

Enbridge Gas Interrogatory # M2-EGI-12

Interrogatory

Reference:

Exhibit M2, page 18, Figure 9, and page 19

Preamble:

At page 18, Figure 9, LEI states:

- “Energy transition is a more material concern for Enbridge Gas compared to 2018
- However, the impact of such risks is more manageable for larger gas LDCs like Enbridge Gas, relative to smaller gas LDCs
- The transition is expected to play out over multiple decades, which provides Enbridge Gas some time and predictability to prepare and mitigate the risks, while opening up new opportunities
- Enbridge Gas operates in a favourable policy and regulatory environment with respect to identified alternatives”

At page 12, LEI states:

“LEI believes that government policies will have an asymmetrical impact on smaller gas local distribution companies (“LDCs”) by 2028.”

Question(s):

- a) Please explain the basis for concluding that energy transition risks for larger LDCs, such as Enbridge Gas, are more manageable relative to smaller gas LDCs.
- b) Is it LEI’s position that equity investors do not consider energy transition risks that will play out over multiple decades? Please explain.
- c) What aspects of Enbridge Gas’ policy and regulatory environment does LEI find favourable when it comes to managing energy transition risks, and has LEI compared these features to other North American LDCs?

Response:

The following response is provided by LEI.

- a) LEI’s reasoning for how larger utilities are better equipped to manage risks arising from energy transition is provided across Section 3 of the report filed as Exhibit M2 in

this proceeding ("LEI report"). Relative to smaller gas distribution utilities, larger utilities generally have lower volumetric risk and operational risk. Larger utilities can also invest more resources (including human resources and management time) in shifting to alternative fuels such as hydrogen and renewable natural gas (which Enbridge Gas is already attempting to do). However, as highlighted in the LEI report, energy transition risks have also increased for larger natural gas distribution utilities such as Enbridge Gas compared to 2017/2018.

- b) LEI believes that equity investors, depending on their investment horizon, consider any significant risk factor (such as energy transition risks) that could affect short-term or long-term cash flows for a company.
- c) As highlighted in the LEI report, rating agencies that evaluate Enbridge Gas consider low risk regulated operations as one of its key strengths. Aspects of the favorable regulatory environment are discussed in the LEI report, such as the existence of multiple variance and deferral accounts to mitigate volumetric risk (Section 3.1.2 of the LEI report), the incentive rate-setting framework (Section 3.2.3 of the LEI report), approval of capital expenditure related to pilot projects for alternative technologies (Section 3.1.1 of the LEI report), amongst others. LEI did not compare each feature to North American LDCs. However, when choosing the peer companies, LEI ensured that the selected companies have a similar risk profile by including regulated gas operating companies with investment grade credit ratings.

Enbridge Gas Interrogatory # M2-EGI-13

Interrogatory

Reference:

Exhibit M2, page 22, and footnote 55

Preamble:

At page 22, LEI states:

“A recent report published by the Canadian Gas Association with respect to investor expectations on North American natural gas utilities concluded that “...investors are still confident that gas utilities are valuable investments... Because natural gas is currently a low-cost energy resource without an equally low-cost and reliable replacement, the investment community views gas utilities as a good investment target if they have a well communicated and feasible decarbonization and energy transition plan”.⁵⁵”

Question:

Please confirm that the same report concluded that investor participants in the survey expressed a “preferable band” on the debt-to-equity ratio of 40-60% (provided at footnote 55, page 29, under Key Learnings)

Response:

The following response is provided by LEI.

While key learnings in Appendix A (IPSOS Investor Survey Results) of the report mentions the band of 40%-60%, the same statement also mentions: *“...metrics such as Adjusted Funds from operation are more important in evaluating balance sheet health.....There was a general impression among survey participants that regulators impose “reasonable capital structures”.* It is also notable that the introduction to the survey results states that the *“findings are qualitative in nature meaning that they are not intended to be statistically representative of investment community. Rather their value is in understanding attitudes and perceptions in-depth.”*¹

¹ American Gas Association and Canadian Gas Association. Investor Expectations on North American Natural Gas Utilities. July 12th, 2022.

Enbridge Gas Interrogatory # M2-EGI-14

Interrogatory

Reference:

Exhibit M2, page 25

Preamble:

At page 25, LEI states:

“As of May 2022, eleven US states have passed legislation that allow some form of securitization for retiring coal assets.^{67,68} It is reasonable to expect that retirement of natural gas based assets (if needed) may be managed in a similar manner.”

Question:

Is LEI aware of similar legislation proposed or enacted in Ontario for natural gas distributors? If so, please provide the legislative reference.

Response:

The following response is provided by LEI.

LEI is not aware of similar legislation proposed or enacted in Ontario for natural gas distributors. This is consistent with natural gas distributors not having faced meaningful issues arising from stranded assets to date.

Enbridge Gas Interrogatory # M2-EGI-15

Interrogatory

Reference:

Exhibit M2, page 27

Preamble:

At page 27, LEI states:

“The advantages from amalgamation of EGD and Union Gas have meaningfully reduced volumetric risks...

In managing volumetric risk, absolute numbers for customers and sales volumes matter more than per capita consumption. A similar magnitude of forecasting error (in absolute terms) has around half the impact for the larger amalgamated entity compared to EGD and Union Gas individually.”

Question(s):

- a) Please explain the logic for why absolute levels of forecast risk for the smaller EGD or Union should be applied to the larger amalgamated company.
- b) Why would forecast risk error not be proportionate to the overall level of customers and sales?

Response:

The following response is provided by LEI.

- a) The logic/reasoning is explained with an example in Section 3.1.2 of the LEI report. The relevant excerpt is reproduced below for reference:

“A similar magnitude of forecasting error (in absolute terms) has around half the impact for the larger amalgamated entity compared to EGD and Union Gas individually. For instance, a forecasting error of 1 billion m³ of sales would have affected 8.4% and 7.4% of sales volume for EGD and Union Gas respectively in 2018. However, it only would have affected 3.6% of Enbridge Gas’ sales volume in 2022.”

- b) Absolute errors are likely to be lower with larger numbers. This is reflected in the widely used statistical measures for calculating forecasting error such as mean squared error (“MSE”), mean absolute deviation (“MAD”) and mean absolute percentage error (“MAPE”), which rely on absolute deviations of forecasts from

observed values to calculate forecasting error.² By definition, MAPE, which is a common measure used to calculate forecast error,³ reduces with an increase in base value.

² Relx. [Measuring Forecast Accuracy: The Complete Guide](#). Accessed on May 8th, 2023.

³ Statistics How To. [Mean Absolute Percentage Error \(MAPE\)](#). Accessed on May 8th, 2023.

