

K2

1 capital projects.

2 DR. KAUFMANN: Yes.

3 MR. CASS: Now, would it be your view that Y factors
4 can be structured in a manner to help an applicant get some
5 certainty around the recovery of the costs of large capital
6 projects?

7 DR. KAUFMANN: Yes, I think that's reasonable.

8 MR. CASS: And what about the situation where an
9 applicant comes in for a term, say, of five years, but
10 there really is uncertainty out in the latter years of that
11 term about actually what the large capital projects might
12 need to be.

13 Do you see -- I'm just asking for your comments. Do
14 you see that Y factors can help with that at all?

15 DR. KAUFMANN: Yes, I think so. A Y factor
16 application and mechanism can be implemented in a number of
17 ways, and it can be something like a tracker so that it's
18 designed to track expenditures, more or less every year,
19 subject to a prudence review by the Board.

20 So if there is uncertainty and they can't be predicted
21 in year one, you can still monitor the actual expenditures
22 year-by-year.

23 You can make a prediction, an assessment projection on
24 where they will be in year five, with the understanding
25 there is some uncertainty around that.

26 But then they can be tracked year-by-year, and there
27 could be protocol in place for the company to provide
28 information on the costs, and some sort of information

1 supporting the reasonableness of the costs as the project
2 goes along.

3 So a Y factor can be structured in that way, to allow
4 for uncertainty and yet provide some evidence for the Board
5 to be in a position to still assess the reasonableness of
6 the costs.

7 MR. CASS: That's helpful. And just for absolute
8 clarity to be sure we're talking about the same thing,
9 I'll describe two different situations.

10 An applicant has specific capital, large capital
11 projects that it's aware of and it's can describe to the
12 Board for the purposes of Y factor; that's the one
13 category.

14 And the other category would be, as we've talked
15 about, more uncertainty about capital projects in the
16 latter years of the term of the plan.

17 And if I understood your answer correctly, a Y factory
18 can be structured to cover each of those categories.

19 DR. KAUFMANN: Yes.

20 MR. CASS: I think just one final question. Assuming
21 the evidence is that -- by an applicant, that there are a
22 number of these requirements, assuming the evidence is
23 there, do you see any limitation on the number of
24 Y factors?

25 DR. KAUFMANN: Any limitation?

26 MR. CASS: Yes.

27 DR. KAUFMANN: What do you mean exactly by limitation?

28 MR. CASS: I am just saying that assuming the evidence

1 is there to support a number of Y factors, do you see any
2 principal basis that the number should not be as great as
3 what the evidence would support? Is there any principal
4 basis to say we should not have too many Y factors?

5 DR. KAUFMANN: Well, I think in general you don't -- I
6 think everyone accepts that regulation should not be
7 burdensome for the company or for the commission.

8 So if you make the Y factors too open-ended and too
9 large, then that could create some potential burdens. So I
10 can there being a concern in that respect, but I don't know
11 what the magic number would be. I mean, in general -- you
12 know, I think Y factors would work better if they're
13 applied to relatively targeted, well known project that's
14 are known in advance, because these are supposed to be
15 projects where you know the costs are there, unlike a
16 Z factor.

17 So, you know, I think that makes sense. But that
18 doesn't mean there has to be only one or two. I mean,
19 there could be a number of different things that qualify
20 under that criteria.

21 MR. CASS: Okay. Thank you, Dr. Kaufmann, those are
22 my questions.

23 MS. SEBALJ: Yes.

24 MR. QUINN: Is it appropriate -- I know this isn't a
25 hearing --

26 MS. SEBALJ: I know. I was just going to ask if
27 anyone had anything coming out of that.

28 QUESTIONS BY MR. QUINN:

1 MR. QUINN: Yes, thank you, I do. Dr. Kaufmann,
2 Dwayne Quinn on behalf of FRPO.

3 Mr. Cass was going through with you the -- your
4 understanding of frost heave, which, as an engineer, I
5 think you did a pretty good job of describing, and you
6 correlated to O&M effects and the difference of material of
7 pipe.

