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March 9, 2018

**VIA E-MAIL**

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

Dear Ms. Walli:

**Re: EB-2017-0307 –Enbridge Gas Distribution Inc. and Union Gas Limited –  
Amalgamated Rates Application  
Interrogatories of the Vulnerable Energy Consumers Coalition (VECC)**

Please find enclosed the Notice of Intervention of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

*Mark Garner*

Consultant for VECC

Email copy:  
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**REQUESTOR NAME** VECC  
**TO:** Enbridge Gas Distribution (EGD) &  
Union Gas Limited Union  
**DATE:** December 8, 2017  
**CASE NO:** EB-2017-0306/0307  
**APPLICATION NAME** Amalgamation Application

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## **APPLICATION ISSUES LIST**

### **“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?**

VECC-1

Reference: 306/B/T1/pgs.18-

- a) In the Applicants opinion does the no harm test apply to both in-franchise and ex-franchise customers?
- b) If yes, how have the Applicants determined that the amalgamation will have no detrimental effect on ex-franchise users of storage and transmission services?

VECC-2

Reference: 306/B/T1

- a) In the Applicants opinion does the no-harm test apply to the employees of EGD or Union?
- b) How many employees are expected to be made redundant by the amalgamation?

VECC-3

Reference: 306/B/T1

- a) In the Applicant’s opinion does the no harm test apply to the general community?
- b) How will the amalgamation affect the community of Chatham, Ontario?

VECC-4

Reference: Reference: 306/B/T1

- a) What analysis have the Applicants completed that shows the amalgamation will not have a detrimental impact on the competitive market for gas storage and transmission business in Ontario?

## 2. Have the applicants met the test?

VECC-5

Reference: 306/B/T1/pg.17

- a) Please provide the estimated 2019 transaction costs of the amalgamation.

VECC-6

Reference: 306/B/T1/pg.20

- a) Please provide a Table 3 which shows the actual (approved) revenue requirement from the rate adjustments during the period 2014 through 2018.
- b) Please provide the inflation and customer growth factors used in each year to estimate the 2019 through 2028 increase in the EGD and Union Standalone and Amalco revenue requirements as shown in Table 3.
- c) Please provide the same (inflation and customer growth) on a comparable basis for 2014 through 2018 (that is replicate Table 3 showing the actual results for 2014-2018).

VECC-7

Reference: 306/B/T1/pg.20

- a) We are having difficulty reconciling the revenue requirement figures shown in Table 3 with the revenue requirement shown in prior rate applications. For example, in EB-2017-0086 (Exhibit F1/Tab1/Schedule 1, page 3) it shows an updated forecast total allowed revenue of \$2,982.2M. This figure is an order of magnitude different than Table 3-2019 which shows a figure of \$1,300M. Please explain the difference in these presentations of revenue requirement.

VECC-8

Reference: 306/B/T1/pg.22-25

- a) The Applicants note that the revenue projection in Table 3 includes "*the costs related to incremental capital projects to be passed through to customers using the ICM.*" Please provide the forecast ICM costs that were used to forecast the revenue requirement impacts of ICMs in each year shown in Table 3.
- b) Please explain how these forecasts were derived.
- c) Are any of the ICM forecasts related to the integration of systems and technology to support the amalgamation?

VECC-9

Reference: 306/B/T1/pg. 27-32

- a) How was the year 2024 determined as the year a single customer care (billing system) would be in service?
- b) Please provide a table which shows the customer care capital and (separately) operating costs of Union and (separately) EGD for the period 2014 through 2018.

- c) Please provide the combined estimated customer care costs of Amalco for the following 10 year deferral period.
- d) Please provide the definition (components) of “customer care” costs that are being referred to in response to b and c.

VECC-10

Reference: 306/B1/T1/pg.27

- a) Please explain which utility is currently implementing a new ERP system? Please provide the project details including current capital costs, forecast capital costs to completion, start date etc.
- b) Does the ERP system include financial reporting? If not please explain how the financial reporting systems are being integrated.

VECC-11

Reference: 306/B

- a) Was EGD or Union at any time asked by its parent companies or their subsidiaries to provide an analysis of the financial impact of amalgamation?
- b) If yes, please provide that analysis.

VECC-12

Reference: 306/B/T1/Attachment 12

- a) Please explain how the estimates shown in Attachment 12 were derived.
- b) Specifically, please provide the data which was used to make the estimation and the method of estimating.

