ONTARIO ENERGY BOARD

FILE NO.: **EB-2018-0305** **Enbridge Gas Inc.**

VOLUME: **Technical Conference**

DATE: **May 1, 2019**

EB-2018-0305

THE ONTARIO ENERGY BOARD

Enbridge Gas Inc.

Application for approval to change rates and other charges for the sale, distribution, transmission and storage of gas for Enbridge Gas Distribution Inc. and Union Gas Limited effective January 1, 2019

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Wednesday, May 1, 2019,
commencing at 9:30 a.m.

TECHNICAL CONFERENCE

APPEARANCES

IAN RICHLER	Board Counsel
KHALIL VIRANEY DONNA KWAN	Board Staff
CRAWFORD SMITH VANESSA INNIS RAKESH TORUL	Enbridge Gas Inc. (EGI)
JOHN VELLONE	Association of Power Producers of Ontario (APPrO)
TOM BRETT	Building Owners and Managers Association (BOMA)
SCOTT POLLOCK *	Canadian Manufacturers & Exporters (CME)
JAYA CHATTERJEE *	City of Kitchener
JULIE GIRVAN	Consumers' Council of Canada (CCC)
ROGER HIGGIN TOM LADANYI	Energy Probe Research Foundation
DWAYNE QUINN	Federation of Rental-housing Providers of Ontario (FRPO)
IAN MONDROW	Industrial Gas Users Association (IGUA)
RANDY AIKEN *	London Property Management Association (LPMA)
VALERIE YOUNG	Ontario Association of Physical Plan Administrators (OAPPA)
MICHAEL BUONAGURO	Ontario Greenhouse Vegetable Growers (OGVG)

* appearing by teleconference

A P P E A R A N C E S

MICHAEL McLEOD *	Quinte Manufacturers Association
JAY SHEPHERD	School Energy Coalition (SEC)
LINDA WAINEWRIGHT *	Six Nations Council of the Six Nations of the Grand River
MARK GARNER	Vulnerable Energy Consumers' Coalition (VECC)

* appearing by teleconference

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NO EXHIBITS WERE FILED IN THIS PROCEEDING.

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Wednesday, May 1, 2019

--- On commencing at 9:32 a.m.

MR. RICHLER: Good morning. Welcome to the technical conference for EB-2018-0305, which is the application by Enbridge Gas Inc. for natural gas rates for January 1, 2019. The Board made provision for this technical conference in Procedural Order No. 1 and specified that the purpose of the technical conference is "to clarify any matters arising from the interrogatories only."

My name is Ian Richler, and I am counsel with the OEB. With me is Khalil Viraney, the case manager.

A couple of quick administrative matters before we get started. First, this technical conference is being transcribed, and the transcription will form part of the record of the proceeding.

The audio is also being broadcast through the OEB website.

For the benefit of the reporter and for everyone else please be sure to speak into the microphone. When you press into the button the green light will come on.

Second, in terms of scheduling, we plan to run until 5:00 p.m. We will take a one-hour lunch break around 12:30, as well as 15-minute breaks in the morning and afternoon. If necessary we will come back here again tomorrow at 9:30.

We can now proceed with appearances, starting with people in the room, then those on the phone. After that I will ask the applicant to introduce its witnesses.

APPEARANCES:

MR. SMITH: Good morning, Crawford Smith, counsel for Enbridge Gas. With me are Vanessa Innis and Rakesh Torul.

MR. BRETT: Good morning, panel. Tom Brett, acting for BOMA.

MR. SHEPHERD: Jay Shepherd, School Energy Coalition.

MR. MONDROW: Good morning, Ian Mondrow, counsel for IGUA.

MR. QUINN: Good morning, Dwayne Quinn on behalf of FRPO.

MR. GARNER: Good morning, Mark Garner, consultant with VECC.

MS. GIRVAN: Good morning, Julie Girvan, consultant to the Consumers Council of Canada.

MR. VELLONE: Good morning, John Vellone, counsel for APPrO.

MR. BUONAGURO: Good morning, Michael Buonaguro, OGVG.

DR. HIGGIN: Good morning, Roger Higgin for Energy Probe.

MR. LADANYI: Good morning, Tom Ladanyi, consultant to Energy Probe.

MR. RICHLER: And how about the people on the line?

MR. AIKEN: Good morning, Randy Aiken, consultant to the London Property Management Association.

MR. McLEOD: Good morning, Mike McLeod for Quinte Manufacturers Association.

MR. POLLOCK: Scott Pollock, counsel for --

MS. CHATTERJEE: Jaya Chatterjee, City of Kitchener.

MR. POLLOCK: Scoot Pollock, counsel to Canadian Manufacturers and Exporters.

MR. RICHLER: Anyone else on the line?

MS. WAINEWRIGHT: Linda Wainewright on behalf of Six Nations Natural Gas.

MR. RICHLER: No one else? Okay. Mr. Smith, maybe you would like to introduce the witnesses, please.

PRELIMINARY MATTERS:

MR. SMITH: Yes, just by way of preliminary matter, the parties will have received yesterday, and I hope they have it, a copy of the panel responsibilities and the witnesses on the panel. I will allow them to introduce themselves, starting furthest from me.

MR. KACICNIK: My name is Anton Kacicnik, and I am manager of freights for legacy Enbridge Gas Distribution franchise area.

MS. MIKHAILA: Amy Mikhaila, manager of rates for the union rate zone.

MS. FERGUSON: Hi, I am Tanya Ferguson, director, financial planning analysis at EGI.

MR. SMALL: And Ryan Small, manager of regulatory accounting at EGI.

MR. SMITH: We have no preliminary matters, so other than that.

ENBRIDGE GAS INC. - PANEL 1

Anton Kacicnik

Amy Mikhaila

Tanya Ferguson

Ryan Small

MR. RICHLER: Thank you. Mr. Aiken, I understand you only had one or two questions, so would you like to lead off?

EXAMINATION BY MR. AIKEN:

MR. AIKEN: Sure, and thank you. My question is related to Interrogatory ILPMA 4B, and what I would like to get is an undertaking to provide a schedule similar to the one in Exhibit B1, tab 1, schedule 1, Appendix E, that shows the shift for rates 10 and M2 for the cost adjustment.

MR. SMITH: Yes, we will do that, Randy.

MR. AIKEN: Okay. And then second question --

MR. RICHLER: Hold on a second. Sorry, we'll call that Undertaking JT1.1.

UNDERTAKING NO. JT1.1: TO PROVIDE A SCHEDULE SIMILAR TO THE ONE IN EXHIBIT B1, TAB 1, SCHEDULE 1, APPENDIX E, THAT SHOWS THE SHIFT FOR RATES 10 AND M2 FOR THE COST ADJUSTMENT.

MR. AIKEN: Then the follow-up question is, I just want to make sure I understand the rationale for the changes in the four general service rate classes. Now, my understanding for rate M1 and 1, you're shifting this cost adjustment -- the way it's currently done is it's allocated to all the blocks and you are moving that to focus more -- sorry, more is recovered through the first block. Is that correct?

MS. MIKHAILA: Yes, the current approach is to allocate the adjustment across all blocks using only volumetric revenue. And we have proposed to address it still to all blocks but using volumetric revenue and also including the revenue from the monthly fixed charge in the first block.

MR. AIKEN: Okay, and then for the M2 and rate 10, my understanding is that currently the added revenue you need for the fixed costs is recovered from the first two blocks, and your proposal is to shift that to all of the blocks. Is that correct?

MS. MIKHAILA: Yes, we are just aligning the approach across all general service rate classes.

MR. AIKEN: Well, and that's my question, because it seems like you're moving the M1 and 1 from all to the first block, whereas for M2 and 10 you are moving from the first two blocks to all blocks. So it seems to be like they are going in opposite directions.

MS. MIKHAILA: The rate 01 and M1 is not just recovered in all the blocks, although the proposal will move more costs to the first block, but, yes, they are generally going in the opposite direction, so we are just aligning the approach.

MR. AIKEN: Okay, I will have to think about that. But, thank you, those are my questions.

MR. RICHLER: Thank you, Mr. Aiken. Mr. Shepherd? Oh.

MR. QUINN: May I just do a follow-up on that? Ms. Mikhaila said "aligning", and I was expecting her to finish that sentence. What are you aligning it with?

MS. MIKHAILA: We are aligning the approach between the small general service rate classes and the large general service rate classes.

MR. QUINN: Which you just acknowledged to Mr. Aiken are going in the opposite direction.

MS. MIKHAILA: The approach previous in 2018 was not the same. They had different approaches. More was recovered in, sorry, in the large general service rate classes. The adjustment was only recovered in the first two blocks.

MR. QUINN: Okay, thank you.

MR. RICHLER: Mr. Shepherd.

EXAMINATION BY MR. SHEPHERD:

MR. SHEPHERD: Hi, and thanks, everybody, for accommodating me. I think I know all of you. I'm going to start --

MR. SMITH: Jay, just one second. Is it just me, or is everyone's screen blurry?

MR. SHEPHERD: No, it's just, you are getting older.

MR. SMITH: Well, listen, that's entirely possible, and in fact it's true.

MR. VIRANEY: It is blurry, actually.

MR. SMITH: I don't know if the witnesses are having any trouble reading it.

MR. VIRANEY: It is blurry, actually.

MR. SMITH: If it's not a problem for the witnesses I can live with it. I just wanted to make sure. Okay.

MR. SHEPHERD: So I am going to start with Staff 8. This is the discussion about this proposal to take the current revenue requirement, I guess, excluding timing difference, the current revenue requirement for the capital pass-through projects [audio interruption] building into rates -- sorry, is somebody on the phone talking?

MS. GIRVAN: It's you.

MR. VIRANEY: It's feedback.

MR. SHEPHERD: That's feedback?

MS. GIRVAN: That's you.

MR. RICHLER: Yeah, if everyone on the phone could just mute their line, please.

MR. SHEPHERD: So the proposal is the revenue requirement for 2019 for the capital pass-through projects is 117,238,000. Right?

MS. MIKHAILA: Yes, it is.

MR. SHEPHERD: And you're proposing to add that to rates this year. Right?

MS. MIKHAILA: Rates already include the 2018 revenue requirement. The impact to 2019 rates is the difference between the '18 revenue requirement and the '19 revenue requirement.

MR. SHEPHERD: But I thought your proposal was to fix the amount. Isn't it?

MS. MIKHAILA: Our proposal is to discontinue the pass-through treatment of in rates, and have it fixed in based rates and escalated in future years.

MR. SHEPHERD: Yes. So it's not in base rates now, right?

MS. MIKHAILA: It's Y factor, yes. But it is in.

MR. SHEPHERD: So you are saying don't make it a Y factor anymore. Now, this isn't the in the MAADs decision, right? The Board didn't say do this in MAADs decision, right?

MS. MIKHAILA: No, it's in response to the MAADs decision, and the direction to include the rate base and the depreciation expense in the pass-through projects in the calculation of the ICM threshold.

MR. SHEPHERD: That has nothing to do with rates. The Board didn't say put this in rates, right?

MS. MIKHAILA: No, but the ICM threshold value produces an amount that is meant to represent the financial capacities underpinned by existing rates. And by including the rate base and deprecation of the capital pass-through projects in the ICM threshold value, the threshold value increases by $80 million and that 80 -- we don't have an amount in rates that can support that increase in the ICM threshold value.

MR. SHEPHERD: But you have a Y factor. Isn't that the same?

MS. MIKHAILA: No.

MR. SHEPHERD: Why not?

MS. MIKHAILA: As pass-through through, there is no additional capacity to fund incremental capital expenditures beyond that project alone.

MR. SHEPHERD: The amount that's in rates for the

Y factor is identical to what would be in rates if it were in base rates in 2018, right? What you're collecting from customers right this minute is the same, whether it's a Y factor or whether it was in rates last year in base rates. Right?

MS. MIKHAILA: I will say for 2019, there is no difference because we are proposing to fix it this year, or include it in rates this year.

However, in future years in base rates, what it will allow is as the rate base on those projects declines because of deprecation, that deprecation amount can then be reinvested in incremental capital projects. But as a Y factor and pass-through to customers, that capacity doesn't exist.

MR. SHEPHERD: So basically you're saying you want an additional rate increase because you need that to finance additional capital in the future?

MS. MIKHAILA: The ICM threshold, because of those amounts included it, assume we can fund additional capital in the future. And we are trying to align the disconnect that exists between the rates and what the ICM threshold assumes we can fund through our rates.

MR. SHEPHERD: So it's a flaw in the ICM formula? I don't understand your logic --

MS. MIKHAILA: The ICM threshold formula is subsequent to a cost of service year when base rates are set, the amount of capital that can be funded in a future year following a cost of service.

The capital pass-through projects are not in our rates like they would be at a cost of service, and we are trying to include them in rates in that manner.

MR. SHEPHERD: So it's -- sorry, so it's not a flaw in the ICM formula. It's a flaw in the MAADs decision, because the MAADs decision said add the pass-through amounts to the threshold, or to rate base for the purpose of calculates the threshold. But it didn't say change your rates. So that's a mistake on the Board's part, right?

MS. MIKHAILA: It's not a mistake. We are just aligning the rates with the decision.

MR. SHEPHERD: But didn't you just say you were trying to fix it now, fix the error?

MS. MIKHAILA: No, we are trying to include the amount in rates. I will -- maybe "fixing" isn't the appropriate word, but we include them in rates, in base rates so that those amounts can fund additional capital as assumed by the formula.

MR. SHEPHERD: All right. So there's -- can you go to LPMA 7, please?   And this is your very helpful table of the revenue requirement of capital pass-through projects.

So my first question -- do you see where this is on page 2? You've got it?

MS. MIKHAILA: Yes, I do.

MR. SHEPHERD: Why would the revenue requirement for these projects be increasing over this period?

MS. MIKHAILA: Yes. So in response to the MAADs decision, we have two proposals in this application, both are --

MR. SHEPHERD: Sorry, let me stop you. First, first answer the question: Why is it increasing?

MS. MIKHAILA: It's increasing because of the change in the utility tax timing differences year over year.

MR. SHEPHERD: So am I right that the actual -- if you forget the timing differences, if you leave those aside, the rest of the revenue requirement actually goes down every year, right, because of depreciation?

MS. MIKHAILA: Yes, that is correct.

MR. SHEPHERD: But the timing differences go down faster, which means that overall it goes up. Is that right?

MS. MIKHAILA: Yes, the tax benefit decreases each year, which results in a revenue requirement increase.

MR. SHEPHERD: If it's increasing every year, then doesn't that mean that the -- that if you just use the pass-through, that the amount you have is financing new capital? That's what happens if something is built into rates, right? It increases over the ICM period and as a result, it finances new capital. Well, it's increasing here. How is that different?

MS. MIKHAILA: No, as a pass-through, the revenue requirement on these projects funds these projects only. There is no additional capital -- no additional capacity for incremental projects. The whole idea of the ICM threshold is that as your assets depreciate, you can reinvest that depreciation amount in new capital and maintain the same level of rate base.

Embedded in the revenue requirement of the capital pass-through projects as a pass-through, as shown at LPMA 7, table 1, includes the declining rate base and the revenue requirement associated with that. But offset -- more than offset by that is an increase in revenue requirement associated with the change in the utility tax timing differences.

MR. SHEPHERD: Ah, okay, okay. So what you're proposing then is that the 117238, which is the net, right? That's the net of the two?

MS. MIKHAILA: Yes.

MR. SHEPHERD: That that be built into rates, right?

MS. MIKHAILA: Yes.

MR. SHEPHERD: And then as the timing differences change each year, they go down, for example, by 6 million from '19 to '20, in addition to the 117238, you also get that 6 million?

MS. MIKHAILA: Yes. We will continue to pass those costs through.

MR. SHEPHERD: All right. Now the 117238, once it's in base rates, that's going to escalate with the, with the PCI factor, right?

MS. MIKHAILA: Yes, it will.

MR. SHEPHERD: So that 117 is going to go up, whereas normally the net rate base would go down, right?

MS. MIKHAILA: The 117 will increase by PCI, and the rate base of all projects in base rates decreases by depreciation each year, you are correct there. However, the ICM threshold takes all of that into consideration in determining the amount of capital expenditures you can fund with base rates, including the PCI escalation and the declining return on rate base.

MR. SHEPHERD: So let me give you an example. So in 2019 you build in 117,238 in rate base. That's the revenue requirement associated with it. Right?

MS. MIKHAILA: Yes.

MR. SHEPHERD: So that escalates by 1.07, I guess is what you are using now. Right? And that's 118,492. Will you accept that subject to check?

MS. MIKHAILA: Yes, I do.

MR. SHEPHERD: So you are going to collect that, and you are going to collect the difference between 36-million-339, the timing differences for 2019, and 30-million-027 for 2020. So that's another 6-million-318. Will you accept that subject to check?

MS. MIKHAILA: Yes, I will.

MR. SHEPHERD: Okay. So those total 124,810, but the revenue requirement for those projects is only 125,052, so you want another $4.3 million next year; is that right? I mean, we can work out the numbers, but I am in the ballpark. Right?

MS. MIKHAILA: I haven't been keeping track of your numbers. However, they seem reasonable, but all of that -- those amounts are factored into the ICM threshold and require you to reinvest that in additional capital prior to incremental capital module funding in future years.

MR. SHEPHERD: I understand your argument on the ICM. But you are still asking for 4.3 million more in rates. Right? That's nothing to do with ICM, that's just, we want more money. Right?

MS. MIKHAILA: Well, it has to do with ICM in the fact that the ICM threshold value requires you to make that investment in capital projects prior to ICM funding.

MR. SHEPHERD: Yeah, I guess my question is a different one. You've characterized this as fixing the ICM problem, but in fact it's a rate increase. Isn't it? Isn't that what you are asking for, a rate increase?

MS. MIKHAILA: It's a rate increase associated with the additional $80 million of capital we will need to fund prior to ICM funding.

MR. SHEPHERD: So then I wonder if you could go to SEC -- I've lost my reference. SEC 6, Attachment 1. No, sorry, just SEC 6 is fine. And there you say that you are going to get an additional $33.8 million as a result of this proposal over the five-year rebasing period. Right?

MS. MIKHAILA: Yes.

MR. SHEPHERD: You didn't include in that calculation the escalation of the 117,238, did you?

MS. MIKHAILA: No, I did not.

MR. SHEPHERD: And so will you undertake to redo the calculation to show how much you propose to collect on the proposal you have made and how much you would collect in rates if it remains a Y factor? I believe it's

46.1 million, but I would like you to undertake to provide that.

MS. MIKHAILA: And what PCI assumption should I include in there?

MR. SHEPHERD: Whatever you like. I use 1.07, but you can use whatever you like.

MR. SMITH: Yes, we will do that.

MR. RICHLER: That will be JT1.2.

UNDERTAKING NO. JT1.2: TO REDO THE CALCULATION TO SHOW HOW MUCH YOU PROPOSE TO COLLECT ON THE PROPOSAL YOU HAVE MADE AND HOW MUCH YOU WOULD COLLECT IN RATES IF IT REMAINS A Y FACTOR.

MR. SHEPHERD: And what you've said is that the -- still in SEC 6 -- is that this allows you to spend another $410 million of capital. Right?

MS. MIKHAILA: The 410 million is required to be over the -- well, by year 5 is the amount that will be required to be spent by the utility prior to seeking ICM funding.

MR. SHEPHERD: Well, my understanding was that if you get these additional rate amounts, then that supports $410 million of additional capital spending. Is that right?

MS. MIKHAILA: Yes, the difference in rates of 33.8 million is the amount that will fund the incremental 410 million over five years as calculated by the threshold.

MR. SHEPHERD: So then if the real difference in rates is 46 million -- let's just assume that for argument's sake -- then the actual amount, the 410 million, is actually higher. Right? Because you did the calculation without including that escalator.

MS. MIKHAILA: Sorry, the 410 million comes from Staff 8, Attachment 1, and it was calculated as the difference between the ICM threshold value with the capital pass-through amounts included and the capital pass-through amounts excluded, and it was escalated by the 1.07 in each year.

MR. SHEPHERD: Okay, sorry. Staff what? Staff 8?

MS. MIKHAILA: Staff 8, Attachment 1.

MR. SHEPHERD: So it's escalated based on the formula. So you are actually escalating it using .72 percent?

MS. MIKHAILA: Sorry, yes, I included the PCI of the current year.

MR. SHEPHERD: Because it's union.

MS. MIKHAILA: Sorry?

MR. SHEPHERD: Because it's Union, and Union is .72. You are proposing .72 for Union and 1.07 for Enbridge. Right?

MS. MIKHAILA: Yes, for the current-year calculation.

MR. SHEPHERD: So you are assuming .72 throughout for that. And so that 410 assumes the actual additional revenue based on .72 percent PCI? Sorry, the actual additional ICM supported assuming .72 PCI.

MS. MIKHAILA: Yeah, the calculation of 410 is the amount of capital that the utility would need to fund prior to seeking ICM funding that is not currently supported by rates.

MR. SHEPHERD: All right. I wonder if we could -- if anybody has follow-up questions on that they could ask it now. I am going to move on to something else. No? Had your chance.

I would like to go to Energy Probe.

MR. SMITH: That's my line, "Had your chance."

MR. SHEPHERD: I know. I would like you to go to Energy Probe 12, please. And this is what we were just talking about; that is, you've calculated the ICM threshold on the assumption that rates increase by 1.07 for EGD and .72 for Union. Right?

MS. FERGUSON: Yes, that's correct.

MR. SHEPHERD: Now, isn't the rule that you take the current escalator and apply it to the period since last rebasing? Because the current escalator is not .72, right, it's 1.07.

MS. FERGUSON: That's correct. The current-year escalator is 1.07. In Union Gas's case, because they have been under a price cap for five to six years, it was more appropriate to use an average of what their rate increases would have been during that period to reflect how much funding they would have been able to support capital investments.

MR. SHEPHERD: Why didn't you do the same thing for Enbridge, then?

MS. FERGUSON: In Enbridge's case, the price cap starts in 2019. So we took the current year.

MR. SHEPHERD: No, but you had a period of time where you were under IRM. You were under a custom IRM, right?

MS. FERGUSON: Yes, a custom IRM. But it's still different than a price cap. It's not -- revenues weren't based on the formula.

MR. SHEPHERD: So does the Board have a rule that says you use the current year -- in the ICM rules, my understanding is they say you use the current year escalator from the last rebasing until now. Isn't that right?

MR. KACICNIK: The ICM policy states you should use the price cap index for the current year. When it comes to implementation of the ICM policy for the deferred rebasing period, we proposed the modification to that rule.

MR. SHEPHERD: Enbridge has proposed a modification. This is not something the Board has done?

MR. KACICNIK: Correct. Yes, this is modification to ICM policy we are proposing. There is two medications, and they are explained in evidence at Exhibit B 1, tab 2, schedule 1, page 11.

MR. SHEPHERD: I saw it.

MR. KACICNIK: That one deals with price cap index. And on page 11, we explain why we feel that this is the most appropriate approach for Enbridge gas. If you look at the first paragraph there, it says:

"The average PCI more accurately reflects the impact PCI has had on rates and revenues since the base year, which was 2013 for union and 2013 for EGD rate zone, than the use on the current year PCI. The use of the average PCI also reduces the year-to-year fluctuations in the threshold value that would occur by using the current year PCI, and helps the utility plan and prioritize capital investment through a more stable threshold value.”

MR. SHEPHERD: So this is another case where you think the ICM policy is wrong, and you are trying to fix it?

MR. KACICNIK: We don't say it's wrong. But we want to make this modification to make it more reflective of the situations that Union and EGD find themselves in.

MR. SHEPHERD: But you don't want to do that for Enbridge, because somehow that same logic shouldn't apply to Enbridge?

MR. KACICNIK: It will apply to Enbridge's rate zone as well. But given 2018 is the base year for Enbridge --

MR. SHEPHERD: Why is that?

MR. KACICNIK: Because we are under custom incentive regulation, and under custom intensive regulation we have forecasts of all of costs. We had rate base depreciation; everything else was forecast. So we can take rate base and depreciation Board-approved values from 2018 case, and jump from there.

MR. SHEPHERD: Aren't you doing the same thing with your proposal on the pass-throughs, bringing it up to current costs?

MR. KACICNIK: With respect to Union rate zone, they are using 2013 rate base and depreciation Board-approved.

And as per the MAADs decision, they added in the rate base and depreciation for capital pass-through projects.

MR. SHEPHERD: So doesn't that bring you to the same place that Enbridge is?

MR. KACICNIK: No, no. No, it doesn't. Because in Enbridge's case, the rate base and depreciation from 2018 case, they reflect all of our assets that were in service in that year. It's everything.

MR. SHEPHERD: Well, okay, let me just stop you, Anton. They don't reflect all of your assets, right? They reflect the ones that were forecast to be in. You actually have more assets, right?

MR. KACICNIK: Thank you for that clarification. It's based on forecasts; I agree with that.

MR. SHEPHERD: Okay.

MR. KACICNIK: So in Union's case, it's 2013 forecast of rate base and depreciation plus, as per the MAADs decision, it's the capital pass-through amounts for rate base and depreciation.

MR. SHEPHERD: So here is what I am trying to understand. In both cases, you had extra -- you had sort of a base formula for increases that the Board applied. They were different, but they were base formula over 2013 to 2018, right? And in both cases, you had additional capital spending that increased the amount of rates more than the base formula.

But somehow the additional capital spending is included for Enbridge's purposes, but it's not included for the formula in Union's case. I don't understand.

MR. KACICNIK: I don't think I can agree with that proposition. What we have for EGD rate zone, as you've correctly mentioned, is the forecasted amount Board approved for '18. And the entire incentive regulation frameworks were very different between Union and EGD. We were on custom incentive regulation, which is not formula driven, they were on price cap, which is price cap formula driven rate-setting framework.

MR. SHEPHERD: Sorry wasn't Enbridge formula driven in part? It wasn't just all year five-year cost of service, was it?

MR. KACICNIK: It was not driven by formula. It was drive by a forecast of costs that had productivity embedded in them. So most of the costs were set at the outset of the incentive regulation term in 2014. So most of the costs were preset. And then there were some components of the revenue requirement that were updated annually, such as interest, DSM amounts, gas cost, return on equity. Those are just some examples that were updated annually.

MR. SHEPHERD: Sure. All right. I wonder if you could do me a favour then, and calculate the average, weighted average rate increase of Enbridge from their last rebasing in 2013, right, to now? Just the same as you did with Union, except include everything.

MR. KACICNIK: I don't understand why we would need that.

MR. SHEPHERD: Well, it doesn't matter whether you understand why you would need it, unless you are saying it's irrelevant.