8 I thought the question that was going to come out
9 didn't, and I want, for the record, to understand. Have
10 you done any studies, or had any experience with the issue
11 of depth of cover that a utility undertakes because of its
12 known frost conditions; so the extent that northern
13 climates are prone to frost, they may bury their pipe
14 deeper to try to avoid and mitigate some of those risks,
15 whereas a southern utility not exposed to those types of
16 conditions has a shallower depth of cover, and therefore it
17 impacts the capital costs?

18 DR. KAUFMANN: I'm not familiar with any work that --
19 that talks about how deep the pipe is laid in the north
20 versus the south.

21 MR. QUINN: I just wanted to clarify that point,
22 because intuitively, that's where capital costs could have
23 a marginal impact. And yet you don't have experience to,
24 or studies that support that.

25 DR. KAUFMANN: I don't have any information one way or
26 the other.

27 MR. QUINN: Okay, thank you. That's my one question,
28 thank you.

1 MS. SEBALJ: Anybody else have anything for Dr.
2 Kaufmann? All right then. I think we're -- thank you so
3 much.

4 It's quarter to eleven. Do we want to press on, or
5 take the break while we get the next panel up?

6 MR. CASS: It would probably make sense to take the
7 break.

8 MS. SEBALJ: Okay, let's take the morning break until
9 eleven, and move to the next panel, which is model design,
10 the Enbridge panel. Thanks.

11 --- Recess taken at 10:44 a.m.

12 --- On resuming at 11:03 a.m.

13 MS. SEBALJ: All right. Why don't we get started
14 again. Before -- there was a discussion on the break with
15 respect to Undertaking TCU1.5, which was Dr. Kaufmann's
16 undertaking to provide the algorithm related to the RRF,
17 and the result is an amendment to that undertaking. So he
18 will provide the algorithm or access to it, but more
19 precisely, the sample mean values for independent variables
20 and the sample mean for costs. So that's the amendment to
21 that.

22 And unless anyone has anything that's arisen over the
23 break, I'll turn it over to Mr. Cass.

24 MR. CASS: Yes, thank you, Kristi. Before we turn to
25 the panel that has taken their seats in the witness stand,
26 of the questions that were received from other parties,
27 there are isolated ones here and there, a few, for which we
28 don't actually have a witness on any panel, and rather than

1 making the panels even bigger than they are just for
2 isolated questions here and there, I think Andrew can
3 answer some of these questions, and so I'll turn that over
4 to him.

5 MR. MANDYAM: I'm not sure how you'd like me to
6 proceed, but I was going to -- there's five particular
7 questions. The first one is from VECC. It's from a letter
8 and submission dated January 13th. It's VECC number 11.

9 Do you want me to read the question and then read the
10 answer, or state the answer?

11 MS. SEBALJ: I'm just trying to pull up for my
12 purposes. So this is VECC's -- what they provided in
13 answer to the Board's request to let you guys know what
14 they had?

15 MR. MANDYAM: Exactly.

16 MS. SEBALJ: I think similarly then it probably isn't
17 marked as an exhibit, so why don't we find it. So this is
18 dated January 13th, correspondence from VECC in response to
19 Procedural Order No. 4. So why don't we mark that entire
20 document TC1.2.

21 **EXHIBIT NO. TC1.2: CORRESPONDENCE DATED 13 JANUARY**
22 **FROM VECC IN RESPONSE TO PROCEDURAL ORDER NO. 4.**

23 MS. SEBALJ: Go ahead.

24 MR. MANDYAM: Okay. Question 11 on -- there's no page
25 numbers, but it's the second-to-last page in my copy. The
26 question is 11A, and it says:

27 "Can EGD confirm that it will not seek, in the
28 future, file to 'recover or clear the amounts

1 which were incorrectly recorded in the PGVA'
2 referred to above?"

3 And, yes, Enbridge can confirm that we will not be
4 seeking anytime in the future to recover or clear those
5 amounts that were incorrectly recorded. That's the first
6 one.

7 And then the balance of mine are all with the School
8 Energy Coalition submission. So you might want to...

9 MS. SEBALJ: Yeah, that one -- at least I'm sure there
10 was a cover letter, but the document itself is -- has the
11 style of cause at the top, if I'm not mistaken, and it's
12 marked "Technical Conference Questions from the School
13 Energy Coalition", and we'll mark it TC1.3.

