers & Exporters (CME), the Consumers Council of Canada (CCC), the School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC). The Statement does not represent an agreement by the experts that all of the nine discussion points in it are relevant to a determination of the issue of whether the proposed change in capital structure increasing Enbridge's deemed common equity component from 36% to 42% is appropriate. The experts refer to their full evidence for a complete presentation of the respective documentation of their positions.

Where the Statement refers to legal requirements, the comments reflect only the experts' interpretation of those requirements. The experts are not lawyers and cannot express an opinion on legal issues.

The experts' areas of expertise in this hearing pertain to the following three questions posed by the Board:

Cost of Capital

1. Is the forecast of the cost of debt for the Test Year, including the mix of short and long term debt and preference shares, and the rates and calculation methodologies for each, appropriate?
2. Is the proposed change in capital structure increasing Enbridge's deemed common equity component from 36% to 42% appropriate?
3. Is the proposal to use the Board's formula to calculate return on equity appropriate?

In Procedural Order No. 5, the Board directed the experts to convene an "Experts Conference" to focus on Question 2: "Enbridge's request to increase the equity component of its capital structure from its existing level of 36% to 42%."

Their approach to answering the Board's question, as reflected in the body of this Statement, is different.

Concentric Preamble

Concentric has examined the Board's question as to whether "the proposed change in capital structure increasing Enbridge's deemed common equity component from 36% to 42% appropriate?"[1] This preamble is a summary of our approach taken in our direct evidence and in this experts' conference which we hope will assist the Board in reaching its determination.

First, Concentric has reviewed Board Policy as it relates specifically to setting capital structure for regulated natural gas utilities in Ontario, and more broadly as it relates to setting a fair return. Capital structure and cost of equity are inextricably linked in comprising the cost of equity capital. Many Canadian regulators decide on ROE and equity ratios at different times as a matter of regulatory convenience, but the combination of ROE and equity ratio must be considered together in evaluating whether the return to equity holders is fair.

The NEB opined on this issue [RH-2-2004, p.20]:

> "…the Board must apply its judgment to satisfy itself that the approved common equity ratio, when combined with the Mainline's ROE of 9.56 percent, will result in a fair return on equity for TransCanada…"

It is not possible to evaluate the reasonableness of the equity thickness without having made some determination on the reasonableness of the utility's cost of equity. The product of the two determines the overall allowed return to equity shareholders.[2] Concentric assumes that the Board's revised ROE formula from its Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009, will be adopted for EGDI.

From Concentric's review of Board practice, Concentric notes that the Board has limited changes in deemed capital structure to be case specific and when significant changes in business or financial risk to the utility have occurred.[3] Concentric acknowledges the administrative efficiency of this approach and agrees that capital structure should remain relatively constant over time. Concentric also notes that the Board has stated that the Fair Return Standard is the over arching principle for setting the cost of capital. It is Concentric's belief that the Board's policy was not intended to replace the Fair Return Standard in setting the cost of capital, but only to ease the Board in its administration.

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[1] Decision on Settlement Agreement and Procedural Order No. 5, October 15, 2012, pp. 1-2.
[2] Concentric Evidence, p. 5.
[3] Although the Board set a common equity ratio for electric distributors in 2006.

The Fair Return Standard, as articulated by the NEB and embraced by this Board, can be met by fulfilling three particular requirements. Specifically, a fair or reasonable return on capital should:

1. Be comparable to the return available from the application of the invested capital to other enterprises of like risk (the comparable investment requirement);
2. Enable the financial integrity of the regulated enterprise to be maintained (the financial integrity requirement); and
3. Permit incremental capital to be attracted to the enterprise on reasonable terms and conditions (the capital attraction requirement).[4]

We believe an objective interpretation of the Board's policy relating to cost of capital, as put forward in its 2009 Report, provides important context on the Boards' adherence and application of the Fair Return Standard. We note the following points on pages 16 – 19 of the Board's Report:

> ". . .the FRS frames the discretion of a regulator, by setting out three requirements that must be satisfied by the cost of capital determinations of the tribunal. Meeting the standard is not optional; it is a legal requirement."
>
> ". . . the FRS expressly refers to an opportunity cost of capital concept, one that is prospective rather than retrospective."
>
> ". . . the impact of any resulting toll increase is an irrelevant consideration in that determination."
>
> ". . . all three standards or requirements (comparable investment, financial integrity and capital attraction) must be met and none ranks in priority to the others."
>
> ". . . a cost of capital determination made by a regulator that meets the FRS does not result in economic rent being earned by a utility."
>
> "The Board is of the view that utility bond metrics do not speak to the issue of whether a ROE determination meets the requirements of the FRS."
>
> ". . . the Board is of the view that the capital attraction standard, indeed the FRS in totality, will be met if the cost of capital determined by the Board is sufficient to attract capital on a long-term sustainable basis given the opportunity costs of capital."
>
> "The mere fact that a rate is non-confiscatory does not indicate that it must be deemed just and reasonable. "

Concentric agrees with these regulatory and economic principles, and interpreted the Board's Report as requiring a showing as to whether the allowed equity ratio, in combination with the

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[4] Reasons for Decision, TransCanada Pipelines Limited, RH-2-2004, Phase II, April 2005, Cost of Capital, and reaffirmed by Reasons for Decision, Trans Quebec & Maritimes Pipelines, Inc., RH-1-2008, March 2009, at 6-7.

Board's Formula ROE, would meet the three tests of the FRS. In response, our evidence provided analysis of:

- Enbridge's cost of capital, relying on comparable risk proxy groups [pp. 7-12, and Appendix A];
- Enbridge's equity thickness in relation to Ontario's electric distribution utilities [p. 16]
- Enbridge's business risk, over time [pp. 18-21];
- Enbridge's credit metrics in comparison to ratings criteria for regulated utilities published by the credit ratings agencies [pp. 22-28];
- Enbridge's business and financial risk relative to a group of U.S. proxy companies [Appendix B];
- Enbridge's equity thickness in relation to both Canadian and comparable, like-risk U.S. proxy companies [pp. 28-33, and Appendix B]; and
- Credit metrics for Enbridge in relation to Canadian and U.S. proxy companies [pp. 32 – 34].

Based on our analysis, Concentric determined Enbridge's currently allowed equity ratio is:

- The lowest of all North American gas utilities researched, and below the average Canadian and U.S. allowed equity ratios for gas utilities;
- Not sufficient to satisfy the financial metrics associated with an "A- or above" credit rating;
- May not be sufficient to ensure that EGDI will continue to meet its debt covenants;
- Below the authorized equity ratios of Ontario's electric utilities even though gas distributors have more relative business risk; and is
- Not adequate for its current level of risk due to changes in the Company's risk profile since the equity ratio was originally set in 1993, and subsequently changed in 2006.

The evidence Concentric has provided shows that Enbridge's lower equity ratio is not justified based on a business risk differential and, in combination with the Board's formula ROE, is insufficient to meet the FRS standard. We have provided quantitative analysis and risk assessment of Enbridge in relation to Canadian and U.S. gas distributors to establish a reasonable equity range for Enbridge that would satisfy the FRS.

Concentric's analysis supports an equity thickness in the range of 40 to 45 percent, based on a proxy group comprised of North American gas distribution utilities with comparable risk profiles to EGDI. EGDI's proposed equity ratio of 42 percent would bring EGDI in closer alignment with its industry peers and supports the maintenance of an A- credit rating to the benefit of both shareholders and ratepayers.

