ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)
RESPONSES TO INTERROGATORIES OF BOARD STAFF

INTERROGATORY #1

Ref: Evidence of Enbridge Gas Distribution, Page 3, Point No. 9 and evidence of Union Gas Limited EB-2016-0004, Pages 13 and 14

With respect to requirements in the EBO 188 economic assessment, Union Gas Limited (Union) has proposed that a maximum 40 year term (in place of 20) be used for heat and water heating load for commercial and industrial customers. Similarly, Union has proposed that the maximum customer forecast period be extended from 10 to 25 years. Does Enbridge Gas Distribution Inc. (Enbridge) agree with Union's proposed changes?

RESPONSE

Although Enbridge has not suggested the two changes to the EBO 188 Guidelines proposed by Union Gas Limited, Enbridge would be in agreement with these changes.

ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)
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INTERROGATORY #2

Ref: Evidence of Enbridge Gas Distribution, Pages 4-5, Para. 14 and 15

In its evidence, Enbridge has commented:

> It is somewhat ironic that a proposal has been made that would result in more natural gas utilities at the same time the province is promoting the consolidation of energy distributors in the electricity sector.

a) Is it the opinion of Enbridge that the Ontario Energy Board (OEB) should only approve applications from the incumbent utilities for community expansion projects and not approve the applications of new entrants?

b) Enbridge further notes that more regulated utilities would increase the level of effort and cost required to regulate them. Is Enbridge of the opinion that the OEB should not permit new entrants as it would increase the regulatory burden?

RESPONSE

a) No.

b) Enbridge is of the view that one of the many implications that the Ontario Energy Board should take into account when considering permitting new gas distributors to operate in the Province is the increase in the regulatory burden that this would entail.

ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)
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INTERROGATORY #3

Ref: Evidence of Enbridge Gas Distribution, Page 17, Para. 50

Enbridge has indicated that it has identified a subset of communities where gas service could be more economically provided through the utilization of Liquefied Natural Gas (LNG) as an alternative to transmission.

Did Enbridge consider the carbon footprint of transporting the LNG from the liquefaction facility to the distribution network in its determination of providing transmission services using LNG?

RESPONSE

Yes, Enbridge considered the carbon footprint of transporting LNG from the production facility to the community in two ways.

First, the transportation industry is not “covered” by cap and trade, however fuel distributors are. The latter will collect what is essentially a carbon tax at the pump. As a result, any diesel trucks that would be used to haul LNG would pay an additional $0.05/L and any natural gas fueled trucks would pay slightly less than that. These costs have been accounted for in Enbridge’s trucking cost estimates.

Second, given the fuel switching from more carbon intense fuels in these communities to cleaner natural gas, there will be a reduction in GHG emissions from these communities. Given the relatively little amount of fuel required to truck LNG compared to the amount of displaced carbon intense fuels, there will still be a significant net reduction in GHG emissions.

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INTERROGATORY #4

Ref: Evidence of Enbridge Gas Distribution, Pages 20-21, Para. 59, (a) to (e), and Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 9, Paras 22

Enbridge has provided the elements of its proposal in paragraph 59 which is similar to the Union proposal outlined in EB-2015-0179. EPCOR in its evidence has noted that Summit Natural Gas of Maine offered innovative approaches to expand into previously unserved areas including accepting a rate of return that was below industry standards for the initial years of the tariff plan.

Would Enbridge consider accepting a return on equity that is lower than the OEB approved Return on Equity to expand into the new communities? If no, why not?

RESPONSE

Please see the Company's response to Board Staff interrogatory #11 at Exhibit S3.EGDI.BSTAFF.11.

ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)
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INTERROGATORY #5

Ref: Evidence of Enbridge Gas Distribution, Pages 21-22, Para. 61 and 62 and Union Gas Limited Evidence in EB-2015-0179, Page 18

Enbridge has proposed a System Expansion Surcharge (SES) which is similar to the Temporary Expansion Surcharge (TES) proposed by Union in EB-2015-0179. Union in its evidence noted that the TES would only apply to general service customers and not contract customers. Enbridge in its evidence has indicated that the surcharge would apply to all customers until the project achieves a Profitability Index (PI) of 1.0.

a) Please confirm that Enbridge's proposal would apply to all customers including contract customers.

b) Does Enbridge propose a maximum monthly or annual surcharge for contract customers or would it be a straight volumetric charge irrespective of the amount?

