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ONTARIO ENERGY BOARD

FILE NO.:	**EB-2017-0306**	**Enbridge Gas Distribution Inc.**
	EB-2017-0307	**Union Gas Limited**

VOLUME: **Technical Conference**

DATE: **April 3, 2018**

EB-2017-0306
EB-2017-0307

THE ONTARIO ENERGY BOARD

Enbridge Gas Distribution Inc. and Union Gas Limited.

Enbridge Gas Distribution Inc. and Union Gas Limited Application for Amalgamation and Rate-Setting Mechanism

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Tuesday, April 3, 2018,
commencing at 9:30 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

MICHAEL MILLAR	Board Counsel
KHALIL VIRANEY KEITH RITCHIE LAWRIE GLUCK	Board Staff
FRED CASS BONNIE ADAMS ANDREW MANDYAM VANESSA INNIS	Enbridge Gas Distribution Inc./Union Gas Limited
JOHN VELLONE *	Association of Power Producers of Ontario (APPrO)
TOM BRETT	Building Owners and Managers Association, Toronto (BOMA)
SCOTT POLLOCK*	Canadian Manufacturers & Exporters (CME)
JULIE GIRVAN	Consumers' Council of Canada (CCC)
TOM LADANYI BRADY YAUCH	Energy Probe Research Foundation
JOSYANE FORTIN	Energir
DWAYNE QUINN	Federation of Rental-housing Providers of Ontario (FRPO)
JAYA CHATTERJEE GREG ST. LOUIS	City of Kitchener
RANDY AIKEN *	London Property Managers' Association (LPMA)
DAN VALENTE	National Grid Gas Delivery Cos.

*appearing by teleconference

A P P E A R A N C E S

JAY SHEPHERD	School Energy Coalition (SEC)
LINDA WAINEWRIGHT*	Six Nations Natural Gas
LISA JAMIESON	TransCanada Pipelines Limited (TCPL)
DOUG CARTER DAN VALENTE	Unifor
MARK GARNER	Vulnerable Energy Consumers' Coalition (VECC)

*appearing by teleconference

I N D E X   O F   P R O C E E D I N G S

I N D E X   O F   P R O C E E D I N G S

E X H I B I T S

U N D E R T A K I N G S

U N D E R T A K I N G S

U N D E R T A K I N G S

Tuesday, April 3, 2018

--- On commencing at 9:30 a.m.

MR. MILLAR: Good morning, everyone. Let's get started. This is Day 3 of the technical conference for the Union-Enbridge MAADs application. We are continuing with panel 3, after which we will move on to panel 2.

I remind parties that this is the last day for the technical conference, so we need to finish. I have gotten time estimates from many of you, and I think we should be okay to do that, but I do ask you to try to keep to your time estimates.

PRELIMINARY MATTERS:

Mr. Cass, I think, had a couple of minor preliminary matters, and then, Mr. Quinn, I'd asked you to go first. Mr. Viraney actually has one very quick very follow-up question, and he was going to do that first if that's okay with you, and then we'll move to you, but let's start with you, Mr. Cass.

ENBRIDGE GAS DISTRIBUTION INC./UNION GAS LIMITED - PANEL 3, RESUMED

Mark Kitchen

Kevin Culbert

Dave Charleson

Jim Redford

Anton Kacicnik

Amy Mikhaila

Wendy Zelond

MR. CASS: Thank you, Mike. The witness panel has a couple of corrections to make. I'd ask them to do that now before the questions start.

PROCEDURAL MATTERS:

MR. KITCHEN: I wonder if people could turn up the transcripts from March 28th, page 73. I turn your attention to lines 20 through 28. It was an exchange between myself and Mr. Shepherd.

Over the weekend, and having reviewed the IRs, I was -- I found that I was in error, actually, that we did not have a preliminary indication to support the X-factor of zero in the July board memo, and that X-factor of zero was really there based on management's view that after being in incentive regulation for almost 15 years, and having gained -- picked most of the low-hanging fruit and gained as much productivity as we thought we could, an X-factor of zero would be appropriate.

We did, however, have a preliminary indication in support of the board memo -- or the board deck for October.

MR. SHEPHERD: Can I ask a follow-up on that before you go on?

MR. KITCHEN: Certainly.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Did you communicate management's view to the expert?

MR. KITCHEN: No.

MR. SHEPHERD: But you knew that that was his longstanding opinion?

MR. KITCHEN: Whose longstanding opinion?

MR. SHEPHERD: Dr. Makholm has written extensively on this, and he said exactly the same thing.

MR. KITCHEN: I did not know at the time, no. I had not read anything from Mr. Makholm.

MR. SHEPHERD: I wasn't asking whether you knew, I was asking whether the company knew. "You" meant the company.

MR. KITCHEN: No.

MR. SHEPHERD: So when you retained Dr. Makholm, you didn't know what his views were?

MR. KITCHEN: Correct.

MR. MILLAR: Is that all the corrections, Mr. Cass?

MR. CASS: There was one more, Mike.

PROCEDURAL MATTERS:

MS. ZELOND: Yes. If we could turn to CCC 7, please. For the Union head count information, year 2018, the number should read 2,252.

MR. CASS: Thank you, Mike. We can file an updated version of that interrogatory response, but those were the only corrections to be made at this time. Thank you.

MR. MILLAR: Great. Thank you very much.

Just before we start with our questions, a reminder for those listening in over the phone, do try not to join us in progress. If you have to leave you can join us again on a break or just listen in through the webcast.

Mr. Viraney, you had a follow-up --

FOLLOW-UP QUESTIONS BY MR. VIRANEY:

MR. VIRANEY: Yes, I just have a follow-up question.

This refers to the exchange between Mr. Redford and

Mr. Garner, and that was on March 29th, and I'm looking at the transcript. It is pages 163 and 164.

Am I understanding correctly that one of the reasons that Union would not be able to use the excess storage capacity up to 100 pJs to serve Enbridge's in-franchise customers would be because it would require changes to cost allocation?

MS. MIKHAILA: Sorry, is it a reference in the transcript related to the --

MR. VIRANEY: Yes, it is 164, and it is on the first full paragraph. It says:

> "But from a cost allocation perspective we've tried to keep the Union South, Union North, and EGD zones whole to where they are today."

MS. MIKHAILA: I don't think there would be a requirement to change the cost allocation that underlies the cost studies in order to execute this type of thing that was being discussed, EGD rate zone using Union's excess utility storage space. However, there is a benefit to Union's rate classes today in rates associated with that space.

MR. VIRANEY: So Union could provide the excess storage capacity without any changes to cost allocation?

[Witness panel confers]

MS. MIKHAILA: I don't think there would be a requirement to change cost allocation. However, there may be a requirement to change the rates to remove the benefit that -- or to remove the benefit that the customers currently get.

MR. VIRANEY: Yes, so I believe if you are using the excess storage, then there wouldn't be any sharing in short-term storage revenues, because there wouldn't be any revenues. You would be providing the storage at cost-based rates to Enbridge's in-franchise customer?

MS. MIKHAILA: Yes, that is what would have to happen.

MR. KITCHEN: I think what Ms. Mikhaila is saying, though, in rates currently for in-franchise customers there is four-and-a-half million dollars associated with that short-term storage that would have to be removed.

MR. VIRANEY: So you would have to remove the four-and-a-half million and then you could proceed with the --

MR. KITCHEN: Yes.

MR. VIRANEY: Okay. Thank you.

MR. MILLAR: Thank you, Mr. Viraney --

MR. SHEPHERD: Can I follow up on that? If you remove that four-and-a-half million, where would it go?

MS. MIKHAILA: Union's in-franchise rate classes would increase and the cost associated with that excess utility storage space would be borne by EGD rate zone customers.

MR. SHEPHERD: Sorry, you are losing me. You reduce one of the -- you increase the rates for Union. Who gets that money?

MS. MIKHAILA: Currently there's a benefit that includes costs associated with excess utility storage space and associated market-based revenues, so there's an S&T margin item in Union's rates that would increase if -- so they are currently covering the cost, but it is offset by a greater amount of revenue.

MR. SHEPHERD: That doesn't answer the question: Who gets the four-and-a-half million dollars? Does the company get the four-and-a-half million -- does that go to your bottom line?

MS. MIKHAILA: No, it would not.

MR. SHEPHERD: Well, then who gets it?

MS. MIKHAILA: The benefit of selling that space at market-based prices would no longer exist.

MR. SHEPHERD: Well, it doesn't exist anyway, whether you make this change or not, if it's gone it's gone, and the question is: Who is going to get the benefit?

MR. KITCHEN: I think we are missing each other here. There is incremental margin associated with that short-term storage space that is reducing southern delivery rates.

MR. SHEPHERD: Yes.

MR. KITCHEN: If we no longer sell that space at market, then the four-and-a-half million dollars no one gets, right? So what happens is there's basically the four-and-a-half million dollars that either we would get otherwise by selling the space, is -- we no longer get and that no longer can be attributed to customers.

MR. SHEPHERD: But you're only going to stop selling it if the Board tells you to stop selling it, otherwise you can keep getting this money, right?

MR. KITCHEN: The ratepayers get the money.

MR. SHEPHERD: No, understood. So why would you stop selling it?

MR. KITCHEN: We are not proposing to.

MS. MIKHAILA: This is something that was raised by --

MR. KITCHEN: This was raised by Board Staff as a scenario or a hypothetical.

MR. SHEPHERD: And you would stop selling it because you would offer it instead to Enbridge customers; right?

MR. KITCHEN: At cost. That was the hypothetical.

MR. SHEPHERD: Okay, thank you.

MR. GARNER: Can I follow up, because I am confused --

MR. SHEPHERD: So, sorry, let me just finish. So they would benefit. The Enbridge customers would benefit from getting that storage at cost, which they don't now, right?

FOLLOW-UP QUESTIONS BY MR. GARNER:

MR. GARNER: Which is difficulty if you don't change the cost allocations is where I'm getting lost.

Here's where I am getting lost. There is conceptually a $4.5 million benefit, right? It is basically the benefit being sold at market rates.

It seems to me that that benefit -- I know it varies and there is an accounting of it, but that benefit, in essence, has to get reallocated over to Enbridge customers in order for the whole thing to become whole, if you know what I mean, because it's going from the Union customer basically over to the Enbridge customer as part of that storage.

Now, I know it's not the 4.5 million exactly, but that is conceptually the benefits occurring right now.

So I what I think Board Staff -- and we were asking kind of if the Board were inclined to review storage as a whole item, it seems to me there are two ways to do it. One is cost allocation to remove that amount and transfer the benefit that way. The other way conceptually could be to take the $4.5 million basically and move that over, and somehow share that with the Enbridge customer who is going to use that storage.

And I don't know how you do that. It just seems to me that's the value that needs to be shared some way back to Enbridge.

MR. KITCHEN: I think -- just talking amongst ourselves, but the undertaking that we took from Mr. Gluck I think will address that, because it is going to address what the impact is of removing the of $4.5 million benefit from Union and replacing that excess utility space with cost-based storage for EGD.

So there's going to be an accounting of it in the undertaking. I think it would be easier to discuss it once you see the table, and we'll explain the table to show you how that works.

MR. MILLAR: Can we move on to Mr. Quinn now?

QUESTIONS BY MR. QUINN:

MR. QUINN: Thank you, Mr. Millar. Good morning, panel.

I had advanced a couple of -- an email with an attachment and a further clarification in the email.

I understand, through discussion with Mr. Charleson, that Enbridge is still working on the storage matrix criteria in terms of formatting. So I don't want to address those questions yet.

But is it possible we would be able to see that at the break, and then could I ask any questions before this panel steps down?

MR. CHARLESON: Obviously I'm not working on the formatting right now as I'm sitting here. But if the Staff that are working on that have something by the break, we can look to discuss it at that time, or I'm happy to discuss it sooner.

MR. QUINN: Okay, that's -- I think it will be more effective if I could see it, Mr. Charleson, but thank you for trying to accommodate.

Secondly, there was a question on governance that -- it was FRPO 10 that I put in my email. Is the company prepared to take an undertaking just to rewrite the answer to that question, given the Board has now issued the draft report on governance?

MR. KITCHEN: No, we are not and I'll tell you why. The Board's report, the draft report that was issued on the 28th is just that, a draft report.

They've asked for comments by April 27th. The companies will consider that report and make submissions on the 27th.

I don't think there is anything that changes as part of our response. And as I've said, it's only a draft report at this point and until we have had a chance to review it, I don't think there is anything to change.

MR. QUINN: We'll look forward to reading your comments and we can discuss it at the hearing then.

Lastly, there were questions in the transcript on pages 104 to 109 when I was trying to understand with the first panel the intra-utility shared services and where the savings can be found on the system's integration between Enbridge and Spectra.

MR. KITCHEN: Excuse me, Dwayne? What day, the 28th?

MR. QUINN: First day, panel 1. I was asking questions on the transcript on pages 104 to 109. We were trying to get there, and I was directed to ask these questions of panel 3 by yourself.

If you don't have an answer to that, I can ask it after the break with the storage matrix.

MR. KITCHEN: Just if you could point me to that part of the transcript, I can take a look.

MR. QUINN: Starting at page 104 through 109, I was trying to ask questions about intra-utility shared services that would be coming as a result of reduction of costs at the corporate level when EI and Spectra were merging their systems. And twice I was asked to leave it for panel 3.

MR. KITCHEN: I guess what I am confused about, Mr. Quinn, is are you asking if this panel can address the issues you raised, or are you asking a question? Like we said it would be panel 3; this is panel 3.

MR. QUINN: My question is: Where do we find those savings? We've gone through the respective categories the utilities have estimated in terms of what their cost would be and what their savings may be.

I was asking specifically about the shared services at the corporate level and if the corporate cost would be reduced as a result of the merging of EI and Spectra, where do we find those savings in the estimates that were presented by Union in FRPO 1.

MS. ZELOND: If we can pull up CCC 14, please? Any savings that arose in 2017 or that we are forecasting for 2018 coming from the merger between Spectra and Enbridge are not material to the utilities.

So under $2 million to give -- to help define the materiality for you.

MR. QUINN: Translating that answer, you are saying that with the integration of the parents, the transfer payments between the utilities and their single corporate parent, the delta on those -- the change in those transfer payments would be less than $2 million?

MS. ZELOND: That is correct.

MR. SHEPHERD: Could I ask a follow-up on that?

MR. QUINN: I was going to ask if there is any detail that supports that. Do you have an analysis that shows that somewhere?

MR. KITCHEN: It doesn't want me to talk.

MS. ZELOND: Sorry, I can't get the microphone to turn on. Yes, we can provide detail for you on those amounts.

MR. MILLAR: That will be JT3.1.

UNDERTAKING NO. JT3.1: TO PROVIDE DETAIL SUPPORTING

THE CHANGE IN TRANSFER PAYMENTS

MS. ZELOND: One other comment on that. I did want -- this will be a net amount as with the savings are also cost associated to receive these savings. So it will be both a savings and a cost, so it will be a net amount.

MR. QUINN: As long as we can get a breakdown of how you -- the respective categories of legal or whatever other...

MS. ZELOND: Yes.

MR. QUINN: Okay, thank you.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I ask my follow-up now? Have you put the treasury functions together?

MS. ZELOND: So both utilities receive treasury support from corporate, and that was the same under both legacy Spectra model as well as legacy...

MR. SHEPHERD: Except that Union received treasury support from Houston, and now it is receiving it from Calgary, right?

MS. ZELOND: That's correct.

MR. SHEPHERD: Did you double the size of your treasury department in Calgary? And I hope they're listening because there's a "yeah!"

You didn't, right?

MS. ZELOND: I do not know how the treasury department -- the number of individuals in the treasury department. But what I will say is that with both Enbridge Gas Distribution and Union Gas having two separate entities, they still file debt separately, and we still have all the same reporting requirements and treasury requirements as two individual entities.

MR. SHEPHERD: Do you have the -- this is RCAM; right? The charge-out function is called RCAM?

MS. ZELOND: For EGD, correct.

MR. SHEPHERD: Okay, and so do you have the 2016 and 2018 breakdowns of RCAM and the equivalent for Union that you could provide us? Or could you include that in the undertaking?

MS. ZELOND: If you go to CCC 15, please?

MR. SHEPHERD: Yes.

MS. ZELOND: This response has RCAM for 2013 through 2017 for EGD.

MR. SHEPHERD: I understand that, so what I'm asking for is the equivalent for Union and 2018.

MS. ZELOND: So if we can go down two pages -- one more, thank you -- so Union Gas does not utilize the RCAM methodology, but rather affiliates and affiliate charges back and forth. This is the detail for Union that is closest representative to EGD.

MR. SHEPHERD: Okay. So do you have the 2018 for Enbridge?

MS. ZELOND: The 2018 amount for Enbridge in the response a few pages up is 50.2 million, and that the -- that the service allocation have not been finalized yet.

MR. SHEPHERD: Sorry --

MS. ZELOND: Sorry, it's in the answer. One more page.

MR. SHEPHERD: Oh, okay.

MS. ZELOND: Yeah, right there.

MR. SHEPHERD: But you don't have a breakdown for it?

MS. ZELOND: That is correct.

MR. SHEPHERD: How can you charge it if you don't have a breakdown? It's 2018 now. You are paying it now. I don't understand.

[Witness panel confers]

MS. ZELOND: This is the Board-approved methodology that EGD has been doing consistently through the years, so we have had no changes to that.

MR. SHEPHERD: The 50.2 is a placeholder, but you are paying it now. So I'm trying to understand what the breakdown is of that 50.2. You can't pay it unless you have an underlying support for it. That's the rule.

MS. ZELOND: As with our normal process, this is completed at the end of the year. We have not changed our process related to RCAM in 2018.

MR. SHEPHERD: All right. Fine, thanks.

MS. GIRVAN: Excuse me, I had a follow-up question just to something you said earlier. You said that currently with the finance function that Enbridge and Union have to file everything separately, but that's going to change January 1st, 2019; is that correct?

MS. ZELOND: That is correct. Under Amalco we will be a single entity and have one financial reporting, one annual report, and those documents. That is correct.

MS. GIRVAN: Okay, thank you.

CONTINUED QUESTIONS BY MR. QUINN:

MR. QUINN: Back to me? Okay. Thank you. Okay. Moving on to something different then, I also forwarded on the weekend a simple attachment of the schematic for the Dawn-Parkway system that would be helpful. I don't know if Ms. Adams can pull that up. If not, we can just -- thank you. Thank you, Bonnie.

Okay. I want to walk through this quickly, but at a sufficient pace so we have a proper understanding. Just to start at Parkway, Union's ability to meet its Parkway commitments to the contracts that they have, is it true that it is the Dawn-Parkway capacity plus what Union gets as an obligated DCQ from direct purchase customers? Is that a simple way of saying this is how you meet your Parkway contractual obligations?

MR. REDFORD: That's correct. We would use Parkway deliveries to meet our obligations, and which would basically mean that the Dawn-Parkway system is smaller than it otherwise would be --

MR. QUINN: That's the committed quantities from direct purchase customers allows the Dawn-Parkway system to be smaller in size because you use those as a component of your streams to be able to meet your Parkway obligations? Are we on the same page?

MR. KITCHEN: That's correct, Dwayne. As Mr. Redford said, the Dawn-Parkway system is smaller than it otherwise would be, absent the Dawn-Parkway deliveries, and all customers benefit from that.

MR. QUINN: Okay. Thank you.

So going to the other end of the system, obviously you have got to fill the Dawn-Parkway system, and I don't know that you need to turn it up, but I was interested in reviewing SEC 23 and 24 together.

I would ask, why don't we just stay with this picture for now, but there were a -- Union and Enbridge provided their respective withdrawal capabilities from storage, and the sum total of those storage withdrawal capabilities wasn't the capacity of the Dawn-Parkway system, the takeaway capacity.

So is it true then Union uses delivered above-ground gas at Dawn to ensure that when it's combined with the withdrawal capabilities from storage Union's able to fill the Dawn-Parkway system on a peak day?

MR. REDFORD: Yeah, that's included in our gas supply plan, so when we look at in-franchise deliveries in particular we will deliver gas into Dawn. Some goes into Kirkwall, and that helps us fill our in-franchise needs down the pipeline.

Customers that have Dawn-Parkway transportation are obviously going to have to give us gas supply at Dawn, whether that comes out of storage or whether that comes out of being purchased in the market at Dawn or whether that's brought in on one of the pipelines, Great Lakes, Vector or what-have-you, so their obligation is to get us gas to move down the system.

MR. QUINN: Okay. Thank you, Mr. Redford. I want to just focus on that aspect --

MR. REDFORD: And just -- Mr. Quinn, just to point out too that the withdrawal capabilities that are in SEC 23 are really design day withdrawal capabilities. The facilities can do more than that, but we typically will provide our withdrawal capabilities on a design day basis.

MR. QUINN: I want to stick with the design day so we have a baseline, Mr. Redford, so thank you for emphasizing that.

So if we look on those delivered quantities at Dawn, are those quantities committed quantities from direct purchase customers? Is there an obligation?

MR. REDFORD: Some of it would be delivered at Dawn by direct purchase customers; some of it would be our in-franchise supply coming in. Some of it would be from third parties bringing gas to Dawn as well.

MR. QUINN: Okay, so if we -- I will start in the middle and then work back to the front. Your in-franchise deliveries, you are in control of those deliveries, so it doesn't have to be obligated, but you control where that gas arrives; correct?

MR. REDFORD: That's correct.

MR. QUINN: Okay. So then the direct purchase customers, specific to those deliveries, are they obligated? Is there a contractual obligation to deliver to that point that Union is counting on?

MR. REDFORD: There are obligated deliveries and there are some non-obligated deliveries as well.

MR. QUINN: Okay. I know you wouldn't have this number off the top of your head, so if you could just maybe by undertaking what percentage of those direct purchase obligations -- of direct purchase deliveries that Union is counting on for their peak day are obligated. That should just be part of your simple gas supply plan at a high level.

MR. REDFORD: At Dawn?

MR. QUINN: At Dawn, yeah.

MR. REDFORD: We can do that.

MR. QUINN: Okay. Thank you.

MR. MILLAR: That's JT3.2.

UNDERTAKING NO. JT3.2: TO ADVISE WHAT PERCENTAGE OF DIRECT PURCHASE DELIVERIES THAT UNION IS COUNTING ON FOR THEIR PEAK DAY ARE OBLIGATED.

MR. QUINN: Okay. So turning to Enbridge then, Enbridge obviously is delivering gas to you from Tecumseh. Is there anything between Enbridge and Union that commits Enbridge's quantities coming in from Tecumseh to Union on a peak day?

MR. CHARLESON: Nothing that would commit the volume of deliveries into Dawn on a peak pay day.

We would hold transportation capacity that we had the ability to nominate for and fill. And then we would elect to determine, based on our daily gas supply plan, what volume we would be looking to pull from storage and move into Dawn, similarly to what supplies we may be bringing off other pipelines like Vector through Dawn to move through the Dawn Parkway system.

MR. QUINN: So, Mr. Charleson, if I may then -- thank you. To fill your M12 pipe, which is in the record somewhere else about 2.7 pJs roughly, are you counting on any of your winter firm contracts into Dawn to supplement your deliveries from Tecumseh to fill your M12 pipe on your peak day?

MR. CHARLESON: Yes, there will be a mix of supply that we're bringing to Dawn to move through Dawn our M12 contract.

MR. QUINN: Similar to Mr. Redford, would you be able to, just by undertaking, provide what percentage is deliverability from Tecumseh and what is firm deliveries from Dawn?

MR. CHARLESON: On a peak day?

MR. QUINN: Yes, on a peak day. And I said firm deliveries from Tecumseh, but you can break down Tecumseh and other storage that you may hold with Union deliverability. So I'm trying to break out storage deliverables and above-ground firm deliveries; that's the percentage I'm looking for.

MR. CASS: Dwayne, can you shed any light on where this is going in relation to the issues in the case?

MR. QUINN: Mr. Cass, we had some discussions late on Thursday around storage and the utilization of storage under Amalco, and I understand the detailed plans are not integrated.

So I am looking at today, how is it done today, so we can get our heads wrapped around what it might look like under Amalco and what issues that might create for the Board -- if that's helpful.

MR. CASS: Okay, thank you.

MR. CHARLESON: We can provide that breakdown.

MR. QUINN: Thank you, Mr. Charleson.

MR. MILLAR: JT3.3.

UNDERTAKING NO. JT3.3: TO ADVISE WHAT PERCENTAGE IS DELIVERABILITY FROM TECUMSEH AND WHAT IS FIRM DELIVERIES FROM DAWN

MR. QUINN: And lastly in this specific area related to SEC 23 and 24, all the assets appear to be from Ontario.

Can the companies undertake to provide any assets that are owned under the EI umbrella for storage and transportation assets outside of Ontario that link into Ontario?

MR. REDFORD: Are you referring to -- for instance, SEC 324 was a list of Ontario pools.

Are you talking about other storage facilities in the geographic market that is owned by Enbridge or Spectra?

MR. QUINN: Yes, that's probably a good boundary, Mr. Redford, is the geographic market area -- for our purposes, anyway, so yes.

MR. REDFORD: So that storage on transportation, are you looking at the same, those that would be in the geographic market?

MR. QUINN: Yes.

MR. REDFORD: And connected to Dawn?
MR. QUINN: And connected to Ontario specifically, not just Dawn.
MR. REDFORD: I don't think any -- I would have to check on the storage, whether there is any -- there is none included in the table in SEC 23.
There is capacity for a Vector Canada, for instance, that Enbridge owns 60 percent of. It's included in the table on SEC 24. I guess what we could check is are there any others that are missing from this table within the geographic market.
MR. QUINN: And the geographic market area. That would be helpful, Mr. Redford.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I follow-up on that, Dwayne? We were going to ask the question; we were actually going to ask it a little more broadly.
You have interests -- the corporate group have interests in a number of storage and transportation assets that directly or indirectly serve -- can serve the Ontario market, and that is not limited to ones in Ontario, right? That includes ones outside of Ontario?
MR. REDFORD: Yes. A good example is Vector; there is a Vector pipeline.
MR. SHEPHERD: So what we'd like to make sure is that your undertaking includes every -- all the storage or transportation assets in which you have an interest that could be used in serve Ontario. Can you do that?

MR. REDFORD: I think we could do that. I think a premise would be is that it would have to have a realistic ability to serve Ontario or the Dawn market.

MR. SHEPHERD: Okay.

MR. REDFORD: Not -- I think that would be the frame of reference that we'd use.

MR. MILLAR: So that is JT3.4.

UNDERTAKING NO. JT3.4: TO INCLUDE ALL THE STORAGE OR TRANSPORTATION ASSETS IN WHICH ENBRIDGE OR SPECTRA HAVE AN INTEREST THAT COULD BE USED TO SERVE ONTARIO

CONTINUED QUESTIONS BY MR. QUINN:

MR. QUINN: Thank you, Mr. Millar. Mr. Redford, just to be clear, you keep saying the Dawn market and I'm saying Ontario. If you could you make sure it's Ontario, because Niagara isn't necessarily considered the Dawn market, but in some people's view it would be. But it certainly would be serving Ontario.

