CME INTERROGATORY #19

INTERROGATORY

Reference: Exhibit E1, Tab 1, Table 3
Exhibit E1, Tab 3, Schedule 1, Table 1

The total of EGD's debt and preference capital outstanding for 2015 of $3,372.7 M exceeds the company's level of debt for rate-making purposes by $229.4 M. This strongly suggests that, for 2015, EGD will actually be operating under the auspices of an equity ratio less than 36%. Please provide the following information:

(a) Confirm that deducting the excess long-term debt of $229.4 M from the common equity of $1,768.1 M produces an equity ratio of 31.33%.

(b) Please provide a calculation of the extent to which the 2015 gross revenue sufficiency of $47.9 M shown in Exhibit E2, Tab 1, Schedule 1, page 1 at line 14 reduces under the following capital structure for EGD

Long-term debt	66.63%
Preference shares	2.04%
Common equity	31.33%
Total	100.00%

(c) Please provide a calculation of the extent to which the 2015 gross revenue deficiency decreases under the following capital structure for EGD:

Long-term debt	61.96%	(cost at 4.88%)
Preference shares	2.04%	
Common equity	36.00%	
Total	100.00%	

Witnesses: R. Craddock
R. Small

RESPONSE

a) EGD's Undertakings to the Lieutenant Governor in Council for the Province of Ontario (December 9, 1998) require the Company to maintain a common equity level commensurate with the percentage level determined to be appropriate by the Ontario Energy Board ("Board"). The Board has determined that the appropriate equity level for EGD is 36% (confirmed within the EB-2011-0354 Decision on Equity Ratio and Order, dated February 7, 2013). Where the Company's level of equity falls below that level, then Enbridge must provide additional equity capital to restore the level of equity to that level within 90 days (see Enbridge's Undertakings at Article 3.1). The Company complies on an ongoing basis with this requirement. Therefore, on an actual basis, the Company has provided equity capital equal to maintain a 36% equity ratio.

   In response to the question asked, it is confirmed that a simple mathematical calculation which credits the negative short term debt forecast of $229.4M against common equity would suggest a common equity ratio of 31.3%. However, as explained above, this is not a credible scenario because EGD is currently required to and does comply with maintaining an equity ratio of 36%.

b) As this is not a credible scenario, EGD respectfully declines to provide a response. See response to part a).

c) Exhibit E2, Tab 1, Schedule 1, page 1 is reproduced below under the parameters requested, namely that negative short-term debt is removed and replaced by a corresponding reduction in the long-term debt component of capital structure, but with no impact to the long-term debt cost rate. As seen below, under these parameters the 2015 Test Year gross revenue deficiency would become $40.2 million, a decline of $7.7 million in comparison to the requested $47.9 million. The Company does not believe that the requested calculation is appropriate, as discussed in greater detail in response to Energy Probe Interrogatory #11(b) at Exhibit I.E1.EGDI.EP.11.

COST OF CAPITAL
2015 UPDATED FORECAST
ASSUMING NEGATIVE SHORT-TERM DEBT IS REPLACED BY A REDUCTION IN LONG-TERM DEB

		Col. 1	Col. 2	Col. 3	Col. 4
Line No.		Principal Excl. CC/CIS	Component	Cost Rate	Return Component
		($Millions)	%	%	%
1.	Long and Medium-Term Debt	3,043.3	61.96	4.88	3.024
2.	Short-Term Debt	0.0	0.00	1.52	0.000
3.		3,043.3	61.96		3.024
4.	Preference Shares	100.0	2.04	2.60	0.053
5.	Common Equity	1,768.1	36.00	9.30	3.348
6.		4,911.4	100.00		6.425
7.	Rate Base	($Millions)			4,911.4
8.	Utility Income	($Millions)			288.9
9.	Indicated Rate of Return				5.882
10.	Deficiency in Rate of Return				(0.543)
11.	Net Deficiency	($Millions)			(26.7)
12.	Gross Deficiency	($Millions)	(other than CC - CIS)		(36.3)
13.	Customer Care/CIS Deficiency	($Millions)	($118.0 vs $114.1)		(3.9)
14.	Total Gross Revenue Deficiency	($Millions)			(40.2)
15.	Revenue at Existing Rates	($Millions)			2,676.2
16.	Allowed Revenue	($Millions)			2,716.4
17.	Gross Revenue Deficiency	($Millions)			(40.2)
	Common Equity				
18.	Allowed Rate of Return				9.300
19.	Earnings on Common Equity				7.792
20.	Deficiency in Common Equity Return				(1.508)