Enbridge Gas Interrogatory # M2-EGI-16

Interrogatory

Reference:

Exhibit M2, page 30

Preamble:

At page 30, LEI states:

“Canadian natural gas demand forecasted to decline at an average of 0.7% annually between 2021 and 2030.”

Question:

How does this forecast compare with prior forecasts from 2018 or earlier from the CER or NEB? Please provide a comparison.

Response:

The following response is provided by LEI.

LEI calculated the average of 0.7% from the data on fossil fuel demand (segregated by type of fuel) provided by Canada Energy Regulator in the Canada’s Energy Future 2021 report.⁴ The same could not be replicated for 2017 as LEI was not able to obtain the breakdown of fossil fuel demand by type in the Canada’s Energy Future 2017 report.⁵

⁴ Canada Energy Regulator. [Canada’s Energy Future 2021](#). Date modified: May 24th, 2022.

⁵ Canada Energy Regulator. [ARCHIVED – Publication Information and Downloads](#). October 2017.

Enbridge Gas Interrogatory # M2-EGI-17

Interrogatory

Reference:

Exhibit M2, page 34, Figure 18

Preamble:

LEI summarizes Energy Transition Risk as modest increase.

Question:

Can LEI cite any new risk facing the natural gas industry and LDCs in recent history that has exceeded that of energy transition risk? If so, please provide specific examples.

Response:

The following response is provided by LEI.

The natural gas industry has faced existential risks throughout its history, particularly during periods prior to natural gas sector liberalization in the US, when natural gas was viewed as scarce with the potential for economic reserves to be exhausted. For example, during the 2000s, there were predictions that natural gas production had peaked (or that the peak was imminent), after which the production of natural gas was expected to enter a phase of terminal decline. For instance, Harry J. Longwell, the Executive Vice President of Exxon Mobil Corporation, predicted in 2002 that discovered gas volumes had likely peaked around 1970.⁶ As recently as 2009, some modelers suggested that a peak in North American natural gas supplies could happen in 2013.⁷

⁶ World Energy. [The Future of the Oil and Gas Industry: Past Approaches, New Challenges](#). 2002.

⁷ Reynolds, D.B.; Kolodziej, M. North American Natural Gas Supply Forecast: The Hubbert Method Including the Effects of Institutions. *Energies* 2009, 2, 269-306.

Enbridge Gas Interrogatory # M2-EGI-18

Interrogatory

Reference:

Exhibit M2, page 40
Exhibit I.5.3-STAFF-204, Attachment 1
Technical Conference Transcript Day 8

Preamble:

At page 40, LEI states:

“On the contrary, in some ways Enbridge Gas is currently benefiting from the practice of incorporating ESG factors into investors’ assessments, via favorable terms in SLB issuances.”

Enbridge Gas seeks to clarify that Enbridge Inc, and not Enbridge Gas has issued Sustainability Linked Bonds.

Exhibit I.5.3-STAFF-204, Attachment 1 contains the Enbridge Inc. prospectus for Sustainability Linked bonds.

At TC Tr. Vol 8 page 7, lines 7 to 9, Mr. Reinsch states:

“As of right now we have not yet issued a sustainability linked bond for EGI. Our sustainability-linked debt has been issued out of Enbridge Inc.”

Question(s):

Please confirm that only Enbridge Inc., the parent company of Enbridge Gas, has issued Sustainability Linked Bonds and that Enbridge Gas has not issued Sustainability Linked Bonds?

Response:

The following response is provided by LEI.

The LEI report clearly states that *Enbridge Inc. issued sustainability-linked bonds (“SLBs”) in 2021 (\$1 billion 12-year term senior note) which carried a coupon of 2.5%.* LEI

described the favourable terms of SLBs in response to the following statements regarding asymmetrical risks and rewards of SLBs in the original application:⁸

“Enbridge estimated that this bond issuance received a 5-basis point “greenium” (i.e., discount relative to the estimated interest rate of a regular debt issuance from Enbridge at that time) because the interest rate was linked to Enbridge’s ability to achieve certain emissions and inclusion targets. However, Concentric notes that this SLB issuance includes asymmetrical risks and rewards. While Enbridge benefits from the estimated 5-basis point “greenium,” the SLB issuance also includes a 50-basis point penalty if Enbridge fails to meet the GHG emission reduction milestones.”

As indicated in the LEI report, given the current status of KPIs, LEI considers the likelihood for penalties over the 2024-2028 period is minimal.

⁸OEB. EB-2022-0200. Exhibit 5: Cost of Capital Overview. Tab 3; Schedule 1; Attachment 1. Page 32 of 164. October 31st, 2022.

Enbridge Gas Interrogatory # M2-EGI-19

Interrogatory

M2-EGI-1

Reference:

Exhibit M2, page 43

Preamble:

LEI concludes there is no change in Enbridge Gas' accessibility to debt markets.

Question:

Has LEI considered Enbridge Gas' access to equity on a comparable basis, and does LEI believe that equity markets view the natural gas distribution business the same as in 2017/2018? Please explain.

Response:

The following response is provided by LEI.

There are likely no businesses which are viewed "the same" in 2023 as in 2017/2018. Although risk perceptions have naturally changed, what matters is magnitude and relative risk to other investments. With regards to access to equity, the continued ability to transact natural gas distribution businesses demonstrates the ongoing ability to raise equity and debt for such investments. For example, in the LEI report (Footnote # 70), multiple recent examples of successful sales of natural gas systems within the last 12 months have been provided (such as [AltaGas' sale of Enstar](#), [Southwest Gas' sale of MountainWest](#) and [Dominion Energy's sale of Hope Gas](#)).

Equity market access is also evident via the number of successful equity issuances for North American gas utilities since 2017. Some examples are shown below.⁹

Company (Primary industry: gas utilities)	Currency	Equity issuances ('000)							
		2017	2018	2019	2020	2021	2022	2023	Total (2017-2023)
FortisBC Energy Inc.	CAD	-	40,000	-	40,000	-	-	-	80,000
Atmos Energy Corporation	USD	450,000	650,000	672,529	926,156	716,700	1,217,900	-	4,633,285
National Fuel Gas Company	USD	-	-	-	150,100	-	-	-	150,100
ONE Gas, Inc.	USD	-	-	-	13,600	15,300	244,832	153,800	427,532
Southwest Gas Holdings, Inc.	USD	41,775	319,199	147,408	129,214	204,624	407,000	214,999	1,464,219
Spire Inc.	USD	-	137,500	-	-	-	18,447	-	155,947

⁹ S&P Global Intelligence.

Enbridge Gas Interrogatory # M2-EGI-20

Interrogatory

Reference:

Exhibit M2, page 44 and Figure 30 on page 46

Preamble:

At page 44, LEI states:

“This section provides a review of gas LDCs with comparable risk profile. The purpose of this analysis is to assess whether Enbridge Gas is compensated adequately relative to comparable utilities, particularly in relation to other utilities’ equity ratio and allowed ROE. LEI has utilized a North American peer group for Enbridge Gas, instead of separate peer groups for US and Canadian utilities.”

