EB-2012-0459

APPrO Responses to Enbridge Gas Distribution Inc. (“Enbridge”) Interrogatories

January 10, 2014

APPrO Response to Enbridge Interrogatory #1

Issue C.30 Is Enbridge's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to 2014 Fiscal Year rates, appropriate?

Enbridge Reference: Page 1

Evidence Reference: Exhibit L, Tab 2, Schedule 1, Pg. 8.

I.C30.APPrO.EGDI.1

Question: In the introduction of the Elenchus evidence on page 1 at line 13, an estimated rate impact for Rate 125 customers stemming from Enbridge's GTA project is stated to be 23.8%. Please confirm your understanding that the basis on which the Company provided the referenced estimated rate impacts was different for bundled customers (T-service basis) versus unbundled customers (delivery basis).

Response:

APPrO references the estimated rate impact for Rate 125 as calculated by Enbridge and as provided in EB-2012-0451. We (Todd/Roger) understand that Rate 125 is an unbundled service provided to qualifying customers which excludes the cost of gas and only represents the increase in delivery rates. We also understand that most of APPrO members in Enbridge's franchise are generators that take service under Rate 125. The comparable increase in 'delivery only' rates for Rate 1 and Rate 6 bundled customers excluding the benefits derived from the gas cost savings were shown as 1.6%[1].

[1] EB-2012-0451 Exhibit A3 Tab 3 Schedule 9 page 15

APPrO Response to Enbridge Interrogatory #2

Issue C.30 Is Enbridge's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to 2014 Fiscal Year rates, appropriate?

Enbridge Reference: Page 1

Evidence Reference: Exhibit L, Tab 2, Schedule 1, Pg. 8.

I.C30.APPrO.EGDI.2

Question: Further to the evidence on page 1 at line 13, for an average APPrO customer on Rate 125, please provide the proportion or percentage that Rate 125 CD charges represent of their total delivered gas charges, that is including commodity, transportation, load balancing, and delivery to the plant. If this breakdown cannot be provided, please provide for the average APPrO customer on Rate 125 an average annual gas consumption.

Response:

We (Todd/Roger) understand that APPrO does not have access to commercial information related to the upstream gas supply arrangements of its members.

APPrO understands that gas consumption by generators can vary significantly year to year based on the demand for electricity and the relative economics of gas-fired electricity. In years of very low consumption, gas costs would also be low, but the Rate 125 demand costs remain constant independent of the volume of natural gas consumption. As noted in the response to IR #1, Rate 125 is an unbundled service and each Rate 125 customer contracts for the upstream supply and services that it requires independent of the service it purchases from Enbridge.

We understand that APPrO members are concerned about the significant proposed rate increases for Rate 125 customers that will result from several large XHP reinforcement projects that are proposed for construction to access alternative gas supplies, provide increased reliability, and to provide future growth for bundled customers.

APPrO Response to Enbridge Interrogatory #3

Issue C.30 Is Enbridge's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to 2014 Fiscal Year rates, appropriate?

Enbridge Reference: Page 14 and 15

Evidence Reference: Exhibit L, Tab 2, Schedule 1, Pgs. 20, 21 and 22.

I.C30.APPrO.EGDI.3

Question: Please provide APPrO's understanding about the level of excess capacity that existed in any relevant parts of Enbridge's distribution system at the time the Leave-to-Construct (LTC) applications for the four (4) Rate 125 customers listed in the table on page 13 were filed with the OEB.

Response:

We (Todd/Roger) understand that APPrO did not participate in any of the regulatory proceedings referenced in the table on page 13. Since Enbridge does not make its system design and existing loads publicly available, we understand that APPrO does not have knowledge of any spare capacity that Enbridge may have had in its system when these Rate 125 customers applied for service. The information provided below is based on our understanding of publicly available information and is provided to be helpful.

Goreway:

The Goreway power station is situated on a built up commercial/industrial area on Goreway Drive north of Highway 407. Other commercial/industrial buildings exist in the area and it is believed that they also have gas service from Enbridge but the amount of spare capacity that may have existed is unknown. APPrO provides the following excerpt that provides additional background information on the facilities proposed to service the Goreway power station[2]:

> *In 2002, Sithe Canadian Pilpelines [sic] Ltd. ("SCP") filed an application for leave to construct a pipeline to connect the Goreway Station to the gas system operated by TCPL. At about the same time Enbridge filed a competing application to supply the Goreway Station. Both applications were adjourned in early 2003 and subsequently withdrawn on January 30, 2006 and January 26, 2006, respectively. The current application by Enbridge to build the proposed pipeline results from negotiations between Enbridge and Sithe Global.*

[2] EB-2005-0539 Decision page 2

Portlands:

The Portlands power station is situated in the port lands region of the City of Toronto. APPrO is aware that two separate sections of pipeline were required, the northerly section which was a reinforcement of the existing Don Valley line and a southerly section that was an extension of the existing XHP system to connect the Portlands plant. APPrO is also aware that the design of the additional XHP facilities required to serve Portlands restored the operating flexibility of the distribution system to the condition that it was in prior to the Portlands load materializing. This is evident from the direct examination by Mr. Stoll, counsel for Enbridge, of Mr. Wilton, Manager of Network Analysis, in the Portlands Leave to Construct proceeding[3]:

> *MR. STOLL: Thank you. With respect to the north section of pipeline, the loop is intended to provide additional capacity to maintain the flexibility in the gas distribution network of Enbridge; is that correct?*
> *MR. WILTON: That's correct.*

Thorold:

The Thorold power station is situated next to a heavy industrial region in Thorold Ontario. Presumably these industrial customers have gas service, but APPrO has no knowledge of what spare capacity may have existed at the time. A new dedicated pipeline was constructed from the TransCanada pipeline to the plant.

