

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

MAADs Issues List – Issue No. 1

Question:

Please describe and, to the extent possible, quantify the benefits to the shareholders of Amalco of amalgamation beyond any approved deferral period.

Response

Beyond the 10 year deferred rebasing period, Amalco will continue to have the opportunity to earn returns which ultimately benefit ratepayers through subsequent rebasing. Amalco would be positioned to deliver safe, reliable and cost efficient services to its customers. Further, Amalco would be well positioned to respond to government policy related to new technology and lower emissions.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

MAADs Issues List – Issue No. 1

Reference: Exhibit B, Tab 1, p. 38

Question:

Please describe how Amalco proposes to continue its current level of customer engagement, including engaging with OGVG on behalf of its members and directly with OGVG’s members as appropriate, particularly when the main offices of Amalco are to be maintained in the EGD franchise area?

Response

No detailed integration plan has been developed. Amalco will continue to engage with all of its customers and key stakeholders, including with OGVG on behalf of its members. As indicated at Exhibit B, Tab 1, page 17, Amalco will continue to maintain a significant presence in Chatham-Kent.

Please also see the response to Board Staff Interrogatory #12 found at Exhibit C.STAFF.12

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

MAADs Issues List – Issue No. 1

Reference: Exhibit B, Tab 1, p. 40

Question:

Are there any net benefits to Union’s customers resulting from Union’s contracts with EGD? If so, please describe and quantify those benefits, and explain what will happen to those net benefits once Amalco treats those contracts as having expired.

Response

The revenue from the Limited Balancing Agreement between Union and EGD is captured in the Short-Term Storage and Other Balancing Services deferral account (179-70) of which 90% is credited to the benefit of Union’s in-franchise customers. Please see the response to SEC Interrogatory #2 found at Exhibit C.SEC.2. Balancing will continue post amalgamation pursuant to operating protocols and the Limited Balancing Agreement fees will no longer apply.

The transportation services Union provides to EGD are regulated at cost-of-service rates. Please see the response to SEC Interrogatory #2 found at Exhibit C.SEC.2. The benefit to Union’s in-franchise customers is a Dawn-Parkway transmission system that remains as fully contracted as possible resulting in transportation rates that remain economic for in-franchise and ex-franchise customers. This benefit will continue post amalgamation.

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Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

MAADs Issues List – Issue No. 1

Reference: Exhibit B, Tab 1, p. 40

Preamble:

Internal processes will be developed to maintain the fairness and confidentiality of the bidding process used for Amalco procurement of storage services either from third parties or from the unregulated assets of Amalco.

Question:

Please confirm that the noted passages describes a process wherein Amalco will, possibly, bid for storage services from itself? If confirmed please explain under what circumstances this could arise and how it would work.

Response:

Just as EGD receives storage services from Union today, which contracts are listed, described and provided in response to SEC Interrogatory#2 found at Exhibit C.SEC.2, Amalco will continue to require purchased market based storage services post-amalgamation in addition to the 91.3 BCF (99.4 PJ) of EGD cost based utility storage. Amalco will look at storage and storage alternatives available in the competitive market to secure this additional capacity. Amalco is one of the parties that can provide storage services in the competitive market. To ensure an unbiased storage procurement process, Gas Supply personnel will conduct a blind request for proposal (“RFP”) through an independent third party for storage capacity. EGD has recently utilized this process to secure storage services with Deloitte and Touche acting as the independent third party.

The independent third party communicates with RFP participants and completes an objective matrix of criteria for evaluating RFP responses. The results will be presented to Gas Supply without bidder identification and in a manner consistent with the evaluation matrix. This will allow for evaluation and selection of the most appropriate storage services on the basis of the object criteria.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

MAADs Issues List – Issue No. 1

Reference: Exhibit B, Tab 1, p. 41

Preamble:

EGD and Union also have existing contracts in place that address operating requirements where existing systems interconnect, and contracts to address shared storage assets. Amalco will develop operating procedures as required to replace operating agreements and ensure a consistent level of reliable service. Any costs related to operating services or shared storage assets will be managed as part of Amalco’s overall operating expenses consistent with the current treatment of those costs, resulting in no harm to ratepayers.

Question:

Are there profits embedded in any of the contracts referred to in the cited passage? If so, would Amalco strip the profit from those contracts upon amalgamation, since it would be providing services to itself, or is Amalco proposing to continue to build in a profit for such services and recover that profit from customers? If Amalco proposes to continue to build in a profit for such services, please explain the basis for the profit calculation.

Response:

All of the operating contracts referenced in the cited passage are listed, described and provided in the response to SEC Interrogatory #2 found at Exhibit C.SEC.2. The values associated with these operating contracts are set out and where values are “N/A”, the contracts do not involve any fees or charges.

Contracts that are for regulated services are cost based and will continue to be charged at cost to EGD customers. The regulated service contracts include a regulated return on investment.

The joint storage development contracts listed in the response to SEC Interrogatory #2 found at Exhibit C.SEC.2 are services provided to Union by EGD pursuant to EGD’s Rate 325 and such services will continue to be provided for Union South and Union North zone customers post-amalgamation under similar cost based parameters. Costs will be allocated pursuant to Rate 325, with legacy EGD’s regulated return calculated pursuant to the approved rate-setting mechanism.

