ENBRIDGE GAS DISTRIBUTION INC. RESPONSE TO
BOARD STAFF INTERROGATORY #49

INTERROGATORY

Issue: D-5
Should approval of Enbridge's proposed rate methodology for the service to be provided to TransCanada be granted?

REF: Exhibit E, Tab 1, Schedule 2, Arrangement with TransCanada

Preamble
Enbridge discusses here the arrangement with TransCanada for the Shared Pipeline. The evidence refers to a 15-year term contract with TransCanada for transportation services (the Transportation Service Agreement or TSA).

Questions

a) In paragraph 2, Enbridge states that "for cost allocation purposes, Enbridge will retain 800,000 GJ (40%) of the design capacity and will assign the remainder of the design capacity (1,200,000 GJ or 60%) to TransCanada." Is the 60% ratio reflective of the daily contractual entitlement that TransCanada would have on the Shared Pipeline?

b) Enbridge is proposing to treat the Shared Pipeline as a stand-alone cost item. Please provide the revenue requirement that would be allocated to Rate 332 were Enbridge to use a more "traditional approach" and use its cost allocation study underpinning its 2013 Board-approved rates to allocate the incremental revenue requirement of this project to that class. Please use the 2016 revenue requirement for this comparative analysis.

c) Please explain why the income taxes on earnings in Attachment 1 are negative and explain why a direct assignment to TransCanada is appropriate.

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d) Please provide the rate impacts related to the Shared Pipeline on the existing rate classes. Please include an explanation of how the revenue requirement would be allocated to the various customer rate classes.

e) Please list the evidence updates foreseen specifically with respect to the Shared Pipeline, including any updates related to the March 27, 2013 NEB Decision on TCPL tolls.

f) Please file the Transportation Services Agreement (“TSA”) contract with TCPL, in confidence if necessary.

g) What is the status of the TCPL negotiations?

h) Does the Base Case Economic Feasibility model an NPS 36” or an NPS 42” pipeline?

i) What is the design capacity of the NPS 36” and NPS 42” pipelines and how would Enbridge utilize the 36” line differently if the 42” line does not proceed?

j) What financial and other key assumptions are included in the Economic Feasibility for the Shared Pipeline? How many years of transportation revenue is assumed? Is the revenue requirement from the Shared Pipeline included in the Economic Feasibility?

k) With respect to the new Rate 332 for transportation services, is there a prospect that other ex-franchise customers will take service under this rate?

l) Enbridge currently has an approved transmission Rate 331 Tecumseh to Dawn service. Please compare and contrast the features of this rate to the proposed Rate 332.

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m) With respect to the Revenue Requirement shown for the Shared Pipeline at Exhibit E/T1/S2, the required rate of return is shown as 6.81%. Is this based on the Company's approved 2013 Cost of Capital? Please explain.

RESPONSE

a) Yes, the 60% ratio is reflective of the daily contractual entitlement that TransCanada would have on the Shared Pipeline assuming an NPS 42 pipe size. The corresponding daily contractual entitlement for an NPS 36 pipe size for TransCanada is 50% or 800,000 GJ. Please also see the response to Board Staff Interrogatory #48 at Exhibit I.D5.EGD.Staff.48.

b) The Company does not agree with how the proposed approach was characterized in this interrogatory question.

Please note that Tecumseh Storage services, Rates 325, 330 and 331, are also set on a stand-alone basis. Such approach is in place to ensure the proper separation of costs between storage and distribution services and to remove potential for cross-subsidization between distinct services.

Also, as laid out at Exhibit E, Tab 1, Schedule 2, Page 4, Para. 14, the Rate 332 Transportation Services Agreement is inherently different from the distribution services provided by the Company as it reflects a shared use facility by two entities and is the outcome of OEB direction to the industry for integrated regional planning to optimize infrastructure in the region. The proposed approach most closely matches the cost to provide service over the contract term.

c) The Company has provided an updated shared pipeline revenue requirement[1] at interrogatory I.D5.EGD.EP.87 Table 1. The income taxes for each year at line 14 are showing as negative amounts as the revenue requirement calculations are, a) being calculated from the cost side of an equation only without an assumed revenue recovery and, b) include a contributing credit to taxes from tax deductible capital cost allowance amounts outpacing non tax deductible book depreciation

[1] For reasons described in interrogatory response I.D5.EGD.Staff.48, the revenue requirement amounts assume Segment A's Bram West to Albion is a 36" pipeline.

