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March 9, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2017-0306/0307 - Interrogatories of London Property Management Association

Please find attached the interrogatories of the London Property Management Association in the above noted proceeding.

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

c.c. Vanessa Innis (Union Gas)
EGD Regulatory Proceedings (Enbridge Gas Distribution)

EB-2017-0306
EB-2017-0307

Enbridge Gas Distribution Inc. and Union Gas Limited Application for Amalgamation and Rate-Setting Mechanism

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INTERROGATORIES
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

March 9, 2018

MAADs APPLICATION ISSUES LIST

Note - References in the following interrogatories related to the MAADs application are from EB-2017-0306, unless otherwise noted.

"NO HARM" TEST

1. **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?**

Interrogatory #1

Ref: Exhibit B, Tab 1, pages 3-4

The evidence indicates that the application was guided by the OEB's Handbook to Electricity Distributor and Transmitter Consolidations ("Consolidation Handbook").

a) Did Union and/or EGD consult with the Board or Board Staff about the applicability of the Consolidation Handbook to their proposed merger?

b) If yes, please provide all written documentation related to this consultation and the date of any meetings between the Board and/or Board Staff and the utilities.

c) If no, why did the utilities not seek guidance from the Board?

Interrogatory #2

Ref: Exhibit B, Tab 1, page 4

a) Please provide the utilities definition of the "no harm test".

b) In the opinion of the utilities, does the no harm test deal with potential impacts on rates of one or both of the merging utilities?

c) The applicants have provided an estimated cumulative benefit to customers of amalgamation of $410 million over the proposed ten-year deferral period. How does this figure relate to the no harm test?

2. **Have the applicants met the test?**

Interrogatory #3

Ref: Exhibit B, Tab 1, pages 18-19

a) For each of the statutory objectives shown, please indicate how the proposed amalgamation impacts the objective.

b) For each of the statutory objectives show, please indicate how they would be impacted if the amalgamation did not take place.

Interrogatory #4

Ref: Exhibit B, Tab 1, pages 20-23

a) Please provide the revenue requirement for each of the years shown in Table 3 for each of Union, EGD and Amalco, broken down into its major components – OM&A, cost of debt, return on equity, depreciation, income taxes and other (if applicable).

b) Please provide all the assumptions used in calculating the revenue requirement figures shown in Table 3 for each year shown for each of Union, EGD and Amalco.

c) Please provide the current projections for the revenue requirement for 2018 for each of Union and EGD broken down in the same level of detail as requested in part (a) above.

d) Please provide a breakdown of the forecasted ratepayer benefits for each of the years shown in Table 3 between Union and EGD.

e) Do the figures for Union and EGD reflect any reductions in OM&A or capital costs resulting from the utilities operating as affiliates? If not, why not? If yes, please indicate the amount of savings included in each year.

Interrogatory #5

Ref: Exhibit B, Tab 1, page 21

a) Custom IR frameworks can take many forms. Please provide the form of the Custom IR that would be proposed by each of Union and EGD in the absence of the amalgamation. Please fully explain all assumption used in the specific Custom IR frameworks.

b) Do the Custom IR frameworks for the 2020 to 2024 and 2026 to 2028 periods include a price cap mechanism for the non-rebasing years?

c) If yes, are the I and X factors the same as those for Amalco for each of the relevant years? If not, please explain fully.

d) Please provide the asset management plans referenced in the evidenced and used in the determination of the revenue requirements in Table 3.

Interrogatory #6

Ref: Exhibit B, Tab 1, page 22

a) Please provide a version of Table 3 if the inflation rate used is 2.5% in place of the 1.73% used.

b) Did Union and EGD do any sensitivity analysis with respect to the projected $410 million in cumulative ratepayer savings? If yes, please provide details. If no, please explain why not.

Interrogatory #7

Ref: Exhibit B, Tab 1, pages 23-24

With respect to the potential risks to be faced by Amalco noted on pages 23 and 24 (interest rates, government policy, lower carbon economy, etc.), please explain how these risks are different than they would be for Union and/or EGD in the absence of the amalgamation.

Interrogatory #8

Ref: Exhibit B, Tab 1, page 24

When available, please provide the 2017 financial statements for EGD and the 2017 annual report for Union.