Contracts that are market based will continue to be charged at market to EGD customers. The market based services are priced at rates determined in the competitive market.

The storage-related compression and dehydration service contracts listed in the response to SEC Interrogatory#2 found at Exhibit C.SEC.2 are estimated to cost EGD \$1.8 million annually and those costs will continue to be allocated to EGD zone customers post-amalgamation. Both the compression service and the dehydration services are categorized as unregulated storage services, and as such the revenue would continue to flow to the shareholder as it currently does.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
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MAADs Issues List – Issue No. 3

Reference: Exhibit B, Tab 1, p. 41

Preamble:

The deferred rebasing period of 10 years is necessary to allow Amalco to integrate and have sufficient time to support making the capital and system investments necessary to generate integration synergies across the combined EGD and Union operations.

Question:

The Applicants do not, it appears to OGVG, cite the opportunity to earn a return above the allowed ROE as a result of an extended period of deferred rebasing as a necessary component of the merger. Please confirm that the opportunity to overearn relative to the allowed ROE during an approved period of deferred rebasing is incidental to the Applicant’s proposed 10 year deferral period; if not incidental, please explain why the opportunity to overearn during the deferred rebasing period is an important aspect of the merger proposal.

Response

The Board’s MAADs policy requires the use of a Price Cap mechanism which formulaically sets rates and includes an earnings sharing mechanism which provides customer protection. If the utility is able to find efficiencies, it is provided with the opportunity to earn returns above Board approved ROE. As indicated in the response to FRPO Interrogatory #1, Attachment (slide 23) found at Exhibit C.FRPO.1, Attachment 1, Amalco is not projecting earnings to exceed 20 bps above allowed on average.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
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MAADs Issues List – Issue No. 4

Reference: Exhibit B, Tab 1, p. 22; Exhibit B, Tab 1, Attachment 12, p.1

Preamble:

Customers are better off by \$410 million than they otherwise would have been if the utilities had continued to operate on a stand-alone basis. The estimated integration capital investment from 2019 to 2028 is \$150M. The estimated O&M savings from 2019 to 2028 is \$680M.

Question:

a) Please confirm OGVG’s understanding that based on:

- i) the Applicants’ estimate that ratepayers should save \$410M in rates between 2019 and 2028 as a result of having rates set using the Applicants’ proposed Price Cap Mechanism,
- ii) the estimated merger related capital investment over the 2019 to 2028 period of \$150M, and
- iii) the estimated merger related O&M savings of \$680M over the 2019 to 2028 period,

the Applicants estimate that they will net (\$680M minus \$410M minus the revenue requirement impact of the forecast \$150M in integration capital investment) over the course of the proposed deferral period as a result of the merger of EGD and Union.

- b) Please provide the estimated revenue requirement impact of the forecasted merger related capital investments of \$150M during the 2019 to 2028 period.
 - c) Please break out the estimated \$410M in customer savings between 2019 to 2028 as between EGD customers and Union customers.
 - d) Please provide an estimate of the earnings that would be shared with ratepayers as a result of the estimated OM&A savings in each year of the deferral period and the proposed ESM, broken down by year, assuming that aside from the estimated OM&A savings the Applicants earned the allowed ROE.
-

Response:

a)

Assumptions	million
Estimated O&M savings benefit of amalgamation versus stand-alone utilities Custom IR	\$680
Estimated lower Amalco revenue using Price Cap versus stand-alone utilities Custom IR	\$(410)
Estimated foregone capital investment rev. req. recovery	<u>\$(151)</u>
Total estimated 10 year deferral period net revenue/savings benefit	<u>\$119</u>

The table above summarizes the estimates for which the amalgamated entity is at risk during the deferred rebasing period. The estimates are dependent on the following assumptions:

- i) the Price Cap formula I and X components as proposed are approved by the Board;
- ii) the inflation component to determine the allowed increase in rates each year meets the current projection;
- iii) the Allowed ROE percentage is as forecast; and
- iv) the 10 year deferred rebasing period is approved.

All of these risks are not factored in this net revenue/savings benefit scenario.

- b) The high level estimated revenue requirement of the \$150 million capital investments over the deferred rebasing period is approximately \$151 million.
- c) See the response to LPMA Interrogatory #4 found at Exhibit C.LPMA.4.
- d) Where all of the above assumptions and estimates are realized, as seen within the attachment to the response to FRPO Interrogatory #1 found at Exhibit C.FRPO.1.Attachment 1, Slide 23, the Amalco forecast achieved ROE percentage modestly exceeds the forecast allowed ROE percentage by an annual average of 0.20% over the 10 year period and as a result there is no estimated earnings to be shared.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
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MAADs Issues List – Issue No. 4

Reference: Exhibit B, Tab 1, p. 26; Exhibit B, Tab 1, Attachment 12

Question:

- a) Please confirm that the costs and savings in Attachment 12 represent a forecast within the range of costs and savings set out in Table 4; assuming that is confirmed, please confirm that to the extent that the actual costs and savings vary from the forecast in Attachment 12 that the Applicants propose to absorb any additional costs and retain any additional savings within any approved deferral period.

