K10.3

Could EGD please have the Cost of Capital witnesses bring to the hearing room documents containing the following information:

(a) A complete list of debt issues which will be maturing between 2014 and 2018 inclusive, along with details of the extent to which the costs of the currently embedded debt will be reduced as a result of the rollover of those maturing issues during that period, with this year-by-year and cumulative amount to be calculated in two scenarios, namely:

(i) at EGD's forecasts of debt costs, and

(ii) at forecasts for debt costs for each of these maturing issues at rates 100 basis points less than those forecast by EGD.

(b) Please provide a complete list of the incremental financings EGD plans to make in the period 2014 to 2018 inclusive, along with details of the year-by-year and cumulative forecast costs of such new financings in two scenarios, namely:

(i) at debt rates forecast by EGD, and

(ii) at debt rates 100 basis points below the rates forecast by EGD.

(c) Please provide an exhibit which will show the extent to which the revenue requirement in each of the years 2014 to 2018 and cumulatively would be reduced under an assumption that the debt rates EGD has used to forecast costs in determining the revenue requirement for each of those years are 100 basis points too high.

(d) Please provide an exhibit which will show the extent to which the revenue requirement in each of the years 2014 to 2018 and cumulatively would be reduced under an assumption that the costs of equity that EGD has forecast in each of those years are 100 basis points too high.

Response

(a) A table showing details of the debt issues that will be maturing during the 2014 to 2018 term is set out below (Table 1). The table sets out the annual costs of those debt issuances, as well as the effective rates of the debt issuances. Enbridge is not able to provide the requested information about the difference in debt costs resulting from the "rollover" of the maturing debt, because replacement does not happen on a "rollover" basis. For example, the $200 MTN that matured on January 29, 2014 is being replaced in part by debt issuances in late 2013, and in part by the four new debt issuances forecast for September 2014 (all of which have different effective rates). Those September 2014 debt issuances are also being used to fund incremental capital requirements. In the result, it is not possible to specifically identify the change in debt costs specifically associated with the replacement of any one maturing debt issuance.

Table 1

Enbridge Gas Distribution
Summary of Maturing Debt Issuances Between 2014 and 2018

	1 2014	2 2014	3 2017
Principal			
Face value	200,000,000	200,000,000	200,000,000
Issuance date			
Maturity date	29-Jan-14	24-Sep-14	04-Dec-17
Year			
Mths			
Coupon rate	5.57%	5.16%	5.16%
Hedged (Y/N)			
Coupon payments (annual)	11,140,000	10,320,000	10,320,000
All-in Effective rate	**5.66%**	**5.61%**	**5.22%**
Annual cost when fully effective	11,320,000	11,220,000	10,440,000
Avg. of avg. face value in year of maturity	8,333,333	141,666,667	191,666,667
Annual cost in maturity year	471,667	7,947,500	10,005,000
Total Cost of Maturing Debt in 2014	18,859,167		
Total Cost of Maturing Debt in 2015	10,440,000		
Total Cost of Maturing Debt in 2016	10,440,000		
Total Cost of Maturing Debt in 2017	10,005,000		
Total Cost of Maturing Debt in 2018	-		

(b) A table showing details of Enbridge Gas Distribution's forecast new debt issuances during the 2014 to 2018 term is set out on the next page (Table 2). The table sets out the forecast annual and cumulative costs of the new debt issuances. A separate table showing details of what would be the costs of the forecast new debt issuances at debt rates 100 basis points below Enbridge's forecast is set out on the following page (Table 3). Enbridge does not agree that Table 3 presents a reasonable or likely scenario.

Table 2

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Enbridge Gas Distribution
Forecast New Debt Issuances of MTN's

