ENBRIDGE GAS INC.

Answers to Interrogatory from
London Property Management Association (LPMA)

I.7.EGI.LPMA.13

Ref: EGI Reply Evidence, Figure 2 & Table 2

Please provide two versions of Figure 2 using a discount rate of Enbridge's WACC (as shown in Table 2) plus and minus 2 percentage points.

Response:

I have not performed the calculations described. I provided a copy of the spreadsheet tool used to develop Figure 2 in response to Exhibit I.7.EGI.STAFF.2, as well as similar tools that incorporate tax calculations. LPMA may perform this scenario on its own through the use of these tools.

I.7.EGI.LPMA.14

Ref: EGI Reply Evidence, Figure 2

a) Please explain why the recovery of the amortization and cost of capital associated with 2023 expenditures begins in 2024 rather than in 2023.

b) Please confirm that for pipeline assets included in rate base, depreciation and cost of capital begins in the year in which the capital expenditures are put into service.

c) Please provide a version of Figure 2 that reflects the recovery of the amortization and cost of capital beginning in 2023 (ignore the half year rule).

Response:

a) Rate base calculations are defined to treat investment costs that accrue through an initial period (e.g., accrued investment on a pipeline asset), by recovering revenues over ensuing periods with a duration equal to the depreciation/amortization life of the asset. In actual application, rate base calculations often occur with monthly granularity to track cost and revenue

flows. In addition, rate base calculations often track investment costs in deferral accounts throughout the initial period, placing assets into rate base that reflect the cost of capital incurred by the utility during the deferral period (e.g., allowance for funds used during construction on pipeline assets). The purpose of the evidence I presented in this proceeding is to provide an illustration of the key dynamics of amortization versus expense ratemaking treatment. For this reason, as described on page 10 of my report, it was sufficient to develop a simplified calculation framework, and it was unnecessary to incorporate monthly detail or deferral accounts.

In this simplified annual framework costs are incurred in the first period and begin recovery in the second period. I also note that, if the extra monthly and deferral detail had been incorporated into the model, the key results shown in Figure 2 would remain unchanged: with amortization treatment, the utility receives revenue in present value terms that exactly offsets its initial investment costs.

b) Confirmed. Rate base treatment for pipelines and other physical assets in most jurisdictions involves the utility accruing investment costs through an initial period, and then placing those costs into ratebase to begin the recovery period. Investment costs accrue through the end of the initial period, and revenue recovery begins in the following period.

c) I have not performed those calculations. Nor would it be appropriate to perform those calculations with the annual model I use to illustrate the dynamics of amortization in my evidence. To accurately characterize cash flows beginning in 2023 would require building a model with monthly granularity.

I.7.EGI.LPMA.15

Ref: EGI Reply Evidence, Figures 3 & 4

a) Please provide a version of Figure 3 that shows the revenue requirements for the 20-year portfolio, but assumes that the recovery of the amortization and cost of capital begins in the same year as the expenditures are made (again ignoring the half year rule) for each of the 20 years of DSM expenditures.

b) Please provide a version of Figure 4 that shows the asset balances over the period shown based on both the current methodology that is reflected in Figure 4 and based on the methodology in part (a) above where the recovery of the costs begins in the year the expenditure is made for each of the 20 years.

Response:

a) and b)

I have not performed those calculations. Nor would it be appropriate to perform those calculations with the annual model I use to illustrate the dynamics of amortization in my evidence. To accurately these characterize cash flows would require building a model with monthly granularity.

I.7.EGI.LPMA.16

Ref: EGI Reply Evidence, Page 12

The evidence states that:

"Figure 3 expands the analysis to cover 20 years of portfolio delivery. The analysis assumes that Enbridge delivers the DSM portfolio not only in 2023, but also in 2024 through 2027 (as outlined in Enbridge's proposed DSM plan), and then continuing out through 2042. Portfolio budgets grow consistent Enbridge's proposed DSM plan through 2027 (5% per year, including 2% inflation plus 3% real growth growth), and then at inflation out through 2042."

Does Figure 3 reflect the evidence at Table 1 of Exhibit B, Tab 1, Schedule 1 that indicates that only the program budget increases by 5% per year (3% policy growth + CPI inflation) through 2027 and that the portfolio admin, evaluation, and research & development budgets increase by only CPI inflation over this period? If not, please provide versions of Figure 3 and Figure 4 that reflects the figures in Table 1 and the recovery of the amortization and capital costs as requested in 7-LPMA-15 (i.e. recovery begins in the same year as the expenditures are made).

Response:

Figure 3 reflects the evidence at Table 1 of Exhibit B, Tab 1, Schedule 1 and is consistent with program budgets increasing at 5% per year and non-program budgets increasing at inflation. I mischaracterized this in my evidence when I implied that the entire portfolio grew at 5% per year.