MR. REDFORD: That's why I started with the geographic market.

MR. QUINN: That's great, so serving Ontario is what we'd be...

MR. REDFORD: Yes, serving Ontario. That's fair.

MR. QUINN: Thank you. I was just going to say a few pages back, but there's a bunch of pages. SEC 3, if you could turn that up, please, and thank you.

This was a request by SEC under the Competition Bureau and if we could move to the answer, I guess it is in fact at the bottom of the page.

It says:

"The fact that the Bureau issued no action letter and did not review its decision within the following year represents a clear conclusion that the parent company merger and resulting common control of underlying distribution, transmission and storage businesses, including unregulated storage, do not have a substantial detrimental competitive impact on market participants."

I would suggest to you that that may be a stretch of silence is approval, or in some way consent. Do you have anything else from the Competition Bureau that gives you that type of clarity in terms of their view of competition in the storage market specifically?

MR. REDFORD: No, other than the clearance letter. But I would differ with opinion.

The Competition Bureau, as well as the Federal Trade Commission are both entities, agencies that are set up to review competitive markets through mergers and acquisitions. That's their business.

So the Federal Trade Commission and the Competition Bureau both looked at the merger of Spectra and Enbridge, looked at the common control of assets which would include Union and EGD storage, unregulated storage, and their mandate is to look at whether there is a competitive -- a lessening of competition or an adverse impact on competition in the marketplaces.

If there were an adverse impact on competition in the marketplace, we would expected the Competition Bureau and the Federal Trade Commission to act on that.

In fact, the Federal Trade Commission did put conditions in the merger with respect to Gulf area assets between Spectra and Enbridge. So I would say the opposite. If the Competition Bureau had an issue with it, then I'm sure that we would have seen something other than...

MR. QUINN: That's interesting, Mr. Redford, because I had a couple of conversations with them. And in the initial conversation, they were trying to understand more about NGEIR.

In the subsequent conversation, they said frankly this is a merger of the corporate parents and there is no reason or anything in the report that we would put into the report on a regulatory matter. And as such, when I asked them could they put in something that this is a regulatory issue, they deferred and said no, that's not their business to do that.

So we are going to differ in terms of what they looked at and what they didn't. This Board is responsible for NGEIR, and so the answer I heard from you is you don't have anything else in writing that you've relied upon for that opinion. Is that correct?

MR. REDFORD: I can tell that you the unregulated storage at Dawn was specifically reviewed by the Competition Bureau and the Federal Trade Commission. They both looked at it, and looked at it in detail.

MR. QUINN: So my question …

MR. REDFORD: To the extent that -- I am not finished. To the extent that, you know, we submitted some 600,000 documents into the Competition Bureau.

MR. QUINN: Okay, well, in the request that SEC had provided you had said there was a mountain of documents. Can you, for the purposes of making sure that it is not 600,000, that the documents that pertain specifically to storage, can you provide those on the record such that we can see what was provided to the Competition Bureau to see what was analyzed in respect of storage competition in Ontario and the impact on the market?

MR. CASS: But Dwayne, as we spoke about the other day, it is unregulated storage that was at issue here, and, no, the applicants are not going to provide documents relating to review of unregulated storage --

MR. QUINN: Well, Mr. Cass, just further to that, this is not just regulated storage. The Board regulates storage. They don't regulate the price of storage for the non-utility storage.

However, Enbridge regulated storage as being bought at the market, so ratepayers have an interest in what was reviewed for the regulated purchases of Enbridge storage. So that is why we are interested, and that, to me, is pertinent to the issues in front of this Board, and therefore, we make the request again.

MR. SHEPHERD: Can I just add to that before you respond, Fred.

The NGEIR decision was a forbearance decision. The

Board has jurisdiction to regulate storage in Ontario. These companies have storage in Ontario. Some parties may well take the position in this proceeding that the forbearance decision should be vacated if these companies amalgamated. Therefore it is a live issue, and we are entitled to information on this.

MR. CASS: Thank you, Jay, yes, so this proceeding is not a reopening of NGEIR. Second, as indicated, these documents -- this review relates to unregulated storage. For those reasons, no, the applicants will not be producing the documents.

MR. QUINN: Okay. We have your answer.

The previous interrogatory, SEC.2, and it's also in your financial statements, but there were -- there's transactions with the company called "Title", who is, for lack of a better term, a gas marketer; is that correct, Mr. Charleson?

MR. CHARLESON: Yes, I think that's a fair characterization.

MR. QUINN: And they are owned by Enbridge Inc.?

MR. CHARLESON: Yes.

MR. QUINN: Okay. So the transactions that are done with Title, are they revenue-sharing or margin-sharing transactions?

MR. CHARLESON: Perhaps you can pull up the reference again?

MR. QUINN: SEC 2. It is just -- I shouldn't say it's "just", but it is very broad in what it requested, but what we are focusing on are transactions that the companies now are having with Title. There is contracts in there, but there is no detail in terms of revenue- and margin-sharing.

MR. CHARLESON: So the majority or the vast majority of the contracts or the transactions that would occur with Title would be gas purchase agreements, so under a standard NAESB or gas EDI agreement we put RFPs out to the market to procure supply. Title will be a bidder on some of those supply arrangements, and in some cases they are the successful bidder.

MR. QUINN: Is there an independent party in between the company in Title similar to the storage?

MR. CHARLESON: No, it's done by our gas supply group.

MR. QUINN: So how does the Board know that the ratepayer is protected in these arrangements?

MR. CHARLESON: I believe the Board has the ability to -- reviews gas supply plans. It has the ability to review our procurement practices, so I think it has the opportunity to believe that there was something that was inappropriate occurring, which I can assure you is not, is -- you know, the Board has -- I think it has it within its power to look into things like that.

MR. QUINN: Okay, Mr. Charleson, and with great respect I am not saying that there is anything wrong, but I'm asking how the Board understands the ratepayers being protected.

So could you provide the transactions with Title and the rate at which the gas was contracted and the market price that day from a published report, such as "Canadian Gas Price Reporter" or similar?

MR. CASS: Dwayne, I don't see that that information is relevant to the issues that are before the Board now.

MR. QUINN: Again, Mr. Cass, I'm not asking Union to do it. Union had substantially less transactions with Enbridge. I was just trying to use the example of what Enbridge would have done with Title to form the basis for, is there sufficient protection at this time or should the Board be concerned that maybe an independent party needs to be involved in transactions with affiliates such as Title, so if we have evidence that there is market pricing with transactions that Title has, maybe there isn't a need for independent third party, but at the same time, we don't know that.

MR. CASS: Sorry, Dwayne, I'm not seeing how the example of Title is going to help the Board review or consider the other issue you were addressing about storage procurement.

MR. QUINN: It is not storage procurement, sorry, Mr. Cass. This is gas supply procurement, but it is with an affiliate, and so the context from storage was a carry-over that wasn't intended. I'm looking at it as the model of the independent assessment. That's the part that has carried over from storage, but I understand this is gas procurement.

MR. CASS: Yeah, no, I understood it was the model you were trying to carry over. I don't agree.

MR. QUINN: We have your answer. I don't want to waste time today, so we'll talk about it sometime later.

Okay. And I've got a reference again that I don't know is necessary to turn up, but it is in LPMA 8, attachment 2. You had your financial statements. And we are interested in the purchases that Enbridge is making for storage, so what we would ask is what is the average storage price that Enbridge has paid in the last three years for market-based storage and to provide the summer-winter spread on the day of entering into that transaction to be able to provide a market-based price as a proxy for that storage. Can that be provided as an undertaking.

MR. KITCHEN: Sorry, Dwayne, just before Mr. Charleson, to answer, this is in reference to LPMA 8?

MR. QUINN: Yes, just in the financial statements. Those financial statements specifically say, Mr. Kitchen, that there is -- the pricing for storage is, generally speaking, on the basis between the difference between winter and summer pricing; that's where I'm taking the reference from. And so I'm saying if the companies recognize this, it is a market-based proxy for the value of storage, and we would like to make a comparison of the purchases that Enbridge has made over the last three years and the summer-winter spreads in the market at that time at Dawn.

MR. REDFORD: Just addressing that, so the price of storage is largely guided by that summer-winter spread in commodity price. It is a -- that would set the trend for storage pricing. But it's not the only component. So that is generally referred to the intrinsic value of storage.

There is extrinsic value of storage as well, so people will put reliability, people will put price volatility on an extrinsic basis, so I just want to be clear that, while it would guide the trend in pricing, the pricing for storage generally is not exactly the summer-winter spread.

MR. QUINN: I understand that, Mr. Redford, and to the extent the companies want to put caveats with their answers, we would be happy to receive it that way. But I want to save us some time, if I may, and ask that the company, specifically Enbridge, can undertake the provision of the prices paid and the spread in place at the time the storage was contracted for.

MR. CHARLESON: So now I'm trying to understand exactly what the request is, because I think you started out saying, you know, what our average cost of storage was in those years, and then, you know, the summer-winter spread at the time we entered into contracts, and I don't see how the two of those relate together, because we have contracts that spill over many years, so perhaps you can just clarify exactly what it is that you are asking.

MR. QUINN: Just put it down a little bit, sorry. There, and we'll keep going around to try to see Mr. Charleson.

Mr. Charleson, to the extent that you do multiple storage bids, maybe average is not as helpful. But out of each bin, which there might be less than a handful in an annual season, for each of those what was contracted for in terms of storage, what was the average price and what was the market price for the spread between summer and winter at Dawn. Is that clear enough?

MR. CHARLESON: Now you are saying bids. So we have multiple bids for storage, but we don't necessarily enter into contracts with all of those bids.

MR. QUINN: Sorry, let's be -- my wording is not as precise as it should be. Terminological inexactitude, I think it was called on Thursday.

But let's say the weighted average of the storage that was purchased or was entered into contract in that bid versus the summer-winter spread at Dawn on that day.

MR. CULBERT: Can I ask a question? It seems to me that we, EGD and yourselves -- sorry, it's me over here. We've been through these conversations inside of our actual gas supply planning and forecast gas supply planning. Haven't we been through all those discussions in those proceedings?

MR. QUINN: Not this specifically, Mr. Culbert. It is not on the record here and some time has passed since those gas supply discussions occurred. At the time that the gas supply discussions occurred, there were two different companies. We're hearing there may not be, so we are just asking for the past three years. It is not a huge undertaking. In fact, spreadsheets would have to be created, or some analysis would have to be done to choose the correct bidder. So we are asking Enbridge to provide that for the last three years.

[Witness panel confers]

MR. CHARLESON: We'll do that and, again, provide the -- whatever explanations we believe are appropriate to be of assistance.

MR. QUINN: That would be helpful, Mr. Charleson. Thank you.

MR. MILLAR: JT3.5.

UNDERTAKING NO. JT3.5: ENBRIDGE TO PROVIDE THE WEIGHTED AVERAGE OF THE STORAGE THAT WAS PURCHASED OR WAS ENTERED INTO CONTRACT IN THAT BID VERSUS THE SUMMER-WINTER SPREAD AT DAWN ON THAT DAY, FOR THE LAST THREE YEARS

MR. QUINN: The next reference would be FRPO 7. It's a fairly short answer, and I guess what we're looking for is a little bit more elaboration in terms of the question we asked, to contrast the Star rules and the existing FERC rules.

They may have been considered -- and they in fact were in the development of Star -- but it's not the company's decision that they have no impact on the Star reporting requirements. That would be a decision of the Board, so we're asking for the company to contrast the Star rules and the FERC rules in terms of the disclosure that relates to contracts, parties, parameters and prices.

MR. KITCHEN: Well, I -- having been through that proceeding, there was an extensive review of many things as part of Star reporting process and FERC was definitely dealt with.

From our perspective, there is no reason to reconsider FERC because of the amalgamation of Union and EGD. Nothing is changing around the storage market, or what the reporting requirements are or should be. So we decline to provide any further information.

MR. QUINN: Well, from your perspective, nothing has changed. From our perspective, it is significant. So if we are going to agree to disagree, we will ask again at the hearing, or we'll advance it before the hearing, Mr. Cass. Maybe that might be more efficient for us.

MR. CASS: Dwayne, I will have to leave that to you.

MR. QUINN: Okay.

MR. CASS: I note that the applicants have given their answer; the amalgamation has no impact on the Star reporting requirements.

If you feel that there is something specific where there is an impact, you could bring that bring that forward. But to ask the applicants to do this contrasting that you want where they've given this answer, I don't think that is entirely fair.

MR. QUINN: Mr. Cass, I'm asking for the utilities to assist the Board. I will ask that in a different format, so let's move on.

You had a discussion last Friday with Mr. Gluck in terms of storage in the Dawn market, and it is helpful for me to understand better what's included and what's not included -- and I understand you've taken and undertaking in that regard.

The additional question we had was what percentage of Union's non-utility storage was in place at the time of the NGEIR decision.

Obviously, you've added storage in the intervening years since the NGEIR decision. All I'm looking for is what is the historic legacy storage that was in place in 2006, and how much more you've added since that time.

MR. REDFORD: I'd have to look it up.

MR. QUINN: If you could take it by undertaking, Mr. Redford, I don't think you have these numbers off the top of your head.

MR. REDFORD: I can address how much storage has been added, so if you look at --

MR. QUINN: Mr. Redford, if I may, if you could take it by undertaking -- I know there's a group of people behind me that still have questions and if you have any caveats that you want to add to that answer, that would helpful in that format.

MR. CASS: I think he wanted to provide some explanation, Dwayne. Once you've asked the question, the witness should be allowed to give a full answer.

MR. QUINN: Okay, Mr. Cass. I'm looking for data and it's a data request. If Mr. Redford needs to qualify the data, please do.

MR. REDFORD: Since NGEIR, Union and Enbridge have added 35 PCF of storage. I will look up what the number is that Union had at the time of NGEIR. But in that time, in the 12 or 13-year period, we've added about 35 BCF of storage, and this is in a market that is well over TCF and, in our view, is the geographic market is growing.

So we would -- you had said earlier that this is significant. I guess I would beg to differ. We are adding 35 BCF in a very, very large market to the merchant storage.

MR. QUINN: But you're going to provide the undertaking?

MR. REDFORD: Yes, I will provide you with the number that we had at the time of NGEIR.

MR. MILLAR: That's JT3.6.

UNDERTAKING NO. JT3.6: TO ADVISE WHAT PERCENTAGE OF UNION'S NON-UTILITY STORAGE WAS IN PLACE AT THE TIME OF THE NGEIR DECISION

MR. QUINN: Having said that then, what we would like to request is the continuity schedules to be provided for the storage assets as of, you know, yearend 2017 would be probably an appropriate end point.

MR. KITCHEN: I guess I have two questions. First, is there an IR that we are looking at now that you're asking the question about?

And second, I'm not sure what you mean by continuity schedules.

MR. QUINN: Okay, I'm going to read from the -- the rebasing proceeding.

"However, the Board finds that in order for parties and the Board to confirm that the allocation storage costs between Union's utility and non-utility storage operations is correct, the Board requires up-to-date continuity schedules related to Union's non-utility storage business. The Board's direction to file was part of a 2014 rates filing these continuity schedules."

We haven't asked for them since the 2014 filing, Mr. Kitchen. But given that we are at potentially a -- I don't want to get into a debate about how big this change is, but for the Board to understand that the allocation of costs between utility and non-utility is still correct, they would need that data?

MR. KITCHEN: Well, I guess -- first of all, I guess my first response to that is we can -- I can go back and look at the reference and look at the schedule that we provided in 2014. But beyond that, I'm not sure I'm willing to take an undertaking to do anything more than that because, quite frankly, again we're here to talk about the amalgamation, the MAADs application, the rate-setting mechanism. I'm not sure how that continuity schedule, updated, provides any benefit to anyone until I have a chance to look at it.

You are putting a document -- I haven't even seen the document.

MR. QUINN: I'm sorry, Union created it back in that timeframe, Mr. Kitchen.

MR. KITCHEN: Right, but it's nowhere in the record right now.

MR. QUINN: It is not in the record, and that's why we're asking for it. So if you would --

MR. KITCHEN: It is not in the record it in this proceeding, is it?

MR. QUINN: The continuity schedules are not in the record in this proceeding. That's why we're asking for them.

So if you want to take it on a best efforts basis to look at 2014 and what was provided, and to consider updating it for yearend 2017, that would be helpful.

MR. CASS: The way you've described it, Dwayne, yes. Best efforts and to consider, yes.

MR. MILLAR: JT3.7.

UNDERTAKING NO. JT3.7: TO MAKE BEST EFFORTS TO LOOK AT CONTINUITY SCHEDULES PROVIDED IN 2014 AND TO CONSIDER UPDATING FOR YEAREND 2017

MR. QUINN: Thank you. FRPO 23, please. We received the actuals, which is helpful. In Enbridge's case you've got the 2018 budget, so I'm inferring that that is what was put into rates; would that be correct? Or is there a separation between the budget and rates?

MR. REDFORD: Yes, that would be correct.

MR. QUINN: Okay. Thank you. I just want to make sure that was confirmed.

Could Union provide what is currently in their rates for both the -- well, the categories are there, replacements and -- well, different categories of replacement, leakage, general, and municipal. If you could just provide what's in rates currently, because this would have been established in the Board-approved, but to the extent that, is there any changes that Union's applied for over time, or is the 2013 number what's in rates?

MS. MIKHAILA: The 2013 Board-approved amount on page 2 is what's in rates.

MR. QUINN: Okay, thank you for the confirmation.

Staff 59. Sorry, I should have asked for it, please. I'm going to play bingo here.

There were studies that were part of Enbridge's commitments and the directives that are listed there. Is there any reason beyond we're not rebasing that these studies can't be done at this time? There's, sorry, A, B, and C up above. Sorry, Bonnie, in A. That is what was requested.

I'm understanding you're not rebasing, but is there any other impediment to those studies being done should the Board consider it to be helpful as part of this amalgamation and rate-making process? If this is better to be a Panel 2 question we can defer it til --

MR. KITCHEN: I'm not sure if I can defer it just yet, Dwayne.

Are you asking about a particular part of Staff 59 or just a general question?

MR. QUINN: Well, I'm starting with A, Enbridge had some directives, some agreements to do some studies, but the answer, if I'm reading it, they are part of the 2029 plan for rebasing.

I'm trying to ask: Is there any reason beyond the fact that you are deferring rebasing that these studies could not be done, should the Board order them?

[Witness panel confers]

MR. CASS: Dwayne, just for clarity, if it is part A that you are referring to, I'm looking at it here on the screen, and it is not specifically just talking about rebasing; it's also saying these things are best considered independent on a comprehensive review within the eventual amalgamated entity and structure, so rebasing, yes, that is a point, but also that when it is best considered and done seems to be what this response is saying.

MR. QUINN: And I'm suggesting, Mr. Cass, I'm trying to understand if there is any other impediment to the extent that the Board does approve and the utilities do amalgamate in 2019, now they are amalgamated, can these studies be done for the 2020 rate-making process as an example?

MR. CASS: Thank you.

[Witness panel confers]

MR. KITCHEN: I'm not sure we can give you much more than what's in the answer until we've actually had an approval to amalgamate and amalgamate. I'm not sure we can say much more than what's here.

MR. QUINN: But you can't identify any other impediments beyond you haven't amalgamated yet?

MR. KITCHEN: Well, it says that it is better done once we amalgamate, and right now most of those directives -- almost all of them were related to rebasing, and that's what we are proposing. I'm not sure I have a better answer for you at this point.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I just follow up? You are being given the opportunity to say that there is another reason why you can't do it in 2020. You don't have any other reasons, right?

MR. CULBERT: The main reason, as Mr. Cass pointed out and Mr. Kitchen has pointed out, is we need to understand what will be necessary for such methodology in a combined state, but we don't know when that full integrated entity will exist. That's the main reason.

MR. SHEPHERD: And there is no others that you want to share with us.

MR. CULBERT: No.

MR. SHEPHERD: Good. Thank you.

CONTINUED QUESTIONS BY MR. QUINN:

MR. QUINN: Again, I don't -- I don't think you need to turn up your financial statements, but it referred to the Hagar LNG facilities, and that there were no customers at this time; is that correct, I guess, Mr. Redford?

MS. MIKHAILA: Yes, there is no current customers and there is no forecast of customers either.

MR. QUINN: Okay. Thank you. Sorry if I went to Mr. Redford.

I guess my question is, who is paying for those facilities now then if there are no customers?

MS. MIKHAILA: There was no incremental facilities developed.

MR. QUINN: So the existing costs of the facilities, who is paying for those costs?

MS. MIKHAILA: The existing Hagar storage tank is being paid for by Union North customers.

MR. QUINN: And is it being used for purposes in your gas supply plant for Union North?

MR. REDFORD: Yes, I believe it is.

MR. QUINN: Is that with certainty, Mr. Redford? I'm sorry, I'm trying to understand...

MR. REDFORD: I think it is.

MR. QUINN: Do you want to check or take it subject to check?

MR. KITCHEN: The -- let me try to clarify. When we brought forward any proposal around Hagar, it was to be able to utilize the Hagar facility more efficiently to allow us to market LNG.

In that proposal there was no change as to how the Hagar facility would be used to meet demands in the north if required, so those costs are still in rates. And nothing has changed with the use -- in relation to the use of Hagar.

MR. QUINN: Okay, thank you.

If we could turn up OGVG 5, please. I think if you scroll down to page 2, it might be helpful, please.

In the last paragraph it says:

"Storage-related compression dehydration service contracts listed in response to SEC.2 are estimated at 1.8 million annually and those costs will continue to be allocated to EGD's zone post-amalgamation."

Is my understanding correct that those are non-utility services purchased at market for the compression and dehydration contracts?

MR. REDFORD: That's correct, those are non-utility services.

MR. QUINN: How is that differentiated to say that the services that EGD is purchasing, for example, dehydration, is a non-utility service?

MR. KITCHEN: Sorry, Mr. Quinn, I'm not sure I understand your question. When you said "differentiated"...

MR. QUINN: Well, your dehydration -- maybe I can ask it this way. The dehydration system has been in place for some time. Was it in place in 2007, at the time of NGEIR?

MR. KITCHEN: Dehydration facilities were in place in 2007. The question is whether those facilities were used to serve EGD, and we'd have to take that up as an undertaking.

MR. QUINN: If you could do so, please.

MR. MILLAR: JT3.8.

UNDERTAKING NO. JT3.8: TO ADVISE WHETHER DEHYDRATION FACILITIES WERE USED TO SERVE EGD IN 2007

MR. QUINN: I think better questions could be answered with your answer, so I am going to move to the last section, Mr. Millar. Hopefully, others have similar questions in with this.

But I wanted to turn to the average use -- NAC, normalized average use. If you could turn up FRPO 20, please -- and again, I thought this was a rates question, but I think your list of which panel answers which interrogatories led me to this panel. So stop me if this is getting into the rates area, and we can talk about it later.

If you could scroll down, please, we asked about the monthly -- sorry, I'm -- I was trying to read the question and the answer at the same time.

But we asked about incremental base load during the heating season, and the response we got was:

> "Incremental base load that is inherent in winter and spring months is due to lower ground temperatures reducing customers' inlet water temperatures. More energy is required in the winter months to achieve and maintain a constant water temperature compared to other times of the year."

That answer is helpful, but how -- let me ask the question well, if I can. In a colder winter, you are going to get deeper frost; would you agree with me on that?

MR. KACICNIK: Yes, we would.

MR. QUINN: So as base load -- and I don't have a pure definition. Mr. Kacicnik, you may have a more pure definition of base load. But base load is, generally speaking, considered to be non-heat-sensitive load. Therefore, if this is the reasoning behind base load factors increasing in the winter, is that not heat-sensitive load? I respect, Mr. Kacicnik, that this is -- that it takes some thinking to get through this. You're on panel 2 also?

MR. KACICNIK: No, I'm not.

MR. QUINN: Oh, I'm sorry. Then I'd love to hear your answer, please.

MR. KACICNIK: I believe that I need to go back to my forecasting folks back at the office to get the clarification on this one.

MR. QUINN: I can accept that if you just want to do it as an undertaking.

MR. MILLAR: JT3.9.

UNDERTAKING NO. JT3.9: TO CLARIFY BASE LOAD FACTORS AND HEAT-SENSITIVE LOAD

MR. MILLAR: The last question in this area, in Staff 22, they were asking about average use factors also. And we went through a fair amount of this as we obviously had some concerns around average use and that's why we were looking for the studies.

Would it be fair to say that how Enbridge treats average use not only adjusts for changes associated with normalizing the weather, but also adjusts for other factors such as the economy?

MR. KACICNIK: Yes, we would agree. The average use forecast is a function of a number of things: weather, economy, building insulation trends and so forth.

MR. QUINN: Thank you, Mr. Kacicnik. So when you are doing your reconciliation to normalize for weather, you are also normalizing or other factors beyond the weather?

MR. KACICNIK: Just to make sure I am understanding what you are asking, when we are analyzing actual usage verses forecast, right, we first remove the impact of weather and what's left in terms of variance is the variance in actual average use normalized versus forecasted average use.

MR. QUINN: As you stated in your initial answer, that process is a mechanism which would adjust for changes in the economy also?

MR. KACICNIK: It would capture the impact of the economy in the actual normalized averages, yes.

MR. QUINN: Thank you, in very much, Mr. Kacicnik.

MR. SHEPHERD: Sorry, can I just follow up on that; maybe I'm not clear. I thought average use captured -- the adjustment in actual average use captured everything except weather; weather is separate and by itself. The weather normalization doesn't capture anything except weather, is that right?

MR. KACICNIK: That is confirmed, correct.

MR. MILLAR: Thank you, Mr. Quinn. Who wants to go next? We're probably going to break in about fifteen minutes. How long will you be, Mr. Ladanyi?

MR. LADANYI: About five minutes, maybe.

MR. MILLAR: Then why don't you go?

QUESTIONS BY MR. LADANYI:

MR. LADANYI: Okay. First a question for Mr. Kacicnik. In this application, Enbridge and Union are not applying for any increase in other service fees and charges, is that right?

MR. KACICNIK: That's correct, yes.

MR. LADANYI: But during the ten-year period, you might be applying, isn't that right, for increases?

MR. KACICNIK: I would say that the application leaves the door open to apply for an increase in those service charges. However, there is nothing on the table to increase them now.

MR. LADANYI: Right, I understand that. I am actually more interested in the process. How would you apply for increases during the 10-year deferral period -- or decreases maybe, but I think it's unlikely?

MR. KACICNIK: It could go either way, of course, but we would look at the cost to provide that particular service and compare it to what's the embedded cost in the service charge now, and there would need to be the evidence That would justify that increase to the Board.

MR. LADANYI: Would you apply this during some annual process?