Question(s):

Figure 30 on page 46 provides common equity ratios for LEI’s peer group of North American utilities.

- a) Given the above statement provided at Exhibit M2, page 44, that LEI has utilized a North American peer group for Enbridge Gas instead of separate peer groups for U.S. and Canadian utilities, please explain why LEI recommends a deemed equity ratio of 38% for Enbridge Gas when the customer-weighted average equity ratio for the North American peer group is 49.8%.
- b) Does LEI have any evidence that there is a connection between the number of customers and the appropriate equity ratio? If so, please provide that evidence. If not, please explain why LEI used a customer-weighted average instead of a simple average in Figure 30.
- c) Please confirm the unweighted “Latest proceeding (equity ratio)” for U.S. operating companies is 51.5% (i.e., 0.1% different than the customer-weighted average). If confirmed, please explain within the context of LEI’s response to part b).
- d) Please confirm that Centra Gas Manitoba is owned by Manitoba Hydro, which is not an investor-owned utility.
- e) Please explain why LEI included Centra Gas Manitoba in its North American peer group for Enbridge Gas.

- f) Please confirm that, excluding Centra Gas Manitoba, the customer-weighted average equity ratio for the Canadian operating companies is 38.0%, and the unweighted average is 40.9%.
- g) Please confirm that the authorized common equity ratio for DTE Gas Company for regulatory ratemaking purposes is 51% based on the December 9, 2021, order of the Michigan Public Service Commission (see page 77) in Case No. U-20940.
- h) Please confirm that the current authorized ROE for Liberty Utilities (Gas New Brunswick) LP is 9.80%, not 8.50% as shown in Figure 30.
- i) Please confirm that the majority of authorized ROEs reported in Figure 30 were determined prior to 2022 when economic conditions (i.e., lower interest rates, lower inflation) were very different than they are today.

Response:

The following response is provided by LEI.

- a) LEI's recommendation is based on consideration of multiple factors, including change in Enbridge Gas' business and financial risk profile, peer group analysis, and credit metric analysis.

Within the peer group analysis, as stated in the LEI report (on page 49), it is notable that: *"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."*

- b) As described in LEI's response in Exhibit N.M2.EGI.12, relative to smaller gas distribution utilities, larger utilities have multiple advantages such as lower volumetric risk and operational risk. The number of customers served by gas LDCs is a good proxy for utility size. As such, using a customer-weighted average equity ratio provides a more meaningful depiction of the average equity ratio authorized by the regulators.

Separately, Dr. Cleary's conclusions with respect to Enbridge Gas' risk versus Concentric's four proxy groups are notable:¹⁰

"Figure 35 on page 102 of Concentric's evidence reports the average equity ratio for the Canadian OpCo proxy group at 40.5%; however, if we eliminate the seven abnormally small utilities the average falls to 38.0%; recognizing that these three comparators are still less than 1/20th the size of EG and would warrant higher equity

¹⁰ OEB. EB-2022-0200. Exhibit M – IGUA Cost of Capital. Evidence of Dr. Sean Cleary, CFA, Professor of Finance. Page 27. Filed on April 21st, 2023.

ratios to compensate for this small size risk, and so are not truly “similar risk” utilities to EG.”

While LEI’s view is that the data points for smaller utilities should not be eliminated entirely, the customer-weighted average approach addresses similar such issues that Dr. Cleary raises.

- c) Confirmed. Using a simple average (instead of a customer-weighted average) slightly changes the average equity ratio for the US peer group from 51.4% to 51.5%. However, as described above in response to b), using a customer-weighted average provides a more meaningful picture.
- d) LEI acknowledges that Centra Gas Manitoba is not an investor-owned utility. Including Centra Gas allows for the peer group to comprise a representative sample of utilities from multiple US states and Canadian provinces. If one was to exclude Centra Gas from the analysis, the peer group results in a customer-weighted average equity ratio of 38% (compared to 37.2% when including it) for Canadian peer group and 50.0% (compared to 49.8% when including it) for the North American peer group. It is worth highlighting that excluding Centra Gas does not change LEI’s conclusions from the peer group analysis.
- e) See response to d) above.
- f) See response to d) above.
- g) The Order in Case No. U-20940 specifies common equity ratio of 51% at page 77 and common equity ratio of 39.23% at page 93.¹¹ S&P Global Intelligence (which was the source for LEI) specifies 39.23% as the authorized common equity ratio. The relevant table from the Order is reproduced below:

<u>Description</u>	<u>Amount</u>	<u>Total Capital</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	\$ 2,114,604,000	37.69%	3.97%	1.50%
Common Equity	2,200,914,000	39.23%	9.90%	3.88%
Short-Term Debt	194,565,000	3.47%	0.95%	0.03%
Net Deferred Income Tax	1,100,559,000	19.62%	0.00%	0.00%
TOTAL	\$ 5,610,642,000	100.00%		5.41%

¹¹ Michigan Public Service Commission. Order in Case No. U-20940. December 9th, 2021.

Based on the table above, the appropriate equity ratio estimate would be 48.80% (share of common equity excluding net deferred income tax in the capital structure).^{12,13}

- h) Confirmed. LEI had used the equity ratio allowed in New Brunswick Energy and Utilities Board Decision dated October 29th 2021 (Matter No. 491) instead of the Rehearing Decision dated November 18th, 2022 (Matter No. 491) after Liberty Utilities (Gas New Brunswick) LP applied for a judicial review of the original Decision. This change has an insignificant impact on the customer-weighted average ROE for Canadian and North American peer groups shown in Figure 30 of the LEI report.¹⁴
- i) Confirmed. It is worth noting that ROE is adjusted annually by the OEB to reflect changes in macroeconomic factors such as higher interest rates.

¹² 48.8% is calculated by LEI using the following formula/amounts from the table: "Common Equity / (Long-Term Debt + Common Equity + Short-Term Debt)"

¹³ Assuming DTE's equity ratio of 48.80% instead of 39.23% in LEI's peer group analysis, the US customer-weighted average equity ratio increases slightly from 51.4% to 51.8%.

¹⁴ Following this change, the customer weighted average ROE for Canadian and North American peer groups increases to 8.6309% and 9.5191% (relative to 8.6256% and 9.5185%) respectively.