Witnesses: R. Craddock
R. Small

ENERGY PROBE INTERROGATORY #11

INTERROGATORY

Ref: Exhibit E1, Tab 3, Schedule 1

a) Please show the result cost of debt summary shown in Table 1 assuming that Enbridge did not issue either of the two long term debt issuances shown in Table 2.

b) Given that the forecasted long term debt and preferred shares total 68.67% which is well in excess of approved level of 64%, resulting in negative short-term debt of $229.4 million, please explain why Enbridge believes it requires additional long term debt in 2015.

RESPONSE

a) Table 1 from Exhibit E1, Tab 3, Schedule 1, has been reproduced below under the assumption that the forecast 2015 long term debt issuances are removed.

TABLE 1
COST OF DEBT SUMMARY

Line No.		2015 Test Year (excluding CIS) Principal	Component	Cost Rate	Return	Return
		($Millions)	%	%	%	($Millions)
1.	Long-term debt	3,098.6	63.09%	4.91%	3.098%	152.1
2.	Short-term debt	(55.3)	-1.13%	1.52%	-0.017%	(0.8)
3.	Preferred shares	100.0	2.04%	2.60%	0.053%	2.6
4.	Total	3,143.3	64.00%		3.134%	153.9

b) EGD requires additional long-term debt in 2015 to finance its growing rate base and the expected completion, or near completion, of the GTA and WAMS projects.

While EGD's as-filed capital structure for 2015 shows what appears to be an excess amount of long-term debt and a corresponding lack of short-term debt, the context

Witnesses: R. Craddock
R. Small

for this is important to understand. Essentially, as explained below, $300 million of EGD's long-term debt could be more appropriately treated as short-term debt necessary to fund forecasted elevated working capital requirements.

During 2014, EGD issued $730 million in long-term debt, as shown in Lines 16, 17, and 18 of Exhibit E2, Tab 1, Schedule 2, which is an overage of $300 million in comparison to the $430 million forecast issuances included within the EB-2012-0459 approved 2014 capital structure. The incremental $300 million, as shown at Line 16 of Exhibit E2, Tab 1, Schedule 2, was a 3 year note issued in April of 2014. The 3 year note has an effective cost rate of 1.965%, which is in line with the Company's overall short-term debt rate of 1.52% (and is very different from the average cost of long-term debt, which is 4.88% after including the impact of this relatively inexpensive 3 year note). The primary reason for the incremental issuance was actual and forecast elevated working capital requirements, predominantly related to funding WIP related to the GTA and WAMS projects, which are not included within rate base until they are put into service. The elevated working capital requirements were anticipated to continue through 2014, 2015 and into 2016, until the GTA and WAMS projects were put into service. Working capital requirements are typically funded through the Company's short-term credit facility, formerly set at $700 million.

In anticipation of having elevated and growing working capital requirements for an extended period of time, particularly related to the GTA and WAMS projects which are forecast to cost between $700 and $800 million, the Company determined that the existing $700 million credit facility would be placed under pressure to provide the Company with an adequate level of liquidity.

To address near term liquidity requirements, various options to prudently increase liquidity were considered in the development of the 2014 Financing Plan. Based on the market conditions at the time, it was determined that the shorter term note could be issued at a rate comparable to the Company's existing short-term credit facility, and for a term generally consistent with the anticipated period of elevated working capital requirements.

