Enbridge Gas Inc.
50 Keil Drive North
Chatham, Ontario, Canada
N7M 5M1

June 10, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EPCOR Natural Gas Limited Partnership
Southern Bruce Rates Application
Ontario Energy Board File No. EB-2018-0264

Enbridge Gas Inc. hereby submits interrogatories on the evidence of EPCOR Natural Gas LP pursuant to Procedural Order No. 1 to the above noted proceeding

Should you have any questions on this submission, please do not hesitate to contact me.

Yours truly,

[*Original Signed By*]

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Encl.

c.c. (email only): Bruce Brandell, EPCOR Utilities Inc.
Richard King, Osler, Hoskin & Harcourt LLP
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ENBRIDGE GAS INC.
INTERROGATORIES TO EPCOR NATURAL GAS LP

1. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, pages 14-15
"There are a number of items that were not included in the total gross revenue requirement and as a result the revenue requirement included in the Board's Southern Bruce Expansion Decision is subject to certain adjustments. These include:
    i. Government Grants and Municipal Contributions and Aid to Construction;
    ii. Demand-Side Management (DSM) Costs;
    iii. Cap and Trade Costs;
    iv. Tax holidays from the municipality;
    v. Gas Commodity Costs;
    vi. Upstream Reinforcement Costs; and
    vii. Royalty payments if not recovered through revenue requirement."

    Questions:
    (a) Please provide additional detail on the municipal contributions that EPCOR is receiving. Please provide copies of any agreements that have been established related to these contributions.
    (b) Please provide additional detail on the proposed royalty payments to municipalities. Please provide copies of any agreements that have been established related to these royalty payments.

2. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, pages 19-20
"As the Southern Bruce system is a greenfield project that will be servicing residents who currently receive their energy from other suppliers, all system customers will be new and the impact on individual customers will be a function of the specifics of their existing arrangements. Table 1-3 details the forecast annual bill for the average customer connecting to the system."

    Reference: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 44
    "Following are examples of the average annual bill for customers in the four rate classes as proposed in this Application. The bill examples are for 2020, the first year that all classes of customers are expected to receive service."

    Questions:
    (a) Please confirm that the forecast annual bill in Table 1-3 reflects only distribution-related costs.
    (b) Please provide a schedule similar to Table 1-3 showing total annual bills for customers that includes all charges that will be applied (including the proposed revenue deficiency rate rider, the Federal Carbon Tax and any other applicable charges such as LEAP funding and HST) and provide a breakdown of all bill components.

3. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 21
"EPCOR is requesting that the Board make its Rate Order effective January 1, 2019. In the event that the OEB is not able to provide a Decision and Rate Order in time for EPCOR to implement its rates effective November 1, 2019 (the approximate timeline at which EPCOR expects to start connecting customers), EPCOR requests that the OEB declare the applied for rates interim effective January 1, 2019 and approve rate riders to recover any change between applied for and approved revenue between the implementation date of the OEB's 2019 Rate Order and November 1, 2019."

Question:
Please explain why EPCOR requires a rate order effective January 1, 2019 if it does not expect to connect customers prior to November 2019.

4. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 22
"EPCOR will operate separate business units, one each for the former Natural Resource Gas Limited gas distribution system operated by EPCOR in the Aylmer region and the gas distribution system in the Southern Bruce area. These two gas distribution systems will operate under separate rate schedules and tariffs while sharing certain management and functions so as to increase the efficiencies. Any sharing of management and functions will be governed by a Service Level Agreement ("SLA")."

Question:
Please provide a copy of the referenced Service Level Agreement.

5. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 29
"The Southern Bruce system is a greenfield project with construction scheduled to begin in June 2019 and a targeted substantial completion date of October 31, 2021."

Reference: EPCOR Application, Exhibit 6, Tab 1, Schedule 1, page 3
"Exhibit 6, Tab 1, Schedule 3 contains the construction schedule as included in EPCOR's CIP as well as the most recent revised construction schedule. The revised construction schedule includes prudent mitigation measures to address the impact of the change from the common parameters to one that reflects the expected timing of receipt of a decision on the LTC. Mitigation measures include ordering long lead time steel pipe necessary to support a compressed 2019 construction season and expanding construction effort including working into December 2019. Without these mitigation measures EPCOR would not be able to begin construction and connect customers at the Bruce Energy Center in 2019.

