ONTARIO ENERGY BOARD STAFF INTERROGATORIES

2020-2024 Distribution Rate Application – EPCOR Natural Gas LP

EB-2018-0336

Exhibit 1 - Administration

1.Staff.1
Ref: Exhibit 1 / Tab 1 / Schedule 1/ Pg.6
Please confirm that the correct requested revenue requirement is $6,652,600 and not $6,665,600 as indicated in the above reference.

1.Staff.2
Ref: Exhibit 1 / Tab 1 / Schedule 1/ Pgs. 30 and 39 and Exhibit 4 / Tab 1 / Sch.1/ Pg.5 / Table 4.1-8
EPCOR Natural Gas LP (EPCOR) has provided two different values representing gas transportation costs for 2020 ($674,644 – pg. 39 and $675,544 – pg.30).

Please reconcile the two and identify the correct number.

1.Staff.3
Ref: Exhibit 1 / Tab 1 / Schedule 1/ Pg. 39 and Exhibit 4 / Tab 1 / Sch. 4/ Pgs.4-5
Two different values appear in different sections representing 2019 gas transportation costs ($970,411 and $674,644). The amount of $970,411 is also shown for 2018 gas transportation costs (Exhibit 4, Table 4.1-6).

Please reconcile the numbers and confirm the appropriate gas transportation costs for 2018 and 2019. If updated numbers are available, please revise them accordingly.

1.Staff.4
Ref: Exhibit 1 / Tab 1 / Schedule 1/ Pg.9
Following publication of the Notice of Application and the community meeting, consumers have the opportunity to file letters of comment with respect to the application. Sections 2.1.6 of the Filing Requirements state that distributors will be

expected to file with the OEB their response to the matters raised within any letters of comment.

Please file a response to the matters raised in the letters of comment that were also copied to EPCOR. Going forward, please ensure that responses to any matters raised in subsequent comments or letters that the applicant receives are filed in this proceeding. Please ensure that name and contact information is redacted for public filings. All responses must be filed before the final argument (submission) phase of this proceeding.

1.Staff.5
Exhibit 1/ Tab1/ Schedule 1/ Pg. 47
EPCOR has indicated that it may file a separate application annually, requesting to dispose of its deferral and variance accounts. Please explain why EPCOR is not planning to request the disposition of deferral and variance accounts in the same application as its IR applications for regulatory efficiency purposes.

1.Staff.6
Exhibit 1/ Tab 1/ Schedule 1/Pg. 61
Please provide the 2018 audited financial statements. If not available, please provide the 2018 preliminary financial statements. Please provide a reconciliation between the financial statements and regulatory statements.

1.Staff.7
Exhibit 1/ Tab1/ Schedule 1/ Pg. 62
Exhibit 1/ Tab 2/ Schedule 5/ Sept. 2017 Audited Financial Statements
EPCOR changed its tax status on November 1, 2017 from a corporation to a limited partnership.

a) Please discuss any tax impacts this has had, including whether there were any tax savings/costs and tax assets/liabilities generated.
b) Please discuss whether the change in tax status has any impacts to EPCOR's rates.
c) Per Note 14 of the Sept. 2017 financial statements, in prior years, there was a capital tax loss of $2.6M that was carried forward and available for future use against capital gains. In 2017, there was a future tax asset of $1.2M. Please explain how the capital tax loss and tax asset has been treated since 2017.

d) Please explain how assets were valued upon acquisition from NRG. If the assets were valued at fair value, please explain the tax impact (e.g. on CCA).

1.Staff.8
Exhibit 1/ Tab 2/ Schedule 2/ Dec. 2017 Audited Financial Statements
Note 11 of the 2017 audited financial statements show short-term notes payable to EPCOR of $3.153 million that is due on demand.

a) Please explain whether there has been any indication of when the notes payable are due.
b) If EPCOR Inc. were to recall the notes payable, please explain how EPCOR will be able to fund the repayment and whether it will pose any issues on its cash flows and financial viability.

1.Staff.9
Exhibit 1/ Tab 2/ Schedule 7/ Pgs. 1-12
Exhibit 2/ Tab 1/ Schedule 1/ Pg. 6 - Table 2.2.1-3
Regarding the reconciliation between audited financial statements and regulatory financial statements:

a) Please provide an explanation for each adjusting item in the 2015, 2016, 2017 and 2017 stub period reconciliation
b) In Table 2.2.1-3, the closing net asset value for the 2017 stub period is $13,079k. In the reconciliation between audited and regulatory financial statements for the 2017 stub period, regulatory intangible assets and PP&E total $13,423k. There is a difference of $344,000. Please explain the difference and make any changes as necessary.

1.Staff.10
Exhibit 1/ Tab 2/ Schedule 2/Dec. 2017 Audited Financial Statements
Exhibit 1/ Tab 2/ Schedule 4/Sept. 2016 Audited Financial Statements
Exhibit 1/ Tab 2/ Schedule 5/Sept. 2017 Audited Financial Statements
Exhibit 1/ Tab 2/ Schedule 7/page 2 - Reconciliation Ending 2017 Stub Period

Net book value of PP&E and intangibles from the audited financial statements are as follows:

	Sept. 2015	Sept. 2016	Sept. 2017	Dec. 2017
Net book value	$11,405k	$13,147k	$13,048k	$19,064k
Source	2016 statements – PP&E plus franchises and consents	2016 statements - PP&E plus franchises and consents	Sept. 2017 statements note 3 - PP&E plus franchises and consents	Dec. 2017 statements notes 8 and 9 – PP&E plus intangibles excluding goodwill

a) The net book value has been relatively consistent prior to EPCOR's acquisition of the assets on November 1, 2017. Please explain the increase in fixed assets from September 2017 to December 2017.
b) In the 2017 stub period reconciliation between financial and regulatory financial statements, there was an adjustment to reallocate amounts between PP&E, intangible assets and goodwill in deriving the regulatory balances. There was also a $311,000 increase to these assets in deriving regulatory balances.
    i. Please explain the reason for the reallocation between assets and how much was reallocated between each of the asset categories.
    ii. Please explain the net increase of $311,000 to these assets.

1.Staff.11
SNC-Lavlin System Integrity Study
Ref: Exhibit 1 / Tab 4 / Schedule 2 and EB-2016-0236, Exhibit 2 / Tab 1 / Schedule 1 / Pg. 2 / Lines 1-9

Natural Resource Gas Limited (NRG) completed a system integrity study in 2016 to assess the NRG distribution system and recommend solutions to resolve system integrity issues affecting the southern area of the NRG distribution system. In response NRG had indicated in its cost of service application (EB-2016-0236) that it intends to implement certain projects including updating the Union Gas Bradley Station, a pipeline from the existing Putnam Station to the northeast region and a second pipeline from the Bradley Station to the Wilson Line.

a) Please provide information on the capital projects (including amounts spent) completed by NRG to address system integrity issues.

b) What amounts will be added to the rate base in 2020 with respect to the capital projects referred to in (a)?
c) The Gas Supply Plan of EPCOR (Exhibit 4, Tab 4, Schedule 1, pg.3) states that a System Integrity Study was completed in 2015 by NRG and SNC-Lavlin. The study recommended the addition of a number of pipelines for system reinforcements which have subsequently been implemented. What was the impact of the capital projects and to what extend did the projects alleviate the system integrity issues?

