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January 13, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700
2300 Yonge Street
27th floor
Toronto, ON
M4P 1E4

VIA E-Mail
8 **pages**

Dear Ms. Walli:

Re: EB-2012-0459 – EGDI - 2014-2018 Rates Application
VECC Questions for Technical Conference

As per Procedural Order No. 4 we have enclosed the questions of VECC for the Technical Conference beginning on January 16, 2014.

We have also directed a copy to Case Manager, Colin Schuch at colin.schuch@ontarioenergyboard.ca and Senior Legal Counsel, Kristi Sebalj at kristi.sebalj@ontarioenergyboard.ca as well as the interested parties.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: All parties EB 2012-0459

EGDI 2014-2018 Rates Application

EB-2012-0459

VECC Questions for the Technical Conference Beginning 16 January 2014

Issue A1 – Time Estimate 45 minutes

VECC#1

Reference: Exhibit I.A1.EGDI.CME.1, page 4 of 9, filed: 2013-12-18

Preamble: The referenced page states

EGD will only be eligible for a SEIM reward where it can identify concrete efficiency-enhancing projects leading to measureable benefits for customers, and where its overall results exceed the Board-Allowed ROE (which signifies that EGD has found a way to be efficient during the IR term).

a) Please confirm that "measurable benefits for consumers" refers to benefits that are measurable <u>in dollars</u>. If unable to so confirm, please explain.

b) Does EGD contend that if its RoE exceeds the Board-Allowed RoE, then it must be due to EGD finding a way to be efficient during the IR term? Could it also not be due to (i) colder than normal weather, (ii) under-forecasting customer numbers (or throughputs), (iii) over-forecasting cost components, (iv) under-forecasting service revenues, (v) deferring discretionary expenditures, etc?

VECC #2

Reference: Exhibit I.A1.EGDI.CME.1, Attachment 2, filed: 2013-12-18

Preamble: The referenced page states:

Furthermore, the presumption of gaming due to differences in motivations for the company expost (after the rates and IR plan are approved by the Ontario Energy Board ("OEB")) are too simplistic and overlook a key element of the regulatory compact in Ontario: the regulated utility must repeatedly and effectively forever disclose its accounts to the regulator, and that creates significant deterrence to any gaming activities alleged by PEG.

a) Is it EGD's contention that no utility has ever engaged in gaming as referred to in the extract above?

b) Is it EGD's contention that there can never be any gaming by any utility due to the regulatory compact and regulatory disclosure requirements.

VECC #3

Reference: Exhibit I.A1.EGDI.CME.1, Attachment 2, pages 7-8, filed: 2013-12-18

Preamble: The referenced page states:

Under the repeated game environment, the players take into consideration the impact of their current actions on the future actions of other players. Therefore, "credible threats or promises about future behavior can influence current behavior." In a repeated interaction, the players take into consideration the likelihood of detection and punishment, and therefore adjust their current behavior to the best course of action. Dr. Sergui Hart, an economist renowned for his experience with game theory, noted that "the threat of punishment ensures that each player fulfills his part of the plan... since any deviation by a player will make the punishments against him go into effect."

Furthermore, game theory also suggests that repeated interactions, of the kind we see between the Board and regulated entities, can induce and sustain cooperative behavior. In late 1950s, Dr. Robert Aumann was the first to provide an extensive analysis of indefinitely repeated games, and demonstrated how repeated interaction yields cooperative outcomes. In his work, Dr. Aumann showed that cooperation will lead to an equilibrium outcome – in other words, a sustainable working relationship between the players (in this instance, that would be EGD, the Board, and stakeholders). The motivation for cooperation is that players can now threaten to punish any deviation from cooperative play today by refusing to cooperate in the future, because the "short-term gain from defection today is more than outweighed by the reduction in future cooperation."

a) Please clarify whether the phrase "indefinitely repeated games" is intended to mean infinitely repeated games or finitely repeated games where the number of repetitions is unknown, or something else.

b) Please provide the assumptions made with respect to information and uncertainty embedded in the cooperation result that Dr. Aumann showed theoretically.

c) Is EGD familiar with the "tit for tat" strategy introduced by Rapoport in the repeated Prisoners' Dilemma game?

d) Does EGD agree that if both players adopt a "trigger strategy" in a repeated 2-player game that cooperation may not be the outcome?

e) Does EGD assume that the regulatory game is appropriately modeled as a <u>two-player game</u>?

f) Under the current regulatory regime, how could the Board retroactively punish the utility in a current proceeding if it believes that in a previous proceeding the utility gamed the results to its own benefit?

VECC #4

Reference: Exhibit I.A1.EGDI.CME.1, Attachment 2, page 12, Filed: 2013-12-18

Preamble: The referenced page states:

Furthermore, implementation of the IQI mechanism is not simple. According to Ofgem, there were a number of concerns that the IQI itself could lead to unintended consequences, including by way of inappropriately representing management as risk neutral.

a) Is the attitude of EGD management with respect to risk relevant in this proceeding? If so, please elaborate.

VECC #5

Reference: Exhibit A2 Tab 11 Schedule 3 Page 8 of 14, Updated: 2013-12-11

Preamble: The referenced page states:

The amount of the SEIM reward that is available is based on a comparison of EGD's average actual ROE for each year of the IR term compared to the Board-Allowed ROE for each year. The actual ROE to be used will be calculated in the same way as actual ROE is determined for ESM purposes. This SEIM reward (which will operate as a premium on the ROE that applies to rates for the rebasing year and the following year) will be equal to one half of the difference between the average ROE achieved during the IR term and the average Allowed ROE over the term of the plan. If the difference is positive, then that difference would be multiplied by 50%, to create a SEIM reward. The SEIM reward for each of the two years will be capped at a maximum of 50 basis points above the Allowed ROE.

a) Is it correct to say that until the 50 basis point cap on the reward is reached, the reward itself will be based entirely on the difference between the actual RoE and the Board-Approved RoE?

b) Can EGD provide any examples of potential productivity improvements under previous IR/PBR regimes that it did not undertake because the ensuing lower costs would be partially "clawed back" upon rebasing?

