MRG1. Have the applicants appropriately applied the 'No Harm" test in this case, including in consideration of the OEB's statutory objectives in relation to natural gas?

1) Please provide all internal documents generated by Enbridge Inc., Enbridge Gas Distribution and Union Gas that examined, quantified or hypothesized about the impact of keeping the two utilities separate or merged.
   a. Please include any document that include estimates of the rate impacts, revenue requirement and/or profitability of rebasing for either utility.
   b. If the Board were to order a high-level examination of the scenario of the two utilities re-basing, what is the applicant's estimate of the cost of hours to generate and the time frame for which an evidence-based quality forecast to be generated?

MRG3. Is deferral of rebasing appropriate in the context of this application?

2) Please provide an estimate of the costs for the parent and each respective utility to address:
   a. Transition costs
   b. Transaction costs

MRG4. If so:

(a) What is the appropriate deferral period?
(b) Is an earnings sharing mechanism (ESM) appropriate and if so, what should that mechanism be and when should it apply?
(c) What additional considerations and requirements are appropriate to protect the interests of customers pending rebasing?

REF: EB-2017-0306, Exhibit B, Tab 1,Page 20, Table 3 and Page 26, Table 4

3) Using the forecast of additional margins that would be generated based upon Table 3 and the estimate capital required, what is the Applicants' forecast of incremental rate of return for each year of the proposed rebasing period
   a. assuming the minimum capital in Table 4 incremental capital contributed to rate base accordingly in the years planned?
   b. assuming the maximum capital in Table 4 incremental capital contributed to rate base accordingly in the years planned?

MRG5 What commitments to future action have the utilities made during their respective 2013-2018 rate plan terms, what other rate setting issues merit attention now (including cost allocation issues), and when and how are these commitments and issues to be addressed?

REF: Exhibit B, Tab 1, Attachment 5
and
EB-2014-0261 Updated Settlement Proposal approved by the Board, April 30, 2015

Preamble: *"EGD 1 …c. Discount rate used to determine SRC provision should be examined in more detail at next rebasing.*
d. OEB directive to examine issue of whether a segregated fund (SRC) should be established as a means of protecting ratepayers – EGD to present such evidence ***as part of first application following this Custom IR".*** **(emphasis added)**

We would like to understand better why SRC should be deferred when it was not tied to rebasing.

4) Please explain what barriers prevent this study being done and applied in the near future.
    a. If the study were ordered by the Board, please provide an estimate of an appropriate timeline to perform the study, seek approval and implement any resulting changes ordered by the Board.

Preamble: *"UGL 4. Parties agreed that the issue of Dawn Parkway capacity turnback post-2018 and how turnback risk should be dealt with in the context of the proposed facilities would be dealt with in Union's next cost of service proceeding.*

The Settlement Proposal reads: *"The parties do not agree on the risk of Dawn Parkway capacity turnback post-2018. For the purposes of settlement, while the parties agree that leave to construct should be granted, there is no agreement of how turnback risk should be dealt with in the context of the proposed facilities. Parties agree that this issue will be dealt with in Union's next cost of service proceeding.*
For greater certainty, intervenors are in no way restricted or precluded from making any argument before the Board in that proceeding that it is appropriate that certain cost allocation measures should be put in place to insulate ratepayers from the effect of unutilized and underutilized capacity on the Dawn-Parkway system due to potential turnback risk. Accordingly, parties agree that no conditions related to capacity turnback are required at this time.

We would like to understand better why this issue is proposed to be deferred when it is clear that risks identified by ratepayers could arise in the deferred re-basing period.

5) Please explain what barriers prevent this issue being addressed at this juncture.
    a. If the only issues are lack of evidence submitted and timeframes associated with

this proceeding, what precludes this issue from being addressed in the near term? Please explain fully.

IMPACTS OF THE MERGER

MRG6. Would the proposed merger impact any other OEB policies, rules or orders (e.g. regulation of new storage, Storage and Transmission Access Rule (STAR)? If so, what are those impacts and how should the OEB address them?