Exhibit 2 – Rate Base

2.Staff.12
Ref: Exhibit 2 / Tab 1 / Schedule 1/ Pg. 5 / Table 2.2.1-2
In the Gross Plant by Uniform System of Account table, the cost of "Mains" has increased from $8.5 million in 2015 to $10.6 million in 2016 and $11.3 million in 2017.

Please explain the substantive increase in the value of mains in 2016 and 2017. What projects were undertaken in 2016 and 2017 and what benefits did the projects provide?

2.Staff.13
Ref: Exhibit 2 / Tab 1 / Schedule 1/ Pgs. 6-7/ Tables 2.2.1-3 and 2.2.1-4
The depreciation amounts for 2018, 2019 and 2020 are different in the above two referenced tables.

Please reconcile the values for the above noted years and explain the differences, if any.

2.Staff.14
Ref: Exhibit 2 / Tab 1 / Schedule 1/ Pg.13
The application shows $72,000 in contributions from customers related to new service connections in the 2020 Test Year.

Please provide further information on the contributions and the type of customers that will be making the contributions.

2.Staff.15
Exhibit 2/ Tab 1/ Schedule 1/Pg. 18
EPCOR uses EPCOR Inc.'s burden rate at the corporate level to recover employee benefits.

a) Please explain how EPCOR ensures that this burden rate is the appropriate rate to use and whether it is reflective of actual burden rates applicable to EPCOR's Aylmer operations.
b) Has EPCOR determined what its actual burden rate is? If yes, please state the burden rate.
c) Please quantify the amount of burden that was capitalized from 2011 to 2020, if available.

2.Staff.16
Exhibit 2/ Tab 1/ Schedule 1/Pg. 19
Exhibit 2/ Tab 2/ Schedule 2/Pg. 6
The Capitalization for Regulatory Accounting Purposes in Schedule 2 uses contra-asset accounts for recording capital contributions. This differs from that described in Schedule 1, which records capital contributions under deferred revenues.

a) Please clarify what is EPCOR's accounting treatment of capital asset contributions in the rate application.
b) If deferred revenues is not used, please explain why not.

2.Staff.17
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.3
EPCOR has indicated that in 2018 it completed a customer engagement survey to gather feedback from customers regarding investment in the distribution system and services. The survey was administered directly by EPCOR to customers and open to all customer rate classes.

a) Please explain how EPCOR was informed from the results of the customer engagement survey in developing the Utility System Plan (USP).
b) Were respondents provided any scenarios in the survey where they were asked to make trade-offs between a rate increase and expenditures to maintain system reliability or replace aging infrastructure?
c) Were respondents provided any rate impact estimates of the proposed capital expenditures? Was their feedback sought on projects that should be deferred or reprioritized? If no, why not?

d) Did EPCOR seek input from survey participants on the type of outcomes that customers expect from investments in the distribution system?
e) Did EPCOR seek customer input on the proposed enhancements to the distribution system (new capital projects) and operations (IT, billing, building renovations)? If no, why not?
f) How did the customer engagement survey assist in establishing the objectives outlined in the Renewed Regulatory Framework in terms of demonstrating value for money and the provision of services in a manner which is responsive to customer preferences?
g) Were there any changes made to the USP as a result of the feedback provided in the customer engagement survey?

2.Staff.18
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.6
In the USP, EPCOR has noted that a complete and accurate asset registry, or inventory is key to the process. As the utility continues to build upon the recently implemented Utility Management System and workflow management software and GIS capabilities, it will be better positioned for the future.

Please confirm whether an asset registry has been completed for the USP. If not, please provide timelines for completing the asset registry.

2.Staff.19
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Figure 2.2.3-2/ Pg.10
The figure provides information on the age of the pipelines in the distribution system. A majority of the pipeline system is fairly new and installed in 2010 or later.

a) Please explain the overall condition of the distribution system considering that it is fairly new.
b) How has the age of the distribution system impacted maintenance spending for the planned period?

2.Staff.20
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.14
EPCOR has noted that in 2018 the forecasted total for capital investments related to system access includes a $600,000 capital expenditure to increase the capacity of the IGPC metering and regulating station.

Please confirm that the cost of the above spending was allocated to the IGPC rate class.

2.Staff.21
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.15
EPCOR has proposed two capital projects (Belmont and Lakeview Reinforcement) to resolve system integrity issues identified in the Cornerstone report. The total capital spending on the two projects is $796,000. Both projects are expected to be started and completed in 2019, and the asset in service by December 31, 2019. EPCOR has further noted that the Lakeview Reinforcement Project is contingent upon the successful negotiation of a gas purchase agreement with a third-party.

a) Please confirm that the implementation of the two projects will resolve the system integrity issues identified in the Cornerstone report.
b) The project is contingent on the successful negotiation of a gas purchase agreement with a third party. Please provide the annual quantities that would be required under such a gas purchase agreement. What would be the terms of such a purchase agreement?
c) Would the gas purchase agreement be subject to Ontario Energy Board approval?
d) What is the current status of the negotiations? Has EPCOR signed any Letter of Intent to purchase the local gas? If yes, please provide details.
e) Please describe the impact on the EPCOR distribution system if the two projects are not in service by December 31, 2019?
f) Please confirm that the current estimate for the two capital projects in $796,000. Are the capital costs different from the capital cost estimates provided in the Cornerstone System Integrity Study? If yes, please explain the variance.
g) With respect to the Belmont Reinforcement Project, does the proposed project specifications meet the forecasted customer growth in the Belmont area and the low pressure issues identified in the Cornerstone report?
h) In the opinion of Cornerstone, are the proposed initiatives sufficient to resolve the system integrity issue?

