1-Staff-1

Ref: Exh 1/T1/ Sch 4, p. 1

It is stated that based on EPCOR Natural Gas Limited Partnership's (EPCOR) underlying cost structure, the costs to serve Natural Resource Gas Limited's (NRG) customers post-transaction are not expected to be higher than they otherwise would have been with NRG.

a) Please provide a comparison of the costs to serve customers by NRG versus the anticipated costs to serve customers by EPCOR.

<u>Response:</u>

(a) The costs to service customers by NRG are included in its 2017 – 2021 Gas Distribution Rate Application (EB-2016-0236) which was filed prior to the announcement of this proposed transaction. This rate case was subsequently suspended and the Board approved interim rates (EB-2016-0341) based on the IRM as approved in EB-2010-0018 until NRG's rate application is resubmitted and adjudicated. As a result, final rates have yet to be approved. EPCOR is unable to provide a detailed breakdown of its costs to service customers in advance of finalizing an amended rate application. As a matter of course, the Board will have access to EPCOR's detailed cost data and revenue requirement through the process of adjudicating EPCOR's amended rate case.

While future costs are not available to provide a detailed comparison, EPCOR has reviewed NRG's rate application and expects that, based on EPCOR's anticipated cost structure, individual cost categories may be impacted but the total revenue requirement will be in line with that presented in the rate application. As such, the costs to serve NRG's customers under EPCOR are not expected to be higher than they otherwise would have been with NRG. NRG notes that the legal test for this application is one of "no harm" rather than a requirement to show a benefit to customers.

Having said the above, EPCOR does anticipate achieving some modest cost efficiencies compared to NRG's rate application, however, these are not quantifiable at this time. Some of these cost efficiencies would result from the appropriate use of affiliate services. Such affiliate services would take advantage of economies of scale and scope not available to NRG given its smaller size as compared to EPCOR Utilities Inc. (EUI). In addition, EPCOR may be able to leverage existing EUI supplier relationships to reduce items such as insurance and future capital project costs. Any use of affiliate services will be aligned with the *Affiliate Relationships Code for Gas Utilities* (ARC).

Specific to costs regarding return on equity, EPCOR will adopt the Board's deemed capital structure and return on equity resulting in no change in those items. Long-term debt costs of EPCOR, reflective of EPCOR's creditworthiness, may be modestly lower than NRG's cost of debt. See VECC-2 for further details on how EUI determines market rates for long-term debt costs.

1-Staff-2

Ref: Exh 1/T1/ Sch 4, p.2

It is stated that over the medium to long term, with expansion of its business in Ontario, EPCOR expects to realize modest efficiencies in OM&A costs for NRG's gas distribution system, such as costs related to administration and support functions, information systems and technology, and insurance.

a) Please confirm whether EPCOR expects to realize cost efficiencies even if EPCOR does not expand its business in Ontario.

b) Please provide a breakdown of the existing OM&A and capital costs in the following areas: information technology, regulatory, legal costs, consulting, procurement, employee compensation, and engineering/asset management.

c) Please provide a detailed description of the expected changes in the OM&A and capital costs in each of the areas noted in b) post transaction and in the medium to long term.

<u>**Response:**</u>

(a) As detailed in 1-Staff-1, even if EUI does not expand its business in Ontario, EPCOR expects to realize some modest cost efficiencies by accessing certain affiliate services.

(b) NRG's existing OM&A were noted as follows in the pre-filed evidence in EB-2016-0236:

Cost Category	Annual OM&A (2016 Bridge)	Annual OM&A (2017 Test Year)
Regulatory Costs	$213,500	$213,500
Legal Costs	$295,000	$270,000
Consulting Costs		
• Management Fee	$457,020	$457,020
• Other	$100,000	$170,000*
Employee Compensation		
• Wages	$1,467,592	$1,712,466
• Benefits	$168,773	$211,004

* *$54,000 of the $170,000 is attributable for engineering consulting services for two large capital projects*

Also as noted in the OM&A evidence, in both the 2016 bridge year and 2017 test year, $55,000 in wages were capitalized. As well, the evidence shows capital additions for IT as follows:

Cost Category	Capital Additions (2016 Bridge)	Capital Additions (2017 Test Year)
Computer Equipment	$9,000	$20,000
Computer Software	$200,000	$89,500

The preparation of NRG's last rate application took place prior to the current filing requirements related to asset management, so costs related to engineering and procurement were not categorized out on that basis. As noted above, a portion of the test year consulting costs were external engineering costs. Generally speaking, asset management is fairly straightforward at NRG given that: (a) its system is newer, consisting entirely of plastic pipe; and (b) NRG has no compressor stations. For these reasons as well, NRG does not have a costed-out formal plan around asset management.

