ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Ontario Energy Board Staff ("Staff")

MAADs Issues List – Issue No. 6

Reference: Exhibit B, Tab 1, pp. 40-41

Preamble: The applicants note that Enbridge Gas relies on long-term contracts with Union Gas for transportation and storage services to meet the gas supply requirements of customers in Enbridge Gas' franchise areas. Transportation services are provided at regulated rates and storage services are provided at market rates. The cost consequences of these contracts are passed through to customers in rates.

Despite the fact that the contracts will cease to have effect upon amalgamation, the applicants have stated that they will treat current contractual arrangements as continuing services for the existing term of the pre-amalgamation contracts. After this time, Amalco will evaluate options.

Questions:

a) Please advise whether there are any legal or practical reasons why the pre-amalgamation transportation and storage contracts cannot cease at the time of amalgamation (as opposed to waiting until contract expiry).
b) Please provide rationale supporting the notional treatment by Amalco of Enbridge Gas' legacy in-franchise customers as ex-franchise from a transportation and storage services perspective (at least with respect to the access of Union Gas' assets) after amalgamation.
c) Please provide an estimate (avoiding confidential filing if possible) of the current unit rate differential between pricing the Enbridge Gas storage contracts at market rates and regulated cost of service based rates.
d) Please provide the quantity of Union Gas' storage capacity that would be converted from non-rate regulated to rate regulated to meet the requirements of Enbridge Gas' existing storage contracts with Union Gas (assuming the pre-amalgamation contracts cease to exist and Enbridge Gas' legacy in-franchise customers are treated as in- franchise by Amalco). Please discuss the applicants' position on this type of conversion and advise whether the applicants believes this would be allowable in the context of the Natural Gas Electricity Interface Review (NGEIR) decision.
e) Please confirm that the amounts paid by Enbridge Gas' legacy in-franchise customers to Amalco after amalgamation for unregulated storage services will entirely be to the benefit of Amalco's shareholder (and will not form part of the revenues earned by the regulated company).
f) Please discuss whether the regulated transportation service costs paid by Enbridge Gas' customers to Union Gas under its pre-amalgamation contracts are higher or lower than

they otherwise would be if Enbridge Gas' legacy customers are treated as in- franchise customers by Amalco. Please explain how the revenues received by Union related to the provision of ex-franchise transportation services are treated. Do these revenues operate to offset the costs paid by Union Gas' in-franchise customers? Would an increase to the amount paid by Enbridge Gas' legacy customers for transportation services to Union Gas decrease the rates paid by Union Gas' in-franchise customers?

g) Please advise whether total ratepayer savings (across all of Amalco's in-franchise customers) would be generated if Enbridge Gas' legacy in-franchise customers are treated as in-franchise customers of Amalco with respect to the provision of transportation and storage services. Please provide a high-level estimate of those savings for each year of the proposed deferred rebasing period (broken down as between transportation and storage related savings). Please also show the savings separated as between Union Gas' and Enbridge Gas' legacy in-franchise customers.

h) Please discuss whether, as an adjustment to regulated rate base, revenue requirement, cost allocation and rate design for 2019, Amalco could recalculate its transportation and storage rates for both Union Gas' and Enbridge Gas' legacy customers as necessary to reflect the treatment of all customers as in-franchise (with the conversion of any market- based services currently provided to Enbridge Gas' legacy customers to regulated services).

i) The applicants note that after the pre-amalgamation contracts expire, it will consider its options to replace Enbridge Gas' pre-amalgamation contracts.

   i. Please provide the timing of the expiry for each of Enbridge Gas' existing transportation and storage contracts. Please provide the date on which the final pre-amalgamation contract expires.
   ii. Please advise whether Amalco will consider, after contract expiry, the conversion of a portion of Union Gas' unregulated storage capacity to regulated storage capacity set aside to serve the needs of Enbridge Gas' legacy customers.