2.Staff.22
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.15 and Cornerstone Study Exhibit 2/Tab 3/ Sch. 2/ Pg. 18

In the USP, EPCOR has noted that approximately 5 km of the Westchester Bourne pipeline between the Belmont Station and the village of Belmont is currently constructed of 2 inch PE pipe and the balance 4 inch. EPCOR plans to replace this 2 inch section with a 4 inch PE pipe, reducing the pressure drop and addressing the pressure issue at Belmont. In the Cornerstone Integrity Study, the report considered a number of options to address system integrity issues. One of the options was to replace all 2 inch piping running North-South along Westchester Road that feeds the Northern regulator station of Belmont. The report indicated that there are two sections of the 2 inch pipe totalling 3.1 km. Cornerstone has recommended upsizing the two sections of pipe to 4 inch to match the rest of the mainline along Westchester in order to improve pressure along the section of the pipe.

a) Please confirm that the project referred to in the USP and the above option recommended in the Cornerstone integrity study is identical. If there are any differences, please explain.
b) The total length of the pipeline to be upsized is different in the USP (5 km) and the Cornerstone report (3.1 km). Please explain the reasons for the difference in the length of the reinforcement.
c) Is the cost of the project provided in the USP and Cornerstone report the same? If there are any differences, please explain and quantify the variance by cost components.

2.Staff.23
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.16

System modelling completed by Cornerstone as part of the 2018 System Integrity Study showed materially lower operating pressure in the south of the system during periods of peak demand. This confirms recent observations by operating staff, who have noted pressures less than 40 psig, and approaching the 30 psig minimum design pressure in the area. EPCOR has indicated that the situation will only get worse as demands increase and production from the connected wells continues to decline.

a) Please provide the required pressure of pipelines in the south to meet peak demand.

b) EPCOR has noted that the Lakeview Reinforcement project is contingent on the successful negotiation of a gas purchase agreement with a third party. Does EPCOR know the remaining life of the connected wells?
c) Has EPCOR considered other potential solutions that are not dependent on local production?

2.Staff.24
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.17

The Ontario Ministry of Transportation has indicated that it intends to start construction on improvements to the interchange of Westchester Bourne and Highway 401 in 2019. The project requires EPCOR to relocate the 6 inch IGPC steel pipeline and a 4 inch PE main that will be in conflict. The estimated capital cost to complete the relocation is $1.2 million of which the Province will contribute $536,000.

a) Please provide additional information on the 4 inch PE main and the class of customers it serves.
b) Please provide separate costs for relocating the IGPC pipeline and the 4 inch PE main.
c) Please confirm that the cost of relocating the IGPC pipeline will be allocated to the IGPC rate class. If not, please explain the reasons for not doing so.

2.Staff.25
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pgs.18-19

EPCOR intends to upgrade the field instrumentation and the supervisory control and data acquisition (SCADA) system to allow field measurements to transfer in real time to a central SCADA computer, creating a single operator interface to monitor the system locally or remotely. The project will be implemented in phases from 2019 through 2024.

a) Please confirm that the total capital cost of the SCADA upgrade project is $585,000 for the period 2019 through 2024.
b) What will be the annual operating costs of updating the system during the project implementation period?
c) Why are the capital costs higher in 2019 and 2020?

2.Staff.26
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pgs. 21-25

EPCOR has provided information on capital programs from 2019 to 2024 for mains additions, service additions, meters, regulators and other infrastructure.

Please provide historical data for the years 2015 to 2018 for mains additions, service additions, meters replacement, regulating stations, regulators and fleet replacement.

2.Staff.27
Ref: Exhibit 2 / Tab 3 / Schedule 1/ Pg.13 and pgs. 24-26

EPCOR has provided information on the replacement of various assets including mains additions, regulating stations, natural gas regulators, small tools and equipment and computers and office equipment. In case of all these capital projects, EPCOR has noted that the forecast annual capital spend is based on management judgement and historical spend. However, in the planning process overview (pg.13) EPCOR has indicated that individual capital investments are selected and prioritized based on asset condition, forecasted growth, risk and benefit to the customer.

a) Please explain the inconsistency in the evidence as pointed above.
b) Has EPCOR completed an asset condition assessment of each of the assets listed above? If yes, please provide the asset condition assessment.
c) Why is EPCOR relying on management judgement as a criteria considering that measureable and objective criteria are available to determine asset replacements?

2.Staff.28
Ref: Exhibit 2 / Tab 3 / Schedule 2/ EPCOR Aylmer System Integrity Study

EPCOR has provided a system integrity study completed by Cornerstone Energy Services.

a) Please describe the process undertaken to select Cornerstone Energy Services to complete the system integrity study.
b) Why did EPCOR decide to undertake a second system integrity study?
c) Please provide the experience of Cornerstone Energy Services in conducting gas-related engineering studies.

d) What was the total cost of the Cornerstone system integrity study?

2.Staff.29
Ref: Exhibit 2 / Tab 3 / Schedule 2/ Pgs. 12-13

The system integrity study indicates that the initial run of the GASWorkS model showed poor results when compared to historical records and anecdotal testimonies of real-world pressure throughout the system. In order to correct for these errors, Cornerstone made certain adjustments to the GASWorkS model. One of the adjustments was to exclude the delivery of gas from the local wells.

Please explain why this adjustment was made considering that one of the objectives of the study would be to measure the system pressure without supply from local wells and to measure the pressure again but this time including supply from local wells. This would confirm whether system pressure is low when gas is not received from local wells and also confirm the impact of local volumes on system pressure.

2.Staff.30
Ref: Exhibit 2 / Tab 3 / Schedule 2/ Pg.15

Cornerstone believes that the undersized fittings and incorrectly sized valves littered throughout the system contribute to the error between the southern pressures in the calibrated model and what the system has experienced according to recorded data and operations personnel. Regardless of whatever discrepancies exist between modelling numbers and real world pressure, it is universally agreed upon that the southern area of the system is in need of reinforcement.

a) Please explain what “universally agreed upon” means.
b) How reliable are the Cornerstone results considering the discrepancies between modelling numbers and real world pressure?
c) What additional value does the hydraulic modelling provide considering that Cornerstone has relied on the universally agreed view that the southern area of the system needs reinforcement?

2.Staff.31
Ref: Exhibit 2 / Tab 3 / Schedule 2/ Pg.16

The system integrity study notes that once a calibrated model was created, Cornerstone evaluated the system’s capabilities to account for growth and expansion through the year 2024. Cornerstone developed a gas load for each town/village up to the year 2024.

In a footnote, Cornerstone has noted that it has assumed a higher growth rate of 5% for Belmont but has used 2.5% for the model as the growth is mostly new construction with added efficiencies. For all other areas, the growth rate is 2%.

a) Please indicate what portion of the growth rate in other areas is likely to be new construction with added efficiencies? Has any adjustment been made to the other growth areas?
b) If the growth in other areas is mostly new construction (>75%) and no corresponding adjustment has been made, please recalibrate the model and adjust the 2024 gas load.

2.Staff.32
Ref: Exhibit 2 / Tab 3 / Schedule 2/ Pg.18

In its report, Cornerstone considered a number of infrastructure improvement projects to address low pressure concerns in southern and southeastern part of the EPCOR distribution system. One of the options (Project 6) talks about the possibility of taking gas from an existing compressor station on Gully Road off of Nova Scotia Line and injecting the gas into the 4 inch pipe along Nova Scotia Line.

a) Please confirm if EPCOR owns or operates a natural gas compressor within its distribution system.
b) How many compressor stations does EPCOR operate in its franchise area?
c) Compressor station was not identified as an asset category in the USP. If EPCOR does own/operate compressor stations, please provide the relevant details (rate base, number of units, type, horsepower, asset condition, replacement cycle, maintenance costs etc.)

