

**ENBRIDGE GAS DISTRIBUTION INC. RESPONSE TO
TCPL INTERROGATORY #21**

INTERROGATORY

Issue A2

Reference(s) (i) Exhibit E, Tab 1, Schedule 1, Page 9 and 9, May 15, 2013 Update
 (ii) Exhibit E, Tab 1, Schedule 1, Page 9 and 9, July 22, 2013 Update

Preamble

TransCanada seeks to understand the economic analysis provided in the May 15, 2013 update in comparison to the economic analysis provided in the July 22, 2013 Update.

Request

(a) Please complete the following table by providing variances and explanations for those variances:

	May 15, 2013 Update	July 22, 2013 Update	Variance	Explanation of Variance
Capital Investment				
Mains	(redacted)	(redacted)		
Stations	(redacted)	(redacted)		
Land Rights/Total	(redacted)	(redacted)		
Total	\$595,280,523	\$652,144,124		
Future Reinforcement Projects				
2017	\$21,000,000	\$21,000,000		
2018	\$16,400,000	\$16,400,000		
2019	\$13,000,000	\$13,000,000		
2020	\$250,000	\$250,000		
Capital Maint. Costs	\$5,218,238	\$5,230,240		
Services	\$396,820,220	\$379,533,696		
Total Capital	\$1,047,968,981	\$1,087,558,060		
Total Transportation Savings	\$1,632,014,615	\$1,732,650,739		
Total Transportation Services Charge	\$388,604,339	\$471,256,624		
Net Present	\$659,207,816	\$667,432,377		

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Value (40 years)				
Profitability Index (40 years)	1.76	1.73		

- (b) For the May 15, 2013 update and the July 22, 2013 update, please provide the breakdown of capital costs between Mains, Stations and Land Rights, which were redacted in references (i) and (ii), or explain why these amounts cannot be provided.
- (c) Please reconcile the capital cost of \$686.5 million provided in Exhibit C, Tab 2, Schedule 1, Page 1 with the \$652.1 million capital cost provided in Exhibit E, Tab 1, Schedule 1, page 9 and 9 (both in the July 22, 2013 update).
- (d) Please provide the formula used by EGD to calculate the profitability index.
- (e) Please provide the discount rate used to calculate the net present value and explain why that discount rate was chosen.
- (f) Please provide an economic analysis in table format similar to reference (i) and (ii) for scenarios 1, 2, and 3 as listed in Exhibit A, Tab 3, Schedule 9, Pages 8-11.

RESPONSE

(a)

	May 15, 2013 Update	July 22, 2013 Update	Variance (July-May)	Explanation of Variance
Capital Investment				
Mains	(redacted)	(redacted)		
Stations	(redacted)	(redacted)		
Land Rights/Total	(redacted)	(redacted)		
Total	\$595,280,523	\$652,144,124	\$56.86MM	1. Additional 5.8km of NPS 42 for Segment A to go back to New Parkway West site from Bram West site
Future Reinforcement Projects				
2017	\$21,000,000	\$21,000,000	-	
2018	\$16,400,000	\$16,400,000	-	

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2019	\$13,000,000	\$13,000,000	-	
2020	\$250,000	\$250,000	-	
Capital Maint. Costs	\$5,218,238	\$5,230,240	\$0.01MM	2. Variance due to the additional pipe length for Segment A to go back to New Parkway West site from Bram West site.
Services	\$396,820,220	\$379,533,696	-\$17.29MM	3. Change to Customer Additions Forecast as filed June 3, 2013.
Total Capital	\$1,047,968,981	\$1,087,558,060	\$39.59MM	4. See (1), (2) and (3).
Total Transportation Savings	\$1,632,014,615	\$1,732,650,739	\$100.64MM	5. Update for final tolls on the Mainline and removal of toll from Parkway to Bram West
Total Transportation Services Charge	\$388,604,339	\$471,256,624	\$82.65MM	6. Increase in capital cost for shared pipeline driving corresponding increase in revenue requirement.
Net Present Value (40 years)	\$659,207,816	\$667,432,377	\$8.22MM	7. Net present value impact of changes above
Profitability Index (40 years)	1.76	1.73	-0.03	8. Change in total present value of capital greater than change in total present value of operating cash flows

