ENBRIDGE GAS INC.

First Tracks Consulting Service Inc. Answers to
Interrogatories from Federation of Rental-housing Providers of Ontario (FRPO)

Exhibit I.7.EGI.FRPO.1

REF: EGI REPLY EVIDENCE, pg. 9

Preamble: EGI REPLY evidence states: "*Traditional utility ratemaking treats DSM costs as expenses, and so utilities recover them dollar for dollar, without any profit markup. In Ontario, Enbridge recovers DSM costs as expenses through a combination of base rates and variance accounts, with some costs recovered in the year after they are incurred (e.g., some 2020 costs were recovered beginning in 2021). When costs are deferred, these costs accrue carrying charges calculated at the weighted average cost of capital (WACC) Enbridge pays to investors who provide the capital that allows Enbridge to delay recovery.*

1) Using monthly forecasted volumes, what percent of the annual revenue requirement does EGI typically achieve in the first quarter of the year?
   a) If budgeted DSM costs are put into the Revenue Requirement for the year, with that sizeable proportion of revenue in the first part of the year, if the funds and costs for DSM are completely segregated, would it not be likely the DSM programs are in a surplus position throughout most of year?
      i) If the programs are in a surplus capital position, please confirm there would be no need acquire additional capital through debt or equity.
      ii) It is arguable that a small portion of funds are recovered in the new year (along with likely some expenses being paid out at the end of the year). However, if there is a slight deficit in funds until recovery in the first month of the new year, would it not be more appropriate to apply a working capital approach as opposed to WACC? Please explain.

Response:

Enbridge Gas Response:

It is the Company's view that this interrogatory is out of scope for this proceeding as EGI's forecasted volumes are not a topic of the DSM proceeding. Regardless, EGI is not able to determine the forecast volume monthly profile of costs recovered versus the actual cost profile in advance of the program year completion.

<u>Exhibit I.8.EGI.FRPO.2</u>

REF: EGI REPLY EVIDENCE, pg. 10

Preamble: EGI REPLY evidence states: "*In Ontario, the OEB **does** allow Enbridge to charge a profit margin on recovered DSM expenses through a separate DSM Incentive (DSMI) variance account charged to customers, and calculated as a markup from approved expenses.*

2) Using the 2015-2020 period, for each year in the period, please provide:
   a) the amount of incentive earned by the company
   b) markup from approved expenses
   c) the return on equity associated with the annual incentive

<u>Response:</u>

<u>Enbridge Gas Responses</u>:

a) The Company notes that this was asked in a previous interrogatory by FRPO, in which the response can be found at Exhibit I.5.EGI.FRPO.4 Attachment 1.

b) The Company interprets the term "markup" as described in the referenced paragraph to be synonymous with the incentive earned by the Company as "DSMI" therefore please see response to part a).

c) The Company does not know what is being asked in this interrogatory as there is no equity in either the 2015-2020 period nor what is being proposed by the Company for the DSM Plan.

<u>Exhibit I.8.EGI.FRPO.3</u>

REF: EGI REPLY EVIDENCE, pg. 14

Preamble: EGI REPLY evidence states: "*In other words, the discounted cash flow for both treatments equal zero; because revenue exactly equal costs with expense treatment, and because the utility earns exactly it's authorized cost of capital with amortization treatment.*

Under amortization, a regulatory asset builds up, although the size of the asset depends on levels of spending and the amortization term."

3) Using the 2015-2020 period, if capitalization with return based upon WACC had been allowed, what would the ROE have been for each year if the earned incentive was included in determining the total return on equity?

a) Is EGI willing to give up Performance metrics in amortization including cost of capital is employed?