2.Staff.33
Ref: Exhibit 2 / Tab 3 / Schedule 2/ Pg.20

In Cornerstone’s view, what is shown in CAD records and other piping records do not match the actual physical assets. Consequently, Cornerstone has advised EPCOR to increase their efforts in investigating and resolving some of the choke points and has recommended a series of tasks to create an accurate record of piping facilities.

a) Has the management of EPCOR discussed the recommendations of Cornerstone? If yes, please provide details.

b) Does EPCOR intend to implement the suggested recommendations? If yes, please indicate which recommendations will be implemented, their costs and the timeline of implementing the recommendations.
c) Cornerstone has referred to resolving some of the choke points. Has Cornerstone or EPCOR evaluated the cost and benefits of resolving the choke points, and its impact on system pressure? If yes, please provide details including cost estimates. If no, please provide reasons.

Exhibit 3 – Operating Revenues

3.Staff.34
Ref: Exhibit 3 / Tab 1 / Schedule 1/ Tables 3.1-1 to 3.1-9

For tables 3.1-1 to 3.1-9, the 2018 column is referred to as “Forecast”.

Please update the tables with actuals for 2018 and compare the accuracy of the forecast.

3.Staff.35
Ref: Exhibit 3 / Tab 1 / Schedule 1/ Tables 3.2-1 to 3.2-12

For all the above referenced tables, please update the Jan – Dec 2018 Forecast with actuals.

3.Staff.36
Ref: Exhibit 3 / Tab 1 / Schedule 1/ Pg. 21 and Exhibit 1 / Tab 1 / Schedule 1/ Pg.16

Table 3.4-1 provides a breakdown of other revenues. Other Revenues for the Bridge Year (2019) and for the Test Year (2020) is the same at $112,913. In the Schedule of Service Charges (Table 1.3.16-1), EPCOR has proposed an increase to the fee structure of all services.

a) Please explain why Other Revenues for the Test Year are not higher than 2019 considering the proposed increase to the service charges? Are the number of services provided and/or transactions calculated at the proposed rate for 2020?
b) Please provide a table that uses the same number of forecasted services and/or transactions for 2020 as compared to 2019 and recalculate the 2020 Other Revenues using the proposed service charges.

3.Staff.37
Ref: Exhibit 3 / Tab 2 / Schedule 1/ Pg. 6

EPCOR has provided a table that summarizes the historic and weather normalized consumption according to the new rate year (January to December calendar year).

a) Please update the table with 2018 actuals.
b) The 2020 forecast consumption for R2 seasonal and R3 shows a decline as compared to 2018 and 2019. Please explain the reasons for the forecasted decline in consumption for these two rate classes.

3.Staff.38
Ref: Exhibit 3 / Tab 2 / Schedule 1/ Pgs. 7-9

The R1 Residential Class consumption forecast is developed using a base load and excess consumption method. EPCOR has used regression to determine the impact of cold weather on average consumption. A time-series regression is used to determine the coefficient, consistent with the methodology used in prior NRG throughput forecasts. EPCOR has indicated that several other variables were examined and found to not show a statistically significant relationship to energy use. Those included economic indicators of full-time employment and GDP, days in each month, work days in each month and a time trend.

a) Please indicate whether EPCOR examined furnace efficiency and number of persons in household to assess the relationship of these variable to energy use. If the data is available, please update and file the regression model with these two variables.
b) If EPCOR does not have data regarding furnace efficiency and number of persons in household, will EPCOR be collecting this data in the future as part of its customer engagement survey? If no, why not?
c) Please confirm whether furnace efficiency is a variable that is commonly used by gas utilities in a regression model.

3.Staff.39
Ref: Exhibit 3 / Tab 2 / Schedule 1/ Pgs. 11-14

EPCOR has provided the regression results for the R1 Industrial and Commercial Class and a table showing the accuracy of its forecast using the model coefficients.

a) Please provide the adjusted R-square of the R1 Industrial regression model.
b) The mean absolute percentage error is 7.1% for the R1 Industrial class. Did EPCOR consider other methods or variables to reduce the mean absolute percentage error?
c) The model has under-forecasted volumes for 2017 and 2018 (for R1 Industrial and Commercial). Please update the table with 2018 actuals and explain the lower forecast for 2017 and 2018.

3.Staff.40
Ref: Exhibit 3 / Tab 2 / Schedule 1/ Pgs. 15-16

For the R3 class consumption the equation was estimated using 107 observations. The R3 Class customer count declined from 6 to 4 from October 2009 to June 2010. EPCOR has provided the regression model for this class and a table showing the accuracy of its forecast using the model coefficients. The mean absolute percentage error is high and EPCOR has indicated that such a variance can be expected in a class with only 4 to 6 customers.

a) Please provide the adjusted R-square of the regression model.
b) Did EPCOR consider other forecasting methodologies in view of the small customer base in this rate class? If yes, please explain the methodologies used and provide the results.
c) Please provide the average for the weather normalized consumption from 2013 to 2018.

3.Staff.41
Ref: Exhibit 3 / Tab 2 / Schedule 1/ Pgs. 20-32

EPCOR has used the normalized and forecast heating degree days to calculate the weather corrected consumption and forecast values for all the rate classes.

a) Please update the tables with 2018 actuals for all tables that have used a 2018 forecast.

b) The forecast consumption per customer for the R1 Industrial Class has declined significantly in 2019 and 2020 from 2017 actuals and 2018 (close to 10%). What are the reasons for the substantial decline in average consumption and does EPCOR expect such a drop to materialize?
c) The forecast consumption per customer shows a decline in 2018 and 2019 as compared to 2017 and 2018 for R1 Commercial and R3 Customer Class. The drop for R3 customers is significant compared to all other years in the table (2010 to 2017). What are the probable reasons for the decline in average consumption?
d) The number of customers in the R1 Industrial Class grew significantly from 2009 to 2013 so the growth rates from these years was excluded as they do not reflect the current customer growth trend. Please explain the reasons for the significant growth from 2009 to 2013 and the type of customers that were added (industrial plants, grain dryers, small manufacturing). Why is the trend not likely to continue?

