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November 13, 2013

VIA RESS, EMAIL and COURIER

Ms. Kirsten Walli
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

**Re: EB-2012-0459 - Enbridge Gas Distribution Inc. ("Enbridge")
2014 – 2018 Rate Application
Interrogatories to PEG**

Pursuant to the Board's Decision on Issues List dated November 5, 2013, attached please find Interrogatories of Enbridge Gas Distribution Inc. to PEG in the EB-2012-0459 proceeding.

This submission was filed through the Board's Regulatory Electronic Submission System (RESS).

Please contact the undersigned if you have any questions.

Yours truly,

[original signed]

Lorraine Chiasson
Regulatory Coordinator

cc: Mr. F. Cass, Aird & Berlis
EB-2012-0459 Intervenors

Interrogatories of
Enbridge Gas Distribution Inc.

I.A1.Staff.EGD.1

Has PEG ever recommended or supported an IR plan that treated OM&A separate from capital in testimony or an expert report? If so, please provide the docket number, jurisdiction, date, and copies of all PEG testimony and/or expert reports.

I.A1.Staff.EGD.2

Preamble: On page 2 of its report and in subsequent pages, PEG refers to the UK regulatory experience with performance based ratemaking, and the building block model.

Request:

- a. Please confirm that the publication referred to as the RIIO Handbook is the latest set of guidelines from the UK regulator, Ofgem, on performance based regulation applicable to gas and electric utilities. (Please see <https://www.ofgem.gov.uk/ofgem-publications/51871/riiohandbook.pdf>.)
- b. Please provide a list of all cases (docket number, date) where PEG has provided testimony in the United Kingdom regarding the application of building block regulation model to electricity and/or natural gas distributors.
- c. Please also provide copies of the written testimony in the above matters.

I.A1.Staff.EGD.3

Preamble: On page 2 of its report and in subsequent pages, PEG discusses the building block model, and on page 17 PEG states that there have been changes in the overarching framework used to implement building block regulation, particularly in the UK which, according to PEG, has more experience with this IR method than Australia.

Request:

- a. Please provide a list of all cases (docket number, date) where PEG has provided advice or submitted testimony in Australia regarding the application of building block regulation model to electricity and/or natural gas distributors.

- b. Please identify the lead witness or advisor.
- c. Please also provide copies of reports and/or written testimony in the above matters.

I.A1.Staff.EGD.4

Please provide a list of all cases (docket number, date) where PEG has provided testimony in any other jurisdiction regarding the building block regulation model, and copies of that written testimony.

I.A1.Staff.EGD.5

Preamble: On page 2, PEG states: “The EGD’s Customized IR proposal creates the same perverse *ex ante* incentives to inflate capital cost projections as the early UK building block plans. Because the Company’s capital expenditure forecasts are not supported by independent and external benchmarking evidence, the inherent incentive to inflate these forecasts under the Customized IR proposal can generate unreasonably high prices and shift risks to customers.”

Request:

- a. Please provide any evidence that EGD has inflated its capital cost projections in this filing.
- b. Please describe how external benchmarking evidence adjusts for utility-specific circumstances that affect its capital expenditure forecast.

I.A1.Staff.EGD.6

Preamble: On page 3, PEG states, “CEA has not developed any independent evidence that can be used to confirm, reject or otherwise test the reasonableness of EGD’s forecast costs over the term of its Customized IR proposal. The reasonableness of EGD’s Custom IR application depends on the reasonableness of its cost projections. Since CEA’s empirical analysis provides no evidence on the latter issue, it does not affirm the reasonableness of EGD’s Customized IR proposal.”

Request:

- a. Please describe, with references to relevant regulatory decisions, the role that company forecasts play in the current regulation of U.K. and Australian gas distributors.

I.A1.Staff.EGD.7

Preamble: On pages 3-4, PEG States, “CEA relies entirely on a peer group benchmarking approach, which is almost never sufficient to yield robust inferences on utility efficiency.”

Request:

- a. Has PEG ever relied on peer group benchmarking in prior efficiency studies?
- b. Please produce any studies or testimony filed by PEG in regulatory proceedings in North America over the last five years which uses peer group benchmarking.
- c. What is PEG’s basis for the qualifier, “almost never”?