Preamble: We would like to understand better the implications of the merger on the storage market at Dawn. To be clear, we are interested in space that ties directly and not through other Michigan or Ontario pipelines such as Vector.

6) Please provide:
    a. The non-utility storage space currently under UGL ownership that ties directly in to Dawn.
    b. The non-utility storage space currently under EGD ownership that ties directly in to Dawn.
    c. The market-based storage space currently under ownership by a Union or EGD affiliate that ties directly into Dawn
        i. Please specify the individual companies (i.e., MHP, AltaGas, etc.)
    d. All other market-based storage space currently under ownership by non-Enbridge Inc.-affiliated parties that ties directly into Dawn.
        i. Please specify the individual companies.

7) Please provide a contrast between current STAR rules and existing FERC rules for disclosure of contracts, parties, parameters and prices for storage services. Please describe fully.

Preamble: We would like to understand better the implications of the merger on the secondary market for services such as exchanges.

8) For each month of the last two years, please populate a table with the following data:
    a. Month
    b. Company
    c. Receipt point of gas exchanged
    d. Delivery point of gas exchanged

e. Energy (in GJ) exchanged in that month
f. Revenues realized from exchanges
g. Unit rate of revenue per GJ exchanged
h. Published basis differential between the receipt and delivery points for that month

9) Please provide a contrast between current STAR rules and existing FERC rules for disclosure of parties, energy transferred and prices for transportation and exchange services. Please describe fully.

MRG7 If leave is granted, what conditions should be attached?

REF: EB-2017-0306 B1, TAB 1, pg. 14

Preamble: *"As a subsidiary of Enbridge Inc., a multi-national publicly traded entity subject to thorough public disclosure requirements, Amalco will follow the same rigorous governance practices as EGD and Union have followed in the past."*

and

EB-2014-0255 Corporate Governance for Regulated Natural Gas and Electric Utilities, Elenchus Final Report, filed December 19, 2016, page 64.

Preamble: "***Principle #2: Directors should exercise their independent judgment in the best interests of the utility with appropriate balance given to the interests of customers.***
Best Practices include:
The board has a majority of directors who are independent of management and independent of affiliates, and are not the employees or councillors of municipal shareholders."

We would like to understand better how Amalco would be "following the same rigorous governance practices as EGD and Union have followed in the past" in light of the Board's policy initiative examining Corporate Governance.

10) Please provide the names of the individuals on the respective Boards of EGD and UGL at the time of the merger announcement. Please provide:
a. Their titles, years of service as an employee of the gas utility or parent.

OR

b. Any years of service with an affiliated company underneath either Enbridge Inc. or Spectra.

OR

c. If no service as employee with the companies within ownership of Enbridge Inc.

or Spectra, the nature of any related board affiliations with the respective companies

d. Using the referenced Elenchus Final Report to the Board,
   i. Does the current EGD Board of Directors meet the Best Practice criteria?
   ii. Does the current UGL Board of Directors meet the Best Practice criteria?
   iii. Will AMALCO expect its future Board to meet this Best Practice criteria?

RATE-SETTING MECHANISM ISSUES LIST

RF1. If the OEB grants the Applicants' request for approval of the amalgamation and deferral of rebasing, what should be the features of a Price Cap IR mechanism during the deferral period, including?

a. What is the appropriate inflation factor [I]?
b. What is the appropriate productivity factor [X]?
c. Should a stretch factor apply and if so, what is the appropriate stretch factor?
d. Should there be pass through (Y factor) treatment for costs such as:
   i. Gas commodity and upstream transportation costs?
   ii. Demand side management (DSM) costs?
   iii. A lost revenue adjustment mechanism (LRAM)?
   iv. Cap-and-trade costs?
   v. Changes to normalized average consumption/average use?
e. Should there be a Z factor, and if so what are the appropriate parameters and materiality threshold?
f. Should there be an earnings sharing mechanism and if so what are the appropriate parameters?
g. Is the proposal for calculating the cost recovery treatment of qualifying capital investments consistent with the OEB's policy for Incremental Capital Modules, and if not are any deviations appropriate?