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amounts. However, line 17 also shows the additional impact within taxes that occurs once rates were to recover the gross revenue amounts shown as being required at line 15. The visual of total tax amounts within line 14 and line 17 in fact shows positive income taxes for years beyond the partial in service fiscal year 2015.

d) As indicated in response to part c), the Company has provided an updated shared pipeline revenue requirement at interrogatory I.D5.EGD.EP.87 Table 1. To illustrate the rate impacts, the Company has used the 2016 forecast revenue requirement as this represents the highest level of revenue requirement and rate impact for the project. The revenue requirement for the project decreases over time as the assets depreciate. The updated shared pipeline revenue requirement forecast for 2016 is $23.6 million which is shared 50/50 between Enbridge and TCPL. Therefore, the shared pipeline revenue requirement to be recovered from Enbridge's customers in 2016 is $11.8 million. Enbridge will utilize its portion to meet the transportation and seasonal balancing needs of its customers. The $11.8 million will be recovered in Enbridge's rates as 50% transportation related and 50% seasonal related. The transportation related costs will be allocated to the rate classes based on bundled transportation volumes and recovered in the Transportation rate. The seasonal costs are further classified as 60% deliverability related and allocated to the rate classes based on the deliverability factor and 40% space related and allocated to the rate classes based on seasonal space. The seasonal costs are recovered in the Company's delivery rates. The estimated average rate impact from the Enbridge shared pipeline revenue requirement for 2016 on Enbridge's rate classes is as follows:

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		BUNDLED RATES	
Rate Class		**Sales Service**	
1		0.5%	
6		0.5%	
9		0.2%	
100		0.4%	
110		0.4%	
115		0.4%	
135		0.4%	
145		0.4%	
170		0.5%	
200		0.5%	
		UNBUNDLED RATES	
125		0.0%	
300		0.0%	

Please also see A4.EGD.ED.21 where both rate and bill impacts are shown.

e) Please see response to Board Staff Interrogatory #48 at I.D5.EGD.STAFF.48.

f) Enbridge and TransCanada are currently negotiating the details of the TSA, thus a completed TSA is not available at this time.

g) Please see response to Board Staff Interrogatory #48 at I.D5.EGD.STAFF.48. The recent TransCanada election is being incorporated the TSA.

h) The base case feasibility models a shared NPS 36 for Segment A. Please refer to response to Board Staff Interrogatory #48 at I.D5.EGD.STAFF.48

i) The design capacity of the NPS 42 is 2000 TJ/d and the NPS 36 is 1600 TJ/d. In both cases the sharing arrangement reserves 800 TJ/d for Enbridge to serve the distribution system.

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j) The detailed estimated project capital costs for the Shared Pipeline can be found at Exhibit C, Tab 2, Schedule 1. The estimated annual O&M for the shared pipeline is approximately $380,000. Note, this is the 40 year average excluding the partial year in 2015. The arrangement with TransCanada is outlined in Exhibit E, Tab 2, Schedule 2. The feasibility input parameters can be found at Exhibit E, Tab 1, Schedule 1, Pages 8 and 9.

Included in the Economic Feasibility is 10.25 years of net transportation savings and 40 years of revenues from rate 332.

k) No. The applicability of Rate 332: Bram West to Albion Transportation Service is specific to the proposed Transportation Service Agreement with TransCanada Pipelines Limited (“TransCanada”).

l) A key difference between the two rates is that the applicability of Rate 332: Bram West to Albion Transportation Service is specific to the proposed Transportation Service Agreement with TransCanada Pipelines Limited (“TransCanada”). Rate 331: Tecumseh Transportation Service is applicable to shippers who enter into an agreement with the Company for transportation service on the Company’s pipelines extending from Tecumseh to Dawn. For this reason, Rate 331 is designed as a Demand Rate, whereby a customer pays a fixed charge dependent on the capacity the customer wishes to ship on the Tecumseh to Dawn line. Since Rate 332 is specific to the TSA agreement with TransCanada, the Company proposed that Rate 332 monthly charge recovers TransCanada’s share of the annual revenue requirement of the shared pipeline through 12 (equal) payments.

Further, the shared pipeline on which the Rate 332 is based on is a shared use facility by two entities and is the outcome of the OEB direction to the industry for integrated regional planning to optimize assets in the region.

m) Within the referred to Exhibit and the updated Table 1 referred to in part c) of this response, the 6.81% required rate of return on rate base is in fact the Company’s 2013 Board Approved Cost of Capital. The 2013 Board Approved Cost of Capital was used for approximation purposes as the Company is not seeking Board Approval of total rate and revenue requirement impacts within this Leave-to-Construct proceeding but rather will be requesting approval of those impacts within its upcoming EB-2012-0459 rate application.

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