During 2014, the need for additional working capital was also exacerbated by the extremely cold and prolonged winter, which required significant gas purchases at elevated prices (prices in excess of what was included in rates). The need to finance additional gas purchases caused the Company to increase its short-term credit facilities, in addition to the incremental $300 million 3 year note which had already been issued.

With this context, it can be seen that the incremental $300 million issuance from 2014 does not displace any of the previously forecast $600 million in long-term debt

forecast to be issued in 2015. The incremental 2015 issuances are required to free-up and replace short-term financing in conjunction with the actual rate base growth, and the expected completion, or near completion of the GTA and WAMS projects. It is possible that in 2016 or 2017, as working capital requirements decline to more historic levels the planned issuances of long-term debt may be delayed or lower than projected.

Within Enbridge's filing, the $300 million incremental issuance from 2014 was categorized as long-term debt. This was done in order to match the Company's external financial reporting, which includes the $300 million issuance as part of long-term debt. However, if there is a concern about EGD having negative short term debt in 2015, then a solution is for the incremental $300 million issuance from 2014 to be re-categorized as short-term debt. That would be consistent with the attributes of and underlying purpose for that debt issuance. The incremental $300 million issuance is for a much shorter term than any of the Company's other term debt (3 years versus 10 and 30 years), and has a much lower cost rate than longer term debt (1.965% versus an average of more than 4.8%). It needs to be noted, though, that the low rate associated with this issuance (1.965%) has the effect of lowering the Company's average overall cost rate of long-term debt. If the incremental $300 million issuance was grouped with the rest of the Company's short-term debt, the effect would be to increase the average long-term debt cost rate (and there would also be a modest increase in the short-term debt cost rate). In the result, the Company's overall cost of debt and gross deficiency for 2015 would decline by approximately $1 million in comparison to the as filed amounts.

Witnesses: R. Craddock
R. Small

ENERGY PROBE INTERROGATORY #12

INTERROGATORY

Ref: Exhibit E1, Tab 3, Schedule 1

a) Please explain how the short-term debt rate of 1.52% shown in Table 1 has been forecast, including the timing of the forecast.

b) Please explain how the preferred shares rate of 2.60% shown in Table 1 has been forecast, including the timing of the forecast.

c) Based on the most recent information available, what would the forecast for the short-term debt rate and preferred shares debt be?

d) When was the forecast of the long term debt rates shown in Table 2 done?

e) Please update Table 2 to reflect the most recent forecasts available.

RESPONSE

a) The short-term debt rate of 1.52% is an average of forecast short term rates (1.50%) and outstanding short term hedges (1.54%). Forecast short term rates are an average of forecasts provided by 13 financial institutions. The forecasts were provided in October 2014.

b) The preference share rate is calculated as 80% of prime rate which was forecast to be 3.3% for 2015 based on forecasts provided by financial institutions. The forecasts were provided in October 2014.

c) Based on a February 2015 forecast, the short-term debt rate and preference share rate would be 1.32% and 2.20%, respectively. As to the appropriateness of updating forecasts, please see the response to VECC Interrogatory #14 at Exhibit I.E1.EGDI.VECC.14, part b).

d) The forecast of long term debt rates is based on forecasts received in July 2014.

e) See response to VECC Interrogatory #14 at Exhibit I.E1.EGDI.VECC.14, part b).

Witnesses: R. Craddock
R. Small

ENERGY PROBE INTERROGATORY #13

INTERROGATORY

Ref: Exhibit E1, Tab 3, Schedule 1 &
Exhibit E2, Tab 1, Schedule 2

a) Please show the mapping of each of the 2 issuances shown in Table 2 of Exhibit E1, Tab 3, Schedule 1 with the corresponding amounts associated with these issuances in the table in Exhibit E2, Tab 1, Schedule 2.

b) If the issuances identified in part (a) above include lines 19 through 22 in the table in Exhibit E2, Tab 1, Schedule 2, please explain the different rates for the two debt instruments with a September 15, 2025 maturity date and the different rates for the two debt instruments with a September 15, 2045 maturity date.

c) Please show how the rates (coupon rates and effective rates) for the two issuances shown in Table 2 match the figures for the loans shown in the table in Exhibit E2, Tab 1, Schedule 2.