14 **EXHIBIT NO. TC1.3: DOCUMENT ENTITLED "TECHNICAL**
15 **CONFERENCE QUESTIONS FROM THE SCHOOL ENERGY COALITION"**

16 MR. MANDYAM: Okay. This isn't an answer, but this is
17 information to everybody around what School Energy
18 Coalition called SEC 3. It pertains to Board Staff.4, page
19 2, and it's a question to "please restate the table
20 including the impacts of correcting the accounting error
21 referred to".

22 Because of vacation schedules and the people that are
23 actually going to produce that, and the complexity of that,
24 we won't be able to get that to everybody before the, I
25 think it's January 23rd undertaking deadline, but we will
26 be able to get that to everybody before ADR starts on
27 January 27th.

28 MS. SEBALJ: Sorry, which one is that, Andrew?

1 MR. MANDYAM: It's SEC-3, first page, third question
2 down.

3 MS. SEBALJ: Okay. So let's mark it as an undertaking
4 then. It will be TCU1.8.

5 **UNDERTAKING NO. TCU1.8: EGDI TO PROVIDE A RESPONSE TO**
6 **SEC TECHNICAL CONFERENCE QUESTION SEC - 3 AND RESTATE**
7 **THE TABLE, INCLUDING CORRECTING THE ACCOUNTING ERROR**
8 **REFERRED TO**

9 MS. GIRVAN: What specific error is it talking about?

10 MR. MANDYAM: It's talking about --

11 MS. GIRVAN: The earnings error? Okay.

12 MR. MANDYAM: Yes. Yes.

13 Okay. The next question where I can give an answer is
14 SEC-33, which is on page 5. Reading it in, it's:

15 "Please confirm that the Applicant is not
16 proposing to use a stakeholder consultation
17 process, similar to that used for the last two
18 customer care settlements, to provide stakeholder
19 input and oversight to the proposed customer care
20 procurement. If confirmed, please advise why."

21 The answer is, we will be. Enbridge will be
22 performing a stakeholder consultation, and it relishes
23 going ahead and doing that, to add emphasis.

24 **QUESTIONS BY MR. SHEPHERD:**

25 MR. SHEPHERD: Can I just follow up on that? You're
26 going to use something similar to the working group the
27 last time, or are you proposing something different?

28 MR. MANDYAM: No, the same working-group approach.

1 MR. SHEPHERD: Okay. Thanks.

2 MR. MANDYAM: That's SEC-33. We're moving to SEC-37,
3 which pertains to an attachment -- page 2 of an attachment
4 that was provided to FRPO number 9, an interrogatory
5 response, and in that presentation, page 2, it showed a
6 declining amount of ombudsman contact numbers from 2010
7 down to 2000 and -- I think it was til 2013.

8 The question pertains to:

9 "Please advise what information the Applicant has
10 on the whether the cause..."

11 Well, let me just read it in my words. Please advise
12 what information the applicant has as to the cause of the
13 declining ombudsman contacts is (sic). And then it lists
14 five particular choices.

15 The answer is actually none of those choices. The
16 answer is the declining balance from total ombudsman
17 contacts from 14,719 in 2010 to a number near proposed or
18 year-to-date in October of 5,373 in 2013. In 2010 that was
19 the effect of our completing the transition to our new CIS
20 system. We had transition -- a higher number of calls
21 during that period, from 2009, when we put it in service,
22 and then going into 2010, and in fact, some of you might
23 remember a budget billing issue that got some -- a little
24 bit of media during that 2010 year, and that's what that
25 spike is. So the rest of it is steady state, business as
26 usual. There's no real decline.

27 MR. SHEPHERD: Okay. Can I just ask then, have you
28 reduced the resources allocated to the ombudsman, in fact,

1 over that period?

2 MR. MANDYAM: I'll have to go check that. I don't
3 believe so, but I will go double-check that answer for you.

4 MR. SHEPHERD: And have there been changes in
5 personnel that could have an impact on the office?

6 MR. MANDYAM: On the office in which way?

7 MR. SHEPHERD: On the office of the ombudsman.

8 MR. MANDYAM: Oh. I don't believe people were changed
9 at --

10 MR. SHEPHERD: Less resources, reduced level of
11 positions, stuff like that.

12 MR. MANDYAM: Oh, I can confirm it. I don't believe
13 we've changed any of that staffing levels in that group for
14 the past five years.