Response:

The costs and savings shown in Attachment 12 represent a high level forecast within the range of those set out in Table 4. As explained in the response to OGVG Interrogatory #6 found at Exhibit C.OGVG.6, Amalco is at risk during the deferred rebasing period of being able to achieve all integration investment cost requirements and possible savings, both from an overage and underage perspective, while its customers enjoy stable and predictable rates under an incentive regulation price cap mechanism.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

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MAADs Issues List – Issue No. 4

Reference: Exhibit B, Tab 1, p. 25-37

Question:

Please explain which of the proposed areas of savings could be pursued (jointly) by EGD and Union as affiliates, and which of the proposed areas of savings cannot be pursued except as a single amalgamated entity as proposed.

Response:

EGD and Union are pursuing an amalgamation under the Board’s MAADs framework. Please see the response to BOMA Interrogatory #16(d) part (i) found at Exhibit C.BOMA.16, for the high level integration planning assumptions. The high level estimates assume amalgamation and the Applicants have not considered areas of savings assuming no amalgamation.

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Rate Setting Issues List – Issue No. 1

Reference: Exhibit B, Tab 1, p. 12

Preamble: *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.*

Question:

Please confirm that the Applicants propose to exclude integration related capital investments from ICM treatment. Assuming that is confirmed, please also confirm that integration related capital investments will not be considered when calculating the threshold amounts for ICM applications. If not confirmed please explain why it would be appropriate for the Applicants to be able to recover the incremental revenue requirement impact of integration related capital investments while at the same time retaining the related savings during any deferral period.

Response:

Both confirmed. Please also see the response to Board Staff Interrogatory #24 found at Exhibit C.STAFF.24.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Greenhouse Vegetable Growers (“OGVG”)

Rate Setting Issues List – Issue No. 1

Question:

Please summarize the total earnings sharing amounts that accrued to the benefit of ratepayers in each year from 2008 to the present for each of Union and EGD; in doing so please indicate the total amount of earnings in excess of the allowed ROE in the year, the threshold for sharing that applied, and the ratio of sharing that applied.

Response

The tables below summarize EGD and Union utility earnings sharing amounts since 2008. Please note that 2013 rates were set under cost of service, and as a result there was no earnings sharing mechanism in place. Please also note that 2017 results are preliminary and have not been filed with or approved by the Board.

EGD Earning Sharing Results

<u>Year</u>	<u>Ratepayer Share of ESM (\$Millions)</u>	<u>Gross Normalized Over Earnings (Above Allowed ROE + Threshold) (\$Millions)</u>	<u>Allowed ROE %</u>	<u>Threshold / Deadband %</u>	<u>Ratepayer / Shareholder Sharing Ratio %</u>	<u>ESM / Deferral Clearance Proceeding</u>
2008	5.60	11.20	8.66%	1.00%	50%/50%	EB-2009-0055
2009	19.30	38.60	8.31%	1.00%	50%/50%	EB-2010-0042
2010	17.35	34.70	8.37%	1.00%	50%/50%	EB-2011-0008
2011	14.30	28.60	7.94%	1.00%	50%/50%	EB-2012-0055
2012	7.39	14.80	7.52%	1.00%	50%/50%	EB-2013-0046
2013	-	31.20	8.93% N/A		N/A	No ESM
2014	12.65	25.30	9.36%	0.00%	50%/50%	EB-2015-0122
2015	6.45	12.90	9.30%	0.00%	50%/50%	EB-2016-0142
2016	3.40	6.80	9.19%	0.00%	50%/50%	EB-2017-0102
2017	23.55	47.10	8.78%	0.00%	50%/50%	Preliminary result

Union Earning Sharing Results

<u>Year</u>	<u>Ratepayer Share of ESM (\$Millions)</u>	<u>Gross Over Earnings (Above Allowed ROE + Threshold) (\$Millions)</u>	<u>Allowed ROE %</u>	<u>Threshold / Deadband %</u>	<u>Ratepayer / Shareholder Sharing Ratio %</u>	<u>ESM / Deferral Clearance Proceeding</u>
2008	34.17	46.03	8.81%	2.00%	90%/10%	EB-2009-0101
2009	7.40	14.79	8.47%	2.00%	50%/50%	EB-2010-0039
2010	3.43	6.87	8.54%	2.00%	50%/50%	EB-2011-0038
2011	2.54	5.08	8.10%	2.00%	50%/50%	EB-2012-0087
2012	15.13	24.97	7.67%	2.00%	90%/10%	EB-2013-0109
2013	-	32.20	8.93%	N/A	N/A	No ESM
2014	7.42	14.85	8.93%	1.00%	50%/50%	EB-2015-0010
2015	-	-	8.93%	1.00%	N/A	EB-2016-0118
2016	-	-	8.93%	1.00%	N/A	EB-2017-0091
2017	-	-	8.93%	1.00%	N/A	Preliminary results