RESPONSE

a – c) Please see the response to Board Staff interrogatory #20 (I.E2.EGDI.STAFF.20).

Witnesses: R. Craddock
R. Small

BOARD STAFF INTERROGATORY #19

INTERROGATORY

Cost of Debt

Ref: ExE1/T3/S1/Table 1

Table 1 shows that the 2015 cost of debt includes a negative principal amount for short-term debt ($229.4 million) at a cost rate of 1.52%. The Board's August 22, 2014 Decision and Rate Order noted at Appendix E that the annual updates would include information on the actual amounts and rates associated with any debt issued in the prior year.

Is Enbridge aware of any previous test year having a negative short-term debt? If so, what was the regulatory treatment of the debt and how does that compare with the proposed treatment for 2015?

RESPONSE

EGD is aware of two rate applications where negative short-term debt was included within the test year results. The situations in each of those cases were different from the present circumstances where EGD has included a significant debt issuance within long-term debt that is effectively a short-term debt instrument (for details in that regard, please see the response to Energy Probe Interrogatory #11(b) at Exhibit I.E1.EGDI.EP.11).

Within EGD's 2013 Test Year rate application, EB-2011-0354, the Company's pre-filed evidence contained negative short-term debt for the test year. The negative short-term debt was the result of the Company's proposal to increase its equity thickness from 36% to 42%. Ultimately, the Board did not approve the increase in equity thickness and the resultant capital structure did not include negative short-term debt.

Within EGD's 2000 Test Year rate application, RP-1999-0001, the Company's updated evidence contained negative short-term debt for the test year. The negative short-term debt resulted from a level of embedded long-term debt that was not in balance with the updated rate base that was reduced to reflect the transfer of ancillary (rental program) assets to an unregulated affiliate. In the circumstances of that case which addressed the removal of ancillary businesses from the regulated utility, the Board decided that negative short-term debt was not appropriate and deemed a short-term debt component of zero.

Witnesses: R. Craddock
R. Small

VECC INTERROGATORY #14

INTERROGATORY

Reference: E1/T3/S1/Table 2/pg.2

a) Please explain what the “Canada Yield” figures of 2.91% and 3.18% are (e.g. term) and reference the source of these figures.
b) Please update Table 2 for the Bank of Canada’s most recent figures.
c) Please explain how the Corporate Spread figures were derived.
d) Please update the expected issuance date if it is now different from September 15, 2015 as shown in Table 2

RESPONSE

a) The Canada Yield figures of 2.91% and 3.18% are the rates for 10 year and 30 year term debt issuances, respectively. The Canada Yield for a portion of both the 10 year issuance and 30 year issuance has been hedged. The following tables detail the calculation:

10 Year Term	Amount ($MM)	Canada Yield
Unhedged	170	3.30%
Hedged	130	2.40%
	300	2.91%

30 Year Term	Amount ($MM)	Canada Yield
Unhedged	170	3.70%
Hedged	130	2.50%
	300	3.18%

The unhedged Canada Yield figures represent an average of forecasts obtained from 13 financial institutions.

b) Table 2 Updated for February 2015 Forecasts follows:

Item No.	Amount ($MM)	Issue Date	Term (Yrs)	Canada Yield	Corporate Spread	Coupon	Amortized Issue Costs	Effective Cost
1	300	15-Sep-15	10	2.12%	1.20%	3.32%	0.05%	3.37%
2	300	15-Sep-15	30	2.39%	1.55%	3.94%	0.02%	3.96%

While the figures set out above are the most recent available information, selectively updating the forecasts and costs within this rate adjustment application is not

Witnesses: R. Craddock
R. Small

considered to be appropriate. The general approach used for the Company's rate adjustment applications is to use the then-current information from the time that the application is prepared.

c) The Corporate Spread figures represent the mean reversion of weekly indicative corporate spreads for the previous two years. The indicative corporate spreads are prepared by seven financial institutions.

d) The Company continues to target September 15, 2015 as the issuance date.

