INDUSTRIAL GAS USERS ASSOCIATION (Cleary)

Answer to Undertaking from Enbridge Gas Inc. (EGI)

Undertaking:

J10.2

Dr. Cleary to opine, for the year 2020, on the rate of return for non-utility storage based on data in Exhibit K10.1 and any other additional resources, and to comment on the impact of the rate of return on the stability of earnings for the utility and the market's perception; the relative risk of this company and its application to equity thickness in this proceeding.

Response:

Informed by the discussion recorded, I have provided calculation of the rate of return on the "Unregulated Gas Plant" assets included in the schedules provided by Mr. Quinn in Exhibit K10.1, using the formula:

Return on Assets (ROA) = Income / Total Assets

For comparison, calculations are provided for both the regulated assets value and the unregulated assets value set out in the provided schedules.

Regulated Assets:

ROA (Regulated Assets) = Income / Total Assets

Where:

Income = $801.9 (Utility Income from line 15 on PDF p. 2, and also line 7 on PDF p. 7)

Total Assets = $13,561.9 (Rate Base from line 6 on PDF p. 7)

ROA (Regulated Assets) = $801.9/$13,561.9 = **5.91%** (also equals Indicated Rate of Return – line 8 on PDF p. 7)

Unregulated Assets:

ROA (Unregulated Assets) = Income / Total Assets

Where:

Income = $139.2 (line 6, column 2 PDF p. 2) – $51.6 (line 12, column 2 PDF p. 2) = $87.6

Total Assets = $570.4 (EGI Total PPE from line 27 column 4 on PDF p. 4)

ROA (Unregulated Assets) = $87.6/$570.4 = **15.36%**

NOTE: This calculation would be appropriate if the EGI Total Unregulated Gas Plant figure reported on line 27 of PDF p. 4 is for “Net Assets” (i.e. Assets – Accumulated Depreciation), which is not made clear in the document.

If, on the other hand, the reported figure is for “Gross Assets” (i.e. before Accumulated Depreciation), then ROA would be as calculated below:

ROA (Unregulated Assets) = Income / Total Assets

Where:

Income = $87.6

Total Assets = $570.4 (EGI Total PPE from line 27 column 4 on PDF p. 4) - $199.3 (EGI Total Accumulated Depreciation from line 27 column on PDF p. 5)

ROA (Unregulated Assets) = $87.6 / $371.1 = **23.61%**

Discussion:

In respect of the impact of these unregulated gas plant returns on the market’s perception of EGI (as discussed at Transcript Vol. 10, p.22, lines 14-17), I would begin by noting that the non-regulated income figure of $87.6 is slightly less than 10% (i.e. 9.85%) of the sum of the Utility Income figure of $801.9 (reported on PDF p. 2) and $87.6 (i.e. $889.5). Therefore, I would consider this significant enough to be considered; albeit not a relatively large portion of EGI’s income.

The calculations above show that the ROA for EGI’s unregulated assets is **much, much higher** than for its regulated assets – at least for 2020. The higher returns would be viewed favorably by the market (at least in 2020), in context of course (i.e. 10% of total income).

It is not possible for me to determine the net impact on the market’s overall assessment of these unregulated operations without understanding how the market views the risk profile of these unregulated operations relative to EGI’s regulated operations. If these operations are viewed as being riskier than regulated operations, there would be a trade-off between the attractiveness of earning higher returns, versus the unattractiveness of the additional risks associated with these unregulated operations (and the associated unregulated income).

INDUSTRIAL GAS USERS ASSOCIATION (Cleary)

Answer to Interrogatory from Enbridge Gas Inc. (EGI)

Undertaking:

J10.3

Dr. Cleary to identify whether there exists another investor-owned gas utility that has an equity ratio of 36 percent, and advise if one is found.

Response:

Dr. Cleary did not find another North American “investor-owned” gas utility with an equity ratio less than 36%.