Booth Preamble

I was asked to address the appropriate common equity ratio for Enbridge Gas Distribution Inc (EGDI) on the basis that it would receive the ROE flowing from the Board's 2009 ROE formula, even though I judge that ROE to be at the top of, if not exceeding, a fair and reasonable ROE.
In meeting this request I have followed the standard policy of this Board, as well as the policies of most of the major boards in Canada, including the National Energy Board. Further it has been

the evidentiary basis on which the Ontario gas utilities have requested a change in their common equity ratios in past hearings, most recently in 2006 by both Union Gas and EGDI. The philosophy underlying this policy differs from that of the company's expert evidence provided by Concentric and this preamble addresses this basic difference in approach.

Both sets of witnesses accept the fair return standard: it is a given that after making an irreversible investment in a public utility that the owners are allowed a fair and reasonable return on that investment and that the rates charged be fair and reasonable. In Northwestern Utilities vs. City of Edmonton (1929), it was stated that a utility's rates should be set to take into account 'altered conditions in the money market.' A fair rate of return was further confirmed in the BC Electric decision by the Supreme Court of Canada, when Mr. Justice Lamont's definition of a fair rate of return, put forward in Northwestern utilities, was adopted:

> *"that the company will be allowed as large a return on the capital invested in the enterprise as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise."*

This definition is referred to as an opportunity cost and the Board's 2009 Report on the Cost of Capital (EB-2009-0084) is replete with references to this opportunity cost.

In my evidence (Booth Section 2) I point out that while the regulator can control the income risk that the shareholder is subject to, it cannot control market risk, which is the "altered conditions in the money market" referred to in the Northwestern Utilities decision. The income risk flows from the business risk of the utility and the tools available to the regulator are, for example, the use of deferral accounts and frequent rate hearings to pass risks through to ratepayers; changing the common equity ratio; and setting the allowed ROE.

Each and every general rate application (GRA) could consider the altered conditions in the money market, the business risk of the utility and how the regulator manages that risk. However the practise in Canada has not been to do this, since some of the risks vary all the time while others either vary very slowly or rarely at all and to consider them all in every GRA would involve voluminous repetitive evidence.

In 1993 the British Columbia Utilities Commission dispensed with repetitive cost of capital evidence dealing with "altered conditions in the money market" by adopting an automatic ROE adjustment model for a benchmark utility (BC Gas). The National Energy Board followed suit in 1994, this Board in 1997 and by 2008 most of the major regulators dealing with multiple utilities had an automatic ROE formula in place. With the generic money or capital market conditions dealt with, the specific income risks facing each individual utility could be dealt with in individual GRAs. In this way each utility could be sure that the combination of its business risk, the degree of regulatory protection allowed it, and its common equity ratio satisfied the fair return standard with the generic or benchmark ROE.

For example, this Board (RP-2002-0158, January 16, 2004) reviewed its 1997 ROE formula in a generic ROE hearing in 2003. In its findings the Board stated (paragraph 113):

> *"The Board's ROE guidelines suggest that there are two reasons which would justify a review of the formula. The first justification would be significant changes in market conditions. The second justification would be significant changes in the utility risk. The Applicants have based their request for a review on their assertion that there have been significant changes in the capital markets. There is no claim that utility risk per se has increased*."

The Board subsequently confirmed its 1997 ROE formula, but the important point is that it correctly pointed out that a generic or benchmark ROE should be changed when generic issues changed, like capital markets or benchmark utility risk.

In 2006 both Union Gas and EGDI then provided testimony by Dr. Paul Carpenter of the Brattle group supporting a claim that their specific business risk had increased and therefore their common equity ratios should be increased. For example, Dr. Carpenter for EGDI (Booth testimony section 3 and introduction) specifically followed Board policy and examined changes in EGDI's business risk since the last time the Board reviewed it in 1993. As the Board noted above, there was no claim that "utility risk per se" had increased in 2003, so the basis for EGDI's request was a specific change in the business risk faced by EGDI. The Board allowed an increase in EGDI's common equity ratio from 35% to 36% that matched the settlement agreement for Union Gas.

In 2009 the Board again reviewed its generic ROE formula. The second issue on the issues list was "*is the current deemed capital structure appropriate? If not what alternatives might the Board consider?* Despite evidence on the common equity ratio, the Board's decision mainly reflected capital market conditions similar to RP-2002-0158. The Board concluded with a similar Statement to that which it had made in previous decisions:

> *"The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and 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."*

Note the Board specifically addressed "the company's" risk, since generic utility risk is addressed in the generic or benchmark ROE.

In RH-2-2004 the NEB refused to hear fair ROE evidence and asked the TransCanada Mainline to refile its evidence to focus only on the common equity ratio. The NEB then stated (RH-2-2004 page 49):

> "*Having considered all the evidence presented the Board is of the view that a capital structure comprised of 36 per cent deemed common equity and 64 per cent debt is most appropriate for the Mainline. In the Board's view, a 36 percent equity ratio* ***recognizes the increase in business risk*** *(bold added) which the Mainline is exposed to."*

This Statement is consistent with current Board policy, the fair return standard and the relatively slow evolution of specific business risk issues facing a utility.

In this instance neither EGDI nor its expert witnesses have followed board policy and directly addressed the question of whether EGDI's specific risks have changed either since 2006, when they were last reviewed, or 2009, when evidence was put before the Board. In contrast, I have reviewed all of the risks put forward by Dr. Carpenter and EGDI in 2006 and not one is still relevant to any material degree. Further in a parallel application (EB-2011-0210) since Union Gas acknowledged that there had been no increase in its business risk, the Board maintained Union's existing 36% common equity ratio.

I prepared my evidence based on existing Board policy, where a reconsideration of Board policy was not on the issues list. In this respect my evidence is similar to that of EGDI's and my own in 2006. In my judgment this is a hearing to assess whether there has been a significant change in EGDI's business risk and whether, in conjunction with the Board's allowed ROE, EGDI has access to capital markets on fair and reasonable terms. In my judgment there is no evidence of any increase in EGDI's business risk and the observation that EGDI has recently issued ***40*** year debt at 4.70% and has an A bond rating with "strong credit metrics commensurate with the current rating" (DBRS June 28, 2012) indicates there are absolutely no capital market access issues whatsoever.

II. Statements of Agreement and Disagreement

Discussion Point 1. Understanding of the Board's Capital Structure Policy (as contained in the EB- 2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities)

A. The Fair Return Standard

(1) The ultimate legal standard for a utility regulator is the determination of just and reasonable rates.

(2) The overriding standard for the OEB for determining the cost of capital is the Fair Return Standard. This standard is widely adopted across Canada by way of law and regulatory precedent. In order to make a determination of whether or not the Fair Return Standard is satisfied one needs to consider the allowed return as well as the equity ratio.

(3) The experts agree that the current Board allowed generic ROE is either within or exceeds the range of fair and reasonable returns. The issue at hand is the appropriate common equity ratio.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree on the first two points and with the third point conditionally. The 2009 Board ROE decision has worked out reasonably well. The Board got it right with respect to ROE. The ROE produced by the formula is within, but does not exceed, the reasonable range for ROE. The equity ratio must be brought in line, however, to achieve a fair return on capital. ROE may be set separately from capital structure, but the end result of the product of ROE and equity thickness must meet all three elements of the fair return standard to be fair to equity holders.	Agree to all three and note that the Board's Report discusses the fair return standard in chapter 3 as related to the cost of capital and describes the capital structure policies in chapter 4 in terms of risk and not cost.