Witnesses: R. Craddock
R. Small

BOARD STAFF INTERROGATORY #20

INTERROGATORY

Cost of Debt

Ref: ExE2/T1/S2

On the table, lines 19, 20, 21 and 22 relate to debt issuances maturing on September 15, 2025 and September 15, 2045. The table shows 4 different coupon rates.

a. How do these debt issuances relate to the two $300 million debt issuances on September 15, 2015 listed on Table 2 (E1/T3/S1) with coupon rates of 4.01% and 4.48% respectively?

b. Why are the coupon rates in the 2 tables different?

RESPONSE

a & b) The debt issuances shown at the referenced lines of Exhibit E2, Tab 1, Schedule 2 represent the two $300 million debt issuances listed on Table 2 of Exhibit E1, Tab 3, Schedule 1. At Lines 19 and 20 of Exhibit E2, Tab 1, Schedule 2, the hedged and unhedged amounts and forecast cost rates for the $300 million, 10 year issuance have been shown separately, whereas Item Number 1 within Table 2 of Exhibit E1, Tab 3, Schedule 1, shows the combined weighted average of the hedged and unhedged components of the issuance. Similarly, at Lines 21 and 22 of Exhibit E2, Tab 1, Schedule 2, the hedged and unhedged amounts and forecast cost rates of the $300 million, 30 year issuance have been shown separately, whereas Item Number 2 within Table 2 of Exhibit E1, Tab 3, Schedule 1, shows the combined weighted average of the hedged and unhedged components of the issuance. The following table summarizes the amounts shown in each exhibit.

Witness: R. Small

2015 FORECAST DEBT ISSUANCES

Line No.	Principal Amount ($Millions)	Issue Date	Term (Yrs)	Hedged	2015 Avg. of Monthly Avg's ($Millions)	Coupon Rate	Effective Rate	Evidence Reference
1.	130	15-Sep-15	10	Y	37.9	3.500%	3.551%	E2.T1.S2.pg1.line 19
2.	170	15-Sep-15	10	N	49.6	4.400%	4.449%	E2.T1.S2.pg1.line 20
3.	300					4.010%	4.060%	Weighted average at E1.T3.S1.Table 2.Item 1
4.	130	15-Sep-15	30	Y	37.9	3.900%	3.920%	E2.T1.S2.pg1.line 21
5.	170	15-Sep-15	30	N	49.6	5.100%	5.120%	E2.T1.S2.pg1.line 22
6.	300					4.580%	4.600%	Weighted average at E1.T3.S1.Table 2.Item 2

BOARD STAFF INTERROGATORY #21

INTERROGATORY

Cost of Debt

Ref: ExE2/T1/S3

This table shows the “Unamortized Debt Discount Expense” by month for the test year.

Please explain what this amount represents and how it is factored into the overall cost of debt?

RESPONSE

Unamortized debt discount and expense represents the unamortized balance of costs or proceeds incurred in relation to the issuance of long and medium-term debt, which is amortized over the life of the related debt issuance. Debt issuance costs include issuance premiums and discounts, hedge/swap proceeds and costs, dealer commissions, rating agency fees, and legal and filing fees. Issuance costs combined with the coupon interest payments result in the effective cost rates for each of the outstanding debt instruments, which could be higher or lower than the coupon rate, as reflected in Exhibit E2, Tab 1, Schedule 2. The unamortized debt discount and expense balance is netted against the outstanding long and medium-term debt principal balance, as shown in Exhibit E2, Tab 1, Schedule 1, page 2, to reflect the net financing proceeds available from the debt issuances.

Witness: R. Small