Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

August 30, 2024

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

Re: Enbridge Gas Inc. (Enbridge Gas)
2024 Rebasing Application, Phase 2
Interrogatory Response for Expert Evidence of Pacific Economics Group Research LLC
Ontario Energy Board File Number: EB-2024-0111

On August 13, 2024, OEB staff filed its expert evidence by the Pacific Economics Group Research LLC (PEG) which provides a review of Enbridge Gas's evidence and the evidence prepared by Enbridge Gas's expert, Black and Veatch.

In a letter filed on August 21, 2023, Enbridge Gas requested a response to one interrogatory on PEG's evidence by August 30, 2024, in advance of the September 6, 2024 due date set in Procedural Order No. 2 for responses to interrogatories on expert evidence.

Below in Schedule A, please find the requested response to M3.EGI-1, prepared by PEG. Separately, please find attached supporting excel file, "Attachment N.M3.EGI-1". Responses to other interrogatories on PEG's evidence will be filed by September 6, in accordance with Procedural Order No. 2.

Any questions relating to this letter should be directed to Khalil Viraney, at 416-440-7729 or Khalil.Viraney@oeb.ca.

Yours truly,

Lindsay Wright

Digitally signed by Lindsay Wright
Date: 2024.08.30 16:56:15 -04'00'

Lindsay Wright
Manager, Natural Gas, Major Applications

Encl.

Schedule A

Enbridge Gas

EB-2024-0111

PEG Response to M3-EGI-1

PEG Response to Enbridge Gas Inc.'s Interrogatory M3-EGI-1

Interrogatory

Reference:

Exhibit M3, page 78 Exhibit M3, page 80

Preamble:

Pacific Economics Group (PEG) developed an econometric model that played a critical role in its recommended stretch factor and productivity factor for Enbridge Gas's proposed IRM.

At page 78, PEG states: "We benchmarked the non-fuel O&M expenses, capital cost, and multifactor ("total") cost of EGI using the econometric models detailed in the prior section. In this section we provide some background information about EGI, compare the Company's business conditions to sample norms, and discuss our benchmarking results using productivity indexes and econometric methods."

At page 80, the PEG Report provides the following results of PEG's cost benchmarking model (Actual minus Predicted Costs):

Table 6

Econometric Cost Level Benchmarking Scores

Period	Total Cost	Capital Cost	O&M Cost
2019	25.66%	26.74%	11.70%
2020	26.00%	26.29%	14.66%
2021	21.66%	24.72%	1.24%
2022	22.46%	24.09%	3.33%

Question(s):

a) For each year from 2006 through 2022, please provide the following components of PEG's benchmarking analysis:
    - Enbridge Gas's actual total costs;
    - Enbridge Gas's actual capital costs;
    - Enbridge Gas's actual O&M costs;
    - Enbridge Gas's predicted total costs;
    - The percentage change in Enbridge Gas's predicted total cost, relative to the preceding year;
    - The independent variables listed in Exhibit M3, page 73, Table 3, for each sampled U.S. utility, 2006 to 2022;
    - Enbridge Gas's predicted capital costs;
    - Enbridge Gas's predicted O&M costs;
b) Please confirm that Enbridge Gas's predicted cost in each year depends entirely on the estimated parameter values presented in Exhibit M3, page 73, Table 3 (i.e. there are no coefficient updates to reflect new data) and values of the independent variables for the relevant years.
c) Please confirm that, if requested, PEG will complete further reasonable sensitivity tests and scenario analysis in advance of the Oral Hearing.

Responses:

The following responses were provided by PEG.

a) Please see Attachment N.M3-EGI-1. For BV's convenience, PEG has extracted and augmented certain files previously made available with the working papers. The requested data are contained in this file. This extract contains data and calculations to allow for the replication of the benchmarking results for EGI as well

as the source data used in the econometric estimation. The extract does not contain licensed data that are not easily available publicly and therefore PEG does not consider them confidential.

Please note that the capital cost levels provided in the file were calculated using a perpetual inventory method and capital service prices. The same was done in BV's study. PEG's study features a geometric decay perpetual inventory equation and a consistent service price index that doesn't freeze the real rate of return. The sample period contains years of significant changes in interest rates and capital asset price inflation which affects the capital service price and capital cost. The cost data provided are designed to be analyzed econometrically where the real cost serves as the explanatory variable. To use cost without the corresponding service price index in an analysis such as cost per customer would lead to misleading results in the opinion of PEG.

Additional information can be found in PEG's filed working papers. As is customary in these proceedings, access to the working papers is subject to confidentiality restrictions. As stated in OEB Staff's August 21, 2024 letter where OEB Staff requested confidentiality of PEG's working papers:

> In accordance with the OEB's Practice Direction on Confidential Filing, counsel and consultants to registered parties who file (or have filed) executed Declarations and Undertakings can request access to the working papers from the Registrar's office.[1]

b) This is not confirmed. The estimated parameter values presented in Exhibit M3, page 73, Table 3 were calculated using the entire sample of 859 observations across 58 companies. The 57 U.S. companies have observations for all years from 2008-2022, while EGI has 4 observations for the years 2019-2022. EGI's predicted

[1] OEB Staff's letter can be found here:
https://www.rds.oeb.ca/CMWebDrawer/Record/846269/File/document

cost in each year is calculated using a model with the same variables included in the Table 3 model but excluding EGI from the parameter estimation. While all of the information was previously provided in our working papers, PEG's provided attachment to this response includes the exact values for all variables in the sample along with the parameters for the model used to benchmark EGI and the resulting cost benchmark score calculations.

Best practice for cost benchmarking requires the subject company's own costs to be excluded from the model parameter estimates used to benchmark them. Thus, each company's predicted costs are calculated with model parameters which are not influenced by their own costs. The parameter estimates do not differ for any other reason. PEG is uncertain what "new data" Enbridge is suggesting the parameters could be updated with.

The parameters of the models actually used in benchmarking are extremely similar for each sampled company. These calculations are done identically in a programming loop such that the 58 near-identical models are not captured and stored, though they can be replicated individually using the provided working papers and code, if desired. An illustrative example can be found starting in row 100 in any year of PEG's Total Cost Benchmarking Update Calculations excel files, in the Benchmarking Calculations tab, on the OEB website at https://www.oeb.ca/ontarios-energy-sector/performance-assessment. The excel file can be downloaded directly from this link.

c) PEG will determine the reasonableness of requests for sensitivity analyses on a case-by-case basis. PEG has no objection to accommodating reasonable requests that BV is unable or unwilling to undertake.