Enbridge Gas Interrogatory # M2-EGI-21

Interrogatory

M2-EGI-2

Reference:

Exhibit M2, pages 46-47, and Figure 30

Preamble:

At pages 46 and 47, LEI states:

“Relative to Canadian companies, Enbridge Gas’ equity ratio is slightly lower as well. However, the OEB authorized ROE of 9.36% in 2023 is higher than the ROE allowed to Canadian peers, with the exception of Pacific Northern Gas Ltd. and Eastward Energy Inc. Both Pacific Northern Gas Ltd. and Eastward Energy Inc. are significantly smaller LDCs (relative to Enbridge Gas), serving only ~42,000 customers and ~8,500 customers respectively.”

Question:

Please confirm that ROEs are set on a generic basis in Ontario, and the OEB’s primary consideration of utility-specific risk as it relates to the cost of capital occurs with its assessment of utility capital structures, not ROEs.

Response:

The following response is provided by LEI.

Confirmed.

Enbridge Gas Interrogatory # M2-EGI-22

Interrogatory

M2-EGI-3

Reference:

Exhibit M2, pages 47-48

Preamble:

At page 47, LEI states:

“The betas for publicly traded gas utilities are generally similar or slightly higher relative to electric utilities”

At pages 47 and 48, LEI states:

“Separately, the equity ratio and ROE trends for US electricity and gas utilities (as presented below in Figure 32) show slightly higher equity ratios for gas utilities, which is consistent with slightly higher average beta for gas utilities, discussed above. As of 2022, US gas utilities were allowed an average equity ratio of 51.4%, compared to equity ratio of 50.4% allowed to US electric utilities, while the average ROEs allowed to natural gas and electric utilities were virtually similar”

Question(s):

As shown in Figures 31 and 32 of LEI’s report, the betas for publicly traded gas utilities are similar to or slightly higher than electric utilities, and the average equity ratio for U.S. gas utilities is approximately 1% higher than for U.S. electric utilities.

Given this evidence, why does LEI believe that Enbridge Gas’ deemed equity ratio should be lower than electric distribution utilities in Ontario, which have a deemed equity ratio of 40%?

Response:

The following response is provided by LEI.

While LEI indicated in the peer group analysis that Enbridge Gas’ equity ratio is on the lower end of the spectrum relative to its peers, LEI’s recommendation is not based solely on peer group analysis. It is based on consideration of multiple factors including change in Enbridge Gas’ business and financial risk profile, peer group analysis and credit metric analysis. As concluded in the report, LEI believes that the recommended equity ratio of

38% is sufficient and *will help Enbridge Gas to maintain or improve its current credit rating, allowing it to continue attracting capital at reasonable terms.* It is also worth reiterating (from page 48 of the LEI report) that *Enbridge Gas (with ~3.9 million customers) is much larger than an average electricity distributor in Ontario (with ~94,000 customers), and has significantly more customers (i.e., more than ~2.5x) than the largest electricity distributor (i.e., ~1.44 million customers for Hydro One).*

Environmental Defence Interrogatory # M2-ED-1

Interrogatory

Reference: Report, p. 20

Preamble:

“The transition is expected to play out over multiple decades, which provides Enbridge Gas some time and predictability to prepare and mitigate the risks, while opening up new opportunities”

Question(s):

- a) Please comment on measures to mitigate the risk that demand continues to rise in the short-term (e.g., five years), triggering pipeline growth spending, but then declines shortly after the initial short-term period, undermining the need for the incremental capacity from the recent pipeline project long before the end of the economic life of the assets.
- b) Please comment on the following potential measures to mitigate energy transition risks:
 - i. Collect more of the capital costs of new connections from new customers to mitigate the risk that they leave the system before paying down the connection costs covered by rates and to reduce the system access costs borne by existing customers (e.g., reducing the 40-year revenue horizon used to calculate customer capital contributions);
 - ii. Collect more of the capital costs of growth projects from customers driving the needs ensure the beneficiary pays, reduce rate base, and mitigate the risk that the incremental capacity is not needed before the end of the assets economic life;
 - iii. In pipeline capital spending decisions (including LTC and sub-LTC cases), expressly accounting for the *potential likelihood* of future demand declines that would result in the incremental asset being underutilized or no longer useful in the economic cost-effectiveness test;
 - iv. Accelerated depreciation for (A) all assets, (B) only new assets, and/or (C) assets facing the greatest stranded asset risks (e.g., “small pipes” serving residential customers that can easily switch to more cost-effective heat pumps, pipes that are incompatible with hydrogen, etc.).

Response:

The following response is provided by LEI.

- a) When investing in incremental pipeline capacity, gas LDCs such as Enbridge Gas consider both short-term and long-term demand assessments. Such factors would also likely be taken into account in relevant proceedings.
- b) Providing comments on the 'potential measures to mitigate energy transition risks' provided in the IR is outside of the scope of work of LEI's evidence.

Environmental Defence Interrogatory # M2-ED-2

Interrogatory

Reference: Report, p. 20

Preamble:

“Based on LEI’s assessment, there are uncertainties about viable alternatives to natural gas from an investor’s perspective, particularly with regards to trajectory of fuel costs for hydrogen and RNG over the next decade. As discussed earlier, there are also significant price pressures in the market from heat pumps as alternatives to natural gas. Heat pumps are expected to be cheaper and more efficient than hydrogen based space heating.^{42, 43}”

Question(s):

- a) Please elaborate on the basis for LEI’s above assessment.
- b) Please file a copy of the papers cited in footnote 42 and 43.

Response:

The following response is provided by LEI.

- a) There are uncertainties with respect to the extent of economic viability of hydrogen and renewable natural gas i.e., it is unclear if/when these fuels would be cost competitive relative to alternatives such as electric heat pumps. For instance, a report from the US Environmental Protection Agency stated the following with respect to economic barriers in developing renewable natural gas:¹⁵

“It takes a certain type of investor with a particular risk profile to be comfortable with financing an RNG project. Additional policy mechanisms and voluntary or mandatory markets to create longer-term stability and additional value for RNG’s environmental attributes, regardless of how the RNG is ultimately used, would help encourage investment or allow for longer-term purchase agreements...”

A recent study by the Regulatory Assistance Project concluded that there were too many technical difficulties to overcome to make hydrogen a viable and economic low-carbon heating fuel.¹⁶ Further, LEI, in its report (Footnote # 43) also included reference to an analysis which concluded that energy costs of heat pumps are one-sixth of those of hydrogen boilers.

- b) See N.M2.ED-2/Appendix A and N.M2.ED-2/Appendix B.

¹⁵ US Environmental Protection Agency. [An Overview of Renewable Natural Gas from Biogas](#). July 2020. Page 28.

¹⁶ The Guardian. [Hydrogen is unsuitable for home heating, review concludes](#). September 27th, 2022.

Industrial Gas Users Association Interrogatory # M2-IGUA-1

Interrogatory

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.

Response:

The following response is provided by LEI.