I.7.EGI.LPMA.17

Ref: EGI Reply Evidence, Page 10

a) Please confirm that under the current methodology of expensing all DSM budget related costs there is not tax relate component of the revenue requirement as the incremental revenue is equal to the DSM budget forecast of spending. If this cannot be confirmed, please explain fully. In any such explanation please differentiate the tax treatment/consequences of the DSM budget included in the revenue requirement and amounts included in any DSM related deferral and variance accounts.

b) If DSM costs are capitalized and amortized rather than expensed, what tax implications does First Tracks Consulting Service, Inc. believe may arise?

c) If DSM costs are capitalized and amortized rather than expensed, does Enbridge Gas Inc. expect that there would be, or may be, differences in the calculation of income tax for regulatory purposes as compared to that for Revenue Canada? For example, would the capitalized amount of DSM expenditures be eligible for capital cost allowance, and if so, in what CCA class and at what CCA rate would these expenditures be included?

Response:

a) Enbridge Gas Response:

   Confirmed.

b) See response at Exhibit 1.7.EGI.SEC.1 and Exhibit 1.7.EGI.SEC.2.

c) Enbridge Gas Response:

   Enbridge Gas does expect that there may be tax implications however this is not something that at this time Enbridge Gas can comment on as determining tax implications would require knowing certain inputs, such as the term. In addition, Enbridge Gas did not fully explore accounting and tax treatment of amortizing DSM costs as it proposed a budget with modest increases in line with OEB direction which is consistent with how DSM costs have historically been treated and which the Company does not think requires amortization to reduce short term rate payer impact.

I.7.EGI.LPMA.18

Ref: EGI Reply Evidence, Page 14

The evidence states that the BCUC authorized FortisBC to recover its DSM expenditures with amortization. How does FortisBC deal with this amortization for income tax purposes?

Response:

I do not know.

I.7.EGI.LPMA.19

Ref: EGI Reply Evidence

The reply evidence deals with the potential for recovery of DSM costs through the use of amortization and treating the DSM expenditures as regulatory assets earning a return on capital based on the weighted average cost of capital.

a) Do the DSM expenditures need to be treated as additions to rate base, or could the expenditures be treated as additions to a DSM deferral account to be recovered over future periods, with the amortized amounts included in rates treated as deductions to the DSM deferral account? If the deferral account approach is not possible, please explain fully why not.

b) What are the advantages and disadvantages of the deferral account approach as compared to the rate base approach?

c) Are there any income tax differences (both for regulatory purposes and for Revenue Canada purposes) of the deferral account approach versus the rate base approach? Please explain fully.

Response:

Enbridge Gas Response:

Enbridge Gas believes DSM expenditures could be accounted for through a deferral account however it cannot at this time comment on the advantages or disadvantages nor any tax differences of both approaches as the Company has not done a detailed analysis of such and cannot reasonably do an analysis without knowing certain inputs and thoroughly considering all accounting and tax issues.

I.7.EGI.LPMA.20

Ref: EGI Reply Evidence, Pages 9 to 35

The evidence with respect to the amortization as a cost recovery mechanism assumes all DSM related expenditures are capitalized and amortized and recovered over a period of time that is the same for all expenditures.

a) Did First Tracks Consulting Service Inc. consider the potential for more than one amortization period depending on the expected life the benefits provided by the DSM expenditures? If not, why not?

b) Did First Tracks Consulting Service Inc. consider a hybrid cost recovery mechanism where part of the expenditures are expensed and recovered each year part of the expenditures are capitalized and amortized and recovered over either one period of time or over more than one period of time? If not, why not?

Response:

a) As I showed in Table 3 of my report, almost all other jurisdictions apply an individual amortization term and do not modify terms year to year or to reflect individual DSM programs or sectors. This approach is much simpler to implement. Also, because most jurisdictions define amortization terms using round numbers of 5 years or 10 years, amortization terms in these states are not tied explicitly to underlying DSM investments, and so there would be no reason to change amortization terms year to year or by investment.

   Illinois, which sets the amortization term to the weighted average measure life (WAML) of the installed portfolio, tracks amortization term by portfolio year, and uses fractional measure lives, rather than whole-year values.

   New Jersey applies a different amortization life to the IT assets required to implement the portfolio. However, I believe that this reflects the treatment in New Jersey of IT assets as physical assets, rather than a differentiation within portfolio expenses to be amortized. Some other jurisdictions also treat physical assets (e.g., IT systems, metering equipment, load management equipment) as traditional assets subject to rate base treatment. For example, I know that ComEd applies this approach. These physical assets are typically a very small percentage of overall portfolio costs.

   In Section 2.2.4.2 of my report, I recommend that, should the OEB decide to implement amortization, it apply a 5-year amortization term. With this recommendation, there would be no need to apply different terms to different portfolio years or investments.

Optimal Energy, on page iii of its report, recommended that the OEB set amortization terms "using the same loan term for all programs and sectors and basing it on a fixed number of years, approximately representing the average measure life of a typical efficiency portfolio". On page 7, Optimal states that "this will best align the costs of efficiency with their associated benefits while avoiding unnecessary complexity".