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Principal	1 2014	2 2014	3 2014	4 2014	5 2015	6 2015	7 2015	8 2015	9 2016	10 2017	11 2018
Face value	195,000,000	20,000,000	130,000,000	85,000,000	130,000,000	145,000,000	130,000,000	145,000,000	162,000,000	250,000,000	65,000,000
Issuance date	15-Sep-14	15-Sep-14	15-Sep-14	15-Sep-14	15-Jun-15	15-Oct-15	15-Oct-15	15-Oct-15	15-Sep-16	15-Nov-17	15-Jan-18
Maturity date	15-Sep-24	15-Sep-24	15-Sep-44	15-Sep-44	15-Jun-25	15-Oct-25	15-Oct-45	15-Oct-45	15-Sep-26	15-Nov-27	15-Jan-28
Year	10	10	30	30	10	10	30	30	10	10	10
Mths	120	120	360	360	120	120	360	360	120	120	120
Coupon rate	3.80%	3.90%	4.30%	4.70%	4.30%	5.00%	4.60%	5.60%	4.60%	5.80%	5.80%
Hedged (Y/N)	Y	N	Y	N	Y	N	Y	N	Y	N	N
Coupon payments (annual)	7,410,000	780,000	5,590,000	3,995,000	5,590,000	7,250,000	5,980,000	8,120,000	7,452,000	14,500,000	3,770,000
Issue costs											
Dealer commissions	780,000	80,000	650,000	425,000	520,000	580,000	650,000	725,000	648,000	1,000,000	260,000
Rating Agency Fees	76,794	7,876	51,196	33,474	41,012	45,744	41,012	45,744	163,688	163,688	163,688
Legal & Filing fee costs	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
	931,794	162,876	776,196	533,474	636,012	700,744	766,012	845,744	886,688	1,238,688	498,688
Amortization (mth)	7,765	1,357	2,156	1,482	5,300	5,840	2,128	2,349	7,389	10,322	4,156
Amortization (annual)	93,179	16,288	25,873	17,782	63,601	70,074	25,534	28,191	88,669	123,869	49,869
All-in Effective rate	**3.85%**	**3.98%**	**4.32%**	**4.72%**	**4.35%**	**5.05%**	**4.62%**	**5.62%**	**4.65%**	**5.85%**	**5.88%**
Annual cost once fully effective	7,503,179	796,288	5,615,873	4,012,782	5,653,601	7,320,074	6,005,534	8,148,191	7,540,669	14,623,869	3,819,869
Avg. of avg. face value in year of issue	56,875,000	5,833,333	37,916,667	24,791,667	70,416,667	30,208,333	27,083,333	30,208,333	47,250,000	31,250,000	62,291,667
Annual cost in issue year	2,188,427	232,251	1,637,963	1,170,395	3,062,367	1,525,015	1,251,153	1,697,540	2,199,362	1,827,984	3,660,708

Total Cost of Forecast New Debt in 2014	5,229,036
Total Cost of Forecast New Debt in 2015	25,464,197
Total Cost of Forecast New Debt in 2016	47,254,884
Total Cost of Forecast New Debt in 2017	54,424,175
Total Cost of Forecast New Debt in 2018	70,880,768
	203,253,060

Table 3

Enbridge Gas Distribution
Forecast New Debt Issuances of MTN's Assuming a 100 Basis Point Reduction

	1	2	3	4	5	6	7	8	9	10	11
Principal	2014	2014	2014	2014	2015	2015	2015	2015	2016	2017	2018
Face value	195,000,000	20,000,000	130,000,000	85,000,000	130,000,000	145,000,000	130,000,000	145,000,000	162,000,000	250,000,000	65,000,000
Issuance date	15-Sep-14	15-Sep-14	15-Sep-14	15-Sep-14	15-Jun-15	15-Oct-15	15-Oct-15	15-Oct-15	15-Sep-16	15-Nov-17	15-Jan-18
Maturity date	15-Sep-24	15-Sep-24	15-Sep-44	15-Sep-44	15-Jun-25	15-Oct-25	15-Oct-45	15-Oct-45	15-Sep-26	15-Nov-27	15-Jan-28
Year	10	10	30	30	10	10	30	30	10	10	10
Mths	120	120	360	360	120	120	360	360	120	120	120
As Filed All-in Effective rate	**3.85%**	**3.98%**	**4.32%**	**4.72%**	**4.35%**	**5.05%**	**4.62%**	**5.62%**	**4.65%**	**5.85%**	**5.88%**
Less 100 Basis Points	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**
Adjusted All-in Effective rate	**2.85%**	**2.98%**	**3.32%**	**3.72%**	**3.35%**	**4.05%**	**3.62%**	**4.62%**	**3.65%**	**4.85%**	**4.88%**
Annual cost once fully effective	5,553,179	596,288	4,315,873	3,162,782	4,353,601	5,870,074	4,705,534	6,698,191	5,920,669	12,123,869	3,169,869
Avg. of avg. face value in year of issue	56,875,000	5,833,333	37,916,667	24,791,667	70,416,667	30,208,333	27,083,333	30,208,333	47,250,000	31,250,000	62,291,667
Annual cost in issue year	1,619,677	173,917	1,258,796	922,478	2,358,201	1,222,932	980,320	1,395,457	1,726,862	1,515,484	3,037,791