REBASING DEFERRAL

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

Interrogatory #9

Ref: Exhibit B, Tab 1, page 2

The evidence states that both utilities have limited individual opportunities to continue to deliver similar benefits (as those delivered by both utilities under their current and past incentive regulation frameworks) under a new five-year IR framework for rates. The evidence then states that the requested deferred rebasing period will allow the integrated utility to tackle larger, more complex system and processes, including Customer Care and Work Management Systems.

a) For each of Union and EGD, please provide a summary of the changes and improvements that were made to customer care and work management systems over the past 15 years under their respective IR frameworks.

b) What further improvements are Union and EGD expecting to make to customer care and work management systems under the IR framework going forward and explain in detail why a 10 year deferral period is needed to achieve this improvements.

4. **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?**

Interrogatory #10

Ref: Exhibit B, Tab 1, page 3

EGD and Union have been under common ownership for more than 1 year.

a) What savings have been achieved since the utilities have been under common ownership?

b) The utilities are proposing to merge effective January 1, 2019. Please explain why the merger was not contemplated for some time in 2018.

Interrogatory #11

Ref: Exhibit B, Tab 1, Table 3 & 4

Table 4 shows the potential minimum and maximum increase in capital investment and the decrease in O&M.

a) Please confirm that the O&M savings and the increase in the capital expenditures would be included in the revenue requirement each year as shown in Table 3 on the Amalco line. If this cannot be confirmed, please explain fully.

b) Table 3 shows a cumulative ratepayer benefit of $410 million. Please add a column to Table 4 that reflects the assumptions related to incremental capital and OM&A savings that result in this level of benefit.

Interrogatory #12

Ref: Exhibit B, Tab 1, page 25, Table 3 & Attachment 12

Attachment 12 shows the projected incremental capital investment and high level estimated O&M savings associated with utility integration for each year in the 2019 through 2028 period.

a) Please explain how the cumulative increase in capital investment of $150 million and the OM&A savings of $680 million in Attachment 12 relate to the $410 million in ratepayer benefits projected by Union in Table 3.

b) Please add two lines to the table in Attachment 12 that shows that increase/decrease in the revenue requirement for each year shown and the cumulative increase/decrease in the revenue requirement for each year shown.

5. **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?**

Interrogatory #13

Ref: EB-2017-0306 & EB-2017-0307

Please provide a comprehensive list of commitments to future action made by the utilities during their respective 2013-2018 incentive rate plans. For each item, please provide a full description of the commitment, along with a reference to where the commitment was made. Please also provide the status of the commitment and the plans to deal with the commitment during the proposed deferral period.

Interrogatory #14

Ref: EB-2017-0306 & EB-2017-0307

Please provide a complete list of other rate setting issues that the utilities believe merit attention now and indicate how and when these issues will be addressed.

IMPACTS OF THE MERGER

6. **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?**

Interrogatory #15

Ref: Exhibit B, Tab 1, pages 10 & 40

The evidence states that Union has 95 BCF of storage space reserved for utility customers at cost-based rates.

a) Please confirm that the 95 BCF is equivalent to 100 PJ of storage.

b) Please explain fully how the merger of Union and EGD will impact the revenues and costs included in Account No. 179-70 Short-Term Storage and Other Balancing Services.

c) In the past Union has sold excess utility space (i.e. 100 PJ od in-franchise utility storage less the in-franchise utility requirement based on Union's gas supply plan) with 90% of the net revenue allocated to Union's ratepayers. How will this be impacted by the merger with EGD over the proposed deferral period?

RATE-SETTING MECHANISM ISSUES LIST

Note - References in the following interrogatories related to the Rate Setting Mechanism application are from EB-2017-0307, unless otherwise noted.

RATE FRAMEWORK:

1. **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?**

Interrogatory #16

Ref: Exhibit B, Tab 1, page 8

a) Please confirm that the use of GDP IPI FDD based on third quarter to second quarter figures from Statistics Canada is not consistent with the period used by the Board to determine the GDP IPI FDD used for electricity distributors.

b) Please confirm that the Board uses the most recent full year of data from Statistics Canada as the GDP IPI FDD figure for the following year. For example, in setting the increase in the GDP IPI FDD for 2019, the Board uses data for 2017.

c) What is the increase in the GDP IPI FDD for 2017 that would be applicable to 2019 if Amalco used the same time frame as used for electricity distributors?

Interrogatory #17

Ref: EB-2017-0306, Exhibit B, Tab 1, page 3

The evidence states that amalgamation allows for greater operating efficiencies, including potential economies of scale as well as continuous improvement through best practices.