MR. KITCHEN: Just before we answer that, I just wanted to add that we have -- if you look at our miscellaneous non-energy charges, they are quite different between Union and EGD.

MR. LADANYI: Right.

MR. KITCHEN: And in terms of bringing those together, those can't happen until we begin to amalgamate processes.

So it is not that we'll be looking for changes to individual rates. It is only as we begin to amalgamate processes that we may look for changes.

MR. LADANYI: So if I get your answer, your plan is that you will actually not be asking for any changes to rates on miscellaneous rates and charges, service fees unless they are a result of amalgamation?

MR. KITCHEN: I can't -- I'm not going to say a hundred percent that that's the case, but I think that in terms of bringing the services together, it will be difficult for us to propose a change to a specific rate if you are not looking at bringing those services -- having the same services charged to customers in both operating areas.

MR. LADANYI: Just one little detail. Annually, when would this happen? Would you be finding it like in the fall or in the spring? How would this look?

MR. KITCHEN: If we were to file, we would file with our annual rate-setting process.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Could I just ask a follow-up on that? You talked about you need to amalgamate the services before you can look at what the new costs are; I understand that.

But you are also looking at costs that are naturally going up for some these services, right?

MR. KITCHEN: Possibly, yes.

MR. SHEPHERD: So it's not just changes due to amalgamation; it's changes due to all costs, underlying costs that affected by amalgamation as well, right?

MR. KITCHEN: It is possible, yes.

MR. SHEPHERD: So what I don't understand is if you allocate more costs to these service charges, how do you do it without doing a cost allocation that takes those costs from somebody else?

MR. KITCHEN: I don't disagree with you at all. It's one of the challenges that we'd have to deal with because again, we have not considered how we would bring these charges together, or that we'll increase them at all over the 10-year deferment basic charge. So I take your point, and I don't disagree.

MR. SHEPHERD: And you are currently not planning to do a cost allocation except --

MR. KITCHEN: Correct.

MR. SHEPHERD: -- one for the 2029 --

MR. KITCHEN: That's correct.

MR. SHEPHERD: -- rebasing, right?

MR. KITCHEN: That's correct.

MR. CULBERT: And it isn't necessarily, Jay, a change in current allocation of cost because, as you point out, the costs might be changing; they might be incremental, or they might be decreases in cost. We need to look at what the costs are for providing those services before we can make a --

MR. SHEPHERD: But if you charge more for a particular type of, like a redlock, let's say, that -- you are getting more money and you have to get less money from somewhere else to remain revenue-neutral; right?

MR. KACICNIK: If I may jump in here, like, those charges for those specific services are developed on a stand-alone basis. Each is developed on its own cost and its own merit, so redlock charges are only payable by customers who incur redlocks, right, so you would look what it takes, what it costs you to go there and redlock somebody. There would be labour cost, vehicle cost, things like that. So that would be looked at in isolation from other rates.

MR. SHEPHERD: Well, so that's why I asked the question, Mr. Kacicnik. We have a longstanding problem with me saying Anton's name. Anton.

The problem I have is that your cost right now for some of those things are not -- your actual costs are not the same as what you are charging, right? Because you haven't changed those service charges in some years; right?

MR. KACICNIK: I would tend to agree, yes.

MR. SHEPHERD: So if you fix them right now you are changing the charges, but you are not changing your costs; they are what they are? Right? And I don't see how you can do that in isolation. That would just increase your ROE.

MR. KACICNIK: In order to change a charge they would need to show that the cost has changed as well, and the charge would need to match the cost it's recovering.

MR. SHEPHERD: And so if you get an extra $10 million from redlocking people next year, does that mean that just goes directly to your bottom line?

MR. KACICNIK: No, no, it would recover the costs we would incur to redlock people. These are --

MR. SHEPHERD: But right now --

MR. KACICNIK: -- strictly cost recovery rates.

MR. SHEPHERD: But right now that $10 million is being incurred, and you are still making your ROE, so I'm not sure I understand.

MR. KITCHEN: Mr. Shepherd, I think we're really premature on what we may be doing or not doing with miscellaneous non-energy charges. We haven't got a proposal to change them. I'm not sure that we will over the ten years. But we can't do anything until we bring the two companies together, and it will be fully addressed if we do.

MR. SHEPHERD: But your proposal to the Board in this application is that you have the ability to do that anytime during the deferred rebasing period; right?

MR. KITCHEN: Yeah, and it will be subject to a full review.

MR. SHEPHERD: Thank you.

FOLLOW-UP QUESTIONS BY MR. GARNER:

MR. GARNER: Excuse me, it's Mark Garner. But that's the part I don't understand, leaving aside all the money. What's the principle difference between the rates, which you are doing for ten years, deferring them, and the service charges? That's the part I don't understand. Why does one get a different treatment than the other? What's the principal difference in your application to do that?

[Witness panel confers]

MR. KITCHEN: First of all, just as a point, Mr. Shepherd noted that our miscellaneous non-energy changes haven't changed in a number of years. I think Enbridge changed theirs the last time in 2009. Ours was 2004. So this is not something that's been a burning priority for either utility, I don't think.

The only other point I would make is that these charges aren't escalated over the IRM term, and again, what we may or may not do with miscellaneous non-energy charges will be the subject of a full review. Like, at this point we've had no conversations about what services might look like, what services we would have, like, in the -- in Amalco, because if you look at the two, they are very different. For example, I don't think -- I would have to look at ours, but I don't think we have a lawyer's letter charge in the miscellaneous non-energy charges. Like, we haven't looked at any of that yet, so --

MR. GARNER: Is it just time -- because the only reason I ask -- I don't want to be argumentative -- is if one were to say why not simply apply the adjustment formula also to the service charge, you know, just doing them all exactly the same. There seems to be some specific objection to that. Is it the age thing that you are really relying on, that it is so long out and --

MR. KITCHEN: I don't -- I'd have to go back and probably give this a bit of thought, because it was a long time ago that we started -- at least for Union had a PCI.

I think that we just didn't see it as being a priority to inflate these small charges, miscellaneous non-energy charges.

MR. GARNER: Thank you.

MR. LADANYI: Can I continue?

MR. MILLAR: You may.

CONTINUED QUESTIONS BY MR. LADANYI:

MR. LADANYI: I'm going to try a question. I don't know if I'm -- I'm not sure --

[Technical interruption]

MR. LADANYI: Okay. Can you hear me now? I'm going to try a couple of questions. I'm not sure if I'm in the right panel, because I'm not sure who is going to come back on the next panel.

Could you turn to FRPO 1, attachment 1, page 17. Okay, you have it up? If you see in the middle of the page "capital estimate", and it says there is approximately $20 million of severance costs that have been considered as capital that will incur in the first year. I'm trying to understand that statement.

Does it mean that these costs will be capitalized or they may be capitalized or maybe they will not be capitalized? Can somebody explain what does this mean?

MS. ZELOND: These costs will not be capitalized from an accounting standpoint. The statement was just to show that -- the costs that it would take to achieve those savings.

MR. LADANYI: Okay. I have a slight follow-up question.

In the past -- and you don't have to turn it up, but there is -- if you want, you could. It is CCC 7. There is head count reductions, and I presume severance was paid.

Was any severance capitalized either at Union or at Enbridge in the past? You may not know that.

[Witness panel confers]

MS. ZELOND: Based on my knowledge, no, severance costs are not capitalized.

MR. LADANYI: And they were not in the past as far as you know. But if you --

MS. ZELOND: That's correct.

MR. LADANYI: -- find out later on you will let us know during the hearing, I hope.

MS. ZELOND: Severance costs are not capitalized.

MR. LADANYI: Very good. Now, coming back to --

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I just follow up on that, Tom? The 20 million that you refer to in the Board presentation that you refer to as capital but are not, is that the entire amount of the estimated severance costs or is that the part that you are treating as capital for those purposes? It is the whole amount; right?

MR. LADANYI: Okay, and --

MS. ZELOND: Yes, that is confirmed, the whole amount.

MR. SHEPHERD: Thank you.

CONTINUED QUESTIONS BY MR. LADANYI:

MR. LADANYI: Coming to my last question, it has to do with Energy Probe number 7. Yeah, this is number 6. Actually -- and I've got number 7. Very good. Thank you.

So if you go down to the response, you're talking about in -- about a treatment of Centra Gas as a separate zone by Union after amalgamation with Centra, which was around what, 1995 or so?

MR. REDFORD: It would have been part of EBO-499.

MR. LADANYI: Later?

MR. REDFORD: Yes, we think it was '97 or...

MR. LADANYI: '97, all right. So how long did this separate Centra zone arrangement continue? For how many years? Would you know?

MR. REDFORD: It really continues to today.

MR. LADANYI: Continues to today. So this is your current north and south. So is your proposal that Enbridge zone is going to continue essentially in perpetuity, really?

MR. KITCHEN: I'm not sure that we can say in perpetuity. That's a bit long for me. What I can say is that for at least the ten-year deferment basing period, we will treat them that way and then, as we're going through that period, we'll have to do an assessment of whether or not there's a different treatment.

MR. LADANYI: During that ten-year period, would

Enbridge Gas Distribution -- the former Enbridge Gas Distribution and former Union Gas maintain separate gas supply departments?

MR. REDFORD: I don't think there would be separate gas supply departments per se. I think, you know, as the ten-year deferred rebasing period advances, we'd have to look at how we treat gas supply for EGD's zone versus Union South and Union North, and it could take any form. It could be separate plans in the near-term and maybe come together at some point.

But I mean we just haven't -- we really haven't thought through that detail at this point.

MR. LADANYI: Can you correct perhaps -- my impression is that, for a lot of things we talked about this morning, it really would require a firewall between the gas supply departments of Enbridge and Union, or at least a notional firewall so that there is no exchange of information when bidding on services.

MR. REDFORD: Well, the gas supply group would not -- they do not sell the unregulated storage. They are separate groups today. So Union's gas supply group basically looks after bringing in gas supply and buys our carbon credits. It is a separate sales group that does our storage and transmission sales, so they are separated today.

MR. LADANYI: So there will be a continuing firewall around your sales group and the rest of the organization?

[Witness panel confers]

MR. REDFORD: I think -- I guess everybody has their own definition of firewall, but there are rules within the STAR, the storage transportation access rule, that talk about a limit to non-public information that we respect today, and that would continue.

So there's -- I mean, when I look at the protections that are available today through the Board processes, you have a limit to non-public information. You have things like complaint mechanisms, you have posting requirements for transparency; those would all continue.

MR. LADANYI: Okay, thank you.

MR. MILLAR: Thank you, Mr. Ladanyi. We are going to take our morning break now, but we are behind on our schedule so we I want to get time estimates from people.

Who still has questions for this panel?

MR. SHEPHERD: I do.

MR. MILLAR: How long?

MR. SHEPHERD: Twenty minutes to half an hour.

MR. MILLAR: Anyone else?

MS. GIRVAN: About ten minutes.

MR. MILLAR: So we are going to be tight.

MR. AIKEN: So this is Randy Aiken. I have about five minutes.

MR. MILLAR: Anyone else on the line?

MS. CHATTERJEE: Kitchener has five minutes.

MR. MILLAR: Okay. Well, I'd ask us all to move as quickly as possible. When I hear five minutes, that usually means 25 minutes, in my experience. So if you say five, stop after five, if you can. Let's break until 11:25. Thank you.

--- Recess taken at 11:06 a.m.

--- On resuming at 11:26 a.m.

MR. MILLAR: Let's get started again. I don't know if we actually picked who is going next. Who...

MS. GIRVAN: I just have one comment. The court reporter was saying if Randy asks questions if he could turn his volume down a bit, because she's got her headphones on. Randy?

MR. AIKEN: I can try and do that. I'm not sure it will work.

MR. MILLAR: Okay. I'm sorry. Who is going next?

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: I'm happy to go next, Mike. So I want to ask -- let's start with a follow-up question to the question you just had on EP 7.

Do I understand correctly that what you are going to do is notionally, after the merger, Enbridge customers are going to continue to be charged by Union for transmission on the same basis as M12 because that's what's built into rates now, and so if you just escalate the rates they are continuing to be charged for it; is that right?

MS. MIKHAILA: Yes, Union will continue to charge the EGD -- or Amalco -- EGD rate zone customers will pay the equivalent of their current contracts. Those are the requirements they require.

MR. KITCHEN: Just to follow up: The -- whether they were -- it's no different than Union North, because cost allocated within -- for the Dawn-Parkway system were allocated based on distance weighted design day demand, which, given that Enbridge is going the full distance of the Dawn-Parkway, they would either be allocated those costs or they would pay the M12 rate. It is the same dollar value.

MR. SHEPHERD: No, no, I understand that. What I'm asking is you don't have -- once you are amalgamated you don't have a Board-authorized rate any more to charge and you sort of can't charge yourself, so it becomes a cost allocation issue, right? And the only reason you don't have to face the cost allocation issue now is because it's built into existing rates and you are proposing a price cap.

MR. KITCHEN: Right.

MR. SHEPHERD: Okay, so that's the first thing.

CONTINUED QUESTIONS BY MR. QUINN:

MR. QUINN: Jay, can I -- I just, I got confirmation at the break, and I apologize to all here, that my question on FRPO 25 should be asked of this panel. I was assuming the rates panel. That was my mistake.

I advanced to Union and Enbridge excerpts from Union's cost allocation study in my letter of the 27th of March. And I think, Mr. Kitchen, you are familiar with this, but I am trying to understand what you just said versus on G3 -- there we go. G3, tab 1, page 11, so it is the next page, Ms. Adams.

It says:

"Firm transportation costs are allocated to the north rate classes using a blended allocator developed using a two-step approach. The firm transportation demand base load costs are allocated to the rate classes using average day demand and the remaining firm transportation demands are allocated to rate classes using excess peak over annual average."

Can you reconcile that statement with how Enbridge is being charged?

MS. MIKHAILA: I think we should actually refer to page 14 of that same document, page 14 of 18, where it talks about the transmission Dawn-Trafalgar easterly demand costs, and those are the costs that we are referring to.

MR. QUINN: But the second stage of that is on page 15, if you roll over the page, and it says:

"Costs are allocated to customers in the north using excess peak over annual average."

That's not --

MS. MIKHAILA: So there are two steps. One is to determine the costs allocated to Union North as a rate zone. And then in order to determine what rate class within that zone bears which proportion of costs, that is using excess peak over average, because the north uses Dawn to Parkway for -- somewhat for storage requirements.

MR. QUINN: Right, okay, is that being done by Enbridge, though, as the Enbridge zone?

[Witness panel confers]

MR. KACICNIK: For storage-related transportation, storage withdrawals, we allocate our M12 cost that EGD rate zone is using based on space and their ability as well.

MR. QUINN: But not the same two-step approach. Average demand plus the differential of peak over average?

MR. KACICNIK: No.

MR. QUINN: Okay. So there is a difference, and so again, I don't want to take other people's time. Would the companies undertake to show a sample calculation to demonstrate either that they are done exactly the same or what the differences would be?

MR. KACICNIK: I would just clarify, Dwayne, that what I was referring to is Enbridge's contracts on Dawn-Parkway. I think really what you were asking is how Union handles allocations on Dawn-Trafalgar, and that, I think, is different than how we would do it for our capacity.

MR. QUINN: That's what I would expect the answer to be, but that's not the answer we got in FRPO 25. So again, in respect of time, would the companies do it by way of undertaking and either differentiate the cost allocation process, Union North versus Enbridge now, or show a sample calculation where it comes out exactly the same?

MR. KITCHEN: Dwayne, just before we take the undertaking, I think that -- I wonder, actually, if we could go to the question for FRPO 25? I think that what we were trying to -- maybe I'm just confused as to what you're after.

When we talk about how Union South and how Union North costs are attributed to Union North, that will be the same basis that we were talking about doing it for EGD. How they then get allocated within the rate classes for EGD rate zone and the north rate zone, we're not proposing any changes to those until we get to deferred rebasing in 2029.

So we can provide you with how it's done in rates today, but -- if that's all you're asking we can do that, but it's not -- we're maintaining cost allocation methodologies within the zones.

MR. QUINN: Most of FRPO's customers would fit into either in the north rate 10 or in Enbridge territory rate 6.

Using rate 10 and rate 6, can you distinguish those, and just do a calculation of how costs are currently going to rates with respect of utilities, and that would demonstrate what you're talking about then.

MR. KITCHEN: Is it the calculation or just the methodology differences, because --

MR. QUINN: Well --

MR. KITCHEN: -- they will be --

MR. QUINN: Sorry, go ahead.

MR. KITCHEN: -- on a different basis.

MR. QUINN: I want to understand the methodology for sure, but the numbers are very helpful. So if you could put the methodology and any underlying assumptions and show us the numbers, that would be extremely helpful.

MR. KITCHEN: Okay. We'll try to be responsive.

MR. QUINN: Okay.

MR. MILLAR: JT3.10.

UNDERTAKING NO. JT3.10: USING RATE 10 AND RATE 6, TO DISTINGUISH AND DO A CALCULATION OF HOW COSTS ARE CURRENTLY GOING TO RATES WITH RESPECT OF UTILITIES.

MR. QUINN: Thank you, Jay.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: My next question is on APPrO 7, and in 7a APPrO asked you to quantify the impact of the proposed merger on competition and gas storage in Ontario. And you, very helpfully, said to them see SEC Interrogatory No. 3, and in Interrogatory No. 3, you said we're not going to answer this.

So I wonder if you could tell us what you have, what you can tell the Board about the impact of the proposed merger on competition and gas storage in Ontario. Do you have information, a report, an analysis, something that the Board can see what this means?

MR. REDFORD: In APPrO 7, we took to really look at competition in the unregulated storage market in Ontario. And we pointed it back to SEC 3 because the Competition Bureau and the Federal Trade Commission had done an exhaustive review of the unregulated storage market.

And again, they are the agencies that are responsible, in a mergers and acquisition case, to determine whether those mergers or acquisitions would have an impact with the common control of the assets underlying it would have an impact on the competitive markets.

MR. SHEPHERD: I'm not sure I understand that because I thought the Ontario Energy Board was responsible for determining the impact of competition in the storage market in Ontario. Isn't that in fact in the OEB Act? Am I missing something there?

MR. CASS: Jay, I'm not aware that's in the OEB Act. There is the provision of the act under which the Board can forbear from regulation, and it made the determination to do that in respect to certain aspects of storage. So I'm not sure what you are referring to in the Act about the OEB having some jurisdiction over competition for the purposes of what we're talking about here, unregulated storage.

MR. SHEPHERD: Well, the OEB Act says that you can't charge a rate for storage unless the OEB approves it. That's the basic requirement. Then the OEB can say we're going to let the competitive market work on this particular rate or this particular component, which they've done in NGEIR, and so then -- but that doesn't take away their jurisdiction to determine whether competition is acceptable.

It is not a for-all-time decision; it is a decision as long as the underlying truth is there.

MR. CASS: Yes. In respect of rates for storage, the Board made a decision to forego from regulation in respect of certain aspects of storage.

My interpretation of what you're saying is that the Board could revisit its decision to forego. I don't see that as giving the Board general jurisdiction over competition. The Board made a decision to forego and I suppose that at some future time, if it saw fit to do so, it could revisit that decision. But that's not in this case.

MR. SHEPHERD: So do I understand correctly that you are refusing to answer 7a, APPrO 7a?

MR. REDFORD: No, I don't think we're refusing to answer it.

What we are saying is that the Competition Bureau and the Federal Trade Commission both looked in detail at the competitive storage market in Ontario and in the geographic market, and determined that there was no diminished -- there was no impact on the competitive markets. There was no lessening of competition.

MR. SHEPHERD: But you can't give us anything where they said that, number one. And number two, none of that review is on the public record. So just whatever you say, the Board's got to accept it. Is that what you're saying?

MR. REDFORD: I would say that the Competition Bureau reviews and the Federal Trade Commission reviews, they have a specific mandate and it is known that they would review mergers and acquisitions specifically for impacts on the competitive market.

I think it's a -- I think it's common practice in not just the natural gas industry, but any industry where there is a merger and an acquisition.

MR. SHEPHERD: I'm sorry. If I understand your answer -- and I want to be clear because there is a motion coming, right? And so I want to be really clear.

It sounds to me like what you're saying is we're refusing to give this information to the Ontario Energy Board because the Competition Bureau, which has jurisdiction, has already reviewed it. Is that fair?

MR. REDFORD: Certainly the Competition Bureau has jurisdiction to review mergers and acquisitions, so I would say that is fair, that the Board should rely on the outcome of the Competition Bureau and Federal Trade Commission review.

MR. SHEPHERD: Can we have their decision then, so that the Board can rely on it?

MR. REDFORD: They're -- like a clearance letter?

MR. SHEPHERD: They've communicated with Enbridge and Union saying this is the review we've done on competition in gas distribution. They've told that you in writing. Can we have that, please, so that the Board can rely on it, as you've suggested.

MR. REDFORD: Well, I think if you go back to SEC 3 and you go back to our answer, the answer would say that basically what we get from the Competition Bureau is a clearance. So, on the second page of that, as is usual practice, the Bureau didn't provide any reasons or analysis for its no action letter. And similarly, the FTC did not provide reasons either.

However, the FTC did -- they did look for remedies on business in the Gulf, out of our market area, through the merger.

MR. SHEPHERD: I'm not asking about that.

MR. REDFORD: No, agreed. So they did not take issue with it and cleared the merger, which would have included the common control of Enbridge -- I should say EGD and Union storage.

MR. SHEPHERD: Well, so this is what I'm asking. They didn't just call you up and say, by the way, no problem with storage in Ontario. There was documentation back and forth between the companies and the Competition Bureau which resolved to okay, we're satisfied.

That wasn't your clearance letter, but there was documentation, correct?

MR. REDFORD: I think we've produced some 600,000 documents.

MR. SHEPHERD: I'm not asking what you produced. I am asking what they produced. You say they decided it wasn't a problem for the competition in Ontario. Please provide evidence of that, other than your say-so.

MR. CASS: Well, Jay, I think the response to SEC 3 that we're looking at gives full explanation of the no action letter that was provided by the Competition Bureau.

I don't know what more will be added to that by starting down the slope of producing documents that were involved in this Competition Bureau review.

MR. SHEPHERD: The problem, Mr. Cass, is that right now, all we have is one person's say-so that the Competition Bureau said -- did a detailed review of this particular issue, which the Board is clearly interested in, and decided that there was no problem, and the suggestion by the company that the Board should rely on that.

And so I'm saying please provide evidence of the thing you want them to rely on.

MR. CASS: And I think the applicants have done their best to provide that evidence in this response.

MS. GIRVAN: Is the letter on the record?

MR. SHEPHERD: The clearance letter?

MS. GIRVAN: Yes.

MR. CASS: No, it's not on the record that I'm aware of. It's described in this response. The response describes the role of the Competition Bureau, what it does in terms of its mandate and what can be taken from that, and the fact that there was a no action letter.

MS. GIRVAN: Can we get the letter?

MR. GARNER: Are you objecting to putting that letter on the record? Is that what you're saying?

MR. CASS: I don't have instructions as to putting that record on the letter (sic). The intent was that this response would describe fully the letter, its context and what it means.

FOLLOW-UP QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Could we get an undertaking to get the letter on the record?

MR. REDFORD: I think we could look at whether there is any confidentiality provisions around that letter. I think we'd have to do that before saying yes, we can produce it.

MR. SHEPHERD: Okay. My next question.

MR. QUINN: Is that a --

MS. GIRVAN: Sorry, could we get an undertaking for that, please?

MR. MILLAR: JT3.11.

UNDERTAKING NO. JT3.11: TO PROVIDE THE COMPETITION BUREAU NO-ACTION LETTER

MR. SHEPHERD: Just before I move on, Mr. Quinn provided a document which he used in his questioning. I wonder if that needs an exhibit number?

MR. MILLAR: I don't have that document. It's one he circulated with the panel?

MR. QUINN: Sorry, Mr. Millar, I did submit this -- the document of March 27th, I did submit it through the Board.

MR. MILLAR: No, I just don't have it in front of me, so do you want to describe what it is and we can just mark it?

MR. QUINN: Is that the one that you are referring to, Jay, or the --

MR. SHEPHERD: Yeah, it is the one on page -- whatever page of this document that you said. You sent a letter and attached document. Could you show it?

MR. QUINN: Okay. So I did some -- yes, that was submitted through the Board.

MR. SHEPHERD: Sorry, it's not this one. Sorry, it's not this one.

MR. QUINN: Oh, are you talking about the picture?

MR. SHEPHERD: Yes.

MR. QUINN: That one I just did through e-mail, because everybody was sending stuff through e-mail, so I didn't add the Board secretary because it was just an illustrative document.

MR. SHEPHERD: But you asked questions about it.

MR. QUINN: Yes, no, I did ask questions --

MR. MILLAR: Okay. Let's mark it and move on. It is KT3.1, and it is a map provided by FRPO.

EXHIBIT NO. KT3.1: MAP PROVIDED BY FRPO.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Now, who do I ask questions of with respect to numbers of employees? That's this panel; right?

MS. ZELOND: Yes.

MR. SHEPHERD: And so you have some estimates of savings going forward. And you were asked by Ms. Girvan on -- or the companies were asked by Ms. Girvan on Wednesday about changes in the numbers of employees.

The -- do you have a forecast, an FTE forecast, of some sort anywhere?

MS. ZELOND: Can you provide what you are referencing?

MR. SHEPHERD: Sorry, I'm looking at page 152 of the transcript on March 28th, where there were questions about numbers of employees and CCC 7, and you were asked by Ms. Girvan, why was there a jump in employees in 2018.

MS. ZELOND: Yes.

MR. SHEPHERD: And we were told, well, to wait for panel 3. That's you.

MS. ZELOND: Okay, yes, so to address the jump in employees between '17 and '18, at the beginning of today I corrected the 2018 number for Union Gas.

MR. SHEPHERD: Oh, so that fixes that problem. That was a typo?

MS. ZELOND: Yes, we had included employees of a seasonal nature, interns, summer students. We had inadvertently included those employees in the 2018 number and did not include them in the numbers from 2012 to 2017. So the correct number is 2,252.

MR. SHEPHERD: So my question is: Why -- what forecast do you have going forward for FTEs? Any?

MS. ZELOND: No.

MR. SHEPHERD: Thank you. And then --

FOLLOW-UP QUESTIONS BY MR. LADANYI:

MR. LADANYI: Excuse me, can I ask a follow-up question on this?

On the first day I had asked questions about this particular interrogatory response and I had asked or I was trying to ask a question about who do we see represented in these numbers. Are these just permanent full-time employees or do they also include contract employees, part-time employees, as you said, seasonal employees? Could you tell us that?

MS. ZELOND: Yes. These figures include full-time and part-time regular employees as well as contractors. Now that 2018 number has been corrected it does not include seasonal employees, such as interns and summer students.

MR. LADANYI: And the same answer goes for Enbridge as well?

MS. ZELOND: The Enbridge numbers on the following page include part-time, full-time, mat leaves. It does not include contractors.