B. Board's Discussion of Capital Structure in 2009

(1) The appropriate time for the Board to undertake review.

Jim Coyne and Julie Lieberman	Laurence Booth
Capital structure was not the primary focus of the Board's Consultation in 2009. We believe this represents an unfinished element of the Board's Generic Cost of Capital Report. [Concentric Report, pp. 17-18] Concentric recognizes that the Board's practice has been to consider utility capital structure ratios when significant changes in business or financial risk to the utility have occurred. Concentric also recognizes that the Board has stated that the Fair Return Standard is the over arching principle for setting the cost of capital. Concentric believes that it is consistent with Board policy that a reassessment of a utility's capital structure should be undertaken whenever there is a reasonable doubt that its capital structure, in conjunction with its allowed return, fails to meet the Fair Return Standard. [Concentric Report, p. 17]	The Board's discussion on pp. 49-50 regarding capital structure is correct. "[C]apital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals." These issues should be heard in the utility's general rate application rather than a generic hearing. The question of whether the policies in the Board's report are in error was not on the issues list for this hearing.

(2) The Board stated on p. 50:

For electricity transmitters, generators, and gas utilities, the deemed capital structure is determined on a case-by-case basis. The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and 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.

Jim Coyne and Julie Lieberman	Laurence Booth
Oftentimes, Board policy between its gas and electric utilities has been aligned or even the same. For example, with respect to interest rate methodology, the Board has adopted the same methodology for the rate-regulated companies in the energy sector. In addition, the Board adopted the exact same determination of ROE for both its gas and electric utilities. [Concentric Report, p. 16] Gas distributors in Ontario remain subject to the old rules and their legacy capital structures. [Concentric Report, p. 16]. There is no justification for disparate treatment of the equity ratio, unless justified on the basis of differences in business or financial risk and the resulting cost of capital. Concentric's analysis shows that the appropriate equity range for EGDI is 40-45% with the current OEB formula. [Concentric Report, pp. 9-12] Concentric disagrees that capital market conditions are fully reflected in the Board's ROE formula. The ROE formula cannot pick up all aspects of capital market risk by tracking changes to government and corporate bond yields. Therefore, Concentric disagrees that the ROE formula incorporates all capital market risk, or that as a result of the ROE formula's adoption, only changes in business risk enter into the determination of equity thickness. The ultimate test is whether the resulting combined return and equity ratio meet the requirements of the Fair Return Standard.	Complete agreement as this is also the policy of other Canadian boards: a generic ROE is determined and common equity ratios altered only in the event of business risk differences to ensure that the fair return standard is met. The second issue on the issues list for the 2009 technical conference was "Is the current deemed capital structure appropriate? If not what alternative (s) might the Board consider?" The Board did not change any capital structures or its policy in 2009 but did take into account capital market conditions in its new formula ROE. EGDI has consistently raised debt at costs that are equal to or lower than the costs paid by utilities with higher common equity ratios. The capital market sees EGDI, with a 36% common equity ratio, as equivalent to or lesser risk than utilities with higher common equity ratios.

Discussion Point 2. Application of the Fair Return Standard

A. Principal and Application

(1) The principle of the Fair Return Standard is based on opportunity cost.

(2) The application of the Fair Return Standard can be viewed as having three requirements: comparability, financial integrity and capital attraction, which are corollaries of the opportunity cost principle.

(3) In Canada, most regulators deem a common equity ratio in conjunction with an ROE, which may be set separately.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. And, with respect to the Fair Return Standard, the Board has stated that these requirements are not optional, they must all be met, and no single standard takes precedence over the others.	Agreement that this represents the Board's policy, except that there may be cases where the regulated firm's cost of service cannot be recovered in fair and reasonable rates due to market changes. Agreement if by the comparable investment standard the Board means the Supreme Court of Canada's stipulation that the fair return is the rate on other *securities* of equivalent risk (Mr. Justice Lamont's definition in Northwestern Utilities) Note in the Board's 2009 report capital structure is discussed in Chapter 4 in terms of risk and the Fair Return Standard in Chapter 3 in terms of cost of capital. Increases in the common equity ratio then require a demonstration of significant increases in business risk as the Board confirmed yet again in its Union Gas decision (EB-2011-0210)

Discussion Point 3. Assessment of Business Risk

A. Definition

(1) Risk is the probability of incurring financial harm.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. All industries, including utilities, have risk. Concentric has appropriately evaluated Enbridge's risk in relation to other Canadian and U.S. utility companies. [Concentric Report, pp. 18-22, and Appendix B] Concentric's definition of business risk departs from Dr. Booth's based on a view that the loss of capital may occur both in the short run and in the long run as compared to the view that it only occurs in the long run.	Agree. If there is no probability of loss then there is no risk and the ability of EGDI to consistently over–earn its ROE is strong evidence that in practise there has been no risk facing EGDI. Business Risk has a short run dimension, primarily the return on capital (the ROE) and a long run dimension which is primarily the return of capital, i.e., the possibility of stranded assets.

(2) There are two types of risk: Business Risk and Financial Risk.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. There are two types of risk that are relevant to the equity thickness issue: **Business Risk** and **Financial Risk**. For a utility, **Business Risk** is comprised of operational and regulatory risk. • Operational risks are changes in revenues and costs that may result in variability in cash flows and earnings. • Regulatory risk is the risk that the utility will not recover its costs including the fair return on, and of, its capital in a timely manner due to regulatory or legislative decisions. **Financial Risk** is the risk that a utility's cash flows will be insufficient to meet its debt obligations. Generally, financial risk is evaluated in terms of a company's capital	Business risk is the underlying risk and regulatory actions ("risk") mitigates this to below what it would have been had the firm been in a competitive market. In Canada business risk is mitigated by the Board's management of the (1) business risk, through the use of, for example, deferral accounts, (2) the adjustment of financial risk through the common equity ratio and (3) setting the ROE. Financial risk is not a risk per se, since in Canada it is set by the regulator to offset differences in business risk, so utilities can be allowed a generic ROE. The only financial risk "aspect" is can a utility access financial markets on fair and reasonable terms?

structure and credit metrics.	

(3) Regulatory risk is the risk of non-recovery of operating and capital costs, including a fair return on capital, in a timely manner.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. For a regulated utility, cost recovery is determined in accordance with the regulatory compact. Concentric agrees that regulators may use regulatory tools to decrease business risk, but some business risk always remains. Utility regulators do not have the objective of removing all business risk. Further, shifts in regulatory and government policy are sources of regulatory risk for the utility. Concentric provided a detailed regulatory risk assessment of Enbridge in relation to U.S. and Canadian comparators [Concentric Report, Appendix B] and determined that Enbridge had comparable or greater risk than all utilities in their comparison group.	Regulation is not a risk, because in Canada it almost always lowers the ultimate risk faced by shareholders to below what it would be for a competitive firm. In practise utilities are the only sector of the economy which, on a regular basis, can go back after the fact and get the regulator to reallocate the financial impact of a risk to other entities. This is why utilities are protected and almost always earn their allowed ROE.

B. General Propositions

(1) Business risk is important for utility risk assessment

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. Concentric has provided a detailed risk assessment of Enbridge in contrast to other Canadian and U.S. companies [Concentric Report, Appendix B] and documented the change in business risk since 1993 and 2006. [Concentric, pp. 18-22]	Agree. This is why significant changes in business risk require changes in the common equity ratio if a generic ROE is to be applied to the utility.

