

April 30, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2017-0306/0307 – Enbridge Gas Distribution and Union Gas Limited – Application for Approval to Amalgamate and Set Rates

We are representing the Consumers Council of Canada (“Council”) in the Ontario Energy Board (“OEB”) proceeding to consider the Applications by Union Gas Limited (“Union”) and Enbridge Gas Distribution Inc. (“EGD”) to amalgamate, and for approval to set rates for a 10-year period beginning January 1, 2019. In its Procedural Order No. 5 dated April 16, 2018, the OEB requested that parties submit their initial positions on certain key matters in advance of the oral hearing.

The Council has set out, below, its preliminary positions on the key matters identified by the OEB. The Council will not be in a position to finalize its positions until the oral hearing process has been completed. The positions of the Council may change as a result of the oral testimony provided in the hearing process.

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

The Council is not opposed to the merger as long as the interests of the customers are sufficiently protected. We do not support approval of the merger as set out in the Application. It is our view that the Applicants’ proposals will not result in an appropriate balance between the interests of utility ratepayers and the shareholders. It is also not clear that the ratepayers will be better off under the proposed approach, relative to the status quo.

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

The Council is of the view that we would only support the merger if there were mechanisms put into place to protect the interests of the ratepayers. If one of the stated intents of the merger is to create savings for customers, there must be a way for the customers to benefit from those savings. Under the proposed approach it may not be until 2029 that savings accrue to ratepayers, if at all. Conditions of approval will depend upon the rate plan and the deferral period that the OEB determines is appropriate.

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

The Council does not support a deferred rebasing period of 10 years. We are of the view that 10 years is far too long to go without looking at the underlying cost structure of the merged entity. A fundamental

principle of rate-making is that rates are based on the costs to serve the customers. The Applicants' proposals may well result in rates are not reflective of the costs to serve the customers, as Union, for example has not rebased since 2013. The Council does not believe that the OEB is compelled to apply its policy regarding electricity mergers and acquisitions in setting rates for Union and EGD. There is no need to "incent" amalgamation in this case as the parent companies have already merged.

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

We oppose the rate setting framework that has been proposed by the Applicants. This includes the deferral period, the structure of the earnings sharing mechanism ("ESM"), the application of the incremental capital mechanism, the lack of a stretch factor, the materiality threshold for Z-factors etc. We also question the need for the Applicants to be protected from declines in average use.

5. Are there elements missing from the proposed rate setting framework?

We oppose the proposed structure of the ESM (only being applied in year 6 and beyond, and only sharing earnings above a 300 basis point deadband), and are of the view that the plan is missing a more balanced approach to earnings sharing. We support the application of a stretch factor to provide upfront benefits to customers.

Yours truly,

Julie E. Girvan

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CC: All parties