MR. LADANYI: So just, again, if I got you right, the Union numbers include contract employees and Enbridge numbers do not include contract employees; is that right? So contract employees would be what I assume, like, short-term contract employees who might work for a couple of years but under contract and not be full-time employees, they would not be subject to benefits and so on?

MS. ZELOND: That is correct.

MR. LADANYI: So Enbridge numbers do not include those employees, but Union numbers do?

MS. ZELOND: That is correct.

MR. LADANYI: Thank you.

MR. SHEPHERD: I just have a couple of questions on interest costs and interest risk; is that this panel or is this the next panel?

MS. ZELOND: I can try -- yes.

[Witness panel confers]

MR. SHEPHERD: Okay. So we distributed -- we sent you on the weekend and we distributed today a document entitled "interest costs after refinancing", which takes your information from -- and I have to figure out what the reference is now. But you provided a table of refinancings that you have to do, and I can't remember where I got it from. But it was one of your interrogatory responses, and we sent this to you on the weekend, and this seeks to estimate your future costs of interest based on your current projections. Have you seen that? Oh, can we give this a number, by the way.

MR. MILLAR: KT3.2. And what is it, Mr. Shepherd?

MR. SHEPHERD: It is called "interest costs after financing". It's a spreadsheet calculating the impact of refinancing each of the current Enbridge and Union debt that matures during the deferred rebasing period.

EXHIBIT NO. KT3.2: DOCUMENT ENTITLED "INTEREST COSTS AFTER FINANCING".

MR. SHEPHERD: Have you had a chance to look at this?

MS. ZELOND: No, sorry, I just received it right now.

MR. SHEPHERD: It was sent on the weekend; who looked at it?

MR. CASS: Jay, we were expecting that Warren on the next panel would address this.

MR. SHEPHERD: Oh, okay. So he has looked at it?

MR. CASS: That would be my understanding.

MR. SHEPHERD: Awesome. Then I'll save my questions for him. And I think that's all my questions.

MR. MILLAR: Thank you, Mr. Shepherd.

MR. CASS: Sorry, Jay, just before you finish, not to beat a dead horse, but there was the undertaking given with -- I guess it was the first panel. It is the first volume of the transcript at page 77. This goes back to the Competition Bureau documents.

The undertaking, as I indicated, was to check with this panel in respect of the question you asked. Now, it was recorded differently on the transcript, the way the undertaking is stated, so I just wanted to be clear on that that what I indicated you had asked about a list of documents, and I said we were expecting this with a later panel. We'll take this away and discuss that with them, and we should be able to get back to you on that.

MR. SHEPHERD: And so did you get back to me on it?

MR. CASS: So this panel is here, and that's where we thought it would be addressed, but I'm only raising it because when the undertaking is recorded is to provide a list of documents, and it is not actually the intent of the applicants to do that. This was the expectation that it would be brought up with this panel and then we would explain our position to you.

MR. SHEPHERD: Which undertaking is it you are talking about?

MR. CASS: It is Undertaking number JT1.10 at page 77 of the transcript from the first day.

MR. SHEPHERD: So you are now saying, no, we are not going to do that?

MR. CASS: Essentially, yes, Jay, you had asked about documents related specifically to regulated gas distribution in Ontario. These 600,000, approximately documents do not specifically relate to regulated gas distribution in Ontario. To try to go through them all and find if there was some reference to that somewhere in the documents, it's not feasible for us in the time that's available.

MR. SHEPHERD: Mr. Cass, your witness said there was a detailed review of storage in Ontario, competition for storage in Ontario, so if there is a detailed review presumably there are some documents on that. They are not going to be hard to find; right?

MR. CASS: I couldn't say that, Jay. There is a lot of documentation, so I'm just responding to what you had requested, which is documents that relate specifically to regulated gas distribution in Ontario.

As far as I'm aware, there is not any documentation that relates specifically to that. To go through them and try to find something that might have touched on that is not a feasible undertaking.

MR. SHEPHERD: There are documents related to regulated gas distribution in Ontario in the pile of 600,000 documents; right?

MR. REDFORD: It wasn't -- it was not the focus of the Competition Bureau or -- well, obviously, not the Federal Trade Commission, but it was not the focus of the Competition Bureau.

I think our issue is that we would basically have to go through all 600,000 documents to take a look at what is in each.

MR. SHEPHERD: Okay, so -- so your answer is not really responsive. It was a simple question: Do some of the documents have references to regulated gas in Ontario?

MR. REDFORD: Yeah, I don't know. I mean, we'd have to look through all 600,000 to take a look and see what's in those.

MR. SHEPHERD: It is -- okay, thanks.

That's my questions. Thank you.

MR. MILLAR: Thank you, Mr. Shepherd.

Who is next? Julie?

QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: I have a few follow-ups from previous panels.

Could you please turn up LPMA 29, please? Is that the only page? Could you turn to the next page?

So this is a comparison of O&M costs per customer between Union and Enbridge, and I just wanted some explanation of why there is signature of such a significance variance. Is it related to the geography of Union's territory, or...

MS. ZELOND: Yes. VECC 28 also discusses the differences.

MS. GIRVAN: Okay.

MS. ZELOND: At a high-level, two main drivers. One is the mix of business. Union has a storage and transmission business that is different than EGD, as well as the geographic differences. So if you could turn to the second page of VECC 28, you can see the differences in the cost by function of the O&M cost by function.

MS. GIRVAN: Okay, thanks. Now, I just had a question. I understand one of the commitments that Union has made is to update the cost allocation with respect to the Panhandle pipeline. Is that correct?

MS. MIKHAILA: Yes, we are putting together a proposal for our 2019...

MS. GIRVAN: Could you explain to me how you can actually do a limited cost allocation study like that without undertaking a full cost allocation study?

MS. MIKHAILA: We'll be looking at -- our proposal will look at the costs in that functional classification only that are currently underpinned in Union's rates, and not other aspects of the cost allocation study.

MS. GIRVAN: But you won't be looking at other pipelines?

MS. MIKHAILA: No.

MR. GARNER: Sorry, because that's the question that I had also. How will that differ from what the original that Panhandle proposal was? Wasn't that exactly what you did? You took kind of a snapshot of St. Clair and the Panhandle and you made a bit of an adjustment, and the Board rejected that.

That's what I'm trying to figure out, too. What can do you that is different than what you've already proposed, at least in methodology?

MS. MIKHAILA: In the Panhandle project, we had proposed an allocation for the project itself only, and we had left the -- we did not propose any changes to the costs that existed in 2013, and this will be a look at all costs from '13 plus the project.

MR. GARNER: Okay.

MS. GIRVAN: Could you please turn up LPMA number 38, please?

If you could turn to page 2, this is the cost allocation related to the deferred tax drawdown. I note that Union South is paying 6.9 million, and I also note that rate -- M12 is paying 6.1 million. How much of M12 is related to EGD?

Obviously, you have a number of customers within rate M12. Of that 6.1 million, what I'm looking for is how much of that would relate to EGD as a customer of Union, or how much of M12's capacity is related to Enbridge?

MR. KITCHEN: Could you bring up VECC 20?

MS. MIKHAILA: In response to VECC 20B, we have indicated there that EGD has contracted for 37.8 percent of the Dawn Parkway system capacity.

MS. GIRVAN: Okay. So that's the full M12, is that right?

So here's what my question really is. 6.1 million of the deferred tax drawdown is allocated to rate M12. Enbridge is a customer, an M12 customer, so there is a portion -- let's just say, for the sake of argument, it's half or something less than half.

Is there an adjustment to base rates with respect to Enbridge related to this deferred tax drawdown? I'm assuming not. It is not in your proposals. It would be an increase in Enbridge's rates, right?

MS. MIKHAILA: Union's M12 rate would reflect the adjustment to base rates, so Union's M12 rate will increase. A portion for Enbridge use is charged back -- the Enbridge rate zone is charged that rate for their supply.

MS. GIRVAN: So there is an increase in Enbridge -- an increase to Enbridge's customers for that, as well?

MR. KACICNIK: Correct. Like anything that Enbridge contracts upstream from our system would be part of our gas supply plan that would include M12 capacity.

MS. GIRVAN: So it is an increased costs to Enbridge's customers related to this deferred tax drive.

MR. KACICNIK: That's right.

MS. GIRVAN: And it is a flows through. It's not something that …

MR. KACICNIK: Flows through completely, yes.

MR. QUINN: Excuse me, Mr. Kacicnik, it's Dwayne Quinn. To be fair, didn't you say earlier that some of the transportation is used for load balancing, which then would appear in your storage costs which would be embedded in your delivery rate.

MR. KACICNIK: Storage costs are recovered through our delivery rates. However, anything that's contracted upstream of the system, including any services we get from Union Gas, are part of our gas supply plan and our pass through to customers through our storage and transportation rates.

MR. QUINN: So in the QRAM process, you would increase the storage costs to reflect the increase related to M12 that's attributable to load balancing?

MR. KACICNIK: Essentially, the annual cost of our gas supply plan would increase, let's say by 3 million, and then we would flow that through to our customers.

And you are correct; storage costs are recovered through our delivery charges.

MR. QUINN: Thank you. I just wanted to get that clarity, thank you.

MS. GIRVAN: Thank you. Could you please turn to LPMA number 40,please?

So this is related to the adjustment for the OPEB costs, and I just wanted to know if there is a breakdown anywhere of the 6.5 million in terms of the allocations or rate classes.

MR. KACICNIK: There is no detailed breakdown of that. We could provide it, if you are interested. But as stated in the interrogatory response, we would propose to allocate it based on the rate base.

MS. GIRVAN: Sure.

MR. KACICNIK: If you look at that rate base allocator, roughly 60 percent of that amount would flow to rate 1 customers, about 30 percent or just below 30 percent to rate 6, and the rest to other customer clauses.

MS. GIRVAN: That's fine. That's sufficient.

Could you please turn to FRPO number 22? This is related to your capitalization policies and it says:

> “Amalco day one structure and corresponding capitalization policy has not yet been defined.

The company will review the eventual policy and ensure consideration that amounts included in future ICM applications will not include such cross subsidization.”

My question is really when do you expect to finalize, I guess, a company-wide capitalization policy? Because they are different today, right?

MS. MIKHAILA: That is correct.

If you turn -- part of evidence, we do have the capitalization policy for both Enbridge and for Union Gas.

MS. GIRVAN: Yes.

MS. MIKHAILA: During this year we are looking at both policies to ensure that there is one consistent policy for Amalco when we -- for what I call Day 1 Amalco, the first day that Amalco runs --

MS. GIRVAN: Okay. So let's say there is a difference. Would that be -- would you be seeking Z-factor relief for that?

MS. MIKHAILA: We will be evaluating differences that relate to accounting changes, not just the capitalization policy, but any accounting changes as a result of amalgamation, and be bringing that forward to the Board in the annual rate proceeding for awareness.

MS. GIRVAN: Okay, whether there is a net decrease or a net increase.

MS. MIKHAILA: That's right.

MS. GIRVAN: Okay.

MR. SHEPHERD: Could I ask a follow-up on that?

It is our understanding that Enbridge is deemed to be the acquirer for accounting purposes in this transaction; is that right?

MS. MIKHAILA: For the Union and EGD amalgamation or for the Spectra and Enbridge merger?

MR. SHEPHERD: Well, for both.

MS. ZELOND: For the Union and EGD amalgamation, we are currently working through the accounting research and the determination of how this transaction will be accounted for, so I do not have additional details on that at this time.

MR. SHEPHERD: The reason I ask this is because it's my understanding that if Enbridge is the acquirer upstream, deemed to be the acquirer for accounting purposes, then you have no choice. You have to apply the capitalization policies of Enbridge; is that right?

MS. ZELOND: If I can just turn briefly to two pieces of evidence.

MR. SHEPHERD: Sure.

MS. ZELOND: If you are in Staff 31, attachment 1, page 7, and this is just to give an illustrative example, under label 6.1 in the capitalization threshold it states that individual PP&E items that cost greater than $10,000 are eligible for capitalization.

If we turn to the Union Gas capitalization policy, which is attachment 2, page 5 of that same Staff 31, under that heading labelled "minimum" rule it states that the items eligible of capitalization is $1,000.

So when -- at the corporate level when we are reviewing these policies, since a Union Gas policy, just an example, is under the $10,000, it is in compliance with the parent Enbridge company.

So as of the end of the year for 2017, Union and EGD are both in compliance with the accounting policies of Enbridge.

As we move forward as Amalco we will need one policy, and that is the work we are doing today.

MR. SHEPHERD: Sorry, you've lost me there.

MS. ZELOND: Yep.

MR. SHEPHERD: If Union is expensing 9,000 out of a 10,000 expense that Enbridge would capitalize, then they are not in compliance.

MS. ZELOND: So this is a threshold. This is a threshold recommendation that was put forth in the policy. So because Union is expensing everything over a thousand dollars, it would then also be expensing -- or, I'm sorry, capitalizing anything over $1,000, it would then be capitalizing anything over $10,000, so it was deemed to be in compliance with the policy.

This is a policy that we are doing work on as we speak and throughout the rest of this year to ensure that Amalco will have one policy and this difference does not exist.

MR. SHEPHERD: I was asking a somewhat different question, though.

MS. ZELOND: Okay.

MR. SHEPHERD: I wasn't asking the question: Do you have to make them consistent with each other? Yes, of course you do.

MS. ZELOND: Yes.

MR. SHEPHERD: The question I'm asking is under U.S. GAAP are you not obligated, you have no choice, to adopt the Enbridge accounting policies when you put them together? In fact, weren't you obligated to do that when you acquired Spectra? That's what I'm asking.

MS. ZELOND: We are obligated under U.S. GAAP to ensure that we are in compliance with U.S. GAAP and the company's policy. Whether it is the distinction of whether it is Enbridge or whether it was Spectra or Enbridge Gas Distribution or Union is not a specific requirement in U.S. GAAP.

We are in compliance with U.S. GAAP, and we will continue to be in compliance with U.S. GAAP.

MR. SHEPHERD: Sorry, you are saying that U.S. GAAP does not require the adoption of the acquirer's capitalization policy?

MS. ZELOND: Both entities are in compliance with U.S. GAAP and we will continue to be in compliance with U.S. GAAP, and we will have a consistent policy that both entities and the new Amalco will adhere to.

MR. SHEPHERD: Thank you.

MS. GIRVAN: So I just had just another question on the accounting. So as of January 1st, 2019, the intent is to have one set of books; right?

MS. ZELOND: Yes.

MS. GIRVAN: Okay, so help me with then how you keep things separate for your rate zones?

MS. ZELOND: Thank you for that clarification, and I maybe should have expanded my answer, yes.

From an external reporting perspective, Amalco will have one set of external financial statements. Underneath that we will keep the detail so that we can properly have the information available for the rate zones.

MS. SIGURDSON: So you will do two separate accounting streams, really?

[Witness panel confers]

MS. ZELOND: Similar to what is being done today at Union with the different rate zones, the assets records will still be identified based on the -- whether Union, EGD, and we will keep that detailed information so that we can properly allocate between the rate zones.

MS. GIRVAN: What about common coasts?

MS. MIKHAILA: I think during the deferred debasing period rates will be escalated by the rate-setting mechanism, and upon rebasing in 2019 we will have a common --

MS. GIRVAN: You mean 2029.

MS. MIKHAILA: 2029, sorry, we will have to look at cost allocation between the rate zones at that time.

MS. GIRVAN: Okay. So my other question is --

MR. SHEPHERD: Sorry, can I follow up on that?

MS. GIRVAN: Yes.

MR. SHEPHERD: So along the way every year you have to report under the RRR requirements.

Are you planning to report separately or together? What's your proposal before the Board currently?

MR. KITCHEN: Once Union and EGD amalgamate there will be a single RRR reporting.

MR. SHEPHERD: Thank you.

MS. GIRVAN: Okay. And just with respect to the earnings sharing mechanism that you've proposed in year 6, can you explain to me how that will be calculated?

[Witness panel confers]

MR. KITCHEN: Ms. Girvan, I think that would be best asked of the next panel that will have Mr. Tetreault and Mr. Reinisch on it.

MS. GIRVAN: Okay, thanks. Just one other question. You don't need to pull up the interrogatory response, but you are proposing in this case for a materiality threshold of a million dollars for your Z-factors. Is that correct?

MR. KITCHEN: Yes.

MS. GIRVAN: And currently, Union has $4 million and Enbridge has 1.5, and I know you said that -- is that correct? Sorry.

MR. KITCHEN: That's correct.

MS. GIRVAN: And I know you've said it's a million dollars because that's what the rate handbook says. Is that your reasoning behind that?

MR. KITCHEN: That's the reasoning, yes.

MS. GIRVAN: Okay, thank you. Those are my questions.

MR. MILLAR: Thank you, Ms. Girvan. Mr. Garner, did you have anything left?

MR. BRETT: I have one question.

MR. MILLAR: Go ahead.

QUESTIONS BY MR. BRETT:

MR. BRETT: Mr. Redford, you were talking a lot about reports to the FTC; you keep talking about the FTC and the Competition Bureau.

Now, the FTC would be assessing the impact of the merger on the United States market, right? And the Competition Bureau would be assessing the impact of the merger on the Canadian market. Is that broadly the case?

And let me just ask -- add one other thing. And this is Enbridge Inc. would be reporting -- would be filing with the FTC, right?

MR. REDFORD: Let me take those one at a time. Yes, it would be the parent companies that would have made the FTC filings and the Competition Bureau filings, or their original letter of notice of a merger.

The FTC does look at U.S. markets. But if you look at our geographic market, it is New York, Pennsylvania, Ontario, Michigan, Ohio, Indiana and with Nexus and Rover being built, will end up being Ohio and West Virginia, as well.

So their view is a broad view on the market, including U.S. markets. But they would look at the Canadian -- not necessarily the regulated market in Canada. But to the extent that the unregulated market and the transmission system provides services to U.S. customers they did look --

MR. BRETT: But as I think you've said, they wouldn't look -- they wouldn't be particularly interested in the regulated market in Canada as to whether there remained one or two utilities in Ontario, right?

MR. REDFORD: Yes, I would agree with that.

MR. BRETT: The people that would be interested in that, if anybody, would be the Competition Bureau. And my question to you is -- you talked about the 600,000 documents and I don't know what these documents consist of, whether there is one number on each page. But in any event, are the 600,000 documents -- were they asked for by both the Competition Bureau and the FTC? That sounds like an FTC request to me.

MR. REDFORD: Well, it was both.

MR. BRETT: Did they ask for the identical documents?

MR. REDFORD: No, not in each case, they did not. I think if the 600,000 was really referring to the Competition Bureau, there would have been additional documents that were provided to the FTC.

Some of their questions were fundamentally similar or the same, and they would be looking for similar --

MR. BRETT: Did any of the documents that were -- did the Competition Bureau ask for any documents specific to the amalgamation of the two regulated utilities?

MR. REDFORD: Well, not that I recall.

MR. BRETT: Not that you recall?

MR. REDFORD: No.

MR BRETT: Okay, thanks, those are my questions.

MR. MILLAR: Ms. Jamieson?

QUESTIONS BY MS. JAMIESON:

MS. JAMIESON: Lisa Jamieson. If you could pull up TCPL 1, and if you could look at the attachment, page 1 of 1. Sorry, this is just a little blurry on the screen.

So you indicated in your answer to this response that you have fully depreciated the facilities that were associated with that particular service.

So if you look to the line, line 10, I just want to confirm that the 2018 monthly firm demand, 90-day service there, that the Board-approved rate that is actually being charged right now is the .139 million gigajoules per month and that the updated number that you've provided there is the number that would be charged if you had removed depreciation from that rate. Is that correct?

MS. MIKHAILA: The 0.139 gJs per month is the amount that is currently Board-approved.

The calculation in column B was as a request of the undertaking, and I don't confirm that it's necessarily what would be charged today if we were to calculate an updated rate.

MS. JAMIESON: I am trying to understand this from the perspective of cost causation. So if those facilities are completely depreciated, would the rate not reflect that in the calculation?

MS. MIKHAILA: I can't confirm what a rate design would be under a -- in a different scenario, other than the 2013 cost study.

MR. KITCHEN: Ms. Jamieson, if we were actually rebasing, then we would look not just at the pure mathematical calculation of the rate that's in the table. We would also be looking at things like the value of service and factoring those into the ultimate rate design.

So in the end, it may not end up being a cost-based rate; it maybe something else reflecting the value of service. And we are not doing that, so...

MS. JAMIESON: Okay. My next question is TCPL 2 and in this question it is 2(b)(i). The question that we were asking had to do with service attributes associated with in-franchised service. I'm just trying to understand the difference between when an in-franchised customer and an ex-franchise customer would receive.

And the answer seemed to be more about usage, that both groups use the system the same way.

Could we get that question updated, the answer updated for attributes, like service attributes, when they have to nominate, just things like that.

MR. REDFORD: We did address it, in part. We talked about -- we did talk about -- we did talk a little bit about nominations.

If you look in part 2 of that answer, we talked about the fact that in-franchise customers -- basically, we identify needs as part of our daily capacity planning of the integrated system. And then that goes in, along with all the nominations from the M12 and if there are any C1 shippers, that goes into calculate our operationally available capacity.

So we did -- we actually -- that kind of ran over between page -- part 1 and part 2 with respect to nominations. We don't nominate to ourself, but we have to...

MS. JAMIESON: So an in-franchise customer does not nominate?

MR. REDFORD: No, but the process is slightly different. It is a calculation on an in-franchise basis what the needs are, and that gets rolled up in with the nominations on the system to determine what operationally available capacity we have.

So it is identified. It might be a different process as to how we get there, but there is a -- there is an in-franchise use number that is prepared each day.

MS. JAMIESON: Okay. So we were looking for kind of like is there a rule book. An M12 shipper would have to follow the tariff and general terms and conditions, so we were looking for that for in-franchise, and then to understand the nomination part of it, the only kind of rules that you've pointed us to is the priority of service, which does say that we have equal treatment in-franchise and M12 shippers.

But if you look at the description of how you would deal with the curtailment, it's all based on nominations. But if an in-franchise customer doesn't nominate, then how do you do things like, if there is a curtailment and an upset and you have to curtail or later in the day when someone is requiring additional capacity they are not in there on a timely window, then what happens? How do you compare those two services?

MR. REDFORD: So that daily number we come up with capacity required for in-franchise use. As I said, it becomes part of the operationally available capacity. So if somebody is looking for -- looking at what kind of capacity is available on the Dawn-Parkway system within the day, that number would be posted online.

MS. JAMIESON: Okay, but what about later in the day Enbridge has incremental needs, it got windy, cold, TransCanada's customers have a need. How do you compare and how do you allocate amongst those two groups of customers?

MR. REDFORD: Well, we would need to -- so at the other windows during the day we would update the in-franchise requirements, so if the daily capacity was X, we'll update what that was at the next windows.

MS. JAMIESON: And if there wasn't enough capacity for both groups of customers how do you allocate between the two?

MR. REDFORD: So -- well, as per the priority of service, so --

MS. JAMIESON: The priority says it's based on nomination, so if the in-franchise customers aren't nominated and they just get to take it, and then all the other customers nominate? That's kind of what I'm trying to get at.

MR. REDFORD: So the priority of service basically is a prior year ranking. It says firm in-franchise storage and distribution services and firm ex-franchise services, so that number that we would identify at each of the windows basically acts as the firm requirement for in-franchise storage and distribution, and then based on the nominations of the M12 customers, based on what we've looked at, what we've asked for or requested for in-franchise customers, then if there was any curtailment that was required, that we would be using those numbers at the last nomination window.

MS. JAMIESON: Okay, so just whatever numbers come through as a requirement, that becomes kind of the nominated number compared to other nominations that come in?

MR. REDFORD: Yes --

MS. JAMIESON: -- and then you allocate it based on the capacity that's available?

MR. REDFORD: Yes, effectively that identification of the number is our nomination. I mean, it's --

MS. JAMIESON: But you don't have any procedures or anything that writes this down that says how that will be treated?

MR. REDFORD: No, the priority of service --

MS. JAMIESON: That's the only document.

MR. REDFORD: Yeah, well, it says that -- it talks about how curtailments are handled. We have an internal -- our internal processes basically -- we work through our process on a daily basis to come up with our in-franchise needs. They are then posted, and there is no written procedure, per se, to go through --

MS. JAMIESON: Okay. It --

MR. REDFORD: -- it is part of our -- it is just part of our internal processes.

MS. JAMIESON: Okay. No, and I understand that. It is just that going forward there will be 66 percent of that system that will be used by in-franchise customers, so it would be nice to see some rules or something that we know that how the customers are being treated as different rate classes to in-franchise.

MR. REDFORD: Well, I'm not sure that's required. I don't know that it's broken today as to how it works. You know, we have a third of the capacity on the Dawn-Parkway system ourselves or thereabouts today and operate under those same conditions, so I'm not sure there is an issue there today.

MS. JAMIESON: Okay. That's it for our questions, thanks.

MR. QUINN: I'd like to follow that up if I may.

I'm not sure I heard the answer, Mr. Redford, so it helps to put numbers to it. If you had 150 units of available capacity, operational available capacity, and the recalculation of Enbridge's needs as an in-franchise customer, not a nominated M12 customer, but as an in-franchise customer, if their needs in the inter-day window are 100 units and an ex-franchise customers asks for 100 units also and there is only 150 available, does the Enbridge capacity requirement of 100 get met and then the remainder goes to the ex-franchise, or does it get equally split and you have to do something operationally for your Enbridge in-franchise?

MR. REDFORD: Well, again, I think that goes -- that goes -- well, at that point if it's an inter-day, unless they have a firm inter-day, you would have -- you would have -- you would be looking at IT demands from ex-franchise customers.

MR. QUINN: So the answer is Enbridge would get 100 and the ex-franchise would get 50?

MR. REDFORD: Yeah, I would say so, up to their maximum capacity.

MS. JAMIESON: Okay, and that's exactly what I was asking about in my question, trying to clarify, since they are not -- the in-franchise aren't nominating, they are being given a higher priority in the -- after NAESB timely window.

65 percent of that system would go to in-franchise first, before any of the ex-franchise customers would get allocated any additional capacity.

[Witness panel confers]

MR. REDFORD: So we were chatting. I'm not sure we've run into that case before, so that is something I wouldn't mind looking at what we have done historically. I think my answer -- I think my answer will stand, but I would like to check that.

MS. JAMIESON: Sorry, is my mic on? Just one more question.

The contracts that you mentioned between Enbridge and Union, once you amalgamate, will Enbridge stop nominating on those contracts, and yet they just get allocated that amount of capacity, or will they actually nominate and stick to all the rules and terms and conditions of those contracts until they terminate?

MR. REDFORD: I think operationally we would treat them as an in-franchise customer.

MS. JAMIESON: In-franchise, so they wouldn't have to do the nominate or anything right from the beginning?