Please explain how the greater operating efficiencies, economies of scale and continuous improvement have been reflected in the proposed productivity factor.

Interrogatory #18

Ref: Exhibit B, Tab 1, pages 8-9

Please provide a table for each of EGD and Union for the 2013 through 2017 period that shows the approved ROE embedded in rates, the actual ROE, the normalized ROE and the effective X factor included in the respective incentive mechanisms.

Interrogatory #19

Ref: Exhibit B, Tab 1, page 10

The evidence states that the applicants are proposing to adjust rates annually to reflect the declining trend in use.

a) Please confirm that this reference is specific to the general use rate classes.

b) For each of the rate classes to which this statement applies, please provide a table that shows for the period 2008 through 2017 the normalized average use per customer based on the forecast normal degrees for each year.

c) For each of the rate classes to which this statement applies, please provide a table that shows for the period 2008 through 2017 the normalized average use per customer where the normalization for each year is based on the forecasted normal 2017 degree days.

d) Please explain what risks, if any, are faced by the applicants if there were no normalized average consumption/average use adjustments made, assuming the re-instatement of an LRAM for the general service rate classes.

Interrogatory #20

Ref: Exhibit B, Tab 1, pages 11-12

a) What is the current materiality threshold for Z factor purposes for each of EGD and Union?

b) Please explain why increasing interest rates would be considered a Z factor event given that the price of capital impact would be included in the GDP IPP FDD?

c) Did either of the utilities consider falling interest rates over the last 15 years of incentive regulation to be Z factor events? If not, why not?

d) Do the applicants believe they should be eligible for Z factors if they are over earning as a result of efficiencies gained through the merger that are not yet being shared with ratepayers? Please explain fully why ratepayers should be expected to pay more for unexpected changes when they do not benefit from unexpected increases in savings due to the merger.

Interrogatory #21

Ref: Exhibit B, Tab 1, pages 12-16

a) Please expand Table 1 to show the threshold percentages and values for each of EGD and Union for 2020 through 2028 assuming that the price cap index remains at 1.73% and the growth figure remains at 0.93% in each of the years.

b) Based on the most recent Asset Management Plans for each of EGD and Union, please provide the forecasted capital expenditures for each utility for each of 2019 through 2028.

Interrogatory #22

Ref: Exhibit B, Tab 1, pages 12-16

a) Please show the calculation of the growth factor of 0.93% for each of Union and EGD, showing all calculations and assumptions used.

b) Please explain why the growth factor is the same for Union and EGD.

Interrogatory #23

Ref: Exhibit B, Tab 1, pages 12-16

For each of Union and EGD, please calculate the threshold percentage and value for each of 2014 through 2018 and then compare the threshold value to the actual capital expenditures in those years. For 2018, please use the forecasted level of capital expenditures.

Interrogatory #24

Ref: Exhibit B, Tab 1, pages 12-16

The evidence indicates that the applicants will be requesting approval of a rate adjustment to fund forecast incremental capital projects that qualify for ICM.

a) Will there be a true-up to reflect that each year the amount recovered through an ICM rate adjustment is not likely to equal the forecast due to variances in consumption levels and that the revenue requirement impacts of the ICM are likely to vary from that forecast? Please explain fully how all variances would be treated on a yearly basis and on a cumulative basis from one year to another.

b) Given that Union's existing capital pass-through mechanism is consistent with the Board's ICM, why are the applicants not proposing to continue to use this capital pass-through mechanism?

c) Does Union's existing pass-through mechanism reflect a revenue requirement to be recovered based on the last Board approved cost of capital parameters or on updated cost of capital figures? Please explain fully.

d) Under Union's existing pass-through mechanism, is Union guaranteed recovery of the revenue requirement that arises from actual costs, or is the recovered amount subject to fluctuations in revenue due to such drivers as warmer or colder weather? Please explain fully.

Interrogatory #25

Ref: Exhibit B, Tab 1, pages 12-16

a) Please explain why the applicants believe it is appropriate to deviate from the Board's required use of approved cost of capital parameters when calculating the revenue requirement.

b) Are the applicants aware of any change in the use of the approved cost of capital parameters for any electricity distributor that is in a deferred rebasing period as a result of a merger? If so, please provide details.

c) Please confirm that the Board's ICM policy is applied to rebasing deferral periods, regardless of length of the deferral period. If this cannot be confirmed, please explain fully.