MR. KACICNIK: It's irrelevant for either ICM threshold calculation for EGD rate zone, or for setting of rates from '19 through 2023. It has no bearing on any of those components.

MR. SHEPHERD: You are proposing that the average rate increase at Union for the last five years is the appropriate number to use for the ICM PCI. I am saying what's the average rate increase for Enbridge for the same period, so that if the Board decides they want to apply the same principle to Enbridge, they know what the number is. Can you do that?

MR. KACICNIK: Now I get it. I get your question now. This proposal to use the average price cap index, it's actually for both rate zones. So next year in 2020, we will average PCI for EGD rate zone between '19 and '20. So it's applicable. It just so happens that we are in the first year for EGD rate zone, so we use average equals PCI forecast for 2019.

MR. SHEPHERD: I understand. And we are going to argue that if you are going to use averages, you should go back to the last rebasing of both. And so we are asking you to give us the numbers, so the Board has it.

MS. MIKHAILA: I think it's important to note that the ICM threshold calculation uses the rate base and depreciation from 2013 for Union and from 2018 for EGD.

MR. SHEPHERD: I understand that.

MS. MIKHAILA: And the threshold formula is trying to determine how much additional capital you can spend based on the PCI applied to that rate base, the return and taxes of that rate base.

MR. SHEPHERD: I understand the logic. But I also understand that the Board ordered that the additional capital that you spent over the last five years in Union be added. So that sort of makes it equivalent, right?

MS. MIKHAILA: I don't -- I don't agree with that.

MR. SHEPHERD: Anyway, are you refusing the undertaking, or are you going to calculate it?

MR. KACICNIK: I am refusing it, and I am looking for a reference in the Board's MAADs decision where they specifically stated that for EGD rate zone, it should be -- they declared 2018 as our base year and they stated that should use the 2018 rate base and depreciation in the derivation of ICM threshold.

MR. SHEPHERD: That's fine.

MR. KACICNIK: I am just looking that up, and hopefully I can find it on the spot.

MR. SMITH: I am sure we can rely on the reference to the MAADs decision. I am sure Mr. Shepherd doesn't need the particular page.

MR. SHEPHERD: No, you don't need to find me the reference. So I will record that as a refusal. By the way, did I get a number for my last one?

MR. RICHLER: The one for redoing the calculation was JT1.2.

MR. SHEPHERD: Okay. Thanks.

MR. RICHLER: Actually, that's the only undertaking you have been given.

DR. HIGGIN: Jay, can I just add a follow-up on that EP 12.

MR. SHEPHERD: Mm-hmm.

DR. HIGGIN: So we were looking at EP 12, and you refer us then to LPMA 11. Okay? And so that's what I would like to pull up. You can see the reference, what the question was --

MR. SMITH: Sorry, LPMA 12?

DR. HIGGIN: Yes. No, sorry, 11. Here we have that. So I just wanted to confirm directionally -- I am not going to ask for the calculation -- that if you'd used 1.07 as Mr. Aiken asked you, the threshold value would have increased from 375.2 to 398.5 million for Union. Is that -- that's correct?

MS. FERGUSON: Yes, that's correct.

DR. HIGGIN: And then directionally -- I am not going to ask you to do the calculation -- what would that do with respect to the ICM projects and the revenue requirement associated with those for the Union rate zone? I mean, if you want to estimate it, that's fine. I didn't want to put you through doing the calculations. It's a matter of argument, I think. But if you want to do it by an undertaking that's at least at a high level showing what the impact would be, I would -- I'm fine with that.

MR. SMITH: Let's just give them a minute.

MS. FERGUSON: As the threshold value increases, it would mean we'd have less between the eligible amount and the threshold to put through or request ICM treatment.

DR. HIGGIN: Right, so you'd have to reduce your capital spend during the five-year term for Union rate zone. Is that correct?

MS. FERGUSON: What would actually happen is we would have less funding through ICM, as opposed to a reduction in spend.

DR. HIGGIN: Less funding meaning less capital --

MS. FERGUSON: Less recovery through the ICM mechanism.

DR. HIGGIN: And where would the recovery be, through rates? Because the rates are set and they are escalated at the PCI.

MS. FERGUSON: There would be no recovery.

DR. HIGGIN: There would be no recovery. Okay. Thank you for that.

MR. VELLONE: Mr. Shepherd, maybe before you start can I jump in for a second? I just want to follow up quickly on the refusal from Mr. Shepherd's undertaking question. And the first follow-up I had is, is it possible to do the calculation that Mr. Shepherd requested -- setting aside you don't agree with him, is it possible to do what he asked you to do?

MR. SMITH: Well, unlike Union, Enbridge did not have a price cap formula which would then be averaged to accommodate the undertaking.

MR. VELLONE: I didn't understand Mr. Shepherd's request to ask for an average of the formula; I thought it was an average of the rate base for Enbridge. So take an average of the custom IR years. Did I get that right, Mr. Shepherd?

MR. SHEPHERD: No, it was actually a weighted average rate increase --

MR. VELLONE: Weighted average rate increase. So --

MR. SHEPHERD: Not rate base, but rate increase.

MR. VELLONE: So is it possible to do that calculation?

MR. SMITH: Sorry, maybe Mr. Shepherd, before we say what's possible or impossible, can specify what he wants included in the weighted average and how he is proposing that be calculated.

MR. SHEPHERD: Everything except pass-throughs.

MR. SMITH: What pass-throughs are you referring to?

MR. SHEPHERD: You want me to give you a list? You know what the Y factors are.

MR. KACICNIK: There was no Y factors in custom incentive regulation framework.

MR. SHEPHERD: DSM, gas costs?

MR. KACICNIK: Those were cost elements that were updated annually, but there was no Y factor --

MR. SHEPHERD: I haven't heard Mr. Kacicnik answer the question, could you do the calculation, because I'll tell you, I could go out of here and in ten minutes do the calculation, and so could he.

MR. KACICNIK: It could be derived.

MR. SHEPHERD: Thank you.

MR. KACICNIK: But it's not --

MR. VELLONE: So my second --

MR. SMITH: Sorry, why don't we let Mr. Kacicnik finish his answer.

MR. VELLONE: Go ahead.

MR. KACICNIK: It -- the average number can be derived, but it's really not applicable to any rate-making for 2019 through 2023. 2018 is the base year. We are now using the formula. The ICM threshold is a function of 2018 rate base and depreciation and subject to PCI, so I don't know how -- it will be for informational purposes, but it won't be used for the deferred rebasing period.

MR. SHEPHERD: Well, unless the Board so decides.

MR. VELLONE: I guess this is where I am coming at it from, is that I am hearing good reasons why you would disagree with Mr. Shepherd arguing to use that calculation, but I am not hearing good reasons why not to give him the calculation at all. That's what I am struggling with. I am trying to make my own independent assessment of this exchange, and without even the numbers I am really struggling to even agree with you, if that makes any sense.

MR. SMITH: Well, except that the Board did decide that for the EGD rate zone in the MAADs decision it should be based on 2018 values and that those would be escalated --

MS. GIRVAN: Crawford, it's hard to hear you. Sorry.

MR. SMITH: -- and that those would be escalated for the purposes of deriving 2019 rates. That is the justification, we say, that the Board rendered a decision in relation to this issue in the MAADs decision. That will be the response to the request.

MR. VELLONE: So normally I would agree with you, except that I think what we are actually trying to test here is a request by Enbridge to make a deviation from the standard ICM policy specifically with respect to the PCI that you are choosing to apply, and we are trying to, I think, test different approaches to calculating what that PCI would be. So if you were doing exactly what was in the ICM policy I would see it, but I think what we are trying to test is you have proposed a deviation. What other deviations could be considered? Shouldn't we have all the facts on the record?

MR. SMITH: I am happy to have the argument now or later, but I think you are mixing apples and oranges, because the same decision was not rendered in relation to the Union rate zone, which is where the averaging is being done over the 2013 to 2018 period, and we don't say that we're proposing a deviation other than to accommodate decisions that the Board made in the MAADs decision and these are the logical extensions of them.

So I think that this devolves into a point of argument between Mr. Shepherd saying things are being changed or fixed and us saying these are the logical extension of decisions that the Board has already made.

MR. SHEPHERD: Crawford, your witness has already admitted that if you just follow the MAADs policy you use 1.07 for Union.

MR. SMITH: For sure. And that --

MR. SHEPHERD: So you want to change the policy?

MR. SMITH: Jay, if you want to have the argument now, I don't think it's the highest and best use of people's time.

MR. SHEPHERD: I don't want to have the argument now.

MR. SMITH: But John does.

MR. SHEPHERD: I just want the information.

MR. SMITH: We have given your owe position with respect to the Enbridge rate zone, and our reason for that. If our position changes, we will certainly let you know on the record or in writing.

MR. MONDROW: Can I just ask a question on this topic? Is that okay?

MR. SHEPHERD: Yeah, go ahead.

MR. MONDROW: Anton, could you just explain your view of the rationale for the Board's ICM policy of using the current escalator, and why that doesn't apply? I've read your evidence and the rate stability argument and so on. But what's the rationale of the Board's policy, in your view?

MR. SMITH: Well, sorry, I am not -- you are not asking him to infer, beyond what the words say, what the Board may have been thinking?

MR. MONDROW: I guess I'm asking him why that doesn't apply here. But before an explanation of why it doesn't apply, I need to understand what he thinks it's supposed to achieve.

But that's fine. If you don't want to answer, that's okay. I just thought it might help. It will certainly help me.

MR. KACICNIK: I can answer my thoughts. On the electricity side, the Board is regulating around 80 or so electric utilities. They all fill out forms issued by the Board to determine the rate changes and ICM thresholds, and so forth.

I think the Board wanted it very, very uniform for all electric utilities, so they are all populating the same set of models and the rates come out of that. Like in our case, we are gas utilities and we do have the resources to make proposals that are more appropriate for our circumstances.

MR. MONDROW: Okay, thanks.

MR. KACICNIK: You're welcome.

MR. SHEPHERD: The ICM does apply to -- the ICM policy does apply to gas utilities, right?

MR. KACICNIK: Yes, it does.

MR. SHEPHERD: Okay. I am going to a new area. If you could go to Staff 12, please? And for Union Gas rate zone, for rates M1 and 01 and M2 and 10, you are proposing not to increase the monthly service charge, right? Those are the only rates that you are not going to escalate the charge, right?

MS. MIKHAILA: Yes, that's correct.

MR. SHEPHERD: And your rationale for that is simplicity, is that fair?

MS. MIKHAILA: It's not necessarily a matter of simplicity. It's the continuation of the current practice, and our understanding of those customers' preference to pay, or to keep the monthly fixed charge the same.

MR. QUINN: If I may, where are you -- what are you basing your assessment of their preference on?

MS. MIKHAILA: We haven't done any formal customer engagement on this matter. It's only in relation to the last time we escalated the monthly customer charge, and the customer calls to the call centre.

MR. QUINN: How many years ago was that?

MS. MIKHAILA: The last time we increased it was 2012.

MR. QUINN: 2012. So you are basing your expectation of their preference on an increase that happened seven years ago?

MS. MIKHAILA: We don't have any formal feedback on the matter.

MR. QUINN: So is it the customer's preference, or Union's preference to avoid the phone calls?

MS. MIKHAILA: It was just the continuation of the practice that had been done during the last IR term.

MR. QUINN: Okay.

MR. SHEPHERD: That increase in 2012, was that to M1 and 01, or was it to all four?

MS. MIKHAILA: Just M1 and 01.

MR. SHEPHERD: When was the last time you increased M2 and 10?

MS. MIKHAILA: I don't have any information prior to 2007, but it's remained the same since 2007.

MR. SHEPHERD: Will you undertake to tell us all changes that were made to the monthly service charge for each of those four rate classes since 2001?

MR. SMITH: Yes, we will do that.

MR. RICHLER: JT1.3.

UNDERTAKING NO. JT1.3: TO ADVISE THE CHANGES MADE TO THE MONTHLY SERVICE CHARGE FOR RATE CLASSES M1, 01, M2 AND 10 SINCE 2001

MR. SHEPHERD: And are you also proposing to fix the monthly charge for Enbridge for rate 1 and rate 6?

MR. KACICNIK: Yes, that's correct. We are not proposing to make any changes to monthly customer charges for those two rate classes.

MR. SHEPHERD: And when were those ones last increased?

MR. KACICNIK: They were last increased in 2012.

MR. SHEPHERD: And did Enbridge have a customer survey of some sort, or some other evidence that customers didn't want them increased?

MR. KACICNIK: No, we don't have any surveys, customer engagement, et cetera. It's just anecdotal feedback that we get from the call centre people.

MR. SHEPHERD: And your cost allocation didn't -- wasn't allocating less costs to fixed charges, right? It's just that you just kept the fixed charge there, and played around with the first block to deal with it, right? "Played around" is perhaps not the correct term.

MR. KACICNIK: Again I am not completely certain if I understood the question. Through cost allocation, there is customer related cost, right, where we use certain allocators, customer-related costs. And then you have costs that are peak demand driven, just like mains and other gas distribution infrastructure and customer-driven are billing and things like that, right?

MR. SHEPHERD: Yes.

MR. KACICNIK: So once that's allocated to customer rate classes, the total cost that's allocated to rate class is recovered through a combination of fixed charges and volumetric charges.

MR. SHEPHERD: Well, actually your rate design concept is that as much as possible, you want to recover the fixed charge -- the customer-related charges in the fixed rate or in the first block, and the variable costs, the ones that are related to demand and volume, et cetera, in the volumetric rates, and particularly the higher blocks. Isn't that right? Isn't that a general principle that you use?

MR. KACICNIK: I think that was a principle used years ago. I think now the Board has recognized that the cost of owning and operating and maintaining distribution networks either for gas or electrics are fixed, at least in the short term. That's why they went to full fixed recovery on the electric side, both for residentials and now also for commercial-industrial classes.

So even if you are recovering total revenues through fixed charges, in the background you would still do cost allocation the way we are discussing because some costs are driven by customer numbers, et cetera. So you would do that, but then you would recover everything through fixed charges.

MR. SHEPHERD: And sorry, that's not what happened in gas, is it?

MR. KACICNIK: Not currently, no. Currently, we are recovering the allocated costs through a certain rate class, through a combination of fixed and variable charges.

MR. SHEPHERD: And in these other classes, there's no -- we are looking at the other classes on page 2 of Staff 12. There's no relationship between the monthly charges and -- the monthly fixed charges and the customer-related costs.

MS. MIKHAILA: For the Union rate zone the contract rate classes the costs allocated as -- classified as customer costs are recovered in the monthly fixed charge.

MR. KACICNIK: And for EGD rate zone I believe that was the case some time ago. Currently, I don't think that relationship is exact any more. So what's allocated as customer-related costs would not match what's recovered through monthly customer charges.

MR. SHEPHERD: Well, no, it never did though, right? Because in the smaller general service classes you always included some of the customer-related costs in the first block, right? That's true of Union too. True?

MS. MIKHAILA: Depending on the revenue-to-cost ratio of each class itself, if it wasn't recovered in the monthly fixed charge it was recovered in the volumetric charges. I can't necessarily say they went to the first block, but --

MR. SHEPHERD: I thought that's one of the principles that you applied, was that we want to get the customer charges and the customer-related costs into -- so that everybody, even low-volume customers, pay them. Right? Because that's fair.

MS. MIKHAILA: Are you speaking of this application or just general principles?

MR. SHEPHERD: General. General practice. When we went through that whole song and dance a couple years ago with rate M1, that was the thing we were talking about, that principle.

MR. KACICNIK: The principle makes sense.

MR. SHEPHERD: But you don't use it?

MR. KACICNIK: Rates would be designed in a manner where even a low-volume customer would pay for their cost through a combination of what they would pay through monthly fixed charge and then first and second block, they would pay for the cost of providing service to them. So that's what I meant when I said that the principle makes sense.

MR. SHEPHERD: All right. Is there any technical reason why you couldn't escalate the monthly charges for these four -- for these six rate classes, I guess, 1, 6, M1, 01, M2, and 10?

MR. KACICNIK: No reason.

MR. SHEPHERD: Is there any technical reason why you couldn't escalate that to the PCI as well?

MR. KACICNIK: No, there is no technical reasons for that not to do it.

MR. SHEPHERD: So you don't have, like, a -- for example, your CIS doesn't prevent you from doing that?

MR. KACICNIK: No.

MR. SHEPHERD: And similarly, you are still using a separate billing system for Union, right? Yours will allow you to do that if you wanted to?

MS. MIKHAILA: Yes, it.

MR. SHEPHERD: Okay, thanks. I want to go to a question about -- let me go to Energy Probe 24 and 29. And these are -- these are about the Don River project, but I don't think they are actually about, like, panel 2 stuff, I think they are actually panel 1 stuff. But you can tell me if it should be panel 2.

So in 24, Energy Probe 24, you say that when you did your lifetime risk return analysis -- describe what that is first. Can you tell me what that is?

MR. SMITH: That is a question that panel 2 is best positioned to answer.

MR. SHEPHERD: All right. Well, I will cut to the chase on this one, and you will tell me whether you can answer it or not. On page 2 you assume the useful life of the Don River project is 70 years. Is that the depreciation rate you are using? Is that the life for depreciation purposes, or is that something else?

MR. SMALL: That would not match our approved depreciation rate. No.

MR. SHEPHERD: Would not? Your depreciation rate's 40 years, right? Typically.

MR. SMALL: I would have to go back. I know it's in the 2-point-something percent for steel mains. Some of that would be life and salvage, so it's going to be around 2 for the life component, I think. So --

MR. SHEPHERD: So 50 years?

MR. SMALL: Yeah, it is, yeah.

MR. SHEPHERD: Thank you. And then on 29, this is MPS 20, Don River relocation. That's not an ICM project, is it?

MR. SMITH: It is not.

MR. SHEPHERD: All right. So when you did your ICM threshold calculation, did you assume that -- and you figured out what was below the threshold and what was above the threshold -- did you assume any third-party payments on that project?

MS. FERGUSON: That question would have to be answered as part of panel 2.

MR. SHEPHERD: Okay. Next I have some questions about Sudbury. And I -- I know that some of the Sudbury questions are going to be panel 2. But I just want to sort of see how far I can go with it here, and then if it turns out that everything to do with Sudbury is panel 2 then I will keep my powder dry.

The Sudbury replacement project didn't qualify for pass-through treatment in 2018. Right?

MS. FERGUSON: That is correct. The revenue requirement was below the threshold that you needed.

MR. SHEPHERD: And the reason was because it wasn't put in service until late in the year and there were tax deductions, front-end tax deductions, as well, right?

MR. SMALL: Yes, that would certainly be a contributor. I mean, the rate base impact and the return on it would be fairly small at the end of the year too, but that would certainly be a contributor.

MR. SHEPHERD: All right. But now you are saying that you want to treat it as a 2019 ICM project that, if I understand correctly -- tell me whether this is right -- you're not proposing to treat it as going in service this year. Right? You're proposing to treat it as going in service last year but starting from this year be in ICM. Is that right?

MR. SMALL: That's correct. Like, the revenue-requirement calculation is based on it having been in service.

MR. SHEPHERD: Okay, so for example, those additional tax deductions that you got for 2018, you're not crediting those this year. Right?

MR. SMALL: No, they would have been offset against the whole revenue requirement for the project, which is provided in the original evidence at Appendix E of B1, tab 2, schedule 1, which does indicate that the revenue requirement for the year was $101,000, a total cost of 101,000 from a revenue-requirement perspective.

MR. SHEPHERD: All right. So those tax savings were 2.6 million in 2018, right? Do we have the calculation of the 2018 revenue requirement somewhere?

MR. SMALL: Sorry, it's on the screen. That's what I just referenced, B1, tab 2, schedule 1, appendix E.

MR. SHEPHERD: Okay, so go up. Up, up, up -- no the other way. Other way. I want to see the bottom line. So basically in 2018 you were even, right, 101,000?

MR. SMALL: Correct.

MR. SHEPHERD: So the tax saving offset your depreciation and return and everything. Basically, you collected all your return in revenue, right?

MR. SMALL: Yes, or there was very little need to collect something, to put it another way.

MR. SHEPHERD: All right. So now you want to collect 9.762 million a year for the next five years, right?

MR. SMALL: So our ICM proposal would be that, yes, 9.7 would be built into the ICM unit rate for 2019. Our proposal is then to adjust for each of those forecast numbers for each of the other years, and then we would also have an ICM variance account that would track actual ICM revenues versus the actual revenue requirement.

MR. SHEPHERD: So then the amount you would collect would be the amounts on line 18?

MR. SMALL: If the actual final dollars for this project came in exactly, that's what we would end up collecting, yes.

MR. SHEPHERD: Well, you already -- already finished the project, right? So these are the right numbers, right? Am I missing something there? I mean, unless the tax rates change or something like that.

MR. SMALL: Sorry, I am just hesitating because at the time of this application while the project was generally complete, I think they were still forecast numbers and there could have been some residual spend which there -- it is indicated in evidence, too, there was some clean-up spend that isn't included in this amount being sought for ICM. I think it's in -- I can find the note, but …

MR. SHEPHERD: All right, all right.

MR. SMALL: It should be very close, that's what I am trying to get at.

MR. SHEPHERD: Anyway, it trues up?

MR. SMALL: Yes, that's our proposal through the ICM and variance account, yes.

MR. SHEPHERD: So you would collect in rates $48 million, and you might have to give some of it back at the end?

MR. SMALL: Yes. Yes, if our revenue requirement comes in lower or if, because of volumes, revenues collected are higher, our proposal -- that would be trued up in the ICM variance account.

MR. SHEPHERD: All right. Can you go to APPrO Number

4, please? And this says that there's no O&M savings that arise out of the Sudbury project. This is the same project, right? The Sudbury lateral replacement project is the same project?

MR. SMITH: I believe so. Although, Jay, you will have observed this interrogatory is directed to panel 2.

MR. SHEPHERD: True, true. But the question I have to ask is not a cost of the project question, and I am just trying to find the other reference. It's a BOMA interrogatory that has the leave to construct for this project attached. And I have it as BOMA 16, but it's not BOMA 16. Sorry, is it Energy Probe 16? The leave-to-construct decision for this project is attached.

MS. GIRVAN: For Sudbury, it's BOMA 68.

MR. SHEPHERD: BOMA 68, there we go. So can you go to -- I shouldn't work late at night. So if you go to BOMA 68, the Attachment 1 is the leave-to-construct decision for this project, Sudbury, right? Yes?

MR. SMITH: It appears to be.

MR. SHEPHERD: All right. So if you go to page 7 of the decision, it says that one of the reasons you got the leave to construct was that you were going to have to spend 8 to 10 million dollars a year over the next several years to manage integrity issues.

So I don't understand how you can say you are not saving O&M, if you said in your leave to construct and got your approval on the basis of the fact that you were saving money. Help me out with that.

MR. SMITH: And I am sure panel 2 will be able to be positioned to answer that question.

MR. SHEPHERD: Okay. So this is not something that these guys can answer?

MR. SMITH: No, this is something that panel 2 is prepared to answer.

MR. SHEPHERD: All right. The cost of -- the cost of maintaining your current mains is included in your PCI index, right? You don't get extra money because you have to increase your cost for maintenance, right?

MR. SMITH: If I can assist? I think the witnesses may be confused by the suggestion that a particular cost item is included in the escalation of the price cap formula. If you are saying is there a separate Y factor for the cost of mains, there is not.

MR. SHEPHERD: Okay. So if you save money, that goes to your bottom line. And if you have to spend more money, it comes out of your bottom line, right, in this sort of cost. Right?

MS. FERGUSON: In general, if there is variances on our forecast, it would be trued up in our actuals and subject to ESM at some point when the year is finished.

MR. SHEPHERD: All right. I just have a couple of more things I want to ask about. The first is -- let me see if I can find it.

The first is SEC 14. So we had understood that you were moving 4.9 million from 2020 to 2019. You were making an adjustment because you thought it was fairer. Is that not correct? Did we misunderstand that?

If you want to go to B1-2-1, page 31 for the original reference, feel free. I am just trying to understand. Obviously, we misunderstood and we'd like to have it explained what you are actually doing.

MS. MIKHAILA: Yes, the $4.9 million represents the capital expenditures on the 2019 ICM projects. But it's not included in the calculation of the 2019 revenue requirement.

MR. SHEPHERD: Is it included in the 2019 ICM request?

MS. MIKHAILA: It's included in the 2020 revenue requirement and onward.

MR. SHEPHERD: But you're proposing to reduce the maximum eligible incremental capital in 2020 by those amounts.

MS. MIKHAILA: That's to recognize the fact that if those projects are approved in 2019, the spend in 2020 will reduce the maximum eligible incremental capital for ICM purposes.

MR. SHEPHERD: And so the reason you're doing that is because if you claim them in 2020, as ICM, they wouldn't qualify?

MS. MIKHAILA: Well, the recovery of those amounts if approved will already be included in the ICM recovery.

MR. SHEPHERD: So you are, then, asking to recover those amounts -- you are asking the Board to approve recovery of those amounts in this proceeding?

MS. MIKHAILA: Yes.

MR. SHEPHERD: And that's 4.9 million that actually isn't stuff for this year, it's for next year.
MS. MIKHAILA: Correct.
MR. SHEPHERD: Okay. So we weren't completely nuts, but we didn't have it quite right.
All right. I wonder if we could go to LPMA 1. And LPMA 1 is talking about the true-up, I think it is. And so your ICM projects for Union Gas, are they all in the north? Is that right?
MS. MIKHAILA: The Sudbury project is in the north and the Kingsville and Stratford projects are in the south.
MR. SHEPHERD: Exactly. Okay. So then are you proposing that the true-up for the south projects will be in -- against the south ratepayers and the true-up for Sudbury will be for the north ratepayers? Or are you putting the two of them together and making everybody pay for both of them in the true-up?
MS. MIKHAILA: We are not proposing a true-up as part of this application, and we will bring that forward at the time when we determine the balance in the account.
MR. SHEPHERD: Well, but you're proposing the deferral accounts to track that. Right? Isn't that what the deferral accounts are for?
MR. SMALL: Yes, the deferral accounts are to track the difference between --
MR. SHEPHERD: And so if you only have one for the Union Gas area, that means that your true-up for the Union North and South ratepayers would not be separate, it would

be together. Is that right?
MR. SMALL: The true-up amount would be housed in a single deferral account, yes.
MR. SHEPHERD: And it would only be one amount?
MS. MIKHAILA: Not necessarily. The amounts within the single deferral account could be tracked by zone.
MR. SHEPHERD: Well, then why wouldn't you just have two accounts? This is what LPMA is asking: Why not have two accounts. Right? And you said, no, we don't need one. And so then why would you track it separately? I don't understand. Wouldn't it just be easier to have an account for each?
MR. SMALL: I think, well, our thoughts were when we requested two deferral accounts was that because we are doing separate ICM threshold calculations for the Union and EGD rate zones it made sense to have separate deferral accounts for those two rate zones.
MR. SHEPHERD: Can you tell me what the connection is between the threshold calculation and the true-up deferral account?
MR. SMALL: Because that's determining what ICM amounts could be charged to each of those respective rate zones, because you are going to have projects assigned to the EGD rate zone and projects assigned to the Union rate zone. Now we are going a step further and talking about the apportionment of costs of the Union ICM rate zones.
MR. SHEPHERD: Yes.
MR. SMALL: I am just trying to say at the time when

we requested two deferral accounts it was more tied to the fact that the overall starting point was two separate ICM threshold calculations.

