

BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #9

INTERROGATORY

ISSUE A1: Is Enbridge's proposal for a Customized IR plan for a 5 year term covering its 2014 through 2018 fiscal years appropriate?

Evidence Ref: ExhL/T1/S2

A1.Staff.EGDI.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

RESPONSE

- a. The purpose of the referenced PEG report was to assess the performance of Enbridge Gas Distribution and Union Gas while they were subject to incentive

Witness: Dr. Lawrence Kaufmann, PEG

regulation. This project undertook a wide variety of analyses to address this complex, multi-faceted issue. One of these analyses was a comparison of Enbridge's and Union's TFP growth under incentive regulation with the TFP growth of two groups of US gas distributors.

One group was comprised of the three companies in PEG's US sample which were subject to incentive regulation at the same time as EGD and Union Gas. This was a natural comparison; since the focus of PEG's assessment was the impact of incentive regulation on EGD and Union Gas, it was natural to compare the TFP growth of all utilities that had been subject to incentive regulation during the same time.

Since only a small number of US gas distributors were subject to incentive regulation at the same time as EGD and Union Gas, PEG supplemented this analysis by using a sophisticated 'clustering analysis' to identify two other US gas distributors that were similar to EGD and Union. This clustering analysis is explained in an Appendix of the report.

It should be recognized that PEG was not proposing to use the TFP growth of these five distributors as the basis for a productivity factor in an incentive regulation plan. Instead, we were simply comparing the TFP growth of gas distributors who had all been subject to incentive regulation at the same time, and supplementing this small sample of three distributors with a couple other distributors which our clustering analysis indicated were similar to EGD *and* Union. Moreover, this was just one of many analyses PEG was undertaking to inform our opinion on the very broad issue of how EGD and Union Gas had performed under incentive regulation.

This contrasts with CEA's analysis in its report for Enbridge. CEA selected a peer group to make inferences on EGD's cost performance using simple benchmarking techniques. CEA used the same peer group to estimate TFP growth. The resulting TFP growth estimate was used directly in CEA's assessment of EGD's projected 2014-2016 costs. There is, accordingly, a direct and strong link between CEA's selected peer group and its conclusion that conventional, 'inflation minus X' indexing plans are not appropriate for EGD. In contrast, the analysis referenced in this question plays a minor role in PEG's overall assessment of the EGD and Union Gas plans. Moreover, a majority of the 'peer' utilities are viewed as peers simply because they were subject to IR at the same time as EGD and Union Gas, and PEG was comparing the TFP growth of all distributors under incentive regulation in 2008-2010.

- b. The attached table presents a comparison of the samples used in PEG's research presented in its April 2012 report to Board staff and that used by Concentric in its report for Enbridge. This spreadsheet shows that the following

companies were included in PEG's sample but not in Concentric's peer group:

Alabama Gas
Atlanta Gas Light
Cascade Natural Gas
Central Hudson Gas and Electric
Connecticut Natural Gas
Louisville Gas and Electric
Madison Gas and Electric
New Jersey Natural Gas
NSTAR Gas
Pacific Gas and Electric
PECO Energy
Peoples Gas Light and Coke
Peoples Natural Gas
Public Service of North Carolina
San Diego Gas and Electric
Southern California Gas
Southern Connecticut Gas
Wisconsin Power and Light

- c. The attached table presents a comparison of the samples used in PEG's research presented in Alberta and that used by Concentric in its report for Enbridge. This spreadsheet shows that the following companies were included in PEG's sample but not in Concentric's peer group:

Alabama Gas
Cascade Natural Gas
Central Hudson Gas and Electric
Connecticut Natural Gas
Louisville Gas and Electric
Madison Gas and Electric
New Jersey Natural Gas
NSTAR Gas
Pacific Gas and Electric
PECO Energy
Peoples Gas Light and Coke
Peoples Natural Gas
Public Service of North Carolina
San Diego Gas and Electric
Southern California Gas
Southern Connecticut Gas
Wisconsin Power and Light

Below PEG addresses the reasons why the referenced companies were excluded from PEG's analysis in Alberta:

Ameren, Centerpoint, Laclede, Nisource (Indiana), Vectren, Missouri Gas Energy, Columbia Gas of Ohio:

For each of these companies, PEG did not include them in the Alberta sample because we did not have a consistent series of capital additions for the distributor since 1983; every distributor in the TFP study in Alberta had a 1983 "benchmark" capital year, but the lack of capital additions data meant a 1983 benchmark capital stock was not feasible for these distributors. As explained in PEG's May 2013 report to Board Staff provided in response to I.A1.Staff.EGD.7b), capital quantity measures become more accurate when the 'benchmark' capital value used to develop these measures is as distant from the current year as possible. Each of these companies would have had a non-comparable benchmark year as the distributors included in our Alberta sample, and this would have introduced inconsistencies in capital measures across distributors in the sample.

National Fuel Gas: National Fuel Gas was not included because, at the time developed its sample using the 1983 benchmark capital stock, National Fuel Gas had a large amount of gas production plant and it was not possible to eliminate the value of these assets from the available data. Accordingly, PEG did not include National Fuel Gas in our gas distribution sample developed at that time. PEG has updated that sample with data in subsequent years, and this updated sample was used in our TFP study submitted in Alberta.

