CBA INTERROGATORY #15

INTERROGATORY

3. Deferral and Variance Accounts:

3.1. Is the proposal to include the annual sufficiency / deficiency of the RNG Enabling and Geothermal Energy Service Programs within the Cap and Trade Compliance Obligation Variance Accounts reasonable and appropriate?

REF: Exhibit B/Tab 1 Schedule 1 page 10

PREAMBLE:

As time goes on and the assets' net book value decreases, these assets will deliver annual revenues in excess of their revenue requirements thereby returning and to some extent exceeding the revenue deficiency underwritten by ratepayers in the early years.

a) With respect to the RNG Enabling Program under what circumstances will the revenue exceed the cost (assuming the cost includes EGD's proposed return on its capital investment)?

b) Please explain how revenue in excess of the costs will be allocated as between EGD, its ratepayers, and the RNG producers paying for the RNG Enabling Program services, and why EGD believes that allocation is appropriate.

RESPONSE

a) With respect to RNG upgrading, please see Exhibit B, Tab 1, Schedule 1, Appendix 6. For the example provided this exhibit shows that years one through four will deliver after tax net revenue sufficiencies. Years 5 through 12 incur revenue deficiencies since after year four the tax shield provided by the capital cost allowance will be exhausted. From years 13 to 20 revenues exceed costs and the project will again deliver net revenue sufficiencies to ratepayers. Exhibit B, Tab 1, Schedule 1, Appendix 6 (Row 22, Column 22) indicates that the net benefit to ratepayers over the twenty year life will be $733,495 on a discounted cash flow basis.

   With respect to RNG injection, please see Exhibit B, Tab 1, Schedule 1, Appendix 8. For the example provided years one and two will deliver after tax net revenue deficiencies. Beginning in year three revenues exceed costs and the project will again deliver net revenue sufficiencies to ratepayers in years three through 20. Exhibit B, Tab 1, Schedule 1, Appendix 7 (Row 22, Column 22) indicates that the net benefit to ratepayers over the twenty years will be $544,297 on a discounted cash flow basis.

b) Producers electing to utilize the RNG Enabling Service will be subjected to levelized cost based charges. This means that there will be a revenue sufficiency in some years and revenue deficiency in others. The benefit to the producer is in being able to bring RNG to market at a lower cost and a stable rate. The benefit to ratepayers is GHG abatement. Overall, revenues equal or exceed costs over the life of a project with any sufficiencies (that is revenues greater that costs) flowing to the rate payer, while Enbridge only recovers its cost of capital. This results in an appropriate allocation of costs and benefits between ratepayers and RNG producers and has regulatory precedence in how natural gas expansions are assessed.