I.A1.Staff.EGD.8

Preamble: On page 5, PEG states: “The industry-specific inflation factor used in CEA’s empirical research is unacceptable (as currently designed) because it excludes the rate of return on a utility’s capital stock, as well as depreciation of that capital stock. These are large components of capital input prices, and any input price inflation measure that excludes them is not a credible measure of input prices for the gas distribution industry.”

Request:

- a. Please indicate whether PEG is aware of any North American regulator that has specifically incorporated the rate of return on a utility’s capital stock and depreciation of capital stock in an I Factor for an incentive regulation program. Please provide the decision and page references.
- b. Please indicate if PEG has taken a consistent approach to the inclusion of the rate of return on the utility’s capital stock and depreciation of capital stock in its utility TFP studies and I factor recommendations. Please describe that approach.
- c. Please produce the testimony and studies filed by PEG in Ontario and other jurisdictions where PEG has made recommendations for or comments upon the appropriate I factor to be used within an incentive regulation program.
- d. Please provide copies of regulatory orders and decisions that adopted PEG’s proposed I Factor that includes “the return on a utility’s capital stock, as well as depreciation of that capital stock.” Please indicate the page number that demonstrates reliance on PEG’s I Factor analysis.
- e. Please indicate if PEG is aware of alternative approaches for I factors (that did not specifically incorporate rate of return on a utility’s capital stock and depreciation of capital stock) adopted by regulators in North American regulatory decisions. Please describe those approaches with citations to the decisions.

I.A1.Staff.EGD.9

Preamble: On page 4, PEG states, "This criterion tilts the peer group towards a high-cost set of US "rust belt" distributors struggling with slow customer growth and aged delivery systems constructed with materials prone to gas leaks."

Request:

- a. Please reconcile this statement with the two peer groups (containing five companies in total) that PEG used in its report "Assessment of Union Gas Ltd. And Enbridge Gas Distribution Inc. Incentive Regulation Plans Revised April 2012" for purposes of evaluating EGD's historical TFP growth rate.
- b. Please indicate which of the companies included in PEG's TFP results in the April 2012 report were not included in Concentric's peer group, and which were included.
- c. Please contrast the gas utility sample group used by PEG in Alberta with that used by Concentric in this case. Please explain why each of the following companies was excluded in PEG's analysis in Alberta:
 - i. Ameren
 - ii. Centerpoint
 - iii. Laclede
 - iv. National Fuel Gas
 - v. Nisource (Indiana)
 - vi. Vectren
 - vii. Missouri Gas Energy
 - viii. Columbia Gas of Ohio
 - ix. Public Service Company of Colorado

I.A1.Staff.EGD.10

Preamble: On page 4, PEG states, "This study yields markedly lower estimates of total factor productivity ("TFP") growth for the Company and the industry than credible estimates of these TFP trends that have been presented elsewhere."

Request:

- a. Please provide PEG's definition of "credible" in this context.
- b. Please provide the studies that PEG believes provide "credible" estimates of the industry's TFP trends.
- c. Please produce a copy of all TFP studies that PEG has produced for clients in Ontario over the past five years, and please attach any regulatory decisions which adopted or otherwise commented upon PEG's evidence and recommendations.

- d. Please indicate, other than in Ontario, if PEG has provided any TFP or related productivity studies to North American clients in the past three years.
 - i. Please provide copies of all of those studies.
 - ii. Please describe the outcome or decision from the regulator, specifically related to adoption of PEG's evidence and recommendations.

I.A1.Staff.EGD.11

Preamble: On page 5, PEG states that an EGD IR plan for the 2014-2018 period "can also contain Y factors that recover the costs of large capital projects."

Request:

- a. Please provide copies of testimony where PEG has supported the use of Y Factors for capital projects.
- b. Please provide a list of all EGD capital projects that would qualify for "Y factors that recover the cost of large capital projects" in PEG's view.

I.A1.Staff.EGD.12

Preamble: On page 5, PEG states that "the input price and TFP research for US gas distributors that was presented in Alberta can be used to assess the appropriateness of the elements of an IR plan for EGD," and on page 43 PEG states "in evidence presented in December 2011 on behalf of the Consumer Coalition of Alberta, PEG estimated that TFP for the US gas distribution industry grew at an average rate of 1.32% per annum over the 1996-2009 period."