Total Cost of Forecast New Debt in 2014	3,974,868
Total Cost of Forecast New Debt in 2015	19,585,032
Total Cost of Forecast New Debt in 2016	36,982,384
Total Cost of Forecast New Debt in 2017	42,691,675
Total Cost of Forecast New Debt in 2018	56,337,851
	159,571,810

(c) Enbridge is not prepared to provide the requested information, for two reasons. First, Enbridge does not believe that the proposed scenario, where all debt rates are reduced by 100 basis points, is a realistic scenario. A large portion of Enbridge's embedded debt will continue through the 2014 to 2018 term. As seen in Table 1, the maturing debt issuances during the Customized IR term total $600 million. This represents only 25% of the existing long term debt as of 2013 (see Exhibit E1, Tab 1, Schedule 1, page 1). Given that the debt rates for the existing issuances are fixed and will not change during the IR term, it is not realistic to assume that the overall cost of debt could go down by 100 basis points. In any event, the requested calculation would take many hours to complete, and Enbridge would not be able to complete the task in the short time available.

(d) A table showing the impact upon Allowed Revenue of reducing the forecast level of ROE by 100 basis points for each year of the Customized IR term set out on the following page (Table 4). Again, Enbridge does not agree that Table 4 presents a reasonable or likely scenario.

Table 4

ALLOWED REVENUE
AND SUFFICIENCY / (DEFICIENCY) ASSUMING AS FILED ROE'S LESS 100 BASIS POINTS
2014 - 2018 FISCAL YEARS

Line No.		Col. 1 2014 EGD Total	Col. 2 2015 EGD Total	Col. 3 2016 EGD Total	Col. 4 2017 EGD Total	Col. 5 2018 EGD Total	
		($Millions)	($Millions)	($Millions)	($Millions)	($Millions)	
	Cost of Capital						
1.	Rate base	4,431.6	4,797.6	5,524.4	5,736.6	5,906.1	
2.	Required rate of return	6.39%	6.54%	6.66%	6.68%	6.75%	
3.		283.2	313.7	367.9	383.2	398.7	
	Cost of Service						
4.	Gas costs	1,455.9	1,606.8	1,632.5	1,632.5	1,632.5	
5.	Operation and maintenance	425.3	428.5	439.5	450.5	461.8	
6.	Depreciation and amortization	262.8	276.6	303.9	313.4	322.1	
7.	Fixed financing costs	1.9	1.9	1.9	1.9	1.9	
8.	Municipal and other taxes	41.2	43.1	45.5	47.9	50.4	
9.		2,187.1	2,356.9	2,423.3	2,446.2	2,468.7	
	Miscellaneous operating and non operating revenue						
10.	Other operating revenue	(40.5)	(40.9)	(41.2)	(41.2)	(41.2)	
11.	Other income	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
12.		(40.6)	(41.0)	(41.3)	(41.3)	(41.3)	
	Income taxes on earnings						
13.	Excluding tax shield	73.0	56.3	52.9	58.8	67.9	
14.	Tax shield provided by interest expense	(39.5)	(42.5)	(48.4)	(50.2)	(52.1)	
15.		33.5	13.8	4.5	8.6	15.8	
	Taxes on sufficiency / (deficiency)						
16.	Gross sufficiency / (deficiency) - with CIS/CC	56.5	2.7	(79.5)	(119.7)	(163.2)	
17.	Net sufficiency / (deficiency) - with CIS/CC	41.6	1.9	(58.4)	(88.0)	(120.0)	
18.		(15.0)	(0.7)	21.1	31.7	43.3	
19.	Sub-total Allowed Revenue	2,448.2	2,642.7	2,775.5	2,828.4	2,885.2	
20.	Customer Care Rate Smoothing Var. Adj.	(2.9)	(1.1)	0.8	2.9	5.0	
21.	**Allowed Revenue**	2,445.3	2,641.6	2,776.3	2,831.3	2,890.2	
	Revenue at existing Rates						
22.	Gas sales	2,253.5	2,404.3	2,464.5	2,480.3	2,496.2	
23.	Transportation service	242.8	229.6	217.1	211.1	205.0	
24.	Transmission, compression and storage	1.8	1.8	1.8	1.8	1.8	
25.	Rounding adjustment	(0.2)	0.1	0.1	-	0.3	
26.	Total	2,497.9	2,635.8	2,683.5	2,693.2	2,703.3	
27.	**Gross revenue sufficiency / (deficiency)**	52.6	(5.8)	(92.8)	(138.1)	(186.9)	(371.0)
28.	**As filed gross revenue sufficiency / (deficiency)**	31.2	(29.1)	(119.7)	(166.1)	(215.7)	(499.4)