Interrogatory #26

Ref: Exhibit B, Tab 1, page 30

Would any changes to accounting policy, such as the calculation of depreciation expense, or a change in depreciation rates, qualify as a Z factor adjustment, assuming it was material, related to the materiality threshold? If not, please explain why not.

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

Interrogatory #27

Ref: Exhibit B, Tab 1, pages 20-22

Are the applicants proposing any penalties for failing to achieve any of the SQRs and/or performance metrics shown? If not, why not?

3. **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?**

Interrogatory #28

Ref: EB-2017-0306, Exhibit B, Tab 1, pages 9-10

At the end of 2016, EGD had approximately 2,100 employees and Union had approximately 2,300 employees.

How many employees did EGD and Union each have at the end of each of 2012, 2013, 2014, 2015 and 2017?

Interrogatory #29

Ref: EB-2017-0306, Exhibit B, Tab 1, Table 1

a) Please update Table 1 to reflect actual data for 2017. If actual data for 2017 is not yet available, please update the table to reflect the most recent projections for 2017.

b) Please update Table 2 to include actual data for 2017. If actual data for 2017 is not yet available, please update the table to reflect the most recent projections for 2017.

4. What should the annual rate adjustment process be?

Interrogatory #30

Ref: Exhibit B, Tab 1, pages 26 & 8

Please confirm that if the Board directed Union to use the same time frame to calculate the GDP IPI FDD as it uses for the electricity sector, the annual rate adjustment application could be filed earlier than September 30.

Interrogatory #31

Ref: Exhibit B, Tab 1, page 26

Is the September filing date noted in the evidence driven by the use of the second quarter over second quarter GDP IPI FDD, which is not available until the end of August, or is there another reason for the September 30 date?

Interrogatory #32

Ref: Exhibit B, Tab 1, page 26

a) Do the applicants envision separate filings for the setting of rates and the disposition of actual year-end non-commodity deferral account balances as is the current practice? If no, please explain.

b) Please list all components that would be included in the application to set rates, such as any Z factors, ICM requests, new regulated services, cost allocation and rate design changes, etc.

Interrogatory #33

Ref: Exhibit B, Tab 1, page 26

The evidence states that if ICM treatment of projects that will not be examined as part of a LTC application, the supporting documentation would be filed earlier than September 30.

a) Would any such request of ICM treatment be part of the annual rate adjustment filing, or a separate application?

b) Would any LTC project that triggers ICM treatment also be filed earlier than September 30?

5. What deferral and variance accounts should continue?

Interrogatory #34

Ref: Exhibit B, Tab 1, Attachment 4

a) Which of the deferral and variance accounts shown in Attachment 4 proposed for continuation would continue to be specific to either the Union or EGD franchise areas?

b) For each of the accounts shown in Attachment 4 which would no longer be specific to a franchise area, please explain the operation and allocation of balances in the account.

6. What deferral and variance accounts should not continue?

Interrogatory #35

Ref: Exhibit B, Tab 1, page 23

Please provide the 2017 actual year end balance and the projected 2018 year end balance for each of the accounts shown that are proposed to be eliminated.

7. What additional deferral and variance accounts are appropriate?

Interrogatory #36

Ref: Exhibit B, Tab 1, page 22

a) Please confirm that the applicants are not proposing any new deferral or variance accounts. If this cannot be confirmed, please explain what new accounts are being proposed.

b) The applicants propose to record any earnings sharing payable to ratepayers be recorded as a liability rather than in a deferral account. Will any such earnings sharing payable to ratepayers attract interest if they are recorded as a liability instead of in a deferral account?

8. **Is the proposed adjustment to reflect the full amortization of Union Gas' accumulated deferred tax balance at the end of 2018 appropriate?**

Interrogatory #37

Ref: Exhibit B, Tab 1, page 16

Union proposes to adjust 2019 rates to reflect the removal of the accumulated deferred tax balance credit to customers.

Please provide a list of all cost reductions that have taken place, or are forecast to take place, over the incentive regulation period of 2013 to 2018 that exceed the proposed materiality threshold of $1 million. Please quantify each of these reductions.

Interrogatory #38

Ref: Exhibit B, Tab 1, page 16

How does Union propose to allocate the increase in the Board-approved revenue of $17.4 million?

9. **Is the proposed adjustment to unwind smoothing of costs related to Enbridge Gas' Customer Information System and customer care forecast costs appropriate?**

Interrogatory #39

Ref: Exhibit B, Tab 1, page 20

How does EGD propose to allocate the $4.9 million decrease in revenues?