VECC #6

Reference: Exhibit I.A1.EGDI.STAFF.4 page 2 of 2, Filed: 2013-12-11

a) Please confirm that for 2000-2012, in each of the 13 years, that the pre-earnings sharing normalized RoE exceeded the Board approved RoE in each year. Does this indicate that EGD found efficiencies in these years?

b) Please confirm that the Board sets rates based on the assumption of normal weather.

c) Please confirm that the actual RoE pre-earnings sharing for EGD exceeded the Board approved in 10 of the 13 years 2000-2012. Does this indicate that EGD found efficiencies in these years?

VECC #7

Reference: Exhibit I.A1.EGDI.SEC.7, page 1 of 3, filed: 2013-12-11

a) With respect to the graph entitled "Historical and Forecast Capital Spending (1994-2016), can EGD confirm that the trend over the first decade (1994-2003) for EGD's actual capital expenditure exhibited a negative trend?

b) Please confirm that over the period 1994-2003 that EGD was growing in terms of both throughput volumes and customer numbers.

VECC #8

Reference: Exhibit I.A1.EGDI.SEC.12 page 1 of 1, filed: 2013-12-11

Preamble: The response to this IR stated that

The negative sign in the tables on page 8 of Exhibit A2, Tab 1, Schedule 2 refer to negative productivity, which means that input quantities grew faster than output quantities.

a) Please confirm that a negative productivity indicates that if the real quantities of all inputs are increased by X%, output would increase by less than X%. If unable to so confirm, please explain.

Issue A2 – Time Estimate 10 minutes

VECC #9

Reference: Exhibit I.A2.EGDI.STAFF.19a), page 1 of 3, filed: 2013-12-11

Preamble: The referenced IR is reproduced below:

Please document and quantify all the "known or highly probable cost increases over the forecast horizons" which Enbridge did not include in its projected OM&A budgets over the 2014-2016 period.

a) Please explain why EGD expects merit increase amounts to more than double from 2014 ($1.2M) to 2016 ($2.5M).

b) Regarding incremental costs to serve new customers, does EGD expect that there will be a net revenue increase associated with these customers over the 2014-2018 term?

VECC #10

Reference: Exhibit I.A2.EGDI.STAFF.20 b), page 1 of 2, filed: 2013-12-11

Preamble: The response to the referenced IR states (in part):

EGD has no plans to substitute capital for labour during the term of its Customized IR plan. The statement …

a) What types of substitution of input factors that would be technologically feasible during the 2014-2018 term are ruled out by this response?

Issue B17 – Time Estimate 5 minutes

VECC #11

Reference: Exhibit I.B17.EGDI.SEC.78, page 2 of 2, filed: 2013-12-11

Preamble: The referenced page states:

The result of Enbridge's internal accounting entries was that, on Enbridge's income statement, earnings were overstated and, on Enbridge's balance sheet, the PGVA amount contained an amount that was incorrect. However, no application was ever *made to the OEB to recover or clear the amounts which were incorrectly recorded in the PGVA.*

a) Can EGD confirm that it will not seek, in the future, file to "recover or clear the amounts which were incorrectly recorded in the PGVA" referred to above?

Issue B18 – Time Estimate 15 minutes

VECC #12

Reference: Exhibit I.B18.EGDI.SEC.110, filed: 2013-12-11

Preamble: The referenced IR asked, in part, EGD to *explain why the alternatives considered did not including replacing the existing 45 year old buildings with one or more new office buildings, either on the same land or in a new location. … Please advise the Applicant's current best estimate as to when VPC will have to be replaced.*

EGD's response included the following:

Replacing the existing 45 year old buildings with one or more new office buildings was considered as an alternative option. However, redevelopment of the Victoria Park Complex ("VPC") site or relocation to a new site is a significant undertaking that is not being planned for in the 5-year IR period.

a) Is redevelopment or relocation not being planned solely or financial reasons?

The response also included that:

Enbridge determined that it was not a realistic alternative at this time.

b) Please elaborate as to why it is not realistic at this time.

The response also included:

Regardless of the timing of plans to replace the office complex at VPC, the existing industrial uses on site (the meter shop and the fleet garage) would have to be relocated as they would not be part of any new office complex either on the existing site at Victoria Park Avenue and Consumers Road or in a new location. The mixed uses at VPC were appropriate at the time the building was opened in 1968, but that is no longer the case - the industrial uses do not need to be part of the office complex. …

c) Even though the industrial needs don't <u>need</u> to be part of the office complex, would there not be potential cost savings for ratepayers if they were part of it?

The response continued:

Regarding the question as to the best estimate of when the VPC office complex will have to be replaced, as evident by the IR filing for the 2014 to 2018 period, there are no plans to replace the VPC office complex before the end of 2018. The budget requirements (currently estimated in the $150 to $175 million range to construct a building of approximately 400,000 square feet) would have to be incorporated into a future rates case filing to seek approval from the OEB before proceeding with a project of this magnitude.

Timing has not been established as to when the VPC office complex will have to be replaced. The existing office building at VPC is in adequate structural condition for its age and most life cycle replacements have been completed; however, there are a number of indicators of functional obsolescence both from internal issues (primarily that the building is at maximum capacity, lack of natural light) and external factors (underutilization of site).

d) Please confirm that there is nothing to stop EGD from applying in its rebasing for the associated cap ex for relocation or redevelopment?

*****END of DOCUMENT*****