Exhibit 4 – Operating Expenses

4.Staff.42
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 4-5

Tables 4.1-6 to 4.1-8 provide forecasted commodity and transportation costs for 2018, 2019 and 2020.

a) Please update the 2018 commodity and transportation costs with actuals.
b) For the years 2018 and 2019 please revise the table to include the actual premium price for the one million cubic meters that has been set by the Ontario Energy Board in EB-2010-0018.
c) The OEB allowed NRG to purchase up to one million cubic meters annually from an affiliate at a price of $8.486 per mcf. in order to address system integrity issues (Phase 2 Decision, EB-2010-0018, May 17, 2012). This was a temporary measure until NRG found a permanent solution. Please provide the excess premium paid (annual cost) by customers for the one million cubic meters as compared to the average cost of gas (excluding the premium purchase) for each of the years from 2013 to 2018.

4.Staff.43
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 4-5

EPCOR executed a Gas Purchase Agreement that included the right of NRG Corp. to sell up to one million cubic meters of gas to EPCOR at a rate of $8.486 per mcf. The Gas Purchase Agreement expires on September 20, 2020.

Please provide the Gas Purchase Agreement that was executed between EPCOR and NRG Corp. (now On-Energy Corp.).

4.Staff.44
Ref: Exhibit 1 / Tab 1 / Schedule 1/ Pg. 25 and Exhibit 4 / Tab 1 / Schedule 1/ Pg.6

In the list of approvals requested, EPCOR is seeking approval to continue to purchase one million cubic meters of gas annually at a rate of $8.486 per mcf. from On-Energy Corp. until September 30, 2020. In Exhibit 4 of the application (Tab1,Sch 1, Pg.6), EPCOR has proposed that it continue to recover from ratepayers $8.486 per mcf. for the first one million cubic meters of gas purchased from On-Energy Corp. until September 20, 2020.

Please reconcile the two dates and confirm the approval that is being requested.

4.Staff.45
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 6 and OEB Decision and Order EB-2010-0018, Phase 2, May 17, 2012

In the EB-2010-0018 Phase 2 Decision, the OEB permitted NRG to purchase a maximum annual quantity of 1.0 million cubic meters of natural gas at a rate of $8.486 per mcf. This rate is higher than market rates. EPCOR has submitted a system integrity study by Cornerstone Energy Services that shows low system pressure in the southern and southeastern part of the distribution system during peak demand. EPCOR has proposed solutions (capital projects) that is expected to eliminate the requirement to purchase gas at other than market rates. EPCOR expects this solution to be in place in advance of the Gas Purchase Agreement expiring on September 20, 2020.

a) Please confirm that the proposed solutions referred to in the evidence will be in service by December 31, 2019.
b) Can EPCOR amend the terms of the Gas Purchase Agreement to terminate the purchase of one million cubic meters at a premium as of January 1, 2020?

c) In the opinion of Cornerstone, does the southern and southeastern part of the distribution system experience low pressure during the summer and shoulder months, specifically, May, June, July, August and September? Please explain your response.
d) Please provide the quantities of system integrity gas purchased (at a premium) in the above referenced months for each of the years 2013 to 2018.

4.Staff.46
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 7-8

EPCOR has provided the calculated Unaccounted for Gas (UFG) as reported by NRG from 2013 to 2017 which shows a negative variance (higher gas deliveries into the system than consumption). In this application, EPCOR is seeking a UFG of 0% but has also proposed to establish a variance account to record the cost of gas associated with volumetric variances between the actual volume of UFG and the proposed deemed UFG of 0%. This will allow for the recovery of the cost of gas if the actual values vary from the 0% used in establishing rates.

a) Did NRG undertake any study to determine the contributing factors to UFG? If yes, please provide the study.
b) Does EPCOR plan to complete a UFG study for the next cost of service application?
c) Will the variance account be symmetrical, in the sense that it will provide a credit to ratepayers if gas deliveries into the system are lower than gas consumption?
d) What measures will EPCOR implement to reduce the level of UFG during the IRM period (2020-2024)?

4.Staff.47
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 14

Table 4.3.2-2 provides the historical year over year change for the 2011 to 2017 period. Please provide a similar table with the actual incurred amounts (as compared to change year over year) for each of the years.

4.Staff.48
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 18-20

Since acquiring the assets of NRG, EPCOR has revised the compensation strategy for the utility, targeting the mid-market or 50th percentile of a defined peer group for total employee compensation.

In Table 4.3.3.1-1, EPCOR has provided a breakdown of compensation from 2011 to 2020.

Benefits show a significant increase in 2019 and 2020, rising from approximately $151,000 in 2017 to $362,000 in 2020. There is also an additional payment in the form of an Incentive Plan that did not exist prior to 2018.

a) Please explain the significant increase in the cost of Benefits and the main drivers of the increased costs.
b) Are all EPCOR employees eligible for Incentive Plan payments?
c) Please explain how the compensation strategy of EPCOR will contribute to the operational efficiency of the utility.

4.Staff.49
Exhibit 4/ Tab 1/ Schedule 1/Pg. 20 – Table 4.3.3.1-1
Exhibit 2/ Tab 1/ Schedule 1/Pg. 16
From table 4.3.3.1-1, transfers to capital increased from $42,000 to $349,000 from 2011 to 2020.

a) Please provide a breakdown of the OM&A capitalized from 2011 to 2020 where possible (e.g. employee benefits, cost of site preparation, professional fees etc.)
b) Please provide a table showing the calculation of the percentage of OM&A capitalized (i.e. OM&A capitalized as a percentage of total OM&A before capitalization) from 2011 to 2020.
c) Please provide a table showing the OM&A capitalized compared to new capital additions from 2011 to 2020.
d) In Exhibit 2, EPCOR notes that it is of the view that implementation of capitalization procedures and policies will not have a material impact on the revenue requirement of the utility. Please explain how EPCOR came to this conclusion and provide any analysis that was performed.

4.Staff.50
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 21

For the 2020 Test Year, EPCOR is proposing to maintain its current complement of 17.5 FTEs. EPCOR intends to hire one senior advisor to identify energy industry trends in the gas supply markets with the aim to decrease costs and inefficiencies related to system fuel gas supply and local production. In addition, the position would be responsible for direct purchase contract management including ensuring accurate and complete forecasting.

a) Please explain why EPCOR needs a senior advisor to identify energy industry trends in the gas supply markets considering that EPCOR is a system sales customer of Enbridge Gas and acquires over 90% of its requirement under the M9 rate.
b) How will the senior advisor decrease gas supply costs under a system sales scenario? Please provide a detailed response.
c) Can EPCOR quantify the benefits that the senior advisor will provide that would justify the related compensation?
d) Is there an individual in the organization that is currently responsible for direct purchase contract management?
e) What percentage of EPCOR customers are on direct purchase as compared to system sales?
f) What kind of forecasting is required for direct purchase contract management?
g) Assuming a contract is signed with a local producer and the remaining supply is from Enbridge Gas, what tasks would the senior advisor need to perform on a daily basis with respect to contracting or gas supply related issues?