(c) As detailed in 1-Staff-1, EPCOR is unable to provide a detailed breakdown of expected changes in the OM&A costs in advance of finalizing an amended rate application. However, EPCOR anticipates that costs in the areas noted in b) will change directionally as detailed below.

(i) Information technology – EPCOR expects some changes to the capital plan related to information technology to replace end-of-life hardware and address system and network security and reliability deficiencies. Proposed capital projects would be brought to the Board for approval as part of the amended rate application.

(ii) Regulatory – EPCOR expects that there will be opportunities to reduce regulatory costs over time through the support of affiliate regulatory resources and less reliance on consultants. EPCOR will access support from Ayerswood Development Corp. as described in the response to 1-Staff-11 b), in filing an amended rate application EB-2016-0236.

(iii) Legal costs – There may be opportunities to reduce legal costs by leveraging affiliate legal resources to reduce the use of external legal counsel.

(iv) Consulting – There may be opportunities either to leverage EUI's existing supplier relationships to lower consulting costs or to perform some system modeling through an affiliate to reduce modeling and associated software licensing costs. Short term, additional consulting may be required to support the development of a comprehensive system integrity plan as described in 1-Staff-4 f).

(v) Procurement – While there may be opportunities to leverage EUI's existing supplier relationships to reduce the capital cost of projects, EPCOR is not anticipating significant cost reductions associated with the procurement process itself.

(vi) Employee compensation and benefits – Compensation and benefits for the existing NRG employees are expected to increase as EPCOR brings compensation and benefits levels in line with market rates. These increases are expected to be offset by the removal of the executive compensation and benefits currently paid by NRG.

(vii) Engineering/asset management – NRG does not have a formal asset management plan nor a utility system plan as is now required under the Filing Requirements for Natural Gas Rate Applications released on February 16, 2017. EPCOR will develop these plans; however, the timing and costs associated with developing these items have not yet been determined

Ayerswood Development Corp. currently performs services for NRG in relation to certain functions for which it charges NRG a Management Fee. The Management Fee to Ayerswood Development Corp. included in the forecast test year revenue requirement will be replaced with the costs associated with the services provided to EPCOR by its affiliates. These affiliate services will be priced in accordance with Section 2.3 of the ARC.

In the medium to long term EPCOR would expect costs to reflect the requirements as included in any IRM as approved by the Board in a rate application.

1-Staff-3

Ref: Exh 1/T1/ Sch 1, p.2

It is stated:

If the present application is approved, EPCOR will assume responsibility for NRG's rate application (EB-2016-0236) and will file an amended application providing evidence to support the revenue requirement reflective of EPCOR's ownership of the gas distribution system.

a) Please describe the expected impact of changes to the revenue requirement proposed in NRG's rate application (EB-2016-0236), including reasons to support an anticipated increase or decrease in revenue requirement as a result of EPCOR's amended application.

<u>Response</u>:

(a) See responses to 1-Staff-1 and 1-Staff-2.

1-Staff-4

Ref: Exh 1/T1/ Sch 4, pp. 3-4

The application states that gas production wells owned by NRG Corp. (a related company to NRG) provide enhanced supply reliability on NRG's distribution system.

NRG states that it was directed by the OEB to conduct an independent system integrity study to address certain system integrity issues within its franchise areas that required NRG to source gas from NRG Corp. wells. NRG notes that the number of variables and physical circumstances made the determination of a precise quantity of required system integrity gas impossible. NRG also notes that the Asset Purchase Agreement requires NRG Corp. to negotiate in good faith to conclude a gas purchase agreement (for supply from the wells) with EPCOR which must be executed by closing of the proposed sale transaction.

a) Please provide reasons as to why the independent study could not determine the required quantity of system integrity gas.

b) Why was the independent study not able to determine a range of the required quantities of natural gas to be purchased from NRG Corp.?