MR. SHEPHERD: I am still a little bit lost here. Sorry. The -- when you are doing the true-up later of the projects in either account, the threshold is irrelevant. Right?

MR. SMALL: Correct, yes, I agree, in true-ups -- on true-up the threshold isn't there. I was just trying to explain the rationale for why we requested two deferral accounts as opposed to possibly three or more depending on -- there was other interrogatories as well. So --

MR. SHEPHERD: Okay. So I am going to undertake -- I'm going to ask you to undertake to give us a more complete answer to LPMA 1 that explains why three accounts is not preferable to two accounts or alternatively explains how you will make sure that any true-up of north and south goes to the right ratepayers. Can you do that?

MR. SMITH: Yes, we can do that.

MR. SHEPHERD: Thank you.

MR. RICHLER: JT1.4.

UNDERTAKING NO. JT1.4: TO PROVIDE A MORE COMPLETE ANSWER TO LPMA 1 THAT EXPLAINS WHY THREE ACCOUNTS IS NOT PREFERABLE TO TWO ACCOUNTS OR ALTERNATIVELY EXPLAINS HOW YOU WILL MAKE SURE THAT ANY TRUE-UP OF NORTH AND SOUTH GOES TO THE RIGHT RATEPAYERS.

MR. RICHLER: And Mr. Shepherd, we should take a break soon. I don't want to interrupt your flow.

MR. SHEPHERD: I am about -- you call this flow? I have about no more than 10 minutes. Do you want go now or do you want to...

MR. RICHLER: Can I suggest we take a break now?

MS. GIRVAN: Can I just ask a quick follow-up question?

MR. SHEPHERD: Sure.

MR. RICHLER: All right. Why don't we take --

MS. GIRVAN: About the last question --

MR. RICHLER: -- Ms. Girvan's follow-up --

MS. GIRVAN: -- with respect to the --

MR. RICHLER: -- and we'll take a --

MS. GIRVAN: -- true-up if you have one account for Union that doesn't preclude you from allocating the costs to the two different zones within Union. Right?

MS. MIKHAILA: That's correct.

MS. GIRVAN: Okay, thank you.

MR. RICHLER: Okay, we will break for 15 minutes.

MR. SHEPHERD: Thank you.

--- Recess taken at 11:01 a.m.

--- On resuming at 11:20 a.m.

MR. RICHLER: Welcome back. Mr. Shepherd.

MR. SHEPHERD: I want the record to show that that was a 20-minute break.

All right, so I just have a couple things left to track down here, and the first is APPrO 3. So I was confused with both the question and the answer on this one. But your answer to A is that capital amounts falling below the threshold will be applied to Union south projects only. Why is that? Can you help me understand why that is?

MS. FERGUSON: If you refer to Exhibit B1, tab 1, schedule 1, page 18, table 8. That 2.8 is in relation to the Stratford reinforcement project, which is a Union South rate zone project.

MR. SHEPHERD: Okay. But why are you saying it's the Stratford project that's the one below the threshold. The threshold applies to everything, right? It could just as easily be Sudbury that's 2.8 million below the threshold, right?

MS. FERGUSON: The in-service capital for -- the in-service capital that we are referring to is related to just Kingsville and Stratford. Sudbury was dealt with last year. It was closed last year. So it wouldn't apply to the Sudbury project and the north rate zone.

MR. SHEPHERD: But you are including Sudbury as if it were a 2019 project for the purpose of the threshold, right? You are saying it's all above the threshold. But if it's just one of your ICM projects, then isn't it -- isn't it just as logical to say, no, Sudbury was 2.8 million below the threshold and Stratford and Kingsville were fully above the threshold?

It's just a question of ordering, right? You stack it one way, you stack it another way.

MS. FERGUSON: The ICM threshold of 143 for Union rate zones only includes Kingsville and Stratford. It does not include the Sudbury project because that is being treated separately.

MR. SHEPHERD: So you did a separate threshold for south and north?

MS. FERGUSON: No, there's one threshold based on the in-service capital in 2019. Sudbury went into service in 2018. So based on the 2019 threshold calculation of 143.3, Kingsville of 118.2 is included, and 25.1 of Stratford is included. It's only those two projects that, based on in-service capital in 2019, that we are asking for ICM treatment.

MR. SHEPHERD: So Sudbury is not a 2019 ICM project?

MS. FERGUSON: We are asking for treatment of it being treated as an ICM project for 2019, but it's not included in the threshold calculation.

MR. SHEPHERD: Well, no, none of the ICM projects are included in the threshold calculation because the -- you've applied it all to Stratford basically. You've just arbitrarily said we have three projects and we have to apply the below-threshold amount to something, we will apply it to Stratford.

It could have been applied to Kingsville, it could have been applied to Sudbury, right?

MS. MIKHAILA: I'd just refer you to table 7, where we calculate the maximum eligible incremental capital.

MR. SHEPHERD: Sure.

MS. MIKHAILA: The 2019 in-service capital amount shown there for the Union rate zone of 518.5 million is the 2019 capital forecast, which does not include the Sudbury project. So the 143.3 million requested funding for the Kingsville and Stratford projects ...

MR. SHEPHERD: No, no, no, no, no. That's just, that's just shells. The 518 doesn't include Sudbury, but you are still asking for it to be included in your capital that's funded this year, right? So if you included Sudbury in the 518, then that wouldn't be 143. It would be 133 or 135, right? You could do it either way.

MS. MIKHAILA: Yes, we did not include the spending in the eligible incremental capital calculation because it wasn't 2019 spending.

MR. SHEPHERD: All right. Okay.

MS. MIKHAILA: I will just mention, though, between Kingsville and Stratford, the allocation of those two projects is the same to rate classes. I think we have note there, note 1 to table 8, that the projects selected for ICM to reduce does not impact who pays between those two projects.

MR. SHEPHERD: I didn't ask that. Sorry, I didn't ask that question. So let me go to --

MR. VELLONE: Just before we leave APPrO 3, just to speed things up because I am going to ask a follow-up on it, would it be possible -- and probably to do this by way of undertaking -- for you to re-run the allocation of the $2.8 million if, you assume that the Sudbury reinforcement project happened in -- actually went into service in 2019? I want to see how the amount gets allocated between Union North and Union South.

MR. SMITH: We can do that.

MR. RICHLER: JT1.5.

UNDERTAKING NO. JT1.5: WITH REFERENCE TO APPRO 3, TO RERUN THE ALLOCATION OF THE $2.8 MILLION ASSUMING THE SUDBURY REINFORCEMENT PROJECTED WENT INTO SERVICE IN 2019, TO SHOW HOW THE AMOUNT GETS ALLOCATED BETWEEN UNION NORTH AND UNION SOUTH

MR. SHEPHERD: Now I want to go to Staff 57. And this is basically a refusal to talk about future ICM eligible projects, right?

MR. SMITH: It's a reflection of the fact that we are here talking about 2019 rates and 2019 projects.

MR. SHEPHERD: So am I right in understanding, then, that based on the proposals of the utility in this application, the Board is not being asked, and by implication is not being asked to say anything about future projects and the fact that they are included in the evidence doesn't matter.

You can't come in a later case in 2022 and say Kennedy Road expansion? Well, we told you about it in 2019. Like it's already okay, right?

MR. SMITH: So we are not -- we are not asking for any approval by the Board in relation to future year projects which are not the subject of an ICM request in this application, and so Kennedy Road or whatever else. And I think the Board was pretty clear in its procedural order with respect to how it viewed the system plan, or the asset management plan, and whether it was giving an approval in relation to that.

So this is not a bait and switch exercise on our behalf.

MR. SHEPHERD: Well, I didn't call it bait and switch, but ...

MR. SMITH: But I thought I would save you the effort of colouring the record.

MR. SHEPHERD: You're so kind. So can I go to Energy Probe 16, please. In Energy Probe 16 -- and I am going to ask panel 2 about the budgets for the ICM project, so I am not going to ask you about the budgets. But in Energy Probe 16 you talk about the reason why the leave-to-construct budgets are lower for three of the projects, to the tune of $37 million, than your current budgets. And in each case it's because of an amount that you call indirect overheads. It's 9.2 million in Don River, it's 12.3 million in Sudbury, it's 15.7 million in Kingsville. Stratford, interestingly enough, doesn't have any overheads in it. Do you see that? So in a leave-to-construct application, why would you not include overheads? The Board wants to know what the cost of the project is going to be. Right? Isn't overhead one of your costs?

MS. FERGUSON: Our leave-to-construct applications follow the requirements in EBO 188 and EBO 134, which talks to incremental costs only. In this proceeding we are talking about ICM policy. The company's position is because we are dealing with discrete projects, the fully burdened costs should be what is recovered through ICM.

MR. SHEPHERD: So is these amounts, these 37 million, they're not incremental costs.

MS. FERGUSON: The costs for each of these projects reflect the full costs that would be closed into rate base, which includes your indirect as well as your direct.

MR. SHEPHERD: But it's true, is it not, that if you didn't do these projects you would still incur that 37 million of overhead costs?

MS. FERGUSON: Potentially. Those costs would be redirected to support other -- other activities in the company.

MR. SHEPHERD: Thank you. So my last question --

MR. QUINN: Are you leaving that interrogatory?

MR. SHEPHERD: I am.

MR. QUINN: Can I ask a follow-up?

MR. SHEPHERD: Sure -- oh, sorry, I have one more follow-up. Why aren't there overhead costs in Stratford?

MS. FERGUSON: I actually don't know at the moment.

MR. SHEPHERD: Should we ask panel 2?

MR. SMITH: No, I think you have asked the right panel. We can undertake to look into that.

MR. SHEPHERD: Okay.

MR. RICHLER: JT1.6.

UNDERTAKING NO. JT1.6: TO ADVISE WHY THERE ARE NO OVERHEAD COSTS IN STRATFORD.

MR. SHEPHERD: Sorry, go ahead.

MR. QUINN: No problem. I don't know if this would be -- I am trying to understand these costs that are going to be closed as a result of these overheads. What are these costs? These are costs of salaries of staff, are they?

MS. FERGUSON: If you refer to the response to Board Staff Interrogatory No.32.

MR. SHEPHERD: Page 2.

MS. FERGUSON: In the response to part C, we outline the types of costs that are embedded in there.

MR. QUINN: Okay. So I see departmental labour costs and administrative overheads, which essentially are salaries. Correct?

MS. FERGUSON: Salary and employee expenses, that type of thing.

MR. QUINN: Okay. So would that serve to reduce your actual expenditures in O&M, then, for that period?

MS. FERGUSON: These are capital O&M items, so they actually won' reduce our O&M budget.

MR. QUINN: So in 2018 you did the Sudbury project. Correct?

MS. FERGUSON: Correct.

MR. QUINN: But the overheads were not included in your application, in your leave-to-construct application. Correct?

MS. FERGUSON: Correct.

MR. QUINN: So they would have -- so these salaries of the individuals working on this project, how would they have been retroactively assigned to capital for the period of 2018?

MR. KACICNIK: We would like to address this question from the difference between economic feasibility when we are asking for LTCs or extending the system to new customers versus rate-making implications of the ICM projects. So when you are doing system expansion to new customers or you are filing an LTC those are governed by EBO 188 and 134. The way you do economic analysis in that you include incremental costs, including incremental overheads.

When it comes to rate making, we don't design rates on present value of project revenues and costs, discounted cash flows. We design rates based on fully burdened, fully allocated costs. So when you are closing an ICM project into rate base, you have to reflect all costs, which is fully burdened costs.

It would not be consistent if you close a project, an ICM project X into rate base using all costs, and then calculate ICM rate riders using incremental costs.

MR. QUINN: Okay, thank you.

MR. KACICNIK: So, in other words, when projects go into rate base, they are closed into rate base on cost of service type rate-making principles, which is fully burdened costs.

MR. QUINN: Okay, thank you for your answer.

MR. LADANYI: I have another question, a follow-up question on 16. Can I?

MR. SHEPHERD: Sure.

MR. LADANYI: So I was interested in how you actually calculated overheads, because there seems to be a

difference in how Union calculates overheads and how
Enbridge calculates overheads.
     So, for example, if you look at the EP 16 response A
to Don River, so we have overheads of 9,230,000, you see
that, okay. And the total project cost is now 35-million-
354. And then for example you can look at any of the Union
projects -- a good one to look at would be Kingsville. In
Kingsville, we have overheads of 15-million-700 and the
project cost is 121-million-416.
     So it seems to me there's a different percentage being
applied. But can you explain to me how you actually
calculate overheads? It's something times something equals
overhead. So what are the somethings?
     MS. FERGUSON: There are different allocations for
overheads between the two legacy utilities. We have
different systems, different processes that are
facilitating that process.
     If you refer back to the interrogatory to Board Staff
number 32, the response to that interrogatory, one of the
differences in the methodologies on how we allocate
overheads is in EGD's rate zone. We have departmental
labour costs. Instead of burdening directly to the
project, which is what Union Gas does for similar costs, we
allocate them through an overhead mechanism. So what would
be deemed overhead in the way EGD allocates to overheads,
would be a burden direct cost in the way UG allocates
overheads, and that's the resulting difference in the
numbers.

MR. LADANYI: So is the allocation proportional to the overall capital cost of the project, or is it something else? That's what I was interested in the math, like the math behind it. Is it proportional to the size of the project? Would a larger project attract more overheads than a smaller project, and how would the difference be seen?

MS. FERGUSON: In UG's scenario, their overhead costs are allocated in proportion to labour dollars, direct labour costs.

MR. LADANYI: And in Enbridge's legacy system?

MS. FERGUSON: In Enbridge's legacy system, it's dependent on -- it's dependent on the labour pool. So, for example, if it's operations and engineering, there is a certain percentage that would be allocated.

If it's -- sorry, if it's engineering it would be a different percentage. So based on the work being performed, there's a certain percentage that's allocated.

MR. LADANYI: Now, can I ask you a theoretical question so I have a complete understanding how this works? Suppose you have an indirect overhead cost that you believe should be allocated to a capital project, it doesn't matter how, and it's $100 million and you ten equal size projects.

So each project would be allocated -- would it be right that each project would be allocated, let's say, ten Million? Would that be right? Is that what I am to assume?

MS. FERGUSON: Sorry, can you repeat that?

MR. LADANYI: So if your total pool of costs that are eligible to be allocated to capital projects through your indirect overhead allocation process in either company is $100 million, okay?

MS. FERGUSON: Um-hmm.

MR. LADANYI: So then if you have ten equal-sized projects, would each project get $10 million of allocation? Is it seems sensible to me. I don't know what it would be. Or let's say if the allocator is based on labour, suppose they all have equal labour amount, so each one would get --

MS. FERGUSON: Yes. So for similar projects of the same size, yes, they would get the same amount.

MR. LADANYI: Now you get to 11th project. So you've prepared the budget based on ten projects. But now new incremental project comes along that was not in the original budget, and it's an incremental project that is equal to the other projects, but it's now the 11th project.

If you had already allocated the $100 million to the ten projects that were in the budget, what is there to be allocated to the 11th project?

MS. FERGUSON: It would actually depend on the nature of the project. In some circumstances, you actually hire more support staff that would be treated otherwise as indirect overheads to support the project.

MR. LADANYI: Yes, but we were discussing indirect overheads. Indirect overheads would be, from what I understand from your evidence, would be regulatory affairs and finance and law department, and so on. It would be not be engineering, which might have actually some incremental cost. It's unlikely that finance would hire another employee to do accounting on one incremental project. It seems unlikely to me, but perhaps it happens; you can correct me on it.

So let me try my question slightly differently. So now there is the 11th project. Would the other ten projects then have a reduced amount of overhead allocated to them and then before or is it now -- I want to understand what happens if the total amount of overhead is 100 million and you are not having incurring any incremental overhead costs, what gets allocated to the 11th project, to the incremental project?

MS. FERGUSON: The overhead allocation process is usually run at the end. So if we did implement more, we would allocate it over all projects and they would get an equal percentage, if they're like projects similar in size and scope.

When I was referring before about it being dependent on the type of projects, I was referring more to the DLC costs as opposed to the ANG, which you are referring to.

MR. LADANYI: So your answer appears to be that we are going to see a difference in the actuals, and you will capture the difference of what was allocated in the deferral account. Is that what you are saying? So if in fact the allocation of overheads was in fact actually different, there will be a smaller amount allocated in the deferral account than, let's say, you have here or somewhere else?

MS. FERGUSON: Yes, that's correct.

MR. LADANYI: Thank you.

MR. KACICNIK: Mr. Ladanyi, as you know, ICM has a true-up mechanism where you true-up for the variance between actual revenue collected from customers and actual revenue requirement of these projects. So if there is any variances, including allocation of indirect overheads, that would show up as actual revenue requirement being less. So that would all be trued up through the true-up mechanism that exists for ICM projects.

MR. LADANYI: So, well, since you did mention that, I want to ask you, does the accounting system in Enbridge Gas Inc., does it allocate overheads on a monthly basis to projects that are closed into service? The actual overheads.

MS. FERGUSON: Technically in both ERP systems that both legacy utilities use it would be allocated at the end of the year.

MR. LADANYI: At the end of the year.

MS. FERGUSON: Um-hmm.

MR. LADANYI: Based on the total, let's say, costs of the actual costs of the departments whose costs are being capitalized.

MS. FERGUSON: Yes.

MR. LADANYI: So to be absolutely clear now, suppose during the year the actual costs of the finance department where you work is being capitalized, so if there were --

during staff reductions in the finance department during the year we would see that in a lower amount of overhead being capitalized at the end of the year?

MS. FERGUSON: Yes, that's correct.

MR. LADANYI: Okay, thank you.

MR. SHEPHERD: So now I have another question on EP 16, because this is just too much fun. In three of the projects listed in EP 16 there is an overhead amount. Can you please undertake to provide the calculation that got you to that number?

MR. SMITH: Yeah, I am sure we can give you the derivation of that figure.

MR. SHEPHERD: I would like to actually see the figures: These are the amounts, these are the percentages that were applied to this and this, et cetera, and this is how we got this number.

MR. SMITH: Yes, we can do that.

MR. SHEPHERD: Thank you.

MR. RICHLER: JT1.7.

UNDERTAKING NO. JT1.7: TO PROVIDE THE CALCULATION THAT GOT YOU TO THE OVERHEAD NUMBER IN THREE OF THE PROJECTS LISTED IN EP 16; TO ADVISE WHAT MADE UP THE OVERHEAD OF 759,000 IN THE DON PROJECT.

MR. GARNER: It's Mark Garner, and maybe on the same -- if Mr. Shepherd doesn't mind. If at the same time you could demonstrate how the original overhead is calculated, then I could have something to compare the two to.

MR. SHEPHERD: Well, there is only one that has a change, right? The other ones simply had no overheads in first place.

MR. GARNER: Right. So it's only the Don Valley one that has that one. If that's not -- if that's okay with Mr. Shepherd.

MR. SHEPHERD: Sure.

MR. GARNER: And if you don't mind --

MR. SMITH: Sorry, I am not -- sorry, Mr. Garner, I am not sure I'm following you. What is that you are asking for? You want to know what made up the overhead of 759,000 in the Don project; is that it?

MR. GARNER: Yeah, I want to be able to the compare and contrast it with the calculation that you'll show for Mr. Shepherd for the now $9.989 million. So it just gives me an ability to see why they are different or how they were different at the two different times.

MR. SMITH: Yes, we can do that.

MR. SHEPHERD: Include in the same undertaking.

MR. RICHLER: That will be included to JT1.7.

MR. GARNER: If I might Mr. Shepherd, I do have one question on the Don Valley, and it was because I was confused about the earlier answer about the distinction to be drawn between the leave-to-construct calculation and rates. I just want to be clear I understand two things. When you did the leave to construct for Don Valley, the 25.597 million, is it your understanding or was it your understanding at the time, was that was the amount that was going to be booked to rate base? You were telling the Board, this is going to be the rate base booking of this project? Is that what you are showing the Board in that leave to construct? I mean, minus, obviously, the minor depreciation that may occur, et cetera, when you're doing in-service.

MR. KACICNIK: Mr. Garner, the amount that would be closed into rate base for the Don River replacement project would be the fully burdened amount of 35.4 million.

MR. GARNER: Yeah, I think I understood that part of the answer. I asked you a different question. I said when you put in that leave to construct to the Board, was it your understanding at the time, were you telling the Board at the time that you expected to book into rate base for that project when completed 25.597? Or were you not telling the Board at that time that you didn't know there was another amount of money yet to come to be booked to rate base when you did that project? Was that your best estimate at the time? Were you telling the Board, we believe this project will go into rate base at $25.597 million?

MR. KACICNIK: No, that could not have been our understanding or what we were telling the Board, the project's going into rate base on a fully burdened basis. The LTC's prepared according to EBO 188 or 134 in both cases using incremental amounts.

MR. GARNER: Right. But if you are doing this -- and this is where I probably doesn't understand your answer --

when you are doing your economic evaluation, the evaluation you are presenting actually is tied to rates because that's how it's recovered, and so one isn't at that time actually doing an economic evaluation on 25.5 million, one should be doing it on 35.3 million. That's the cost that needs to be recovered. Is it not? I mean, you want to recover 35.35 million, don't you?

MR. KACICNIK: Yes, that's what we would recover. However, the economic analysis as per the Board policy --

MR. GARNER: Right.

MR. KACICNIK: -- deals with incremental costs. The revenue side of the equation, yeah, the rates used obviously are the rates approved by the Board and they are fully allocated. However, on the expenditure side of the equation you use incremental costs.

MR. GARNER: Yeah, I still don't understand. I will think about that. But I am only trying to get something clear in my mind.

So you are saying to us today that when you present leave to constructs to the Board, the actual amounts that you are asking to be booked into rate base, in this case $25.5 million, was an overhead cost that represents about 3 percent of that project, might in fact be wrong by a magnitude of 40 percent of the project in overheads and $35 million. So in the future, let's say, when we look at leave to constructs from the Board, are we to take then that we need to inquire as to what your overheads really are or what this number represents, which is not the number in any facsimile close to the number you are asking for, it's not even an order of magnitude, right?

MR. KACICNIK: Like, both -- both processes have their own Board policies to comply with. So you do it according to EBO 188 in one case. For rate-setting you use the full amount.

MR. GARNER: Okay. So my question is this: Would a good question be in a leave to construct, just so I understand how this should work, that one should ask the utility, thank you for the total project costs, but now we would like to understand what is your estimate of what you will book into rate base so we can understand what the rate base implication of your project is? Is that what you are saying the Board should be asking for if it wants to understand the rate base amount that goes into the project? Because you are not showing that. You are saying you don't show that as part of this leave to construct. Is that what you are saying?

MR. KACICNIK: Yeah, that's what we saying --

MR. GARNER: Okay.

MR. KACICNIK: -- it's not requirement, but it can be asked --

MR. GARNER: Okay, thank you.

MR. SHEPHERD: In a leave-to-construct application, when you do an estimate of alternatives, do all the alternatives have the same overhead amount excluded?

MR. KACICNIK: All the alternatives looked at would be done on the same basis.

MR. SHEPHERD: So DSM, for example?

MR. KACICNIK: I believe that even looking at DSM as an alternative it would be done on the same basis, which would be incremental basis.

MR. SHEPHERD: Really?

MR. KACICNIK: I believe so.

MR. SHEPHERD: All right. Okay, so can I move on from 16?

MR. GARNER: Yes.

MR. SHEPHERD: You sure? Last call. So after all that stuff, I have a very narrow question. This is in Staff 17, attachment 1, page 2.

MR. SMITH: Attachment 2?

MR. SHEPHERD: Attachment 1, page 2. So this is a proposed change to the wording of open bill revenue variance account, and you've changed -- my question is this: You changed the wording so that there's no longer a reference to 2009-0043, but only a reference to 2013-0099. What's the substantive reason for that? Or is it just housekeeping?

MR. SMALL: I'm sorry. What was the last part of your statement there?

MR. SHEPHERD: I said what is the substantive reason for changing the reference, because 2013-0099 was already referred to. You've just re removed the reference to 2009-0043, and I am asking what is the substantive reason for that.

MR. SMALL: My understanding -- and I'd have to go back and double-check that last decision -- was that that decision itself refers back to the prior settlements. So including that plus the references to the prior ones was just somewhat duplicative.

We are not proposing to change the mechanics of it or how it functions, or the operation of it in any way. It was just the EB-2013-099 would refer to the settlement from the prior -- the prior settlements as well, because I believe there was a 2013 year settlement for that year and then in '08 to '12 settlement in there as well.

I think the history is laid out in BOMA 3 --

MR. SHEPHERD: I am not interested in the history. I know the history really well.

MR. SMALL: I think the only reason was just because it seemed duplicative in that settlement referred back to the old settlement.

MR. SHEPHERD: There is not intended to be any change in substance in this.

MR. SMALL: Absolutely not.

MR. SHEPHERD: The account is not supposed to act differently in any way?

MR. SMALL: Absolutely not.

MR. SHEPHERD: Good, thank you. That's all my questions, thanks.

MR. RICHLER: Thank you, Mr. Shepherd. Mr. Brett, you are next. And we are going to take a break for lunch around 12:30.

EXAMINATION BY MR. BRETT:

MR. BRETT: Okay, thank you. I would like to start, panel, with BOMA number 57. And I am also going to be referring briefly to BOMA number 1. And this is just a simple -- a question of the magnitude of the increases of the delivery charge.

In BOMA 57, I asked about rate 6 and what would be the increase in delivery charge for 2019 over 2018, and also over the subsequent four years.