REF: B1, TAB 1, pg. 20-21, Table 3

Preamble: We would like to understand better how the figures in Table 3 were developed.

11) Please provide all working sheets that contributed to the aggregated numbers in Table 3.
   a. Please include all assumptions for both the amalgamated company and the

separate utilities.

b. Please describe how the costs were rebased for each utility for 2019?
c. What stretch or productivity factors were assumed for each utility in calculating the costs for the individual utilities over the ten year period?
   i. What were the assumptions and methodology behind those figures?
d. Please explain why starting in 2023, the costs for the amalgamated company increase more than the two separate companies for each of the last 6 years.
   i. What drives that effect?

REF: EB-2017-0306 B1, TAB 1, pg. 32

Preamble: *"While a detailed analysis of options is required, the estimated cost efficiencies are based on integrating Union and EGD into a Maximo software system. Management estimates that a potential range of implementation costs could be between $30 million for data and business process migration to $85 million for full implementation. The estimate for migrating Union processes and data into Maximo is approximately $50 million."*

We would like to understand better how these broad estimates were made and how EGD's prior experience was incorporated into the estimates.

12) Please provide all estimates received from the software vendor supporting the estimates.
   a. If estimates were not received, what was relied upon for these estimates.
   b. What was the cost for Enbridge's implementation and migration excluding the software?
   c. How was that source estimate adjusted for Enbridge's prior experience?

REF: EB-2017-0306 B1, TAB 1, pg. 33 and Attachment 4

Preamble: *"The Enbridge corporate office functions began to integrate and optimize at the close of the Enbridge Inc. and Spectra Energy merger in Q1, 2017. Initiatives to align these functions across the enterprise are ongoing and are part of the overall corporate merger integration and not managed directly by the Applicants. There are, however, a number of shared services such as Finance, Law, Human Resources, Information Technology, Supply Chain Management, Real Estate Services, Government Relations and Enterprise Safety & Operational Reliability that are resident at EGD and Union, which provide utility-specific shared services.*
The utility specific shared services rely on several smaller systems and software. The initial review has identified applications such as utility billing financial analysis, IT service requests and real estate services as potential integration opportunities."

13) For each of 2016 and 2017, for each of Enbridge Inc. and Spectra, please provide the actual costs for the corporate office functions.

a. Please provide the annual apportionment to the each of the respective utilities.
b. Please provide a forecast of all of the above costs for 2019.

14) For each of 2016 and 2017 and for each of EGD and UGL, please provide the actual costs for each of the identified shared services.

a. Please provide the annual apportionment to each of the respective corporate parents including those listed in Attachment 4.

b. Please provide a forecast of all of the above costs for 2019.

REF: EB-2017-0307, Exhibit B, Tab 1, Page 3

Preamble: *"As the Applicants are not part of this annual Board process, this Application proposes an inflation factor and productivity factor that are modelled on Price Cap IR."*

Union Gas has been under a price cap with an inflation adjustment factor which has been used as a productivity factor. With that productivity factor limiting inflationary rate increases, we would like to understand how Union has performed financially relative to the Board approved return on equity.

15) Using the actual inflation rate incorporated into the establishment of annual rates, for each of the IR years, in tabular fashion, please provide:
a. The inflation factor approved by the Board for rates
b. The effective productivity factor for each of the years of 2014 to 2017 (i.e., 60% of the inflation determined for that year).
c. The Board-approved percentage rate of return on equity
d. The actual percentage rate of return on equity

Preamble: While EGD was under price cap, its custom IR methodology, that methodology was based on embedded productivity between forecasted costs and those applied for. Ultimately, the Board approved different costs.