c) Have the terms and conditions for a gas purchase agreement between NRG Corp. and EPCOR been negotiated? If so, please provide the terms and conditions including quantities, duration of the contract and purchase price.

d) If NRG Corp. is not able to conclude a gas purchase agreement with EPCOR prior to the closing of the proposed sale transaction what will be the implications for: (i) reliability and quality of gas service to customers and (ii) the proposed asset sale transaction?

e) Please confirm whether a premium is currently paid by NRG for gas purchased from NRG Corp as compared to the cost of gas purchased from Union Gas Limited. If so, please explain why EPCOR is pursuing a gas purchase agreement with NRG Corp. which entails higher costs for customers.

f) Please comment on EPCOR's long term plan for supply from NRG Corp, including whether EPCOR intends to continue this arrangement indefinitely or make alternative arrangements to obtain system integrity gas.

Response:

(a) and (b) In accordance with the Board directive in EB-2010-0018, NRG retained SNC Lavalin to prepare the System Integrity Study. The SNC Lavalin proposal (which was approved by NRG, Board Staff and intervenors) indicated that SNC's work would "determine the volumes of gas necessary to provide adequate system pressure" under a variety of scenarios (including a "high flow" day). The SNC Lavalin study was a significant undertaking, but the draft System Integrity Study stopped short of providing a specific amount (or range) of natural gas from NRG Corp. wells required to maintain system integrity. It did indicate, however, that gas from the NRG Corp. wells was required in the absence of a new pipeline being built into the southern franchise area. NRG did follow up with SNC Lavalin, specifically requesting additional analysis to answer the question "How much gas is required from the wells to maintain system integrity?" (email from B. Lippold of NRG to A. Huddleston of SNC Lavalin dated March 16, 2016, filed as evidence in EB-2016-0236). The response was that "To maintain integrity on the high demand days, then all gas available from the wells is required." Based on this, and discussions with SNC Lavalin, the reason a quantum of gas cannot be determined is because the issue is one of peak/high demand, not a volumetric issue. How much natural gas is ultimately required from NRG Corp. wells is a function of too many variables to come up with a reliable volumetric amount. As noted in previous NRG proceedings, these variables include weather, number of customers (e.g., growth), customer make-up (e.g., commercial users of gas), seasonal rain (which affects the water content of crops and therefore the grain-drying load), and intra-system usage fluctuations – all of which are dynamic over time. Consequently, setting an annual quantum of natural gas required was determined by SNC Lavalin to be not feasible.

NRG would point out, however, that the purpose of determining an annual quantum was to determine the appropriate amount of gas that NRG should be permitted to purchase from a non-arm's length company (NRG Corp.) at an above-market price. NRG would submit that that is not the relevant consideration for this application. For the purposes of this MAAD application, and the Board's "no harm" test, the Board should instead satisfy itself that post-transaction, the new owner will have access to natural gas from NRG Corp. wells during high demand days. This is provided for in the gas purchase agreement.

(c) The terms of a gas purchase agreement have been substantially negotiated as of the current time. Only minor technical items remain to be completed and it is anticipated that final terms will be reached in the near future. The primary terms and conditions include:

- The agreement is conditional upon completion of the sale of assets from NRG to EPCOR.

- The term of the agreement is from completion of the sale of assets from NRG to EPCOR until September 30, 2020, extendable upon agreement by the parties.

- NRG Corp. will use its best efforts to produce gas for sale to EPCOR and will supply a minimum volume of 17,657 Mcf annually. All gas from NRG Corp.'s current wells is committed exclusively to EPCOR as well as, at the option of EPCOR, gas from any future wells in the region developed by NRG Corp.

- As currently authorized by OEB Order EB-2010-0018, and incorporated into NRG's commodity cost as part of its Quarterly Rate Adjustment Mechanism applications, in any "gas year", which is October 1 to the following September 30, the price for the first 35,314 cubic meters is $8.496/cubic meter and the Union Dawn reference price thereafter. As are all gas commodity prices to be charged to customers, the price remains subject to OEB approval.

- EPCOR has a right of first refusal upon NRG Corp.'s existing wells if NRG Corp. wishes to sell the wells to a third party during the term. EPCOR also has an additional option (not dependent on a proposed sale to a third party) to purchase the wells during the term.

- The gas delivered under the agreement must conform to Union Gas' M12 Contract General Terms and Conditions.