(2) The fundamental nature of the North American gas supply is shifting:

a. Plentiful shale gas has resulted in a lower cost of natural gas:

i. making natural gas a more competitive fuel choice;

ii. will likely lead to expansion of natural gas use for electric generation, transportation, and LNG exports which are expected to impact the current supply and demand balance;

iii. requiring utilities to re-examine, renegotiate and recontract their natural gas supply portfolios and transportation agreements.

b. North American and Ontario environmental policy has shifted towards increased conservation, reliance on renewable energy resources and the phasing out of carbon-emitting fuels.

Jim Coyne and Julie Lieberman	Laurence Booth
The risk environment in the natural gas distribution business has continued to increase since 2006, as usage per customer continues to decline, gas supply fundamentals are shifting, and environmental regulations signal the desired phase out of carbon emitting energy sources. This represents a material change in the risk environment since EGDI's equity ratio was initially set at 35 percent in 1993 and later raised by 1 percentage point in 2006, and comes at a time when increased capital investment is necessary to comply with environmental regulations and also maintain aging infrastructure and when there has been a downward shift in the risk tolerance of equity investors. [Concentric Report, pp. 18-21] Enbridge "over-earning" its allowed ROE is a desired result of incentives approved by the Board and stakeholders designed to promote operational efficiencies, and not a sign of risk reduction. The current lower price of natural gas is not a guarantee of continued lower prices; natural gas is now a global commodity subject to global supply and demand in relation to competing fuels.	The fact that EGDI has consistently earned more than its ROE for at least the past 25 years is an objective relevant factor for the Board to use in assessing EGDI's ***combined*** business and financial risk since the ROE is after the imposition of fixed financial charges In 2006 EGDI (and its expert Dr. Paul Carpenter) claimed multiple risk factors to justify an increase in its common equity ratio and none of these factors are significant at the moment. (Booth evidence Section 3) The only consistent risk factor mentioned by the rating agencies is weather risk, which is fully diversifiable for equity investors. In its current GRA Union Gas indicated that its business risk had not changed and Union Gas faces similar risk factors to EGDI. The collapse in natural gas prices has made EGDI's long run risk of capital recovery even lower than it was in 2006 since natural gas is now more competitive as a fuel source. This has also increased EGDI's growth prospects.

(3) The ultimate risk that is passed on to the shareholders is a function of regulatory protection.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. Concentric has compared the regulatory protection of EGDI to like companies and determined that EGDI has no greater degree of protection even though it has a lower equity ratio, exposing EGDI's shareholders to greater risk than its competitors. [Concentric p. 32, and Appendix B]	Agree. The only thing the regulator cannot protect the utility's income risk from is the long run viability of the product it transports. For EGDI this risk is not material given the competitive advantage enjoyed by natural gas over competing fuels.

(4) If there is a change in business risk or capital markets, the regulator must adjust either the common equity ratio or ROE to account for the shift in risk. If the regulator establishes a generic ROE, as is the case in Ontario, then differences in risk are reflected in the equity thickness such that the product of the equity return and equity ratio satisfies the Fair Return Standard.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree, providing as noted, the combination of ROE and equity ratio satisfy all three elements in the FRS	If the Board decides that the fair ROE for a benchmark utility is x% then across the benchmark utilities the common equity, by definition, is fair and reasonable. Differences across utilities and time are only caused by significant business risk differences as capital market and financial risks are evaluated in the generic ROE determination. To adjust for them again is to double count. Unless there are significant changes in business risk, the common equity ratio can be evaluated relatively infrequently in the utility's general rate application.

C. Comparability as it Relates to Satisfying the Fair Return Standard

(1) The relevance of looking at comparability, if shareholders are treated fairly.

(2) Acceptability of looking at like U.S. utilities by a Canadian regulator.

Jim Coyne and Julie Lieberman	Laurence Booth
It is a requirement of the FRS that the OEB consider comparability, and Concentric has provided evidence in relation to other Canadian and U.S. gas distributors and Ontario electric utilities, as affirmed in the	If the Board sets the fair ROE and the utility can access capital on fair and reasonable terms there is no need to look at any comparables. This is because the common equity ratio is unique to the business risk of

Board's recent *Union* decision. The Board has stated that focusing on meeting the financial integrity and capital attraction tests without giving adequate consideration to comparability test is not sufficient to meet the FRS. [OEB Report of the Board, p. 19] The Board has stated that U.S. utilities are "indeed comparable, and that only an analytical framework in which to apply judgment and a system of weighting are needed." [OEB Report of the Board, p. 22] The Board indicated that a group of U.S. companies, carefully selected based on a series of transparent financial metrics, has considerable merit. [OEB Report of the Board, p. 22] S&P draws no distinction between regulatory support in the U.S. versus Canada for its regulated utilities. Rather they indicate "Creditworthiness in the U.S. electric industry has continued a long shift to greater stability." S&P noted significant upside ratings activity, of which the drivers were identified to be: "constructive ratemaking mechanisms and rate orders, decreasing regulatory risk, managements' commitment to credit quality, a focus on a straightforward regulated utility business model, and improving financial conditions as a result of deleveraging, common stock issuance and stronger cash flow." For Canadian utilities, S&P acknowledged the regulatory risks present in the market, i.e. "weak market conditions, evolving environmental regulations, and increased scrutiny by provincial regulators in rate decisions," and pointed to regulators' acknowledgement of utilities' cash flow strain in creating a supportive regulatory environment to maintain credit quality." [Concentric Response to IR, Issue E2, 21.12]	the utility, whereas the benchmark or generic ROE is by definition generic Evidence from the U.S. is informative, as a general indication for the ROE, but regulators in Canada generally do not accept the U.S. experience without qualification. That is, broad comparability does not mean "the same." Canadian utilities have higher credit ratings even though they typically have less common equity and lower ROEs (poorer credit metrics) than their American counterparts. Based on Moody's and S&P, Canadian utilities generally have a higher credit rating and greater access to capital markets than their U.S. counterparts. Based on Moody's Canada is rated 1 in supportive regulatory environment (SRE), whereas no US state gets a 1 and most are 2 or 3 out of 4. (Booth evidence section 5.)

Concentric acknowledges that U.S. utility regulation varies by jurisdiction and there are regulatory jurisdictions that are less supportive than those found in Canada; however, you can select a comparable group of U.S. utilities from similarly supportive regulatory jurisdictions to that of Ontario, for comparison purposes and for purposes of cost of capital determinations.	

Discussion Point 4. Assessment of Financial Risk

A. Definition

(1) The imposition of fixed financial charges magnifies the risk to the common shareholder of recovering its capital and a fair return on its capital. Financial leverage is the magnification of the underlying business risk by introducing increased leverage into the capital structure.

(2) Financial risk can be measured by how a firm is capitalized, typically measured through debt leverage.

Jim Coyne and Julie Lieberman	Laurence Booth
Credit ratings agencies' financial metrics provide reasonable bases for assessment of financial risk, i.e. metrics that are typically required of an A- rated regulated utility. [Concentric Report, pp. 23-26] Concentric's sample of U.S. utilities have credit ratings equal to (1 company) or greater than (6 companies) Enbridge. [Concentric, p. 32]	In practise since EGDI always over earns its allowed ROE financial leverage is not magnifying anything except the over earning, that is, using debt simply exaggerates the excess ROE and has no impact on the risk of return on capital at all. We can measure financial risk using the debt ratio but this is only useful for the return of capital, since short run risk is not material.

