

1 **Union Gas-1**

2 **Reference: Natural Resource Gas Application**

3 **Preamble: According to Note 13 to the Financial Statements for the year ended**
4 **September 30, 2015 filed as Attachment 3, the Ontario Energy Board issued a Decision and**
5 **Order on January 14, 2016 in which the Board directed NRG to make annual payments to**
6 **Union Gas no later than April 30 of at least the greater of 50% of its annual shareholder**
7 **return or \$100,000 each year until the penalty amount owed by the shareholder**
8 **(\$1,106,016) is entirely paid. NRG's appeal of the Board's decision was dismissed and the**
9 **Divisional Court ordered NRG to pay \$7,500 in costs.**

10 a) **Please confirm the payments made to date regarding the penalty amount.**

11 b) **Please provide an undertaking that the penalty amount payment due in 2017**
12 **will be paid in full before the transfer of NRG's distribution system to**
13 **EPCOR Natural Gas Limited Partnership.**

14 c) **Please confirm that EPCOR Natural Gas Limited Partnership will assume**
15 **this penalty payment obligation upon completion of the proposed transfer of**
16 **NRG's distribution system.**

17 d) **Please confirm that NRG has paid to Union the \$7,500 in costs related to**
18 **NRG's Divisional Court appeal of this penalty payment order. If this**
19 **payment has not been made, please provide an undertaking that the costs**
20 **amount past due will be paid in full before the transfer to EPCOR.**

21 **Response:**

22 (a) To date, NRG has paid \$399,453.

23 (b) Please refer to section 6.1.12 of the Asset Purchase Agreement, which outlines NRG's
24 responsibility for the penalty payment.

25 (c) As noted in section 6.1.12 of the Asset Purchase Agreement, EPCOR is not assuming the
26 penalty payment obligation.

27 (d) Confirmed. This payment has been made.

1 **Union Gas-2**

2 **Reference: Natural Resource Gas Application, Cover Letter**

3 **Preamble: According to the January 24, 2016 cover letter to NRG's amended**
4 **application, the costs to serve NRG's customers post-transaction are not expected to be**
5 **higher than they otherwise would have been with NRG and EPCOR may be able to reduce**
6 **certain discretionary costs (regulatory, legal, consulting and management fees) going**
7 **forward by achieving synergies among the natural gas business operated by NRG today**
8 **and EPCOR's parent company's, EPCOR Utilities Inc., other utility businesses outside**
9 **Ontario (e.g., administration and support functions, information systems and technology,**
10 **and insurance).**

- 11 a) **Please provide specific detail of the functions (e.g., regulatory, finance, legal,**
12 **etc.) and activities that EPCOR intends to outsource to affiliates.**
- 13 b) **Please provide detail on how this outsourcing will reduce costs paid by**
14 **NRG's current customers.**
- 15 c) **When will NRG's current customers expect to see the financial benefits of**
16 **these outsourcing efforts reflected in rates?**
- 17 d) **Please describe how EPCOR's plans to outsource will abide to the**
18 **requirements within the *Affiliate Relationships Code for Gas Utilities*.**

19 **Response:**

20 (a) As a member of the EUI group of companies, EPCOR will structure its business and
21 operations to reasonably and prudently take advantage of economies of scale and scope
22 through the appropriate use of affiliate services. At this time, EPCOR expects to draw
23 upon its affiliates in respect of the following functions that are currently performed by
24 NRG or companies related to NRG: strategic leadership and executive services, finance,
25 treasury, tax, legal, internal audit, human resources, supply chain management,
26 communications and public affairs, health and safety, environment, training, regulatory,
27 insurance and risk management, and information services.

28 Activities outsourced to affiliates or supported by affiliates under these functions include
29 the following:

- 30 • Strategic leadership and executive services – provide leadership and guidance to
31 general manager, establish and approve corporate policies, review and approve
32 operating and capital plans and budgets.

- 1 • Finance – accounts payable, recording of entries, financial reporting and analysis,
2 preparation of financial statements and management of annual audit, accounting
3 research, coordination of budget and forecast preparation.

- 4 • Treasury – issuance of inter-company debt, cash management and forecasting.

- 5 • Tax – GST/HST advice and return preparation, research and preparation of Federal and
6 Provincial income tax returns, preparation of income tax provisions for financial
7 reporting.

- 8 • Legal – providing and managing legal advice, governance oversight, administration
9 and oversight in the areas of ethics, privacy, the *Affiliate Relationship Code for Gas*
10 *Utilities*, records management.

- 11 • Internal audit – internal control reviews.

- 12 • Human resources – payroll and benefits administration, recruitment, succession and
13 workforce planning and performance management.

- 14 • Supply chain management – developing strategic vendor partnerships, overseeing
15 procurement policy and process and ensuring legislative compliance, managing vendor
16 data and contract terms and conditions.

- 17 • Communications and public affairs – managing external communications, stakeholder
18 relations and public consultations, community and government relations.

- 19 • Health and safety – review and development of health and safety practices in
20 compliance with legislation, health and safety training, oversight of the safety
21 management system, incident management and reporting, audits and inspections.

- 22 • Environment – incident management and reporting, audits and inspections.

- 23 • Regulatory – manage and coordinate tariff and facility applications, manage and
24 coordinate reporting requirements, monitor and coordinate responses to regulatory or
25 policy activities or initiatives that may affect the business.

- 26 • Training – technical writing, tracking of certifications and training.

- 27 • Insurance – coordinate with insurers, management of insurance contracts, claims
28 process support.

- 29 • Information services – management, operation and support of network and servers,
30 telecommunication services, and application, operating systems, desktop and printer
31 support.

- 1 (b) and (c) See responses to 1-Staff-1 and 1-Staff-2. While EPCOR does anticipate achieving
2 modest cost efficiencies compared to NRG’s rate application, NRG notes that the legal test
3 for this application is one of “no harm”, rather than a requirement to show a benefit to
4 customers through cost reductions.
- 5 (d) EPCOR is developing a compliance plan to ensure that services to be provided by affiliates
6 are consistent with the requirements of the *Affiliate Relationships Code for Gas Utilities*
7 (ARC). Service Level Agreements, consistent with the requirements of ARC, will be put in
8 place for all affiliate services provided and pricing for the services will be determined in
9 accordance with Section 2.3 of the ARC. Upon closing of the proposed transaction, EPCOR
10 will file an application for an exemption from Sections 2.2.2 and 2.2.3 of the ARC with
11 respect to information services provided to EPCOR by employees of EUI, similar to the
12 exemptions granted to Enbridge in the OEB’s Decision and Order EB-2011-0233. Until
13 such time as the exemption is approved, EPCOR will ensure compliance with the ARC at all
14 times.