MR. REDFORD: Well, again, they would have to identify their requirements at each of the windows, timely window, plus the others, so they would have to, you know -- it's not an open game, which is why there is operationally available capacity posted under STAR and on our website, so we would have to go through the same process. It may not be a formal nomination, but there would be an identification of needs.

MS. JAMIESON: Okay. But not operating the contracts. The contracts would cease from the moment you amalgamated.

MR. REDFORD: Yeah, the contracts would cease, the capacities that are identified in those contracts would continue --

MS. JAMIESON: Would remain. Okay. Thank you.

MR. QUINN: Was there an undertaking?

MR. REDFORD: That's right.

MR. MILLAR: Yes, Mr. Redford, you -- I think you undertook do something, so I was going to mark that.

MR. REDFORD: Well, yeah, what I wanted to do was take a look and see whether we've actually ever had that case before, even with Union's capacity --

MR. QUINN: And if you have not, if you would use a simple example that I laid out: What would be Union's response to that, with two requests, one from Enbridge for 100 units, one from an ex-franchise customer for 100 units, and you only have 150 operation available units at that timely window -- or, sorry, not at the timely window, the inter-day window.

MR. MILLAR: So that's JT3.12.

UNDERTAKING NO. JT3.12: TO TAKE A LOOK AND "SEE WHETHER WE'VE ACTUALLY EVER HAD THAT CASE BEFORE, EVEN WITH UNION'S CAPACITY", AND IF NOT, WHAT WOULD BE UNION'S RESPONSE TO THAT, WITH TWO REQUESTS, ONE FROM ENBRIDGE FOR 100 UNITS, ONE FROM AN EX-FRANCHISE CUSTOMER FOR 100 UNITS, AND YOU ONLY HAVE 150 OPERATION AVAILABLE UNITS AT THAT THE INTER-DAY WINDOW.

MR. MILLAR: Were you those all your questions, Ms. Jamieson? Okay. Anyone else in the room?

MS. JAMIESON: Yes, thanks.

MR. MILLAR: Mr. Aiken, if you're on the phone and you can control your booming voice, please go ahead.

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Boom, boom. I've got a couple of questions. The first one is on the sale of the excess utility storage that was talked about a bit this morning and a bit last Thursday. And there was some numbers provided as to what the ratepayer share of the S&T margin, I think it was 90 percent, what those numbers were from 2013 through '16, and then for 2017 there wasn't a number given because the 2017 deferral application hasn't been filed yet. My question is: Do you have a preliminary estimate of what the 2017 number will be?

MR. KITCHEN: We have an estimate, yes.

MR. AIKEN: Can you provide it?

MS. MIKHAILA: The estimate is that the ratepayer portion in that deferral account is $3.368 million.

MR. AIKEN: Thank you. We've also talked about the 4.5 million that's built into rates. Can you undertake to provide the breakdown of that 4.5 million by rate class?

MS. MIKHAILA: Yes, I can provide that.

MR. MILLAR: JT3.13.

UNDERTAKING NO. JT3.13: TO PROVIDE A BREAKDOWN OF THE $4.5 MILLION BY RATE CLASS

MR. AIKEN: And then my last question is on Staff number 57. This deals with the accounting standards update, and the amounts that are eligible for capitalization from OPEBs and pension costs.

In the response, it says:

"Enbridge Gas does not expect the change related to ASU2017, 07 to have an impact on the 2019 revenue requirement because it does not currently capitalize pension and OPEB-related costs. Union Gas has not reflected the change related to the same thing on the 2019 revenue requirement."

And then my question really arises on the second page, where it says:

"Union Gas estimates that the impact to the 2019 revenue requirement to be a reduction of less than 1 million."

And that kind of confused me because I understood that the accounting standards update was to limit what could be capitalized under U.S. GAAP.

So I thought, if anything, this would mean that a utility might have to expense more than they have in the past, which means that the revenue requirement should be going up, not down.

Can you explain to me why Union says there would be a reduction in the 2019 revenue requirement?

MS. MIKHAILA: I can't necessarily speak to that, but the way that I read that sentence, I don't interpret it that way.

I read that our estimate is that the impact is less than a million, not that the revenue requirement is decreasing. So I think we can maybe clarify that.

MR. AIKEN: If you would undertake to clarify that because to me, it does state the revenue requirement to be a reduction of less than a million dollars. Well, that implies a reduction, whereas I would have thought it would have been an increase to the revenue requirement, if you actually expense more and capitalize less.

MR. KITCHEN: We can do that.

MR. MILLAR: That is JT3.14.

UNDERTAKING NO. JT3.14: TO CLARIFY THE RESPONSE TO BOARD STAFF 57 REGARDING THE 2019 REDUCTION IN REVENUE REQUIREMENT

MR. AIKEN: Thank you, those are my questions.

MR. MILLAR: Thank you. Anyone else on the line with questions?

MS. CHATTERJEE: Kitchener, I have.

MR. MILLAR: All right. Ms. Chatterjee, please go ahead.

QUESTIONS BY MS. CHATTERJEE:

MS. CHATTERJEE: Okay, this is in reference to the transcript on March 29th, page 135. Is the transcript on the board?

MR. KITCHEN: Yes, we have it.

MS. CHATTERJEE: So I just wanted to get the clarification on the second last sentence at the bottom of the page that Ms. Mikhaila mentioned, that the difference between the two are the costs that are allocated to other rates, in rate T3 rather than demand charge.

MR. KITCHEN: Sorry, but could you repeat the reference?

We have page 135 up from March 29th, and Ms. Mikhaila is not actually speaking at that point.

MR. QUINN: Could you try Ms. Adams, 135 of the PTF? Maybe that is what Ms. Chatterjee is referring to.

MR. KITCHEN: We have it.

MS. CHATTERJEE: Okay, that second last sentence:

"The difference between those two is the costs that are allocated to other rates in rate T3 rather than the demand charge."

However, if I see attachment 2, attachment 2 refers to demand charge and that's the higher amount of 1.188 million, and attachment 1 shows 1.092 million.

Can you please clarify the sentence that Ms. Mikhaila had mentioned?

MS. MIKHAILA: Yes, I can do that. There are credits that are allocated to other rates, including storage rates and commodity rates, and that's why the demand allocation is higher than the total.

MS. CHATTERJEE: So a credit would be higher? Sorry, I'm still -- I think I'm missing something. Column E shows higher capital pass through, and attachment 1 shows a breakdown -- the pass through.

MS. MIKHAILA: So on attachment 1, the 1,092,000, that includes the 1.188 million of costs allocated to demand, and credits to other rates within the class to reduce it to the 1.092.

MS. CHATTERJEE: But I thought that the sentence that you had mentioned, that there were rates which were included in the demand charge. So any specific projects that are not included here, that is -- the is credit is mentioned.

MS. MIKHAILA: I think it would be easiest if I just undertook to reconcile those two numbers for you.

MS. CHATTERJEE: That would be appreciated.

MR. MILLAR: JT3.15.

UNDERTAKING NO. JT3.15: WITH REFERENCE TO TRANSCRIPT OF MARCH 29TH, PAGE 135, TO RECONCILE THE TWO NUMBERS PROVIDED

MS. CHATTERJEE: And my last question was in response to Kitchener 5F response, it was mentioned that Kitchener Utilities may bring forward its concerns about cost allocation and the annual rate-setting process.

Can you please clarify how -- what would be the process? Because as you recalled in the preamble, it's mentioned that Kitchener had raised in the past and was advised by the Board that it could be raised at the next cost of service proceeding.

It can be taken as an undertaking.

MR. KITCHEN: No, I don't think that's necessary. I think all we're saying is that as part of an annual rate-setting mechanism, if the City of Kitchener wishes to bring forward something around the T3 rate, they can. I think any party can bring forward proposals. Whether or not the Board will deal with them, or how the Board will deal with them remains with the Board.

MS. CHATTERJEE: Because we at Kitchener had raised in the past and we were advised by the Board that we had to wait until next cost of service. So we just wanted to understand is there any other process that would kind of trigger?

MR. KITCHEN: Our proposal is that we will have annual rate-setting -- an annual rate-setting process that will apply the price cap mechanism. And then in 2029 we would rebase.

MS. CHATTERJEE: Sorry, I'm still -- I'm not quite clear how that annual rate-setting process would be approved by the Board. Like if Kitchener brings its concern.

MR. KITCHEN: Well, you know, I think all I'm suggesting is that when we bring forward our rate proposals under a price cap each year, if the City of Kitchener wishes to raise issues around their rate, that's the appropriate forum to do it in.

What the Board will do with that consideration I don't know, but I'm just saying that, from my perspective, that's the place they would do it.

MS. CHATTERJEE: So why we had raised this question that was mentioned in the preamble, that in the past after the lost cost of service Kitchener had raised issues and the Board had advised to our concern that we should bring it forward to the next cost of service. So that means that we waited for almost five years now, we have to again wait for additional ten years, if Board advisors obtain the same kind of decision?

MR. KITCHEN: Well, I guess under the scenario you just laid out for me, yes.

MS. CHATTERJEE: Okay. That's all my questions we have.

MR. MILLAR: Okay, thank you very much.

Anyone else on the line with questions for this panel? Okay, thank you, panel. We're going to take our lunch break and return with panel 2, and I'm going to propose a short break, because we are behind. Let's come back at 20 minutes to 1:00, so a little bit shorter than normal -- to 2:00, pardon me, 50 minutes from now.

--- Luncheon recess taken at 12:48 p.m.

--- On resuming at 1:41 p.m.

MR. MILLAR: Good afternoon, everyone. We'll get started. We have Panel 2 up now.

Mr. Cass had a couple of preliminary matters. I do ask for people on the line that you be on mute if you aren't speaking, just because we can pick up what's happening in the background.

Mr. Cass?

PRELIMINARY MATTERS:

MR. CASS: Thank you, Mike.

First, there is an outstanding item that was raised by Dwayne. He had asked about the matrix for evaluation of bids received in the blind tender process.

Enbridge has prepared -- has a copy of the matrix with the redactions it believes are appropriate to remove information that's both confidential and, in Enbridge's view, not of any help to the Board in this proceeding.

Enbridge will give the undertaking to provide that version of the matrix. It is understood that Dwayne does not agree with the redactions, but we'll at least undertake to provide what we do have, and what Enbridge is prepared to put on the record.

MR. QUINN: Thank you, Mr. Cass. I am satisfied.

MR. MILLAR: We will mark that as JT3.16.

UNDERTAKING NO. JT3.16: TO PROVIDE A VERSION OF THE MATRIX FOR EVALUATION OF BIDS IN THE BLIND TENDER PROCESS

MR. CASS: And the next item was simply that -- I believe that one of the witnesses has a previous item of evidence that was taken subject to check to address at this time.

MR. REINISCH: So from the transcript from the first day of the proceeding, page 78, please. Down in lines 24 through 28, right near the bottom of the page, Mr. Shepherd had asked about the amount of outstanding public debt of both Union Gas and Enbridge Gas Distribution listed as 6.4 billion. I agreed to accept that as subject to check.

After checking, I would please refer you to Energy Probe 18, the response to interrogatories.

After checking response to A, there are two tables there listing the outstanding debt of both entities. The total is approximately 7.6 billion.

MR. CASS: That's all, Mike, thank you.

MR. MILLAR: We did have some a new panel with some carryover members, but some new members. Mr. Cass, could introduce them, or ask them to introduce themselves?

ENBRIDGE GAS DISTRIBUTION INC./UNION GAS LIMITED - PANEL 2

Greg Tetreault

Luke Skaarup

Hilary Thompson

Ryan Small

Mark Kitchen

Kevin Culbert

Jim Redford

Warren Reinisch

MR. CASS: Thank you. I am looking to see those who are now. I guess it's everyone except for the three to the immediate right on the first row would need to introduce themselves, if they can do that.

MR. TETREAULT: I'll start. Greg Tetreault. I am manager of regulatory accounting for Union Gas.

MR. SKAARUP: Luke Skaarup, director of integrated management systems and program support, Union Gas.

MR. THOMPSON: Hilary Thompson, director of asset management at Enbridge Gas Distribution.

MR. SMALL: And Ryan Small, manager of revenue and regulatory accounting at Enbridge Gas Distribution.

MR. MILLAR: With that -- thank you, witnesses -- we can get into the questions.

Mr. Shepherd, you had agreed to go first.

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Thank you. I want to start with BOMA 29, and I'm looking at page 2 of BOMA 29.

If we want to look at historical rate base for the combined organization, we can just add up lines 1 and 2 in table 1 and get your rate base. That's on a comparable basis going forward, right?

MR. TETREAULT: Can you repeat your question, please?

MR. SHEPHERD: Sure. If I just add lines 1 and 2, I will get the total rate base for what will become Amalco and there is nothing -- I don't have to make any adjustments to make it comparable to going forward numbers, do I?

MR. REINISCH: With respect to treatment, yes. I believe they are consistent with each other and they could be added. But the one note I would make is the deferred tax drawdown. There may be an unamortized in the Union Gas rate base.

MR. SHEPHERD: Why would that be in rate base? A deferred tax drawdown?

MR. TETREAULT: Actually, part of the cost of the deferred tax drawdown or the credit is the rate base reduction in our 2013 cost of service.

MR. SHEPHERD: I thought that went into a variance Account. So it was collected once, and then went into a variance account to adjust rates. Is that wrong?

MR. TETREAULT: There is a rate base reduction to reduce rates for that amount. There is not a variance account to my knowledge, at least on the Union Gas side.

It's a rate base reduction that would have been done at the time of cost of service.

MR. SHEPHERD: I'm trying to understand how that could possibly relate to rate base. Why would your rate base include any amount for deferred taxes?

MR. TETREAULT: If memory serves, it is there as a credit to rate base. It serves as a reduction to cost to service, some of which is in rate base.

The history or the genesis of why that happened in the late '90s, I'm not sure.

MR. SHEPHERD: Okay, but that's maximum 17 million a year, because that's what the drawdown is?

MR. TETREAULT: I think that's fair.

MR. SHEPHERD: Okay. I have a document here that's entitled "Ten-year revenue and expense forecast, Enbridge and Union." This is actually all your numbers, except for calculations we've done to them. And we went back and forth on this over the weekend, and I think we have agreed that these numbers are now accurate.

So first, can you confirm that these numbers are now accurate? And second, can we get a number for it? I asked Andrew at the break to tell me that they were accurate.

MR. REINISCH: So yes, based on the sources below, we've confirmed that these numbers are accurately captured and the calculations are accurate within Excel.

MR. MILLAR: Would you like that marked as an exhibit?

MR. SHEPHERD: Please.

MR. MILLAR: KT3.3.

EXHIBIT NO. KT3.3: DOCUMENT ENTITLED "TEN YEAR REVENUE AND EXPENSE FORECAST, ENBRIDGE AND UNION"

MR. SHEPHERD: I just have one question. So for 2018, in your board material, you forecast a total ROE of

400 million, and a ROE of 8.97 percent. So we calculate that that means your rate base was 12.4 million forecast for 2018.

It's just 400 divided by .087, divided by .36, which is correct, right? That's how do you it?

MR. REINISCH: The math is correct.

MR. SHEPHERD: Okay. So I don't understand why your forecast for your board was 12.4 million and you have a current forecast of 12.856 million. Did something change or are these done on a different basis?

I'm happy if you wanted to undertake to deal with that, just reconcile the two numbers.

[Witness panel confers]

MR. REINISCH: We'll undertake to provide a reconciliation of the difference.

MR. MILLAR: JT3.17.

UNDERTAKING NO. JT3.17: TO RECONCILE RATE BASE FIGURES GIVEN IN APPLICANT BOARD MATERIAL VERSUS CURRENT FORECAST

MS. GIRVAN: Sorry, Mr. Shepherd, can you explain this table?

MR. SHEPHERD: I'm going to get to that.

MS. GIRVAN: Okay.

MR. SHEPHERD: So still on BOMA 29, this tells me that Union increased its rate base from 2012 to 2018 -- this is six years, by 64.1 percent. Will you accept that subject to check?

MR. REINISCH: I can accept subject to check.

MR. SHEPHERD: And Enbridge increased its rate base from 4 billion to 6.7 billion, which is a 67.1 percent increase.

In total, the compound annual growth rate in rate base is 8.7 percent; will you accept that subject to check?

MR. REINISCH: I can.

MR. SHEPHERD: And so I'm -- some portion of this -- or let me start with Union. Some portion of that was tracked by your capital tracker in your last rate plan; right?

MR. REINISCH: So there are two main drivers for rate base growth within Union Gas, as well as within Enbridge Gas Distribution, over the period in question.

With respect to Union Gas, the first driver is our annual customer additions, so each year we've been adding approximately 20,000 customers. Those customers require capital in order to attach meters, distribution mains, along the premises, as well as, as you pointed out, there has been a significant amount of capital growth driven by a number of large projects that have qualified for the capital pass-through mechanism.

MR. SHEPHERD: And that's about $1.5 billion over the last -- that came through the capital tracker mechanism, right? I'm looking at LPMA 23. It is actually closer to 1.7 billion. Do you see that, line 7?

MR. REINISCH: It is approximately 1.6-, 1.7 billion, correct.

MR. SHEPHERD: Now, the other interesting thing in that table is that you also had about 350 million of additional capital that would have been over the ICM threshold, if you had an ICM then, but you didn't collect any extra money for, right? It is in rate base now, but you didn't collect any extra money for, right? That's that last line.

MR. REINISCH: So again, to reiterate, the illustrative materiality threshold we've provided in response to LPMA 23 is simply that: It is illustrative. Conclusions with respect to how these projects were funded under or above an ICM threshold that did not exist during the previous settlement agreement that Union Gas has operated under from 2013 through 2018 is, again, something that I think the inference is incorrect.

Those costs, those investments, were managed within our annual budgets, and those investments were prudently made.

MR. SHEPHERD: I -- sorry, the number, by the way, is 450 million. I got my answer wrong.

The -- but that's -- that wasn't quite my question. You calculated the ICM materiality threshold in this interrogatory response the same way as you are planning to do going forward; right?

MR. REINISCH: Using a consistent methodology, yes.

MR. SHEPHERD: Okay, so your spending above the threshold was more than you recovered under your capital tracker mechanism; right?

MR. REINISCH: I'm not sure if I quite understand the question. So from 2013 through 2018 Union Gas operated under a price cap with a capital pass-through mechanism.

MR. SHEPHERD: Yes.

MR. REINISCH: We made investments of 1.6- to $1.7 billion during that period of time through the capital pass-through mechanism in order to provide safe and reliable service and fuel growth within the province of Ontario and beyond.

The investments that we made to ensure the safety and the reliability of the system and to grow the system, that would have been above a hypothetical or theoretic ICM threshold. I'm not sure I understand how -- I'm not sure I understand your question.

MR. SHEPHERD: So, all right. Let me rephrase it. Your current proposal is that going forward the amount you want to be eligible for ICM and therefore get extra money from ratepayers for is the amount you have on line 6; right?

MR. REINISCH: No.

MR. SHEPHERD: So you haven't calculated the same way; you calculated a different way?

MR. REINISCH: The table in LPMA 23 is a historic illustrative backcast that we were requested to do in an attempt to be responsive to the interrogatory. We completed this. However, our application in front of the Board does not look at 2013 through 2018, so if we would like to comment and discuss our proposed capital plans we can do that, but again, looking at the numbers on line 6 here have nothing to do with what we are requesting currently before the Board.

MR. SHEPHERD: So you are not requesting to calculate it this way?

MR. REINISCH: Not for 2013 through 2018. There was no ICM threshold for Union Gas.

MR. SHEPHERD: You are deliberately avoiding my question. Please don't. It's a very straightforward question. There is a methodology that you are proposing in this application to calculate the amount for which you'll ask for extra money. If you applied that methodology in the last six years, you would get both lines 7 and 8 included in extra money; right? Isn't that your current proposal?

MR. REINISCH: So again, if we had the ICM in place and we had made the exact same spending and investment decisions that we made under a different framework, then, yes, we would have been asking for recovery of incremental dollars, assuming that those projects that underpin that spending would have met all of the ICM eligibility criteria of the Board.

MR. SHEPHERD: We're going to come back to that, but the reason I ask that is because, am I right that from 2013 to 2018 Union earned more than its allowed ROE in every year?

MR. TETREAULT: Yes, that's correct, Jay.

MR. SHEPHERD: So even though you spent this extra money you still managed to earn your allowed ROE, and so the reason I'm asking the question is not -- I'm not trying to cross-examine; trust me. What I'm trying to do is understand, how did you get above the allowed ROE if you were spending $450 million on extra capital expenditures that you weren't recovering from ratepayers; how did you do that?

[Witness panel confers]

MR. KITCHEN: Jay, what drove the earnings through the last several years would have been dealt with in each of the non-combined deferral account proceedings that we've had thus far, and there were various explanations provided there. Probably the easiest way to move this along is that we'll go and pull those variance explanations and provide them.

MR. SHEPHERD: And what I'm particularly looking for is how you could spend all this extra money on capital and still -- because, I mean, obviously where we're going with this is, why couldn't do you this going forward? If you could do it the last six years, why couldn't you do it the next ten years? So if that helps you with the undertaking, that would be useful.

MS. GIRVAN: Could I just ask a question?

MR. SHEPHERD: Can we get the number first?

MS. GIRVAN: Yeah, sorry.

MR. MILLAR: JT3.18.

UNDERTAKING NO. JT3.18: TO PULL THE VARIANCE EXPLANATIONS AND PROVIDE THEM.

FOLLOW-UP QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: I just had a clarification question on that. They were getting the money from the ratepayers through the capital account.

MR. SHEPHERD: No, exactly the point. They were getting part of it. Part of the extra spending of the billion was being -- and tell me whether this is correct -- was being funded by the capital account, the capital tracker. And the other 450 million was not getting extra funding.

MR. KITCHEN: It was being funded through our -- managed under our price cap mechanism.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Exactly. So, I want to come back to KT3.3 and just close this off.

These numbers are all from your own evidence, right? Mostly from your report to your board of directors and from some answers to interrogatories to ourselves and to FRPO, right?

MR. REINISCH: That's correct.

MR. SHEPHERD: And your estimate is that from the -- in 2019, status quo and your current proposal would be roughly the same. Your total revenue would be 2.531 billion in the status quo and 2.530 in the current proposal, is that right?

MR. REINISCH: That is correct.

MR. SHEPHERD: So I'm trying to understand why that would be. What's the big jump from 2018 to 2019 in your current proposal? Because clearly the 17 million is not enough to do that. So I'm trying to figure out how you are getting a big jump from 2018 to 2019.

MR. REINISCH: So from 2018 to 2019, it will be a combination of, as you has mentioned, there's the deferred tax drawdown.

In addition to that, there is inflation based on a price cap. So from 2018 to 2019 for both utilities, they would both be inflated at the 1.73 percent as well as there would be some ICM revenues associated with the increase.

MR. SHEPHERD: Okay. But the ICM revenues are actually pretty small for 2019, right?

MR. REINISCH: Reasonably small, yes.

MR. SHEPHERD: So I guess what I'm trying to understand is -- well, all right. I asked the question. What you appear to be saying, though, is that if you came -- if you had instead come in for custom IR for both Utilities, you'd be asking for roughly the same amount of money. That I don't understand.

If you spent all this money on capital over the last several years that is not in rate base in both utilities, then why wouldn't that already bump this up way more than your current proposal? I don't understand.

[Witness panel confers]

MR. REINISCH: So the challenge with providing a comprehensive list of the drivers of a sufficiency is with respect to Union Gas, we've been operating under a price cap since 2013. So there have been many, many moving parts, pluses and minuses in the corresponding five years between 2013 and 2019.

It would be same slightly simpler from EGD's Perspective, based on their go-forward 2018 Board-approved financials to the 2018 -- sorry, the 2019 starting point. But again, there are a significant number of moving pieces involved.

MR. SHEPHERD: I understand it's complicated. But you went to your board of directors and you said, Well, If we file for custom IR, will get $2.53 billion in revenues. And if we to it this other way that we're proposing, we will get 2.530. So you didn't just make those numbers up, right?

MR. REINISCH: No.

MR. SHEPHERD: So --

MR. REINISCH: We took a view of what the costs were for both utilities in 2019, should we apply for a custom IR. We did a build-up of those costs and that is the number that we provided in the custom IR, so line 6 on this chart, in this table.

MR. SHEPHERD: All right. Sorry, line 6 is the custom IR; that's right. What you've called to your board status quo.

So then I see in 2020 what you are saying is that under custom IR, you'd ask for roughly a 5 percent increase, but you are only going to get a 4 percent increase under your current proposal.

Once more, I'm not sure I understand why that would be. Is there some rationale?

And before you answer, because it is going to look like a trap otherwise which I am not intending, by 2023 you've got it the other way around. You're getting bigger increases under your current proposal than you are under -- under custom IR and so this -- these numbers don't look like they make sense and I'm trying to understand. Can you help me?

MR. REINISCH: So under a price cap, which is the proposal which would be your line 3 on this chart, costs are disconnected from revenues.

So, in line 3, revenues are increased, inflated by 1.73 percent a year and adjusted for any ICM-eligible capital that we feel is prudent, and would be approved by the Board.

And that's how you end up with line 3. With respect to line 6, that is more of a cost-based look as the revenue requirement required to recover our costs.

With respect to line 3, there are some unidentified operating efficiencies that would go into the ROE, but because those are savings that have nothing to do with the revenue, those would not appear in line 3.

MR. SHEPHERD: All right. Okay, I'm going to leave that for now. We'll obviously come back to it in the hearing.

I want to go to the impacts of your ICM proposal, and I want to start by asking about your asset management plans which -- you've talked about them. I mean, obviously they're in the evidence, all 700-pages of them. But I'm looking at page 8 of attachment 1 of FRPO 1.

By the way, before I go to that, you didn't actually model the custom IR option in a detailed way when you went to your board of directors, right? Did you sit down and say, look, let's try to imagine what would a custom IR application for each utility look like, and what would the results be? You didn't actually do that, right?

MR. REINISCH: So that information was provided in interrogatory response to FRPO 11A.

MR. SHEPHERD: Where you've done a high-level calculation, I get that.

That's different than thinking through what your actual costs are going to be. That's a different exercise, right?

MR. REINISCH: We made a series of assumptions and forecasts, and those are what are included in the model that we have provided in response to FRPO 11.

MR. SHEPHERD: And what I'm asking is the -- in this technical conference, you've said many, many times all your estimates were high-level, and that model looks pretty high-level.

I guess my question is: At any point did you say, let's check out the main alternative custom IR and see whether it really is better. Let's do a deep dive of some sort. You didn't do that.

MR. KITCHEN: What we did, Mr. Shepherd, is that we went through a series of, I would call them assumptions to produce a forecast. Did we go in and actually produce what would be necessary if we were planning to bring forward a custom IR for both utilities? No, but what you have in FRPO 11 are the assumptions that we made in order to make the assessment for the Board that we would pursue the amalgamation.