10. **Is the proposed adjustment to Enbridge Gas' Pension and OPEB costs appropriate?**

Interrogatory #40

Ref: January 11, 2018 Evidence Addendum

All parties agreed in the EB-2017-0086 Settlement Proposal that EGD would recover the actual amount of its Pension and OPEB costs and related revenue requirement in 2018 through amounts to be recorded in the Post-Retirement True-Up Variance Account ("PTUVA"). As a result of legislative changes, the allowed revenue requirement for 2018 would be $6.5 million higher than currently built into rates. EGD proposes to adjust the 2019 allowed revenue requirement to reflect this change.

a) Is the $6.5 million increase in pension and OPEB costs a final amount, or could the increase fluctuate depending on market conditions, interest rates, etc.? Please explain fully.

b) Rather than incorporating the increase in base rates for 2019, did EGD consider the option of continuing the PTUVA over the 2019 to 2028 period? If not, why not?

c) Please explain the relevance of an allowed revenue requirement or changes to the allowed revenue requirement in 2019 when 2019 is proposed as the first year under a price cap incentive mechanism.

d) How does EGD propose to allocate the increase in costs?

11. **Is the proposed adjustment to reflect the removal of Enbridge Gas' tax deduction associated with the discontinued SRC refund appropriate?**

Interrogatory #41

Ref: January 11, 2018 Evidence Addendum

a) Rather than increasing the allowed revenue requirement over the amount approved in EB-2017-0086, did EGD consider using the change in the tax deduction as a Z factor in the deferred rebasing period? If not, why not?

b) If there are other changes to tax deductions during the deferred rebasing period, would those changes be reflected in rates through a change to an allowed revenue requirement, or through the use of a Z factor? Please explain fully.

c) How does EGD propose to allocate the increase in costs?

OTHER:

12. **Are the provisions of the MAADs Handbook related to harmonization applicable?**

Interrogatory #42

Ref: Exhibit B, Tab 1, page 29

a) Please provide the applicants understanding of the provisions of the MAADs Handbook related to harmonization.

b) Do the applicants have any plan, at this time, to harmonize rates at the end of the deferred rebasing period?

c) Please provide a table that shows, based on current 2018 distribution rates, the revenue collected from the following types of customers: an average M1 residential customer, an average M1 commercial customer, a small M2 customer, a large M2 customer and a small M4 customer in Union South and in the EGD franchise. Please use average volumes based on Union Gas figures for annual consumption in the comparison and indicate the EGD rate that was used for each of the types of customers.

13. How should past OEB directives and utility commitments be addressed?

Interrogatory #43

Ref: Exhibit B, Tab 1, page 31

a) With respect to the Normalized Average Consumption ("NAC") Study, the evidence indicates that changes to NAC would be considered as part of a future rate proceeding. Does this mean that Amalco may bring forward a proposal as part of the annual adjustment process noted on page 26 sometime in the deferred rebasing period?

b) Please explain why Amalco intends to bring forward a proposal to address the cost allocation of the Panhandle System and St. Clair System in its 2019 rates application when the Board has already determined that consideration of any changes to the cost allocation methodology are to be deferred until Union's next cost of service or custom IR application.

14. Is the proposed scorecard appropriate?

Interrogatory #44

Ref: Exhibit B, Tab 1, Attachment 2

Did Union and/or EGD consult with ratepayers or ratepayer representatives on the proposed targets for each of the items under Customer Focus in the proposed scorecard. If not, why not?

15. What reporting should be required during the deferred rebasing period?

Interrogatory #45

Ref: Exhibit B, Tab 1, page 28

a) Are there any differences in the proposed annual reporting proposed by the applicants as compared to the current annual reporting provided by Union under its current incentive mechanism?

b) If the answer to (a) is yes, please explain the differences and provide the reasons for the changes.

c) Would the annual reporting be part of the annual adjustment process noted on page 26, part of the application for the disposition of actual year-end deferral account balances, or a stand alone reporting?

d) Will the Board and intervenors have the opportunity to provide the applicants questions on the annual reporting? If not, please explain why not.

16. **What stakeholder engagement should be required during the deferred rebasing period?**

Interrogatory #46

Ref: Exhibit B, Tab 1, page 27

Given the extensive and rapidly changing business environment that the applicants purport to be subject too over the deferred rebasing period, please explain why annual stakeholder meetings would not be more appropriate, and timely than the proposal to hold stakeholder meetings every other year.