EB-2022-0200

ONTARIO ENERGY BOARD

Enbridge Gas Inc.

Application to change its natural gas rates and other charges beginning January 1, 2024

INTERROGATORIES to LONDON ECONOMICS, INC.

from

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

M2-IGUA-1

Preamble:

At Page 20 of Exhibit M - Staff Cost of Capital (LEI Report), LEI states:

> *While LEI acknowledges that energy transition is a significant concern for Enbridge Gas in the coming decades, the transition is expected to play out over multiple decades, which provides Enbridge Gas time to prepare and mitigate the risks while opening up new opportunities. … It is unlikely that Enbridge Gas will face significant difficulties in financing new gas infrastructure between 2023 and 2028 owing to a favourable policy and regulatory environment with a stable outlook for the near-term for credit rating agencies.*
>
> *Overall, LEI agrees that there is an increase in risk for Enbridge Gas from changes in the policy environment despite its advantages from being a large utility operating within a relatively favorable regulatory environment.*

Questions:

a. Does LEI agree that it is appropriate to evaluate the risk associated with an event with reference to both its *potential impact* and its *likelihood*?

b. Has LEI identified any specific energy transition related events adverse for EGI and its investors that are more likely in an assessment conducted today than they would have been in an assessment conducted in 2012 or 2018?

c. If the answer to part b. is “yes”, please describe those events and provide any analysis conducted that informs LEI’s assessment regarding the change in likelihood associated with those events.

d. Are there steps that EGI can take to decrease the likelihood of events identified in response to parts b. and c.?

e. Does LEI believe that EGI’s ability to act to decrease the likelihood of any such events has changed since 2012 or 2018? If so, please explain.

f. Has LEI identified any specific energy transition related events adverse for EGI and its investors that are more consequential (i.e. have greater potential impact) in an assessment conducted today than they would have had in an assessment conducted in 2012 or 2018?

g. If the answer to part f. is “yes”, please describe those events and provide any analysis conducted that informs LEI’s assessment of the change in impact of such events.

h. Are there steps that EGI could take to mitigate the impact of the events identified in response to parts f. and g.?

i. Does LEI believe that EGI’s ability to mitigate the impact of such events has changed since 2012 or 2018? If so, please explain.

M2-IGUA-2

Preamble:

LEI Report, page 25: *“LEI believes there is an increase in stranded asset risk, as investors take long-term risks into consideration when making investment decisions today.*

The foregoing statement references a Wall Street Journal article regarding a potential sale of gas distribution companies by Dominion Energy Inc., and recent successful sales of natural gas systems.

LEI Report, page 34: *“… stranded asset risks have slightly increased as investors typically consider an investment time horizon of decades”.*

Questions:

a. On what basis has LEI concluded that *“investors typically consider an investment time horizon of decades”*?

b. Has LEI done any empirical analysis in support of its assertions regarding such investment consideration time horizons? If so, please explain and provide copies of any documentation of any such analysis.

c. Please file a copy of the referenced Wall Street Journal article.

M2-IGUA-3

Preamble:

LEI observes (Page 49) as follows (emphasis added):

- *The OEB authorized ROE of 9.36% in 2023 is generally lower than US peers (averaging ~9.63% customer-weighted ROE), and generally higher than the Canadian peers (averaging ~8.63% customer-weighted ROE).*
- ***While Canadian companies have lower average equity ratios and ROEs than the US companies****, the US companies had similar equity ratios and ROEs, i.e., average equity ratio of more than 50% and average ROE of ~9.9% in 2011, when OEB decided to retain the equity ratio of 36% for EGD and Union Gas.*

Questions:

a. What structural and regulatory differences between the Canadian and US regulated utility sectors should be considered in comparing Canadian and US utility regulated cost of capital parameters?

b. How has LEI considered such differences in its analysis?

M2-IGUA-4

Preamble:

Page 46, Figure 36 of the LEI report sets out the most currently awarded equity ratios for 29 US Operating utilities and nine Canadian operating utilities. All nine of the listed Canadian operating utilities are much smaller than Enbridge Gas, and five of the nine utilities (i.e., Apex, Eastward Energy, Gazifère, Liberty Utilities, and Pacific Northern Gas) are each are less than 1.5% the size of Enbridge Gas by number of customers (ranging from 8,500 customers to 55,272 customers).

Questions:

a. Would LEI agree that a utility with a smaller customer base presents, all else equal, more investment risk than a utility with a much larger customer base?

b. Please provide the customer weighted average ROE and awarded equity ratio for the 4 largest Canadian operating companies in LEI's comparator group (i.e., ATCO Gas, Centra Gas Manitoba, Energir, and Fortis BC Energy).

M2-IGUA-5

Preamble:

Figure 34 on page 52 of the LEI Report sets out forward-looking credit metric estimates based on a recommended equity ratio of 38%.

Question:

Please replicate Figure 34 based on an equity ratio of 36%.

56461360\2