(d) As indicated in paragraph (c) above, the parties will complete the gas purchase agreement shortly and prior to the closing of the proposed sale transaction. Executing a gas purchase agreement is a mutual condition to closing.

(e) The Board has approved NRG's purchase of gas from NRG Corp. at a fixed price above the current market rate for natural gas. This was approved in EB-2010-0018, and incorporated into NRG's commodity cost as part of its Quarterly Rate Adjustment Mechanism applications. EPCOR is entering into a gas purchase agreement with NRG Corp. (prior to the closing of the transaction) to continue the existing arrangement for the purposes noted in the answer to (b) above – i.e., system integrity.

(f) If this application is approved by the Board, EPCOR intends to further review the findings and recommendations from the System Integrity Study completed by SNC-Lavalin for NRG (filed as evidence in EB-2016-0236) and, if appropriate, complete additional analysis or studies as required to develop a comprehensive system integrity plan. EPCOR's plans for the long term supply of natural gas from NRG Corp. will be dependent on the outcome of this review. The gas purchase agreement could be extended for defined periods by the parties if the purchase of such supply is considered prudent after completion of the system review.

1-Staff-5

Ref: Exh 1/ T1/ Sch 4, pp. 4-5

It is stated on page 5 that EPCOR Utilities Inc. (EUI) confirms it will provide all funding required to complete the purchase of all the assets being transferred from NRG.

a) On page 4, it is indicated that EPCOR has the financial capacity to fund any capital projects in the future to ensure system reliability and service quality levels are maintained at pre-acquisition levels. Has EUI confirmed that it will provide funding for future capital projects as well?

b) Please explain what financial capacity EPCOR has to fund the purchase transaction and any future capital projects on its own, and without EUI.

c) Does EPCOR have separate audited financial statements from EUI? If yes, please provide the most recent audited financial statements.

<u>Response:</u>

(a) EUI provides funding support to its subsidiaries on an ongoing basis through an annual capital budgeting process and ongoing capital management. EUI has confirmed that it will provide funding for future capital projects that have been approved by the OEB. EUI's consolidated revenues and other income for 2016 was $1.9 billion with $379 million in operating income and $412 million in funds from operations. The requirement to fund future capital projects for the system will not impact the financial viability of EUI.

(b) EPCOR was formed for the purpose of owning and operating the NRG gas utility. Aside from the Asset Purchase Agreement with NRG, EPCOR will not hold assets or carry on business until NRG's assets have been transferred to EPCOR, which is subject to the approval of the Board. EUI has committed to funding the purchase price to EPCOR for the purchase of the NRG assets. Regarding future capital requirements, EPCOR will have financial capacity through the revenue earned through distribution rates paid by customers and, as an indirect wholly owned subsidiary of EUI, EPCOR will have access to funding from EUI as described in paragraph (a) above.

(c) For the reasons described in paragraph (b) above, EPCOR does not currently have audited financial statements. On a go forward basis EPCOR will prepare audited financial statements for the utility, separate from EUI, for the purposes of complying with the requirements to file audited financial statements under the *Natural Gas Reporting and Record Keeping Requirements* (RRR) *Rule for Gas Utilities* and the *Filing Requirements for Natural Gas Rate Applications*.

1-Staff-6

Ref: Exh 1/ T1/ Sch 3, p.2

The application states that EPCOR will fund the purchase from a combination of its partner's equity and long term note payable to its parent company, EUI.

a) Have the terms of the note payable been established? If yes, please provide the details of the terms.

b) If not, when will EPCOR be expected to repay the note payable? Please provide a repayment schedule and the source of funding to repay the note payable.

c) How will EPCOR ensure that it has sufficient funds to repay the note payable at that time?

__Response:__

(a) It is expected that the note payable will have a 30 year term and be non-amortizing with a bullet payment at the end of that term. Generally the bullet payment at the end of the term would be satisfied with the issuance of a new long term note in order to maintain the OEB's deemed capital structure. Interest rates will be subject to market rates at the time of issuance and reflective of EPCOR's creditworthiness. It is EUI's practice that the material terms of an inter-company note payable will be comparable to lending agreements with third party financial institutions at the time the funding is to occur.