4.Staff.51
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 26

EPCOR is forecasting that 25% of each of the General Manager and Administrative & Field Supervisor time will be spent supporting Southern Bruce operations.

a) Please explain how the 25% allocation was derived.
b) Will the General Manager and Administrative & Field Supervisor spend 25% of their total time on supporting Southern Bruce operations?
c) Will the relative size of the Southern Bruce franchise area (when fully connected and operational) be similar to EPCOR Aylmer operations in terms of customer numbers and operating revenue?

d) How will EPCOR ratepayers benefit during the IR period if EPCOR Aylmer employees provide a much larger support than forecasted for the Southern Bruce operations?

4.Staff.52
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 28, 32 and 50-51

EPCOR has provided a summary table (4.3.3.2.1-1) for IGPC related operating expenses. The total maintenance costs for the IGPC related assets is $79,672 for 2020. In a subsequent discussion (pg.50), EPCOR notes that the forecasted costs of approximately $80,000 for the contractor within the consulting expense category are mainly for the maintenance of the IGPC regulating station and pipeline infrastructure.

a) Please explain whether the contractor costs are treated like a pass-through item and forecasted contractor costs are allocated to IGPC without including any additional charges or administrative costs?
b) In Table 4.3.3.2-2 (Operating Support Costs), EPCOR has separately shown "Repair & Maintenance" and "Consulting Fees". Please confirm that the maintenance costs for IGPC related assets are not included in both categories.

4.Staff.53
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 33-50

EPCOR's Aylmer operations obtains Shared Services from its affiliate companies EPCOR Water Services Inc. (EWSI), EPCOR Commercial Services Inc. (ECSI), EPCOR Ontario Utilities Inc. (EOUI) and its parent EPCOR Utilities Inc. (EUI). In subsequent discussions, EPCOR has provided various tables that specify the services provided by the affiliate companies and the allocated costs.

Please provide revised tables that indicate what portion of the total costs for each service is allocated to EPCOR Aylmer operations.

4.Staff.54
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 37-39

Table 4.3.3.3-5 provides the ECSI Shared Services costs allocated to EPCOR Aylmer and Table 4.3.3.3-7 provides the EOUI Shared Services Costs allocated to EPCOR Aylmer.

Both tables include Management Oversight and Finance. Please explain the type of services provided under this category by each of the affiliates, identify any duplication of services and justify why EPCOR Aylmer needs the services from both affiliates.

4.Staff.55
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 41-42

EUI's cost allocation process is designed to ensure that the allocation of Corporate Shared Services costs among business units is appropriate, fair and reasonable, cost-effective, predictable, reflects the benefits received by function or cost causation and provides for consistency with the transfer pricing principles in the Affiliate Relationship Code (ARC), EPCOR's ARC Compliance Plan and EUI's Inter-Affiliate Code of Conduct. For the 2020 Test Year, a total of $892,722 has been allocated to EPCOR Aylmer for Shared Services and Corporate Costs. Shared Services constitute 27% of the total OM&A Costs of EPCOR Aylmer for the 2020 Test Year.

Please explain how a cost allocation of $892,722 for a small utility is fair and reasonable, and cost-effective.

4.Staff.56
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 46-47

EPCOR has provided a general description of the corporate services that are provided. One of the items include Board Costs which represents corporate governance functions to EPCOR and its subsidiaries.

Please describe the corporate governance services that would be required by EPCOR Aylmer.

4.Staff.57
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pgs. 53-54

EPCOR is seeking recovery of regulatory costs related to the 2018 IRM Application (EB-2018-0235) which included proposed IRM adjustments for 2016, 2017 and 2018, disposition of certain deferral and variance account balances and other matters. The total regulatory costs for the application was $216,481 which is included in the total regulatory costs ($925,014) requested for 2020 rates (amortized over a five-year period).

a) Please explain why EPCOR is seeking recovery of regulatory costs for a historic year and which is not related to the current cost of service and IRM application?
b) Is EPCOR of the opinion that OM&A type costs incurred during an IRM regime should be recoverable in future periods?

4.Staff.58
Exhibit 4/ Tab 1/ Schedule 1/Pgs. 57-65
Exhibit 1/ Tab 1/ Schedule 1/Pgs. 40-41

EPCOR is proposing to adopt Enbridge Gas' approved depreciation rates from EB-2011-0210 as it believes that these rates are more reflective of the useful lives of assets except for Meters and Vehicles – Transportation Equipment.

a) Please explain the analysis EPCOR performed to conclude that the proposed useful lives are more reflective of actual useful lives of the assets.
b) Some of the asset classes have been broken down into further categories (i.e. buildings, automotive, meters, regulators). Please explain the process EPCOR used to identify these categories and how the asset balance pertaining to each category was allocated.
c) Please confirm that depreciation is calculated on a straight line basis starting in 2020 for all asset classes. If not, please identify the asset classes that are not depreciated on a straight line basis and the method of depreciation used.
d) The depreciation rate for computer software is proposed to change from 20% to 10% to ensure consistency with EPCOR Inc.'s depreciation policy. Please explain whether this is reflective of EPCOR's asset class' actual useful life for the Aylmer operations.

4.Staff.59
Exhibit 4/ Tab 1/ Schedule 1/Pgs. 62, 66-68
Exhibit 4/ Tab 2/ Schedule 1/Pg. 10 – Tax Return

Regarding taxes,

a) It states that EPCOR's effective tax rate is 26.5% based on the provincial and federal tax rate. EPCOR's taxes payable is calculated by including a share of its taxable income in each partner's tax return. Please indicate the effective tax rate for each of EPCOR's partners.
b) On page 10 of EPCOR's 2017 tax return, line 206 adds capital items expensed of $1M back to income.

i. Please explain what this adjustment is for
ii. Please explain whether a similar adjustment is required in the calculation of regulatory income taxes in Table 4.5.2-1 on page 67, and why.

c) On page 62, EPCOR has proposed to dispose meters and has forecasted a $162,000 loss on meters in 2020. Please explain how this has been treated for CCA purposes on page 68 in Table 4.5.2-2. Please revise the evidence as necessary.
d) In the calculation of taxes payable on page 67, please explain how the interest expense is derived. Please explain why deemed interest expense is not used. Please revise the evidence as necessary.

4.Staff.60
Ref: Exhibit 4 / Tab 1 / Schedule 1/ Pg. 64

EPCOR has proposed to update the depreciation rate for the IGPC pipeline from 5.00% to 1.98%. In order to protect EPCOR and its ratepayers, EPCOR has proposed the extension of the requirement for an Irrevocable Letter of Credit from IGPC for the net book value of the assets in rate base.

a) Please indicate whether the Letter of Credit will reflect the net book value of the IGPC assets in rate base as of January 1, 2020.
b) Has EPCOR requested the Irrevocable Letter of Credit from IGPC and is IGPC prepared to provide the Letter of Credit?