- a) Yes.
- b) Energy transition risks have been identified in the LEI report which increase the uncertainty for investors. For example, there was no federal carbon pricing in place in 2012 or 2018 and electric heat pumps were a less prominent alternative in 2012 and 2022.¹⁷
- c) See response to b) above.
- d) Enbridge Gas can invest in viable alternatives to natural gas (which it is already exploring).
- e) As highlighted in the LEI report, Enbridge Gas is more capable of managing the energy transition risks after amalgamation. However, LEI believes that its larger size and market share do not completely offset the increase in risk from energy transition.
- f) See the response to b).
- g) See the response to b).
- h) See the response to d).
- i) See the response to e).

YPERLINK "<https://www.iea.org/commentaries/global-heat-pump-sales-continue-double-digit-growth>" [Global heat pump sales continue double-digit growth](#). March 31st, 2023.

Industrial Gas Users Association Interrogatory # M2-IGUA-2

Interrogatory

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.

Response:

The following response is provided by LEI.

- a) Long-term investment strategies (i.e., for an investment horizon of 10 or more years), including passive investing and value investing, are widely used by equity investors.¹⁸ For example, the OECD notes that institutional investors such as large pension funds are *“viewed as sources of long-term capital with investment portfolios built around two main asset classes (bonds and equities) and an investment horizon tied to the often long-term nature of their liabilities.”*¹⁹ Further, the Ontario Teachers’ Pension Plan also cites a long-term view as one of their core investment beliefs.²⁰ As well, debt investors typically invest in long-term securities such as 10-year and 30-year treasury bonds. It is notable that the senior unsecured

¹⁸ Investopedia. [Strategies of Legendary Value Investors](#). Accessed on May 9th, 2023.

¹⁹ OECD. [Long-term investing of large pension funds and public pension reserve funds 2022](#). December 19th, 2022. Page 3.

²⁰ Ontario Teachers’ Pension Plan. [Our advantage](#). May 11th, 2023.

debt issued by Enbridge Gas (and its predecessor companies) from 2015 to 2022 have a weighted average maturity term of ~20 years.²¹

- b) See response to a) above.
- c) See N.M2.IGUA-2/Appendix A.

²¹ Estimated using data from S&P Global Intelligence.

Industrial Gas Users Association Interrogatory # M2-IGUA-3

Interrogatory

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?

Response:

The following response is provided by LEI.

- a) S&P Global assesses the US and Canadian regulatory regimes based on analysis of quantitative and qualitative factors such as regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation.²² Based on its assessment, S&P groups US states and Canadian provinces into 5 categories: (i) credit supportive; (ii) more credit supportive; (iii) very credit supportive; (iv) highly credit supportive; and (v) most credit supportive. LEI largely agrees with these categories.

In its June 2021 assessment, S&P classified the province of Ontario as well as three other Canadian provinces as 'most credit supportive', as can be seen in the following figure.²³

²² S&P Global Ratings. [U.S. And Canadian Utility Regulatory Updates And Insights: June 2020](#).

²³ S&P Global Ratings. [Updated Views On North American Utility Regulatory Jurisdictions - June 2021](#).

Utility Regulatory Jurisdictions Among U.S. States And Canadian Provinces				
Credit supportive (adequate)	More credit supportive (strong/adequate)	Very credit supportive (strong/adequate)	Highly credit supportive (strong/adequate)	Most credit supportive (strong)
New Mexico	Alaska	Colorado**	Alberta	Alabama
Prince Edward Island	Arizona	Delaware	Arkansas	British Columbia
	California	Idaho	Georgia	Federal Energy Regulatory Commission (electric)
	Connecticut**	Illinois	Indiana	Florida
	District of Columbia	Maryland	Kansas	Iowa
	Hawaii	Missouri	Louisiana	Kentucky
	Mississippi	Nebraska	Maine	Michigan
	Montana	Nevada	Massachusetts	Nova Scotia
	New Jersey	New Orleans	Minnesota	Ontario
	Oklahoma	New York	North Carolina	Quebec
	South Carolina	Ohio	New Hampshire	Wisconsin
		Rhode Island	Newfoundland & Labrador	
		South Dakota	North Dakota	
		Texas	Oregon	
		Vermont	Pennsylvania	
		Washington*	Tennessee	
		West Virginia	Texas RRC	
		Wyoming	Utah	
			Virginia	

*Assessment revised upward. **Assessment revised downward.

- b) Peer groups (with an investment grade rating criteria as utilized by LEI) are inherently based on financial characteristics, which already embed the market/credit rating agencies' perception of regulatory differences.

Industrial Gas Users Association Interrogatory # M2-IGUA-4

Interrogatory

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, Énergir, and Fortis BC Energy).

Response:

The following response is provided by LEI.

- a) Please see LEI's response in Exhibit N.M2.EGI.12.
- b) The average customer-weighted equity ratio is ~37% and ROE is 8.6% (see table below).

Company name	No. of customers (latest available)	Authorized by regulators	
		Latest ROE (%)	Latest proceeding (equity ratio)
ATCO Gas (Alberta)	1,263,916	8.50%	37.00%
Centra Gas Manitoba Inc. (Manitoba)	289,364	8.30%	30.00%
Énergir (formerly Gaz Métro) (Quebec)	205,000	8.90%	38.50%
FortisBC Energy Inc. (gas) (British Columbia)	1,064,800	8.75%	38.50%
Customer weighted average	2,823,080	8.60%	36.96%

Industrial Gas Users Association Interrogatory # M2-IGUA-5

Interrogatory

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%.

Response:

The following response is provided by LEI.

Please see the figure below based on equity ratio of 36%:

Credit Metric	2019-2023 average	2023	2024	2025	2026	2027	2028
Base scenario (ROE of 9.36% for 2024-2028)							
Debt/ EBITDA (x)	5.47x	5.75x	5.29x	5.25x	5.20x	5.17x	5.14x
FFO/ Debt (%)	13.43%	12.75%	14.16%	14.31%	14.48%	14.59%	14.70%
FFO/ Interest (x)	3.19x	3.08x	3.43x	3.46x	3.50x	3.53x	3.56x
EBIT/Interest (x)	2.58x	2.44x	2.42x	2.42x	2.42x	2.42x	2.42x
Lower ROE scenario (ROE of 8.86% for 2024-2028)							
Debt/ EBITDA (x)	5.47x	5.75x	5.38x	5.34x	5.29x	5.26x	5.23x
FFO/ Debt (%)	13.43%	12.75%	13.88%	14.02%	14.19%	14.31%	14.42%
FFO/ Interest (x)	3.19x	3.08x	3.36x	3.39x	3.43x	3.46x	3.49x
EBIT/Interest (x)	2.58x	2.44x	2.34x	2.34x	2.34x	2.34x	2.34x
Higher ROE scenario (ROE of 9.86% for 2024-2028)							
Debt/ EBITDA (x)	5.47x	5.75x	5.21x	5.17x	5.12x	5.09x	5.06x
FFO/ Debt (%)	13.43%	12.75%	14.44%	14.59%	14.76%	14.87%	14.98%
FFO/ Interest (x)	3.19x	3.08x	3.49x	3.53x	3.57x	3.60x	3.63x
EBIT/Interest (x)	2.58x	2.44x	2.50x	2.50x	2.50x	2.50x	2.50x

