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April 30, 2018

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Ottawa

Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

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Attention: Ms. K. Walli
Board Secretary

Dear Ms. Walli:

EB-2017-0306/EB-2017-0307

**Amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited
Initial Positions of the City of Kitchener ("Kitchener Utilities")**

We are counsel to Kitchener Utilities. Further to Procedural Order No. 5 in the above-noted proceeding, this letter sets out Kitchener Utilities' initial positions with respect to the questions set out by the Board.

Kitchener Utilities' primary interest in this proceeding is limited to opposing the Applicants' proposal to defer rebasing for ten years (see response to question 3 below) unless the Board decision in this proceeding provides assurance to Kitchener Utilities that it will not be prevented from (or prejudiced by) bringing forward cost allocation issues during the deferral period. Kitchener Utilities' position on other questions (including the fundamental issue of whether to support the amalgamation) is tied to Kitchener Utilities' position on question 3.

While we have set out our initial position on the Board's five questions below, we would echo the caution expressed in Mr. Shepherd's letter of earlier today regarding the establishment and disclosure of positions prior to the commencement of the oral hearing. We would emphasize, therefore, that these are Kitchener Utilities' initial positions on the five questions, and Kitchener Utilities reserves its right to change its position as the remainder of the proceeding unfolds.

1. Do you plan on supporting approval of the merger?

As mentioned above, Kitchener Utilities' position on the approval of the amalgamation is tied to its position on the Applicants' proposal to defer rebasing for ten years. Kitchener Utilities would either take no position on the amalgamation, or consider supporting the amalgamation, if:

- the rebasing deferral period were considerably shortened (three years or less); or
- the Board clearly indicated that customers: (a) could bring forward issues of cost allocation as part of an annual rate adjustment application prior to any rebasing; and (b) would not be prejudiced by doing so, on the basis that cost allocation issues are more suited to broader rebasing proceedings.

2. If you plan to support the merger what, if any, conditions of approval will you propose?

See our response to question 1 (above) and question 3 (below).

3. Do you support the 10-year deferred rebasing period?

Kitchener Utilities does not support any deferred rebasing period longer than three years, unless the Board clearly indicates in its decision that a customer: (a) could bring forward issues of cost allocation as part of an annual rate adjustment application prior to any rebasing; and (b) would not be prejudiced by doing so, on the basis that cost allocation issues are more suited to broader rebasing proceedings.

Kitchener Utilities believes that the costs of recent capital additions on the Union Gas system have been unfairly allocated to Kitchener Utilities. These allocated costs have materially impacted Kitchener Utilities' rates. As noted in the interrogatory response to Kitchener.5(d), Kitchener Utilities' demand charge has increased from 9.3582 cents/m³ in 2013 to 17.989 cents/m³ in 2018. Kitchener believes that the primary driver for the increase is the pass-through costs associated with Union Gas' recent capital additions. In absolute dollar terms, this has increased Kitchener Utilities' rates by nearly \$1.2 million annually.

It is the Applicants' position that Kitchener Utilities can bring forward these cost allocation concerns in any annual rate setting process (i.e., prior to a rebasing application). Kitchener Utilities is not certain that the Board would agree. In EB-2017-0087, the Board does seem to indicate (in the context of a proposal to address the cost allocation of the Panhandle System and St. Clair System) that considerations of any changes to Union Gas' cost allocation methodology should be deferred until Union Gas' next cost of service or custom IR application. Union Gas disagrees with this interpretation of EB-2017-0087 (see interrogatory response to LPMA.43(b)). In the absence of clarity on this issue, Kitchener Utilities cannot support a ten-year rebasing deferral period.

4. Are there elements of the proposed rate setting framework that you oppose?

See response to question 3 (above).

5. If you plan to support the merger what, if any, conditions of approval will you propose?

Not applicable.

Sincerely,

A handwritten signature in blue ink, appearing to read 'RJ King', with a stylized, cursive script.

Richard J. King

c: Loraine Baillargeon (Kitchener Utilities)
 Jaya Chatterjee (Kitchener Utilities)
 Greg St. Louis (Kitchener Utilities)
 All interested parties