Response:

Enbridge Gas Response:

3) First Tracks completed no such analysis. Enbridge Gas also did not do this analysis. Furthermore, there are assumptions on inputs that would have to be made regarding this retrospective scenario and therefore without clarity of request, Enbridge Gas declines to make assumptions regarding the requested analysis.

a) Enbridge Gas Response:

   No. Enbridge Gas notes that this interrogatory does not directly pertain to the Reply Evidence. Opportunity to ask such an interrogatory was earlier in the proceeding when interrogatories were asked on Enbridge's Gas's pre-filed evidence and application.

Exhibit I.8.EGI.FRPO.4

REF: EGI REPLY EVIDENCE, pg. 45, 47

Preamble: EGI REPLY evidence states: *"Enbridge crafted the Net Benefits component, in part, as a good faith response to stakeholder input during Mid-Term Review for the 2015-2020 DSM Plan.*
…..
Enbridge crafted the Long Term GHG component as a good faith response to OEB direction to create longer-term savings targets separate from annual targets, outlined in the OEB's draft letter on a Post-2020 DSM Framework."

We would like to First Tracks perspective in judging the proposals of its client in its role as an independent expert.

4) What information is First Tracks relying upon to characterize the crafting of these proposals as good faith?

Response:

In its description of the performance incentive proposal in Exhibit D, Enbridge makes the following statements:

- In Exhibit D, Tab 1, Schedule 2, Page 15 of 16: "In response to stakeholder feedback at the 2015-2020 DSM Framework Mid-Term Review, and continued input through the Post-2020 DSM Framework consultation, a shared savings mechanism where Enbridge Gas can annually share a small portion of the overall economic benefits produced by the portfolio of DSM programs that accrue to ratepayers based on net benefits calculated by way of the Total Resource-Plus Cost Test has been introduced."
- In Exhibit D, Tab 1, Schedule 2, Page 15 of 16: "In response to the OEB's DSM letter, calling on "Enbridge Gas to develop a longer-term natural gas savings reduction target, separate from the annual targets, that it will work to achieve by the end of the next multi-year DSM term," the Company is proposing a Long Term GHG Reduction target to be measured at the end of the five-year term."

  Enbridge made similar comments to me directly.

<u>Exhibit I.8.EGI.FRPO.5</u>

REF: EGI REPLY EVIDENCE, pg. 49, Exhibit 3-FRPO-1-OEB Staff.1

Preamble: EGI REPLY evidence states: "*I agree with EFG that, if the OEB does substantially increase portfolio budgets and savings goals—either in the current case, at the Mid-Point Assessment, or in the next plan cycle—that maximum incentive payments should also increase. In my view, Enbridge's profit incentive should be commensurate with the financial and management resources required to successfully execute the approved portfolio.*"

We would like to understand the necessity for an increased incentive associated with increased budgets.

5) For the jurisdictions that use third-party providers for DSM services provided in OEB Staff's response, what is the average and range of incentives on a percentage basis relating incentive level to program spending level.

<u>Response:</u>

I have not conducted a comprehensive survey of all the jurisdictions providing performance incentives. Optimal Energy, in Table 6 of their report, provides examples from a number of jurisdictions with performance incentives in place (although the Optimal data does not include every jurisdiction in North America that offers performance incentives).

<u>Exhibit I.8.EGI.FRPO.6</u>

REF: EGI REPLY EVIDENCE, pg. 53

Preamble: EGI REPLY evidence states: "*With Enbridge's mechanism, on the other hand, if floors were raised to 75%, Enbridge would be directly penalized for delivering portfolio savings above 75%, unless it also maintained savings above 75% for every program group; it cannot access the incentive pools allocated to each program group until it meets the threshold floors."*

We would like to understand First Tracks comment on penalizing.

6) Please provide the amount of penalty that EGI would be exposed to in not meeting a 75% floor for performance.

<u>Response:</u>

I have not calculated the magnitude of the penalty, because the penalty would vary widely depending on the comparison utility (the penalty in the example provided in the quotation is relative to other utilities measuring performance at the portfolio level rather than the program level) as well as the specific mix of savings from different programs achieved by Enbridge.