

April 30, 2018

VIA RESS AND COURIER

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
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Dear Ms. Walli:

Re: EB-2017-0306: Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union) Merger Application.

EB-2017-0307: EGD and Union Rate Setting Mechanism Application.

IGUA Initial Positions.

Procedural Order No. 5 herein requests that parties provide a statement of initial positions *"in order to have a focused and efficient oral hearing"*.

With respect, it is not apparent to us how the provision of initial positions by the parties will be used to effect the intended result of focus and efficiency at the hearing. As have other parties, on behalf of IGUA we can provide at this stage only the most basic statements of position. Further, and as have other parties, we must reserve IGUA's ultimate positions pending completion of the record and a fair, and open minded, exploration and consideration of the evidence provided to date and the further explanations of that evidence yet to be obtained through the oral hearing.

With these caveats, IGUA's initial positions on the Board's 5 questions are as follows:

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

It is IGUA's general view that utility shareholders should be free to structure their utility ownership as they see fit, as long as ratepayer interests are not unduly compromised thereby. It is IGUA's further view that such structural freedom, including in particular the freedom to consolidate, should foster efficient and cost effective utility services.

Subject to ensuring that ratepayer interests are adequately protected, IGUA would support approval of the proposed merger.

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

Please see further initial positions set out below.

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

IGUA's members view 10 years as far too long a period for the realization of merger efficiencies. In their own businesses they have never encountered time horizons like that (and these are very large businesses).

In the instant circumstances, what is posited as a 10 year deferral for rebasing would actually result in a period of more than 15 years before rates are reset on a cost of service basis, considering that the cost forecasts on which each of EGD and Union's current rates have been determined were made prior to 2013.

IGUA's initial position is that this is an inappropriately long time between full examination of the costs to serve underlying "just and reasonable" gas distribution rates.

IGUA does believe that barriers to the shareholder investments reasonably required to realize efficiencies should be removed. IGUA further endorses provision of reasonable incentives to encourage utility shareholders to make such investments. One focus of attention in this proceeding for IGUA is the veracity of the applicants' position that they will require a full 10 years, under a rate structure with only marginal (if any) benefit sharing, to realize sufficient benefit from the proposed efficiency investments to make the investments in the first place.

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

IGUA opposes what is effectively a 10 year hiatus on sharing of benefits of merger efficiencies with ratepayers, while proposing to pass through material capital expenditures along the way.

Sharing earnings above what, by today's standards, would be a 12% utility ROE, and then doing so only on a 50/50 basis, is not an appropriate sharing of benefits for a merger of this scale and scope, by these two entities (as distinct from many of the electricity distributors for whom a 10 year rebasing deferral period is available).

IGUA's concerns are exacerbated due to the lack of any reasonable productivity expectations embedded in the proposed rate setting framework. Productivity is presumably the whole point of the initial acquisition of Union/Spectra by EGD, and is an express justification for the proposed merger of the utilities.

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

The proposed rate setting framework is missing a genuine earnings sharing proposal and a reasonable mechanism for reflecting productivity expectations in rates.

Yours truly,



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for: Ian A. Mondrow

c: A. Mandyam (EGD)
M. Kitchen (Union)
F. Cass (Aird & Berlis)
C. Smith (Torys)
S. Rahbar (IGUA)
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Intervenors of Record

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