MR. SHEPHERD: If you were going to do a custom IR, and Enbridge has actually done one, and you've obvious looked at the (inaudible) as well, you would do a bottom-up budget, like, a full bottom-up budget for the period in question; right?

MR. KITCHEN: That's correct.

MR. SHEPHERD: And one of the things you'd do is you look for savings, you look for ways that you can drive down your cost, because you know it's going to be challenged in a hearing; right?

MR. CULBERT: Well, as I mentioned, I'm not sure what day it was, Mr. Shepherd, Day 1 or 2, review of the custom IR approach that is now required by the Board can't be handled in the exact fashion that EGD handled its first custom IR, it has to be a projection of costs to your point from a bottom-up perspective in terms of what the entities estimate their costs to be. There is to be no inclusion of productivity offsets within those forecasts, is my read of the custom IR approach, and then you need to develop a custom index coming out of that, and again, as I mentioned the other day, I'm still not sure I know exactly what that is, but you need to develop that through the assistance of consultants to develop TFP study, benchmarking study.

We've been through all of that.

So the companies did not have time to look at that type of detail in going forward with the presentation and recommendation to the board of directors. As Mr. Kitchen points out, we used what we had available in the limited time frame and we did an approach that you are seeing here.

MR. SHEPHERD: The reason I asked this is because you are estimating that ratepayers are going to save $411 million in rates over these ten years, and it looks like your -- whether or not your proposal -- your estimate of your actual proposal is a reasonable one, your estimate of the alternative, the custom IR, doesn't have any solid foundation. And I'm -- I am giving you an opportunity to say, no, here is the strong basis for it, but I hear you saying, no, there isn't. You really couldn't do that. It's too much work.

[Witness panel confers]

MR. REINISCH: So again, the costs that were assumed in the custom IR scenario, though they were not a bottom-up approach that would be taken under a custom IR filing, they were informed by significant amount of management experience. They were informed by the asset management plan and our required needs over the next ten years in order to ensure the growth of the system, as well as safe and reliable operations, and so the estimates that are contained in FRPO 11, though not as detailed as would be required under a custom IR filing, we do feel are appropriate and a prudent representation of the best available information we have available to us today.

MR. SHEPHERD: The asset management plan and the capital forecast is the same under both; right?

MR. REINISCH: That is correct. They underpin both.

MR. SHEPHERD: So the only difference is going to be in operating costs; right?

MR. REINISCH: There would be a difference in operating costs. There would also be a difference in costs that we would potentially be seeking recovery of.

MR. SHEPHERD: Because there might be costs that you have right now that you simply wouldn't ask to be recovered.

MR. REINISCH: There are costs right now that when the decision to defer rebasing was made, the decision to defer those costs until rebasing in 2029 was made.

MR. SHEPHERD: And I'm right, am I not, that you said that basically there was one meeting of senior leaders to talk about what these estimates should be; right? Isn't that what you said?

[Witness panel confers]

MR. REINISCH: So I believe the senior leader meeting that you're referring to is with respect to the synergies and the estimations that were included in the synergies.

With respect to development of the forecast, both the custom IR forecast as well as the proposed amalgamation forecast, those took place over a series of meetings involving a larger number of people within the planning, forecasting, and regulatory groups, as well as input from various other areas of the committee.

MR. SHEPHERD: So does that mean there is more backup to these numbers than what we've seen?

[Witness panel confers]

MR. REINISCH: I'm just going to point you to FRPO 11. That is the model that was used to develop these cost estimates, as well as revenue estimates, and the information and assumptions have been provided within that response.

MR. SHEPHERD: And that's it? That's all you got? There's no -- like, for example, embedded in those numbers are some OM&A numbers; right? And we've just talked about the fact that the difference between status quo and your current proposal has to be OM&A.

So is there some breakdown of OM&A somewhere that is embedded in these numbers?

MR. REINISCH: Not an additional level. There are assumptions on how we built up the OM&A in both instances, and those have been included in the response.

MR. SHEPHERD: All right. Sorry, that was a diversion. I want to go back to page 8 of FRPO 1, attachment 1. In this you took about the asset management plans, and right now as we sit here today you have two separate asset management plans, and whether you did a custom IR or you did -- you do your current proposal, it's the same asset management plan as right now?

[Witness panel confers]

MR. SKAARUP: No, the asset management plans are individual documents, so we've got an asset management plan filed specifically for Enbridge Gas and one for Union Gas. They are individual stand-alone documents.

MR. SHEPHERD: That wasn't my question. My question was whether it is custom IR or whether it's this proposal, it's the same asset management plan -- the two of them are the same asset management plan.

MR. SKAARUP: Yes, we would have an asset management plan for Union Gas and an asset management plan for Enbridge Gas Distribution.

MR. SHEPHERD: And your plan is to do a combined asset management plan at some point in the first couple of years; right? That's what page 8 says.

MR. SKAARUP: Yes, that's correct.

MR. SHEPHERD: And at that time your capital spending needs might actually go down or up, you don't know yet.

MR. SKAARUP: We haven't undertaken any detailed planning or analysis of that at this time.

MR. SHEPHERD: The difference could be material; right?

MR. SKAARUP: We don't know. We haven't undertaken any efforts to look at the detail behind this.

MR. SHEPHERD: So the reason I ask that is because in the last six years your rate base went up at a compound annual growth rate of 8.7 percent. You are currently not forecasting in the same level, are you? You are currently forecasting something more like 3.2 percent over the next ten years; right?

MR. REINISCH: So, yes, that is correct. Over the next ten years the requirements from a growth perspective, as well as a system maintenance perspective, are not comparable to the growth that both utilities have experienced over the last five years.

MR. SHEPHERD: So that new forecast -- that new forecast is still assuming that they're separate. But if they're together, it might actually be less than that, right?

MR. REINISCH: Again, without the benefit of doing detailed analysis, it is difficult to speculate whether or not they would be higher or lower.

Again, when you look at our capital spend and the make-up of the capital spend, roughly 60 percent of the capital that is in the asset management plan from a rate base growth perspective over the next ten years is related to attaching 50,000 customers a year.

By amalgamating the utilities, that number could potentially change. We don't know. There might be some ability for enhanced marketing and other things to show the benefits of natural gas to a broader region.

But at the end of the day, there is a limit to how many customers we can attach in a given year, and the roughly $3 billion that many will be invested in order to attach those customers to our system, that will not be impacted by amalgamation.

MR. SHEPHERD: Okay. I'm going to ask you to go to another document, which I've also shared with you in advance. It is entitled "Impacts of ICM proposal for customers."

First of all, you've had a chance to check these numbers; they're okay?

MR. REINISCH: Yes, we've checked them. There are a couple of numbers that we're not entirely sure if they're an accurate capture of what's included in the application, in the numbers underpinning the application.

MR. SHEPHERD: Well I -- okay, I want to clarify one thing that I know is important, and that is there is a line here "total ICM revenue" and that's actually overstated by 32 million; is that right?

MR. REINISCH: Approximately 32 million, yes.

MR. SHEPHERD: Because you're proposing that you'll collect 1.2 billion, but then deduct that the incremental revenues from community expansions.

MR. REINISCH: That is not correct. The adjustment with respect to community expansion was to remove the deficiencies associated with community expansion. So it wasn't a reflection of the revenues that we'd be collecting; that's a reduction of the efficiency related to the community expansion during the deferred rebasing period.

MR. SHEPHERD: So the additional revenues you would collect you'd still keep, but you'd also get extra money for the capital cost?

MR. REINISCH: Sorry, can you rephrase that again, please?

MR. SHEPHERD: You are going to get additional revenues from new communities, right?

MR. REINISCH: So in order to attach new communities, we will incur capital costs and as part of our community expansion applications, we have proposed to collect existing rates as well as a surcharge over a period of time depending again on the economics of individual communities.

So those revenues are meant to offset those capital costs over the life of the project.

MR. SHEPHERD: I just asked you that and you said no, it's not those revenues that are being offset against the ICM recovery. So help me understand.

MR. REINISCH: So if there is $150 million, let's say, spent on community expansion, the related capital costs -- rough rule of thumb, approximately 10 percent of that from a revenue requirement perspective -- so we're looking at about $15 million a year. Of that, there will be revenues collected by customers to offset those capital costs.

The residual amount, the difference between the revenue requirement and what is collected in rates from customers, is the residual amount shown in tables 12 and 17, I believe -- sorry, tables 14 and 17 of FRPO 11. That's that $2 or $3 million a year, the $32 million over the rebasing period.

MR. SHEPHERD: So that two or three million dollars is the revenues you get from those customers, right?

MR. REINISCH: No, that's the revenues we don't get from those customers needed to cover the capital costs associated with attaching those customers.

MR. SHEPHERD: So what happens to the revenues that you get from those customers?

MR. REINISCH: We incur capital costs, we have revenues. If the capital cost expense is -- if the revenue requirement associated with the capital cost exceeds what we recover from customers in any given year, it creates a deficiency. So that deficiency is what is shown in tables 14 and 17. And we are, in tables 14 and 17, adjusting our ICM revenue downward to reflect that we would not be recovering those revenues during the deferred rebasing period.

MR. SHEPHERD: So the capital costs that are in your total capital -- expected capital spend don't include the community -- the capital cost for community expansions?

MR. REINISCH: The capital costs include the costs associated with community expansion.

The revenue assumption -- so there is additional customers, they add revenue. Those revenues are included in our revenue projections. But there is a residual deficiency that the utilities will need to carry for ten years until rebasing in 2029.

MR. SHEPHERD: When you come in and ask -- you spend $100 million on a community and you say this is going to cost us $10 million a year, say, in revenue requirement, you come to the Board and say, can we please have this $10 million. But you are actually going to get some revenue from that, right? Where with is that revenue going? Is that -- are you collecting the 10 million, or are you collecting the 10 million less the incremental revenue?

I'm sorry, I'm going longer than I thought because it is taking longer to get some of my answers. But I've got 15 minutes at most, or I'll stop then.

MR. REINISCH: So when we apply to the Board for approval to attach a new community, we will have capital cost estimates, customer attachment forecast estimates to support the application.

Once that investment is made, there will be a revenue requirement. It's done over a 40-year period, so there will be a 40-year revenue requirement. We will also have revenues from those incremental customers; those new customers will be additional revenue. And over the 40-year period, the revenue requirement to get to a PI1 will need to match the revenue from those incremental customers.

But in a given discrete year, there could be a difference between the cost of the capital that is being invested and the revenue that is actually coming in through meters from customers.

So in the first ten years of these new communities, there is a deficiency created because the revenues are not sufficient in any given year to cover the costs associated with attaching those customers.

MR. SHEPHERD: Well, I thought I understood this really well. I've done lots of ICM applications, but I have no idea what you're talking about.

So I'm wondering -- I'm sure you are explaining it right and I'm just missing it. So I wonder if you could undertake to tell us how in your forecast -- just take one year, how that year's community expansion is reflected in the forecast.

Can you do that? How much is in capital, where the revenues are going to go, where the incremental deficiency is going to go, et cetera.

MR. KITCHEN: We will do that.

MR. SHEPHERD: Thank you.

MR. MILLAR: JT3.19.

UNDERTAKING NO. JT3.19: TO EXPLAIN THE DETAILS OF THE ICM RECOVERY FIGURES

MR. SHEPHERD: When you answer that, I'm going to look silly, right? That's the plan.

MR. KITCHEN: We all look silly sometimes, Jay.

MR. QUINN: If I may, Jay, one part you didn't say there. Those revenues would include, or at least broken out the surcharge, where the surcharge goes.

MR. KITCHEN: Where the surcharge goes?

MR. QUINN: The revenue from the customers from the surcharge that you're charging.

MR. KITCHEN: We will show how a community expansion project in a year is being treated in terms of these numbers. There will be revenue associated with that and when you say “goes", I'm not sure what you mean. But we'll show you basically the build-up.

MR. QUINN: That was one of my questions, so thank you.

MR. SHEPHERD: I want to come back to this KT3.4. Is that what we called it?

MR. MILLAR: We have not. It doesn't have a name yet.

MR. SHEPHERD: Went off on a tangent and never came back.

MR. MILLAR: So it's KT3.4. That's what we have on the screen now, Mr. Shepherd. So it's impacts of ICM proposal for customers.

EXHIBIT NO. KT3.4: DOCUMENT ENTITLED "IMPACTS OF ICM PROPOSAL FOR CUSTOMERS"

MR. SHEPHERD: Right. So this first four lines, this is what you are currently anticipating your ICM capital will be over the ten-year period, right, your current forecast? That's right from FRPO 11.

MR. REINISCH: You've referred to it as rate base, this really is capital spend, correct?

MR. SHEPHERD: No. New ICM capital here is capital spend in a year -- capital additions in a year, actually. And opening rate base is the amount of your rate base at the last -- the close of the previous year.

MR. REINISCH: Yes, that is fair. There would be one adjustment for the opening rate base in 2019. But other than that...

MR. SHEPHERD: What's the adjustment for opening rate base?

MR. REINISCH: That would be the adjustment for the Sudbury project.

MR. SHEPHERD: Okay. Help me understand that.

MR. REINISCH: You don't have to pull this up, but as indicated in response to Board Staff 5, Union Gas is planning -- or, I'm sorry, Amalco is planning on bringing forward in the 2019 rates application proposals to recover ICM-eligible costs for both the Panhandle and Sudbury projects.

The Sudbury project is a project to replace end-of-life assets into the Sudbury market off of the TransCanada Pipeline that need to be done in 2018, by November 1st of this year, of 2018.

So the project itself is one that I will say falls between the two periods, the capital pass-through period, as well as the ICM period, so as part of the rates application Amalco will be proposing a cost recovery of the investment.

MR. SHEPHERD: That's 96 million?

MR. REINISCH: No.

MR. SHEPHERD: No. What is it then?

[Witness panel confers]

MR. REINISCH: It is approximately 74 million.

MR. SHEPHERD: And so it wouldn't qualify for ICM, because you don't qualify for ICM in 2018; right?

MR. KITCHEN: Sorry, if you could just repeat your question, Jay, for me.

MR. SHEPHERD: It wouldn't qualify for ICM because you don't qualify for ICM in 2018; right?

MR. KITCHEN: I guess I would look at it slightly differently. I would say that it would have qualified as a major capital project under our old threshold, and it would qualify if we were under an ICM for 2018, which is why when Mr. Reinisch spoke about something falling between the cracks, this is one of those -- this is what we mean by that falling between the cracks. It would qualify, and therefore bring it forward for approval.

MR. SHEPHERD: Sorry, why are you not bringing it forward for capital pass-through as opposed to ICM? Is the amount that qualifies different?

MR. KITCHEN: No, the amount that qualifies wouldn't be different, but --

MR. SHEPHERD: Is the treatment different in some way?

MR. KITCHEN: The treatment would not be different. We would still get to pass those costs through. We felt that it was better to do it under the ICM.

MS. GIRVAN: Okay. Why didn't you include it in your 2018 rate proposal?

MR. KITCHEN: Because it is not in-service until November of 2018, the full-year cost coming in '19.

MR. SHEPHERD: All right, so this 323 million that you are currently forecasting for 2019 in new ICM capital, that doesn't include that 74 million?

MR. REINISCH: No, it does include that amount.

MR. SHEPHERD: It does include that. Okay, so then the opening -- okay, so you're saying technically there is an opening rate base but, in fact, because you are pretending it is 2019 for regulatory purposes, it is included in that 323?

MR. REINISCH: Correct.

MR. SHEPHERD: Okay.

MR. REINISCH: Just for clarification, Jay, so if the project was to go into service in January 1st of 2019, so two months later, it would, again, be subject to ICM treatment, so there is --

MR. SHEPHERD: I understand.

MR. REINISCH: -- there is a timing.

MR. KITCHEN: Jay, can I just go back to Julie's question, because I just thought of something else. And you asked why we didn't bring it forward in '18. First of all, I said there was only two months. Well, the key behind the two months is that it doesn't meet the criteria under the '18 capital pass-through because it wouldn't have a $5 million net revenue requirement. It only has a $5 million net revenue requirement in '19.

We're in this strange funny period where we don't have capital pass-through mechanism for '18. We have it -- we don't have an ICM. This project is something that is required to -- to continue to deliver the safe, reliable service in the north. We don't have a choice about doing it, and therefore we are bringing it forward in '19 under an ICM for recovery.

MR. SHEPHERD: Okay, but that's -- you're not bringing it forward in this application.

MR. KITCHEN: No.

MR. SHEPHERD: You are bringing it forward in next year.

MR. KITCHEN: '19.

MR. SHEPHERD: And you are going to treat it as if it were a 2019 project?

MS. GIRVAN: Sorry, but in 2019 opening rate base you are making an adjustment and you are seeking approval of that in this case?

MR. KITCHEN: No, we are not seeking approval of an opening rate base. We are not bringing it forward for cost recovery until the '19 rates application.

MR. SHEPHERD: Just for the purposes of this calculation.

MR. KITCHEN: Yes, right, it is just for the purpose of this calculation.

MR. SHEPHERD: So -- all right, so am I right then that you are currently proposing -- you are currently expecting to have ICM capital of $2.438 billion over the ten-year period?

MR. REINISCH: Yes, that is correct.

MR. SHEPHERD: And I want to go down to the figures from your board presentation. So in your board presentation you had four categories of expenditures, capital expenditures, that you told your board you were expecting. Maintenance, attachments, that's your normal stuff, up to the ICM threshold or up to a number. Then ICM-eligible and then synergy investments; right? That's on page 22 of your board presentation.

MR. REINISCH: That's correct.

MR. SHEPHERD: Okay, so first of all, the 2019 subtotal non-ICM is different from the threshold capital; why is that? The same is true in 2020, but then every year after that they are sort of the same.

MR. REINISCH: So for 2019 and for 2020 the ICM-eligible includes -- and again the maintenance was used in that chart to graph it. They were -- I'll say they weren't properly balanced with respect to what was included in the actual model that underpins the financials, so there is an element of -- in 2019 and 2020 there is an element of capital that would exceed the threshold that is not modelled to be recovered from customers.

MR. SHEPHERD: So if you see where the -- there is a line that says "threshold capital" and then "total capital"; you see that?

MR. REINISCH: Yes.

MR. SHEPHERD: And then there is a line at the bottom which is the total capital that you've reported to your board, which is higher, so am I right that that bottom line is overstated and that actually the total capital in the middle is the right one?

MR. REINISCH: Again, based on the capital spending plan, the plan had us investing 1.22 billion. With respect to the total capital that would be recovered through either -- under the ICM threshold or as ICM threshold projects would be the 1.155 million.

MR. SHEPHERD: Okay, that's interesting. So you're going to have some that's just not covered?

MR. REINISCH: Potentially. Again, we have not finalized the 2019 asset management plan, so planning will change, system needs, system maintenance requirements, growth estimates will change between now and when we file the 2019 application for rates, so those numbers could change, but we have modelled a capital investment that we -- has been in excess of what the ICM threshold plus ICM-eligible projects would provide us.

MR. SHEPHERD: Okay, the -- you have -- in your board presentation, you have attachments and maintenance, and you said a few minutes ago that your capital to attach people was 60 percent of your total capital? Did you say that? Because this doesn't look like 60 percent. It looks more like 35 percent, 40 percent, maybe.

MR. REINISCH: Percentages can be very deceiving. I'll attempt to clarify.

MR. QUINN: Which page are we on, just, I kind of lost... KT3.4. Okay.

MR. SHEPHERD: KT3.4.

MR. QUINN: Thanks.

MR. REINISCH: So my comment was with respect to rate base growth, not capital investment.

MR. SHEPHERD: Ah.

MR. REINISCH: So with respect to capital investment, if you look at the total capital of roughly one-point -- I'll say, sorry, $11 billion over the period of time, maintenance capital would represent about 50 percent of that, and then ICM-eligible and attachments, so that would be the growth capital, would represent the other 50 percent, so that is the --

MR. SHEPHERD: Oh, so --

MR. REINISCH: -- total capital investment.

MR. SHEPHERD: So let me ask you about that: You have this line that is ICM-eligible, and what you've -- the approach you've taken to ICM-eligible is you are assuming that anything over the threshold qualifies; right?

MR. REINISCH: With a small amount of -- a few adjustments, a few million dollars during certain years, that is correct. We've assumed that everything above the threshold is ICM-eligible projects.

Obviously, before we take a project to the board we will have to have a project, and it will have to meet all of the eligibility criteria.

MR. SHEPHERD: But your current expectation is that pretty well all of the ICM -- all of the amounts above the threshold will be recoverable through the ICM mechanism; right?

MR. REINISCH: So that was a simplifying assumption that was used to model. Ultimately, we will have to go through each asset plan before we file for cost recovery of any individual ICM project, and assess whether it meets all of the Board's eligibility criteria.

MR. SHEPHERD: This line of ICM eligible $2.5 billion, this is -- some of that is going to be attachments and maintenance as you've defined it, right?

Those are your two big categories, so if it's not in those categories, like it can't be fancy cars.

MR. REINISCH: Could you bring up Board Staff 25, please?

MR. REINISCH: Let's go to the response to A. This speaks a replacement asset, so this would be your traditional -- I guess what would be considered maintenance capital-type projects.

So this is end-of-life assets that are required to be replaced in order to maintain safe and reliable operations to existing customers. So that would be the first category.

The second category, if you scroll down to B, this would be reinforcement type projects. So these are projects like the Kingsville project that is currently before this board. It would also be in the future projects similar to that, maybe our Owen Sound reinforcement or Stratford reinforcement, which are also a pair of projects in the asset management plan that are required to reinforce various parts of the system in order to have existing -- sorry, to meet future growth requirements.

MR. SHEPHERD: And then in these two categories of maintenance and attachment, which ones would reinforcements be in?

MR. REINISCH: Again, attachments would be considered your residential attachments. These are your pure distribution attachments, so these are distribution means on streets and to houses. The meter sets in the small diameter, a very low pressure pipeline required to attach roughly 50,000 customers. Customer.

Reinforcements are large diameter, high pressure pipelines that feed entire sections of our franchise area.

MR. SHEPHERD: Okay. So you didn't answer my question. I'm familiar with what you just said...

MR. REINISCH: It is a third category.

MR. SHEPHERD: It's a third category. So you are saying all your reinforcements are going to be in the ICM package?

MR. REINISCH: No, I did not say that.

MR. SHEPHERD: So you have two categories. You have maintenance and attachments, and you said that's the total of your non-ICM is that. And then you have ICM eligible and you say you have all these reinforcements.

So isn't that where your all your reinforcements are -- or am I misunderstanding that?

MR. REINISCH: So there is a certain level of reinforcements projects that can be supported using existing rates. So when it comes to individual, specific projects, Amalco will need to assess the eligibility criteria for ICM and the project itself -- the need, the driver behind the project, and determine whether it is ICM eligible and whether or not it can be funded using existing rates.

MR. SHEPHERD: Where are the ones that are covered in existing rates in this Board presentation? Are they in maintenance, or attachments, or nowhere?

MR. REINISCH: They would fall under what I would call -- small reinforcement projects that can be managed under existing rates would fall under the attachments.

MR. SHEPHERD: Under attachments, okay. So can you break down the ICM eligible line between maintenance and attachments? Is that possible -- or maintenance, attachments and other?

MR. KITCHEN: So that I understand the question or what we're undertaking to do, you are referring to the ICM eligible lines where the 2019 numbers, 323 million -- do we have the right line?

MR. SHEPHERD: Well, what I'd really prefer if you did is take the subtotal customers line, the one that doesn't include Synergy Investments, and just split it up into the various capital categories.

Forget whether it's ICM or not, just functionally what kind of capital is it. That would be the best.

MR. KITCHEN: We can do that. We are probably going to have to make some assumptions just because of the two different asset management plans, but we'll identify whatever those assumptions are.

MR. MILLAR: JT3.20. How are you doing for time, Mr. Shepherd?

UNDERTAKING NO. JT3.20: TO BREAK DOWN THE ICM ELIGIBLE LINE BETWEEN MAINTENANCE AND ATTACHMENTS

MR. SHEPHERD: I have one set of questions to go, because I've just crossed off a whole pile of questions.

I was told that I should ask questions about future interest costs of this panel. Who would that be?

MR. REINISCH: That would be me.

MR. SHEPHERD: So we provided earlier today and we provided you on the weekend with KT3.2, which is a breakdown of interest costs before and after refinancing the ones that are currently going to mature during your proposed deferred rebasing period. You've seen this?

MR. REINISCH: Yes, I have seen it.

MR. SHEPHERD: And you are happy that the numbers are correct?

MR. REINISCH: Yes, based on a review, it appears that all the calculation have been done correctly.

MR. SHEPHERD: Now, all the of these forecast new interest rates for when you refinance these, those are just forecasts. So you have no way of knowing whether these are correct, right?

MR. REINISCH: As with all forecasts, there is the potential that there will be an error.

MR. SHEPHERD: The reason I ask this is because it looks to me like -- like over the next ten years when interest rates will be rising, because you have a bunch of embedded debt, your interest rates don't actually rise that much. That's true, isn't it, because you are refinancing some stuff at, you know, 9.85 percent at 4.8, for example?

MR. REINISCH: Yes, over the next ten years, there are a number of debt issuances that will be refinanced at lower rights, as well as a number of debt issuances will that will be refinanced at higher rates.

MR. SHEPHERD: Right now, you forecast the average cost of this batch of debt -- and this is not all your debt, this is just some of it -- will be 4.15 percent and you are currently forecasting that in 2028, it will be 4.31 percent, a difference of 160 basis points, right? Sorry, 16 basis points.

MR. REINISCH: Yes, I believe it is 16 or 17 basis points.

MR. SHEPHERD: Is that right?

MR. REINISCH: Yes, that is correct.

MR. SHEPHERD: In fact, the average interest rate for Enbridge is expected to decline, I guess because they had more long-term debt than Union. They financed more long than Union did and as a result, they're refinancing at more reductions than Union is, right? Generally, is that true?

MR. REINISCH: Again, I'm not sure if it's a matter of how long the debt was out there, or how much debt was being refinanced.

The fact is that there are issuances that have some fairly high interest rates being refinanced during the next ten years.

Enbridge Gas Distribution has more of those than Union Gas does.

MR. SHEPHERD: So here's why I ask about this. The total impact of this is almost negligible in the scheme of these numbers. And I don't understand why you made such a -- you emphasize this so much to your board of directors and why you're asking this -- the Ontario Energy Board to protect from you this.

It doesn't seem like you need a lot of protection.

[Witness panel confers]

MR. KITCHEN: I guess -- first of all, let me start out by saying we are not asking for the Ontario Energy Board to provide any protection at this point. All we're doing is highlighting the fact that we've been in a period of falling interest rates and we are going into a period of rising interest rates, and if there is a point at which those rising interest rates become unmanageable and impact the financial viability of the company, we may choose to come back and seek some sort of relief.

But at this point, we are not seeking any relief from the Board. We're merely alerting them to the fact that this is a potential in the future. And that's the same message that was given to the board of directors, so to the extent that we see a situation where we have very high interest rates, and I mean very high, that affects our ability to earn are allowed, and as I said, it affects the financial viability of the company, we will have to do something.

