BOARD STAFF INTERROGATORY #2

INTERROGATORY

Ref: Earnings Sharing Mechanism and Actual 2016 Results
Exhibit B / Tab 1 / Schedule 3 / Page 2
Exhibit B / Tab 1 / Schedule 4
Exhibit B / Tab 4 / Schedule 2
Exhibit B / Tab 5 / Schedule 3

Preamble:

Enbridge noted that the distribution margin decrease of $6.1 million was partially driven by lower than forecast customer unlocks attributable to lower than forecast customer additions.

Enbridge also noted that the unfavourable variances were partially offset by higher large volume customer contract demand revenues resulting from higher than forecast migration from interruptible to firm rate classes.

Enbridge also provided a reconciliation of 2016 audited consolidated income to utility income in which the reclassifications and elimination of revenue / expense items are highlighted.

Enbridge provided an explanation of variances between its 2016 actual utility O&M compared to its approved utility OM&A. Enbridge noted that RCAM is $15.3 million higher due to the centralization of IT and HR services to Enbridge Inc.

Question(s):

a) Please provide an explanation for the lower than forecast customer additions experienced in 2016 (Exhibit B / Tab 1 / Schedule 3 / p. 2).

b) Please explain why Enbridge believes that there has been a higher than forecast migration of large volume customers from interruptible to firm rate classes (Exhibit B / Tab 1 / Schedule 3 / p. 2).

c) Please explain the reason for the “US GAAP adjustment elimination - deferral clearance adjustment” (Exhibit B / Tab 1 / Schedule 4 / pp. 2-3).

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d) Please explain why interest during construction and interest on deferral accounts have been both added to and eliminated from the other revenue and income category (Exhibit B / Tab 1 / Schedule 4 / p. 2).

e) Please advise whether the elimination of charitable donations includes political donations. If so, please provide the amount of the political donations (Exhibit B / Tab 1 / Schedule 4 / p. 3).

f) Please advise whether there are any costs associated with the Enbridge / Spectra merger that impact the amount of earnings sharing. If so, please quantify the impact.

g) Please advise whether the $15.3 million RCAM increase has been offset by decreased costs in another category of OM&A. If so, please provide the amount of the offset (Exhibit B / Tab 4 / Schedule 2 / p. 2).

h) Please explain why a 3-year note is being treated as short-term debt. Assuming this note had been classified as long-term debt, please provide the revised weighted average cost of debt (Exhibit B / Tab 5 / Schedule 3 / p. 2).

<u>RESPONSE</u>

a) A major factor leading to lower than forecast customer additions is a drop in new attachments in the residential replacement segment (i.e., existing homes switching to natural gas). The cost of connecting customers in this segment has become higher than expected relative to historical averages causing higher contribution amounts required from the customers as per the feasibility criteria set out by the Board under EBO 188. This has resulted in fewer customers choosing to convert to natural gas.

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b) Table 1 below provides a migration matrix showing the actual number of contract market customers that migrated among contract rate classes in 2016. A total of 17 interruptible rate customers (from rates 145 and 170) migrated to firm rate classes (rates 100, 110, 115 and 135). Interruptible customers cited the higher incidence of curtailment from the 2014 / 2015 winter which resulted in their incurrence of higher fuel costs as the reason for migrating to firm contract service.

Table 1
Summary of Contract Customer Migration: 2016 Actual vs 2016 Budget
Number of Customers

Switch	Rate Class	To 2016 Actual			
		100	110	115	**TOTAL**
From 2016 Budget	100	x	0	0	**0**
	110	0	x	1	**1**
	115	0	1	x	**1**
	135	0	0	0	**0**
	145	0	14	1	**15**
	170	0	2	0	**2**
	TOTAL	**0**	**17**	**2**	

c) Please refer to the response to BOMA Interrogatory #15, found at Exhibit I.B.EGDI.BOMA.15.