15 MR. SHEPHERD: Similar to what it was five years ago.

16 MR. MANDYAM: Yes.

17 MR. SHEPHERD: Okay. I don't think we need an
18 undertaking for that. He'll tell us if that's not
19 correct.

20 MR. MANDYAM: Next. That's SEC-37. And the last one
21 I have is SEC-46 on page 7:

22 "Please confirm that the Applicant proposes that
23 the Board treat incremental Community Expansion
24 costs, as set forth in the Applicant's future
25 application, as a Y factor."

26 The answer is, it could be a Y factor. But we can't
27 at this time -- we don't even have it defined, our
28 community expansion proposal, to any great degree, where we

1 can say yes to Y factor or no to Y factor. In fact, we
2 don't have a -- we're leaving it open, in essence.

3 MR. SHEPHERD: Okay. So that's why I asked the
4 question, because this is the proceeding in which you are
5 setting your rate structure, the framework for your rates
6 for the next five years, and if it's not a Y factor, then
7 are you then proposing that that next application will be
8 an amendment to this application? And I'm just, I'm asking
9 the technical, procedural question.

10 MR. MANDYAM: Okay. Well, I can't say yes or no to
11 any of that. I don't think it would be an amendment to
12 this particular application, and I'm just trying to --
13 yeah, that would be my answer right now.

14 MR. SHEPHERD: See, I guess what I'm concerned with is
15 that if we finish this proceeding and there's no Y factor,
16 then if you apply for community expansion money, we're
17 going to say, No, sorry, you don't have a Y factor. Go
18 away. And we would be right. So I just want to lay the
19 procedural ground work. Can you perhaps provide us with a
20 more fulsome response to this so that we can --

21 MR. MANDYAM: Yes, I'll take it back -- yes, I'll take
22 it back to the team there, and we'll -- with what you just
23 said.

24 MR. SHEPHERD: Thanks.

25 MR. MANDYAM: Okay.

26 MS. SEBALJ: I think we do need an undertaking for
27 that. It's TCU1.9.

28 MR. SHEPHERD: Thanks.

1 UNDERTAKING NO. TCU1.9: EGDI TO PROVIDE A MORE
2 FULSOME RESPONSE TO SEC TECHNICAL CONFERENCE QUESTION
3 SEC - 46

4 MR. MANDYAM: Okay. Those are the extent of the
5 answers that I have.

6 ENBRIDGE GAS DISTRIBUTION - PANEL 1

7 Ryan Small

8 Ralph Fischer

9 Sagar Kancharla

10 Jim Coyne

11 Julia Frayer

12 MR. CASS: So I assume we're ready to proceed with
13 Enbridge's first panel. Kristi, you've already indicated
14 that Enbridge has sent out the agenda. It describes the
15 panels and the order of the panels, and it gives just a
16 general description of what each panel is addressing. I
17 assume that everybody has that so they will be aware of
18 what the particular panels are addressing.

19 I'll just quickly introduce the people on the first
20 panel and then turn them over for some questions.

21 Sitting furthest away from me is Ryan Small. He is a
22 senior regulatory analyst.

23 Next to Ryan is Ralph Fischer, director, regulatory
24 special projects.

25 Then Sagar Kancharla, director of business
26 performance.

27 Next is Jim Coyne from Concentric.

28 Finally, Julia Frayer from London Economics.

1 That's the panel and they are ready for questions.

2 MS. SEBALJ: I think in terms of order, Board Staff,
3 which, will be Dr. Kaufmann, will start with the questions,
4 unless anyone in the room is jumping at the chance to go
5 first. Thanks.

6 **QUESTIONS BY DR. KAUFMANN:**

7 DR. KAUFMANN: Thank you. I first have just some
8 general questions, and the first one is on CME
9 Interrogatory 1, on page 5 of the response. Is it possible
10 to get this up on the screen? On this page Enbridge, says
11 that:

12 "The risk of adverse consequences in later
13 proceedings resulting from a determination that
14 EGD inflated cost estimates in this proceeding is
15 a real risk..."

16 I was wondering if you can just outline the adverse
17 consequences that Enbridge could potentially experience in
18 later proceedings if it has inflated cost forecasts for the
19 customized IR plan.