RESPONSE

a) Confirmed.

b) The Enbridge proposal does not provide for a limit to or a maximum monthly or annual surcharge for contract customers.

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INTERROGATORY #6

Ref: Evidence of Enbridge Gas Distribution, Pages 21-22, Para. 61 and 62 and Union Gas Limited Evidence in EB-2015-0179, Pages 19-21

Enbridge has proposed that the SES would be paid by all customers in the new communities for up to 40 years or until the project has achieved a PI of 1.0. Enbridge has proposed a surcharge of 0.23/m3 which is the same as Union in its application. However, Union has proposed a maximum term of 10 years for the TES.

a) Please provide a revised table (similar to Table 3 on page 19) limiting the SES term to 10 years and using a rate of 0.18m3 for the first three years of the project and 0.27m3 for the next seven years of the project. For this calculation, also assume an upfront capital contribution of $500 from each new customer.

b) Would using a lower rate in the first three years of the project impact the uptake of natural gas service in the new communities? If yes, please quantify the potential uptake in the first 3 years of the project.

RESPONSE

a) Please see Column 9 in the table below for the calculations requested.

	Community	Potential Customers	Distance from Source (kms)	Total Investment Pipeline	Normal PI	Union Gas EB-2015-0179 PI	TES Rolling Term PI	IR Borad Staff 6
Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8	Col 9
1	Fenelon Falls & Bobcaygeon	6,242	47	111,956,990	0.26	0.38	0.44	0.40
2	Scugog Island	1,468	8	19,714,126	0.24	0.38	0.42	0.40
3	Cambray	400	10	7,583,140	0.19	0.30	0.33	0.32
4	Zephyr	250	11	5,184,375	0.16	0.26	0.28	0.27
5	Cotnam Island	100	10	2,171,890	0.13	0.23	0.26	0.25
6	Sarsfield	200	10	4,147,500	0.15	0.26	0.28	0.27
7	Udora	400	8	8,842,300	0.16	0.26	0.28	0.27
8	Wilkinson Sub, Innisfil	90	2	1,897,055	0.12	0.22	0.25	0.24
9	Town of Marsville	350	8	8,047,225	0.16	0.25	0.27	0.26
10	Town of Mansfield	294	8	6,817,129	0.15	0.25	0.27	0.26
11	Glendale Subdivision	100	6	2,509,250	0.12	0.21	0.23	0.22
12	Caledon - Humber Station	72	3	2,067,960	0.10	0.18	0.19	0.19
13	Enniskillen	200	10	5,109,500	0.14	0.23	0.24	0.24
14	Village of Lisle	400	5	9,966,800	0.15	0.24	0.26	0.25
15	5th Line, Mono Twp.	32	3	1,798,760	0.05	0.11	0.12	0.11
16	Sandford	200	9	5,590,500	0.13	0.22	0.23	0.23
17	Leasksdale	200	8	5,590,500	0.13	0.22	0.23	0.23
18	Curran	100	7	3,640,250	0.11	0.18	0.19	0.18
19	Bainsville	100	7	3,997,750	0.10	0.17	0.18	0.18
20	Westmeath	200	10	6,448,500	0.13	0.20	0.22	0.21
21	Haydon	100	10	4,478,750	0.10	0.16	0.17	0.17
22	Woodville	300	9	9,290,550	0.13	0.21	0.23	0.22
23	South Glengary	200	10	8,203,500	0.12	0.18	0.19	0.19
24	Caledon - Torbram Road	79	11	6,169,283	0.08	0.13	0.14	0.14
25	Chute-a-Blondeau	200	10	9,634,780	0.11	0.17	0.18	0.18
26	Douglas	200	20	12,369,720	0.10	0.16	0.16	0.16
27	Eganville	700	40	26,853,960	0.14	0.20	0.21	0.21
28	Kinburn/Fitzroy Harbour	500	15	22,175,820	0.12	0.19	0.20	0.19
29	Hockley Village, Mono Twp.	64	13	6,204,020	0.08	0.12	0.13	0.13
30	Maxville	400	10	14,727,400	0.13	0.20	0.21	0.20
31	Lanark & Balderson	400	12	16,337,800	0.13	0.19	0.20	0.20
32	St. Isidore	400	10	18,315,400	0.12	0.18	0.19	0.18
33	Kirkfield	800	25	38,400,280	0.12	0.18	0.19	0.19
34	Minden	1,414	68	78,108,620	0.11	0.17	0.18	0.18
35	Coboconk	400	40	39,174,640	0.08	0.14	0.14	0.14
36	Norland	200	50	44,373,120	0.07	0.12	0.12	0.12
37	Barry's Bay	500	90	71,120,300	0.09	0.13	0.13	0.13
38	Kinmount	200	60	52,654,120	0.08	0.12	0.12	0.12
39	Haliburtion (Dysert)	2,035	88	104,815,526	0.12	0.18	0.19	0.18