**Public Interest Advocacy Centre (PIAC)/Vulnerable Energy Consumer Coalition
(VECC) Interrogatory # M2-VECC-1**

Interrogatory

Reference – Exhibit M2, page 25

“Overall, with respect to stranded asset risk, while some of the risks can be anticipated and mitigated, when considering an investment time horizon of around 25 years, LEI believes that there is an increase in stranded asset risk, as investors take long-term risks into consideration when making investment decisions today”

- a) Other than the anecdotal references included in the Report what analysis has LEI undertaken or third-party reports has reviewed, which demonstrate that stranded risk has increased (or is increasing) for natural gas utilities?
- b) How has LEI quantified the impact (in terms of either return on equity or capital structure) its conclusion that stranded asset risk has increased?

Response:

The following response is provided by LEI.

- a) LEI’s statement that stranded asset risk has increased for Enbridge Gas is based on its assessment of energy transition risk for Enbridge Gas and is also backed by sources such as Moody’s Investors Service, The Wall Street Journal and the Brattle Group (Footnote Nos. 65 and 70 respectively in the LEI report). In addition, it is notable that, after the LEI report was filed, the state of New York banned natural gas hookups in all new buildings starting from 2026.²⁴ Further, the San Francisco Bay area in the United States intends to phase out natural gas-powered furnaces and water heaters beginning in 2027.²⁵
- b) Based on LEI’s risk assessment, there is a modest increase in business risk for Enbridge Gas. While LEI did not assess the quantitative impact of each risk factor separately, LEI has performed forward-looking credit metric analysis based on scenarios which consider overall change in risk for Enbridge Gas.

²⁴ The Washington Post. [N.Y. ditches gas stoves, fossil fuels in new buildings in first statewide ban in U.S.](#) May 3rd, 2023.

²⁵ Reuters. [San Francisco Bay area to phase out natural gas heating appliances.](#) March 16th, 2027.

**Public Interest Advocacy Centre (PIAC)/Vulnerable Energy Consumer Coalition
(VECC) Interrogatory # M2-VECC-2**

Interrogatory

Reference – Exhibit M2, pages 27-29

“Separately, Enbridge Gas has sought approval for straight fixed variable with demand (“SFVD”) rate design in this application. The proposed rate design includes a separate customer charge (based on Enbridge Gas’ fixed costs), and a demand charge (based on Enbridge Gas’ variable costs). If approved, LEI agrees with Concentric that this will reduce risks for Enbridge Gas.”

- a) Please provide the analysis that LEI has undertaken to understand the potential change in volumetric risk if the proposed SFVD rate design is approved.
- b) Currently EGI recovers its costs through rate designs that use volumetric and fixed components in different proportion depending on customer class. What analysis has LEI undertaken to understand how changes in the number of customers in each customers class affect the relative portion of revenues derived from the fixed component of rates?
- c) Given that a large portion of EGI’s gas volume costs are recovered on a pass-through basis (i.e., not margined) how are the overall sales volume trends shown in Figure 12 meaningful in determining the impact of “volumetric” risk on the Utility?

Response:

The following response is provided by LEI.

- a) LEI has not made an independent quantitative analysis of SFVD rate design. The conclusions regarding SFVD are based on the evidence and analysis provided by Enbridge Gas in this proceeding, which indicate that, relative to current rate design, the delivery charge under SFVD more accurately matches the cost recovery with the cost of the customer connection to the distribution system and the demand each customer imposes on the system.²⁶ Having noted the above, as the decision to approve SFVD rate design is yet to be made by the OEB, it was not one of the factors considered by LEI in concluding that there is no change in volumetric risk for Enbridge Gas.
- b) See response to a) above.

²⁶ OEB. EB-2022-0200. Exhibit 8, Tab 2, Schedule 3. Page 13 of 37. November 30th, 2023.

- c) Although natural gas costs are allowed on a pass-through basis, the OEB adjusts the rate every quarter which introduces a brief lag in recovery of costs.²⁷

²⁷ OEB. [The Rising Market Price of Natural Gas: Helping to Manage Cost Increases for Many Customers Across Ontario](#). March 30th, 2023.

**Public Interest Advocacy Centre (PIAC)/Vulnerable Energy Consumer Coalition
(VECC) Interrogatory # M2-VECC-3**

Interrogatory

Reference – Exhibit M2, page 51

“LEI recommends an increase in equity ratio to 38% for the period 2024 to 2028. LEI agrees with Concentric that Enbridge Gas is riskier today compared to 2012 (and 2017), however LEI differs with regards to the degree to which the risk has increased”

- a) Is LEI’s recommendation of 38% based entirely on the results of the “Stress Test” set out in Appendix B?
- b) If not then please provide the risk component numerical analysis which LEI used to derive a recommendation of 38% (i.e., show the quantification of the risk adjustments discussed in the Report that are used to derive 38%).

Response:

The following response is provided by LEI.

- a) LEI’s recommendation is based on consideration of multiple factors, including change in Enbridge Gas’ business and financial risk profile, peer group analysis, and credit metric analysis. The risk assessment and peer group analysis performed by LEI indicated that an increase in equity ratio is justified for Enbridge Gas. The credit metric analysis, including the stress test analysis, indicated that an increase in deemed equity ratio to 38% is sufficient for Enbridge Gas to manage the increased uncertainties for the 2024-2028 rate plan period.
- b) See response to a) above.

Energy Probe Interrogatory # M2-Energy Probe-1

Interrogatory

Reference: LEI Report Page 1

Preamble: LEI Concludes

“There is a modest increase in business risks for Enbridge Gas despite the advantages from amalgamation, particularly due to increase in risks associated with energy transition.”

- Since the amalgamation, Enbridge Gas is more capable of managing risks (including energy transition risk), owing to its larger customer base and the opportunity for increased operating efficiencies from economies of scale;
- There is no material increase in financial risks, particularly with regard to risk of credit rating downgrade, consideration of environmental, social and governance (“ESG”) factors in credit rating analysis, and accessibility to debt markets; and
- The current equity ratio of 36% is lower compared to Canadian peers (averaging 37.2% customer-weighted average equity ratio) and US peers (averaging ~51.4% customer-weighted average equity ratio).”
 - a) Please confirm that both LEI and Dr. Cleary (IGUA) agree there is no change in EGI’s Financial Risk and EGI’s Credit metrics are sound.
 - b) When will the increase in risks related to the energy transition materialize?
 - i. in the next 3 years
 - ii. in 3-5 years
 - iii. in 5-10 years
 - c) Why is a comparison to a US peer group appropriate, given the different rates of return awarded by Canadian Regulators?
 - d) How much weight did LEI place on the US peer group and Canadian peer group to determine comparability?
 - e) How much weight did LEI place on Energy Transition risk vs Comparability to peer group in arriving at its 38% equity thickness recommendation?