Response

a) The contracts will cease upon amalgamation. The EGD zone customer requirement for the capacity of its storage and transportation services currently underpinned by its contracts with Union will continue beyond amalgamation. As discussed in the response to Energy Probe Interrogatory #6 (c) found at Exhibit C.EP.6, Union provides 19.5 PJ of EGD's 26.4 PJ third party storage services and approximately 3 PJ/d of transportation on the Dawn/Parkway System. From a practical perspective, the EGD transportation and storage contracts could not cease at the time of the amalgamation as this capacity is required to service EGD customers. Gas Supply planning requires long lead and planning times to procure adequate storage and transportation services for EGD's needs.

b) Please see response to Energy Probe Interrogatory #7 (a) found at Exhibit.C.EP.7 which confirms that post-amalgamation, EGD shifts from an ex-franchise customer of M12 /u transmission services to an in-franchise area to be served by the merged company's assets. EGD still required the transport and storage capacity that existed pre-amalgamation and that was appropriately contracted pre-amalgamation. Costs for these storage and transportation services will continue to be paid by the EGD rate zone during the deferred re-basing period. Further rationale regarding post-amalgamation treatment of storage services is provided below in part d) and transportation services are addressed in part f).

c) For 2018, EGD has contracted 26.4 PJ of third party storage services. For those services EGD will pay approximately $18.0M which equates to an average cost of $0.68/GJ. An equivalent cost-based rate EGD rate is Rate 325 – Transmission, Compression and Pool Storage. As of January 1 2018, the comparable rate for this service is $0.3484/GJ.

The current rate differential between EGD's contracted third party storage services and equivalent cost-based Rate 325 is $0.3316/GJ.

d) As of April 1, 2018 EGD contracts for 19.5 PJ of storage from Union at market rates. Amalco is not proposing to convert any of this storage space from non-rate regulated storage to rate regulated storage.

In the NGEIR decision (EB-2005-0551) Union's in-franchise customers (Union North and Union South) were allocated access to a maximum of 100 PJ of cost-based storage and EGD's customers' were allocated access to a maximum of 91.3 BCF (99.4 PJ) of cost-based storage. For both Union and EGD, if in-franchise requirements for storage exceeded this capacity, storage or alternatives to storage would need to be purchased or developed in the competitive market to meet in-franchise demand. Therefore, conversion of non-rate regulated storage space to rate regulated storage space would not be consistent with the NGEIR decision, nor would it be consistent with the costs and risks incurred to develop new non-rate regulated storage.

Union and EGD have both invested in non-rate regulated storage development since the NGEIR decision, and in the case of Union, storage was developed prior to the NGEIR decision under market based rate structures. Union and EGD have developed incremental storage capacity at shareholder risk on the basis of market-based rates. A conversion to cost-of-service rates would retroactively undermine the economic construct for these investments and is inconsistent with the NGEIR decision. It would therefore be inappropriate to convert Union's non-rate regulated storage space to rate regulated storage space.

e) Confirmed. The revenue and the risk on the capital invested to provide the storage service will not form part of the regulated company. Costs to provide the storage service will continue to be allocated to the non-rate regulated business.

f) The regulated transportation service demand costs paid by EGD's customers to Union under its pre-amalgamation contracts as an ex-franchise customer are the same as the costs would be if EGD's legacy customers were treated as in-franchise customers by Amalco, assuming that the transportation service requirements by EGD do not change post-amalgamation. Please see the response to FRPO Interrogatory #25 (b) found at Exhibit C.FRPO.25.

The demand revenues received by Union related to the provision of ex-franchise transportation services are treated as revenue in the same manner as the Dawn-Parkway transportation services that are required for Union's in-franchise customers and are set to recover the cost of service.

g- h) Amalco will maintain the existing rate zones (EGD, Union North, and Union South) during the deferred rebasing period and as a result, there will be no EGD or Union ratepayer impacts with respect to the provision of storage and transportation services. Customers will continue to be charged for the services they receive both prior to and post amalgamation. The amalgamation will not change the existing price, quality or reliability of these services for customers. The treatment of EGD zone customers is similar to the treatment of Union North customers when Centra Gas and Union joined together.[1] Following the expiration of the current 2014-2018 rate setting frameworks for Union and EGD, regulated distribution, transmission and storage rates will be set annually using the proposed Price Cap IR mechanism over the deferred rebasing period beginning in 2019.

i) i Please see the response to SEC Interrogatory #2 found at Exhibit C.SEC.2.

ii. See part d) above. Converting a portion of Union's non-rate regulated storage capacity to rate regulated storage capacity to serve the needs of EGD zone customers is not being proposed, and is not consistent with the NGEIR Decision and framework for non rate-regulated storage.

[1] E.B.R.O. 499, Union Gas Settlement Agreement, November 16, 1998, Section G.1.4., pg. 68.