So leaving aside the subsequent four years, which I now understand you can't speak to at this stage, and just looking at 2019 rates -- and rates rather than bills is the gist of my question -- you've said that down in the response that for rate 6, and I'd asked you to give me numbers for a low, medium and high volume customer at each -- in rate 6. And you have given me numbers in that second paragraph of a rate increase, a delivery charge increase for 2019 of 1 percent for a low volume, 1.6 for a medium, and 1.8 for a large rate 6 customer.

And one preliminary question I have on that is what accounts for the differences between the magnitude of the rate increase in 2019 for the three volumetric examples? I mean, you have got a situation where the large rate 6 customer has got a rate increase of 1.8, almost double what the small customer is. Just, what accounts for those differences, which I assume would be similar -- not identical, but similar differences in looking at the different volume points in any of the rate classes. So what accounts for that?

MR. KACICNIK: There's a couple of contributing factors. One factor is that we are not escalating or increasing monthly customer charges by the price cap index, but rather pushing down the revenue that we would get if we were to escalate those charges down into delivery blocks.

So the larger the customer, the higher the rate impact will be as an outcome of that approach.

The second reason, the second reason for a somewhat higher rate impact for larger customers is that we are designing demand side management unit rates as a uniform rate for all customers. So all customers in the rate class would pay the same unit rate for demand side management programs. In other words, those rates are not blocked.

MR. BRETT: Okay, and the rest of my question is, if you go to BOMA 1, I was asking for the rate increases for 2019 over 2018. And I had said with and without any rate riders. But leave the rate rider portion aside for now, because I think I kind of pointed you in the wrong direction there.

But I asked for the -- what I really, what I was asking for was what the increase is for each in each rate class for Union and Enbridge legacy for the three volume points, and you had referred me to some materials in the working papers. And what I wanted to check with you was -- I have not examined those working papers to be frank at this stage, but I wanted to confirm with you that the information that is in those working papers actually will answer my question about the rate increases as opposed to the bill increases.

Is that the case? If it is not, what I would like you to give me, if you could by undertaking, would be the 2019 rates or delivery charge increases for each of the rate categories for Union and Enbridge for small, medium and large customers. I just want a matrix that gives me that.

MS. MIKHAILA: Are you looking for an average unit rate calculation of the bill?

MR. BRETT: An average unit rate for each of the classes, for each of the volumes. In other words, you have got a class, let's say M1. I would like M1 low volume, M1 medium volume, M1 high volume and, in each case, what's the average percentage rate increase. I realize it may be different.

MS. MIKHAILA: Would built sufficient to provide the calculated bill divided by the volumes to get a rate increase by those categories? The problem I am struggling with the question is with each rate class, there are multiple different types of rates; monthly customer charges, demand charges, or volumetric charges.

So I can provide the rate increase of each of those Items. But that's not representative of a customer, as you have said low, medium and high.

MR. BRETT: So you're saying that certain rates have a number of different categories in them and in order to get the overall rate increase for that particular rate class, you have to calculate the increase in each of those categories, demand versus -- is that what you are saying?

MS. MIKHAILA: You can do it an at a class level to get a rate increase. But if you are looking at different sized customers within the same class, I believe you would have to calculate the bill first and then perhaps divide by volumes to get it as a volumetric rate increase. But I am struggling how else I could provide that.

MR. SHEPHERD: Can I ask, Tom?

MR. BRETT: Yes, go ahead.

MR. SHEPHERD: You didn't increase the various unit rates in both Union and Enbridge by the same percentage, did you, so block 1, block 2, block 3, et cetera, all those unit rates aren't increased by the same percentage?

MR. KACICNIK: That's correct, for legacy Enbridge rate zone.

MR. SHEPHERD: And that's correct for Union too, right?

MS. MIKHAILA: Yes, because of the monthly customer charge adjustment.

MR. SHEPHERD: Okay. So do we have somewhere in the evidence those percentage increases and why they were not all the same? You are under a price cap, right? So all your rates are supposed to increase by the same percentage. So you didn't do that, and I am wondering whether we have the breakdown of what you did and why you did it.

MS. MIKHAILA: So what you would like to see is the 2019 proposed rate as a percentage of the 2018 rate?

MR. SHEPHERD: Each unit rate.

MS. MIKHAILA: Each unit rate, each block, demand charge, that type of thing?

MR. SHEPHERD: Yes. And if they are not all the same, why are they not all the same? So let me give you an example. You did an increase, the customer charge in M2 from $70 to 73 or 2, whatever that would have been, so that $2 has to go somewhere. So if you put it all into block 1 then you can just tell us it all went into block 1 and this is why block 1 went up by 6 percent instead of 1.07. If you put some of it in block 1 and some of it in block 2 you can tell us that. Or if you spread it out over all of the other blocks you can tell us what your logic was for how you spread it. Do you understand what I am saying?

MR. KACICNIK: Yes, yes, we do.

MS. MIKHAILA: Are you --

MR. SHEPHERD: That's not in the evidence, right?

MR. KACICNIK: The rates are obviously based on this approach, is --

MR. SHEPHERD: No, the logic.

MR. KACICNIK: That logic could be explained as part of this undertaking.

MR. SHEPHERD: Awesome.

MR. SMITH: We can do that.

MS. MIKHAILA: Would it be for every rate class in franchise rate class?

MR. SHEPHERD: I guess I am only concerned with 1, 2, M1 -- those six I talked about --

MR. MONDROW: Yes, please.

MR. SHEPHERD: -- but Tom may want it for others as well.

MR. MONDROW: Yes, please.

MR. BRETT: Yes, I would like it for the rest of them.

MR. MONDROW: And to the extent -- and can you just confirm in doing that that the adjustments that you have made are revenue-neutral within each rate class; that is, there's no intra -- sorry, inter-rate class, I will call it a subsidy, for lack of a better word at the moment, but just confirm you have kept the revenue by rate class even though you may have shifted the percentages for the different components?

MR. KACICNIK: That's confirmed now. Confirmed.

MR. MONDROW: Okay, thank you.

MR. RICHLER: So we will call that JT1.8. There was a pretty lengthy exchange there which I wouldn't dare summarize.

MR. SMITH: We have it.

MR. RICHLER: You've got it? All right.

UNDERTAKING NO. JT1.8: TO LIST FOR EACH RATE CHANGE IN EACH COMPONENT OF THE RATE BEING PROPOSED IN DOLLAR AND PERCENTAGE TERMS, AND WHERE POSSIBLE THE IMPACT ON HIGH, MEDIUM AND LOW CONSUMPTION CUSTOMERS

MR. BRETT: And I'd just add maybe as a closing comment, I mean, you were able to give me, on going back to BOMA 57, you were able to give me the -- for rate 6 the percentage for low, medium, and high, so, you know, to the extent you can reproduce that process for others that would be helpful. But let's stick with what you have been asked, and you think about it and give us the best -- what you think is the best -- the most illuminating answer.

MS. MIKHAILA: I will say, though, we do have the bill impacts of different size customers already prepared in evidence for the Union rate zone.

MR. BRETT: That's why you can do that. Is that what you are saying?

MS. MIKHAILA: I am just saying I don't know if it's necessary to be part of the undertaking, because it is in --

MR. BRETT: Maybe I misheard you, but I am talking about just the rate impact, not the bill impact.

MR. KACICNIK: As we discussed, Mr. Brett --

MR. BRETT: The numbers you gave me for rate 6 are rates, are delivery rates.

MR. KACICNIK: Correct. But when we are looking at impacts on customers of different sizes, we need to assume certain volume, right, to arrive to those impacts.

MR. BRETT: Yes.

MR. KACICNIK: Small volume, medium volume, larger volume, so we need that. So rates for all customers within a rate class are the same, and the rate changes year over year for all customers within the rate class will be the same.

MR. BRETT: Right.

MR. KACICNIK: It's really the bill impact of customers within rate class with different consumptions that will vary, and that's already in the evidence now.

MR. BRETT: Okay. Well, maybe -- I don't want to confuse what -- confuse the issue any more, at least in my mind, but I had -- I think I understand what you are saying. But I understood the 1 percent, 1.6, and 1.8 to be actual percentage increases in what I would call the delivery charge portion of the bill. Nothing else. The delivery charge portion of the bill.

MR. KACICNIK: Correct, yes.

MR. BRETT: That's the part you are responsible for. That's the only part you are responsible for.

MR. KACICNIK: Yes, yup.

MR. BRETT: Okay. Now if I could just move on, I have a question here on Staff 2, and I -- which I'd ask you to turn up. And this is -- I am going by my notes here, but I -- and I really can't read this. This type has sort of gotten too small. But the -- as I understand it -- correct me if I am wrong, but this has to do with your connection policy, the way in which you deal with inter -- what's the correct word, umm -- signing up someone in between two other customers; in-filling -- your in-filling policy and how you deal with construction contributions in aid of construction.

And if I can summarize at a high level, what I read this change to mean here that you're proposing is that you're talking about first of all residential customers, as I read it, so my first sort of sub-question is does that in-fill change and in-fill policy also apply to commercial customers or are we just speaking of residential customers here? But let me carry on to give you the rest of the picture.

As I understand it, in the past you have done an individual calculation. You've essentially said, we will, you know, we will give you a certain amount of -- this is for your service line. We will give you a certain amount of line for nothing, but beyond that you have to pay a contribution. But you did it on a case-by-case basis. Now you're changing that around to do it on an overall average basis. You make a calculation, and the result of that change, as I understand it, is in 2019 you are going to have additional CCA payments of something like 8 or 9 million dollars as a result of the change in methodology.

So my question is, is basically, where does that 8 or 9 million dollars go? Or where does that incremental amount go? Is that an offset to the revenue requirement in some fashion? Or does that go to the account of the shareholder in 2019, or how would that work from a rate-making perspective?

MR. KACICNIK: The contribution in aid of constructions are used to reduce the capital cost of the project in order to make that project feasible.

MR. BRETT: Right.

MR. KACICNIK: For example, if -- if the revenue we expect from a project can support $4,000 in capital expenditures, and the cost of the project is 6,000, then the customer would have to pay contribution in aid of 2,000.

MR. BRETT: Right.

MR. KACICNIK: So this 2,000 would be recorded as an offset to the cost of the project. So it reduces the cost of the project down to 4,000, makes the project feasible, and then 4,000, the feasible capital would be closed into rate base.

MR. BRETT: Okay. So in terms of -- so it's purely a capital transaction?

MR. KACICNIK: Purely a capital, yes.

MR. BRETT: Okay. All right. Let me move on then.

MR. SHEPHERD: May I ask a follow-up on that?

MR. BRETT: Yes, sure.

MR. SHEPHERD: [Coughing] I am sorry, bad timing. I didn't ask the question: Residential only.

MR. BRETT: That was the question I intended to ask, yeah, I am glad you asked that.

MR. KACICNIK: The prior approach using 20-meter rule was for residentials only. Commercial, industrials were subject to project-specific economic feasibility analysis. And now as of 2015 we extended project-specific analysis to all customers, including residentials.

MR. SHEPHERD: And so you were asked about where did the additional contributions in aid of construction go, and when you calculate your ICM, your capital budget for ICM purposes, did you assume those additional contributions?

MR. KACICNIK: The capital budget for the year does assume some level of contributions from customers. So the capital budget, in other words, would be net of capital contributions.

MR. SHEPHERD: No, but you're asking for the Board to approve an increase in contributions, right?

MR. KACICNIK: We are not asking the Board to?

MR. SHEPHERD: Sorry, you've changed the conditions of service, and it's an issue in this proceeding whether you can ask for more money from the customers for contributions.

I am asking, when you calculated your ICM, your capital budget, to determine how much is above and how much is below the threshold, did you assume the higher contributions that are set out in this proposal?

MR. KACICNIK: The capital budget would reflect system expansion done based on this premise, where each project is evaluated for economic feasibility.

MR. SHEPHERD: Thank you.

MS. GIRVAN: I had a follow-up on that, sorry. So with respect to this change in the policy, are you seeing your contributions go up, or go down, or maintained the same; you are just getting the different amount from customers?

Because I think you said in a Board Staff interrogatory that you weren't able to provide the 2018 sort of differential between this policy and the previous policy. So I am just wondering, directionally, does this policy result in larger -- a larger pool of contribution in aid from your customers or not?

[Witness panel confers]

MR. KACICNIK: There were contributions collected in the prior approach, right, as they are under the new approach. Like we can't compare the two approaches because the set of customers that would pay contributions may be different.

However, we do think that contributions collected are somewhat higher under the new approach.

MS. GIRVAN: So you've said that you couldn't file the comparison. Can you file the total 2018 contributions? Because I think the customer addition for -- in '17 and '18 are relatively close. So could you file that?

MR. KACICNIK: File the amount of contributions collected in 2018?

MS. GIRVAN: Yes.

MR. KACICNIK: Yes.

MS. GIRVAN: Okay, thank you.

MR. GARNER: Actually, sorry. Can I ask you -- because I am also on that Board Staff 2. Is it possible, first of all, to do this as -- can you give the total amount on contributions per connections and the number of connections, so that there's something to, you know, give a bottom line to it? Can you do that, first of all?

MR. KACICNIK: Yes. We can, yes.

MR. GARNER: And then could you also do this -- and this goes to the second part of their question, of Staff's question. Could you do it for a period that is three years prior to the change, and then for the three years or four years after?

So in Staff's question, they asked about complaints and I am going to talk about that next. But they have 2015 to 2018 you have put there. But I understand, and correct me if I am wrong, that the policy change takes place in 2015. Am I correct?

So what would be nice to have is a trend and maybe taking the four years before and the four years after, so that you can see that trend, and if you could do that for the cost of connections -- or sorry, for the revenues from connections and the number of connections, and then also update that part I in the interrogatory to give the number of complaints for the four-year period before and the four-year period after. That would allow us to take a look at both the revenues and the customer impacts, at least in the sense of customers' complaints, to see if there was any change there. Is that possible?

MR. KACICNIK: I am looking at part H of the response, so I would say it's possible from 2016 forward. So, Bonnie, if you can bring up part H of the response.

So here we say that there were limitations with respect the provision of historical data for customer contributions related to in-fill. Prior to 2016, Enbridge systems were unable to distinguish between services contribution from residential infills and subdivision projects.

MR. GARNER: But if the number we looked for is simply an amalgam of the two of them and we keep that number the same, so both pre '15 and after '15, we will still be comparing apples to apples, if you know what I mean.

I do understand there are some limitations in that, but we are still going to get an overall number of connections and overall contributions, and that way we can see if there's any trend.

MR. KACICNIK: I agree with that, it may -- the infills may not be broken out, but the totals --

MR. GARNER: Yeah, I am not looking because I understand that; I read the H part, if we could do the totals. Again, for the number of complaints, I don't know if there's any limitation on the complaints. But if we could get a trend for, I guess, the three years prior or four years prior, of complaints, so we could see if there was any distinction made when the policy changed and the number of complaints you were getting from customers once the policy changed.

So right now, what I see is the number of complaints once the policy changed, right. I don't understand what it was before.

MR. KACICNIK: Three years prior?

MR. GARNER: Yes, sure. Three years would be fine. I think that gives you some sensibility of the number.

MR. SMITH: We will do that. If we have any limitations, Mr. Garner, when we do that, we will note them in the response.

MR. GARNER: Understood, thank you very much.

MR. RICHLER: I understand that there will be that Ms. Girvan's question and Mr. Garner's question will be answered together in one undertaking, which we will call JT1.9.

MR. KACICNIK: Yeah, correct.

UNDERTAKING NO. JT1.9: TOTAL 2018 CONTRIBUTIONS COLLECTED AS WELL AS THE CONTRIBUTIONS COLLECTED IN THE THREE YEARS PRIOR TO AND AFTER THE CHANGE. IN ADDITION THE TOTAL CONNECTION COMPLAINTS IN THE THREE YEARS PRIOR TO THE CHANGE, SUBJECT TO ANY LIMITATIONS.

MR. BRETT: Maybe I can just ask one more question and then we -- I mean, I've got more questions, but we should have lunch.

MR. RICHLER: That's a good idea.

MR. BRETT: My last question is a simple one, I think. It's just the -- my understanding is that the undertakings -- and this may be for your counsel, I am not sure. But the undertakings, Enbridge undertakings to the LGIC remain in -- remain after the merger, and my question is are they in the evidence anywhere? Or if they are not, could they be provided?

MR. SMITH: I don't think they are in evidence. They are in place. I will have to confirm there were -- I thought there were modifications in the MAADs decision, but I will have to look at it. We can file them.

MR. BRETT: Okay, thank you.

MR. KACICNIK: Mr. Brett, if I am not mistaken, the undertakings were filed as part of the MAADs proceedings, so they would be in there.

MR. SMITH: Well, they have for sure in that proceeding, we can file them.

MR. BRETT: Okay, thank you.

MR. LADANYI: May I ask a question to the follow-up on Staff 2?

MR. RICHLER: Sorry, am I hearing there is agreement that an undertaking will be given now to file the undertakings from the other case? Am I hearing that correctly?

MR. SMITH: I thought Mr. Brett was asking us to file Enbridge Gas Distribution's undertakings to the Lieutenant-Governor-In-Council in this proceeding, which is fine.

MR. RICHLER: Okay, I misheard. So that will be JT1.10.

UNDERTAKING NO. JT1.10: TO FILE ENBRIDGE GAS DISTRIBUTION'S UNDERTAKINGS TO THE LIEUTENANT-GOVERNOR-IN-COUNCIL IN THIS PROCEEDING

MR. SHEPHERD: Sorry, is that limited to the Enbridge Gas ones, or to all of them? The current ones, right, the current set. Can you file the current set?

MR. SMITH: Yes.

MR. SHEPHERD: For Enbridge Gas Inc.?

MR. SMITH: Yes.

MR. SHEPHERD: Thank you.

MR. RICHLER: Okay, thank you. I think Mr. Viraney has one or two follow-up questions before we break.

MR. VIRANEY: I just have some questions on Staff 2 since we were on that. It's section F, and it states:

"The change in the customer connection policy was

> required to ensure that the company's investment portfolio achieves a PI of greater than 1."

So under the prior approach was the investment portfolio lower than 1?

MS. FERGUSON: Sorry, can you repeat?

MR. VIRANEY: It's Staff 2, section F, if you read the response of Enbridge, and it says:

> "The policy change was required to ensure that the company's investment portfolio achieves a PI of greater than 1."

So under the prior approach was the PI lower than 1, the investment portfolio?

MR. KACICNIK: Yes, you can see that if we bring up Energy Probe number 25, please. Page 2. The top graph shows the historical PI achieved for both Union Gas and EGD investment portfolios. For EGD you can see that PI was skirting 1 and dipped a little bit below 1 in 2015 and was skirting PI equal 1 in 2014 and '16.

MR. VIRANEY: Thank you. And section G, and that you referred to F, and it says:

> "The change was necessary to be complied with EBO 188."

And I believe Union Gas has not made any changes. It still provides a 30-meter threshold. So in your opinion has Union Gas complied with EBO 188?

MR. KACICNIK: With respect to maintaining their investment for the portfolio at greater than 1 they have complied.

MR. VIRANEY: Okay, thank you.

Now, in H I believe you are referring to historic information:

"Prior to 2016 Enbridge systems were unable to distinguish between services."

But the question H asks for total estimated amount for the years 2017 to 2023. So I don't know what is the reference to "prior to 2016" in the response.

MR. KACICNIK: I do note the inconsistency. It's really not answering the question that was asked.

MR. VIRANEY: So are you going to take an undertaking?

MR. SMITH: If you would like one.

MR. VIRANEY: Yes, please.

MR. SMITH: Yes, we will do that.

MR. RICHLER: JT1.11.

UNDERTAKING NO. JT1.11: TO ENHANCE RESPONSE TO EXHIBIT 1, STAFF 2 PART H

MR. VIRANEY: And the last one is I. And in that you have provided the general theme of complaints. Could you provide a breakdown on the number of complaints related to cost only?

MR. KACICNIK: I have looked into this to see whether or not it's possible. About two-thirds of the complaints listed there were related to cost over that period, about two-thirds of complaints. We don't know exactly precisely if all of the complaints were related to the level of contribution in aid. There could have been some feasible customers that didn't pay contribution but maybe came on line during winter times, it was cold, maybe the bill was higher than expected, so there could be complaints like that too, but I think we can assume that the majority of complaints were related to contribution.

MR. VIRANEY: Okay, thank you.

MR. RICHLER: Okay. Let's break for --

MR. LADANYI: May I ask just one simple question? It might be for the next panel, and it goes like this: Has there been a change in the design of the service line installation? I understand that in some cases Enbridge installs a plastic service line and sometimes they install a plastic line inside a metal liner, and has there been any change, and in which cases would that apply? Would that be for the next panel?

MR. KACICNIK: I believe so. I used to work in the field as a pipeline inspector, actually. That's how I started with Consumers Gas, now Enbridge. And I know that our preferred way is just a half-inch plastic pipe to serve residential customers. I am not really aware when they would use a metal liner, as you called it, so maybe panel 2 would be able to address that. But vast, vast majority of the installation would be just a straight half-inch plastic pipe.

MR. LADANYI: So as far as you know there's been no change in the policy in any way, in terms of technical design of the service line?

MR. KACICNIK: As far as I know, there hasn't been any change, but please confirm with panel 2.

MR. LADANYI: Thank you.

MR. QUINN: Mr. Ladanyi, are you talking about relined systems?

MR. LADANYI: I am talking about in-fill customers. SO it could be --

MR. QUINN: If it's an in-fill customer or any kind of new customer, they would not put a metal liner around it. It has actually fallen out of vogue. In fact, the companies are trying to eliminate the relines that they've had historically.--- Inaudible off-mic jokes and laughter.

MR. RICHLER: Okay. Let's break for lunch and come back at 1:30, and Mr. Brett, I understand, has more questions.

MR. VELLONE: So we are continuing with panel 1 after lunch; is that right?

MR. RICHLER: Yes, you still have more questions for panel 1, right, Mr. Brett?

MR. BRETT: Yes.

MR. RICHLER: Okay, see you at 1:30.

--- Luncheon recess taken at 12:36 p.m.

--- On resuming at 1:37 p.m.

MR. RICHLER: Okay, let's resume. Mr. Brett, I understand you have a few more questions for these witnesses. And just so everyone knows what is to expect, after Mr. Brett, we have Mr. Higgin, then Ms. Girvan, then Mr. Garner, and then we will see who else -- I know there's others who have questions for these witnesses, so we will see where we are at the point. So over to you, Mr. Brett.

MR. BRETT: Thank you. Could you turn up BOMA 63, please? This has to do with capitalization processes and we have had a good deal of discussion about that this morning, so I will just try and tailor my questions to hopefully fit in and not duplicate what's already been asked.

To begin with, in response to part C of your response, you talk about the capitalization process and overheads differs from EGD and Union rate zones. And I think we did talk about the fact that that partly at least explains the differences in capitalization ratios as percentages of the total cost of the two legacy regimes.

You say both utilities follow the Enbridge harmonized enterprise-wide capitalization policy. I wonder if that is -- is that in evidence, do you know, that policy? And if it isn't, could we get a copy of it?

MS. FERGUSON: I am not aware of anywhere where it is filed in this case.

MR. BRETT: Right. So could we get a copy, take an undertaking to file a copy of it?

MS. FERGUSON: Yes.

MR. SMITH: Yes, we will do that.

MR. RICHLER: JT1.12.

UNDERTAKING NO. JT1.12: TO FILE A COPY OF ENBRIDGE'S POLICY DOCUMENT ON HARMONIZED ENTERPRISE-WIDE CAPITALIZATION POLICY

MR. BRETT: Thank you. On the mechanics of the capitalization process for a moment -- and I am thinking particularly of Union here, Union legacy -- I just want to understand sort of how this works in a -- as I understand Union, your evidence that Union directly assigns essentially, or if that's quite the right word, assigns labour costs to projects on a project by project basis, although the project by project basis may be my riff on this. But in other words, what I -- let's say the beginning of a year, you look at your capital projects.

How do you decide -- you've got, you know, a set of capital projects on the one hand, you've got a labour force on the other hand. Let's leave out for the moment any kind of contracting out third-party involvement in this. How does that process work? Do you, for example, look at a project and say, well, we are going to require, you know, 15 man-hours of labour on this project. It's going to go for the whole year, so we will assign -- we will capitalize 15 years of -- 15 man-years of labour at the appropriate amounts that they are paid, and then you effectively reduce the O&M budget by that same amount that you've capitalized for the year?

Is that how that works? And do you do that effectively for each project as it comes up, each capital project? Or is it a different approach than that?

And what I am really trying to get at -- one of the things I am trying to get at is to just understand that, you know, it obviously isn't both. So if you're -- I kind of get the idea that labour, a certain amount of labour is capitalized into projects by everybody going forward and then if that happens, what happens to the O&M budget for that group, that particular group of people?

Let's take the case where, you know, I mean, the labour, what's called labour would be, I suppose, different types of labour. But let's say it's mostly construction labour, you know, conventionally what we think of as construction labour. How does -- you just explain how that works, or is it --

MS. MIKHAILA: I think on behalf of legacy Union, I will take a stab at trying to answer your question, although I am not the person -- individual responsible for it.

What happens is with capital projects, individuals who are directly working on that project, through some type of timesheet basis, allocate their hours towards that specific project. And then there are direct costs, direct overhead costs associated with that labour cost that is attracted to the project; pensions, employee benefits, those type of costs are also charged to the project through this direct overhead process that debits the project for those costs and credits O&M.

MR. BRETT: Okay. So effectively, you have got a mechanism that if say half the time is being put on the project, so half of the relevant costs are capitalized and become part of the capital cost of the project and the O&M -- sort of the FTE effectively for that individual -- or the O&M is reduced by the same amount, essentially. And now this all happens -- this all happens in the course of a year, so it may -- it sort of operates in parallel to the planning and rates regime. In other words, the numbers that would drop out of that process might be different than the numbers that were in rates to begin with, is that right? But the idea is everything will even out over the long run, is it?

MS. MIKHAILA: Yes, because the last time we rebased was in 2013, that process would have happened in that year for capital --

MR. BRETT: It would have rationalized it in that year.

MS. MIKHAILA: Yes, for capital projects in that year, there would have been reduction to O&M on amounts that were capitalized as well.

MR. BRETT: Okay. In the subsequent rebasing, is that right?

MS. MIKHAILA: In the last rebasing.

MR. BRETT: No, there hasn't been -- no, no, but I meant is it a prospective exercise, I guess, is what I am talking about? Is it prospective or is it retrospective?

MS. MIKHAILA: The rebasing year is on a forecast basis.