If the OEB decides to use the WAML as the amortization life, then I believe the approach ComEd uses, which defines a different amortization life for each portfolio year, would likely be required (since WAML can vary year to year, although not by large amounts). I agree with Optimal, that, if the OEB uses this approach, that it should use whole number amortization terms. This avoids unnecessary complexity, and reflects the inherent uncertainty in estimating measure lives.

b) As I stated in Section 2.2.3.1 of my report, I agree with Optimal's consideration on their page 16 that "A single cost recovery approach (amortization or cost recovery) should be used for all programs and sectors to avoid the complexity involved in using different approaches for different programs."

I.7.EGI.LPMA.21

Ref: EGI Reply Evidence, Pages 9 to 35 & Exhibit B, Tab 1, Schedule 1, Table 1

Please consider a scenario in which some of the DSM budget is expensed and some is capitalized/amortized for cost recovery purposes. In particular, consider a scenario in which the program budget shown in Table 1 in Exhibit B, Tab 1, Schedule 1 is capitalized/amortized while the remaining budgets related to portfolio admin, evaluation, research & development are expensed.

Please provide versions of Figures 1 through 10 based on the above scenario in conjunction with the recovery of the amortization and cost of capital costs beginning in the year that the expenditures are made, as requested in the previous interrogatories above.

Response:

I have not performed the calculations described. I provided a copy of the spreadsheet tool used to develop Figure 2 in response to Exhibit I.7.EGI.STAFF.2. as well as similar tools that incorporate tax calculations.

LPMA may perform scenarios mixing expense and amortization on its own through the use of these tools.

Also, as I stated in response to Exhibit 1.7.EGI.LPMA.15 b), it would only be appropriate to analyze this scenario assuming amortization recovery begins in the year after costs are incurred. To accurately calculate cash flows with amortization recovery beginning in the year expenditures are made, a new model would be required that incorporates monthly granularity.

I.7.EGI.LPMA.22

Ref: EGI Reply Evidence, Pages 9 to 35

Regulated utilities have an incentive to increase rate base as that allows them to recovery a higher dollar amount of return on equity. If the OEB were to approve amortization as a cost recovery mechanism, how should the OEB ensure that the amounts included in the regulatory asset has not been inflated? For example, should the OEB place a cap on the amount that is added to the regulatory assets each year based on the budgets inclusive of the allowance to spend up to 15% above the approved budget?

Response:

The OEB has processes currently in place to review the costs Enbridge includes in base rates and variance accounts to ensure that they were prudently incurred and reflect the cost of service. These processes should be adequate to ensure that appropriate costs are recovered from customers, regardless of whether those costs are expensed or amortized.

It is my understanding that the OEB's current processes limits the DSM costs that Enbridge includes in rates, subject to approved budgets, and the allowance to spend up to 15% above the approved budget, and perhaps other factors. Again, these processes should be adequate to ensure that appropriate costs are recovered from customers, regardless of whether those costs are expensed or amortized.

I.8.EGI.LPMA.23

Ref: EGI Reply Evidence, Tables 2 & 5

What is the net present value of the proposed maximum incentive levels shown in Table 5 using a discount rate equal to the weighted average cost of capital shown in Table 2?

Response:

The table below shows the present value of the maximum performance incentive levels from Table 5, using the after-tax WACC from Table 2. However, because these incentive values are pre-tax payments to equity shareholders, the after-tax WACC is not an appropriate discount rate to reflect the overall impact on Enbridge shareholder earnings. The table also shows the present value calculated at a discount rate set to the pre-tax return on equity, which was calculated in response to Exhibit I.7.EGI.SEC.1. These present values are also calculated assuming beginning-of-year cash flows.

	2023	2024	2025	2026	2027
Maximum Performance Incentive (millions)	$19.9	$21.1	$20.7	$21.1	$27.7

After-Tax NPV	$98.3 million
Pre-Tax ROE	$87.5 million

Discount Rates:

After-Tax WACC	5.80%
Pre-Tax ROE	12.24%

I.8.EGI.LPMA.24

Ref: EGI Reply Evidence, Tables 6, 7, 8 & 9

Tables 6 through 9 all show a maximum 5-year incentive payment of $110.5 million. Tables 6 through 8 show this amount as 14.2% of the budget. However, Table 9 shows this amount of $110.5 million as being 15.5% of the budget. Please explain the difference in this percentage and what adjustments have been made to the budget to get the higher percentage.

Response:

The 15.5% value in Table 9 is an error, as is the value presented in Tables 1, 9, and 10 (which are copes of the same table presented in different places in my report). The correct value is 14.2%.

I.8.EGI.LPMA.25

Ref: EGI Reply Evidence, Page 49 & Table 9

Please reconcile the figure of $105.5 shown in the middle of page 49 with the $110.5 million shown in Table 9.

Response:

The value of $105.5 million on page 49 is an error. The correct value is $110.5.