B. The Common Data Set

Jim Coyne and Julie Lieberman	Laurence Booth
A carefully screened group of companies can be relied upon to determine appropriate comparators for purposes of determining the cost of capital, including the equity ratio. Concentric researched equity ratio data for all major gas distribution companies in Canada and the U.S. [Concentric Report, pp. 28-36] and conducted specific cost of capital and risk analysis on a subset to establish the recommended equity range of 40-45%. [Concentric, pp. 9-12]	The right question asks, can the utility attract capital on fair and reasonable terms given its business risk? The Board's recent ROE decision and Enbridge's recent 40 year 4.70% $100 million unsecured bond issue indicates financial strength. There is nothing gained by looking at comparables beyond a broad understanding of what is financeable in the capital markets on fair and reasonable terms.

(1) Capital markets determine cost of debt not the credit ratings.

Jim Coyne and Julie Lieberman	Laurence Booth
Credit ratings send important signals to debt investors. Credit rating downgrades result in higher debt costs and reduced financial flexibility and can cause companies to be shut out of credit or commercial paper markets, violate loan covenants, or force a utility to issue equity at unfavourable times. [Concentric Report, p. 22]	Credit ratings do not determine ability to buy debt. In tough times utility A rated debt sells on lower yields than non-utility debt (Booth evidence page 65) and utilities have greater access to credit for the same bond rating than non-utilities.

C. Enbridge's Financial Risk

Jim Coyne and Julie Lieberman	Laurence Booth
EGDI's projected financial metrics are insufficient to meet A- credit rating. [Concentric Report, p.3] If EGDI's interest coverage ratio slips below 2.0x it will lose the ability to draw upon its trust indenture with the CIBC program. EGDI's financial metrics do not support the financial profile of an A-rated regulated natural gas distribution utility. [Concentric Report, p. 33] EGDI's allowed common equity is markedly below a group of comparable risk North American utilities, both in terms of ROE and equity thickness and has the lowest equity thickness of any of the U.S. and Canadian utilities included in its comparable group. A review of key credit metrics indicates that EGDI is in the bottom quartile of comparable, like-risk utilities. [Concentric Report, 33] EGDI's allowed common equity ratio of 36 percent is the lowest in the industry when compared to both Canadian and U.S. natural gas distribution utilities. [Concentric Report, p. 28] Enbridge should get more equity to sustain its current rating, access to all capital markets, and to have adequate financial flexibility to	DBRS (June 28, 2012) states that EGDI maintains a reasonable balance sheet and strong credit metrics commensurate with the current ratings." It is an A credit. S&P's rating of EGDI is a flow through from its parent since EGDI is not ring fenced. It was put on credit watch on March 23, 2011 due to tolling changes at its sister company Enbridge Pipelines that had nothing to do with EGDI.

address unexpected earnings variations. It will improve access to debt markets. Current leverage creates additional risk for the shareholder that must be compensated through the cost of capital. S&P has stated that EGDI's credit metrics are weak for the rating. [Concentric, p. 26]	

D. Access to Capital

(1) There is information from which to discern the financial situation of Enbridge available from sources such as credit rating agencies, equity analysts, and annual reports.

(2) It is unlikely that a change in authorized equity ratio will lead to an upgrade of EGDI's credit rating.

Jim Coyne and Julie Lieberman	Laurence Booth
Concentric does not dispute that EGDI has access to capital, but offers that this is a minimum requirement and is not sufficient to satisfy the Fair Return Standard. While Enbridge has sustained strong access to capital markets, its credit metrics would show that it is on the edge of maintaining its current rating. This is based on S&P's rating criteria for an investment grade utility and EGDI's credit metric projections. It is also the case that Enbridge is disadvantaged vs. its Canadian and U.S. peers with a lower equity ratio for raising both debt and equity capital. Ratepayers benefit from the utility having sustained access to capital on reasonable terms. Per the Board's own policy statements in 2009 [Concentric Preamble], the cost of capital nonetheless must be set pursuant to the FRS and not rate impacts, as reaffirmed in the Board's recent *Union* decision.	A company must maintain its credit and maintain its financial integrity. Although this comes from the 1920s, the principles are the same today. To maintain credit does not mean to maintain a particular credit *rating*. It means the ability to raise money on fair and reasonable terms. The objective of regulation is to mimic the impact of a competitive firm. You have to say "would a competitive firm with the same characteristics, have access to capital?" With NRG, for example, you cannot say that it has to have the same access at all times as EGDI. EGDI can access swaps, unsecured MTNs, first mortgage bonds, bank debt, commercial paper, and preferred shares. Its size allows it different access to capital and as DBRS noted in 2007 even when shut out of the MTN market EGDI had financial flexibility. EGDI's recent 40 year bond issue indicates enormous financial strength. A change in the common equity ratio is highly

	unlikely to change the credit rating from A or materially impact the embedded cost of debt. It will increase the utility cost of capital. Union Gas accepted this in their request for an increase in the common equity ratio.

Discussion Point 5. Regulatory Tools to Manage Financial Risk

(1) The importance of the Interest Coverage Ratio (as measured by EBIT/Interest).

Jim Coyne and Julie Lieberman	Laurence Booth
Interest coverage is one of several credit metrics that provide indications of the financial strength of a company. Concentric calculated the FFO Interest Coverage, the FFO/Debt %, and the Debt to Capital % for EGDI and its comparable groups of like risked Canadian and U.S. utilities. EGDI ranked in the bottom fifth of all companies in each of the three metrics reviewed. [Concentric, pp. 32-33] EGDI's interest coverage ratio is approaching 2.0x if EGDI's equity ratio remains at 36%. [Concentric, p. 33] This is below what is required to satisfy requirements of the CIBC Mellon trust indenture, is below what is required for a similarly rated utility, and is below what is advisable for a prudently run utility.	The issue of EGDI's EBIT times interest earned ratio (TIE) is a "red herring". The TIE issue was raised in 2006 when EGDI could not issue medium term notes (MTNs) because warm weather meant the earnings were lower than expected and the TIE was less than the required 2.0 in the trust indenture. At that time EGDI sought an increase in its equity ratio to boost its TIE and said its financial integrity was at stake. Yet, DBRS dismissed this factor (July 2007 Bond rating report) as unimportant for the credit rating. The trust indenture only covers MTNs not other securities such as EGDI's first mortgage bonds, preferred shares, bank debt or swapped commercial paper (unfunded debt) EGDI's TIE has increased substantially since 2006 and at 2.4 is in no danger of falling below 2.0, particularly when EGDI starts to earn the higher board ROE formula return.

(2) There are a number of tools; these include, but are not limited to:

a. Deeming common equity ratios is one of the tools;
b. ROE, the cost of capital and the capital structure;
c. Deferral accounts – passing on unanticipated costs to rate payers in a subsequent year rather than having shareholders bear the risk (providing that deferred balances are recovered by the utility in a timely manner);
d. Covering construction work in progress;
e. Allowed depreciation rates;
f. Policies affecting regulatory lag; and
g. Automatic adjustment mechanisms.

Jim Coyne and Julie Lieberman	Laurence Booth
The regulator has 2 tools to directly adjust financial risk: equity return and capital structure. Concentric has provided the Board	Agreed what separates utilities from competitive firms is that in Canada we go beyond simply removing the impact of market

with detailed evidence on mechanisms employed by regulators to manage risk for EGDI and comparator groups of Canadian and U.S. gas distributors. [Concentric Report, Appendix B] This analysis shows Enbridge has no greater regulatory protection, yet has a lower common equity ratio.	power to also removing risk and passing it on to captive ratepayers. This is why some companies ask to be rate of return regulated.

