

BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #15

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

I.A1.Staff.EGDI.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.

RESPONSE

- a. Please see the response to I.A.1.Staff.EGDI.12 a.
- b. Please see the response to I.A.1.Staff.EGDI.12 b, c, and d.

**BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #16**

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

I.A1.Staff.EGDI.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.

RESPONSE

- a. PEG is referring to econometric cost benchmarking.
- b. Yes; please see the response to I.A1.Staff.EGDI.7b

**BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #17**

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

I.A1.Staff.EGDI.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.

RESPONSE

- a. Please see the response to I.A.1.Staff.EGD.10d. This response includes a gas distribution econometric benchmarking model that PEG developed for Gaz Metro in 2012. This econometric model regressed total gas distribution costs on a number of independent variables for a sample of US gas distributors. As part of this work, PEG investigated heating degree days as an explanatory variable. However, this variable was statistically insignificant and was therefore not included as part of this econometric model.
- b. Please see the response to part a).

BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #18

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

I.A1.Staff.EGDI.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."

RESPONSE

- a. Please see the response to I.A1.Staff.EGDI.7b.

BOARD STAFF RESPONSE TO
ENBRIDGE GAS DISTRIBUTION INC. #19

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

I.A1.Staff.EGDI.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.

RESPONSE

PEG is not aware of any North American regulator using these methods, but it must be recognized that the "Customized IR" approach proposed by Enbridge is rare in North America. Moreover, Enbridge and its advisors did not support its application by referencing regulatory practice in North America.

The most relevant jurisdiction for EGD's proposal is the United Kingdom, and this was also the jurisdiction that EGD and its advisors highlighted most frequently in EGD's Customized IR application. Benchmarking of the type referenced in this question is central to how the UK energy regulators assess capital expenditures.

Australia is also a relevant jurisdiction, although it tends to lag the UK in terms of adopting regulatory innovations. However, benchmarking also plays a role in assessing capital expenditures in Australia, and it is rapidly becoming more important.