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April 18, 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-2017-0306/307 –Enbridge Gas Distribution Inc. and Union Gas Limited–
Amalgamated Rates Application
PEG/Board Staff Intervenor Evidence Interrogatories of VECC**

Please find enclosed the interrogatories pertaining to the Board Staff sponsored evidence of PEG.

Yours truly,

Mark Garner

Consultant for VECC

Email copy:
Andrew Mandyam – egdregulatoryproceedings@enbridge.com
Mark Kitchen – unionregulatoryproceedings@uniongas.com
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REQUESTOR NAME	**VECC**
TO:	**Board Staff/PEG**
DATE:	**April 18, 2018**
CASE NO:	**EB-2017-0306/0307**
APPLICATION NAME	**Amalgamation Application**

NB:

"PEG Study" refers to the document: IRM Framework for the Proposed Merger of Enbridge and Union Gas, April 11, 2018. Exhibit M1

"Dr. Makholm evidence" refers to Expert Report and Direct Testimony prepared by Jeff D. Makholm, PH.D, National Economic Research Associates Inc. Exhibit B, Tab 2

VECC-1
Reference Exhibit M1, page 3

The following statement is made (referenced) in Dr. Makholm's evidence:

> The AUC made three important determinations regarding the stretch factor that I conclude are reasonable:(1) it does not have a "definitive analytical source" like a TFP growth study, but relies on a regulators' judgment and regulatory precedent; (2) it has no influence by itself on the incentives for regulated companies to reduce costs; and (3) it serves to reflect the "immediate expected increase in productivity growth as companies transition from cost of service regulation to a PBR regime."

a) Does PEG agree that the above statements regarding the stretch factors are reasonable? Does PEG have any qualifications it would make with respect to any of the three factors listed?

VECC-2
Reference:

a) The Applicants have forecast future efficiencies arising out of the proposed amalgamation. In PEG's view how these efficiencies should be incorporated in the PCI rate adjustment formula?

VECC-3
Reference: PEG Study, page 4

a) Please explain more fully why "*skipping a rebasing in 2019 will do little to spur the Applicants' incentives.*"

VECC-4
Reference: PEG Study, page 14

Preamble: As noted by the PEG authors the Applicants propose continued use of a normalized average consumption (NAC) adjustment which has the effect of reducing risk of under-recovery of costs. PEG also points out (page 26) that "[T]*his is clearly the main reason for the slowing growth in NERA's TFP indexes after 2000, but has limited relevance to the calibration of an X factor for the proposed IRM of the Applicants*."

a) If the Board choses to eliminate the NAC adjustment going forward how do the authors believe this should impact the price cap adjustment formula?
b) If the Board choses to continue the NAC adjustment and given the Author's conclusion that the NAC adjustment reduces risk to the utility - might this reduction in risk reasonably be expressed in the price cap adjustment in any other manner than the adjustment proposed by the use of number of customers in supportive TFP calculations (page 53)?
c) Given the current recommendation of the Author for use of a 0% X-Factor is it likely that the adoption of customer numbers in the TFP make any material difference to the X Factor used in the PCI formula?

VECC-5
Reference: PEG Study, page 17-25-

Preamble: PEG notes a number of deficiencies with the Ma study, including the use of OHS (as opposed to GD) for the capital quantity measurement and lack of gas utility data in the study and the exclusion A&G costs. Numerous other concerns are set out at pages 25 through 37. At page 36 the sum of corrections (using OHS) appears to be a TFP trend of +0.85%. Nonetheless the PEG study authors conclude that "t*he 0% base TFP growth trend that Dr. Makholm proposes is in our view reasonable*." (page 2)

a) How is this conclusion reached in light of the various deficiencies identified with the Makholm Study?
b) Why would an x factor of 0.49% (page 48) not be more appropriate?

VECC-6
Reference: PEG Study page 43

a) PEG has found that Enbridge and Union have TFP growth trends which are diametrically opposed (negative and positive respectively). Given that under an amalgamated there are proposed to continue to be two separate rate zones might it be reasonable, Author's opinion for two separate X factors to be applied to each rate zone? Please explain why or why not.
b) In the same vein, might different stretch factors be applied to the two rate zones? If so how might these be set?

VECC-7
Reference: PEG Study, page 37

a) The authors note that U.S. mandated safety programs had a material impact on total factor productivity growth. Given this, why is appropriate to apply the conclusions of PEG`s US Gas Distributor study to the proposed Ontario Amalco?

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