MR. BRETT: I see, okay. And that's done in a general level across the company in the rebasing year, looking forward for the next period of years essentially? So once it's set, it continues for the next X years until the next rebasing?

MS. MIKHAILA: Yes, that would form the basis of rates for the price cap.

MR. BRETT: So what we are dealing with in this case would have been the rebasing in 2013, I guess?

MS. MIKHAILA: Yes, that's correct.

MR. BRETT: Okay. And are there any -- to your knowledge, are there any particular -- this will maybe come out in the policy, but are there any particular accounting principles that apply to how much you can capitalize, to your knowledge? I mean, is it a -- I know this is an area sort of unto itself, in a sense. But I don't recall seeing any Board policy about what you capitalize and what you don't. I could be wrong in that, but I don't -- I can't recall one. But are there accounting policies and principles that apply to that?

MS. FERGUSON: In terms of O&M capitalization, both legacy EGD and UG have a capitalization study that we base our allocations on, which was at some point -- I can probably turn up where -- each of us would have filed that with the Board and have that reviewed and approved.

MR. BRETT: I see.

MS. FERGUSON: So it's consistent with that study.

MR. BRETT: So those would have been filed and approved by the Board at some point in the past? In other words, what you're working pursuant to -- what I take you to be saying is you're working pursuant to a Board-approved set of principles to discuss how much and how you capitalize.

MS. FERGUSON: That's correct.

MR. BRETT: Would you be able to advise just -- would you be able to advise when those studies were done and when they were -- or when they were approved by the Board by way of an undertaking just to complete the circle here a bit?

MS. FERGUSON: Yes. We can do that.

MR. BRETT: Okay, thank you.

MR. RICHLER: JT1.13.

UNDERTAKING NO. JT1.13: TO ADVISE WHEN THESE STUDIES WERE DONE AND WHEN THEY WERE APPROVED BY THE BOARD.

MR. BRETT: And those are all my questions on this panel, Mr. Chair.

MR. RICHLER: Thank you, Mr. Brett.

Mr. Higgin, I know I said that you would be next, but I wonder if you will permit me if we could just slip in a few questions from Staff before you start we would appreciate it. And we will be joined by Donna Kwan from Staff, who I think will lead off.

EXAMINATION BY MS. KWAN:

MS. KWAN: Hi, I am Donna Kwan with Board Staff. I just had two questions. The first is on the Y factor for Staff 8. So I understand that customers have received the benefit from the timing differences in the past, so you are now asking to recover the reversal of those timing differences and trueing that up to actuals in the DVA. So I think from LPMA 2, that's expected to be equal to 57.9 million.

So as discussed this morning with Mr. Shepherd, the other elements of the revenue requirement is actually decreasing from 2019 to 2023. So if you do a true-up for the full revenue requirement and not just a tax piece, the true-up would actually be less than 57.9 million.

Can you please explain why you are proposing only to true-up the tax portion and not the full revenue requirement?

MS. MIKHAILA: Sorry, you threw out a lot of numbers there, and I didn't jot them all down to reconcile all the numbers. However, I can say the reason why we are proposing to not true-up the declining return in the projects when you take out the utility tax timing differences is because of the impact including the rate base and the depreciation expense that those projects has when we were directed to include them in the ICM threshold value calculation.

There's a disconnect between what rates can support and what is assumed that rates can support in the ICM threshold calculation. And we need -- in order to remedy that disconnect, the capital pass-through projects, we can't continue with the treatment of the capital pass-through projects as a pass-through to customers because it doesn't support incremental capital as assumed by the ICM threshold value.

MS. KWAN: So I think initially you were saying that the capital approach -- the capital projects with the Y factor were not included as part of your base rates, so now you are doing that one-time adjustment for that credit of 10 million to get it there. Right?

MS. MIKHAILA: That's correct.

MS. KWAN: But you are still trueing up for the tax piece, but not -- so wouldn't that $10 million adjustment address that issue already of the disconnect, as you call it?

MS. MIKHAILA: No, the disconnect doesn't -- isn't really addressed by the 10-million-dollar adjustment. The disconnect is addressed through discontinuing to pass through the project costs in future years.

As far as the utility tax timing differences go, you'll notice if we refer to Staff -- or SEC 6, Attachment 1, columns G to K show what the revenue requirement for each of those projects is. The 2019 forecast amount of 117.2 million, if that's closed to rate base and base rates, that amount included in base rates can't even support the capital pass-through projects themselves going forward, let alone any incremental capital, because of the revenue requirement increases in each year from the 2019 level.

So in order to support the incremental capital as assumed by the ICM threshold value as well as continue to support these capital pass-through projects, those two adjustments are required.

MS. KWAN: Okay, thank you.

My other question is on Staff 19. It is the attachment on the ICM deferral account, which is this one, I think. So in the draft accounting order, the ICM deferral account is to true-up the difference between actual revenue requirement and the rate riders collected. And then you go on to say that the actual revenue requirement will include costs associated with capital investment, including return on rate base, depreciation expense, and associated income taxes, as well as material incremental O&M and property taxes. I think in the application 4.2 million of property tax was included in the incremental revenue requirement.

So my question is: Why are you proposing to include material incremental O&M and property taxes when the Board's ICM guidelines is typically only for capital?

MR. SMALL: The company's proposal is due to the fact that the property taxes and potentially O&M are a direct result of capital and should be viewed in conjunction with that capital spending.

MS. KWAN: Okay, thank you. That's all my questions.

MR. VIRANEY: We have a few more additional questions from Staff. This is with respect to Staff 6. I just want to confirm that the unit rates have been decreased as a result of the increase in the net and average use.

MR. KACICNIK: That is correct.

MR. VIRANEY: Now, is this evident in the application and the evidence from there that shows the increase in NAC and the corresponding decrease in unit rates?

MR. KACICNIK: Yes, that is in the evidence. The year-over-year change in average use for EGD rate zone is at Exhibit F1, tab 1, schedule 10, page 2. And then you can see -- the reduction in rates, you can see that at schedule 5. For example, for rate 1, schedule 5, page 2, you will see that the billing determinants for the derivation of unit rates have been increased according to year-over-year change in NAC, and the unit rates are developed based on that change.

MR. VIRANEY: And for the Union?

MS. MIKHAILA: We have a similar exhibit. Exhibit B1, tab 2, schedule 13, shows the year-over-year change in the target NAC included in rates. And our schedule 5 shows the additional billing units used to derive the unit rates.

MR. VIRANEY: Okay, thank you. And this is Staff 19. You had these accounting -- and it's for the accounting orders, and the question was to revise the accounting orders to include a description of the background of the account. You have provided the description and the background.

Does Enbridge Gas support these changes, or are you still as per your original proposal?

MR. SMALL: I think we're supportive of the change, yes; we are not opposed to the change.

MR. VIRANEY: Okay, thank you. This is Energy Probe 16 and also Staff 24. I think Staff 24, the response directs you to Energy Probe 16. And it's about the ICM projects and you were asked to explain the variance in terms of the original budgeted amount and the updated budget.

So the indirect overheads -- I believe the indirect overhead amounts they are all capitalized, is that correct?

MS. FERGUSON: Yes. They are.

MR. VIRANEY: Are there any indirect overheads that are not capitalized?

MS. FERGUSON: No, those are capitalized.

MR. VIRANEY: Thank you. Those are all my questions, thank you.

MR. RICHLER: Mr. Higgin?

EXAMINATION BY DR. HIGGIN:

DR. HIGGIN: Thank you. It's Roger Higgin for Energy Probe.

I would like to follow-up a bit on the average use area. And so perhaps we could start with looking where the background here, so starting with EP 5, and particularly part C of the response to that. So I would just like to get some more information on the record.

So basically my concerns really relate to the unit Union rate zones, and not to the Enbridge rate zone in respect of the 2019 AU forecast and the resulting unit rates for the Union zones, okay? That's the context of where we are.

And so if we just look at what I am going to ask you, I would like to get the statistics for the -- corresponding to the M1 and M2 forecasts, and compare those to the last-time out statistics for the same rates. In other words, what is the T statistic, the usual statistics that are provided along with the forecasts.

MR. SMITH: Sorry, this may be a term of art, but what did you mean by the last time out?

DR. HIGGIN: The last time out would be whenever you did the last forecast that's shown on the graph.

So if that's not the case, whenever the last forecast was produced for these two rates, M1 and M2. I would like to just compare the statistics this time to the statistics from the last forecast.

MR. SMITH: Sorry, Roger, I don't mean to be obtuse. Forecast for 2019? Are you asking like let's see what the statistics were for the 2017 forecast?

DR. HIGGIN: The problem I am having is that just giving me the statistics for 2019 doesn't do anything for me. I'd like to know what the average -- or you can give me the average statistics on the forecast; it doesn't matter. I believe -- this is my premise -- that the statistics are worse, should we say, using that term, my term, for the 2019 forecast.

So just give me the statistics, but I don't have anything to judge them against. That's the issue.

MS. MIKHAILA: Can I just please clarify, only because I don't think -- we will have to take this away. When you say statistics, can you clarify what you mean, just so I understand it?

DR. HIGGIN: When you run the models, you end up with a summary of the statistics saying the standard deviation, the T statistic, and so on. You provide that to support your forecast. That's a normal thing that you do with the forecasts, okay? So I am just trying to, A, get what are the statistics for the 2019 forecasts, and also how do they compare to statistics in prior years.

And so anything you can help me to say whether those statistics are good, better, or worse than prior forecasts. That's what I'm asking.

MR. SMITH: Sorry, Roger, the reason I am pausing, I just have this recollection, and I may be wrong about this, but I had thought that the Board had said in the MAADs decision to look at normalized -- to look at average use again at the time of the next rebasing application.

DR. HIGGIN: Yes, you are correct. But I am --

MR. SMITH: So I am just wondering what the utility is of us undertaking this exercise.

DR. HIGGIN: You have a forecast here. It's on the graph for 2019. I am just asking you to give me the statistics that support that forecast, that's all. I am not going to get into an argument about methodology here.

MR. SMITH: Okay.

DR. HIGGIN: Okay.

MR. RICHLER: Okay, JT1.14.

UNDERTAKING NO. JT1.14: TO PROVIDE THE STATISTICS SUPPORTING THE M1 AND M2 GRAPHS FOR 2019, AND FOR THE UNION NORTH RATE ZONES

DR. HIGGIN: And since I should look after Union North, could we have the same for the Union North rate zones as well, please? Okay?

So moving on from that easy question, we will move forward. The response to Staff 10 is something I would like to just look at, please. So we can just look at the part that deals with -- shows the two charts for rate 1 and then for the Union, and it shows the average use, okay? We will just deal with those two, and then the discussion.

So let's look at the discussion, and we are going to focus again just on Union rate zone. The question I am having here is that I'd like to understand a similar discussion about trends. Can you tell me, then, based on these data, what the trends are for the Union rate zone and the four rates listed here? In other words, what are the average trends? You have given me an average change for 2019; correct? That's in the right-hand column. I'd just like to understand -- like you have a discussion about what are the trends for each of those rate zones -- sorry, rates.

Why am I making the inquiry? Because if you look at the chart for number 6, you will see intuitively that it doesn't fit with the trends. And you don't have to be a rocket scientist to look at M1 and M2 and decide whether or not it fits with the trend.

So what I would like you to tell me is regardless, what are the trends, not just the 2019, but what are the trends in declining use, such as you have described for Enbridge, and just what are those trends?

MS. MIKHAILA: Would you like something different than what's provided as the trend, the graphical trend, at Energy Probe 5?

DR. HIGGIN: No, I'd like you to start looking at the chart in Staff 10, which has 2014, and then it gives an average use. So I'd like to have -- more clarity, I think would be the word, with respect to the trends and how those trends relate to the '19 forecast.

MS. MIKHAILA: Maybe I can provide some clarity. Would you mind referring to Energy Probe 5, the graphs there.

DR. HIGGIN: Sure, yes, if it's graphical use, yes, graphics. A picture always speaks 1,000 words.

MS. MIKHAILA: So on page 3 we have a graphical trend of the average use for the rate M1 class.

DR. HIGGIN: Yes.

MS. MIKHAILA: And Union's practice has been and Board-approved methodology for adjusting rates for average use has been to use the most recent actual when we prepare rates. So the most recent actual we had was 2017, and you can see there that is the target proposed for 2019.

DR. HIGGIN: Right.

MS. MIKHAILA: And there is a trend line shown in this graph. Are you asking why the amount -- the red square on that graph is higher than the trend line would indicate?

DR. HIGGIN: Yes.

MS. MIKHAILA: Okay.

DR. HIGGIN: That would be one way to put it.

MS. MIKHAILA: And I think that is because we -- for the Union rate zones we do not include a forecast NAC of the test year in -- for purposes of determining rates, it's the last two-year actual.

DR. HIGGIN: Thank you. So the follow-up question is this, that if you were to use the trend line instead of that -- this is my question, and I am not suggesting anything about methodology -- what would be the forecast if you made it as for -- and I could do it, not very accurately, but can you tell me what the forecast would be for two-19 if it had been on the trend -- trend line?

MR. SMITH: Well, we can, Mr. Higgin, but again, that strikes me as a purely academic exercise, because Union has a -- or Enbridge Gas has a Board-approved methodology, and it was told by the Board to continue with that methodology, consult with stakeholders, and come forward with a new proposal at the time of rebasing.

So I am not -- it seems to me that that -- what you're asking for can have no bearing on this application.

DR. HIGGIN: No. It is a hypothetical number, and the fact is that we should move to the next step then, when you see where I am going; that is, the unit rates for 2019 may be too high for the Union rate zones. Rate adjustment, NAC adjustment, may be too high. So that has an impact on rates directly. Okay? And I would just like to know, first of all, what it would be if it had used the trend line number, that's all. It's nothing arguing about the methodology, I'd just like to know the number. It's -- I can do it from the graph, but --

MS. MIKHAILA: The thing I will mention is if the methodology changes from the current practice for adjusting for NAC volumes, there is also a deferral account mechanism that will true-up to the actual NAC.

DR. HIGGIN: You answered my next question, okay? So how will the deferral account, the NAC, whatever it's called for Union, will that adjust, and what will happen to the difference if the forecast was at the trend line as opposed to the 2019 forecast? How will that flow back into rates and how will that impact, very importantly, the customers?

MS. MIKHAILA: If in the hypothetical the actual NAC for 2019 agrees with the trend line in the amount included in rates is higher than at the end of the year, there will be a collectible amount from customers in the NAC deferral account.

DR. HIGGIN: Right, that's important to know.

So perhaps we should leave it at that point. Hopefully can I get an undertaking to give me what the amount would have been on the trend line?

MR. SMITH: Yes, we will do that.

DR. HIGGIN: Thank you. So my --

MR. RICHLER: Sorry, JT1.15.

UNDERTAKING NO. JT1.15: TO ADVISE WHAT THE AMOUNT WOULD HAVE BEEN ON THE TREND LINE.

DR. HIGGIN: My next area I am going to leave now, because I see Mr. Quinn there, and it's to do with Parkway, so I will let him plow the field if he's going to before me. Is that okay? Otherwise I can ask my questions.

MR. QUINN: Go ahead, Dr. Higgin. If you just want to ask your questions, if they dovetail with mine it will just eliminate me asking the questions. Feel free.

DR. HIGGIN: I am just trying to be efficient, but, okay, I will move on to that area, please.

If we could start by looking at EP number 8 -- I may go to 10 -- and also Staff 11, parts A and D. So we will start with the EP reference.

Okay. So in this starting with 8 we did ask you for -- sorry, my voice, sorry. We did ask you for a schedule with the terms and prices realized for the surplus capacity that was sold, and then I did see that the response to one of the FRPO questions, which is what it referred to, did give us the transportation for January 1, 2019, that would have included that -- those volumes. But it still doesn't answer the question.

So my first question was: Would you please provide us a schedule, and since the transportation index seems to have names, you can decide with the terms, prices released for the surplus capacity, and I assume it's based on rate 12 and rate C1. But I'd like to understand who are the counter-parties with respect to those -- that volume.

So could you provide that?

MS. MIKHAILA: I may be able to answer your question. So in Staff 11, part A, we have indicated that we sold 42,378 GJs of days beginning November 1, 2018, and are you interested in the sale of that surplus capacity?

DR. HIGGIN: Well, because the original amount was lower. It was 30,393 and it's now increased to -- so, yes, I would like to understand that, please.

MS. MIKHAILA: The 30,393 was at the time the surplus capacity that would exist on the Dawn-Parkway project following the construction of the 2017 Dawn-Parkway belt. That was on a forecast basis, the 30,393. There's been multiple changes in demand since then, but we have sold 42,378 GJs a day beginning November 1st, and I believe you can find that on FRPO 5.

DR. HIGGIN: Maybe that's why I couldn't find it in FRPO 5, where the -- which were the volumes that related to that capacity. That's what I am trying to understand and who the counter-party, which...

MS. MIKHAILA: If you look at page 2 of attachment 2.

DR. HIGGIN: So this is FRPO, page 2, yes. This is -- I looked through the 2018 because that's where I had expected to see it. But I didn't come up with it and that's why I am asking.

MS. MIKHAILA: I have found it. On page 2 of attachment 2, it's hard to see on the screen, but it begins with Portland natural gas transmission system of 1,975.

DR. HIGGIN: Right, I see that one, yes.

MS. MIKHAILA: It includes the 2,650, the 22,332, the 11,349, 3,978.

DR. HIGGIN: Right, I see those.

MS. MIKHAILA: And then on the next page, the 112. If you add up those six contracts, you will arrive at the 42,378 that was sold beginning November 1st, 2018.

DR. HIGGIN: Okay, thank you. That's what I couldn't do myself by looking at this chart, that's why I was asking the question.

So can we just now go back to Staff 11 again, please, and to part F. Which then -- there is a chart there that shows the impact of the sale, I believe, in part F. Is it lower or not -- there we are, that is the chart. So is that's based on the original 30,393. Could you update for the actual volume that's now been sold, the 42, please?

MS. MIKHAILA: I am not sure what that will do. There was an agreement, as part of the 2017 Dawn-Parkway project, to give any additional revenue related to the 30,393 back to ratepayers. However, other change in Dawn-Parkway capacity are to the risk of the company.

DR. HIGGIN: Oh. Well, that's what I was figuring, yes. So a secondary market may exist then is what you are saying, for any of that?

MS. MIKHAILA: There are regular changes on the Dawn-Parkway demands.

DR. HIGGIN: This is not -- this revenue adjustment doesn't reflect the full volume, correct, this chart?

MS. MIKHAILA: It reflects the volumes that were forecasted to be surplus following that project. The revenue of those volumes was to accrue to the benefit of the ratepayer.

DR. HIGGIN: Of course, yes. But in actual fact, you sold the additional capacity to -- you have given us the counter-parties and the volume.

MS. MIKHAILA: We have also had turnback that's created the capacity to sell incremental amounts.

DR. HIGGIN: Yes, um-hmm, yeah. Okay. Well, we will leave it there. But just to repeat, so those counter-parties -- I didn't do the math in FRPO 5. Does that add up to 42, those volumes?

MS. MIKHAILA: Yes, it does.

DR. HIGGIN: Thank you.

MR. MONDROW: Dr. Higgin, could I just ask one clarifying question of Ms. Mikhaila? Sorry.

When you originally spoke about the 43278, the as-built and realized, I thought you referred to operational changes. Is the difference between the 42378 and the 30393 originally forecast, is that turnback or is it something else?

MS. MIKHAILA: Yeah, it would be capacity created by turnback.

MR. MONDROW: It's turnback. Okay, thanks.

DR. HIGGIN: Thank you, I will leave my questions for whoever is next. Thank you.

MR. RICHLER: Thank you, Dr. Higgin. Ms. Girvan?

EXAMINATION BY MS. GIRVAN:

MS. GIRVAN: Thank you. Just a few questions. Could you turn to Staff Number 3, please? And if you scroll down, there's reference here to this $4 million in gas cost changes. And I think it says that what you're doing is you're putting that into a deferral account because the Board isn't considering gas cost changes in the context of this proceeding. Is that correct?

MR. SMITH: I am sorry, Ms. Girvan, can you just give me that question again?

MS. GIRVAN: Sure. So I think if you read through the interrogatory, essentially what it's saying is that the gas costs are not being considered by this panel in this proceeding. I think that's correct; I think that's what they said.

And so it says the project -- the impact of the earlier year changes in 2019 rates for a typical residential customer is $4 million across -- well, across all customers. And I am just wondering. You are putting that $4 million in a deferral account, is that correct?

MR. KACICNIK: Yes, it is. As part of Procedural Order No. 3, the Board has ordered that at the time Enbridge Gas files a draft rate order, it should also file a draft accounting order for the Enbridge Gas distribution 2019 gas supply plan costs consequences to the deferral account and serve it on all parties.

MS. GIRVAN: Okay. So can you just explain what that $4 million is? Is that an annual amount?

MR. KACICNIK: Yes, it is. That's an annual amount. It represents the impact of year over year changes in gas supply mix, storage, and storage-related transportation costs.

MS. GIRVAN: And when will you be seeking to recover that?

MR. KACICNIK: We will seek to recover that through another proceeding, through a future proceeding.

MS. GIRVAN: Okay. So that hasn't been determined yet?

MR. KACICNIK: No, it hasn't.

MS. GIRVAN: So the overall impact of the changes to gas supply planning is $4 million?

MR. KACICNIK: Yes, it is.

MS. GIRVAN: Okay, all right, thank you. If you could turn to CCC Number 1, please? And the only thing that I was really looking for, and it doesn't have to be an exact amount, but you have set in Exhibit A, tab 3, schedule 1, you have set out the rate impacts of your application. But it doesn't include disposition of the DVA balances, right? Is that correct?

MR. KACICNIK: That's correct.

MS. GIRVAN: Could you give us an indication of what the impacts would be including the DVA balances? I know that they are the subject of a future proceeding. But having said that, I think it's good for customers to understand the full impact of what will happen in 2019.

MR. SMITH: We don't know the 2019 balances.

MS. GIRVAN: Well, you have 2018 balances that will be recovered over 2019, I am assuming.

MR. SMITH: Right.

MR. KACICNIK: 2018 balances will be cleared once we go through the review process and the Board approves the balances, they will likely be cleared sometime in 2019.

MS. GIRVAN: Yes, so all I am really asking for is the overall rate impacts for your customers that includes the rate adjustment plus recovery of the DVA balances. I guess my question really, will it significantly impact the distribution rate increases that you have set out in the application?

MR. KACICNIK: First of all, those are two separate applications.

MS. GIRVAN: Yes.

MR. KACICNIK: But it's true that both may impact customers in 2019.

MS. GIRVAN: Yes.

MR. KACICNIK: But they are two separate applications.

MS. GIRVAN: I realize that. Maybe we can get at that later. I just -- it's just important for customers to understand the full impact in 2019 of what their -- how their bill is going to increase.

MR. SMITH: Right, but just so we're clear, you are asking us to presume the outcome of an application that hasn't been filed, because --

MS. GIRVAN: Sure, it's a request. But you have got balances in those accounts as of the end of 2018. Correct? I think there's an ESM amount. There's --

MR. SMALL: Yes, that's correct. There would be balances, yes.

MS. GIRVAN: So ballpark could you help us with that?

MS. MIKHAILA: The challenge I have with it is we haven't yet gone through the exercise of determining the allocation of those balances to rate classes and the impacts. It's -- we are still in the middle of preparing the application and I just don't have that information at this time.

MS. GIRVAN: I will just leave it, but I guess I was just trying to get a ballpark, a ballpark amount. Yeah, sure, we could do that. Do you have the most current balances in 2018? I think they are in here, I just...

MR. SMALL: I think there's deferral account balances in here on the accounts that are proposed to be closed.

MS. GIRVAN: Okay.

MR. SMALL: The full comprehensive -- or the balances in all accounts related to 2018 that would be requested as part of the ESM and deferral clearance proceeding. Yeah, they are not in the application here.

MS. GIRVAN: Okay. Okay, I will just leave it, but I think it's important for customers to know at the end of the day what the 2019 impacts might be. So I guess I am saying this isn't the full package, but anyway, I can leave that. I don't know if anybody else has --

MR. MONDROW: When would that application be filed roughly, do you have a sense, the DVA clearance?

MR. SMITH: Historically July. Late June, usually.

MR. MONDROW: Do you have updated balances for the 2018 DVAs currently? When were they last updated, I guess is the question.

MR. SMALL: Well, there will definitely be balances recorded as of now --

MR. MONDROW: That's not what I asked. Do you have current balances now? Do you have balance --

MR. SMALL: Yes, we have balances, yes. I am just saying we haven't gone through the whole process of vetting the application and everything, but, yes, there is balances, yes.

MR. MONDROW: I understand. Would it be easy to file those current balances, just to get a sense of the order of magnitude?

MS. GIRVAN: That's really what I am looking for.

MR. MONDROW: I realize they are not allocated to rates yet.

MR. SMITH: Yes, we can file the balances in the accounts.

MS. GIRVAN: Great. That would be useful, thank you.

MR. RICHLER: JT1.16.

UNDERTAKING NO. JT1.16: TO FILE THE CURRENT BALANCES FOR THE 2018 DVAS.

MR. VIRANEY: So I just have a clarification question. These balances would be as of December 31st, 2018, or --

MS. GIRVAN: Yes.

MR. VIRANEY: Okay, okay.

MS. GIRVAN: That would be the subject of their application. Right?

Could you turn to LPMA 14, please. And I am just struggling a bit with this, the whole idea of this Sudbury replacement project. So if -- I think this question really asks if the Sudbury replacement project had been brought forward using the capital pass-through, what I am really looking for, what would have been the impact on 2019 rates relative to your proposal, which is to bring it forward as part of an ICM? Is the impact on rates higher or lower?

MS. MIKHAILA: Sorry, can I just ask a couple of questions?

MS. GIRVAN: Sure.

MS. MIKHAILA: Do you mean if it had qualified as the capital pass-through mechanism what would have been the rate impact versus the rate impact we are proposing as ICM?

MS. GIRVAN: Yes.

MS. MIKHAILA: The revenue requirement calculated under both would be very similar.

MS. GIRVAN: Okay.

MS. MIKHAILA: The amounts updated in this interrogatory response to LPMA 14 are updated just to reflect the little bit of timing difference between when we filed this application in the 2018 actual amounts, but the revenue-requirement calculations are very similar.

MS. GIRVAN: And why didn't the Sudbury replacement project qualify under capital pass-through for Union? Just can you remind me of that?

MS. FERGUSON: Under capital pass-through the revenue requirement had to reach 5 million in order to qualify in any given year.