d) Interest during construction and interest on deferral accounts were first added to the other revenue and income line item within the reconciliation of audited consolidated income to utility income (Exhibit B, Tab 1, Schedule 4, page 2), and added back to the interest and financing expenses line item (Exhibit B, Tab 1, Schedule 4, page 4), in order to match where they are shown as part of utility revenues (Exhibit B, Tab 3, Schedule 1), prior to their elimination, in the determination of utility income, as compared to their inclusion in interest and financing expenses in the audited consolidated financial statements. Interest during construction, which is the interest expense offset (or credit) recorded in the corporate financials to recognize interest

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charged to construction work-in-progress, which is ultimately capitalized to the property, plant, and equipment component of rate base once assets are placed into service, is eliminated as the allowable utility interest expense is calculated through the utility capital structure that funds rate base, which only includes assets in service. Interest calculated on deferral and variance accounts (carrying cost), which during 2016 were in a net receivable position, is eliminated as the Company is allowed to recover (or required to pay) the carrying cost at Board approved rates on most deferral and variance account balances, which are not included within rate base.

e) Included within the $0.9 million elimination of donations, was $25 thousand of political donations.

f) There were no costs associated with the Enbridge / Spectra merger that impacted the 2016 earnings sharing calculation.

g) .The increased RCAM costs due to HR and IT were approximately $14M, which were offset in IT and HR Departmental costs. The remaining increase in RCAM costs would be offset in other departmental costs.

h) The 3-year note issued in April 2014 is being treated as short-term debt in accordance with Adjustment 2 contained in Enbridge's Board approved Settlement Agreement from its 2015 Rate Adjustment proceeding, EB-2014-0276. If the 3-year note had been treated as long-term debt, the weighted cost of debt shown in Exhibit B, Tab 5, Schedule 3, page 2 would have been as shown below.

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SUMMARY STATEMENT OF PRINCIPAL
AND CARRYING COST OF
TERM DEBT
2016 ACTUAL

Line No.	Coupon Rate	Maturity Date	Col. 1 Average of Monthly Averages Principal ($Millions)	Col. 2 Effective Cost Rate	Col. 3 Carrying Cost ($Millions)
Medium Term Notes					
1.	8.85%	October 2, 2025	20.0	8.970%	1.8
2.	7.60%	October 29, 2026	100.0	8.086%	8.1
3.	6.65%	November 3, 2027	100.0	6.711%	6.7
4.	6.10%	May 19, 2028	100.0	6.161%	6.2
5.	6.05%	July 5, 2023	100.0	6.383%	6.4
6.	6.90%	November 15, 2032	150.0	6.950%	10.4
7.	6.16%	December 16, 2033	150.0	6.180%	9.3
8.	5.21%	February 25, 2036	300.0	5.183%	15.5
9.	4.77%	December 17, 2021	175.0	5.310%	9.3
10.	5.16%	December 4, 2017	200.0	5.220%	10.4
11.	4.04%	November 23, 2020	200.0	5.209%	10.4
12.	4.95%	November 22, 2050	200.0	4.990%	10.0
13.	4.95%	November 22, 2050	100.0	4.731%	4.7
14.	4.04%	November 23, 2020	200.0	2.801%	5.6
15.	4.50%	November 23, 2043	200.0	4.198%	8.4
16.	1.85%	April 24, 2017	300.0	1.967%	5.9
17.	3.15%	August 22, 2024	215.0	3.241%	7.0
18.	4.00%	August 22, 2044	215.0	3.889%	8.4
19.	4.00%	August 22, 2044	170.0	4.436%	7.5
20.	3.31%	September 11, 2025	400.0	3.619%	14.5
21.	2.50%	August 5, 2026	112.5	3.423%	3.9
22.			3,707.5		170.4
Long-Term Debentures					
23.	9.85%	December 2, 2024	85.0	9.910%	8.4
24.			85.0		8.4
25.	Total Term Debt		3,792.5		178.8

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