(b) and (c) Regarding the repayment schedule see response to a). The funding for EPCOR to repay the note payable will be sourced from EPCOR's approved revenue requirement which will include provisions for interest on the debt. Given the planned rollover of the principal at the maturity of the note, it is not anticipated that a material portion of the principal would be repaid.

1-Staff-7

Ref: Exh 1/ T1/ Sch 2, p.2

Attachments 3 and 5

From Exhibit 1 and Attachment 5, except for the "NRG Assumed Liabilities" as listed in Attachment 5, it does not appear that EPCOR will be assuming NRG's other liabilities outstanding prior to the close of the proposed sale transaction, if approved.

a) Please confirm this. If not confirmed, please provide a listing of liabilities EPCOR will assume.

b) If EPCOR is to assume NRG's outstanding debt facilities:

i. Please explain what EPCOR's plans are with regards to NRG's debt (i.e. maintain or pay off the debt).

ii. Please include a discussion on the impact of NRG's breach of certain debt covenants as noted in Note 10 of NRG's 2015 audited financial statements.

iii. Please also discuss the impact of holding this debt on EPCOR's financial viability after the proposed sale transaction, if approved.

<u>**Response:**</u>

(a) Confirmed.

(b) EPCOR is not assuming NRG's outstanding debt facilities.

1- Staff-8

Ref: Attachment 3

In Note 9 of NRG's 2015 audited financial statements, NRG agreed to provide credit facilities to a related party for up to $2 million with interest charged at 1% per annum.

a) Please explain whether this agreement will still be in place after the proposed sale transaction, if approved and whether the terms of the agreement will remain the same.

<u>Response:</u>

(a) No, this agreement will not be in place after the proposed sale transaction. EPCOR has no role in this arrangement.

1-Staff-9

Ref: Attachments 3 and 4

NRG currently reports under Canadian Accounting Standards for Private Enterprises. EUI's financial statements are reported under International Financial Accounting Standards.

a) What accounting standard does EPCOR plan to follow for regulatory accounting purposes if the proposed sale transaction is approved?

b) If there is a change in accounting standard, please explain what areas of the financial statements and revenue requirement would be impacted and how EPCOR plans to address these impacts for rate purposes.

<u>Response:</u>

(a) EPCOR plans to follow the Board's "modified IFRS" or "MIFRS" for regulatory accounting and reporting purposes, on a basis consistent with the guidance provided by the Board in Article 315 to the Accounting Procedures Handbook for Electricity Distributors.

(b) EPCOR will follow the guidance provided by Article 510 to the Accounting Procedures Handbook for Electricity Distributors in managing the transition to IFRS and the direction provided in Article 315 regarding specific modifications to IFRS, and how their impacts are to be incorporated into rates and revenue requirements.

1-Staff-10

Ref: Exh 1/ T1/ Sch 1, p. 3 and Exh 1/ T1/ Sch 5, p. 2

It is indicated that on November 24, 2016, the OEB approved a deferral account for greenhouse gas emission requirements on an interim basis, effective January 1, 2017.

a) For the record, please confirm that:

i. NRG does not have approval for such a deferral account and is currently requesting two related deferral accounts in the EB-2016-0330 proceeding.

ii. The approval granted by the OEB is, in fact, an interim rate order approving NRG's proposed rates to recover the cost consequences of its Cap and Trade Compliance Plan on an interim basis effective January 1, 2017.

<u>Response:</u>

(a) Both items are confirmed.

1-Staff-11

Ref: Attachment 1

NRG has provided a Corporate Organization Chart in Attachment 1 of the application.

a) Will any officers of the Wilshire Trust, Gibralter Partners Trust, NRG Corp. or Ayerswood Development Corp. be officers or receive compensation from EPCOR? Please provide a detailed response, including reasons for proposed future arrangements.

b) Will EPCOR continue to receive services from any of the NRG related entities mentioned in a) after the closing of the proposed sale transaction? If so:

i. Please provide details as to the nature of the services that will be provided, duration and costs.

ii. Please provide the rationale for the continuation of these services.

<u>Response:</u>

(a) None of the officers of the Wilshire Trust, Gibralter Partners Trust, NRG Corp. or Ayerswood Development Corp. will be officers or board members of, employed by or receive compensation from EPCOR.