b) While the proposed reduction in SES may impact the number of attachments in the first three years, Enbridge believes that any impact would not be material due to a significant price advantage of natural gas over competing fuels.

ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)
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INTERROGATORY #7

Ref: Evidence of Enbridge Gas Distribution, Page 25, Para. 76

Enbridge has noted that part of its proposal suggests a recovery of the revenue requirement prior to the end of the current incentive regulation plan.

Please confirm whether Enbridge`s current incentive regulation plan permits recovery of the revenue requirement associated with community expansion projects. If yes, please specify the criteria under which revenue recovery is permitted.

RESPONSE

The Company's current custom incentive regulation plan did not include either the capital or operating costs associated with the thirty-nine potential community expansion projects identified in its evidence in this proceeding. This is consistent with the information provided by the Company in the EB-2012-0459 evidence at Exhibits I.B18.EGDI.STAFF.53 and I.B18.EGDI.SEC.84. As such, the Company proposes that if any of these community expansion projects proceed prior to the expiry of the current incentive regulation plan that the capital and operating costs associated with these projects would be treated as a Y-Factor as provided for under its current incentive regulation plan. For further information please see the Company's response to BOMA Interrogatory #12 at Exhibit S3.EGDI.BOMA.12.

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INTERROGATORY #8

Ref: Evidence of Enbridge Gas Distribution, Page 26, Para. 81

Enbridge has noted that the main factor leading to the low PIs for the potential projects are high capital costs that are driven by long distances from the existing gas distribution system, difficult terrain and large contingency amounts that have been factored into these estimates.

Please provide the contingency percentage used for each of the 39 projects.

RESPONSE

A 30% contingency on the cost of transmission and distribution mains has been included in estimating the capital cost of all 39 projects. This level of contingency is consistent with Enbridge's Project Scope and Estimate Level Definition guidelines. These guidelines were developed using the Association for Advancement of Cost Engineering ("AACE") guidelines. The projects are considered to be in the Planning stages, and as such, are defined as Enbridge Class Level 4 projects.

The overall cost estimate was prepared using a preliminary project definition, schedule, and historical unit costs. The Project Scope and Estimate Level Definition guidelines are attached.

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INTERROGATORY #9

Ref: Evidence of Enbridge Gas Distribution, Pages 29-30, Para. 88 and 89

Enbridge has provided data showing the LNG alternative for all communities. Based on the company`s analysis it is estimated that it would be more economical to serve nineteen of these communities with the LNG alternative. Implicit in Enbridge`s approach is the understanding that the incremental cost of the LNG as compared to the normal cost of system supply required to serve these communities would be included in Enbridge`s rates and recovered from all customers in the same manner as the Company`s gas supply plan.

a) Why would the incremental cost of LNG supply be recovered from all customers?

b) Is it possible for Enbridge to isolate and determine the incremental cost of LNG supply to each of the communities?

RESPONSE

a) In the Company's view the liquefaction of natural gas simply provides for a different means of transporting natural gas from one place to another. In this sense the use of LNG to provide service to more distant communities is an alternative to the construction of gas transmission mains. As such, the Company has proposed to recover the incremental cost of LNG supplies from all customers as it would recover the cost of transmission main.

b) Yes.