16) Using the difference between the forecasted costs in EGD's EB-2012-0459 application for each of the first 3 years and the resulting Board-approved costs, please provide:
a. The inflation factor which represents the forecasted cost increases for each year of forecasted costs between 2014-2016.
b. The effective inflation factor determined using Board-approved costs for rates
c. The effective productivity factor for each of the years of 2014 to 2016 (i.e., the difference between the forecasted inflation (a.) and approved inflation (b).)
d. The Board-approved percentage rate of return on equity
e. The actual percentage rate of return on equity

REF: EB-2017-0307, Exhibit B, Tab 1, Page 3

Preamble: *"The Applicants propose a materiality threshold of $1.0 million, which is consistent with the threshold for electric distributors".*

We would like to understand better the requested reduction in materiality threshold if a Z-factor were part of the ratemaking construct.

17) For each utility, please provide their current Board-approved materiality threshold and what percentage that threshold represents relative to the currently approved revenue requirement for that utility in 2018.
    a. Beyond, consistency with the threshold for electric distributors, what principled reasons support this reduction in materiality threshold from the existing levels?

REF: EB-2017-0307, Exhibit B, Tab 1, Page 9

Preamble: *"Further, over the deferred rebasing period Amalco expects to experience increasing cost pressures, such as line locates, potential stricter pipeline safety regulations, increased municipal infrastructure activity that impacts natural gas infrastructure (e.g. roads, bridges, etc.) and depreciation increases even when managing maintenance capital expenditures to the level of depreciation."*

We would like to understand better how these cost pressures are different from those experienced in the past.

18) In tabular fashion, please provide:
    a. The number of locates performed annually by each utility between 2013 to 2017
    b. The annual actual costs associated with provision of those locates
    c. What productivity improvements has each utility put in place over the recent IRM period and which year were they implemented

REF: EB-2017-0307, Exhibit B, Tab 1, Page 9 and EB-2017-0102

Preamble: *"<u>Normalized Average Consumption/Average Use Adjustment</u> The Applicants are proposing to continue to adjust rates annually to reflect the declining trend in use."*

We would like to understand better the differences in the respective average adjustment methodologies and Amalco's proposed approach upon merger.

19) Please describe the differences between the two utilities NAC methodologies.
    a. In the view of the utilities, what are the pros and cons of each?
    b. Is it expected that the current methodology would stay in place for the respective franchise areas? If so, why?
    c. If not, which is proposed. Please provide the supporting rationale.

20) For EGD's establishment of rates and AUTVA true-up, please provide:
    a. The revenue classifications used to establish baseload for general rate
    b. The monthly budget baseload use per unlocked meter for each classifications
    c. How does Enbridge explain the incremental baseload for these classes in the heating season? Please provide a comprehensive explanation including tests run to ensure that the budgeted baseload is in fact baseload for these revenue classifications.

REF: EB-2017-0307, Exhibit B, Tab 1, Pages 9 and 12

Preamble: *"Further, over the deferred rebasing period Amalco expects to experience increasing cost pressures, such as line locates, potential stricter pipeline safety regulations, increased municipal infrastructure activity that impacts natural gas infrastructure (e.g. roads, bridges, etc.) and depreciation increases even when managing maintenance capital expenditures to the level of depreciation.* ***In addition, economists currently believe the Canadian economy will be exposed to increasing interest rates over the next decade".*** **(emphasis added).**

And

"Over the deferred rebasing period there is the potential for changes which could impact Amalco that would be outside of the direct control of management. As indicated above, interest rates are poised to increase. If there is a material impact on Amalco's ability to earn its allowed ROE, Amalco may address this through an application to the Board."

We would like to understand better Amalco's proposal for handling interest rate risk.

21) Is Amalco using interest rate risk to support a deferred re-basing period or is it proposing rate risk as a Z-factor?
    a. If the latter, is Amalco proposing a $1M threshold as noted earlier?
    b. If not, what is the proposed threshold or criteria to qualify for Z-factor?
    c. Given the answers above, if interest rate risk is eligible for Z-factor protection, how does it contribute to the need for a 10-yr deferred rebasing. Please explain fully.

REF: EB-2017-0307, Exhibit B, Tab 1, Page 12

Preamble: "*The Consolidation Handbook provides the ICM option for funding incremental capital investments during the deferred rebasing period. Capital projects related to the amalgamation will be funded and managed by Amalco as an integral part of supporting achievement of synergies through the deferred rebasing period*"

We would like to understand better how Amalco proposes to reduce systemic cross-subsidization.