Response:

The following response is provided by LEI.

- a) The financial risk analysis in the LEI report concludes that there is no meaningful change in financial risk. While LEI is not in a place to confirm Dr. Cleary's position, the following quote from Dr. Cleary's report may be relevant for this question:²⁸

"...there is clearly no need for an increase in [Enbridge Gas'] equity ratio to maintain its current strong credit ratings (financial integrity), or its ability to continue to access capital at favorable rates."

- b) While the energy transition is expected to play out over multiple decades, LEI's assessment that there is a modest increase in business risk for Enbridge Gas reflects increased uncertainties for the 2024-2028 period (e.g., due to slight increase in stranded asset risk and increased uncertainties in economic viability of alternatives to natural gas).
- c) As stated in Section 4 of the LEI report, using North America-wide utilities deepens the sample size and provides a more meaningful reflection of the investors' opportunity space.
- d) While LEI did not assign specific weights to US and Canadian peer groups, in its analysis LEI analyzed approved changes in equity ratios for both US and Canadian companies over time. Further, LEI's recommended equity ratio is based on consideration of multiple factors, including change in Enbridge Gas' business and financial risk profile, peer group analysis, and credit metric analysis.
- e) See response to d) above.

²⁸ OEB. EB-2022-0200. Exhibit M – IGUA Cost of Capital. Evidence of Dr. Sean Cleary, CFA, Professor of Finance. Page 34. Filed on April 21st, 2023.

Energy Probe Interrogatory # M2-Energy Probe-2

Interrogatory

Reference: LEI Report Page 19

Preamble: “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. Green hydrogen, which is one of the future alternatives to natural gas identified by Enbridge Gas, has seen significant policy support in North American jurisdictions (see discussion in sub-section below). Further, it is unlikely that Enbridge Gas will face significant difficulties in financing new gas infrastructure between 2024 and 2028 owing to a favorable policy and regulatory environment, with a stable outlook for the near-term from credit rating agencies.”

- a) How is the above statement consistent with the conclusion that 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.
- b) How much is the increase in risk during the proposed rate term to 2028 (%)?

Response:

The following response is provided by LEI.

- a) In its assessment of policy and regulatory risk from energy transition, LEI described the factors which increase the risk for Enbridge Gas (such as federal carbon charge and subsidies for competitive alternatives) and the mitigating factors (such as policy support for alternatives identified by Enbridge Gas and its favourable regulatory environment in Ontario). Overall, LEI concluded that there is an increase in policy and regulatory risk from energy transition for Enbridge Gas.
- b) Please refer to LEI’s response to b) in Exhibit N.M2.Energy Probe-1.

Energy Probe Interrogatory # M2-Energy Probe-3

Interrogatory

Reference: LEI Report, Page 23 and Figures 14 and 15

Preamble: “Additionally, Enbridge Gas projects a steady growth in number of customers served and sales volume between 2022 and 2028 (i.e., Compound Annual Growth Rate or “CAGR” of: 1% for customers served; and 0.9% for sales volumes).”

- a) Please provide the historic growth (CAGR) for the US sample
 - i. Customers
 - ii. Annual Volumes distributed.
- b) How much do the EGI Community Expansion Projects increase customers/volumes and reduce volumetric and business risks during the rate term?

Response:

The following response is provided by LEI.

- a) Based on LEI’s analysis (utilizing the data obtained from S&P Global Intelligence), from 2015 to 2021, the companies in the US sample have an average CAGR of 1.8% and 0.3% for customer growth and sales volume growth respectively.²⁹
- b) LEI does not have specific information about incremental customers and sales volumes associated with EGI Community Expansion Projects.

²⁹ Source: S&P Global Intelligence. Note that LEI was not able to obtain historical customer and sales volume data for all US peer group companies from S&P Global Intelligence. See N.M2.Energy Probe-3/Appendix A for analysis.

Energy Probe Interrogatory # M2-Energy Probe-4

Interrogatory

Reference: LEI Report, Page 23

Preamble: “LEI finds that there has been a reduction in annual natural gas pipeline additions observed in the US in the last 5 years. Between 2018 and 2022, new pipeline capacity additions averaged 8,656 MMcf/d annually compared to the annual average of 15,576 MMcf/d observed between 2013 and 2017 (see Figure 10).”

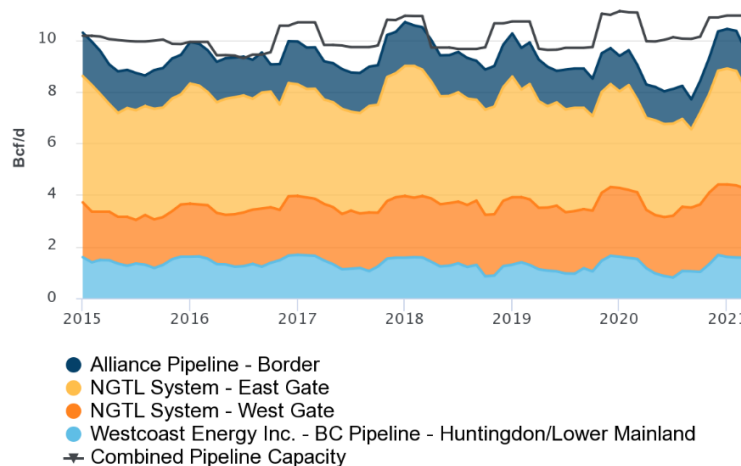
- a) Please provide the Canadian pipeline capacity additions over the past 5 years.
- b) Please provide the Union/Enbridge Gas Distribution/EGI pipeline capacity additions
 - i. over the past 5 years and
 - ii. projected 2024-2028

Compare to Canada and to US

Response:

The following response is provided by LEI.

- a) From 2015-2020, there was an average gas transmission pipeline capacity addition of 0.12 bcf/d per year (see chart below).³⁰ The US added 14.07 bcf/d of interstate pipeline capacity from 2015-2022.³¹



- b) LEI was not able to obtain the relevant data.

³⁰ Canada Energy Regulator. [Natural Gas Pipeline Transportation System](#). Accessed on May 9th, 2023.

³¹ US Energy Information Administration (EIA).