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INTERROGATORY #10

Ref: Evidence of Parkland Fuel Corporation

The evidence filed in this proceeding by Parkland Fuel Corporation offers an extensive critique outlining a number of concerns with the use of cross subsidies to support system expansion.

Is Enbridge able to provide a high level response to the concerns regarding cross subsidies raised by Parkland Fuel Corporation's evidence?

RESPONSE

From the Ontario Energy Board website:

> *The Board is required to determine if the construction of a natural gas pipeline is in the public interest by considering need, safety, economic feasibility, community benefits, security of supply and environmental impacts.*[1]

It is clear from this statement that when considering proposals for the construction of natural gas pipelines the Board takes into account the need, economic feasibility and community benefits associated with such projects among other things. Further, the Board has made it clear that it is appropriate for existing customers to subsidize, through higher rates, financially non-sustaining extensions that are in the overall public interest if the subsidy does not cause an undue burden on any individual, group or class.[2] Subsidies are implicit in any circumstance where postage stamp style rates are applied to multiple customers. The proposal brought by Enbridge in this proceeding is in response to the Board's invitation to interested parties of February 18, 2015 to bring forward applications that address the regulatory criteria that have limited the expansion of the Province's gas distribution system to unserved areas of Ontario in recent years. The Company believes that its proposal is consistent with the objectives of the Board and represents a reasonable balancing of the interests of existing customers and those potential customers located in currently unserved areas of the Province.

[1] http://www.ontarioenergyboard.ca/OEB/Industry/About+the+OEB/What+We+Do
[2] Ontario Energy Board Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, EB-2012-0092.

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INTERROGATORY #11

Ref: Evidence of Canadian Propane Association, Exh. 3, Tab 3, Page 6

The evidence of Canadian Propane Association (CPA) notes that in the event the OEB authorizes cross-utility subsidization to occur, such that customers of one utility subsidize the expansion undertaken by another distributor, the OEB can mitigate some of the adverse impacts by removing the return on rate base component embedded in the subsidy so that there is only a return “of” and not “on” the capital investment associated with the expansion. With the return component removed, utilities will continue to benefit from the remaining non-financial, social and other benefits of natural gas expansion.

a) Please provide Enbridge’s opinion on the approach proposed by CPA.

b) Does Enbridge agree with the proposed approach of the CPA? If no, why not?

RESPONSE

a) Enbridge does not agree with the approach proposed by CPA.

b) The return on equity approved to be earned by the Company on all of its asset requirements has been determined by the Ontario Energy Board to be just and reasonable. The Company sees no reason why this level of return would not be applicable to the assets employed to serve community expansion projects just like all other required assets. Enbridge would not be willing to earn a different rate of return on any required Utility Asset as this would affect financial risk and test ratios which are commensurate with the current Ontario Energy Board approved return on equity formula.

A similar proposition concerning the potential for reduced return on equity was posed by Board Staff in the Company’s GTA Project leave to construct application in 2012. The Company responded to this suggestion in its reply argument in that proceeding. Enbridge is of the view that the same response applies with respect to the suggestion made by the CPA in this proceeding in regard to the potential for reduced return on investment for community expansion projects. (Reference:

EB-2012-0451, EB-2012-0433, EB-2013-0074, Enbridge Reply Argument, page 9 of 48)

"The Board's Report on the Cost of Capital for Ontario's Regulated Utilities ("Cost of Capital Report") puts it beyond any doubt that the opportunity of a utility's shareholder to earn a return in accordance with the Fair Return Standard ("FRS") is not a "reward". The principles laid out by the Board in the Cost of Capital Report include the following:

> *… a cost of capital determination made by a regulator that meets the FRS does not result in economic rent being earned by a utility; that is, it does not represent a reward or payment in excess of the opportunity cost required to attract capital for the purpose of investing in utility works for the public interest. Further, the Board reiterates that an allowed ROE is a cost and is not the same concept as a profit, which is an accounting term for what is left from earnings after all expenses have been provided for.*[1]"

(Emphasis added.)

[1] EB-2009-0084; Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2001, pages 19-20.