MS. GIRVAN: Okay. So that doesn't because --

MS. FERGUSON: Because it was late in the year it didn't trigger.

MS. GIRVAN: So it didn't qualify.

MS. FERGUSON: Yes.

MS. GIRVAN: Okay, all right. Those are my questions, thank you.

MR. RICHLER: Thank you. Mr. Garner?

EXAMINATION BY MR. GARNER:

MR. GARNER: Thank you. I only have one question left. And it was actually brought up by Board Staff earlier today. If you go to Staff 19 -- and this is about the deferral accounts for the ICM. And Ms. Kwan brought you to this question about the deferral account including O&M and property taxes. And she was asking you about that. And the O&M, it says here that it would book material incremental expenses.

Now, what's meant -- first of all, it's unusual, at least in my experience, to see that in an ICM account. What is meant by "material incremental O&M expenses"? And what's anticipated by that?

MS. MIKHAILA: That's meant to capture certain capital projects that have material incremental operating expenses like compressor stations that Union has had in the past where the incremental O&M has been very significant component of the revenue requirement of that capital project.

MR. GARNER: Okay, well, that causes me to ask another question. First of all, is this ICM deferral account specific to the projects that you are seeking ICM approval for? They are not generic? They are not there for all projects, they are for the projects you are seeking ICM treatment, aren't they?

MS. MIKHAILA: All ICM projects during the deferred rebasing period, not just the 2019 projects.

MR. GARNER: Is that how you see it? You don't see this as being specific to the projects you get approved? You think you get a generic account for every project that then comes forward? Is that your understanding of how the account would work? And I will tell you the reason I ask it, and just so you don't think -- I don't know if you're aware, but recently about three weeks ago the Board made a decision with Halton Hills, and it's EB-2018-0328, where they basically said about incremental OM&A costs with respect to an ICM project that they were not to be recovered because they were not material. And therefore it seems odd to see it now in an account set up specifically or generically, if that's what you are saying here, for this.

So I may misunderstand how this works, but I thought the way the ICM account worked was it was, A, given to you specific to the ICM project, and therefore if you were anticipating incremental operating expenses you would identify them to the Board for them to consider that. Am I misunderstanding how you see the account and how this works?

MS. MIKHAILA: I may need to speak to that -- oh, they got their mics going.

MR. SMALL: No, I think what we were trying to say is the account would be specific to the ICM projects that are approved over the course of the deferred rebasing period. We didn't see a different account for each particular project, but it would only be costs associated with the approved projects that would factor into the amount that goes into the deferral account. So to the extent that we came forward with an ICM project in a subsequent year that had material O&M amount, it would be brought forward as part of the application for that ICM project. And to the extent it was approved, the account would track the variances versus that forecast.

MR. GARNER: So if you come forward two years from now with another ICM and in your utility -- I call them distribution system plans, whatever they are called in gas, same thing. You have other ICMs that are potentially contemplated in the future. Those would all be captured under the one account you are establishing now? You wouldn't seek is at that time an account for those ICM projects separately?

MR. SMALL: That's correct, that was our proposal, yes.

MR. GARNER: Okay. And so there's nothing specific that's in your mind when you are speaking of incremental operating expenses here. It's just a catch all to something you don't know that might happen. Is that the idea?

MS. MIKHAILA: Well, there are none -- there are no material O&M costs of the 2019 projects. But based on Union's experience of the compressor stations, those did create material O&M costs and if a project of that nature is brought forward, it would be included in the application.

MR. GARNER: Okay, thank you.
MR. MONDROW: Can I jump in?
MR. BRETT: I have...
MR. MONDROW: Go ahead, Tom.
MR. BRETT: Does that proposition go two ways? In other words, if there were decreased O&M costs, would they also be captured and served to reduce the cost?
MR. SMITH: I'm sorry, Mr. Brett, just so I understand, are you asking that if in the ICM application, the particular project in issue Lobo Z compressor station is forecast to have material OM&A or O&M expenses of $15 million, and the actual comes in at $10 million, will that $5 million variance be recorded in the deferral account? Is that what you are asking?
MR. BRETT: Well, I think I was -- I think, to be fair, my question was, to both you and I, my question was really a generic one that if -- not specific to this one compressor here, if you are talking about a specific compressor here.
I was, I was -- you seem to be saying if a capital expenditure on a new facility triggered an additional -- an incremental O&M cost, that that additional O&M cost would get to be made part of the capital cost to the project, would be added up to the capital cost of the project. And I was saying what if the capital expenditure proposed was going to result in a reduction of O&M costs rather than an increase, would that be, would that be dealt with in the same manner, in other words?

MR. SMALL: I think, similar to a cost increase proposed in an ICM application, we will have to look at that on a case-by-case basis to see if that's truly applicable and --

MR. GARNER: Can I jump in? Mr. Smith said something that I am maybe misunderstanding about how you are using the account and how this cost is captured.

For the ICMs that you have put forward today, forget about -- because you said this account would be used generically, could you -- I am not suggesting you would do this, but could you wipe out that phrase in this accounting entry form that you are asking for, because the ones that you are asking for today do not have any incremental operating expenses.

What this is contemplating is a different ICM where you are actually saying -- as you are saying like the compressor stations, what you are actually saying is there a capital amount, but there is also a significant incremental O&MA account. And therefore, for the purpose this account, we need to capture both of those accounts.

So I guess what I am trying to say is for the projects you've put forward today, if one were to strike this out of the accounting order, it wouldn't make any difference because there is nothing being identified today for this. It's not intended to capture something that might happen on these projects is what I am saying -- maybe if I am understanding what Mr. Smith was saying.

MR. SMALL: So we agree that with regards to the projects that have been put forward for 2019, there is no proposed O&M. So from a current perspective, yes, those words could be striked from --

MR. GARNER: Right. So if this was your only ICM ever in the world, you take these out because you don't care about it, because that's all I ever -- for these projects, that's all, I don't need the provision. It's for future projects that you may need the provision. Is that what you are saying?

MR. SMALL: That's fair.

MR. MONDROW: Mr. Small, did you say on this topic a minute or two ago that if an ICM project during the rebasing deferral period resulted in material decrease in O&M costs, that would have been incurred absent the project, you would have to look at whether and how to include that decrease in this variance account?

MR. SMALL: I said my -- well, my position is that should be examined with that project as well and how it would be treated. That's my position, yes.

MR. MONDROW: Okay. And this came up this morning and it may be the subject of an undertaking, but now we are talking about -- and I hadn't realized it's one variance account for all of the ICM projects during the deferred rebasing period.

I am assuming that you are going to track the variances on each project through -- I don't know if it's a sub account or a coding of some kind, like a project number. But you will be able to disentangle the overages and underages by project, I assume. Is that how you would keep this account?

MR. SMALL: Yes, I expect that behind the scenes, we will be able to track the costs on a project by project basis because, yes, we have project accounts.

Where I potentially see difficulty, and it may require some work, is where we bring in the revenues, I think we will just have one unit rate each year that reflects the impact of all projects that have been approved.

So behind the scenes, you might be able to allocate those revenues out to particular projects if you want to assign or determine the sufficiency on a particular project basis. But I don't know that we would have separate individual unit rates for each project in our billing system. And that's part of the reason why we have requested a single account for each rate zone.

MR. MONDROW: I will have to think about that. But ultimately, if there's a balance in this account or balances, you will have to allocate those to rates and the allocators won't always be the same. In fact, they are going to be to different rate zones we know.

MR. SMALL: I agree, yes.

MR. MONDROW: So you will have to be able to track variances for allocation purposes at a project level, both in costs and revenues I would have thought.

MR. SMALL: Something will have to be apportioned at least, yes, I agree.

MR. MONDROW: Okay, thank you.

MR. VELLONE: Just to follow up on Mr. Brett's question.

MR. RICHLER: Go ahead.

MR. VELLONE: I understood the answer to be we have to look at this on a case-by-case basis. If you will entertain, I would like to look at one specific case in this application and that's the Sudbury reinforcement project, just to make sure I understand how you are proposing how it will work.

My friend, Mr. Shepherd, this morning brought us to attachment 1 to BOMA 68, and maybe we can pull that up. That's the leave to construct for the Sudbury reinforcement project. And I am looking at page 7 of that decision.

So you'll see in the paragraph that's on the screen there that Union Gas at that time estimated in its interrogatory responses that the cost of managing known integrity issues in that section of the Sudbury system of 8 to 10 million dollars over the next several years will be avoided as a result of the reinforcement project. Am I reading that right?

MR. SMITH: I don't think -- sorry, just so that this was the issue that I directed Mr. Shepherd to panel 2.

MR. VELLONE: Yes.

MR. SMITH: And I could be wrong, which is why you should ask panel 2, but I believe that those are capital costs of 8 to 10 million dollars.

MR. VELLONE: I will definitely follow up with panel 2 on the --

MR. SMITH: Not OM&A costs --

MR. VELLONE: Sure. I will follow up with panel 2 on that.

My question for panel 1 is how, if at all, do you propose to account for those savings in the deferral account?

MR. SMITH: Sorry, you will have to raise this with panel 2. These are not savings as a result of the project. This is an avoided capital cost and the rationale for why the Sudbury project was built, as I understand it.

MR. VELLONE: I will be happy to bring this up with panel 2. I just want to understand whether there's any proposal to include these amounts in the deferral account. I think the answer might be no, given what I am hearing, but --

MR. SMITH: The answer is no.

MR. VELLONE: Sure, thanks.

MR. MONDROW: And that's on the assumption that they are avoided capital costs, right, Crawford?

MR. SMITH: Yes. If I am wrong about that I will revisit it, but that's definitely my understanding.

MR. MONDROW: Thanks.

MR. RICHLER: All right. Who would like to go next? Mr. Quinn, I know you have questions. Mr. Vellone.

EXAMINATION BY MR. VELLONE:

MR. VELLONE: Thank you very much.

I have a follow-up question on Staff 8. That's on your capital pass-through adjustment. So we asked about this in APPrO 1; you pointed us to Staff 8. I have reviewed Staff 8. Thank you for that. I think it's a pretty good explanation of what you're asking for.

So my understanding is that Enbridge is proposing to make certain base rate adjustments associated with certain Union capital pass-through Y factors, projects, rather than keep those amounts in a deferral account. Is that right?

MS. MIKHAILA: Yes, all aspects of the revenue requirement other than, as discussed, the changes in tax timing differences.

MR. VELLONE: So the MAADs decision addressed four specific base rate adjustments. This isn't one of those four that were explicitly addressed in the MAADs decision; is it?

MS. MIKHAILA: No, it's in response to other aspects of the MAADs decision.

MR. VELLONE: Okay. When I read your response to Staff 8, I thought I had seen it before, like, that policy issue, I had recalled seeing it before, and I just want to go back to the Enbridge/Union joint reply in that MAADs application, and I just want to make sure I am understanding whether the policy issue I am seeing in Staff 8 is what I saw before. If I could pull that up. And I am down at paragraph -- I guess 169 is where it starts. So this is where the two utilities in their joint submissions were responding to some intervenor arguments that Union's 2018 depreciation expense be used as part of the ICM threshold. You don't agree. And then you go into paragraph 170. And I am reading that there, that last full sentence in paragraph 170:

"Given that in respect of capital pass-through projects rates are set to match/recover exactly the revenue requirement associated with those projects, no more, no less, depreciation expense for those projects is not available to support investments in other projects."

Is that essentially the same problem that you are trying to address in Staff 8? Or am I getting this completely wrong? Is it completely different?

MS. MIKHAILA: I haven't read through this in some time, but I would say that is the same item.

MR. VELLONE: Sure. And just going on to paragraph 171, this is an exchange in the transcript between Mr. Shepherd and Mr. Reinisch, and Mr. Reinisch kind of explains his challenges with what Mr. Shepherd was putting to him in cross-examination.

Is that, again, roughly speaking the same issue that you are trying to address with Staff 8?

MS. MIKHAILA: I haven't looked at this in some time, and I think I would prefer to read the whole thing. If there is an undertaking I could --

MR. VELLONE: Or you can take the time to read it now. It's only a couple lines. Please go ahead.

MS. MIKHAILA: But I would like to refer to the transcript and the whole discussion, and I would need some time to do that.

MR. VELLONE: I will accept an undertaking, Mr. Crawford -- or Mr. Smith.

MR. SMITH: Yeah, we will do that.

MR. RICHLER: JT1.17.

UNDERTAKING NO. JT1.17: TO REVIEW PARAGRAPH 171 AND ADVISE WHETHER IT ADDRESSES THE SAME ISSUE IN IR STAFF 8.

MR. VELLONE: Thank you very much.

I do have a follow-up on APPrO 3, if we could pull that up. I believe this morning Mr. Shepherd covered A and B. My question is really about the response to part C. In part C we asked you whether you would consider carrying over the threshold amounts if you didn't quite hit it in any given year. And your answer back was no. And I think I know why you said no, but let's get it on the transcript. So why not?

MR. KACICNIK: The Board's ICM policy does not contemplate banking amounts to be carried over to the next year. Only in-service capital that exceeds the ICM threshold for that year qualifies for ICM rate recovery. Anything that's below the threshold does not qualify. And any gap that exists between the threshold and in-service capital below cannot be banked to the future year.

MR. VELLONE: So you proposed some other adjustments to the OEB's standard ICM policy. Why couldn't you propose to adjust this as well?

MR. KACICNIK: We have not considered such an approach ourselves. In fact, it's today from you that we hear such a proposition for the first time.

MR. VELLONE: I think that's as far as I am going to push on that. Those are my questions.

MR. RICHLER: Thank you, Mr. Vellone.

Mr. Quinn, would you like to go ahead? We would like to take a break in about 15 minutes or so, but why don't you get started, and then just keep that in mind.

EXAMINATION BY MR. QUINN:

MR. QUINN: Great, thank you. I will.

Good afternoon, panel. I am Dwayne Quinn, on behalf of FRPO, and I guess I want to start off, actually, where you left off with Dr. Higgin in terms of the sale of capacity on Dawn-Parkway. If you could turn up FRPO 4, please. Thank you. And the evidence reference is just above there, but we are talking about this 30,393, which roughly, we will just say 30,000 capacity, is my understanding is Union/EGI's position is that has now been sold. That's your position?

MS. MIKHAILA: Yes, we are providing the benefits to customers of that amount. It's -- we've had -- we have sold capacity in excess of that amount.

MR. QUINN: And if you go down further in the responses, though, in A, I asked about turnback in 2018. So netting out this 70,000 that is TransCanada Energy's Halton Hills, you would have approximately 90,000 of capacity that was turned back, correct?

MS. MIKHAILA: Yes.

MR. QUINN: Okay. So if you had 90,000 that was turned back, how do you know you sold the specific 30,000 of capacity that was part of the Dawn-Parkway 2017 build?

MS. MIKHAILA: We don't know. Specific capacity, we don't divide it up in any certain way.

MR. QUINN: That's interesting, because I am going to bring you back a little bit in time and I think you will remember this fondly from last year.

But, first off, can you describe how this is consistent with the settlement agreement, the fact that you have had a turnback of 90, sold 42, and therefore now have deemed the 30,000 to have been sold?

MS. MIKHAILA: What we have done is we have provided the benefit of the sale of the 30,000 back to ratepayers. It's a -- the settlement called for providing the benefit of any sale of that capacity back to ratepayers. We could argue if we haven't sold it, should they not get it? But what we have done is given them that benefit.

MR. QUINN: You have put the revenue contribution up against M12 to reduce M12 rates. Is that a way of saying it?

MS. MIKHAILA: Yes, it results in a reduction to M12 rates.

MR. QUINN: Okay. But during the merger proceeding, this was an issue, if you may remember.

MS. MIKHAILA: I don't recall this specifically being an issue during the MAADs proceeding.

MR. QUINN: Well, there was Union's positions that were put on the record in the proceeding that basically --

and you can take this subject to check, but in transcript volume 6, pages 130 and 131, Mr. Redford basically says:

“So it's my understanding is that we would look
to, we would put the dollars in a deferral
account once we are down to less than 30,000
capacity.”

And I had said but you are never going to get there because there's excess. And Mr. Redford says:

"Well, what do you mean we are never going to get
there? We are actively marketing."

And I said, “So the 30,000 will be the last capacity sold?” And Mr. Redford says, “That is our understanding.”

So can you help me with what is changed between last year and this year?

MS. MIKHAILA: Sure. I don't have any of the references in front of me --

MR. QUINN: Ms. Adams was putting them up for you.

MS. MIKHAILA: Subsequent to the MAADs proceeding, we received a decision in the 2017 deferrals proceeding that discussed the revenue to accrue to the benefit of ratepayers related to this capacity. So that is what has changed since the MAADs proceeding.

MR. QUINN: So because the Board has deemed that you need to share the revenue generated from that excess capacity, you're saying now you want to put it in rates, but previously you couldn't?

MR. SMITH: I can't remember the precise specifics of that deferral account proceeding argument, but I seem to have -- I have a recollection that there was a debate regarding the interpretation of the settlement agreement and what ratepayers were supposed to get the benefit of in relation to this capacity, and whether Union's position at the time -- my recollection is that there should be no amount credited to ratepayers because certain volumes had not been sold long term, and ratepayer positions were that the benefit should accrue from the first dollar. And I can't remember, except directionally I seem to recall losing and so --

MR. BUONAGURO: It doesn't happen often.

MR. SMITH: You know, that's why it sticks out. And so I think that's what we are saying is that's what has happened.

MR. QUINN: So the Board decided you need to share it, and they made that in the decision. But Union is now saying it's going to colour-code that capacity and that capacity has been sold, whereby other capacity that was turned back to it was not sold?

MR. SMITH: I don't think we are saying that. I think we are saying we are giving you the credit through a change in rates.

MR. QUINN: Well, the credit is to M12 customers, correct, Ms. Mikhaila?

MR. SMITH: Because this is M12 capacity.

MR. QUINN: Yes. And the revenues, though, incremental revenues were given back through the same allocation as the costs are put into rates, like with the rate classes. Is that correct, Ms. Mikhaila?

MS. MIKHAILA: I'd have to recall the allocation of the revenue in that deferral account, I can't.

MR. QUINN: Would you undertake to provide that, please?

MS. MIKHAILA: Yes, I will.

MR. QUINN: Thank you.

MR. RICHLER: JT1.18.

UNDERTAKING NO. JT1.18: TO CONFIRM THE ALLOCATION OF THE REVENUE IN THE DEFERRAL ACCOUNT.

MR. QUINN: But the Board's decision did say in the case that Mr. Smith was referencing in future years, the Board -- Union shall file detailed information explaining the proposed allocation of long-term and short-term revenues to the account as part of its prefiled evidence.

Is it Union's position that by putting it in rates, that they do not have to follow what the Board had ordered in the decision in 2018-0105?

MS. MIKHAILA: What we have done by including it in rates is we have treated it in the same manner we treated other -- the capacity sold at the time the project was constructed, the demands that were -- the new demands that came about resulting from the project, we are treating this in the exact same manner as if there had been this demand created at the time of the project.

MR. QUINN: Is that a long way of saying you won't be filing this proposed allocation of long-term and short-term revenues to the account?

MS. MIKHAILA: There is no need because we have allocated it all as long term.

MR. QUINN: Okay. So maybe keeping your thumb on -- your figurative thumb on FRPO 4, could you turn up Staff 11A, please? What I am trying to do is reconcile what you have told Staff and what you told us in that response. And maybe it would help, Ms. Adams, if we could read the question, because I think this says:

> “Please confirm whether the surplus capacity has been sold long term as of November 1st, 2018. Please provide the capacity sold.”

So that response is now, scroll down into A -- thank you Ms. Adams -- and Enbridge Gas is saying it sold the 42 which you provided to Dr. Higgin. But the last sentence says:

> “Enbridge Gas has sold additional long-term M12 contracts beginning November 1, 2018, which will completely utilize the surplus Dawn-Parkway capacity.”

So stopping there, do you have any surplus Dawn-Parkway capacity in 2019?

MS. MIKHAILA: Yes, for the winter of 2018-19, as is provided in the response to Staff 11, part A, there is 126 TJs surplus capacity.

MR. QUINN: So how does that last -- what am I, what am I missing in 2019, if you're saying 2018 there was surplus, but in 2019 there's no surplus?

MS. MIKHAILA: We have new contracts beginning

November 1st, 2019.

MR. QUINN: And you have turnback. So net of turnback, do you have any surplus remaining?

MS. MIKHAILA: My understanding is, no, beginning winter '19-20.

MR. QUINN: I don't have that reference, but before I get off of this one, what is your turnback for 2020, for November 1st, 2020?

MS. MIKHAILA: I don't have that information.

MR. QUINN: Would you undertake to provide it, please? M12 contracts have a two-year notice period; correct?

MS. MIKHAILA: That's my understanding.

MR. QUINN: Yes, so you would have been given notice prior to November 1st, 2018 for 2020 turnback. So could you provide the 2020 number?

MR. SMITH: Sorry, maybe you can help me understand, Mr. Quinn, the relevance of the forecast turnback number for November 1, 2020?

MR. QUINN: Well, I have asked some questions which either have either been answered partially or not at all, which I am going to be getting to later on, Mr. Smith, so if you want to -- if we can come back to that, if you don't think you want to answer it just yet, we can come back to it. But I would like to know that capacity, because in other areas where I am going to be asking some questions we have asked about the utilization of the Dawn-Parkway system, and Union has said in later interrogatory responses they are proposing a build for 2021. We are trying to understand the need for that build, if there is surplus that will be potentially returning as of 2020.

MR. SMITH: Right. Well, I will certainly, on the basis of that, not answer it now. And I don't -- to foreshadow, I don't anticipate we will be answering questions relating to whether or not capacity needs to be built in 2021, because we are not seeking any relief in relation to that in this proceeding.

MR. QUINN: Well, I guess your answers in this proceeding have provided that your plan is to build in 2021, and this goes to need.

MR. SMITH: And that may be an appropriate line of inquiry in a subsequent proceeding, but I am having trouble understanding why it's relevant to a 2019 application, that's all.

MR. QUINN: Okay. I will move on for now and then we will circle back later as necessary.

In Staff 11 --

MR. MONDROW: Before you do that, sorry, just before Dwayne moves on, this statement in the response to Staff in part A, Ms. Mikhaila, to the effect that there will be no Dawn-Parkway surplus capacity as of November 1st, 2019, is that time-limited? Is it just for the winter of '19/'20 that the company is making that statement?

MS. MIKHAILA: To my understanding, yes, it's the winter '19/'20. I don't have any information beyond that.

MR. MONDROW: Okay, thanks.

MR. QUINN: So still in that interrogatory response, you have answered that there's the 1.3 million of revenue, and I think you have answered that question before, it will serve to reduce M12 rates because the revenue is being -- the revenue contribution is being recognized by Union to therefore adjust the rates downwards for M12; is that correct?

MS. MIKHAILA: Yes, M12's rates are lower than they would have otherwise been.

MR. QUINN: Okay. And I think there's a calculation there.

Okay. What about -- and I think you did answer that question -- the amount that was turned back, then, Union still remains at risk for? So in the FRPO 4, which I think we can come back to now, Ms. Adams, you had said that there was about 90,000 turned back; you have sold 42. So net net around 50 TJs is surplus for this winter, if I am doing the math correctly. You have got 90 turned back and you sold 42. That would result in approximately 48 of surplus. But I see in your response further down that there is 90 TJs showing up as surplus between your demand and your contracts in C and D. So is the 90 result net of the 42 already sold?

MS. MIKHAILA: Sorry, the difference between C and D is 126.

MR. QUINN: Oh, sorry, my bad math.

MS. MIKHAILA: Which is also provided, and that's the 126 provided in Staff 11.

MR. QUINN: Okay. So it's 126. But if you're saying that you -- in A you have got a turnback of 160, which we are netting out the 70 for Halton Hills, that means 90 more has been turned back, while 42 has been sold, but there was surplus capacity before that, then, if this 126 is the ultimate difference between your standard winter capacity and your design day demand. Said differently, there was more surplus. When you sold the 42, there was other surplus you didn't sell?

MS. MIKHAILA: Yes, I think we discussed this during the MAADs proceeding. For the winter of '17/'18 there was surplus of 106.

MR. QUINN: Okay, well, I think you have answered the question that you have just changed the way you are going to approach this, and we will consider that response.

The one number that we don't have in this response is what is the design day demand for the Kirkwall line? I know you don't have that off the top of your head, Ms. Mikhaila, but I would appreciate an undertaking if you would.

MS. MIKHAILA: The design day demand of the Kirkwall --

MR. QUINN: To the Kirkwall line.

MS. MIKHAILA: Yes, we will have to provide that.

MR. QUINN: Thank you.

MR. RICHLER: JT1.19.

UNDERTAKING NO. JT1.19: TO PROVIDE THE DESIGN DAY DEMAND OF THE KIRKWALL LINE.

MR. RICHLER: And Mr. Quinn, I wonder if we could take a break now.

MR. QUINN: Sure, that's fine.

MR. RICHLER: So why don't we come back at 3:30.

MR. QUINN: Okay, thank you.

--- Recess taken at 3:15 p.m.

--- On resuming at 3:34 p.m.

MR. RICHLER: Welcome back, everyone. Mr. Quinn, I will turn it over to you in a second. But first just for planning purposes, I just wanted to ask, if anyone is still on the phone, can you let us know if you have any questions for this witness panel.

MR. McLEOD: It's Mike McLeod for Quinte Manufacturers. No, I don't have any questions for the panel, thanks.

MR. POLLOCK: Scott Pollock with CME. I don't have any questions either.

MS. CHATTERJEE: I don't have any questions.

MR. RICHLER: All right, anyone else? So Mr. Quinn, over to you.

MR. QUINN: Thank you. There's a few more questions in this area. Ms. Mikhaila, I understand that you have been attempting to answer most of them and I will try to defer to panel 2 if necessary or an undertaking.

But there was one more question in terms of rate reduction. I thought I hear you say the benefit of the 30,000 sale reduced M12 rates. Is that correct?

MS. MIKHAILA: Yes, it has.

MR. QUINN: Okay. What, if any, benefit went to in franchise legacy Union Gas South customers? Was there any rate reduction for them?

MS. MIKHAILA: No, there wasn't.

MR. QUINN: I know you have undertaken to provide how the benefits were allocated of the Board-ordered disbursal in the deferral account proceeding. But to your knowledge, some of that benefit did go back to in franchise customers?

MS. MIKHAILA: I can't recall. As I mentioned earlier, the benefit included in rates in 2019 is the same as if that capacity had been sold at the time of the project; we have treated it the same way.

MR. QUINN: At that time, it would have had impact on in franchise rates, Union South in franchise rates, correct?