Discussion Point 6. Assessment of Capital Market Conditions

(1) The Canadian Economy has substantially recovered from the recession.

Jim Coyne and Julie Lieberman	Laurence Booth
Investor tolerance for risk has changed materially since 2006. Markets have substantially but not fully recovered since the financial crisis. This is because of multiple reasons: a. We continue to see record lows of long bonds in the US and Canada as investors continue to express a preference for low-risk government bonds in a low-inflation environment, bidding down their yields. b. Uncertainty regarding future economic conditions remain. c. Credit spreads and measures of equity volatility remain elevated. [Concentric Report, p. 21] d. The Alberta Utilities Commission's ("AUC") recent decision concluded by a review of bond yield spreads that markets were largely but not yet completely returned to normal [AUC Decision 2011, pp. 5-7] EGDI's request for an increase in equity thickness is not based upon temporal market conditions but is based on satisfaction of the Fair Return Standard. The lessons of the last 4 years are that while we plan for normal market conditions we must be ready for the bumps in the road that happen, and living close to the margin is inappropriate for a capital intensive company. Therefore, the Board should take a long view to regulation and maintenance of healthy balance sheets. Market volatility justifies strengthening the balance sheet, as well as the fact that Enbridge is close to the edge of maintaining	In Canada financial conditions are back to normal for the stage in the business cycle. This is because: a. Conditions are easier than average; b. Loans are easy to get in Canada, according to the Bank of Canada's survey of senior loan officers. c. Anyone with reasonable credit can access funds, to the extent that the Bank of Canada is worrying about household debt levels. d. The Kansas City Federal Reserve Bank's financial stress index is right on average and a vast improvement from the time of the Board's ROE review in 2009, as is the Bank of Canada's index. e. Stock markets have recovered and at 20X earnings the PE ratios are above their long run averages (Shiller PEs). f. Low interest rates reflect the actions of central banks elsewhere in the world and as Mark Carney has indicated they have spilled over into Canada because we are a low risk AAA rated country. In Canada the economy is healthy and the Bank of Canada expects the remaining output gap to disappear by 2013. In the U.S. the economy is less strong. as indicated by a) The U.S. Fed's unlimited program of quantitative easing buying, $85 billion of long term bonds and mortgaged backed securities each month, b) an unemployment rate of about 3.0% above its non-accelerating inflation rate of unemployment. c) a declining labour force participation rate

its current credit rating.	d) a steeper yield curve with long rates significantly above short term rates.

(2) General propositions on interest rates:

a. In both Canada and the U.S. interest rates continue to be at long term lows.

b. The trajectory of short term interest rates in the U.S. and Canada may diverge due to respective policies of their central banks.

c. 1, 5, and 10 year interest rates in the U.S. are currently lower than in Canada and the 30 year interest rates in the U.S. are higher.

d. Equity investors continue to be risk averse.

Jim Coyne and Julie Lieberman	Laurence Booth
Government bond yields in the U.S. are lower than Canadian at both the 5 and 10 year points on the yield curve; 30 year bond yields are currently higher in the U.S. [data as 10/23/12] Can U.S. 5 yr 1.38 0.79 10 1.87 1.81 30 2.45 2.97 The economic and business environments of Canada and the U.S. are highly integrated; both respond to global economic conditions, and exhibit strong correlation across a variety of metrics. The correlation between average annual interest rates on 10-year government bonds in Canada and the U.S. since 1987 has been 0.98; similarly, the correlation between daily average interest rates on 10-year government bonds in Canada and U.S. from 2008 through 2011 has been 0.99, as central banks in both countries responded to the credit crisis and financial market dislocation by providing supportive monetary policy. Correlations of this degree are reflective of highly integrated financial markets. Ontario's economy is the most closely tied to	The yield curves are shaped differently in the US and Canada and you cannot pick one point (the ten year rate) on the curve to make a comparison. In Canada interest rates are increasing, so they are higher on the short end, but lower on the long end of the yield curve. This reflects the Bank of Canada's desire to reduce monetary stimulus and increase interest rates, while US long term rates are affected by the fear of higher inflation due to large US government deficits. The shape of the yield curve confirms that the US and Canadian economies are at different stages of the business cycle. Equity investors are always risk averse but Utilities are trading on increasing PE ratios, since they are interest sensitive income stocks, and have no trouble raising equity capital. The annual Fernandez survey of 6,000 plus market participants and academics indicates no change in the market risk premium at 5.0-6.0% over the last 3 years.

the U.S., with nearly 80% of its exports going to the U.S. Over the past decade, Ontario's GDP grew at 1.49%, the U.S. at 1.63% and Canada overall at 1.94%. Ontario's economy is not healthier than the U.S.; it is closely tied to it.	

(3) Interest rates are useful in relation to determining equity thickness. The experts disagree on the reasons.

Jim Coyne and Julie Lieberman	Laurence Booth
Changes in interest rates and bond spreads are accounted for in the Board's revised ROE Formula. This is not a substitute for setting the appropriate equity ratio. Concentric fully accounts for any differences in forecast interest rates and bond spreads for the U.S. and Canada in its cost of capital analysis for U.S. and Canadian proxy groups. Even after adjusting for differences in interest rates between the U.S. and Canada, EGDI has the lowest allowed return.	The Board's 2009 decision was initiated at the very worst of the financial crisis when the equity markets were near their lows. The Board's March 16, 2009 letter indicated that the review was in part motivated by the fact that the Board's old ROE formula indicated an ROE only ***0.39%*** *(39 basis points)* higher than the cost of long term debt. Currently EGDI's ROE is about ***5%*** *(500 basis points)* above its borrowing cost. The Board's first review of its ROE formula is to take place in 2014 The appropriateness of considering an increase to the common equity ratio for EGDI in advance of that review is an issue in this proceeding Due to the collapse in long term interest rates the allowed ROE is now more in line with that allowed other Boards, but this is happenstance. The drop in interest rates has allowed utilities enormous capital market access.

(4) The definition of normal market conditions.

Jim Coyne and Julie Lieberman	Laurence Booth
There is agreement that "normal" means average. Credit spreads in both U.S. and Canada and stock market volatility have recovered substantially since the financial crisis but not	"Normal market conditions" does not mean the high point on the business cycle, it means the average for the business cycle. Wide spreads are normal in a recession. In recovery spreads narrow; this is normal.

fully. Concentric's analysis of Enbridge's equity ratio request is not, however, based on temporal market conditions, it is based on projected market conditions (DCF and CAPM) and current tests of comparability.	The question for the board is really what is abnormal? I would judge that what we saw during the 2008/9 financial crisis was abnormal, but now we are pretty much back to normal except for low long Canada yields.

(5) The relevance of the cost of capital for determining equity thickness.

Jim Coyne and Julie Lieberman	Laurence Booth
See discussion of the Fair Return Standard, Concentric comments, Section II.1.A, in this Statement. Concentric has presented an analysis of EGDI's cost of capital using a carefully screened Canadian and U.S. proxy group and determined that EGDI's requested equity ratio, in conjunction with the Board's ROE, would satisfy the Fair Return Standard. [Concentric, pp. 3-4]	There is agreement that ROE and cost of capital are linked, however it is the Board policy to set ROE in a generic way for a reasonable time period and will not review its ROE formula until 2014. This is a business risk hearing and not a cost of capital hearing. The financial crisis has past. There are no factors that would indicate that the common equity ratio for EGDI should be changed to satisfy the fair return standard.