The change in timeline for OEB decision on the construction schedule, after the reasonable mitigation steps taken by EPCOR, has triggered a revenue deficiency of $1.764 million on NPV basis compared to that included in EPCOR's CIP. This includes $1.640 million in distribution revenue and $0.124 million in upstream charges."

Reference: EPCOR Application, Exhibit 6, Tab 1, Schedule 1, page 8
"EPCOR is proposing that the change in distribution revenue requirement adjustment due, distribution revenue deficiency of $1.640 million ($2.324 – $0.224 – $0.460), and deferred recovery of upstream charges of $0.124 million, totaling $1.764 million be recovered through a rate rider applied on a volumetric basis over the 10-year rate stability period."

Question:
Please explain why the delays in the construction and customer attachment schedules results in the need to recover additional revenues through a rate rider versus base rates.

6. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 32
"Customer growth over the 10-year rate stability period is as included in EPCOR's CIP and recreated in Table 1-5 below.

Reference: EPCOR Application, Exhibit 6, Tab 1, Schedule 1, page 5
"Table 6-4 details the number of customers that EPCOR is projecting it will connect under the revised construction schedule. In an effort to further mitigate the impact of the delay, EPCOR is accepting a more aggressive connection rate than detailed in the CIP (connecting 2,384 customers in 2021 versus 1,093 in the CIP). As a result EPCOR is projecting that it will catch up to CIP values in customer connections by the end of 2021."

Question:
Please provide an updated version of Table 6-4 in a format and detail similar to Table 1-5.

7. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 36
"The primary driver of capital expenditures during the 10-year rate stability period is the construction of the greenfield Southern Bruce distribution system as included in EPCOR's CIP and further detailed in its leave to construct application (EB-2018-0263). During the initial years of the rate stability period EPCOR does not expect to incur material maintenance capital. Table 1-8 details the proposed capital expenditures by year during the rate stability period."

Reference: EPCOR Application, Exhibit 2, Tab 1, Schedule 1, page 2
"The summarized continuity schedule of all fixed asset is provided in Table 2-2."

Reference: EPCOR Application, Exhibit 2, Tab 1, Schedule 1, page 3
"The summarized continuity schedule of the external funded fixed assets is provided in Table 2-3."
"The continuity schedule of fixed assets net of the externally funded assets is provided in Table 2-4."

Questions:
(a) Please provide an updated Table 1-8 based on the revised construction and customer attachments schedules.
(b) Please provide updates for Table 2-2, Table 2-3 and Table 2-4 based on the revised construction and customer attachments schedules.

8. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 38
"As detailed in Figure 1-3, there is a downward trend for OM&A costs per customer during the rate stability period. This reflects the fact that certain OM&A costs, including salaries, have a fixed element that has limited sensitivity to the number of customers served. This downward trend also reflects the efficiencies that EPCOR incorporated into its revenue requirement due to the competitive pressures brought to bear as a result of the Board's competitive process."

Question:
Please provide details of the efficiencies that EPCOR has incorporated into its revenue requirement and which cost categories these amounts are found in Table 1-9.

9. ***Reference***: EPCOR Application, Exhibit 1, Tab 2, Schedule 1, page 54
"The criteria used by EPCOR in determining to propose the establishment of the deferral accounts noted above includes:
   i. the materiality of the amount at risk (revenue or expense);
   ii. protection of the ratepayer or the shareholder from benefitting at the expense of the other party related to a variance in the forecast amount;
   iii. the level of uncertainty associated with a forecast of the amount at risk; and
   iv. the factors which influence the variance amount are beyond EPCOR's control and are not factors which EPCOR agreed would be at its risk as part of the competitive process."

Reference: Filing Requirements for Natural Gas Rate Applications (dated February 16, 2017)
According to the current Filing Requirements for Natural Gas Rate Applications, an applicant seeking an accounting order to establish a new deferral or variance account must submit evidence of how the following eligibility criteria will be met:

- *Causation – The forecasted expense must be clearly outside of the base upon which rates were derived*
- *Materiality – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements*
- *Prudence – The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers*

The materiality thresholds differ for each applicant, depending on the magnitude of the revenue requirement. The default materiality thresholds for the establishment of new deferral accounts are as follows:

- *$50,000 for a utility with a revenue requirement less than or equal to $10 million*
- *0.5% of revenue requirement for a utility with a revenue requirement greater than $10 million and less than or equal to $200 million*
- *$1 million for a utility with a revenue requirement of more than $200 million*

Questions:
(a) Please provide an explanation for why EPCOR has established a different set of criteria for its proposed deferral and variance accounts from those established by the OEB.
(b) Please provide details of the materiality thresholds that EPCOR has established for each of its proposed deferral and variance accounts.