## **REBASING DEFERRAL**

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

VECC-13

Reference: 306/B

- a) What would be the financial impact if the Board were to approve a 5 year deferral period with a combined cost of service study being the basis of rates in year 6.

VECC-14

Reference: 306/B/T1/pg.29

- a) In what year are the costs of integration estimated to be equal to the cost of savings from integration?
- b) Other than the following of Board electricity policy why is a 10 year deferred rebasing period is necessary?

**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?**

VECC-15

Reference: 306/B

- a) What analysis have the Applicants done to understand the risk that long-run costs/rates could be higher following the amalgamation?
- b) Please provide the studies which support the theory that large corporate acquisitions/amalgamations provide long-term value or benefits to either customers or shareholders.
- c) Given there is a risks to ratepayers of no measurable long-term value of this transaction please explain why it would be unfair to apply remove any deadband on overearnings and increase the portion of overearnings allocated to ratepayers.

VECC-16

Reference: 306/B1/T1/pg.35

- a) Please explain what operations are undertaken or monitored by the SCADA systems of (a) Union and (b) EGD.
- b) If Union's SCADA operations were to be moved to Edmonton (as is the case for EGD) please explain how the safety and reliability of the Ontario gas storage and transportation infrastructure would be maintained.
- c) Where is the back-up operation located for the EGD SCADA system?

VECC-17

Reference: 306/B/T1/pg.26

- a) Please explain what potential capital investments are contemplated with respect to the cost and savings related to the Management Functions and other category.

**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?**

VECC-18

Reference: Board Decision EB-2017-0087, January 18, 2018, page 8

- a) Please describe Amalco's position as to the future revisiting of cost allocation with respect to the Panhandle reinforcement project

## **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?**

VECC-19

Reference: 301/B/T1/pg.40

- a) Please provide a map showing all exchange meters between Union and EGD.
- b) Please explain how Union's in-franchise customers in the North East Zone contract for transportation differently than EGD's Eastern Region.
- c) Specifically address what Union Dawn-Parkway transportation services are utilized by both Zone/Regions and they are currently priced similarly or differently
- d) Please provide a similar analysis comparing EGD's Niagara Region and customers within Union's South Zone.
- e) Has Union-EGD struck a team to address system operations (e.g. system balancing / storage requirements etc.). If yes, when is this team expected to report to the management of Amalco?

VECC-20

Reference: 306/B/T1

- a) With respect to storage and transportation services please provide a table listing the contracts for these service by Enbridge with Union, their annual value, and their expiration date.
- b) Please provide the percentage of assets contracted to EGD under C1 and M12 as compared to the total available.
- c) Please provide a table showing the current contracts under C1 and M12. If necessary (if necessary for confidentiality please identify contracts other than EGD by an alias).
- d) Please confirm (or correct) that subsequent to amalgamation EGD will no longer be bidding on contracts offered by Union. If this is not correct please explain how Union currently contract/bids (describing fire walls etc.) for Union held competitive storage and transportation services for it's in franchise customers.

VECC-21

Reference: 306/B/T1/ STAR December 2009

- a) Please identify any sections of the Storage and Transportation Access Rule that would require amendment if the Board approves the proposed amalgamation.

VECC-22

Reference: 306/B/T1/ STAR December 2009

- a) For each Utility please provide a snapshot showing most current reporting requirements as required under section 4 of STAR.
- b) Please show how this reporting would differ if Amalco were reporting the information (as opposed to Union and Enbridge).

VECC-23

Reference:306/B

- a) Please explain what changes Amalco will institute to ensure a consistent QRAM filing with the Board if the amalgamation is approved. Specifically address how the combined filing will address difference in the approaches (including reference pricing) of Union and EGD.

*7. If leave is granted, what conditions should be attached?*

**8. What is the status of the Undertakings to the Lieutenant Governor in Council of Ontario?**

VECC-24

Reference: B/T1/pg.17

- a) Please confirm that it is the Applicants' position that Amalco will not be required to have its head office in Chatham Ontario?
- b) If this is correct, please explain what impact to the community of Chatham is expected with the closing of the Union head office. Specifically, what is the expected decline in employment in Chatham due to the head office closing?
- c) If there is an impact what incremental (i.e. not already part of Union's current business plans) steps will Amalco take to reduce the impact of these reductions?

**9. To the extent that the Undertakings are impacted by this application, should any of the provisions of the Undertakings be replaced by a condition of any OEB approval?**

VECC-25

Reference:

- a) Please comment on the extent to which the Applicant's believe the Board has the authority to replace or substitute provisions of the Undertakings made to the Government of Ontario. Specifically what Undertakings might be substituted by provisions of the Board and under what authority?