York Energy

The York Energy Centre is located at 18781 Dufferin Street in the Regional Municipality of York. APPrO is aware that Enbridge did provide gas service in the region, but APPrO is unaware of what spare capacity may have existed at the time. A new dedicated pipeline was constructed from the TransCanada pipeline to the plant.

[3] EB-2006-0305 Transcript Volume 1 April 16, 2007, page 26

APPrO Response to Enbridge Interrogatory #4

Issue C.30 Is Enbridge's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to 2014 Fiscal Year rates, appropriate?

Enbridge Reference: Page 14 and 15

Evidence Reference: Exhibit L, Tab 2, Schedule 1, Pgs. 21 and 22.

I.C30.APPrO.EGDI.4

Question: Is it APPrO's understanding that the Company applies the feasibility test for Rate 125 customer in a manner that is different than for any other bundled or unbundled customer? If this is APPrO's understanding, please explain in detail the basis for the understanding

Response:

We (Todd/Roger) understand that APPrO believes that there may in fact be several differences in the way that Enbridge applies the economic tests for bundled and unbundled customers. While other differences may exist, the following is a list of those differences of which APPrO is aware of:

- APPrO understands that the term of the economic feasibility may be different between unbundled and bundled customers. The term for bundled customers is 40 years[4] compared to the term used for unbundled customers which is "20 years from the customer's initial service date if this is a reasonable expectation"[5]. APPrO understands that in the event that the contract term is shorter than 20 years, the contract term is used for determining the economic feasibility.
- Furthermore Enbridge may use a lower Profitability Index (PI) threshold for determination of the point at which it collects a Contribution in Aid of Construction (CIAC) from smaller volume bundled customers as compared to large unbundled customers:

> *The minimum PI required for individual projects is 0.80. For projects with a PI less than 0.80, the customer shall be required to pay a Contribution-in-Aid-of-Construction ("CIAC") to bring the project up to the required PI level.*[6]
>
> *Where the use of a proposed facility is dominated by a single large volume customer, it is considered a dedicated facility for CIAC purposes. The*

[4] EB-2012-0459 Exhibit B1 Tab 2 Schedule 1 paragraph 31
[5] EB-2012-0459 Exhibit B1 Tab 2 Schedule 1 paragraph 32
[6] EB-2012-0459 Exhibit B1 Tab 2 Schedule 1 paragraph 7

dominant customer may be required to pay a contribution to result in a project NPV of zero or a PI of 1.0. Contribution amounts are subject to added HST.[7]

- APPrO understands that the economic test used for a new large volume Rate 125 customer includes all the costs required to provide service to the customer, including all of the explicit XHP facility costs as well as other related costs required to provide service to such customers. It is understood that the costs of providing incremental XHP capacity in the XHP system may not be explicitly included in the economic test used for small volume customers.
- The impact of costs upstream of the Enbridge distribution system is treated differently for system sales versus unbundled customers in the economic feasibility tests. The GTA project is intended to allow Enbridge to source gas for system sales customers differently and more competitively. Since Enbridge supplies gas to its system sales customers and the costs of gas is included in the rates, the economic test used to justify the GTA project includes the projected upstream gas cost savings that will result from this project. Since Rate 125 customers are unbundled and buy gas independent of Enbridge, the economic test used to determine the feasibility of a project to service such an unbundled customer excludes all consideration of upstream gas supply benefits. APPrO understands that the GTA Reinforcement Project has a PI of 1.73[8]. This PI is dependent on, among other things, a savings of $1.732 billion that would accrue to small volume system sales customers from transportation savings[9] that are separate and distinct from the Enbridge distribution system and comes from changes to upstream gas supply arrangements. This PI decreases to 1.50[10] when 75% of the transportation savings are included and further reduces to 1.26[11] when only 50% of the transportation savings are included. While the PI test may not be completely linear, there does appear to be approximate 0.25 reduction in PI for each 25% reduction in transportation savings. If this relationship continues then it suggests that the PI for the GTA Reinforcement Project would be approximately 0.75 if all transportation savings were eliminated from the economic test. It therefore appears that the project is not economic for customers that do not enjoy the transportation savings, such as the unbundled Rate 125 customers.

[7] EB-2012-0459 Exhibit B1 Tab 2 Schedule 1 paragraph 13
[8] EB-2012-0451 Exhibit J9.9 page 2 Column 2
[9] EB-2012-0451 Exhibit J9.9 page 2 Footnote 3
[10] EB-2012-0451 Exhibit J9.9 page 2 Column 3
[11] EB-2012-0451 Exhibit J9.9 page 2 Column 4

APPrO Response to Enbridge Interrogatory #5

Issue C.30 Is Enbridge's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to 2014 Fiscal Year rates, appropriate?

Enbridge Reference: Page 14 and 15

Evidence Reference: Exhibit L, Tab 2, Schedule 1, Pgs. 21 and 22.

I.C30.APPrO.EGDI.5

Question: Is it APPrO's understanding that if the proposed projects in the table on page 13 were for customers other than Rate 125 customers that the project design and/or the feasibility test would be carried out differently for those customers versus Rate 125 customers? If this is APPrO's understanding, please explain in detail the basis for the understanding

Response:

As noted in the response to IR #4, we note that APPrO understands that Enbridge does use different parameters to evaluate the PI for new bundled customers coming on line as compared to new Rate 125 customers.