(b) A detailed cost breakdown was provided as confidential information in the latest update. An aggregated breakdown was provided in response to Environmental Defense's motion on the public record. Additionally, a detailed cost variance analysis between multiple options has been provided as confidential redacted form in I.A3.EGD (Update).CCC.30. In order to preserve the integrity of a formal procurement process, Enbridge is not willing to provide any further breakdowns on the public record until the procurement process has been completed (expected Q1-Q2 2014).

(c) Please see the below table for reconciliation:

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	New Pkwy W Segment A (NPS 42 Option) (\$millions)		Bram West Segment A (NPS 42 Option) (\$millions)		Bram West Segment A (NPS 36 Option) (\$millions)	
	Escalated	Non-escalated	Escalated	Non-escalated	Escalated	Non-escalated
Base Project Cost	\$ 548.7	\$ 548.7	\$ 500.6	\$ 500.6	\$ 476.8	\$ 476.8
Contingency	\$ 84.5	\$ 84.5	\$ 78.0	\$ 78.0	\$ 62.0	\$ 62.0
Escalation	\$ 33.6	\$ -	\$ 27.8	\$ -	\$ 25.7	\$ -
Interest During Construction	\$ 19.8	\$ 19.0	\$ 17.4	\$ 16.7	\$ 16.4	\$ 15.8
Total Estimated Project Cost	\$ 686.6	\$ 652.2	\$ 623.8	\$ 595.3	\$ 580.9	\$ 554.6

*minor rounding errors may exist in the above table

- (d) The formula used by EGD to calculate the profitability index is as follows:
 Profitability Index ("PI") = (Present Value ("PV") of Operating Cash Flow + PV of CCA Tax Shield) / (PV of Capital)
- (e) The discount rate used to calculate the net present value is 5.88%. This is the Company's after-tax weighted average cost of capital. It is derived from the Board Approved 2013 Capital Structure (Excluding CIS/Customer Care) as found in the EB-2011-0354 Final Rate Order, Appendix A, page 7.
- (f) Scenario 1 - please refer to Exhibit A, Tab 3, Schedule 9, Attachment 3, Column 1.
 Scenario 2 - please refer to Exhibit A, Tab 3, Schedule 9, Attachment 3, Column 2.
 Scenario 3 - please see table below.

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Capital Investment

<u>Total Upfront Capital</u>	<u>\$652,144,124</u>
<u>Future Reinforcement Projects</u>	
2017	\$21,000,000
2018	\$16,400,000
2019	\$13,000,000
2020	\$250,000
<u>Capital Maintenance Costs</u>¹	\$5,230,240
<u>Services</u>²	<u>\$379,533,696</u>
<u>Total Capital</u>	\$1,087,558,060
<u>Total Transportation Savings</u>^{1,3}	\$1,786,386,614
<u>Total Transportation Services Charge</u>^{1,4}	\$471,256,624

SUMMARY OF RESULTS

Net Present Value (40 years)	\$691,163,281
Profitability Index (40 years)	1.76

NOTES:

¹Total for the 40 year horizon of analysis.

²Services include the costs for distribution mains, services and meters based on the 2013 capital budget.

³Total transportation savings are equal to expected gas supply benefits and incorporate the total cost of landing gas in the Enbridge franchise area including costs associated with tolls, fuel and commodity procurement (i.e. basis differentials). Prepared with TransCanada tolls based on the NEB's Toll Order TG-006-2013 (issued June 11, 2013) which made TransCanada's Compliance Filing tolls final and effective July 1, 2013

⁴Transportation Services Charges to be received from contracted shippers for transportation from Parkway West to Albion Road Station. (Current Base Case)

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