MR. SHEPHERD: So -- so two things: You are not asking the Board in this proceeding to say, yes, increasing interest rates qualifies as a Z-factor. You are not asking them to say that; right?

MR. KITCHEN: No.

MR. SHEPHERD: And secondly, on your current forecast which you've given to us, right, of what you expect to refinance at, you don't think you have enough of a problem to have to come back; is that fair?

MR. REINISCH: So the information that is contained in the financial modelling assumes a base case forecast of interest rates. Refinancing is found at KT3.1, would be at 4.1 percent or 4.8 percent during the ten-year period.

Also note that those numbers have been flatlined for the PAC two-thirds of that time period, because we don't have information that would provide us with any better forecast for that period.

With respect to the board of directors presentation, there were sensitivities that were run, there were sensitivities that were requested and run, and those sensitivities showed that there is potentially a significant negative impact if interest rates were to rise very rapidly and management would be unable to, after taking prudent actions, continue to ensure that we are earning a loud ROE.

So again, it is a risk that's been identified, rising interest rates. Interest rates have started to go up, they've gone up very, I'll say slowly over the last little period of time, but there is a significant risk over the ten-year period that interest rates could go up more rapidly.

MR. SHEPHERD: Sorry, the only reason I raise this is because the numbers appear to show that on your current forecast you don't really have a problem, and if you are saying no on this forecast, you still might have a problem, then we have to deal with it in the hearing, and I'm trying to get you to say no, on this forecast it is not a problem, but you're not...

MR. REINISCH: So based on our forecast, if the forecast comes to fruition and that is how the future of interest rates play out, management feels that we have a solid opportunity to earn an allowed rate of return over the ten-year period.

If, however, in a rising interest rate environment, interest rates rise significantly beyond what could be prudently managed, you are flagging an issue that may come up before the Board at a later date.

MR. SHEPHERD: Thank you.

MR. KITCHEN: I just think that that's an important point. And we are not saying that we are not willing to manage interest rates, as we see -- as we see in our forecast or reasonable increases, if those unreasonable rapid increases that would affect not just us but probably every utility.

MR. SHEPHERD: Like when interest rates went to 20 percent many years ago.

MR. REINISCH: Yes. Only you and I, well, a few others might remember that, but...

MR. SHEPHERD: Thank you very much. Those are all my questions. Sorry for taking so long.

MR. MILLAR: Thank you, Mr. Shepherd.

Mr. Quinn, how long are you going to be?

MR. QUINN: My belief now, Mr. Millar, is in the order of ten minutes.

MR. MILLAR: Okay. Why don't you do that and then we'll take our break. But I'm going to call on you at ten minutes.

QUESTIONS BY MR. QUINN:

MR. QUINN: Noted. Okay. Just, I want to start out, maybe just this is a clarification. If you can turn up FRPO 11, please. In part D it says "please explain" -- oh, sorry, that's the question I was reading from Ms. Adams. Sorry, "please" -- okay. Thank you:

"Please explain why starting in 2023 the costs for the amalgamated company increased more than the two separate companies for each of the last six years."

I was trying to follow your discussions with Mr. Shepherd to understand that but I didn't hear. What is driving that effect where the amalgamated companies' costs increased more than the individual separate companies for the last six years? Your answer was -- I didn't understand. Like, your answer seemed to say that that isn't the case, but the way I read the tables in FRPO 11, that is the case.

You are focused on revenue requirement; I was focusing on costs.

MR. REINISCH: So again, I'll reiterate the last sentence in our response. We do not understand the question, so when you are referring to cost increases, can you please provide us with a reference so that we can understand?

MR. QUINN: It's in -- it's in a reference up at the top, Bonnie. Sorry. I'll see if I can get it on my screen. It's -- we were referencing page 20 and 21 of your evidence, table 3, which, this is all based on table 3, the underlining assumptions in table 3. So if we have to go back to the evidence in table 3.

MR. KITCHEN: Okay, we have it.

MR. QUINN: So we don't have to do too much math. In 2024 your Amalco's costs are going up 90, and the company's going up individually 89.

Then the next one is 71 companies and the Amalco total is -- is that 90 again? Yeah, 90.

So the costs for Amalco are going up at a higher rate than the two stand-alone companies totalled, and I don't get that. I don't understand the -- what drives that effect.

[Witness panel confers]

MR. REINISCH: So I think just for clarity, to assist, these are not costs; these are revenue requirements. So these are revenue requirement as stand-alone utilities and revenue requirements for Amalco.

MR. QUINN: Okay, so the revenue requirement is going up more quickly for Amalco than for the two companies put together. Can you explain what's driving that? I assumed it was cost, but maybe there's something else.

MR. KITCHEN: Sorry, could you -- just go ahead.

MR. CULBERT: Where are you seeing that, Dwayne?

MR. QUINN: If you total the numbers between 2024 and 2025 or 2025 and 2026, the Amalco costs are -- sorry, revenue requirement is going up more than the total of the two individual stand-alone companies when they are summed.

MR. CULBERT: Yes, so that's sort of the crux of our application, is under a stand-alone scenario the top two lines would be each of EGD and Union coming under custom IR or revenue requirements underpinned by cost projections, and those exceed what you are seeing in line 4, which is Amalco, which is operating at a price cap.

MR. QUINN: So when we go 2025 to 2026, Kevin, we've got 71 is what the two stand-alone companies would ask for as incremental revenue requirement, but Amalco is going to ask for 90. That seems to be opposite of the effect you're talking about.

MR. CASS: He's talking about the deltas between years, comparing total to Amalco. Look at the deltas between years.

MR. QUINN: Thank you, Mr. Cass.

MR. TETREAULT: Dwayne, I just want to make sure I understand your question. I think Fred may have said it well. But you are looking at line 5, correct, and seeing the fact that the ratepayer benefit from, for example, 2022 through '24, '25 is, while still there, smaller than it was is larger than 2022.

Is that the essence of your question, what is driving that?

MR. QUINN: Sure. That's another way of looking at it, Mr. Tetreault; that's going down, the ratepayer benefit.

Somehow the revenue requirement of the two individual companies is increasing at slower pace than Amalco. And again, that's contrary to what I understood the companies were saying.

MR. KITCHEN: I don't think you can look at those two lines and do the analysis that you are doing.

One assumes that we're under a price cap mechanism and the others -- sorry, the line for the total EGD and Union assumes that we are under a custom IR where we rebase every five years and roll through the revenue requirement.

The other line is purely a price cap where we increase rates by the DGPI and the ICM. So I'm not really -- yes, they are yielding different year-over-year increases. But in the end, the net benefit to ratepayers is $410 million.

MR. QUINN: And the annual benefits, though, are decreasing in the last five years?

MR. KITCHEN: Yes, that's what -- well, you have a -- the ratepayer benefit, right, is lower in the last five years than it is in the -- well, it's higher than it is in the first two years. Then it gets higher the opposite for '21, '22 and '23, and then flips around. I'm just saying I think you're comparing apples and oranges here.

MR. QUINN: I don't believe that's the case, but I'm going to move on because I -- Mr. Millar will cut me off before my next question.

So I want to just -- and I don't know that you need to turn it up because in your evidence, and it was actually pulled out of the financial statements, I saw there is a

.19 BCF turnback or approximately 200,000 gJ turnback of Dawn Parkway in 2019.

My question simply is: Under the applicant's proposal, who would be at risk for the under recovery as a result of that decontracting?

MR. REINISCH: Under the application, Amalco will be at risk for contracting on the Dawn to Parkway system.

MR. QUINN: So the companies will not be coming back in -- Amalco will not be coming back in seeking any adjustments as a result of any kind of turnback risk?

MR. KITCHEN: We are prepared again to take on that risk unless it becomes unmanageable.

MR. QUINN: Well, that last part, unless it becomes unmanageable, is there a threshold?

MR. KITCHEN: At this point, I don't have a threshold, Dwayne. I'm just telling you -- you asked the question who is at risk. We are at risk for it in the years under a price cap. We'll try to mitigate that anyway we can.

But, you know, if there's a change in government policy or some external factor that causes there to be a significant change in Dawn Parkway capacity, we may come back in and try to seek relief based on that change of events, but not simply because we've got normal -- normal business happening that leaves some of the capacity un-utilized.

MR. QUINN: Well, Mr. Kitchen, you realize we had this concern. We submitted evidence several proceedings ago, and it was deferred -- the issue of who was at risk was deferred til rebasing.

We are now expecting ten more years, potentially under your application ten more years of rebasing, and I am hearing the company say that unless it qualifies for a Z-factor, the company will be managing that risk.

MR. KITCHEN: Unless there is some unforeseen event that is driven by something outside of our control, we have to management the risk.

MR. QUINN: Okay, I have your answer. Thank you.

I'm sorry, those are my questions, Mr. Quinn.

MR. MILLAR: Let's take our afternoon break. It's Board Staff when we get back, is that okay? Let's come back in twenty minutes.

--- Recess taken at 3:07 p.m.

--- On resuming at 3:25 p.m.

MR. MILLAR: Okay, welcome back, everyone. Let's finish out the day by starting off with Board Staff. Mr. Ritchie?

MR. CASS: Sorry, Mike, just before Board Staff begins their questions I think there is a quick correction that needs to be made. Sorry about that.

MR. REINISCH: It's Warren Reinisch. The exchange I had with Mr. Shepherd around the amount of capital for 2019 in excess of the ICM threshold, there was discussion around the 323 million and whether or not that included the capital related to the Sudbury project.

I can confirm that that number does not include the capex related to the Sudbury project. That is why I was insisting on having it show up as the opening rate base number. I can also confirm that the ICM revenue includes the full revenues associated with that project.

MR. MILLAR: Okay, thanks. Mr. Ritchie.

QUESTIONS BY MR. RITCHIE:

MR. RITCHIE: Thank you, Mr. Millar.

Good afternoon, panel. I am going to be asking questions mostly related to the ICM, and first, there was reference earlier to Staff 5, and that's one that again I found quite useful, and basically the part A. You are confirming that, in fact, your proposal is to use the ICM methodology consistent with the Board's existing policy with the exception of a change in how the cost of capital would be applied for determining the incremental revenue requirement related to qualifying ICM projects; correct?

MR. KITCHEN: That's correct.

MR. RITCHIE: Okay, and then I did also note on the B part of it, again, like, where you were asked for an example of known or potential capital projects, and you identified the Kingsville and the Sudbury projects, which really are in '18, but then you conclude that really for 2019 and, I presume, beyond, basically you are saying you will determine what would be the qualifying projects each year going forward.

MR. KITCHEN: That's correct.

MR. RITCHIE: Okay.

MR. REINISCH: Just to clarify, the Kingsville project is a 2019 in-service project, November 1st of 2019.

MR. RITCHIE: Okay. Thank you. The other interrogatory from Staff that I was interested in was Staff 19. And this was one where we basically asked for the calculations and the data in Excel format for the illustrative ICM threshold calculation for 2019 for Enbridge Gas and Union that was filed in the, I guess the rate plan application. And the reference -- basically, for the response you referred us back to FRPO 11, and so I guess all roads lead back to FRPO 11 right now, which is where my questioning will all be on.

Okay. And what I was trying to -- well, my first line of questioning is going to be with respect to the ICM materiality threshold calculation and, in particular, to the growth factors that you have used in your calculation.

And as I look as FRPO 11, basically you are showing in table 13 for Enbridge your derivation of the annual growth factor for -- for Enbridge over that period?

MR. REINISCH: That is correct. Enbridge's distribution revenues are growing by approximately 10- or $11 million per year, year over year.

MR. RITCHIE: Okay. Now, I'll take you, say, to a specific one where -- on that where in bringing up the -- say if we take the 2028 for Enbridge, the 0.75 percent that's shown for -- as the growth factor, that, as I understand it, would just be the growth factor of 2028 relative to 2027; is that correct?

MR. REINISCH: That is correct. For an illustrative threshold we did take that simplified approach. That approach is not consistent with the Board approach, which would take as the denominator the last Board-approved revenue, which would have been, I guess, 2018 and then annualized.

So again, this is simplified, but you are correct, that is the derivation of the 2028 growth factor.

MR. RITCHIE: Well, actually, the calculation per the methodology in the January 2016 supplemental report would actually take the growth all the way from the last rebasing, 2018, all the way up to each year and then sort of as an approximation divide by the number of years to get a -- an approximate average annual growth rate.

MR. REINISCH: That is correct.

MR. RITCHIE: Okay. So then when I look back -- and -- well, sorry, I'll just sort of, I guess, conclude that for Union Gas, table 16 basically shows the same calculations for the growth factors for that utility.

MR. REINISCH: That is correct.

MR. RITCHIE: Okay, now, if I go back then to table 12, which is where you have calculated this ICM threshold, again, I see the growth rates which, again, I guess for -- and this is for Enbridge, so the growth rates are the same as those that were shown in table 13.

MR. REINISCH: That's correct.

MR. RITCHIE: Now, if you are using the formula, like, say by 2028 with the .75 percent growth rate, and that is -- that basically -- because you've got a declining growth rate over that period, that will actually understate the growth over the period and would also then understate the ICM multiplier and the threshold value; would you concur with that?

MR. REINISCH: Yes, I can agree with that.

MR. RITCHIE: Okay, and then same thing for, I guess for Union on table 15, that the same piece would hold.

So basically I guess what we're seeing here is that what's shown here is basically an understatement of what is potentially the ICM threshold that is actually -- would be recovered in rates and with the escalation and with the customer growth since the last rebasing, 2018 for Enbridge, 2013 for Union, relative to what the formula would actually calculate; would you agree with that?

MR. REINISCH: Yeah, I can agree with that.

MR. RITCHIE: Okay. So that's -- so in effect, then if we go back to now table 1 for Enbridge, and I'm really looking at the section 3, the capital additions, ICM threshold, rate base and depreciation, and so first off, I think we've agreed that really the ICM threshold in 3.4 basically will understate what would be the actual amount of -- that is funded through rates in each of the years, taking into account the proposed price cap mechanism and the growth.

MR. REINISCH: Yes, that is correct.

MR. RITCHIE: Okay. So then when I -- so in reality, then when I take a look at this and I say, okay, if I take your total capital expenditures and I subtract off the ICM threshold in row 3.4, and the ICM threshold in 3.5, for

Enbridge in 2019, I actually get a variance of $19 million.

Would you concur with that?

MR. REINISCH: That is correct. That $19 million would be projects that again have not been identified as qualifying for ICM treatment. But as we prepare the 2019 asset management plan and the 2019 rate filing, we would update the numbers and potentially there may be ICM eligible projects.

MR. RITCHIE: Okay, and then for all of the other years for Enbridge, in fact -- like the amount basically notes out to zero, you know, subject to rounding and that?

MR. REINISCH: That is correct.

MR. RITCHIE: Okay. Then when I go to the Union Gas in table 5 and I look at the similar sort of calculation, I see a lot more variability in the numbers where basically in 2019, this idea of what is like the row 3.1 minus row 3.4 minus row 3.5, would be 46 million in 2019, 21 million in 2020. It sort of like varies a bit, you know. There are some years where it will be, I guess, close to zero, so that's basically rounding errors.

But it's different, you know, and it's different than the Enbridge example.

MR. REINISCH: That is correct, again the same reason there was some unidentified capital that we did not have any projects or anything to attach it to, so it was capital spend that we anticipated would be required, but that we were not at this point in time, I'm sure that it would be an ICM-eligible project.

MR. RITCHIE: So do you have any ideas as to like whether any of these in fact would not be -- you know, specifically not ICM-eligible projects?

MR. REINISCH: I mean, at this point in time, no. Especially as you go further out in the plan, there is more variability, more uncertainty.

At this point, these would be capital investments that were not -- we haven't finalized design or planning around, so it would be subject to revisions as we update the asset management plan on an annual basis.

MR. RITCHIE: But while you haven't made a decision, I guess it's this idea that you had to make some assumptions when you were doing the analysis for FRPO 11, and I agrees for table 3 in the MAADs application as to some things, I guess you are assuming would totally qualify or some where you just don't know.

MR. REINISCH: That is correct. These would definitely fall into the “I don't know” category. With respect to the custom IR scenario, with annual rebasing through custom IR, the effect of annual rebasing, those would have been included in the plan. With respect to the modelling of the ICM revenue that would be derived under the price cap plus ICM, those projects that were unidentified were just assumed to not have revenue attached to them.

MS. GIRVAN: I just have had a clarification question, sorry. So is what Keith is saying that you have understated in those tables the available ICM amounts, or the amounts that might be available to you because of your assumptions. Is that what you're saying.

MR. RITCHIE: Actually, what I think we were saying is that for row 3.4, the threshold is actually understating what is actually, I guess, funded through rates including the materiality threshold and hence, what is -- well, this ICM capital, like, in fact, on the first -- on that first calculation, it would be to say is that it actually overstates, although then what we have, especially for Union or for Enbridge in 2019, is that there are some capital -- capex which they haven't determined whether they would -- it would qualify for ICM.

MR. REINISCH: That is correct.

MR. RITCHIE: Okay. Now, I guess there has been some discussion, I guess, on this, that of course this -- the amounts that are shown like on the 3.5 of -- row 3.5, that's really almost again this idea of a maximum amount, and in fact the amount of actual ICM capex that you might apply for might in fact be lower because it is going to have to be discrete projects and it is going to have to meet all of the other criteria per the Board's policies for reviewing ICM and ACM projects.

MR. REINISCH: So based on the current asset management plans, that statement is correct, this would represent the maximum amount.

However, each year we will be updating and revising the asset management plan which, depending on operational requirements on growth and maintenance needs to maintain safe and reliable operations, the spending may be higher and it may be lower.

MR. RITCHIE: But even that amount, I guess, in terms of like the asset management plan is also going to have to be brought forward as part of an application, and hence it will be reviewed and I guess the Board will decide what is really the necessary and prudent amount; which would also affect sort of like what is the total amount, what is actually the, I guess, the total amount of ICM capex that would be available per the calculations.

MR. REINISCH: That is correct.

MR. RITCHIE: Okay, one last question. And because I did notice that earlier in your discussion with Mr. Shepherd, you actually did refer to sort of like a model that basically, for the calculations in the tables that are shown in FRPO 11, and in Staff 19 we had asked for the Excel model with the data and the calculations for the ICM threshold.

So I'm actually wondering if you would undertake to provide a spreadsheet model, basically a working spreadsheet model for the -- that underlies showing the data and the calculations for the tables in FRPO 11.

MR. KITCHEN: I thought we did actually. So let us just check into that. I don't think we need an undertaking. We will just check to see if we filed it.

MR. MILLAR: See if you filed it.

MR. RITCHIE: Yes, because I haven't seen it or -- anyways, that's my questions.

MR. MILLAR: Thank you, Mr. Ritchie. Mr. Murray, did you have any questions?

MS. MURRAY: No, I'm good, thanks.

MR. MILLAR: So that's it for Board Staff? Okay, who wants to go next? Julie?

QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Thank you. Could you please -- I guess this is for you, Mr. Tetreault. Could you please explain to me how you intend to calculate the ESM?

MR. TETREAULT: I think, Julie, we spoke earlier. I think it's a bit of a work in progress in the sense that we need to finalize exactly how that will work under Amalco.

I think that said, though, what I can say is it will look consistent with what you've seen in the past from the utilities, certainly from the Union side, in the sense that we will have to start with corporate financial results, eliminate any non-utility adjustments for the non-utility business, and then make potentially other eliminations to ultimately get to a utility financial result that's, I'll say, relevant to intervenors and the Board, where we can get down to what our actual ROE was for any given year during the deferred rebasing period.

MS. GIRVAN: So to the extent you find earnings to share under your scenario, how then will you allocate those earnings to the different rate zones?

MR. TETREAULT: I don't know that we've made that determination yet. I think that is one of many things we need to turn our minds to once we have approval to amalgamate.

MS. GIRVAN: Okay. My next question is: Did you consider a company-wide ICM, Amalco-wide ICM, calculated on a consolidated basis? This may have been in one of the answers, but...

MR. REINISCH: That's the response to VECC 31.

MS. GIRVAN: Okay. Can you just summarize what you've said?

MR. REINISCH: So there's a -- there are a couple of aspects just at a high level, so the first one would be consistency with the OEB handbook, materiality thresholds for the ICM will be calculated based on the individual distributors' accounts and not that of the consolidated entity.

We are proposing to maintain the different rate zones for Enbridge as well as for Union, and with respect to other factors that go into the ICM threshold calculation, the growth factor, the starting rate base, the Board-approved numbers, the number of years since rebasing for Union Gas would be 2013, for Enbridge Gas Distribution it would be 2018.

For all of those reasons we're proposing to treat the ICM thresholds separate. Obviously, that said, the underlying ability of the thresholds and of the rate zones to afford is factored into the ICM threshold calculations.

MS. GIRVAN: Okay, and can you explain to me how the ICM works for Union's two rate zones? Or have you thought through that?

MR. REINISCH: So the asset management plan, the asset management planning process considers the utility as an entity, as Union Gas. It doesn't distinguish between Union North and Union South. Risks are evaluated consistently throughout the franchise area and investment decisions are made based on an assessment of those risks.

MS. GIRVAN: So would you be doing different allocations for the rate zones depending on the projects?

MR. KITCHEN: Yes, so maybe to come at this a different way, we are not proposing to calculate a threshold for the north and a threshold for the south. To the extent that we bring forward capital projects under -- for Union, for Union, then if they are a project that serves the north, then those costs would be allocated to the northern rates, and if it's a project of service to the south, it would be allocated to the south.

If it's a program or project that is across the franchise, then we'd have to do some sort of a split between north and south and allocate it to rates.

MS. GIRVAN: So the impacts on the various rate zones might be quite different depending on the circumstances throughout the planned --

MR. KITCHEN: Well, exactly. If you think about Sudbury as a good example, right, Sudbury is a project that's obviously in the Union North rate zone, so that project will be recovered from Union North customers.

MS. GIRVAN: Okay, and you are talking about updating your asset management plans, so the ones currently I think are '18 to '22, is it? And when do you expect to update those plans?

[Witness panel confers]

MS. THOMPSON: We are currently in the process of updating each of the asset plans for EGD and Union and expect to file the updated version Q4 of this year.

MS. GIRVAN: Q4. And when there will be amalgamated asset management plans -- I guess one asset management plan?

MR. SKAARUP: Yeah, so we've looked at that one and it is a very complex and broad issue. We need to take a deeper look into it after the Board approves the amalgamation. What we've committed to is that we'll be able to undertake that within the first few years of the amalgamation, but there's many different pieces of work that have to go into that, so at present we've got two separate asset management plans, one for Union Gas and one for Enbridge Gas. That will continue for a period of time, but we expect to have one combined plan within the first few years after amalgamation.

MS. GIRVAN: Okay. You said the first few years. Is that two years, is that three years, is that four years?

MR. SKAARUP: And again, it goes back to the fact that it's a broad and complex integration. There's many different pieces to this, in terms of systems, the underlying process towards managing risk, the methodologies that are there, so we really have to take more of a detailed look into it after the amalgamation has been approved, and then we will be able to come back with a (inaudible). So it is a range. It could be as little as two years or it could be as long as, you know, four, five, or six years per se.

MS. GIRVAN: Okay. Thank you.

And just -- you don't really have to pull this up, but we were looking earlier at the original evidence, and it was table 3 which set out the two scenarios, the stand-alone scenario versus the Amalco's scenario.

And what did you assume for DSM for both the stand-alone and the Amalco scenarios? Was it the same thing?

MR. REINISCH: Yes, the same DSM assumptions were under both.

MS. GIRVAN: So what did you assume beyond when the current plans expire?

MR. REINISCH: Those assumptions are contained in FRPO 11.

MS. GIRVAN: Okay.

MR. REINISCH: For Enbridge Gas Distribution they can be found in table 1 and for Union Gas in table 5. 2.3 for Enbridge Gas Distribution and 2.2 for Union Gas.

MS. GIRVAN: Okay. So you've just -- it seems that you've just inflated them; is that right, under both scenarios?

I guess what I'm looking for is, is there a difference between what you've assumed with respect to DSM under the stand-alone scenarios versus the Amalco scenario?

MR. REINISCH: No, the underlying assumption on DSM was consistent for both scenarios.

MS. GIRVAN: Okay, that's great. Thank you, those are my questions.

MR. MILLAR: Thank you, Ms. Girvan.

Mr. Ladanyi.

QUESTIONS BY MR. LADANYI:

MR. LADANYI: Can you hear me? Very good.

I have a few questions mainly from follow-up, what was said earlier in the proceeding. First one is relating to CCC 6. And in that interrogatory, the question from CCC was to file productivity reports, including the one for 2016.

When I looked at both attached, the 2016 was missing, and this was punted to this panel. 2016 is still missing. In fact, Mr. Quinn pointed out where it really is filed, and if I can give you the reference, it is in EB-2017-0102, Exhibit D, tab 3, Schedule 1, page 1, so could you undertake to file it, please?

MR. CULBERT: I think we already are filing that as part of an undertaking the other day, Mr. Ladanyi.

MR. LADANYI: All right. Do you know the number of the undertaking?

MR. CULBERT: Yes, we'll --

MR. LADANYI: I'll trust you, I guess. I know where you live.

MR. CULBERT: JT...

MR. LADANYI: Okay, the next one is the notorious CCC 7, and you don't even have to turn it up. They are head count tables, and I just wanted -- I think I asked the first day whether these were end-of-year head counts or not, and again it was punted to this panel, so these are end-of-year numbers?

MR. KITCHEN: It was actually punted to the last panel.

MR. LADANYI: Last panel. Oh, too late now.

MR. KITCHEN: I think we took an undertaking for that as well.

MR. LADANYI: Pardon me?

MR. KITCHEN: I thought there was an undertaking for that as well.

MR. LADANYI: Pardon me?

MR. CULBERT: I thought that there was an undertaking to provide an answer to that question as well.

MR. LADANYI: Even that part, whether that was end or of year or not?

MR. CULBERT: Yes.

MR. LADANYI: Okay. Then can you turn to CCC 29, service charges? I asked this morning about service charges and what the company would be doing, and this response does not seem to be consistent with the answer that I got this morning. So could you review the response and tell me what is the correct answer, and particularly notice the second sentence in the response?

MR. KITCHEN: I think what we are saying in the first sentence is the service charges will remain in place; in other words, they will exist throughout the deferred rebasing period.

In the second paragraph, we're saying that we haven't changed them for EGD since 2009, and for Union since 2004. Any proposed changes would need to receive Board approval and in the final, that we are not seeking in approvals in this application. So I'm not sure I see any inconsistency.

MR. LADANYI: Well, I think the impression -- at least that's what I got this morning from Mr. Kacicnik is that you may be from time to time applying to increase these services charges over the ten-year period. And here in the second sentence, it says they will remain in place.

MR. KITCHEN: It doesn't say they will remain in place at the same level.