(6) There is evidence of strengthening Equity Ratios.

Jim Coyne and Julie Lieberman	Laurence Booth
Since 2006, the equity ratios of the following Canadian gas utilities have been increased: • AltaGas (41 to 43%) • ATCO Gas (38 to 39%) • Fortis BC (35 to 40%) • PNG (36/40 to 40/45%) The only decrease was to startup Enbridge Gas NB, from 50 to 45%. The comparable risk U.S. gas proxy group's average equity ratio is 49.9%. [Concentric Report, p. 10] Both Canadian and U.S. regulators have approved increasing equity ratios for gas and electric utilities over the past decade.	Higher equity ratios have not occurred across all provinces. In Alberta, equity ratios were increased to address capital market conditions *at the same time* as the ROE was reviewed. The equivalent would have been if this Board had increased the common equity ratio by 2% across the board, but set the ROE at 9.0% instead of 9.75%. Terasen Gas and the TransCanada Mainline received increases in their common equity ratios to address specific business risk factors consistent with this Board's capital structure policy. In the same way Enbridge Gas New Brunswick was allowed a lower common equity ratio.

Discussion Point 7. Credit Ratings Agency Reports and the Assessment of the Potential for a Downgrade

(1) The credit rating from the same credit rating agency is an indication of comparable risk between subsidiaries because the risk to bond holders is viewed as the same.

(2) A comparable subsidiary in the US with the same credit rating as a Canadian subsidiary could be compared to a Canadian subsidiary.

(3) Subsidiary credit ratings are often linked to large degree to the rating of their parent. The extent to which they are linked depends on the degree of structural ring fencing between the subsidiary and its parent.

(4) The possibility of a credit downgrade for Enbridge.

Jim Coyne and Julie Lieberman	Laurence Booth
EGDI's credit rating is on the margin of what is manageable for a prudently run utility and is the lowest among a group of comparable risk companies. Any unexpected variation that could sustain a negative financial impact could result in a credit downgrade for EGDI. Enbridge's credit metrics are weak: faced with an adverse set of operating circumstances it would weaken. Further, Enbridge is at the edge of its current rating. Standard and Poor's has indicated that EGDI's credit metrics are weak for its rating. [Concentric, p. 26]	There is no threat of a downgrade if the Board accepts the proposed 35% common equity ratio and moves EGDI back to its 2006 common equity ratio. There is nothing on the horizon that endangers DBRS's evaluation of an A rating for EGDI; if anything the movement to the Board's ROE formula return should strengthen EGDI's credit metrics further.

(5) The strength of Enbridge's credit metrics.

Jim Coyne and Julie Lieberman	Laurence Booth
As noted by S&P, EGDI's financial metrics are weak for its current credit rating, a change in equity thickness will place EGDI's credit metrics within its rating criteria. According to a recent DBRS Report, Enbridge's financial strength is stable, though they do note that a combination of cold weather and high gas prices could exhaust current liquidity. [DBRS June 28, 2012 Report, p.6 – EGDI IR	EGDI's credit metrics are strong and improving. DBRS thinks they are commensurate with the current A rating. They should then only improve when EGDI gets the Board approved formula ROE.

Response Exhibit I, Issue E2, Schedule 14.7, Attachment 4] Concentric notes, that DBRS's ranking of ratings drivers for regulated utilities does not include any rank below "satisfactory" for any drivers, i.e. DBRS ratings methodology ranks utilities from excellent to satisfactory, with excellent being the best, and satisfactory being the worst. DBRS could not rate a regulated utility unsatisfactory for any attribute. [EGDI IR Response, Issue E-3, 1.3 Attachment 3] Putting Enbridge's equity ratio at 42% will place Enbridge more in line with other Canadian and American companies, allowing them to sustain a credit rating of A-.	

(6) S&P's assessment of risk.

Jim Coyne and Julie Lieberman	Laurence Booth
S&P suggests that Enbridge's credit rating is weak. [Standard and Poor's, March 23, 2011] "The negative outlook reflects our view that credit metrics are low for the rating." While S&P discusses the parent company, S&P is dealing with the subsidiary's credit metrics in its March 23, 2011 report. In December 2011, S&P wrote that "at the current level, the ratings of the ultimate parent, Enbridge Inc., do not constrain the ratings on EGD." Further, "We also expect parental support if required, provided the parent is economically incentivized to do so." [Concentric, p. 26 and citations to S&P ratings reports]	Regardless of EGDI's "true" rating, whether weak or strong, if its parent gets downgraded by S&P, EGDI will also get downgraded. This is S&P's policy and stated explicitly in its rating of EGDI. The connection between parent and subsidiary regarding the control of EGDI's cash flow, results in S&P not giving a subsidiary a higher rating because the parent could "raid" its subsidiary. That is, S&P requires ring fencing or structural insulation of the subsidiary for differential ratings, which does not exist for EGDI

Discussion Point 8. Development and Use of a List of Comparable Utilities

A. Common Core Datasets Shared by the Experts

(1) Outside of Ontario, there are three utilities which can appropriately be compared to Enbridge for the purpose of determining equity thickness without qualification. These are:

a. ATCO Gas;
b. Fortis BC; and
c. Gaz Métro.

Jim Coyne and Julie Lieberman	Laurence Booth
Mr. Coyne and Ms. Lieberman would accept Dr. Booth's addition of Union and Nova Scotia Power with qualification but would reject: a. Newfoundland Power; and b. Gazifere. The following parent companies should be included in the dataset: a. Emera a. Canadian Utilities b. Fortis c. Enbridge Inc. This is subject to qualification. These holding companies can be used to determine the rates of return for Canadian utilities, but due to the limited dataset of pure play publicity traded gas distributors in this group, a superior set of comparators can be derived from U.S. gas distribution companies.	Dr. Booth would add the following companies to this list: a. Union Gas; b. Nova Scotia Power; c. Newfoundland Power; and d. Gazifere. This data set can be expanded to include practically any company, even "New Zealand Gas" if you adjust properly. Note the Regie assesses Gaz Metro to have above average risk and the BCUC increased FortisEnergy BC's common equity ratio due to increased business risk. The AUC increased ATCO Gas' common equity ratio when it increased all Alberta utilities common equity ratios in 2009, in conjunction with a review of the generic allowed ROE.

(2) In Canada, it is useful to distinguish between parent and operating companies in establishing a dataset.

Jim Coyne and Julie Lieberman	Laurence Booth
This Statement includes the U.S. capital market. Holding company data is necessary to perform a DCF or CAPM analysis to estimate the market-derived required ROE. These analyses cannot be performed at the operating company level. Screening at the regulated entity level allows an apples-to-apples comparison of comparable risk utilities, and their attendant allowed cost of capital (return and capital structure). Concentric provided a detailed risk assessment of EGDI versus Canadian and U.S. companies to assist the Board with determination of comparable companies. [Concentric Report, pp. 29 – 34]	Not needed as much in Canada as the US, since DBRS does not penalise subsidiaries the way that S&P does. US holding company data is generally more useful than subsidiary data for this reason.

(3) The dataset is larger when we look at comparable operating companies.