Public Service Company of Colorado: PEG had concerns with Public Service Company of Colorado's reported common plant during the sample period used for the Alberta TFP study. PEG was not able to resolve these concerns during the time available to complete the TFP study.

Operating Companies Included in PEG Research's Study for Alberta and Concentric Energy Advisors' Study for Enbridge

Company Name	PEG Research Alberta Study 2011 Only	Concentric Energy Advisors Study Only	Included in Concentric Study but Company Merged Into Larger Entity	Both Studies but Concentric's Company Merged into Larger Entity	Both Studies
Alabama Gas	X				
Baltimore Gas and Electric					X
Boston Gas				X	
Brooklyn Union Gas				X	
Cascade Natural Gas	X				
CenterPoint Energy Resources		X			
Central Hudson Gas and Electric	X				
Central Illinois Light		X			
Central Illinois Public Service		X			
Citizens Gas Fuel		X			
Colonial Gas		X			
Columbia Gas of Ohio		X			
Connecticut Natural Gas	X				
Consolidated Edison of New York				X	
Consumers Energy					X
East Ohio Gas					X
Essex Gas		X			
Illinois Power		X			
Indiana Gas		X			
KeySpan Energy Delivery (formerly Long Island Lighting)		X			
Kokomo Gas and Fuel		X			
Laclede Gas		X			
Louisville Gas and Electric	X				
Madison Gas and Electric	X				
Michigan Consolidated Gas		X			
Missouri Gas Energy		X			
National Fuel Gas Distribution		X			
New Jersey Natural Gas	X				
New York State Electric and Gas		X			
Niagara Mohawk Power				X	
North Shore Gas				X	
Northern Illinois Gas					X
Northern Indiana Fuel and Light		X			
Northern Indiana Public Service		X			
Northwest Natural Gas					X
NSTAR Gas	X				
Orange and Rockland Utilities				X	
Pacific Gas and Electric	X				
PECO Energy	X				
Peoples Gas Light and Coke				X	
Peoples Natural Gas	X				
Public Service Company of Colorado		X			
Public Service Electric and Gas					X
Public Service of North Carolina	X				
Puget Sound Energy					X
Questar Gas					X
Rochester Gas and Electric				X	
San Diego Gas and Electric	X				
Shenandoah Gas Company			X		
Southern California Gas	X				
Southern Connecticut Gas	X				
Southern Indiana Gas and Electric		X			
Washington Gas Light					X
West Ohio Gas			X		
Wisconsin Electric Power		X			
Wisconsin Gas				X	
Wisconsin Natural Gas			X		
Wisconsin Power and Light	X				

Operating Companies Included in PEG Research's Study for the Ontario Energy Board and Concentric
Energy Advisors' Study for Enbridge

Company Name	PEG Research OEB Gas Study 2011 Only	Concentric Energy Advisors Study Only	Both studies by default (merger)	Both Studies but Concentric's study Merged into Larger Entity	Both Studies
Alabama Gas	X				
Atlanta Gas Light	X				
Baltimore Gas & Electric		X			
Boston Gas				X	
Brooklyn Union Gas				X	
Cascade Natural Gas	X				
CenterPoint Energy Resources		X			
Central Hudson Gas and Electric	X				
Central Illinois Light		X			
Central Illinois Public Service		X			
Citizens Gas Fuel		X			
Colonial Gas		X			
Columbia Gas of Ohio		X			
Connecticut Natural Gas	X				
Consolidated Edison of New York				X	
Consumers Energy					X
East Ohio Gas					X
Essex Gas		X			
Illinois Power		X			
Indiana Gas		X			
KeySpan Energy Delivery (formerly Long Island Lighting)		X			
Kokomo Gas and Fuel		X			
Laclede Gas		X			
Louisville Gas and Electric	X				
Madison Gas and Electric	X				
Michigan Consolidated Gas		X			
Missouri Gas Energy		X			
National Fuel Gas Distribution		X			
New Jersey Natural Gas	X				
New York State Electric and Gas		X			
Niagara Mohawk Power				X	
North Shore Gas				X	
Northern Illinois Gas					X
Northern Indiana Fuel and Light		X			
Northern Indiana Public Service		X			
Northwest Natural Gas					X
NSTAR Gas	X				
Orange and Rockland Utilities				X	
Pacific Gas and Electric	X				
PECO Energy	X				
Peoples Gas Light and Coke				X	
Peoples Natural Gas	X				
Public Service Company of Colorado		X			
Public Service Electric and Gas					X
Public Service of North Carolina	X				
Puget Sound Energy					X
Questar Gas					X
Rochester Gas and Electric				X	
San Diego Gas and Electric	X				
Shenandoah Gas Company			X		
Southern California Gas	X				
Southern Connecticut Gas	X				
Southern Indiana Gas and Electric		X			
Washington Gas Light					X
West Ohio Gas			X		
Wisconsin Electric Power		X			
Wisconsin Gas				X	
Wisconsin Natural Gas			X		
Wisconsin Power and Light	X				