10. ***Reference***: EPCOR Application, Exhibit 3, Tab 2, Schedule 2
Municipal Bylaws and Franchise Agreements

"4. Duration of Agreement and Renewal Procedures.
(a) If the Corporation has not previously received gas distribution services, the rights hereby given and granted shall be for a term of 20 years from the date of final passing of the By- law.

(b) At any time within two years prior to the expiration of this Agreement, either party may give notice to the other that it desires to enter into negotiations for a renewed franchise upon such terms and conditions as may be agreed upon. Until such renewal has been settled, the terms and conditions of this Agreement shall continue, notwithstanding the expiration of this Agreement. This shall not preclude either party from applying to the Ontario Energy Board for a renewal of the Agreement pursuant to section 10 of the Municipal Franchises Act."

Reference: OEB 2000 Model Franchise Agreement
"4. Duration of Agreement and Renewal Procedures
(a) If the Corporation has not previously received gas distribution services, the rights hereby given and granted shall be for a term of 20 years from the date of final passing of the By- law.

or

(b) If the Corporation has previously received gas distribution services, the rights hereby given and granted shall be for a term of 20 years from the date of final passing of the By-law provided that, if during the 20 year term of this Agreement, the Model Franchise Agreement is changed, then on the 7th anniversary and on the 14th anniversary of the date of the passing of the Bylaw, this Agreement shall be deemed to be amended to incorporate any changes in the Model Franchise Agreement in effect on such anniversary dates. Such deemed amendments shall not apply to alter the 20 year term.

(c) At any time within two years prior to the expiration of this Agreement, either party may give notice to the other that it desires to enter into negotiations for a renewed franchise upon such terms and conditions as may be agreed upon. Until such renewal has been settled, the terms and conditions of this Agreement shall continue, notwithstanding the expiration of this Agreement. This shall not preclude either party from applying to the Ontario Energy Board for a renewal of the Agreement pursuant to section 10 of the Municipal Franchises Act."

Reference: RP-1999-0048 – Report to the Board, December 29, 2000, page 28
"The Panel is concerned that the wording suggested by AMO and the Gas Companies is ambiguous. It is important to clarify that <u>the initial term is 20 years if the municipality has not previously received gas distribution services</u>. In all other circumstances the term is for 20 years, and if the 2000 MFA is changed, except for the 20-year term, then on the 7th anniversary and the 14th anniversary the franchise would have the option of performing the obligation at the defaulting party's expense, or taking action for an order of specific performance directing the defaulting party to fulfill its obligations under the franchise agreement, and, if successful, all legal costs related to such court action would be paid by the defaulting party to the non-defaulting party on a solicitor/client basis."

Question:
In EPCOR's opinion, does the phrase from clause 4(b) in the Model Franchise Agreement "if the Corporation has previously received gas distribution services" refer to gas distribution service from the same distributor with whom the municipality is signing the agreement or does it refer to any supplier of gas distribution services?

11. ***Reference***: EPCOR Application, Exhibit 10, Tab 1, Schedule 1
For the duration of the Custom IR period (i.e., years 2 through 10, from 2020 through 2028 inclusive), EPCOR is proposing a rate adjustment mechanism that would adjust rates annually. This mechanism is composed of two elements and is intended to affect both the "Stabilization Factor" EPCOR applied when calculating the cumulative revenue requirement in its CIP as well as the inflation factor imbedded in OM&A expenses. Each of these values (cumulative revenue requirement and forecast inflation) are as determined by the OEB's Southern Bruce Expansion Decision. The Stabilization Factor was applied against that part of the annual revenue requirement other than that necessary to recover OM&A expenses. The Stabilization Factor and forecast inflation used by EPCOR in determining its revenue requirement was 1.27%.