20 MR. KANCHARLA: I just got to the exhibit here. Could
21 you repeat the question?

22 DR. KAUFMANN: The question is: Please outline the
23 adverse consequences that Enbridge could potentially
24 experience in later proceedings if it has inflated cost
25 forecasts for the customized IR plan.

26 MR. KANCHARLA: I think what we're referring to here
27 is, because of the forecast costs and if the actual
28 expenditures are higher, whether it is capital expenditure

1 or the operating expenditures, Enbridge is at risk to
2 invest in them but not have an opportunity, a reasonable
3 opportunity, to earn a fair return.

4 DR. KAUFMANN: Okay. The question was for later
5 proceedings. So the statement here is the risk of adverse
6 consequences in later proceedings, so not so much the
7 ability to recover costs in this proceeding, but if -- if
8 the Board would, say, discover at the end of this plan that
9 Enbridge -- if it comes to the conclusion that Enbridge has
10 in fact inflated its cost estimates as the basis for the
11 customized IR plan, there was a claim that the company
12 could be at risk in later proceedings, and this is
13 something that Enbridge is saying here. You are saying
14 there's a risk of adverse consequences in later proceedings
15 resulting from costs -- inflated cost forecast.

16 So that's the question I'm asking: What would happen
17 in later proceedings, concretely?

18 MR. CASS: Dr. Kaufmann, could you point us a little
19 more directly to the wording you're relying on about a risk
20 of adverse consequences? We're just having difficulty
21 getting our eyes on it.

22 DR. KAUFMANN: It's the first full sentence on this
23 page:

24 "The risk of adverse consequences in later
25 proceedings resulting from a determination that
26 EGD inflated cost estimates in this proceeding is
27 a real risk to EGD."

28 MR. KANCHARLA: In terms of the consequences, what

1 we're referring to here is, at the rebasing time, all the
2 costs which are not forecast but incurred by the company,
3 you'd want to do a prudency test in terms of the
4 eligibility of inclusion, for example, on the capital side,
5 inclusion into the rate base. So there is a risk there in
6 the later proceedings on -- if we were to inflate these
7 cost estimates and are not able to prudently prove that
8 these are legitimate costs, that's the risk to the utility
9 at the rebasing time.

10 MS. FRAYER: If I can just add a sentence from my
11 perspective looking into this -- and though it's not a
12 legal perspective, it's a layman's interpretation -- I
13 understand that the Board also has capability to impose
14 sanctions if there is in fact intentional misconduct.

15 DR. KAUFMANN: Okay. But I'm not sure whether that is
16 true or not, or whether --

17 MR. FISCHER: Mr. Kaufmann, of I can maybe add a
18 little bit to what Mr. Kancharla was suggesting? So
19 clearly during the IR term we're at risk for most of the
20 costs that we expect to spend over that five years. And so
21 to the extent that we spend more than that, both on capital
22 and operating but primarily on capital, the risk, I think,
23 that's talked about here is the risk at rebasing, that they
24 would be recovered in the rebasing year.

25 So clearly, during the IR term we're at risk for
26 recovery of those costs, in that we don't earn a return on
27 that until rebasing; but the further risk, I think, that's
28 described here is the risk that those costs are disallowed

1 during the rebasing year as well, that some demonstration
2 of imprudence or something is demonstrated.

3 So that's how I understand this sentence.

4 DR. KAUFMANN: In terms of that latter scenario, if
5 the Board were to find that there was a cost that was
6 inflated and that was recovered in rates during the
7 customized IR plan, and then they said that that activity
8 wasn't prudent and they took that -- they disallowed that
9 cost at rebasing, then that would just be -- wouldn't that
10 be just neutral in the sense that they are just correcting
11 for a mistake, so there wouldn't be really any adverse
12 consequences? It would just be kind of a correction of a
13 mistake; is that correct?

14 MS. FRAYER: I think if you look at the relationship
15 over the long term, one could say there would be adverse
16 consequences in the sense that, from that point on, any
17 other forecast that the company would be providing would be
18 under additional scrutiny. There will be explicit and, I
19 would say, material burdens on the company that may not
20 have otherwise arisen from an actual administration
21 perspective of the regulatory program, because I think
22 there would be -- and not directly just from the Board but
23 I think from all stakeholders, that the company isn't
24 truthful with its forecasts.