Jim Coyne and Julie Lieberman	Laurence Booth
To compare operating companies, Concentric screens all North American gas distribution utilities at the regulated entity level on the basis of credit rating (A- or better), size (greater than 800,000 customers) and comparable risk by review of regulatory protection afforded each operating company. From this, a comparator group can be assembled that is like risk to EGDI and to whom the OEB may look to inform an appropriate common equity ratio for EGDI. This analysis is provided in Concentric's evidence. [pp 7-12, and Appendix B]	Gas distributors can only be included as comparators if they are a similar size: b. Union & Enbridge c. FortisEnergyBC d. ATCO e. Gaz Métro The following parent companies should be included in the dataset: d. Emera e. Canadian Utilities f. Fortis g. Enbridge Inc. (qualified) h. TransCanada (less so because it has diversified in recent areas and the Mainline has problems) i. Valener which mainly holds Gaz Metro assets j. Veresen which owns 50% of Alliance pipeline. Any sample can be useful for the Board

	provided appropriate qualifications and adjustments are in place. In this case, the Board should look at the Canadian utilities and their credit ratings, whether they can attract capital and if the resulting rates are fair and reasonable since fewer adjustments are needed.

B. Canadian Distributors

(1) Meaningful comparisons can be made from the group of Canadian distributors identified above.

Jim Coyne and Julie Lieberman	Laurence Booth
Agreed. This analysis can be supplemented with meaningful information on U.S. comparators in making determinations on ROE and capital structure.	Agree since fewer adjustments are necessary and we have greater knowledge of them.

C. Utilities in the U.S.

(1) A DCF and risk premium analysis using market based security data from Canadian and U.S. companies would be an appropriate way of determining the ROE and the opportunity cost to EGDI's investors.

Jim Coyne and Julie Lieberman	Laurence Booth
Canadian boards have acknowledged that it is appropriate, when looking at the rate of return analysis, to look to U.S. utilities. Boards acknowledge that there is an integrated market for capital and that the [business] risk pertaining to U.S. utilities can be compared to that faced by Canadian Utilities. There is disagreement between the experts here on the premise that U.S. utilities are treated differently than Canadian utilities by their regulators. Concentric in this proceeding has provided evidence on this issue to the Board. [Concentric, Appendix B] Though there have been instances when U.S. utilities have faced bankruptcy, those instances are few and only under exceptional	Boards have found US data to be informative when no comparable Canadian data exists, but generally have not accepted them without reservation or adjustment. The BCUC, for example, made specific adjustments lowering US DCF evidence presented on behalf of Terasen Gas Utility in 2009 by 50-100 basis points. DCF estimates are useful as long as analyst growth estimates are adjusted for the well-known optimism bias and they are consistent as long run growth estimates with the growth rate in the economy. Otherwise two stage DCF models need to be used. This is not a cost of capital hearing and Dr.

circumstances. Utility holding companies have divested risky assets or have adequately protected regulated assets by structurally ring-fencing regulated operations from unregulated operations. The notion that U.S. utilities are more risky than Canadian utilities is an unsupported claim in today's regulatory environment, and not substantiated by Concentric's research and evidence provided to the Board. [Concentric, Appendix B]	Booth was not asked to and did not provide any fair ROE estimates, since they are not required under board policy.

(2) Looking at US capital markets is informative for the purpose of developing a group of comparable risk companies and for determining ROE and opportunity cost to EGDI's investors, with qualification (if necessary) for capital market and regulatory differences between the two markets.

Jim Coyne and Julie Lieberman	Laurence Booth
Agree. The Boards in Ontario, Alberta, BC, Quebec, and the NEB have all placed some reliance on U.S. utility and/or market data in recognition of comparable business and economic environments.	US capital markets are not at the same stage as Canada's as indicated by the different yield curves. Further US$ returns are not the same as CDN$ returns and to fail to make adjustments violates a basic principle of international finance. US estimates have been specifically rejected by other boards including the Regie and the Board of Commissioners of Newfoundland and Labrador. Before the NEB TransCanada is now retracting the use of US pipelines as appropriate comparators and emphasising the Canadian regulatory compact.

D. Gas and Electricity Distribution

(1) Gas distributors face, as a general class of business, more volumetric risk, seasonal risk and supply (methane) uncertainty than electricity distributors, which have more sources and types of generation, and substantially more risk than electric distributors that have no responsibility for electricity generation.

(2) Differences in risk can be assessed in part by the ability of electricity and gas distributors to earn their allowed ROE.

Jim Coyne and Julie Lieberman	Laurence Booth

Gas distributers that manage gas supply are riskier than electric transmission and distribution companies with no generation or supply risk. [Concentric Report, pp. 15-16, and the AUC, p. 35] The OEB has recognized this risk relationship [Concentric, pp. 14-15, and Cannon report] The ability to earn the allowed ROE is one indicator of risk, but is not an indicator that the allowed ROE is adequate nor the capital structure appropriate.	There is no evidence that after you take the degree of regulatory protection into a account that there is any material differences in the risk of electricity and gas distributors. What is critical is the degree of regulatory protection, for example, whether fuel costs are passed through. Nova Scotia Power Inc (NSPI), an integrated electric utility, for example, would have been regarded as riskier than EGDI until the NSURB allowed a fuel adjustment mechanism (FAM). NSPI (September 13, 2012 recently settled on a 9.0% ROE on 37.5% common equity.

Discussion Point 9. Selection of the Recommended Equity Ratio for Enbridge

(1) The common equity ratio and the rate of return are linked. In Canada there are generic hearings and GRAs to look at capital structure.

(2) There may be a problem of double leverage.

Jim Coyne and Julie Lieberman	Laurence Booth
Dr. Booth focuses only on the retrospective ability to raise debt capital. Our evidence is not that Enbridge needs more equity for debt financing. This addresses only one element of the fair return standard, and there are three parts. Enbridge's business risk has increased since 2006, and financial markets have yet to fully recover from the financial crisis. These are contributing, but not the sole factors supporting an increase in EGDI's equity ratio. The decision before the Board is straightforward. The current Equity Ratio does not pass the Fairness Standard. Double leverage is not an issue relevant to this proceeding. Concentric has determined that the market based return on equity for EGDI based on a DCF and CAPM analysis for both US and Canadian Proxy Groups is as follows: -US is 9.99% at 49.9% equity -CD is 10.17 at 39.9% equity These results are supportive of the formula and the recommended equity range of 40-45%, and indicate that the comparability standard is not being met. [Concentric, pp. 10-11] The comparability standard of the Fair Return Standard is not being met for Enbridge. The equity thickness of 36% is: • Below that of the group of comparable	The Board should pay attention to the fact that the parent corporation (Enbridge Inc) has about a 33% common equity ratio, a lower DBRS bond rating and is in the process of a major expansion without showing any clear financing problems. It is obviously in the interests of the parent to have EGDI finance with more common equity as this allows the parent to fund more debt on the improved strength of its own consolidated balance sheet. Double leverage in Canadian utility holding companies is a reality. Union Gas's request for an increase in its common equity ratio from 36% was rejected by this Board on October 25, 2012, since Union judged its business risk to have remained the same since 2006. Union Gas is a comparator for EGDI. I recommend a 35% common equity ratio for EGDI.

<table>
<tr><td>utilities, from the 2009 Consultative upon which the ROE was rebased (a disconnect between the ROE and current equity thickness);

• Below all North American gas utilities researched;

• Below US Proxy Group average equity ratio is 49.9%; and

• Below Ontario's electric utilities which have been widely regarded as less risky than the gas utilities. [see Concentric Report in Evidence, pp. 13-16]

Concentric's evidence supports a range of 40-45% based on a cost of capital analysis, a relative risk assessment, changes in Enbridge's risk profile since 2006, and based on Enbridge's utility comparators in Ontario, Canada and the U.S.</td><td></td></tr>
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