*10. If so, what should the content of the condition be?*

## **RATE-SETTING MECHANISM ISSUES LIST**

### 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?**

VECC-26

Reference: 307/B/T1/pg.8

- a) Please provide a table which shows the past 10 years (2017 back) a comparison of the annual and year average CPI as compared to GDP IPI FDD inflation indices.

VECC-27

Reference: 307/B/T1/pg. 10

- a) Please explain the rationale for continuation of normalized average consumption/Average use adjustments as Y factors. Specifically given the Applicant's reliance on electricity models of rate making please explain whether an equivalent type of adjustment is used in the electricity sector price cap rates.
- b) Please explain how the elimination of this Y factor proposal (deferral accounts) might impact the proposal of the Applicants price cap adjustment.

VECC-28

Reference: 307/B/T1/pg.4-

- a) Please explain the theoretical basis for applying the same rate adjustment formula to distribution rates as to transmission and storage rates. Specifically address why the same inflation and productivity (X) factors should be used for both types of services



- b) For each Utility what is the proportion of direct and common assigned costs to: (1) transmission, (2) storage, and (3) distribution rates

VECC-29

Reference: 307/B/T1/pg.5 & 307/B/T1/pg.13

- a) With respect to the ICM threshold calculation the Applicants propose to use the depreciation expense last approved by the Board. However, the depreciation expense for Union related projects is more than 5 years old, whereas the EGD is more recent. Please comment on the inconsistency of using the two different thresholds for the two different former utilities once they are amalgamated. Specifically how are customers in the different franchises treated equally under this proposal.
- b) Please explain how the materiality level might change if the Union related projects were required to use an updated depreciation expense.

VECC-30

Reference: 307/B/T1/pg.5 & 307/B/T1/pg.13

- a) Do the Applicants propose to apply the same ICM materiality threshold formula for both its distribution and transmission asset capital projects?
- b) If yes please explain the rationale for that treatment given transmission facilities serve both in and ex-franchise customers. That is why should in-franchise customers be potentially impacted by a project that might only be material in respect to serving ex-franchise customers?
- c) Since transmission facilities serve both in and ex-franchise customers please explain how the cost consequence of an ICM adjustment would be implemented during the proposed deferral period.

VECC-31

Reference: 307/B/T1/pg.5 & 307/B/T1/pg.14, Table 1

- a) Please confirm the Applicants propose to apply the ICM on a pre-consolidation or individual utility basis and not on an amalgamated basis.
- b) If that is correct, please explain why this is more appropriate than applying the ICM threshold formula on the combined basis.
- c) Please recalculate Table 1 to show the threshold on the combined basis
- d) Please provide a retrospective application of the proposed formula on the combined basis to show over the past 5 years which Union/Enbridge projects that have been approved under current rate plan capital pass-through would or would not have been approved if the combined ICM threshold methodology were applied..

VECC-32

Reference: 307/B/T1/pg. 11

- a) What is the threshold value for the proposed Z-factor allowance under the proposed rate plan?
- b) Given that there are uncertainties of both of a positive and negative nature what is the theoretical basis for allowing Z factors which only address incremental costs?
- c) How will amalgamation savings be used to offset or adjust any future Z factor request?

VECC-33

Reference: 307/B2/Makholm NERA Testimony

- a) How many of the 65 utilities used in the study were solely gas distribution utilities?
- b) Please explain why is acceptable to intermix and extrapolate TFP results from the electricity sector to the gas sector.
- c) What is the relationship between TFP and capital expenditures. That is if an industry in a period of extensive capital renewal (say due to similar vintage aging plant), all other things being equal, is one likely to see a rise or decline in the TFP?

**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?**

VECC-34

Reference: 306/B/T1/Attachment 5

- a) Please explain why the Applicants' are unable to meet their commitment to file a benchmarking study.
- b) The Board has stated [T]he *RRFE policy articulates the importance the OEB places on benchmarking. Benchmarking evidence, whether it compares a utility's performance to itself year-over-year, or to other utilities, is a critical input to the OEB's assessment of utility performance*".' (Board Decision EB-2013-0416/EB-2014-0247). Given the Applicants reliance on the electricity rate making framework how is the RRFE requirement for benchmarking addressed in this application?