(b) (i) EPCOR will receive regulatory services from Ayerswood Development Corp. after the closing of the proposed sale transaction for a period of eighteen (18) months. These services will be provided under the Transitional Services Agreement referenced in the Asset Purchase Agreement, the material terms of which are described in Schedule 1.1F of the Asset Purchase Agreement filed as Attachment 5 in the application and evidence. EPCOR will also purchase gas from NRG Corp. as described in 1-Staff-4. It is not intended that EPCOR will receive any other services from the NRG related entities mentioned in a) after the closing of the proposed sale transaction.

(ii) The rationale for obtaining regulatory services from Ayerswood Development Corp. after the closing of the proposed sale transaction is that Ayerswood Development Corp. currently provides these services to NRG and their involvement will enable a smooth transfer of the regulatory history and knowledge to EPCOR. If the Board approves this application, EPCOR will assume responsibility for the EB-2016-0236 application and assistance from Ayerswood Development Corp. will be necessary to ensure the application and evidence are accurately amended and defended. Obtaining these services from Ayerswood Development Corp. should result in efficiencies associated with the rates application.

Please see 1-Staff-4 for the rationale for purchasing natural gas from NRG Corp. after the closing of the proposed sale transaction.

1-Staff-12

Ref: Exh 1/T1/Sch 1, p.2

Exh 1/T1/Sch5, p. 1

In addition to the approval sought for the proposed asset sale by NRG to EPCOR, the application requests the transfer from NRG to EPCOR of all existing franchise agreements. The application states that with respect to the Oxford County franchise, under the Asset Purchase Agreement, NRG must use best efforts to renew its franchise agreement with this municipality by the time of closing of the proposed sale transaction.

a) Please comment in detail on the status of the franchise agreement renewal with the municipality of Oxford County, including whether an application for renewal has been made to the OEB.

b) Please confirm whether the franchise agreement is expected to be renewed by the time the proposed sale transaction is concluded.

c) If the Oxford County franchise is not renewed by the time the proposed sale transaction is concluded:

i. Please comment on EPCOR's operational plans for Oxford County.

ii. Please comment on how this impacts the viability of the proposed sale transaction.

<u>Response:</u>

(a) to (c) NRG believes that it has reached an agreement with Oxford County, and is advised that: (a) a recommendation will be made to Council (at its May 24th Council meeting) to execute the negotiated franchise agreement; and (b) an authorizing by-law would be brought forward at the June 10th Council meeting. Should the recommendation not be made at the May 24th Council meeting, NRG will file an application with the Board to approve a franchise agreement with Oxford County (based on the standard form Model Franchise Agreement).

The ratepayers that the NRG system serves in Oxford County are within the Township of South-West Oxford, for which a current franchise agreement exist. The NRG system has gas pipelines within two roadways that are under Oxford County jurisdiction. Hence the Oxford County franchise agreement exists for the grant of rights to use the roadways of the County. To date there have been no practical issues with the County with respect to

NRG's use of the two roadways as evidenced by the fact that the County has continued to issue development/construction permits related to NRG's system.

1-Staff-13

Ref: Exh 1/T1/ Sch4, p. 7

The application states that EPCOR expects to focus on expanding services within NRG's existing franchise areas over the initial five-year period of operations. The application also states that EPCOR is particularly interested in expanding and developing facilities that meet the needs of the agricultural sector which EPCOR is also examining with respect to the franchise agreements it recently acquired in South Bruce County.

a) Please provide the following information:

i. Details of the specific franchise agreements that NRG states EPCOR recently acquired in South Bruce County.

ii. Clarification of the status of OEB approval of these franchise agreements.

b) Please provide details on EPCOR's current expansion/development plans.

<u>Response:</u>

(a) (i) As a clarification, the franchise agreements entered into in South Bruce County are held by EPCOR Southern Bruce Gas Inc. and not EPCOR Natural Gas Limited Partnership (referred to as EPCOR in this application). EPCOR Southern Bruce Gas Inc. is a sister entity to EPCOR, which executed the Asset Purchase Agreement with NRG.

The franchise agreements in South Bruce County are separate agreements with each of the Municipalities of Kincardine and Arran-Elderslie and the Township of Huron-Kinloss. On March 24, 2016, EPCOR Southern Bruce Gas Inc. filed applications for Orders of the Board with respect to the franchise agreements and certificates of public convenience regarding each of the Municipalities and the Township. The franchise agreements reflect the results of a competitive process held by the three Municipalities.