MS. MIKHAILA: Sorry, can you repeat the question?

MR. QUINN: To the extent that it had been sold at the time the build occurred, there would be an allocation of the revenues from the M12 rates -- well, let's put it this way. Costs of the build were distributed between in franchise and ex franchise customers according to what the need was of the build, correct?

MS. MIKHAILA: Of the direct costs, yes.

MR. QUINN: Of direct costs, okay. So overheads would follow those allocations, correct?

MS. MIKHAILA: I am not sure if you recall, but during the projects there was a shift in indirect costs.

MR. QUINN: Yes.

MS. MIKHAILA: That was not in proportion to the costs of the project.

MR. QUINN: It was in proportion to how the overall costs of the Dawn-Parkway system shifted between M12 and in franchise customers --

MS. MIKHAILA: Yes, it was related to the additional rate base and things of that nature.

MR. QUINN: Right. So at that time had capacity been sold, in franchise customers would have received a benefit?

MS. MIKHAILA: The way it was treated at the time of the project, the incremental M12 billing units were added to the derivation of the M12 rate, and it impacted the M12 rate only.

MR. QUINN: Okay, that's a surprising answer. I thought there was a shift. You just said there was a shift of overheads, so how can that shift occur and there be no impact to the in franchise customers?

MS. MIKHAILA: There was a benefit to in franchise customers of the shifting overheads, but not of the capacity sold, the incremental revenue from the capacity sold.

MR. QUINN: So translating that, there was a rate reduction for in franchise customers as a result of the build?

MS. MIKHAILA: I can't recall the exact impact, but there was a benefit to them of the shifting overheads. I don't recall if it reduced their allocated costs or not.

MR. QUINN: Could you undertake to look at that? Because your answer is that it by treating it this way, you're treating it as if it was sold at the time.

But I would like to give you the space, if you need to, to look at the allocations because I know that was 2015-0200, and so that was a while ago that we had that proceeding.

MS. MIKHAILA: I am just going to look up one thing while I am here.

MR. QUINN: Okay. Again, I am happy to take the undertaking, but I am happy to give you the space to look something up.

MS. MIKHAILA: If you refer to Exhibit F1, tab 2, schedule 16, page 1 is fine, you can see there the allocated -- oh, sorry. Actually, please refer to page 3. In column D, we have the 2017 Dawn-Parkway project and you can see the allocated costs to rate classes there. In some cases, the shift of indirect costs is greater than the direct allocated cost of the project. You can see a credit and, in other cases, the rate classes had a charge.

MR. QUINN: This is for the 2019 Campbell pastures. This is not specific to the 2017 build, correct?

MS. MIKHAILA: Column D is related to the 2017 Dawn-Parkway build.

MR. QUINN: Okay, so that is the allocation. You're saying that somehow when you put this 30,000 of capacity into the sold column, you have made an adjustment to these allocations in some way that the benefit is going to be consistent with this approach?

MS. MIKHAILA: This schedule provides the revenue requirement of the project prior to the impact of the incremental project revenue. So there are some rate classes, as you can see, like rate M1, that received a benefit of that project due to the indirect shift of costs.

But the incremental project revenue, when the project was included in rates, was to the benefit of M12.

MR. QUINN: The incremental project revenue you are talking about is the 30,000 sold?

MS. MIKHAILA: The 30,000 that was included in 2019 rates, and the other capacity that was sold beginning November 1 of 2017.

MR. QUINN: So the 42,000?

MS. MIKHAILA: No. The incremental demands that were satisfied by the project build in 2017.

MR. QUINN: Okay. So I know this is very complex, so I just want to see if you can help simplify it for me. When you were making the -- if the Board approves your proposed handling of the 30,000, you said to me it was as if it was put in -- as if it was sold when the project went into service in 2017.

These allocations, were they changed, then, in a way that -- any material change to these allocations as a result of the 30,000 that was sold?

MS. MIKHAILA: No.

MR. QUINN: So it is not being handled the same as it would if it had been sold in 2017, because it would have changed. I think you said before it changed the indirect allocations and so you would have a different proportionality.

MS. MIKHAILA: Yes, sorry, actually -- there may have been a small increase in the allocated cost to M12 as a result of the additional 30,000.

So I want to correct what I had said earlier. There would have been in 2017 a small difference in the allocated costs.

MR. QUINN: Can you quantify what that difference is? I know this -- and I respect that there's another panel as yet to come up. Is it possible you could take an undertaking to quantify what that difference would be? I want to compare it to what the Board order as the benefit out of --

MS. MIKHAILA: So, I am trying to think -- related to 2017 or 2019?

MR. QUINN: 2019.

MS. MIKHAILA: In 2019, we did include the incremental 30,000 in the allocation of costs as well. So it is reflected in column D.

MR. QUINN: I am sorry, now I am really confused, because I --

MR. MONDROW: Can I ask --

MR. QUINN: Go ahead, Ian.

MR. MONDROW: Can I ask a couple questions maybe while Dwayne thinks about it? Did you just say, Ms. Mikhaila, that the assumption that the 30,393 GJs of capacity that was previously excess, now having been sold, has resulted in 2019 cost allocation changes to all these rate classes that we see on this page 3 of 5? In other words, are you adjusting everyone's rates as a result of this deeming -- sorry, are you proposing to adjust --

MS. MIKHAILA: This schedule just shows the allocation of the revenue requirement for 2019 alone, it doesn't show the change from 2018.

MR. MONDROW: Okay, so let me simplify it. In 2018 there was a benefit to in-franchise customers as a result of the Board's direction on how to address the cost consequences of this 30,000 GJ surplus. Correct?

MS. MIKHAILA: I have an undertaking to provide the allocation of that revenue.

MR. MONDROW: Okay. And in 2019, there will be no such allocation in respect of that amount because it's no longer surplus, in your view.

MS. MIKHAILA: I think it, umm... That may not be the case, and I think what I would like to do is review the allocation of the revenue requirement on Schedule 16, excluding the 30,000, because the amount on this schedule includes it. And I can see the difference.

MR. MONDROW: Okay, so maybe you're answering the same thing, but I am not sure, frankly. So in the undertaking response that you would like to consider, can you include, if it's not already included, not only the change to M12 rates between 2018 and 2019, but the change -- sorry, to not only the allocation or the benefit to M12 customers but the change in the allocation or benefit attributable to any other customers?

MS. MIKHAILA: Yes, I will provide the allocated cost of the project by rate class, similar to shown here on Schedule 16, with the 30,000 included in the allocation, which is what this schedule shows, and the allocation without it, and the results.

MR. MONDROW: Which will give us your proposal for changes in 2019 relative to 2018 in respect of this surplus?

MS. MIKHAILA: It would be -- what I am thinking of providing is 2019 in both cases. So a direct comparison of whether it was embedded in rates like we have done or if it was not included in the allocation in rates.

MR. MONDROW: Okay. I think that's what I am asking. Thank you.

MR. QUINN: That's fine. Is that a different undertaking number?

MR. RICHLER: Well, let's clarify. So is the agreement to roll that in with the undertaking that was previously provided or should we treat this as a new one? Mr. Smith, do you care?

MR. MONDROW: I thought that was Ms. Mikhaila's view of what undertaking she had provided.

MR. RICHLER: That's what I understood as well, so I am not going to give it a new undertaking number.

MR. MONDROW: So we are going to get a 2019 allocation with and without the 30,000 surplus. That is --

MR. QUINN: But previously she had offered to tell us how the 2018 was disbursed amongst the rate classes.

MS. MIKHAILA: Yeah, I think it's a different issue, so that, I believe, was JT1.18. I was going to provide the allocation of the 2017 short-term revenue that was allocated to the deferral account, and I believe this is something different.

MR. MONDROW: Okay.

MR. RICHLER: All right. So we will give it a new number. JT1.20.

UNDERTAKING NO. JT1.20: TO PROVIDE THE ALLOCATED COST OF THE PROJECT BY RATE CLASS, SIMILAR TO SHOWN HERE ON SCHEDULE 16, WITH THE 30,000 INCLUDED IN THE ALLOCATION, WHICH IS WHAT THIS SCHEDULE SHOWS, AND THE ALLOCATION WITHOUT IT, AND THE RESULTS.

MR. QUINN: Thank you for working with us, Ms. Mikhaila.

MR. MONDROW: Sorry, just to clarify, the 2019 numbers, then, the new undertaking, will that show us what you're proposing versus the status quo in respect of the 30,393 GJs?

MS. MIKHAILA: Yes, it would.

MR. MONDROW: Thanks.

MR. QUINN: Okay, still with the Dawn-Parkway system, when calculating Dawn-Parkway design demand does EGI account for any Kirkwall to Dawn or any Parkway to Dawn flows that are contracted in determining its design day demand?

MS. MIKHAILA: I can't speak to that.

MR. QUINN: Would panel 2?

MS. MIKHAILA: I don't think so.

MR. SMITH: I doubt they will be able to.

MR. QUINN: Well, we asked questions in -- and I was trying to stay with the flow here on Dawn-Parkway, but we asked questions later, some of which were answered, including this bill question from before the break, Mr. Smith. And so you are saying there's nobody present on panel 1 or panel 2 that can answer questions about Dawn-Parkway design? Like, that's part of --

MR. SMITH: That's correct.

MR. QUINN: So where does that leave us with our questions then?

MR. SMITH: I think you are going to have to explain to me how they relate to the issues in the 2019 application. And if we answered questions before the Board told us there was -- gas supply was not going to be an issue, you know, maybe we ought not to have, or if we answered questions that don't relate to 2019 that you asked and we ought not to have done that, that's on me. But if you can explain how they relate to the issues in this proceeding, I would be happy to consider answering them by way of undertaking, but, you know, help me with the relevance.

MR. QUINN: Well, it goes to the utilization of the Dawn-Parkway system. So it's not gas supply per se. Dawn-Parkway system is part of the integrated assets of the legacy Union Gas utility, and so it goes to that asset utilization and the cost allocation issues we were just walking through with Ms. Mikhaila.

MR. SMITH: No, the utilization or the fact that Dawn-Parkway is a utility asset doesn't in and of itself make that issue a question of 2019 rates, which are the function of the application of the Board-approved price cap and our request for ICM treatment. So link it to that and we will answer the questions.

MR. QUINN: Okay. What I am going to do is I am going to reconfigure these questions in light of what Mr. Smith has said, I will serve them to panel 2, and you can answer them or not depending on your ability to do that or willingness to do that, I guess.

FRPO 5 then. I am trying to go through these relatively in consecutive order, but we asked about C1 contracts, and you provided an answer, 15.3 million for 2019 is the value of C1 contracts? Now, this is where I've got to check my --

[Reporter appeals.]

MS. MIKHAILA: Yes, it is.

MR. QUINN: Sorry, thank you. So 15.3 million is not the number in base rates. Correct?

MS. MIKHAILA: I don't -- I am sure it is not.

MR. QUINN: You are sure it is not? Okay.

So would any of that C1 -- any of those C1 contracts, would they have found their way into utilization by that capacity that was just sold? As surplus capacity that is available for marketing in other ways if it's not sold long-term. So it would attract some proportionality of the

C1 revenues, would it not?

MS. MIKHAILA: I am not overly familiar with the calculation of the revenue that was included in the deferral account proceeding related to the 30,393. Is that the capacity you are referring to?

MR. QUINN: Yes.

MS. MIKHAILA: I don't have the details of how that revenue was calculated.

MR. QUINN: Could we then by undertaking have the company provide us the answer if that surplus capacity were to remain unsold, what, if any, of this 15.3 million would be attracted to that capacity as a result of the Board's decision?

MS. MIKHAILA: The 13.5 million --

MR. QUINN: 15.3.

MS. MIKHAILA: The 15.3 million, sorry, that's referenced in this interrogatory is C1 long-term contracts.

MR. QUINN: And C1 long-term contracts are sold out of surplus, that is unsold M12 capacity long term, correct?

MS. MIKHAILA: Yeah it would be sold similar to M12.

MR. QUINN: Sorry?

MS. MIKHAILA: It's long-term contract C1 M12 that could be both Dawn-Parkway.

MR. QUINN: Yes, they are both Dawn-Parkway. But C1 contracts are not M12 contracts?

MS. MIKHAILA: No, they are not.

MR. QUINN: So the question still stands. Could the company provide us -- and if the answer is zero, the answer's zero. But in my view, there may be an attraction of some of the expected value from the C1 contracts that would go to the otherwise unsold 30,000 TJs of capacity if it remained unsold in the Board's determination. You can calculate that number?

MS. MIKHAILA: Yes, I am just trying to determine -- the C1 and M12 rates are the same for similar paths. So I think what you are just interested in is how we derive the revenue for the deferral accounts.

MR. QUINN: No. I am asking if that 30,000 was deemed to be unsold in 2019, what, if any, of that $15.3 million would be attracted to the 30,000, using the Board's approved decision. And I respect if you don't have a lot of understanding of how that was allocated, I would like the company's position on that.

MS. MIKHAILA: So you're interested in a forecast of the revenue of the 30,393 if it wasn't included in base rates?

MR. QUINN: That wasn't -- would not have been included if the 30,000 was unsold. You are telling me that the M12, you were proposing to adjust them. I am saying in the corollary, if the Board doesn't accept your determination that colour-coded transport was sold, that it still remains unsold, what benefit could in franchise ratepayers -- what could all customers see as a potential benefit out of the 15.3 million.

You can't figure out what you are going to sell on a monthly basis, because that hasn't happened yet necessarily. But you do have annual contracts that are in place, and that revenue is going to occur.

MR. SMITH: Sorry, just to simplify it for my benefit, are you asking, Mr. Quinn, simply what would the balance be in the deferral account if this were treated through the deferral account, as opposed to as its been treated through base rates?

MR. QUINN: When you say the deferral account, Mr. Smith, are you talking about the deferral account the Board ordered Union at the time to disburse the 30,000 revenue to?

MR. SMITH: Yes, yes.

MR. QUINN: Okay. Yes, then.

MR. SMITH: Okay.

MS. MIKHAILA: I will have to take that away to the individuals who perform that calculation.

MR. QUINN: I understand and respect that. Thank you. And thank you, Mr. Smith.

MR. RICHLER: JT1.21.

UNDERTAKING NO. JT1.21: TO ADVISE THE COMPANY'S POSITION ON THE EXPECTED VALUE FROM THE C1 CONTRACTS THAT WOULD GO TO THE OTHERWISE UNSOLD 30,000 TJS OF CAPACITY IF IT REMAINED UNSOLD IN THE BOARD'S DETERMINATION.

MR. QUINN: Okay, FRPO 6. So we were asking the question is an adjustment premised on the cost of the system in 15/17, and Enbridge says no they are not. You have updated the allocation factors. But I just want clarity. Have you changed anything in the methodology?

MS. MIKHAILA: No, we have not changed anything in the methodology.

MR. QUINN: Thank you, I just wanted to be clear on that. Thank you.

Okay, FRPO 9; we asked about the practices for distinguishing between PGVA and TSDA and I see here the practice has been around for ten years. But I guess what we would like to ask is: Can you file the handwritten instructions, the policy, the practice, whatever it's written on, so that we can see how that is discerned?

MR. SMALL: I guess I can just say to the extent that there is a written policy, we can presumably file it. I just don't know that any of us here can speak to whether there is a documented policy.

MR. QUINN: Okay. Somebody has to make this determination in Enbridge's office. What instruction are they given -- and I presume some of it has to be in writing, it's an accounting practice. So whatever charter, or memo, or whatever guiding principles are used, that would be helpful to see.

MR. SMALL: Like I said, I can take that request away.

MR. QUINN: Okay, thank you.

MR. RICHLER: So the undertaking is to file this document if it exists, and we will call it JT1.22.

UNDERTAKING NO. JT1.22: TO FILE THE COMPANY'S POLICY DOCUMENT IN WHATEVER FORM IT EXISTS THAT DESCRIBES THE PRACTICE TO DISTINGUISH BETWEEN THE PGVA AND THE TDSA

MR. QUINN: Thank you. Then further down in C -- well, I will go to the question first. We asked are there any financial employee incentives tied to the level of margin for the TSDA for those who are responsible for distinguishing the difference.

And the answer was no, no specific employee incentives. And I probably should have asked are there any departmental incentives tied to the level of margin for transactional service revenue.

MR. SMALL: Based on the knowledge that we have, no.

MR. QUINN: Okay, that's a conditioned answer. I respect that. Can you undertake to check, or subject to check, so that you get back to us after you have checked?

MR. SMITH: You should take that as the answer, but we will let you know if it's not right.

MR. QUINN: Okay, thank you.

MR. RICHLER: JT1.23.

UNDERTAKING NO. JT1.23: TO ADVISE WHETHER THERE ARE DEPARTMENTAL INCENTIVES TIED TO THE LEVEL OF MARGIN FOR TRANSACTIONAL SERVICE REVENUE.

MR. QUINN: This is the last -- it may be a thorny issue, but I am going to start ...

MR. MONDROW: Unlike the others.

MR. QUINN: Unlike the others. Sorry. We had advanced some requests about metering and Enbridge's undertakings that it had given -- I shouldn't say undertaking. The settlement agreement to evaluate metering differences between TransCanada and the Enbridge stations, some information is on the record.

My first question, and it just pertains to if we pull up E1, tab 4, schedule 2, and I think it's page 5 or 6 I have listed here.

We have been provided a table down on page 4, sorry, Ms. Adams. E1, tab 4, schedule 2, page 4, I think is the best place to start.

I don't know if they can see that, but what I can tell you -- there, thank you.

In 2018, we have the Board-approved number of 106, but the actual is blank. And I respect that at the time of submitting the evidence, it would be blank. Could you provide the actual 2018 figure, again by way of undertaking?

MR. SMITH: Sorry, maybe you can help me, Mr. Quinn, as to why, as the Board was clear that we were not to deal with gas-supply-related issues in this proceeding and this is a table in the company's gas-supply-related evidence.

MR. QUINN: It's a table in the gas-supply evidence, but you're recovering UAF costs in Enbridge terminology in distribution rates. Correct?

MR. KACICNIK: We derive distribution rates and gas cost rates separately from each other. It is for billing purposes that gas cost rates get added to distribution rates to make delivery charge.

MR. QUINN: So are you asking the Board for approval of the distribution rate for which UAF is a component of in this proceeding?

MR. KACICNIK: No, we are not, not any more. As you may recall, in Procedural Order No. 3 the Board has determined that gas supply plan and cost consequences of that gas supply plan will not be part of this proceeding. So therefore, what will be recovered in rates in 2019 is the cost of unaccounted-for gas from '18, so there will be no impact on 2019 rates from year-over-year change in unaccounted-for gas.

MR. QUINN: Okay, well, I understand the distinguishment you are making, Mr. Kacicnik, and I respect that this is the way the calculation goes, but I guess I am trying to get some understanding then.

Your UAF is the metering difference between what TransCanada would provide to Enbridge and what Enbridge determines as its throughput through a system, are you tracking the difference -- or, sorry, I say it this way. Are you consistently sticking with a volume basis? Do you take the volume that TransCanada gives you at a station and then try to reconcile that with the billing units of volume in that system? Is that how you determine your UAF?

MR. KACICNIK: Yeah, generally I would agree with that proposition, yeah, it's the difference between what comes into the system and what's consumed by the customers.

MR. QUINN: Okay. But I want to be clear about what I am saying. TransCanada delivers you energy at your gate stations. Correct?

MR. KACICNIK: Yes.

MR. QUINN: Do you use the volume rating that

TransCanada provides in its reporting or do you use the energy rating and then convert it?

MR. KACICNIK: Subject to check, we believe it's the energy readings that are then converted into metre-cubeds.

MR. QUINN: And so we asked you, do you have a chromatograph at certain locations to check what the energy content of the gas is? That was one of our questions that was refused.

MR. KACICNIK: Again, I don't know for sure. I believe that there is, but I am not certain. I would need to check.

MR. QUINN: Okay. Maybe it would be helpful. I advanced last night an interrogatory response to BOMA from the last deferral account proceeding. I think it will be helpful, because actually I think there's some misinformation on the record, but we can walk through some of it, and this might be helpful.

MR. SMITH: Sorry, Mr. Quinn, we are not asking for any rate recovery in relation to this, and the Board was very clear that we are not supposed to be dealing with gas supply.

MR. QUINN: But what I am trying to distinguish, Mr. Smith, is it's not gas supply, it's Enbridge's process of recognizing how much energy or volume it received and reconciling it to the billing units downstream, which are all distribution. And so it is a distribution issue of which eventually the recovery comes through the billing of distribution, if you're saying that that's not a close enough tie, the actual billing and the accuracy of billing in respect of what was delivered by TransCanada is an issue, because that's what ratepayers are having to fund, and we are trying to understand what Enbridge is doing about it.

MR. KACICNIK: We don't disagree it's an issue, and the Board actually made a finding on this in the MAADs decision, so I would like to ask Bonnie to bring it up, MAADs decision, page 53.

I am asking that we bring up the decision so you can see that the issue will be addressed. There is an actual Board directive on this in the decision itself.

MR. QUINN: And my concern, Mr. Kacicnik, is we can wait for a subsequent proceeding to look at what the company did. Does the company want to go at risk for things it doesn't do between now and then if we can actually do things to reduce UAF on behalf of the company?

MR. SMITH: No, but, Mr. Quinn, the Board was very specific on what it wanted the company to do, and we are not proposing to deviate from what the Board has told us to do.

MR. KACICNIK: That's correct. So if we look at page 53, item 7.2, unaccounted-for gas and Board findings. So the Board requires Amalco, now Enbridge Gas, to file a report on this issue for both the Union Gas and Enbridge Gas service areas by December 31st, 2019. So that's the directive, and it will be completed and filed by December 31st.

MR. QUINN: Okay. And so we will have some opportunity to talk to you about it later this year, and I'm going to take some of this offline, but I would like to just pull up BOMA 21 for the purposes of understanding, because, as I say, something doesn't seem right, and Mr. Kacicnik, I think your eyes on it will help us.

In the response down below, one of the GTA impacts -- that's it, Bonnie, number 1. It says "GTA impacts". I want to ask the question first of clarification. You can see that the number that was provided -- sorry, in the answer it says:

"EGD estimates that the gas required for line pack to fill the line in which it was not billed to customers was 2,158, 10 6 M3s, on an average December day."

Do you see that, Mr. Kacicnik?

MR. KACICNIK: Yes, I do.

MR. QUINN: But the total UAF for the system, which is in the first part of the response in B, says the team's analysis was able to explain 56 10^6 m^3, or 42 percent of the 133 10^6 m^3.

So maybe it's my bad reading of it, but how can 2,158 of the 133 be correct?

MR. KACICNIK: That's 2.2 million, not 2 billion. 2.2 million.

MR. QUINN: So that should be 2,158 10^3 m^3?

MR. KACICNIK: Yeah that's 2.15 -- 2.158 10^6 m^3, yeah, 2 million.

MR. QUINN: That's a comma, not a period, sorry.
MR. KACICNIK: It must a typo then --
MR. QUINN: Okay.
MR. KACICNIK: -- because our total annual throughput, it's around 11 billion.
MR. QUINN: Yeah.
MR. KACICNIK: So is this would be 2 billion, which just doesn't make sense at all.
MR. QUINN: Exactly. That is what I thought, so I was trying to reread this in context of my questions, so that hopefully helps when we talk about this later this year.
But my question in following up that is who owns -- well, sorry, that's an amount of gas that went in to fill the new GTA lines, segment A and, I presume, segment B?
MR. KACICNIK: I believe so, yes.
MR. QUINN: Yeah, okay. So that was deemed to be UAF and attributable to cost recovery by the utility on the distribution side of the business. Correct?
MR. KACICNIK: The UAF does occur on the distribution network, but it's part of our gas costs.
MR. QUINN: Okay. I will accept that. But it was recovered from customers in rates?
MR. KACICNIK: Unaccounted-for gas, the cost of it, yes it is --
MR. QUINN: Okay. So there's a variance --
MR. KACICNIK: -- recovered from customers --
MR. QUINN: -- account. If you don't collect enough you will make it up later; if you collect too much you give

it back, correct?

MR. KACICNIK: Correct, yes.

MR. QUINN: So it's all -- but that's in distribution?

MR. KACICNIK: It's recovered through delivery charges, but it's part of the gas supply plan and its costs.

MR. QUINN: Okay. So answer this question for me, then. If this is the amount of gas that went in there and it was recovered as part of UAF, is it also not inventory of the company?

MR. KACICNIK: Mr. Quinn, can you clarify what you think about inventory? Because we typically refer to inventory as gas sitting in inventory, meaning sitting in storage.

MR. QUINN: That may be the case, but you have gas that is in your pipe, that is line pack. You buy the gas -- when the pipe is empty, you don't own gas. When you fill the pipe, you now have bought that gas and to the extent that it is deemed to be transitory, it may be considered working capital.

But nonetheless, you have bought the gas and you now own the gas, correct?

MR. KACICNIK: Well, unlike on transmission pipelines, like large transmission networks where they have line pack and it goes into rate base, we don't have anything like that at legacy Enbridge Gas distribution. It's transitory, it's not large enough to make it to be an item, a cost item to the company or to be in the rate base.

MR. QUINN: Would you take it, subject to check, that with a correction of the order of magnitude -- or in this case here, orders of magnitude difference -- using the 10^3 that would be approximately $328,000 at $4 a GJ?

MR. KACICNIK: Are we referring to 2 million cubic metres?

MR. QUINN: Two -- yes, we will say 2 million cubic metres.

MR. KACICNIK: At $4 per GJ?

MR. QUINN: Yes. Would you take it, subject to check, that would be about $328,000.

MR. KACICNIK: It makes sense, yes.

MR. QUINN: Okay. So is what you are saying that this gets recovered through UAF, and it's not recovered in any other way in terms of working capital to buy that gas?

Somehow you have to buy the gas to put it in the pipeline, and then you recover it as it gets sold. But you do have an inventory.

MR. KACICNIK: As far as we are aware, Mr. Quinn, this is not part of any other financials at legacy EGD. When a system is expended and pipes are filled with gas, that would be part of our unaccounted for contribute to year over year changes in unaccounted for.

MR. QUINN: And again, I heard your words first, "as far as you know." Would you be able to either check and get back to us, or tell me you are writing that subject to check internally, because we are just concerned that there isn't a double recovery, one through UAF and one through any other mechanism whereby you get recovery or return on that investment.

MR. KACICNIK: Yes, I will check.

MR. QUINN: Okay, thank you.

MR. RICHLER: JT1.24.