EPCOR is proposing that the annual Incentive Rate Adjustment include a factor to adjust the forecast inflation factor applied to the OM&A portion of the Monthly Fixed Charge and Delivery Charge of each rate schedule to reflect actual inflation. In addition, the Stabilization Factor of 1.27% be applied against the remaining portion of Distribution Charges. For ease of calculation, EPCOR is proposing that in each year's IR adjustment, inflation be applied against 31.6% of that year's Distribution Charges for each rate class (i.e., cumulative distribution revenue requirement is $58.141 million and cumulative OM&A is $18.36 million so cumulative OM&A is $18.36M / $58.141M = 0.3158 of cumulative distribution revenue).

EPCOR proposes to calculate the inflation factor by using a 2-factor Input Price Index (IPI) methodology. To calculate the 2-factor IPI, EPCOR proposes to use the year-over-year change in the GDP-IPI (FDD), and the AWE (Average Weekly Earnings) All Employees-Ontario. The percentage change will be calculated as the weighted sum of 70% of the annual percentage change in the GDP-IPI (FDD) for the prior year relative to the index value for two years prior and 30% of the annual percentage change in the AWE for the prior year relative to the data for two years prior.

EPCOR is not proposing any productivity or stretch factors in its annual rate adjustment formula claiming that it has already applied productivity and stretch factors into in the proposed 10-year revenue requirement.

EPCOR's proposed Custom IR plan does not include an Earnings Sharing Mechanism (ESM) because, in EPCOR's opinion, rate protection has already been incorporated as a result of the competitive process and the symmetrical risk related to achieving a rate of return on equity assumed by EPCOR.

Reference: Handbook to Utility Rate Applications, October 13, 2016, page 25
"Index for the Annual Rate Adjustment: The annual rate adjustment must be based on a custom index supported by empirical evidence (using third party and/or internal resources) that can be tested. Custom IR is not a multi-year cost of service; explicit financial incentives for continuous improvement and cost control targets must be included in the application. These incentive elements, including a productivity factor, must be incorporated through a custom index or an explicit revenue reduction over the term of the plan (not built into the cost forecast).

The index must be informed by an analysis of the trade-offs between capital and operating costs, which may be presented through a five-year forecast of operating and capital costs and volumes. If a five-year forecast is provided, it is to be used to inform the derivation of the custom index, not solely to set rates on the basis of multi-year cost of service. An application containing a proposed custom index which lacks the required supporting empirical information may be considered to be incomplete and not processed until that information is provided."

Questions:

(a) Please provide details of where the explicit financial incentives for continuous improvement and cost control targets are included within EPCOR's application.
(b) Please explain in detail why EPCOR has not followed the OEB's directions that incentive elements, including a productivity factor, must be incorporated through a custom index or an explicit revenue reduction over the term of the plan (not built into the cost forecast).
(c) Please confirm EPCOR's understanding that an earnings sharing mechanism protects customers from a distributor realizing excess earnings.
(d) Please provide details of the regulatory process that EPCOR envisions for its annual rate adjustments.

12. ***Reference***: EPCOR Application, Exhibit 10, Tab 1, Schedule 1, page 6
"EPCOR proposes an Incremental Capital Modules ("ICM") in its Customer IR Plan. An ICM would be filed in the event of capital expenditures associated with an expansion of the Southern Bruce system incremental to the system EPCOR included in its CIP."

Reference: *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 and Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016.*

Question:
Please confirm EPCOR's understanding that ICM applications during a deferred rate rebasing term are used to recover costs associated with qualifying incremental capital investment beyond what is normally funded through approved rates consistent with the OEB-established policy on ICM and that qualifying incremental capital investments are discrete projects that satisfy the criteria documented in the referenced OEB reports.

13. ***Reference***: EPCOR Application, Exhibit 10, Tab 1, Schedule 1, page 7
"EPCOR proposes to include an adjustment for tax changes in its Custom IR plan. EPCOR proposes the 50/50 sharing of impacts of legislated tax changes from EPCOR's tax rates known at the time of this Application and embedded in the rates if approved by the OEB. EPCOR proposes the use of a rate rider (calculated annually as applicable) for these amounts to be recovered from or refunded to customers over a 12-month period."

Question:
Please explain why EPCOR would not use a deferral account to track tax changes as has been determined by the OEB in previous proceedings.