Energy Probe Interrogatory # M2-Energy Probe-5

Interrogatory

Reference: LEI Report, Page 33

Preamble: “LEI believes that regulatory risk has remained unchanged compared to 2017/2018. In the recent 2022 DBRS report, it classified Enbridge Gas’ *low-risk regulated operations* as one of Enbridge Gas’ strengths in its rating considerations. This is similar to DBRS’ assessment in 2018, when it considered the regulatory environment as one of the strengths for EGD and Union Gas.”

- a) Has LEI assessed the Regulatory Risk reduction related to EGI’s proposed SFD rate design?
If so, please provide LEI’s estimate the impact on regulatory and overall risk.
- b) If not, please provide that estimate.

Response:

The following response is provided by LEI.

- a) The impact of SFVD rate design has been considered in the LEI report for assessment of volumetric risk for Enbridge Inc. However, as the decision to approve SFVD rate design is yet to be made by the OEB, it was not one of the factors considered by LEI in formulating its conclusions regarding change in volumetric and regulatory risk. If approved, LEI believes that SFVD rate design will slightly reduce the volumetric risk for Enbridge Gas. The reasoning is provided in Exhibit N.M2.VECC-2.
- b) See response to a) above.

Energy Probe Interrogatory # M2-Energy Probe-6

Interrogatory

Reference. LEI Report, Page 49

Preamble: “The equity ratio for Ontario electricity distribution companies has consistently been higher than Enbridge Gas (and its predecessor companies, EGD and Union Gas) and was so in both 2012 and 2017. It is worth noting that Enbridge Gas currently has significantly higher customers than the largest electricity distributor in Ontario.”

- a) Hydro One is Ontario’s Largest Electricity Transmitter/Distributor. Please confirm Hydro One debt/ equity Ratio as per the OEB Year Handbook is 1.71 and Interest coverage 3.2.
- b) Please provide a side by side comparison of Hydro One Credit metrics with those of Enbridge Inc.

Response:

The following response is provided by LEI.

- a) Confirmed.
- b) Please see the comparison below.³²

	Enbridge Gas Distribution Inc.			Union Gas Inc.			Enbridge Gas Inc.			Hydro One Networks Inc.		
	Current ratio	Debt/Equity ratio	Interest coverage ratio	Current ratio	Debt/Equity ratio	Interest coverage ratio	Current ratio	Debt/Equity ratio	Interest coverage ratio	Current ratio	Debt/Equity ratio	Interest coverage ratio
2017	0.84	1.54	1.96	0.47	2.08	2.42	N/A			0.56	1.38	2.93
2018	0.93	1.67	2.52	0.69	2.12	2.69				0.51	1.43	2.91
2019	N/A			N/A			0.75	0.98	2.53	0.63	1.60	3.39
2020							0.66	1.01	2.34	0.67	1.71	3.20
2021							0.71	1.07	2.55	0.64	1.72	3.73

³² OEB [Natural Gas and Electricity Utility Yearbooks](#).

Energy Probe Interrogatory # M2-Energy Probe-7

Interrogatory

Reference: LEI Report, Appendix B

Preamble: “To understand the impact of LEI’s recommendation on Enbridge Gas’ credit metrics over the 2024-2028 period, LEI performed a forward-looking credit metric analysis for the 2024-2028 period assuming an allowed equity ratio of 38% in conjunction with three scenarios of allowed ROEs (9.36% for the base scenario; 8.86% and 9.86% for the other two scenarios).”

- a) Why are Scenarios with 7.36% and 6.36% ROE realistic to examine?
- b) Please provide the credit metric thresholds for retaining EGI’s A rating with the current ROE
 - i. 36% Equity ratio
 - ii. 37% Equity ratio
 - iii. 38% equity ratio

Response:

The following response is provided by LEI.

- a) As stated in the LEI report, resiliency in unlikely tail risk scenarios (which are proxies for a range of deteriorating business conditions) will help Enbridge Gas to better manage uncertainties during the 2024-2028 period.
- b) It is not practical to provide specific credit metric thresholds for retaining EGI’s A rating, as the rating agencies consider multiple factors in their decision to retain/upgrade/downgrade credit ratings. While there are no equity ratio-specific thresholds, LEI noted the following in its report (Exhibit M2, page 38):

“With regards to potential for a negative rating change, in its July 2022 ratings report, S&P indicated that it could lower the ratings for Enbridge Gas if FFO to debt ratio approaches 10% with no prospects for improvement...DBRS adds that it could take a negative rating action if there is an adverse regulatory change that would have a negative impact on Enbridge Gas’ business risk profile or if there is a significant deterioration of credit metrics on a sustained basis...”³³

³³ As mentioned in the LEI report, in its forward looking credit metric analysis, LEI calculated the credit metrics based on debt and equity capitalized in the rate base. This method differs slightly from the methodology used by credit rating agencies, which use metrics reported in the financial statements for their calculations.

Energy Probe Interrogatory # M2-Energy Probe-8

Interrogatory

Reference: LEI Report Excel Working Papers, Tab Figures 34, 36, 37 and 38

- a) Please confirm equity ratio assumption(s)
- b) Please provide a Spreadsheet with Interest Expense and other ratios for 36% equity ratio.
- c) Please provide a comparison Table for 36% equity ratio LEI recommended 38% equity ratio.

Response:

The following response is provided by LEI.

- a) LEI has provided the assumptions/calculations underlying forward-looking credit metrics analysis within Figure 35 (Appendix A) of the LEI report.
- b) See LEI's MS Excel based working papers that were filed by OEB staff under a covering letter on the record of this proceeding on April 25th, 2023.
- c) Please see LEI response in Exhibit N.M2.IGUA-5.

Energy Probe Interrogatory # M2-Energy Probe-9

Interrogatory

Reference: LEI Report General

- a) Please confirm Enbridge Gas Inc has over-earned its ROE by ~1.5% from 2018-2022.
- b) How does this directionally affect LEI's analysis on risks?
- c) Please reproduce a summary table for each type of risk based on 1.5% higher Actual ROE.

Response:

The following response is provided by LEI.

- a) Based on the data provided in the application, Enbridge Gas has over-earned its ROE by 0.74%, on average, from 2019-2022 (see table below).

	Actual	Actual	Actual	Estimate
	2019	2020	2021	2022
Approved by OEB	8.980%	8.520%	8.340%	8.660%
ROE achievement	10.475%	8.717%	9.168%	9.108%
Overearnings	1.495%	0.197%	0.828%	0.448%
<i>Source: EB-2022-0200.Exhibit 6.Tab 1.</i>				
<i>Schedule 2. Attachment 4.</i>				
	<i>Page 2 of 21</i>	<i>Page 6 of 21</i>	<i>Page 11 of 21</i>	<i>Page 15 of 21</i>

- b) LEI has analyzed an over-earning scenario (ROE of 9.86%) in Figure 34 of the LEI report.
- c) See response to b) above.