22) How will capital overheads and other General Allocations be adjusted to ensure that the fully-loaded cost of capital related to the amalgamation is not being cross-subsidized by capital applied for through an ICM?
   a. Please explain fully.
   b. Please provide a sample numeric illustration.

REF: EB-2017-0307, Exhibit B, Tab 1, Page 24

Preamble: "*Relocations Mains Variance Account and Replacement Mains Variance Account - EGD's accounts will not continue at the expiry of the term of the custom incentive regulation period. Costs related to capital expenditures will be managed under the Price Cap through the d*

23) What is the budgeted amount currently embedded in rates for each utility?
   a. Please provide the actual annual expenditures for each utility for each year since 2013.

RF2. How should the framework address the four objectives in the Renewed Regulatory Framework of customer focus, operational effectiveness, public policy responsiveness and financial performance?

Preamble: In early 2017, Union generated a customer engagement workbook for which one of the outcomes sought was stated as "*Union Gas must submit a business plan that focuses on the cost effective delivery of outcomes that matter to customers. What are the outcomes that you care about?*"

We would like to understand better the investment and outcomes of Union's initiative.

24) Please provide the following information on the outcomes of this initiative:
   a. The total cost of developing and implementing this initiative
   b. The number of customers that completed the workbook
   c. The top five outcomes that were identified and what Union has planned and/or implemented as a result.

RF3. What changes to rates, regulated services, cost allocation or rate design should be permitted or required during the deferred rebasing period and what process should be required for such changes to be made?

REF: EB-2017-0307, Exhibit B, Tab 1, Page 29

Preamble: *"For purposes of applying the rate setting mechanism in an annual rate application, Amalco will use approved regulated service offerings, cost allocation methodologies and rate design during the deferred rebasing period."*

And EB-2014-0261, Exhibit A, Tab 10, Page 5, Table 10-1

And EB-2013-0074, Section 10, Page 7

"Adding the rate base and operating costs associated with the Project as Dawn-Parkway transmission costs to the 2013 Board-approved cost allocation study results in the re-allocation of cost components that are functionalized based on rate base and O&M. As a result of the additional transmission rate base and operating costs associated with the Project, indirect costs (general plant, administrative and general expenses, and general operations and engineering costs), and taxes (income taxes, deferred taxes and property taxes) are re-allocated from distribution, storage and other transmission-related functional classifications to the Dawn-Parkway functional classification. The shift in indirect costs to the Dawn-Parkway functional classification is approximately $3.3 million, as provided at Schedule 10-2, column (f)."

We would like to understand better how these methodologies could have impact given the potential of the two utilities becoming one. In the reference to the facilities build application, EB-2014-0261, reference, Union outlines the impact of the build on in-franchise and ex-franchise Dawn-Parkway Distance Weighted Demands. The EB-2013-0074 reference outlines the re-allocation of distribution, storage and other transmission-related functional classifications and the resulting shift in indirect costs.

25) Using the Board-approved methodologies updated for additional Dawn-Parkway builds until 2017, please:
    a. Update a Table comparable to Table 10-1 that provides the 2019 Dawn-Parkway distance weighted demands separating Union North, Union South and Ex-franchise but separating Enbridge demands as a separate column for which distance weighted demands are allocated to the capacity requirements under-pinned by current contacts in place for Enbridge.
    b. Please show two versions of the above table with one showing Enbridge as ex-franchise and one showing Enbridge as in-franchise treated similarly to Union North.

c. Please provide the resulting rates projected for all rate classes (Union South, North and Enbridge) given the different treatments (Enbridge as in-franchise and Enbridge as ex-franchise) keeping all other proposed parameters and methodologies constant and, if needed, assuming 2% inflation.

To be clear, we are seeking an understanding of the impact on rates with Enbridge territory being deemed in-franchise and treated similarly to Union North from a distance weighted demand basis and attracting cost allocations aligned with Board-approved approaches to Union North.