25 And that can happen under any type of regime, under an
26 I-minus-X regime with rebasing, or under the customized IR
27 plan regime that's being proposed.

28 DR. KAUFMANN: Okay. I have another related question

1 to this. It's a bit more general, but it's related to the
2 general -- to the same general issue.

3 Given the information presented in the application or
4 the information filed with the Board while the plan is in
5 effect, please explain how the Board will be able to
6 determine whether an observed difference between actual and
7 forecast costs has resulted from inflated cost estimates on
8 the one hand, or efficiencies and cost savings the company
9 has achieved on the other.

10 How will the Board be able to tell the difference?

11 MR. FISCHER: So I think the evidence is clear in our
12 application that the cost estimates that we're making for
13 the next five years, both operating and capital, that we'll
14 be challenged to meet those costs, and so I think what
15 we've done in this application is, through extensive
16 evidence, supported both the O&M and the capital forecasts
17 and, I would suggest, demonstrated that we are in fact
18 challenged by that productivity, we've demonstrated in the
19 applications embedded both in O&M and in capital, and at
20 the end of this proceeding upon OEB approval we would
21 suggest that that would recognize that embedded
22 productivity and that challenge that we expect over the
23 next five years.

24 So to the extent that we are able to find further
25 efficiencies, you know, we're challenged to do that as
26 well, and as you're aware, we have both an earnings sharing
27 mechanism and a sustainable efficiency incentive mechanism,
28 two mechanisms in place that incent the company to find

1 further efficiencies.

2 So what I would suggest, Mr. Kaufmann, is if in fact
3 we are able to, you know, reduce costs, either O&M or
4 capital, beyond what we're applying for in this
5 application, that they are most likely due to us finding
6 further efficiencies and not some mis-forecast over the
7 next five years.

8 DR. KAUFMANN: So the Board would look at what's
9 happening to your actual cost as a way of determining that
10 any gap between actual and forecast cost is in fact
11 associated -- is due to finding efficiencies and not
12 inflating costs at the outset; is that correct?

13 MR. KANCHARLA: Yeah, one of the things we are
14 proposing through our customized IR model is, at the end of
15 each year we are proposing to file a productivity
16 initiatives report. So that report will have the
17 productivity initiatives information at the end of each
18 year.

19 So in addition to what Mr. Fischer has alluded to,
20 this is another piece of information that will be available
21 at the end of each year of the term.

22 MR. SHEPHERD: Okay. I can ask a follow-up question?
23 Can I do it along the way, rather than...

24 Mr. Fischer, it sounds like -- and I'm not trying to
25 put words in your mouth; I'm trying to understand what you
26 are saying. It sounds like what you are saying is that the
27 -- once the Board has approved a revenue requirement over
28 the five years or allowed revenue over the five years, that

1 then it must be presumed that your estimates were correct
2 and that any difference after that must necessarily be due
3 to new efficiency measures, that it's a presumption that is
4 built in. Is that what you are saying?

5 MR. FISCHER: No, I'm not, not exactly. What I am
6 saying is that, you know, the forecast -- whether -- there
7 are forecasts, so they're not going to be correct, they are
8 going to be incorrect. All forecasts are incorrect.

9 What I am saying is that embedded in those forecasts
10 is productivity, and that we make the case that we're going
11 to be challenged to meet those costs over the next five
12 years; and to the extent that we're able to further find
13 reductions in costs, that they would probably most likely
14 be through finding further efficiencies.

15 MR. SHEPHERD: Yes, sorry, I have obviously worded my
16 question inelegantly. What I'm trying to get at is whether
17 you are suggesting that the approval by the Board of the
18 budget then puts the mis-forecast question aside. You
19 can't have overstated your costs, because they have already
20 accepted them. Is that implicit in what you are saying?

21 MR. FISCHER: I think approval from the Board would
22 demonstrate that in fact our cost forecasts, both capital
23 and operating, and O&M, have embedded efficiency in it.
24 That is what approval would demonstrate.

25 MR. SHEPHERD: Thank you.

26 DR. KAUFMANN: Okay. I have a couple questions on
27 Z factors, and the first concerns page 6, the same
28 interrogatory response, page 6. And here the company says

