ENBRIDGE GAS DISTRIBUTION INC. RESPONSE TO
VECC INTERROGATORY #5

INTERROGATORY

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

Reference: EB-2012-0451, Exhibit E, Tab 1, Schedule 2, page 3, paragraphs 10 and 11

The referenced paragraphs state:

10. Enbridge proposes to charge a rate that will be based upon a Board approved cost-of-service methodology and include costs for: administration, depreciation, debt cost, maintenance, operations, a return on equity, and taxes.

11. The Company proposes to treat the Shared Pipeline as a stand-alone cost item. Under this approach, a transportation services charge would be calculated by the Company on a cost-of-service basis, as detailed in paragraph 10. The charge would recover the revenue requirement associated with TransCanada's share of the Shared Pipeline. As mentioned, the TSA would contain sufficient termination provisions to ensure any unrecovered capital amounts are recovered from TransCanada.

a) Does EGD have any other rate classes whose rates have been set on such a stand-alone basis? If so, please provide details.

b) Can EGD confirm that under its shared pipeline proposal, TransCanada would make no contribution to the distribution system in the rates it was charged? If unable to so confirm, please explain fully.

c) Under a fully allocated cost of service study, how would the rates thus determined for TransCanada compare with the proposed rates? Is it not fair to assume the FACOS rate would be higher as it would involve some allocation of existing overheads to TransCanada while the proposal allocates none of these costs to TransCanada?

Witness: A. Kacicnik

d) Can EGD confirm that to avoid cross-subsidization, the rate charged to a class should recover an amount between (i) stand-alone costs and (ii) incremental costs? If unable to so confirm, please discuss fully.

e) Is it fair to conclude from paragraph 11 that there is no possibility of stranded asset recovery from in-franchise ratepayers?

RESPONSE

a) Yes. Tecumseh Storage services rates, Rates 325, 330 and 331, are 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.

b) Confirmed. The proposed Rate 332 monthly charge is based on the specific annual cost (i.e. revenue requirement) to provide transportation service to TransCanada on the shared pipeline.

Having confirmed that, it is important to highlight the benefits to Enbridge's gas distribution customers facilitated by this project, inclusive of the shared pipeline arrangement with TransCanada, which is the outcome of the OEB direction to the industry for integrated regional planning to optimize assets in the region.

The project benefits to Enbridge's ratepayers consist of: integrated regional planning reflected in this project results in lower infrastructure costs, lower environmental and community impacts by eliminating duplicative infrastructure, as well as, gas supply benefits.

c) The proposed Rate 332 monthly charge is a fully allocated charge, based on a cost-of-service methodology. Also, please see the Company's evidence at Exhibit E, Tab 1, Schedule 2, pages 3 and 4.

d) To avoid/eliminate cross-subsidy issues rates for services provided need to be based on fully allocated costs.

Witness: A. Kacicnik

e) Confirmed. The rate methodology mimics the cost consequences of joint ownership, therefore TransCanada pays for its share of the capacity while the arrangement is in place, irrespective of utilization, and the residual net book value of its capacity share if it opts to terminate the arrangement.