ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

MAADs

Reference: (Ex. B/T1/p. 4)

Question:

The evidence states that the proposed amalgamation meets the no harm test and would have a positive effect on the attainment of the OEB's policy objectives. In financial terms, the Applicants estimate the cumulative benefit to customers of amalgamation to be $410 million over the deferred rebasing period.

a) Please explain how the amalgamation, and the proposal for a 10-year deferred rebasing period meets the no harm test.
b) What is the expected cumulative benefit to Enbridge Inc. over the deferred rebasing period?
c) Please explain how the $410 million was derived and how that is allocated between Union and EGD customers. Please include all assumptions. Under the Applicants' proposal how is that benefit allocated among the customer classes?

Response

a) The no harm test considers whether or not the transaction has an adverse effect on meeting the Board's statutory objectives. EGD and Union firmly believe that the amalgamation and the ten year deferred rebasing period meets the no harm test and that customers will benefit from the amalgamation. The following section addresses how these Board objectives are met:

Customer prices are protected (lower) by amalgamating:

As outlined in the pre-filed evidence section 4.3 of EB-2017-0306, customers will pay $410 million less over ten years where Union and EGD are amalgamated versus continuing to operate as standalone utilities.

In addition to paying less over the ten year deferred rebasing period, customers will also maintain their current rate zones over the ten year period. Maintaining the current customer rate zones ensures that customers are experiencing no harm.

Customers are also protected where bill impacts could potentially be reduced as they are eligible to share any benefit from the proposed earnings sharing mechanism.

Over the ten year deferred rebasing period, customer prices will not be adversely affected by the utility integration. Customers will not pay for any of the potential $50 million to $250 million of capital investments necessary to integrate the two utilities. This is an investment of the shareholders, at the shareholder's risk.

Customers will have bill stability and bill increases that are at or near inflation over the ten years as a result of the utility operating under a price cap where inflation is the annual revenue escalator.

Customers will also benefit from the cumulative impact of efficiencies and synergy savings through rebasing at the end of the ten year deferred rebasing period.

<u>Customer interests are protected by maintaining quality, safety and reliable delivery of natural gas service:</u>

Customers will not be adversely affected by reduced service levels given the company has committed to the integration of operations field staff being conducted in the later stages of the integration plan. The operations field staff act as the primary agents in maintaining the safety, reliability and delivery of natural gas service.

Customers will benefit from an enhanced quality of interaction with the utility throughout the ten years from the integration of internal processes and systems that directly enhance the customer experience. Customer experience benefits will be achieved by implementing best practices into external websites and internal systems to enhance the customer's access to information.

Customers will gain visibility and transparency into company performance through assessing the company scorecard and participating in the proposed customer engagement process. Customers will be able to provide direct feedback and influence the utility services that they receive.

<u>The utility will continue to rationally expand transmission and distribution systems:</u>

Customers will benefit from the company continuing to adhere to Board policies that ensure the rational expansion of transmission and distribution including OEB's EBO 188, EBO 134 and Community Expansion policies. Over the ten year deferred rebasing period, the current number of 3.7 million customers is expected to increase to approximately 4 million customers and this increase to the customer base is expected through the rational expansion of the distribution system.

The utility will continue to rationally develop and safely operate its gas storage facilities:

Amalco will continue to develop natural gas storage to the benefit of Ontario ratepayers by enhancing liquidity at Dawn as contemplated by the Natural Gas Electricity Interface Review ("NGEIR"). In addition, Amalco will follow the Storage and Transportation Access Rules ("STAR").

The amalgamation of the gas storage facilities into one entity will enable a single asset management process to review the amalgamated entity's storage facilities. This common asset base review can then identify and develop additional storage in accordance with NGEIR following the depth of the market at Dawn,

The utility will promote energy conservation in accordance with polices of the Government of Ontario:

Customers have benefited from each utility's commitment to energy efficiency through Demand Side Management programs. The benefits from DSM programs range from influencing better natural gas burning technology to lowering customers' average use. This will continue and be enhanced by the amalgamation. The integration of the two utility DSM programs will allow Amalco to implement the best of both utilities' current programs and incorporate each utility's best practices in the developing and delivering current and future energy efficiency programs. The combining of the utilities will create a single larger marketing force that will continue the adoption of energy efficiency.

Customers will also benefit from the amalgamation where new low carbon economy initiatives are required. EGD recently filed a Renewable Natural Gas and GeoThermal services application which proposes two services that are cost neutral to existing customers. Under Amalco, these programs will become more prominent and able to be offered to a broader set of regions in Ontario. These programs will displace greenhouse gas emissions and reduce the current customers' cost to purchase cap and trade emissions credits.

The financial viability of the gas industry will be maintained:

Through the amalgamation the financial viability of the gas industry will not be adversely affected. Amalco will continue to operate as a subsidiary of Enbridge Inc. and continue to access the current level of financial and operational support. There will be no incremental financing or debt requirements as a result of the two entities amalgamating.

b) The expected cumulative benefits and associated capital costs of the integration are provided in EB-2017-0306, Exhibit B, Tab 1, Attachment 12.

c) The $410 million represents the cumulative benefits to customers under Amalco compared to stand-alone operations for EGD and Union. This amount is the difference between annual revenue requirement for EGD and Union were they to continue to operate as stand-alone utilities as compared to the proposed revenue as an amalgamated entity operating under a price cap mechanism over the deferred rebasing period. Please see tables 2, 6 and 9 in the response to FRPO Interrogatory #11a), found at Exhibit C.FRPO.11, for a detailed /u calculation of the ratepayer benefit. This benefit will be allocated among the customer classes through lower rates using the existing rate design and cost allocation methodology.