Request:

- a. Please provide the referenced "input price and TFP research for US gas distributors that was presented in Alberta" where "PEG estimated that TFP for the US gas distribution industry grew at an average rate of 1.32% per annum over the 1996-2009 period."
 - i. Please provide all expert reports, data, workpapers, analysis and research that supports PEG's recommended I factor in Alberta. The data, workpapers and analysis should be provided in electronic format with all calculation formulas intact.
 - ii. Please provide all expert reports, data, workpapers, and research that supports PEG's TFP analysis and recommended X factor in Alberta. The data, workpapers and analysis should be provided in electronic format with all calculation formulas intact.
- b. Please provide the AUC decision that describes its I Factor and X Factor conclusions.

- c. Please summarize any sections of the AUC decision where it indicates that the AUC relied on PEG's analysis results in reaching its conclusions.
- d. Please provide a table contrasting the industry TFP estimates provided by PEG with those of other experts in the Alberta proceeding.

I.A1.Staff.EGD.13

Preamble: On page 13, PEG states: "The variance account treatment on the GTA reinforcement project will also effectively true up rates to recover expenditures on this project. These true-up mechanisms are clearly reminiscent of COSR rather than IR ..".

Request:

- a. Please explain how the variance account treatment on the GTA reinforcement project is different in effect from the Y-factors that PEG appears to endorse for large projects at page 5 of the report.

I.A1.Staff.EGD.14

Preamble: On page 18, PEG discusses the Information Quality Incentive within the UK building block model.

Request:

- a. Please provide copies of all testimony filed by PEG in UK proceedings that addresses the theory, application and/or implementation of an Information Quality Incentive.
- b. Is the Australian Energy Regulator ("AER") currently using building blocks?
- c. Is the AER currently using incentive mechanisms similar to Ofgem's IQI Mechanism?
- d. If so, please identify and provide a copy of the latest regulatory decision, and provide the docket number, date of decision, and name of the regulated entity.

I.A1.Staff.EGD.15

Preamble: On page 26, PEG states: "PEG has always supported well-designed ECMs ..".

Request:

- a. Please provide any recent testimony filed by PEG that proposes an ECM, or provides comment on an applicant's proposed ECM.

- b. Please provide references to and copies of any decisions which have addressed PEG's testimony and/or recommendations about an ECM.

I.A1.Staff.EGD.16

Preamble: On pages 33-34, PEG states, "Comparing partial unit costs across utilities deemed to be 'peers' is therefore a blunt and imprecise exercise that can lead to misleading and/or incorrect inferences on a utility's cost efficiency, unless the peer group comparisons are supplemented with other comparative cost information."

Request:

- a. Please identify the "other comparative cost information" that PEG is referring to.
- b. Has PEG performed a benchmarking study that relies on such information? If yes, please provide a copy of all such studies.

I.A1.Staff.EGD.17

Preamble: On page 36, PEG states, "The third criterion (similarity in weather) is problematic. Gas distributors incur little, or no, incremental OM&A cost when gas consumption increases. Heating degree days also has little or no impact on other gas distribution costs."

Request:

- a. Please provide the evidence on which PEG relies for the conclusion that a gas distributor's operating costs are not impacted by weather. Please provide summaries and citations of regulatory decisions that support this conclusion.
- b. Please provide evidence that a gas distributor's capital cost requirements are not impacted by weather. Please provide summaries and citations of regulatory decisions that support this conclusion.

I.A1.Staff.EGD.18

Preamble: On page 37, PEG states, "Proper controls for scale economies can only be implemented through statistical methods and not through the simple, partial unit cost comparisons undertaken by CEA. Since CEA's benchmarking methodology does not include appropriate controls for economies of scale, it is likely to be biased in favor of relatively larger gas distributors like EGD."

Request:

- a. Please provide copies of recent studies in which PEG has applied "appropriate controls for economies of scale."

I.A1.Staff.EGD.19

Preamble: On page 42, PEG states, “While the Company’s testimony on these issues is interesting, and in some cases informative, it ultimately provides no assurance that the cost projections embedded in the Customized IR proposal is efficient.” On page 43, PEG states, “Statistical or engineering methods can also be used to develop forward-looking OM&A and/or capital expenditure benchmarks.”

Request:

- a. Please indicate whether PEG is aware of any North American regulator adopting these methods in the context of an alternative regulation program. If so, please provide the appropriate decision reflecting this analysis.