MR. LADANYI: Pardon me. It doesn't say the same level. Oh, okay.

MR. KITCHEN: And I don't think -- again, there seems to be this idea that service charges are something that's high on our priority list. They may change, they may not change. Again, we need to amalgamate and look at all the processes before we to anything with those service charges. So it is definitely not something that is on our radar for the early years.

FOLLOW-UP QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Can I just ask one follow-up, a quick question? Are the Union rate zones have to be at the same service charges?

MR. KITCHEN: I think so. I think they are all the same rate schedule. There may be a few that are specific to the north.

MS. GIRVAN: Okay, thanks.

MR. KITCHEN: But if they're different, we'll let you know.

CONTINUED QUESTIONS BY MR. LADANYI:

MR. LADANYI: If I may answer on your comment about service charges.

MR. KITCHEN: Actually, sorry, they're attached, so let's see.

MR. LADANYI: Although service charges may not be important to Amalco, they are very important to customers on their bills. So that's why I'm asking. I don't think it is a big revenue generator, but any changes to service charges are certainly felt by customers. Anyway I'll move away from there.

MR. KITCHEN: Mr. Ladanyi, I don't think we are disagreeing that they are not important to customers. I am just saying at this point, we have not discussed how our service charges might change as we move through the deferred rebasing period. And until we are actually amalgamated and look at the processes that will necessarily change as we go through, these are not a priority in terms of increasing or decreasing those rates.

MR. LADANYI: Okay. My last question is about the GTA project. So as I understand it, the GTA project has a significant variance, budget variance, and if you were rebasing, you would be going to the OEB and saying please permit us to include the variance in rate base. Is that right? Do I have that correct?

MR. CULBERT: And the stand-alone custom IR numbers that you see in the evidence today in fact assumed that the GTA total spend would be in rate base for those scenarios, yes.

MR. LADANYI: For scenarios. Now, as far as your plant accounting books are concerned, have you put into your plant accounts the budgeted amount, or the actual amount? Are you perhaps keeping a variance in some other account? How is this accounted for?

MR. CULBERT: You being an accountant would know, Mr. Ladanyi. The actual amounts of the projects are in fact in our books.

MR. LADANYI: But the question here is the Board will not actually rule on the variance for another ten years, when you are going to bring forward your variance explanations to the Board.

MR. CULBERT: The Board will not rule on it for rate-making purposes?

MR. LADANYI: That's right.

MR. CULBERT: That's correct.

MR. LADANYI: So in ten year's time, Enbridge will present reasons why this project went over budget.

MR. CULBERT: I think we've already provided some evidence in one of our ESMs, earning share mechanisms, as to the reasons for the GTA overage were. In fact, probably in the stakeholder days in the past number of years as well.

MR. LADANYI: But the actual decision by the Board will not be until 2029, is that right?

MR. CULBERT: An actual decision for rate-making purposes will not be until 2029, that is quite correct.

MR. LADANYI: Okay, thank you.

MR. MILLAR: Thank you, Mr. Ladanyi. Mr. Garner?

FOLLOW-UP QUESTIONS BY MR. GARNER:

MR. GARNER: Just a short follow-up to that last question. But for the purposes of the ICM, you are going to include it, right, into rate base for all the other calculations? So it will become part of the calculations that the utility uses.

MR. REINISCH: No. For the purposes of the ICM threshold calculation for Enbridge Gas Distribution, the 2018 Board-approved rate base will be used.

MR. GARNER: I just have one question and it is really in two places. One in Staff 24; I don't think you need to bring it up.

It is really about the capital cost related to the amalgamation. In that response, you say that those costs directly -- those capital costs directly attributable to the amalgamation will not be included in your ICM.

So if I were to go to FRPO 11, which everybody was using for the calculation of the ICM, would I be right to say there should be a line in there that says capital expenditures excluded as part of amalgamation capital expenditures, and that would be netted out of your ICM amount. Would that be the way to look at that?

MR. REINISCH: So the purpose of FRPO 11 is to explore the no harm test in the two different scenarios. So the capital associated with integration activities has been excluded completely from the analysis in FRPO 11.

MR. GARNER: Right. I was just saying for an illustrative purpose, if one were looking at this like the Board, I would actually have to say is really that calculation includes implicit in it the removal of an account amount of capital that is directly related to amalgamation capital, right? It is just not there because, as you say, it is netted out before you get there.

MR. REINISCH: Right.

MR. GARNER: So when you do your ICMs, is it your intent to explicitly identify that line item so that people can understand that this is the capital related to that amalgamation capital, so to speak?

[Witness panel confers]

MR. REINISCH: So as part of the total capital spend, we would be including capital related to the integration. But then we would have to explicitly identify what is directly attributable to integration activities, so that they could be thereby excluded from the eligible capital for ICM treatment.

MR. GARNER: So your intent is that someone would be able to see that explicitly?

MR. KITCHEN: It would be transparent, yes.

MR. GARNER: Now, my last question is this. You've used the term "directly attributable." What I'm wondering about is what about the indirectly attributable, because it doesn't seem to me it is a binomial decision point, right?

There are some things that are clearly amalgamation capital. But there will be other items that are in a bit more grey, so things that might be done in advance of -- for instance, they might be done in the absence of amalgamation in order for you to achieve the savings that you hope to achieve.

Or do you not contemplate that? Do you think all of your capital is black and white an amalgamation piece of capital and a non-amalgamation piece of capital?

[Witness panel confers]

MR. KITCHEN: Mark, I am not sure that I can sort of put my finger on an example of indirect. All I can say is that to the extent that there is anything that is grey, it would have to be reviewed by the Board and only included -- included or excluded depending on which way you are coming at that, after the Board was to review it.

MR. GARNER: All right. And again, I don't want to argue the point. I'm just trying to think until we get to that point with the Board. If one were to suggest to you that any capital spending that replaces an asset that's not yet fully depreciated is -- can be put into at least partly the basket of, it's an amalgamation form of capital expenditure because the utility wouldn't normally replace capital that's not end of service. Could that be a bad definition, in your mind, or would that be too broad of a definition, is what I'm wondering?

MR. KITCHEN: I'm not sure that I can comment sitting here right now. I think I'd need to think about it, but try to remember that the majority of our capital expenditures as part of amalgamation are going to be IT-related, bringing systems together and such. I think it's going to be fairly clear as to what the integration capital is.

MR. GARNER: Right.

MR. KITCHEN: And again, like, you know, there is a -- if it is a reinforcement, again, that will be supported by the asset management plan and is likely -- more than likely not related to the integration, but because a reinforcement is required.

MR. GARNER: Yeah, and I agree with you and I was thinking the same. One might also say maybe all of the IT capital when you do your ICMs will have to have an explanation around why some might be excluded as being fully amalgamation but some others not that way.

MR. KITCHEN: I think it's going to be up to us to put in the evidence to support whatever we have going into an ICM calculation and, as well, what is the integration capital.

MR. GARNER: Okay. Thank you. Those are my questions.

MR. MILLAR: Thank you, Mr. Garner.

Mr. Brett, do you have anything?

QUESTIONS BY MR. BRETT:

MR. BRETT: Yes, I do, actually. What is the actual number for the overrun on the GTA project?

MR. CULBERT: I'd have to undertake to provide the exact number. It is somewhere probably in the range of $200 million. Somewhere in that range.

MR. BRETT: Would you mind providing through an undertaking the exact number?

MR. MILLAR: JT3.21.

UNDERTAKING NO. JT3.21: TO PROVIDE THE ACTUAL NUMBER FOR THE OVERRUN ON THE GTA PROJECT.

MR. BRETT: The second question is you mentioned a moment ago that the amount of the overrun, let's say it's 200 million, for sake of argument now, that that number is included in the stand-alone custom IR scenario; correct? Kevin, I think you said that just a minute ago.

MR. REINISCH: Yeah, that's correct.

MR. BRETT: Now, is the assumption there that the Board -- and then so that the numbers in the stand-alone scenario reflect the 200 million as an item of -- of capital.

MR. REINISCH: That's correct.

MR. BRETT: And is the assumption there that the Board would ultimately allow that into rate base?

MR. REINISCH: The costs were prudently incurred and therefore --

MR. BRETT: No, no, I just -- never mind prudence --

MR. REINISCH: -- the Board would allow them into rate base.

MR. BRETT: Yeah. That's your assumption?

MR. KITCHEN: Yes.

MR. BRETT: If the Board -- would you be able to run a line for the stand-alone scenario on the assumption that the Board did not allow any of it into rate base as an undertaking?

[Witness panel confers]

MR. CULBERT: So let me see if I've got your question right. Could we do a simple question that would show what the change in revenue requirement would be in the stand-alone scenario?

MR. BRETT: Yes.

MR. CULBERT: We could certainly do that. However, I would add that --

MR. BRETT: You could caveat it the way you wish.

MR. CULBERT: Yes. What I was going to add is there was -- in past years in our ESMs there were some benefits in earnings sharing amounts that accrued to ratepayers through ESM because of the GTA project and its timing and CCA, et cetera, so it is not as simple as looking at what the rate implication would be going forward. There are other things that have happened in the past that have been of benefit to ratepayers versus what this was asking.

MR. BRETT: The other question is -- thank you --

MR. MILLAR: Tom, just, there was an undertaking there, no?

MR. BRETT: Yes, give an undertaking there.

MR. MILLAR: So JT3.22.

UNDERTAKING NO. JT3.22: TO SHOW WHAT THE CHANGE IN

REVENUE REQUIREMENT WOULD BE IN THE STAND-ALONE SCENARIO.

MR. BRETT: Okay. The other thing, going back to a discussion -- well, no, let me just deal with something very simple first before I forget.

Mr. Tetreault, could you undertake to -- would you provide an undertaking for your -- that just summarized the impact? I'm looking here at K3.4. That's impacts of ICM proposal for customers, the thing you discuss with Mr. Shepherd at some length. I think it's K3.4. Okay.

MR. MILLAR: KT3.4.

MR. BRETT: What I would like, I was a little confused, not surprisingly, because I don't have a mastery of deferred tax, the -- I'd like you to just explain in a written undertaking how much of the deferred tax drawdown would go into the 2019 opening rate base.

You had a discussion with Mr. Shepherd about that. You said something in the order of 4 million or a portion. I just want to make sure I've got that sort of blocked off.

MR. KITCHEN: There would be nothing in the opening rate base.

MR. BRETT: Nothing.

MR. KITCHEN: By the time you get through '18 it's gone.

MR. BRETT: Sorry, that's not the -- so there would be nothing in -- so the opening -- that whole rate base line wouldn't be affected at all?

MR. KITCHEN: No.

MR. BRETT: Okay, that's a different answer, I think, than you.

MR. KITCHEN: I don't think so. I think it's -- I think what -- well, I'll let Mr. Tetreault tell you what --

MR. BRETT: Maybe I misunderstood it. I thought --

MR. TETREAULT: Mr. Brett, I was speaking --

MR. BRETT: -- you said a portion of that deferred tax drawdown got reflected in rate base. Maybe it's two-18 you are talking about.

MR. TETREAULT: It would have been, Tom, reflected --

MR. BRETT: The last year of the drawdown; is that right?

MR. TETREAULT: Let me try to parse that out, Mr. Brett. I was referring to 2013 Board-approved rate base, which did include a credit associated with the drawdown that resulted in, obviously, the base rate adjustment we're proposing here. So it has no relation, though, just to be clear, to KT3.4, so opening rate base in 2019 would not be affected at all by the drawdown.

MR. BRETT: Okay, thank you.

The -- question -- can you -- your financial -- it's a financial question. Can you advise whether Union or Enbridge has over the last several years, say the last five years, make it simple, hedged their interest rates in any of their debt?

[Witness panel confers]

MR. REINISCH: I'll speak for Union Gas. My colleague, Mr. Culbert, will speak for Enbridge Gas

Distribution. Union Gas has not put on interest rate hedges over the last five years.

MR. BRETT: And no one has put them on for you. In other words, it wouldn't be -- any hedge -- let me put it this way. I want to just -- any hedge that would be put on your own interest rates is something you'd have to do yourselves. It wouldn't be something that, for example, Spectra could do or somebody else could do.

MR. REINISCH: Sorry, for clarity, Spectra, we -- Union Gas procures treasury services from Spectra previously, Spectra Energy, now Enbridge Inc. To the best of my knowledge, the treasury, both at Spectra over the last five years has not put on any interest rate hedges.

MR. BRETT: Okay.

MR. CULBERT: And EGD, yes, the treasury department at EI has had some hedging programs in place. We've discussed those in numerous of our rate applications for the past number of years, yes.

MR. BRETT: So those are hedging that relate -- hedging programs that relate to some of your debt, eh?

MR. CULBERT: That's correct.

MR. BRETT: Okay. And you obviously have the right to do that, because the Board hasn't questioned that or anything like that?

MR. CULBERT: Well, actually, there was discussions about the hedging programs in probably our custom IR application and probably in some of our application years prior to that and after that as well.

MR. BRETT: Okay, but in each case they were approved, were they?

MR. CULBERT: That's correct.

MR. BRETT: Unlike the gas hedges; right?

MR. CULBERT: We don't have gas hedges.

MR. BRETT: All right. The question on -- Mr. Kitchen, you were having some discussion with Mr. Shepherd about possible events that might occur over the course of the ten-year period that might lead you to wish to find another source of revenue, other than the price cap inflater and the revenue requirement impacts of the ICM.

Would I be right if I summarized it this way, that in order -- the only other -- the only time you would seek to ask for some relief would be if the event in question was a Z-factor event?

MR. KITCHEN: I'm not sure that I referred to Z-factor at all.

I guess all I was saying is -- and I think the discussion I had with Mr. Shepherd was around rapid and significant increases in interest rates that affected our financial viability. If we had those -- that event occurred, then we would necessarily come to the Board to seek some sort of relief.

That may be under a Z-factor. It may be under some other mechanism, but it's -- right now, all we're saying is that we're alerting the Board and the intervenors that this is a possibility and it's something that we want people to be aware of.

We are committed to managing interest rates under the normal course. However, if something goes askew that is outside of our control, we necessarily would have to come in.

MR. BRETT: And I think you said that if were to -- if it was of sufficient magnitude that it would impact your financial viability as a company.

MR. KITCHEN: That's correct.

MR. QUINN: Sorry -- Dwayne -- can I just interject a question on that?

MR. BRETT: Sure.

FOLLOW-UP QUESTIONS BY MR. QUINN:

MR. QUINN: Is that pertaining to the discussion we had earlier, Mr. Kitchen, regarding the Dawn Parkway risk, that it has to meets the threshold of it impacts the financial viability of Amalco?

MR. KITCHEN: I'm not sure I would put those two in the same -- those two conversations or exchanges in the same light.

There when I was discussing the underutilized capacity, I was referring to a change in some sort of government policy or something that impacted the utilization of the Dawn Parkway system, again outside of our control. That is likely more akin to some sort of Z-factor.

MR. QUINN: Unforeseen and out of your control?

MR. KITCHEN: The Z-factor criteria are set out. We'd have to meet those criteria and bring forward a proposal.

But again, you know, we're talking here about significant unforeseen events.

MR. QUINN: Okay. Thank you, Tom, I appreciate it.

CONTINUED QUESTIONS BY MR. BRETT:

MR. BRETT: You're welcome. Just going back to the ICM impact K3.4 for a moment, thinking about the ICM in general, do you have a materiality threshold for individual ICM projects, or is that the same materiality threshold that you use for the Z-factor?

MR. REINISCH: There is no specific dollar value associated with the eligibility of an ICM project. But again, as part of the review of an application where Amalco seeks cost recovery of the cost consequences of an ICM project, Amalco would need to justify to the Board that the project and financial impact does have the impact on the organization. So it would be tested at that time.

MR. BRETT: Okay. But you have no rule of thumb, like a million dollars, or 1.5, or anything of that sort?

MR. REINISCH: No.

MR. BRETT: Just a couple of clarifications. Again I'm just looking this the table that you discussed with Mr. Shepherd that he prepared with your help. I'm a little fuzzy on the Sudbury project and the Kingsville project as they relate to this table. And did you mention something a moment going about a clarification in your initial answer and I thought I wrote it down, but it might have just gone by me.

You said that the Sudbury project is in the 323 or it's not?

MR. REINISCH: No, I clarified that the Sudbury project should show up in the opening rate base number, that zero should --

MR. BRETT: Should be in the zero. And that was 94?

MR. REINISCH: No, it was approximately 74 million. I believe the opening balance was 69.

MR. BRETT: Oh, you mean -- so what goes in where the zero is, 69 or 74?

MR. REINISCH: I'd have to check to see the exact number, but it is in the $70 million range.

MR. BRETT: And what about Kingsville? What is the amount of the Kingsville project forecast? Was it 200 million?

MR. REINISCH: No, the Kingsville project is approximately 105 million. A portion of that will be spent in 2016 -- sorry, 2018, the pre-work, and then it will enter service in 2019. So the vast majority of that 105 million is included in the 323 million.

MR. BRETT: Okay. Could you just clarify -- would you mind just clarifying how much of it is in the 323 by undertaking?

MR. REINISCH: Yes, I can undertake to provide that.

MR. MILLAR: JT3.23.

UNDERTAKING NO. JT3.23: TO CLARIFY THE AMOUNT OF THE KINGSVILLE PROJECT INCLUDED IN THE 323 MILLION

MR. BRETT: And the last little cluster of questions really is on your ICM eligibility. You discussed with Mr.

Shepherd various ways to slice and dice the different ICM projects. Do you have certain types of projects -- and let's just talk capital projects for a moment generally -- that you must do because, for example, the municipality has come along and said -- it is probably a bad analogy, but because we pay a lot more attention to electricity matters in this area than we have to gas. But do you have situations where a municipality or a public agency will come to you and say you must move your pipes, or you must move this regulator, you must move this compressor, or whatever, and you have to comply with that under the public service and private -- the various legislative provisions.

Do you have that, and could you sort of give me an indication of how significant that is to you in a typical year, that category of capital?

MR. SKAARUP: Yes, yes we do have it. I am just going to refer to one of the tables in the asset management plan here. One second, Mr. Brett.

MR. BRETT: It may be in the evidence, if you could refer to me to it or to an IR or something.

MR. SKAARUP: We'll come back to it. I'll just speak can speak generally about it.

So as part of our franchise agreement whereby we do have contractual obligations whereby we need to relocate certain pieces of pipe where the municipality has identified a project that is going to result in a conflict with the assets that we've got.

Examples of that also could be where we've got a pipe that's on a bridge and the Ministry of Transportation has ordered us to move our pipe off the bridge. There's many different types of ageing infrastructure in the province today. So as the bridges age and what have you, that can lead to pipeline replacement.

So we do have that within our asset management plan and the average expenditure for Union Gas is roughly About $24 million per year. So if you look at page 55 of the Union Gas asset management plan in table 5.1, if you look at the second line that's in there, it outlines the municipal replacement expenditures and that specifically relates to the projects that you are asking about, Mr. Brett.

MR. BRETT: Do you have to pay for that yourself, or is there any sharing at all?

MR. SKAARUP: It depends on the age. As per the -- I think it's the year 2000 agreement, there is a stipulation there. So depending on the age of the asset, there can be cost sharing.

If the asset is of a certain age, though, it would be at the sole cost of the utility and that's laid out in the franchise agreement.

MR. BRETT: Oh, I see it's in the franchise agreement --

MR. SKAARUP: Right.

MR. BRETT: -- that formula, effectively. And is the same for Enbridge? I guess it would be, is it?

MS. THOMPSON: It is the same and just to comment on the average over the ten-year horizon, it is approximately 11 million each year for EGD.

MR. BRETT: Okay. Now, the question -- as far as attachments are concerned, am I right in -- and I think you discuss this a bit with Mr. Shepherd, but am I right in saying that you have kind of a lie-along rule that if a customer comes to you and says, 'I'd like to be connected,' and you have a pipe going by his house, you must connect him; is that right? Now, let me just -- let me -- that's putting it a little bit bluntly.

I mean, you -- if he's residential, what happens there? What's the nature of your obligation there? Do you have, in fact, a practical obligation to connect?

MR. KITCHEN: First of all, just to be clear, I'm assuming that you are referring to the customer having access to distribution facilities. In other words, there is a distribution facility running down in front of their property. Will we connect it if they request? And the answer is, yes, assuming we have the capacity, and there may be a small delay depending on the distance they are from that distribution made, but, yes, we would connect them.

MR. BRETT: And that's -- is that in your franchise agreement, essentially?

MR. KITCHEN: I'm not certain. I don't think it is in the franchise agreement.

MR. CASS: Tom, I believe there is a statutory obligation to serve a customer online.

MR. KITCHEN: Right. And it has to be economic to serve them.

MR. LADANYI: If I can add, I think it's in the Public Utilities Act.

MR. BRETT: Okay. All right. And that -- all right. So I'd like to ask you is, when you come forward -- and I realize this is -- this is not -- this is a little bit of -- it's not right now that you do this, but when you come forward, will you prioritize your ICM projects? In other words, you will indicate -- to give you an example, in the most recent Electra case that we had, we -- Electra agreed to effectively prioritize their ICM projects from -- let's say they had 40 projects. They prioritize them from 1 to 40. And they also prioritized how those projects fit within the longer list of capital projects, so that we got a feeling for what the overall priority of the -- how -- what the priority of the various ICM projects were in the overall scheme of things; is that something you intend to do?

[Witness panel confers]

MS. THOMPSON: So we would, both EGD and Union, optimize and prioritize the entire portfolio for any given year, and then should we balance to a budget and not be able to address the risks and opportunities identified by each of the companies, then we would have the further consideration where we would put forward a project or program for approval.

MR. BRETT: For the ICM?

MS. THOMPSON: That would then be considered in relation to the ICM criteria.

MR. BRETT: Okay, fine, thank you. Those are my questions.

MR. MILLAR: Thank you, Mr. Brett.

Anyone else in the room? Anyone on the phone?

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Yes, it's Randy Aiken. I've got a couple of questions.

If we turn to FRPO 11, table 15, and this shows the ICM threshold value for Union Gas. And the numbers there at the bottom range from 330 million up to 354 million, and they increase, you know -- it is a stable increase year to year over that ten-year period.

And then if you look at the response to LPMA 23, and Mr. Shepherd went through this a little bit earlier today, what the ICM materiality threshold would have been for the period 2013 to 2018, the numbers there grow from 268 million to 281 million. And again, it's a fairly stable increase in that number over that six-year period.

My question is: Why is there a big jump from 281,000 -- or 281 million, rather, in 2018 to 330 million in 2019?

MR. REINISCH: So for the purpose of calculating the illustrative ICM materiality threshold backcast for LPMA 23, we use the approach of the Board methodology. So going back, as opposed to illustrative as used in table 15. So the reason that there's a jump is two different methodologies were used to arrive at that number.

The other thing that must be considered is that with respect to the backcasting the productivity factor included a significant X-factor, a 60 percent X-factor, so again, inflation and the growth used to underpin LPMA 23 assumed a very, very low inflation factor every year, whereas for table 15 an inflation factor of 1.73 was used, so it was a much more significant inflation factor, and because that inflation factor was applied to five years, to get back to the 2013 Board-approved base year, that 1.73 inflates fairly significantly the threshold amount.

MR. AIKEN: Okay, now, I understand that Mr. Ritchie has requested the Live Excel spreadsheet showing the 2019 to 2028 calculation, which may or may not have been filed.

Does that spreadsheet go back and start at 2013 and show the growth rate for 2013, '14, '15, et cetera, et cetera, and not just the growth rates for 2019 and beyond?

MR. REINISCH: No, it takes the --

MR. AIKEN: Could you undertake to provide one that does? Because as I listened to Mr. Ritchie, you really need the compound annual growth rates from the last rebasing to figure out what the appropriate growth rate factor should be used in any given year.

MR. REINISCH: So again, the approach that was used to calculate the 2019 ICM materiality threshold was to apply the Board formula to a growth rate of .93 percent and to a PCI of 1.73 percent, because --

MR. AIKEN: And where does the .93 percent come from?

MR. REINISCH: That's the annual --

MR. AIKEN: That's the one-year growth?

MR. REINISCH: That's one-year growth, so --

MR. AIKEN: And what -- I think Mr. Ritchie was quite clear that the figure that should be used is the compound annual growth from the last rebasing.

MR. REINISCH: That is correct, and that is the formula that we propose to use when we bring forth an ICM threshold to be tested in the 2019 rates application.

MR. AIKEN: Why can't you provide that now?

MR. REINISCH: I believe we can undertake to provide an update to that.

MR. AIKEN: Okay, thank you.

MR. MILLAR: Is that --

MR. KITCHEN: Just to be clear, I'm not sure we're providing an update. We are going to do the calculation.

MR. MILLAR: Okay.

MR. AIKEN: Yes.

MR. MILLAR: So that's JT3.24.

UNDERTAKING NO. JT3.24: TO UPDATE THE FIGURES IN FRPO 11, TABLE 15 TO SHOW YEAR BY YEAR DATA

MR. AIKEN: Then my last questions are also about the ICM, and they are based on the response to LPMA 24, starting with part D, and this is a comparison between the ICM and the current capital pass-through mechanism that Union has.

And based on the response to part D, my understanding is that the current capital pass-through mechanism, Union is not guaranteed full recovery of the actual revenue requirement, and the part you are not guaranteed recovery on is only the weather-related part; is that correct?

MR. TEREAULT: That's correct, Randy. It is essentially the volume risk. It could be -- weather is one example. It is likely a key example. It could also be turned back risk potentially that would exacerbate that type of situation.

MR. AIKEN: All right. But under the proposed ICM, the way the Board had it set up, your actual revenues, regardless of weather or anything else, will ultimately recover your actual costs.

MR. TETREAULT: That's our understanding of the policy. You compare your actual cost or actual revenue requirement for a given project to what you actually recovered in rates, and true-up the variance.

MR. AIKEN: So the ICM has less risk associated with it for the utility than if the amount were actually included in the rate base? Because if the amounts were actually included in rate base, you are still subject to the weather, to the volume risk; is that correct?

MR. TETREAULT: I think, Randy, it's symmetrical. It's both less risk to the shareholder and less risk to the ratepayer in the sense that the ICM policy allows for a true true-up, if you will, to the actual costs recovered.

MR. AIKEN: I agree it is a symmetrical risk. It can be plus or minus for the utility, and it can be minus or plus for the ratepayers?

MR. TETREAULT: That's correct.

MR. AIKEN: Thank you. Those are my questions, thanks.

MR. MILLAR: Thank you, Mr. Aiken. Anyone else on the line with questions?

Okay, I think that concludes our technical conference. Thank you very much to the witnesses, the parties, and the court reporter.

We are adjourned. I think the next deadline is April 11th, which is for the filing of expert evidence from the parties -- oh, and the 5th for the undertaking responses.

So will look forward to those, and we are adjourned. Thank you.

--- Whereupon the conference concluded at 4:37 p.m.