UNDERTAKING NO. JT1.24: TO CONFIRM WHETHER UAF IS PART OF COMPANY INVENTORY.

MR. LADANYI: Can I ask a supplementary question to this, please?

MR. QUINN: Sure.

MR. LADANYI: Isn't in construction an item called gas used in construction that's expensed during a construction project?

MR. KACICNIK: I am not aware of anything like that.

MR. LADANYI: All right, we can ask the next panel.

MR. KACICNIK: Yes.

MR. QUINN: Okay, thank you, Mr. Ladanyi.

MR. MONDROW: Can I ask one question? Maybe it's for you, Crawford. Where do we deal with UAF?

MR. SMITH: Well, there will be a report that we are required to file and --

MR. MONDROW: No, sorry. I should clarify not the report, not the issue of trends in UAF, but the issue of inclusion of UAF in delivery rates in the test year. Is that a QRAM issue?

MR. KACICNIK: No, no, it's not. It's part of the gas supply planning. It's the annual costs of the annual supply plan.

MR. MONDROW: So it will be in this future proceeding that the Board directed you to bring? That's where we will address UAF issues?

MR. SMITH: That's right.

MR. KACICNIK: Yes.

MR. MONDROW: Thank you.

MR. QUINN: Thanks, Mr. Mondrow and Mr. Ladanyi. I did have some other gas supply questions. But I think, given the clarification I have, we can defer those, and I will rework other questions for panel 2, and see if we can try again with them.

So thank you very much -- oh, I am sorry. Yes, those are panel 2 questions also. So thank you very much, panel. Those are my questions.

MR. RICHLER: Thank you, Mr. Buonaguro, did you have one or two questions?

MR. BUONAGURO: Thanks. I actually managed to figure it out while I was sitting here, so I don't have any questions, thanks.

MR. QUINN: Did you have any questions, Mr. Buonaguro?

MR. BUONAGURO: No.

MR. QUINN: I am sorry. I did have one more question and I apologize.

If FRPO 8, if you can just turn up FRPO 8 -- I think this is for this panel. If it's for the next panel, I am going to be asking for an undertaking any way. So I just didn't want to be told this panel 2 is not the right panel.

This was answered by the company, and we appreciate these are these are the answers for February 15th. But the company did designate that February 15th is not a peak day, because it was occurred on a holiday when gas usage was lower and we accept that.

So could those figures be provided for January 5th of 2018?

MR. SMITH: Yes, we can do that.

MR. QUINN: Thank you very much. Those are any questions -- sorry, Mr. Richler.

MR. RICHLER: JT1.25.

UNDERTAKING NO. JT1.25: TO PROVIDE A RESPONSE TO FRPO 8 USING DATA FOR JANUARY 5, 2018

MR. RICHKER: Unless there is anything else, that concludes the first witness panel. Thanks very much, witnesses.

Now, we will run until 5, so we can make a quick start on the next panel. Mr. Smith, will it take much time to muster that panel?

MR. SMITH: Unless the elevators break, no, it won't take very long. Just give us five minutes.

MR. RICHLER: Thank you.

--- Recess taken at 4:23 p.m.

--- On resuming at 4:29 p.m.

MR. SMITH: Thank you. Why don't we introduce our second panel. I will have them introduce themselves, those members of the panel who are -- well, I guess we will have everybody introduce themselves, starting with Mr. Hildebrand.

MR. HILDEBRAND: Mike Hildebrand, manager, asset management, storage and transmission assets.

MR. NACZYNSKI: And Erik Naczynski, manager of asset management integration.

MS. THOMPSON: Hilary Thompson, director of asset management.

MS. FERGUSON: Tanya Ferguson, director of financial planning and analysis.

MR. SMALL: And Ryan Small, manager, regulatory accounting.

ENBRIDGE GAS INC. - PANEL 2

Mike Hildebrand

Erik Naczynski

Hilary Thompson

Tanya Ferguson

Ryan Small

MR. RICHLER: Thank you. Mr. Garner?

EXAMINATION BY MR. GARNER:

MR. GARNER: Thank you, panel. I was just thinking how nice it would be if we could just cut off everybody that way in life, right?

My name is Mark Garner. I want to ask only one question about the asset -- well, it's actually one question in part about the asset management plan. And the first one is kind of a big question. The Board's clear that it doesn't approve your asset management plan or your utility system plan.

So in your minds, what's the purpose of the plan that you put forward for the Board to look at today? What do you see as the purpose of this plan? And I am specifically thinking about that in terms of your ICM projects. What is the plan attempting to demonstrate for the Board's purpose, from your perspective?

MS. THOMPSON: So in Procedural Order No. 2, Board Staff mentioned that -- I am sorry, the OEB confirms that it will not be approving, as you mentioned, the USP or the AMPS in this proceeding, that a review of the USP and AMPS is to provide context for whether the ICM should be approved.

So what that means to us is that it is consideration of the asset management principles and practices and how the ICM projects were identified, which connects into the need, materiality, and prudence.

MR. GARNER: Okay. And I am not trying to be clever, because I couldn't be, but because I have the same problem in the electric applications about -- this Board goes through the same thing, and I have a little bit of trouble understanding what the Board is seeking with, in that case DSP as opposed to USP.

In your asset manage or USP you identify, for instance, a number of potential ICMs; that's correct? And you not applying for those right now, but they are identified. So is the purpose of -- partly the purpose of the plan from your perspective is to show your work as normal and then demonstrate how certain projects fall outside of your normal capital plan? Is that -- is that part of the purpose of the USP?

MS. THOMPSON: The USP does specifically call out ICM-eligible projects or potential ICM-eligible projects. The asset management process identifies projects based on purpose, need, and timing of the project. So those projects are identified independent of the funding mechanism.

So when we identify the projects in any given year, our understanding is that what we are putting forward for -- as part of this proceeding is seeking relief for the 2019 projects, and then the remainder of the potential ICM-eligible projects for the future would be evaluated within the particular year that the asset goes into service. And for the purposes of the long-term view, that serves as a means to provide full visibility into the longer-term asset needs, and internally it serves to help align the organization and how we plan to resource the work.

MR. GARNER: Okay, thank you. One of the things that -- I am not as familiar with the gas USPs as I am with the electric DSPs. And in those cases what is demonstrated is sort of a sense of what's the ongoing capital programs of the utility and what's exceptional to what those programs are. Now, I don't get the same sense out of your USP. So if I looked at your USP, take any one of the ICMs you are doing right now -- Stratford, let's say; it doesn't really matter. In a sense what I am not quite clear of when I read it is, each year you do these types of projects, right, each year you do a certain number of reinforcements or you do a certain number of replacements, et cetera. That's just normal work for you, isn't it, in the sense of a utility like yours has to constantly renew its plant in different places?

MS. FERGUSON: So to your point, reinforcement type projects, those are done as a part of our normal everyday asset maintenance work, for lack of a better term. Those are usually on a much smaller scale and have less of an impact to customers. The ones that we would bring forward for ICM are the ones that would have a much larger impact to our customers, as well as a much larger funding requirement that could not be recovered within the base.

MR. GARNER: Okay. So let me tell you where to bring this to an interrogatory where I was looking, and if you look at 1 Staff 57, and I believe it is for this panel. And in that question Staff asked you basically do you think everything is eligible for ICM, you know, as long as you meet the materiality threshold. And you basically in part A of that answer refer them back to your evidence. And the evidence talks about prudence, materiality.

But when I go to the Board's policy, it actually talks about something else too. It talks about discrete projects, and they are not part of a typical annual program. And my experience in electricity, let me tell you, is sort of like this, is normal replacement of plant, including whole subdivisions rewired and redone, could not be considered if you look at Alectra, for instance, their recent decision. They're not considered ICM-eligible, notwithstanding their size.

What the Board is looking for in those cases seems to be something this's extraordinary about the project. Is that your understanding of the way the ICM works or is it to your point right now it's just merely a materiality, a largeness problem, if it's large enough it fits the ICM threshold?

MR. SMITH: Well, Mr. Garner, I don't think that we should be having argument about the application of the Board's policy and comparing a decision about pole replacement or transformer replacement in Electra case and comparing that to something like the Sudbury replacement or Stratford replacement. The company has given you its evidence about the Board's policy, and if you want to say in argument that the Board's policy shouldn't apply for whatever reason to these projects, by all means you can make that argument. I don't think that's a factual inquiry.

MR. GARNER: Well, I wasn't prepared to make that argument, but you make a good one, and maybe you could write up the draft for me. But that wasn't where I was going. I am actually trying to ask the company how they see that, because if they see it as -- and I understand, Mr. Smith, they are not even the same type of industry, and that's one of my problems, right, you don't have quite -- you don't do a transformer station, or maybe you do with a compressor. Maybe that's the equivalent.

And therefore if you are doing a compressor I could see that equivalency, right, I could see it. But with pipe I am trying to figure out how you're seeing that difference yourself. And what I am hearing from your perspective -- I don't want to be wrong -- is that it's -- there's a materiality thing that you look at. For instance, Stratford is big. That's really what pulls it out. So if I looked at your USP, you have identified ICMs in there, is one of the reason because they are large projects, is that how they get identified as being ICM-eligible, whether or not they are in the future, but they kind of fit that category to you. Am I misreading that? That's all really I am asking. Or is there some other thing about those projects that you should say no, no, look at this, that's why the that project should be ICM oriented. And I'd say, okay, sure. Tell me what that characteristic is.

MR. SMITH: Are you asking the witnesses where in the evidence we describe why we believe these are ICM eligible projects? Because we can do that.

MR. GARNER: Well, sure. I mean, if you look -- and maybe that's helpful, Mr. Smith. If you look at C1, tab 2, schedule 1, page 377 of 1,459, you've got a table in there with a number of projects. And they have different years assigned to them, and they've got different amounts assigned to them, et cetera.

And I was trying to ask myself, okay, these projects must be like the Stratford and other ICMs you are asking for. They must have a characteristic in common.. What should I be looking for? And you've said materiality, which I hear; they are material is what you are saying.

They are certainly discrete in the sense the Board says discreteness. But then a lot of your projects are discrete; that's hard to figure out project are discrete. But there is something I am looking at that applies to the projects you're applying that I can then say, yes, that's ICM in the gas case.

Do you see where I am going? So you could take any one of these. You could take the Kennedy Road expansion and I would say, well, why isn't that just like -- don't you do instead of Kennedy Road, you do Millwood Road one year and then Kennedy Road another year. I mean, they are all roads and they all need to get done, you know, that kind of thing.

MR. SMITH: We are not asking for relief in relation to Kennedy Road, Mr. Garner.

MR. GARNER: No, I understand that. I am asking for the characteristics that created those into the list, which would therefore be applicable to the same characteristics for the ones you are applying for now. That seems to be pretty straightforward.

MR. SMITH: Instead of doing this indirectly, why don't you just ask why do the projects you apply for ICM relief qualify for ICM relief.

MR. GARNER: That's not the question I am asking. That may be the question you want to answer, but it's not the question I am asking.

MR. SMITH: But we are not going the talk about projects that we are not asking for any recovery in relation to.

MR. GARNER: Well, I am locking at your panel. It seems to be ready to answer my question, which is those are ICM projects. There are characteristics other than materiality that create them as ICM projects in your utility system plan.

Is there something else I am looking for, other than materiality?

MR. SMITH: Again, I think you have our position and it's set out clearly in this interrogatory. We are not asking for anything in relation to these projects. Whether they are ever brought forward for ICM treatment is an open question.

MR. GARNER: So is your response a denial of that question, you don't want to answer the question.

MR. SMITH: I am happy to answer questions about why the projects that are actually in front of the Board are, we believe, eligible for ICM treatment.

MR. GARNER: I am simply asking a question, Mr. Smith.

MR. SMITH: Yes, yes, it's a refusal.

MR. GARNER: A refusal? Thank you. Thank you, Mr. Richler.

MR. RICHLER: Thank you, Mr. Garner. Who would like to go next? We are going to end at five, but if someone wants to get started. Mr. Vellone?

EXAMINATION BY MR. VELLONE:

MR. VELLONE: Yes, happy to go next. When the witness panel is ready -- and I apologize that not everyone can see me. I am behind the pillar here.

So I have a follow-up on and exchange that happened this morning, and it was in respect of APPrO Interrogatory No.4. And why don't we pull that up to get us started?

In this question, we were asking the utility to confirm whether or not there were any OM&A cost synergies arising from a number of different projects. We looked at Sudbury, we looked at the Don Valley. And we heard this morning that the panel 1 wasn't the right panel to answer this question, so I am going to come back and put it to you, I think.

So I read the response. It says there are no O&M savings for Sudbury lateral. Can you just explain that to me so I understand?

MR. HILDEBRAND: Yes. The reason for in the response indicating that there were not O&M savings, we are saying there's not significant O&M savings. The majority of the cost associated with maintaining this pipeline over the last number of years have been attributed to capital replacements of sections that had to be actually cut out and replaced during that time frame to address integrity concerns.

The marginal O&M savings that we would expect to see with Sudbury specifically relate to a small savings around inline inspections that the frequency we expect to change from a seven-year interval to a ten-year interval. So over the course of the next 30 years that amounts to the savings of one inline inspection, which would be attributed to O&M.

Similarly, on the Don River situation and the Sudbury situation, the -- regardless of whether it's a new piece of pipe or an old piece of pipe, the same frequency of leak inspection, corrosion, corrosion surveys will continue regardless. So there's really no material O&M savings associated with these projects.

MR. VELLONE: So maybe I asked the wrong question with this interrogatory, then. If I am understanding your answer, what you are saying is there are efficiencies from the maintenance work that you are doing, but those efficiencies were attributed to capital when you booked it. They weren't attributable to O&M; did I get that right?

MR. HILDEBRAND: That is correct.

MR. VELLONE: Can we pull up the leave-to-construct decision. I think that was attached -- let's do Sudbury first. I think that was attached to BOMA 68, attachment number 1, and we will jump back to page number 7. That's the same page that was put to panel 1 this morning.

You'll know this line that I am going to refer you to. That's the reference to the 8 to $10 million of estimated savings that were forecasted at the time the business case was put towards the Board.

Can you give me a high level overview of roughly the types of things that were included in that estimate of savings at the time, back then?

MR. HILDEBRAND: Yes, the numbers cited here would represent the costs associated with addressing integrity concerns identified through the inline inspection routines, which would largely be for replacement of sections that had to be cut out and removed to address those integrity concerns.

MR. VELLONE: Is that the full 8 to 10 million is for that specific item? You can also go back and check the evidence that you previously filed. I don't know if you had a chance to do that before you came.

MR. HILDEBRAND: So it's my understanding that the 8 to 10 million dollars cited here was the expectation that every inline inspection cycle that we had performed over the last number of years yielded anomalies that, by our practice, had to be addressed. And the expectation was that the 8 to 10 million dollars is what would be required to continue to address those as they came up.

MR. VELLONE: So you made an assumption that the rate would continue at the historical rate that you had seen those anomalies, and if you replace the entire segment, you would be able to reduce the rate of those replacements; is that right?

MR. HILDEBRAND: The belief was, yes, that we would continue, knowing the condition of the pipe and knowing the environmental conditions that were contributing -- the environmental conditions and the conditions related to the practices with which it was installed many years ago, we expected that we would continue to see this level of anomalies or deficiencies that needed to be addressed to maintain the integrity of the line.

MR. VELLONE: Are there any other synergies associated with the Sudbury replacement project that may have been included in that 8 to 10 million that haven't been talked about yet, that we haven't brought up?

MR. SMITH: Sorry, Mr. Vellone, just a question. When you say "other synergies", I haven't heard any synergies yet identified. So what do you mean by "other"?

MR. VELLONE: So my reading of the excerpt on the screen is that the utility believed that they could avoid roughly 8 to 10 million dollars in replacement costs over the next -- I am actually not sure what the several years was, what the forecasted years that you took that 8 to 10 million over and that you could avoid those by doing the entire replacement all at once. Is that not right?

MR. HILDEBRAND: That's correct.

MR. VELLONE: That's what I meant by synergies.

MR. SMITH: Okay.

MR. VELLONE: So my question is, is there anything else -- were there other efficiencies, avoided costs, that you have achieved through the Sudbury replacement project that we haven't yet talked about? So I understand the avoiding going to inspect and replacing little segments of pipe when problems come up. Are there other ones?

MR. HILDEBRAND: So maybe just to clarify the question, are you asking about synergies related to maintenance activities?

MR. VELLONE: Yeah, let's limit it to that for now. Yeah.

MR. HILDEBRAND: Okay. So I think I am going to go back to what we said before. There were no other synergies associated with maintenance activities, because we still have to maintain the similar level of -- the same level of leak inspection of that line, easement clearing, and corrosion survey, these types of activities. The same level of expenditures there.

With the Sudbury line, I did also indicate that there would be a small savings over a 30-year period in the reduction or -- yeah, sorry, the reduction in the number of inline inspections that would be required because of the replacement of line and it being a new line now.

MR. VELLONE: In terms of a small savings, just a rough order of magnitude to make sure we are underneath the materiality threshold is all I am checking.

MR. HILDEBRAND: I don't have a number that I can quote right now. One inline inspection, I'd really be guessing as to the magnitude of that.

MR. VELLONE: I will ask if you can confirm that the number is under the materiality threshold as an undertaking. I don't need to know the number.

MR. SMITH: Yes, we will confirm that.

MR. RICHLER: JT1.26.

UNDERTAKING NO. JT1.26: TO CONFIRM THE NUMBER IS UNDER THE MATERIALITY THRESHOLD.

MR. VELLONE: Thanks. With respect to the 8 to 10 million dollars' worth of savings that were estimated in the leave to construct and that you have explained to me now -- thank you for that -- how, if at all, have those, what I am calling synergies been accounted for in your ICM request for the Sudbury replacement project?

MR. HILDEBRAND: The manner in which these synergies, as you have called them, are factored into the ICM request are inasmuch as we have selected an alternative that we believe provides the best benefit from the standpoint of, as I indicated before, we expect to continue to incur this level of cost -- every time we do an inspection we are finding similar levels of anomalies on the pipeline. So as we -- as we would complete our inspections and subsequently replace smaller sections of the pipeline, and after another seven-year cycle we would go back and we would find similar levels of degradation and anomalies, we would continue to see spending at the level of 8 to 10 million dollars.

So we believe this is -- this is how we factored this into the decision and the project that we put forward and subsequently received leave to construct.

MR. VELLONE: I am going to need some help understanding that answer, I think. So are you saying that you never actually achieved these synergies that were forecasted in the leave to construct? Is that what you just told me?

MR. SMITH: Sorry, let me just help.

MR. VELLONE: Yes, please.

MR. SMITH: The cost that's identified here of 8 to 10 million dollars is a cost of one of the two -- included in the cost of one of the two alternatives. It is there as a justification by the Board for the reason not to prefer the alternative not selected, so many negatives. It's not a synergy of doing the project, which is why I think the panel is having trouble. There is no 8 to 10 million dollars of costs that are avoided, because it's -- the path that was taken was to replace the entire section.

So the short answer to your question, how is the 8 to 10 million dollars factored into the ICM request, the answer to that is it is not. The company is asking for the cost of the Sudbury replacement project for the entire segment, not of replacing only portions.

MR. VELLONE: I think that answers the question I asked. Thank you, Mr. Smith.

MR. MONDROW: Can I ask a question?

MR. VELLONE: Yeah, please.

MR. MONDROW: I just want to ask one hopefully clarifying question. The evidence in that leave to construct actually referred to additional repairs and future maintenance expenditures, was in an IR to Staff. It was number 3, at page 7. So, I am sorry, I missed the introduction. You are Mr... What's the easier --

MR. HILDEBRAND: Hildebrand.

MR. MONDROW: Thank you. Sorry, sir, I will try to practice your name in the interim. Mr. Hildebrand, is there is a distinction between repairs and maintenance, in your expertise?

MR. HILDEBRAND: In this -- in the wording that you have just cited, the word "repair" would be meant to indicate replacements which were handled with capital.

MR. MONDROW: And maintenance?

MR. HILDEBRAND: Maintenance meant the same, the same thing.

MR. MONDROW: So there is no distinction.

MR. HILDEBRAND: Correct.

MR. MONDROW: The evidence could have said repairs or maintenance. It would have meant the same thing?

MR. HILDEBRAND: That's correct.

MR. SMITH: I was still on that same interrogatory. Sorry, are we looking at interrogatories from the Sudbury proceeding?

MR. QUINN: What we are trying to understand, Mr. Smith, is this categorization of costs, which we are understanding is avoided -- when I heard your answer, Mr. Smith, is avoided future capital expenditures, but the question that Staff asked was what is the estimated reduction in maintenance costs resulting from this project.

MR. SMITH: All I am saying is if you want to put an interrogatory from a different proceeding in front of the witnesses I would just ask you to put it in front of the witnesses.

MR. QUINN: I just went to the source that was referenced by the Board that they relied upon, so I am trying to understand it myself along with everybody else.

So the question -- oh, you have got it up, Bonnie, thank you. The question is above there, the question F. I was just reading the last sentence of it.

MR. VELLONE: So let's just make sure this is on the transcript so someone reading along can follow this. So this is from the EB-2017-0180 proceeding. It is the response to Board Staff Interrogatory No.3, and we are on page 6 of 17.

MR. QUINN: Thanks, Mr. Vellone.

And so I was confused myself, because I read this as saying what is the estimated reduction in maintenance costs resulting from the project. I didn't -- I am not reading avoided costs, Mr. Smith. That's my -- what would the cost be of the other alternative as the way you had proposed, I think, that the question was answering.

MR. SMITH: I am sorry, Mr. Quinn, I am not understanding what you are saying.

MR. VELLONE: I will try to articulate it as well. Maybe this is the source of my confusion as well, Mr. Smith. So in response to part F of this interrogatory the quote there is:

> "The current forecasts for managing known integrity concerns in this section of the Sudbury transmission pipe is 8 to 10 million over the next several years. Replacing the current pipeline will also address future integrity concerns over that time, will require additional repairs and future maintenance expenditures."

So I guess --

MR. SMITH: I think you have to start with the sentence before that.

"The replaced pipeline section will remove known integrity issues, eliminating the need to replace the existing pipe line."

The witnesses can correct me if I am wrong on this, but the current forecast for managing known integrity concerns in this section of the Sudbury transmission system is 8 to 10 million over the next several years.

So I read the answer as saying the 8 to 10 million dollars is a reference to the known integrity issues that will be eliminated by replacing the entire pipeline.

MR. GARNER: Except, Mr. Smith, I think you misspoke yourself; repair is the word, not replace.

MR. SMITH: Fine.

MS. THOMPSON: Maybe if I can help clarify. I think I understand where you are going. So maintenance is a word that we can attribute to O&M or capital. And in the case of a pipeline, so a linear asset, if we have integrity issues, we have a couple different choices. We can either go in and repair it in the sense that it is putting, say, a sleeve on the pipeline that's in a very short segment that's more of a band-aid type of approach.

Or if the issues are more extensive, the decision may be to do maintenance in the sense of replacement, and that's capital. And the reason why that's capital is because the view is that it extends the life of the asset for a period of time.

But if we think about going become to that long pipeline view, even if you make a replacement, a short replacement that's deemed to be as capital, you still have other parts of the asset that still will continue to age and still will continue to have potential integrity issues.

So the decision point with the Sudbury line was made that it is better to do that long replacement as opposed to shorter segments of replacement on a continuous basis.

MR. MONDROW: Is the sleeving capital as well, though?

MS. THOMPSON: A sleeve, depending on the type of repair, would be O&M. So I think that might help with some of the terminology that we have been using.

MR. VELLONE: But when you do that long segment of replacement, you avoid the need of having to do those spot repairs now, isn't that right? At least for a period of time.

MS. THOMPSON: That would be the case if the approach was taken to do the O&M type of repair. But in the case of what we are looking at here in this response, the remediation was identified to be capital maintenance replacements, which is the longer segments of pipe.

MR. VELLONE: So you've done the reinforcement, but you're still expecting to have to spend 8 to 10 million over the next few years on capital related replacements of this pipe that you have just put in?

MR. HILDEBRAND: No. With the full replacement of this pipeline, there will be no need to continue to spend 8 to 10 million dollars per year. That 8 to 10 million dollars will be avoided.

MR. VELLONE: And how is that -- is that avoidance accounted for in any way in the ICM request, that savings?

MS. FERGUSON: It's not accounted for necessarily in the ICM request. However, it will result in a lower total eligible capital amount in the following years.

MR. VELLONE: I think I understand that, thank you.

MR. QUINN: Are you moving on?

MR. VELLONE: I was going to ask if we could have -- I was going to talk about other projects on this topic.

MR. QUINN: Just on this project, if I may?

MR. VELLONE: Um-hmm.

MR. QUINN: What I had understood, and maybe I didn't articulate it well, but I had understood that this estimate was a continuation of past expenditures would have to continue if you didn't do the full replacement. Is that not what you said to Mr. Vellone earlier?

MR. HILDEBRAND: I'm sorry, would you mind repeating the question?

MR. QUINN: I understood you to say to Mr. Vellone that the 8 to 10 million dollars was based upon a continuation of past expenditures that you were not going to have to do anymore, because you are going to replace the line and not have to do these piecemeal, for lack of a better term, replacements of sections of the pipe.

MR. HILDEBRAND: Right. So up until -- up until this replacement project we are talking about from 2018, we had replaced sections of that pipe to address integrity concerns. Until the entire pipeline is replaced, we are going to continue to -- we expect we will continue to see those same integrity issues and similar levels of expenditure to address them.

Once the 2018 project was completed, we will no longer incur those costs on an ongoing basis.

MR. QUINN: So what may be helpful to us is what were the previous three years' expenditures on that pipeline, and were they capital or O&M? And if they are predominantly capital as you're telling us, then that would be seen? So would you be able to provide that by way of undertaking?

MR. SMITH: Sorry, Mr. Quinn, I don't propose that we -- this strikes me as a discussion about revisiting the alternative chosen by the Board in the leave-to-construct application. So no.

MR. QUINN: It's not revisiting. It's demonstrating that the 8 to 10 million dollars are not O&M savings. They are capital savings as the company's representing. And I have no reason to believe different, but I would just thought by putting the data on the record, that would be eminently clear.

MR. SMITH: I think you have my answer.

MR. VELLONE: Moving on from the refusal ...

MR. RICHLER: Mr. Vellone I think.

MR. VELLONE: We are at time, right.

MR. RICHLER: Yes, we are out of time for the day. So I think we are going to call it a day, and you can pick up where you left off tomorrow at 9:30. Thank you, everyone.

--- Whereupon the conference adjourned at 5:07 p.m.