4.Staff.61
Exhibit / Tab 1/ Schedule 1/Pg. 66
Forecast property tax is based on the assessed market value of the pipeline assets in the previous year, adjusted for the addition of pipelines in the forecast year. Please provide a comparison of the property taxes and the assessed market value of the pipelines in the previous year as well as the pipeline additions in each year from 2017 to 2020.

Exhibit 5 – Cost of Capital

5.Staff.62
Ref: Exhibit 5 / Tab 1 / Schedule 1

Please provide the achieved return on equity for 2018.

5.Staff.63
Ref: Exhibit 5 / Tab 1 / Schedule 1/ Pgs. 3-4

In November 2017, EPCOR borrowed $8.66 million from its parents company, EPCOR Utilities Inc. The derivation of the interest rate includes a credit spread of 1.55% from the Government of Canada 30-year rate and is based on market rates observed in November 2017.

a) How does the credit spread of 1.55% compare to Enbridge Inc., the parent of Enbridge Gas Inc.?
b) EPCOR expects to add $0.998 million of new long-term debt in 2020. At what rate will this debt be secured?

Exhibit 7 – Cost Allocation

7.Staff.64
Ref: Exhibit 7 / Tab 1 / Schedule 1/ Pg. 2

In table 7.1-1, EPCOR has provided the current approved revenue to cost (RtC) ratios and the proposed RtC ratios. In many cases the proposed RtC ratios are closer to 1.00. However, in case of Rate 1 Industrial customers, the RtC ratio has been moved to 1.35 from 0.72 and in case of Rate 4 customers, the RtC ratio has been moved to 0.84 from 1.14.

a) Please explain why the RTC ratio has not been moved closer to 1.00 for the two types of customers referred to above.
b) Please revise the RTC ratio for the above two customer types closer to 1.0 and present the results (including bill impacts).

7.Staff.65
Ref: Exhibit 7 / Tab 1 / Schedule 1/ Pg. 6

Regulatory costs are functionalized to Administration and General expense.

Please indicate the portion of regulatory costs that are allocated to IGPC for the 2020 Test Year.

7.Staff.66
Ref: Exhibit 7 / Tab 1 / Schedule 1/ Pg. 9

The classification for Distribution Mains remains unchanged from the previous cost allocation study (by NRG) at 66.53% delivery demand and 33.47% unweighted customer. All the other classification factors have been updated.

a) Please explain why the classification for Distribution Mains has remained unchanged.
b) Please explain what “unweighted customer” means.

7.Staff.67
Ref: Exhibit 7 / Tab 1 / Schedule 1/ Pg. 9

EPCOR has provided a comparison of the allocated customer-related costs per customer per month by rate class to the level of the proposed fixed monthly customer charges. The proposed fixed monthly charges are below the customer cost for Rate 1 through 5.

What portion of the customer related costs will EPCOR recover from the fixed monthly charge if the OEB were to accept the requested change for 2020 rates?

Exhibit 8 – Rate Design

8.Staff.68
Ref: Exhibit 8 / Tab 1 / Schedule 1/ Pg. 2

EPCOR has proposed an increase to the fixed monthly charge for customers in Rate 1, Rate 2, Rate 3 and Rate 5.

a) Please explain why EPCOR has not proposed an increase to the fixed monthly charge for Rate 4 customers?

b) If EPCOR was required to increase the fixed monthly charge for Rate 4 customers, what would it be?
c) The current fixed monthly charge for Rate 3 and Rate 5 customers is $172.50 (proposed to increase to $190). Why is the fixed monthly charge for Rate 4 customers $17.25 and comparatively lower than the monthly charge for Rate 3 and Rate 5 customers?

8.Staff.69
Ref: Exhibit 8 / Tab 1 / Schedule 1/ Pg. 5

EPCOR has indicated that it intends to work with IGPC early in 2019 to amend the current Gas Delivery Agreement between EPCOR and IGPC, which has a termination date of September 30, 2020, to reflect the change to the rate structure for Rate Class 6. The rate schedule for Rate 6 will be reviewed in conjunction with the amendment of the Gas Delivery Agreement and any identified changes will be brought forward as part of this proceeding.

a) Please provide an update on the current negotiations between EPCOR and IGPC to amend the Gas Delivery Agreement.
b) Would the revisions to the Gas Delivery Agreement have an impact on the distribution rates charged to IGPC for 2020 or the 2020 overall revenue requirement in this application?
c) Does EPCOR intend to submit the amended Gas Delivery Agreement in this proceeding?
d) Does EPCOR require OEB approval of the amended Gas Delivery Agreement that is reached between EPCOR and IGPC?

8.Staff.70
Ref: Exhibit 8 / Tab 1 / Schedule 1/ Pg. 5

EPCOR has proposed to increase the fixed monthly charge from $15.00 to $17.00 to reflect a charge closer to the $21.00 charged by Enbridge Gas Inc. in the surrounding territory. As part of the IRM, EPCOR has also proposed to increase the fixed monthly charge by $1.00 in each year of the IRM period starting 2021 to bring the fixed monthly charge to $21.00 in 2024. EPCOR has indicated that the proposed changes will improve recovery of customer related costs through the fixed charge.

a) Please reference other Ontario regulated utilities that have received OEB approval to increase the fixed monthly charge in excess of the Price Cap adjustment during the IRM period.

b) What portion of customer related costs would be recovered through the fixed monthly charge if it is increased to $21 per month?

8.Staff.71
Ref: Exhibit 8 / Tab 1 / Schedule 1/ Pg. 7

In Table 8.0-5, EPCOR has proposed changes to the Schedule of Miscellaneous and Service Charges. Most of the charges and rates related to service work have been increased.

How do the proposed charges and rates compare to charges for similar services by Enbridge Gas Inc. and the local electric distribution utility? Please provide a table showing the comparison.

8.Staff.72
Ref: Exhibit 8 / Tab 2 / Schedule 1/ Pg. 1 and Exhibit 3 / Tab 2 /Schedule 1/pg.20

The bill impact shown for a typical residential customer uses a volume of 1,780 m^3. However, the average weather corrected consumption for 2020 is 1,920 m^3 for residential customers as determined in the weather normalization calculations.

Please reconcile the two consumption values. Why is the average consumption of 1,920 m^3 not appropriate for bill impact calculations?

8.Staff.73
Ref: Exhibit 8 / Tab 3 / Schedule 2/ Pgs. 10-11 – Conditions of Service

In its Conditions of Service, EPCOR has indicated that all customers will be required to provide a security deposit unless the requirement is waived by EPCOR. Good payment history must be demonstrated for a period of at least one year for residential customers, five years for general service customers and seven years for all other customers.