**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?**

VECC-35

Reference: 307/B/T1/pg. 4-

- a) Please provide a table which compares the rate classes of Union and EGD showing the small, medium and large volume rate class similarities and differences between the two Utilities.
- b) Please provide a table which shows for 2017 on a monthly basis the average bill for a consumer in each Utilities low-volume rate classes. In doing this presentation please use a consistent (same) average monthly for each class (e.g. annualized 2500 m<sup>3</sup>).

VECC-36

Reference: 307/B/T1

Pre-ambble: The purpose of this interrogatory is gain an understanding of how significant might the issue of customers in similar circumstances and adjoining service territories having different rates (from the same utility) during the proposed deferral period. If the Applicants' have a preferred method of addressing this issue please provide this in lieu of responding to the interrogatories below.

- a) In what communities do Union and EGD have a significant number of customers bordering each other?. If possible please provide a map which shows by colour the number of customers (significance) of these border areas.
- b) Have the Applicants' examined these communities to examine whether there are any areas which where customers might be better switched from one Utility's rates/class to the other's? If not is there any intention of doing such a study/examination?

*4. What should the annual rate adjustment process be?*

VECC-37

Reference: 307/B/T1/pg. 10

- a) After amalgamation is it the Applicants' intention to file combined QRAM applications?
- b) Does the Applicant intend to harmonize gas supply planning. If so when is this expected to be completed?
- c) If approved by the Board will Union's storage and transportation assets and contracts be immediately made available to serve all franchise customers of the amalgamated utility? And vis-versa with respect to EGD?

*5. What deferral and variance accounts should continue?*

*6. What deferral and variance accounts should not continue?*

**7. What additional deferral and variance accounts are appropriate?**

VECC-38

Reference: 307/B/T1/pg.

- a) How, in the absence of a deferral account do the Applicants propose to track and report any changes with respect to the proposed adoption of common depreciation and other accounting practices?

VECC-39

Reference: 307/B/T1/Attachment 4/

- a) For each account listed at attachment 4 (Accounts to be continued) please list the year the account was initially established, the current balance, the last date of disposition the expected close date of the account (or ongoing if none) and the reason the account cannot be eliminated as part of the deferred rebasing rate plan.

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

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

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

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

**OTHER:**

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

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

VECC-40

Reference: 307/VECC/T1/pg.31

- a) Please explain why Union is proposing to resile from its commitment to file a study on the appropriateness of continuing the NAC methodology?

VECC-41

Reference: 307/VECC/T1/pg.31 & Attachment 5, pg. 2

- a) Union explains that it intends to address the Panhandle issue in its 2019 rates application. In Attachment 5 it implies that this exercise is being proposed to be deferred until 2029. Please clarify.
- b) At Attachment 5 are listed (subsection 1) a number of cost allocation commitments. Why are these commitments not incorporated into the rate deferral proposal? Why are these cost allocation being deferred and until when. What is the impact of this deferral?
- c) In its Decision EB-2017-0087 the Board stated in part:  
*The OEB is of the view that any change to the existing cost allocation model should be done with the assistance of a comprehensive system-wide full cost allocation study. Cost allocation is a zero sum exercise. A full study ensures that all changes to facilities, operations and use in the transmission system since the development of the previous cost allocation model are recognized across all customer classes. This form of study provides that positive and negative changes in costs throughout the system are accounted for. A finding*

*that current rates are inequitable because of the underlying allocation of costs for one project could introduce other inequalities by an incomplete analysis of the changing cost impacts on customers. Equitable cost causality is only possible with a full study.*

Given the Board's clear and unequivocal statement that it would only entertain "a comprehensive system-wide full cost allocation study" please clarify the nature of the study that Union(Amalco) would intend to provide as part of the proposed rate plan to deal with the various cost outstanding cost allocation issues, including those for the Panhandle project.

#### **14. Is the proposed scorecard appropriate?**

VECC-42

Reference: 307/B/T1/pg.21

- a) Please explain what compressors are being measured for compression reliability.
- b) Please comment on the inclusion in the scorecard of:
  - i. OM&A dollars per customer
  - ii. Billing errors per customer (if not the same as the proposed billing accuracy)

VECC-43

Reference 307/B/T1/pg.21

- a) Please explain how the scorecard aids in developing internal benchmarks on the cost efficiency of delivering distribution service.
- b) Please explain how the proposed metrics are integrated into the rate plan. Specifically address what consequence arises if scorecard metrics decline relative to the year prior.

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

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

**End of document**