(ii) The franchise agreements noted above are currently subject to a hearing by the OEB (with file numbers as follows: Kincardine – EB-2016-0138; Arran-Elderslie – EB-2016-0137; and Huron-Kinloss – EB-2016-0139). Following a generic proceeding, the Board has determined that the first phase of these proceedings would establish a framework under which the OEB will hear competing proposals for the franchise areas. Parties that wished to file submissions related to the OEB's draft Issues List and Filing Requirements were to do so by April 27, 2017. As of the date of these responses to interrogatories, the OEB has not issued a further procedural order related to the submissions.

(b) EPCOR's current expansion/development plans are focused on ensuring that the franchise areas held by NRG continue to operate in a safe and secure manner while meeting any requirements to expand to connect new customers. Subject to a final review by EPCOR, EPCOR understands that these plans are supported by the capital additions as detailed in NRG's 2017 – 2021 Gas Distribution Rate Application (EB-2016-0236, Exhibit 2, Tab 1, Schedule 1, pages 1 - 5) which has been suspended by the Board subject to the outcome of this MAAD application.

1-Staff-14

Ref: Exh 1/T1/ Sch4, p. 7

It is stated that EPCOR is proposing to maintain NRG's general manager and all non-executive and operations personnel post-transaction and will retain NRG's local office in Aylmer, Ontario.

a) Please confirm whether EPCOR is willing to provide written assurances to the OEB that it will not carry on any business activity other than the transmission, distribution, or storage of gas, without the prior approval of the OEB and that it will continue to retain an office in Aylmer, Ontario similar to the undertakings given by Union Gas Limited – Appendix C in the OEB's Decision and Order on EB-2008-0304.

<u>Response:</u>

(a) EPCOR is willing to provide written assurance that it will not carry on any other business activity without prior OEB approval and that it has no plans to relocate the office in Aylmer, Ontario.

1-Staff-15

Ref: Exh 1/T1/ Sch 2, p. 1

The application states that EUI through its wholly-owned subsidiaries, builds, owns and operates electric transmission and distribution systems, water and wastewater treatment facilities and infrastructure, and provides related energy services in several jurisdictions in Canada and the United States.

a) Please describe EUI or EPCOR's experience in natural gas distribution.

<u>Response:</u>

(a) At the current time, EUI and EPCOR do not own natural gas distribution operations. EUI does have employees with experience in natural gas distribution utilities in the areas of health and safety, regulatory, communications, engineering, planning and capital project management. EPCOR is also in the process of recruiting an independent board member that will have experience in natural gas distribution. As well, a subsidiary of EUI recently executed a purchase agreement in relation to a natural gas distribution and transmission utility in the United States. The acquisition, expected to close in June 2017, will bring 4,250 natural gas customers, over 400 kilometers of pipe and 21 employees into EUI's portfolio. In connection with the acquisition, EUI is retaining the current owners/senior management of the vendor and all other personnel, including operational staff. The acquisition brings to EUI extensive experience in a similarly sized natural gas distribution utility.

NRG's general manager, as well as the operations and administrative personnel have accepted offers of employment from EPCOR. This ensures retention of the knowledge of NRG's operations and distribution system and will enable continuity of service for NRG's customers. Collectively, these employees will bring to EPCOR extensive natural gas experience, including the general manager with over seventeen (17) years of experience in the business and seven other employees who each have more than twenty (20) years of experience in the natural gas business.

In addition, EUI and its subsidiaries have extensive experience in utility businesses that provide essential public services. The provision of these services involves building, owning, operating and maintaining complex utility systems and responding to emergency situations. EUI's businesses have consistently met or exceeded service quality metrics in the areas they serve. EUI and its subsidiaries also have extensive and successful regulatory experience, including experience operating within a performance based rates regime, having operated energy and water utilities in Alberta, British Columbia, Arizona and New Mexico. Many of EUI's programs that support its electric transmission and distribution systems and water and wastewater treatment and distribution/collection systems can be directly applied to natural gas distribution. These include its capital construction and asset management programs, health and safety management system, stakeholder consultation and regulatory compliance.

EUI's proven track record as an efficient and successful utility operator, together with the extensive natural gas distribution experience of NRG's existing employees will ensure the continuity of safe, reliable natural gas service to NRG's customers.