The security deposit amount is determined based on the average monthly natural gas consumption over the last 12 consecutive months, within the past two years at the specific address where service will be installed. The maximum amount of the security deposit EPCOR may require from a customer shall be 2.5 times the average actual monthly consumption over the past 12 consecutive months or based on an estimate if no consumption record is available. Security deposits on all accounts are reviewed annually to determine if the customer is entitled to a refund or an adjustment is required.

Requests for refund of a security deposit can be made after one year of service for residential customers, five years of service for general service customers and seven years for all other customers.

a) Please indicate whether the security deposit policy applies to all existing customers or those that are moving or obtaining new service.
b) Security deposits on all accounts are reviewed annually to determine if the customer is entitled to get a refund on the security deposit. Please provide the number of accounts that have been reviewed after EPCOR acquired the utility and the number of customers that have been refunded their security deposit or received a corresponding bill adjustment.
c) To the best of EPCOR's knowledge, is the security deposit policy of EPCOR largely in line with Union Gas (now owned by Enbridge Gas Inc.)? If no, please outline the major differences.
d) The deposit amount for Union Gas non-residential customers is a maximum of the three highest consecutive months' usage history or $500 if there is no consumption information available. The deposit is refunded with interest after five years of exhibiting financial stability through a good payment history. Why has EPCOR's refund policy been extended to seven years for other customers (those that are not residential or general service)? Would EPCOR consider reducing the security deposit holding period from seven to five years?
e) Is EPCOR seeking OEB approval for the revised Conditions of Service?

Exhibit 9 – Deferral and Variance Accounts

9.Staff.74
Exhibit 9/ Tab 1/ Schedule 1/Pg. 3
Please provide the updated audited 2018 account balances, rate rider and bill impact summary.

9.Staff.75
Ref: Exhibit 9 / Tab 1 / Schedule / Pg.8

The Transportation Service Charge Deferral Account was established in 2010 to record the revenues recovered through the transmission service charges, including the Transmission Administrative Charge and the Transportation Rate, from natural gas producers that sold gas into Union Gas' system via EPCOR's distribution system. The charges proposed for 2020 are the same as established in 2010.

a) Please explain how the charges were derived.

b) Why has EPCOR proposed the same charges that were established over nine years ago?

9.Staff.76
Exhibit 9/ Tab 1/ Schedule 1/Pg. 11
The balance in the Rebalancing deferral account was approved for disposition and transferred out.

a) Please explain what account the balance was transferred to.
b) For all deferral and variance accounts where an amount has been approved for disposition, what is the accounting treatment for the approved amounts (e.g. are the approved amounts transferred to a separate account)?
    i. Please confirm that if there is any under/over refund/collection of amounts approved for disposition, there is no true up to the approved amount (i.e. the equivalent of Account 1595 for electricity distributors)? If not confirmed, please explain.
    ii. Historically, has the under/over collection/refunds been material?

9.Staff.77
Exhibit 9/ Tab 1/ Schedule 1/Pg. 18
Exhibit 2/ Tab 1/ Schedule 1/Pg. 6

a) EPCOR proposes to establish a Loss on Disposal of Meters deferral account to record forecasted disposal losses in 2020. Please explain why the forecasted loss is not included in the revenue requirement but requested to be included in a deferral account.
b) Please explain whether EPCOR has included any gains and losses from asset disposals in revenue requirement. If yes, please indicate where in the application. If no, please explain why not.

9.Staff.78
Exhibit 9/ Tab 1/ Schedule 1/Pg. 19
Exhibit 10/ Tab 1/ Schedule 1/Pg. 8
EPCOR proposes to establish a Recovery of Income Tax deferral account to record differences between taxes in the revenue requirement and actual taxes paid. EPCOR expects the amount to exceed the materiality threshold.

a) Please explain the basis of this expectation, including the main factors leading to an increase in taxes in future years.
b) Please provide an approximate calculation of the future taxes payable.
c) Please explain why EPCOR is proposing to establish the Recovery of Income Tax deferral account and have a separate mechanism to record impacts of legislated tax changes during the IR period instead of having just one deferral account to capture all tax impacts.

Exhibit 10 – Incentive Rate-setting Proposal

10.Staff.79
Ref: Exhibit 10 / Tab 1 / Schedule 1/ Pg.3

EPCOR has proposed a stretch factor of 0.3% for the Price Cap adjustment. A stretch factor of 0.3% is consistent with the stretch factor approved in the Enbridge Gas Distribution and Union Gas 2019-2024 Price Cap IR plan (EB-2017-0306/07) and the stretch factor assigned for mid-range electricity distributors (Enbridge Gas Distribution and Union Gas are now both owned by Enbridge Gas Inc.). EPCOR has further noted in its evidence that although its lacks external benchmarking to support the proposed stretch factor, EPCOR'S OM&A costs per customer have declined after the acquisition.

a) The stretch factor denotes the cost efficiency of an individual distributor based on the results of a benchmarking study. On what basis did EPCOR determine that its distribution operation is as efficient as Enbridge Gas Distribution and Union Gas? Please provide any supporting evidence.
b) In NRG's last IR framework, a stretch factor of 0.4% was approved (EB-2010-0018) which was further extended for another two years with the same parameters (EB-2014-0274). In EPCOR's 2018 IR proceeding (EB-2018-0235) where the IR framework was extended for the period 2017 to 2019, a stretch factor of 0.4% was approved through a settlement proposal. Please explain why EPCOR is not proposing a stretch factor of 0.4% in this application.

10.Staff.80
Ref: Exhibit 10 / Tab 1 / Schedule 1/ Pgs. 5-7

EPCOR has requested an Incremental Capital Module (ICM) to address the treatment of capital investment needs that arise during the Price Cap IR term. EPCOR notes that in case of a qualifying project that requires a leave to construct application, the request

for approval of the proposed adjustment to rates will be filed with the leave to construct application.

Please explain why rate adjustments related to a qualifying ICM project will be filed in a leave to construct application considering that such adjustments are usually filed in a rates application wherein the OEB considers the total capital budget in the rate year, what is funded through proposed base rates, including the cumulative and combined impact of the price cap adjustments and growth in demand. These numbers may not be known at the time of the leave to construct application. (For further information, please see OEB staff final arguments in EB-2017-0306/07, June 15, 2018.)

10.Staff.81
Ref: Exhibit 10 / Tab 1 / Schedule 1

In its application, EPCOR has proposed a Price Cap IR plan that includes a number of parameters similar to other plan approved by the OEB, including productivity factor, stretch factor, Y-factors, Z-factor adjustments, ICM and an off-ramp. However, EPCOR has not proposed an earnings sharing mechanism (ESM) that has been approved for other OEB regulated gas utilities.

a) Please explain why EPCOR has not proposed an ESM.
b) Would EPCOR consider the ESM that was recently approved by the OEB for Enbridge Gas Distribution and Union Gas Limited in the MAADs proceeding (EB-2017-0306/07)?