

FINAL Utility Integration Themes and Responses – NOT FOR DISTRIBUTION
Use as a Guide to Answer Questions for Internal and External Audiences

Nov 1, 2017

Utility Integration at MAAD filing - Q&A Themes and Responses

Anticipated Timing / Regulatory Process

- Nov. 2, 2017 – Target to submit MAAD application to the Ontario Energy Board.
- Late Nov., 2017 – Target to submit rates mechanism application to the Ontario Energy Board.
- Q3, 2018 – Potential OEB decisions.
- Post OEB Decisions - Utility Integration Team begins a detailed exploration of potential opportunities and determine an optimal approach to achieving efficiencies.
- Q3 2018 – File 2019 rates application with the OEB using approved rates mechanism.
- Jan. 1, 2019 – Implement 2019 rates.
- 2019 onward – Continued exploration an implementation of potential opportunities.

Regulatory Framework

- The framework we have filed with the Ontario Energy Board is a Mergers, Acquisitions, Amalgamations and Divestitures (MAADs) application.
- We have a high level of confidence in the MAADs model. There are alternatives that exist, but this is the strongest option for the business and ratepayers.
- This harmonized regulatory framework covers a 10-year period and is intended to incent the utilities to seek efficiencies from combining, with balanced benefits for customers and shareholders:
 - **Rate predictability for ten years** - Distribution rates are determined at the beginning of each year using a pre-set formula, which allows for an annual inflation increase and an allowance for certain capital investments to ensure we can continue to reliably serve new and existing customers.
 - **Distribution rates that are less than they otherwise would be** - Five areas of potential efficiency have been identified at a high level. The upfront investment needed, associated risk and any resulting savings in the first five years remain with shareholders. In the following five years, any savings in excess of 300 basis points of our established Return on Equity are shared 50:50 between customers and shareholders. The accrued efficiencies then serve to reduce customer distribution rates when they are re-set at the end of the 10-year term.
 - **Continued high standards of service and operational excellence** - Ongoing monitoring of performance against service quality indicators for customer service, operations, system reliability and safety.
 - **Continued investments to meet customer needs** - Framework supports ongoing utility investments in energy infrastructure to grow our business and meet customer needs.
 - **Time** - The integrated utility would have up to ten years to fully examine and implement potential efficiency opportunities and to recoup the significant investments that are needed to achieve them.
 - **Positions the integrated utility for future success** - Integration will position us to deliver additional value to our customers and provide a platform to further grow our business.

Customer Impacts/ Rates

- In late November, Enbridge Gas Distribution and Union Gas will file a Rates Mechanism Application with the Ontario Energy Board which details how we propose to determine annual distribution rate changes during the 10-year MAADs period.
- Customer delivery rates will be set at the beginning of each year (2019-2028) using a pre-set formula which includes an allowance for inflation and certain capital investments to ensure continued reliable service to new and existing customers.
- The Asset Management plan is the foundation for all utility capital investments and will be filed annually as part of the OEB rate application process.

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- Enbridge Gas Distribution and Union Gas will maintain their existing rate zones (EGD, Union Gas North East, Union Gas North West and Union Gas South).
- The harmonization of rates and services will be considered at the end of the 10-year framework period in 2028.

Price Cap Formula

- The MAADs application includes a proposed mechanism by which distribution rates would be calculated in each year of the 10-year term. A detailed rates mechanism application will be filed with the OEB in late November.
- Distribution rates are determined each year between 2019 and 2028, using a pre-set formula: Inflation – productivity + certain capital investments.
- Formula: $PCI = I - X \pm Y \pm Z$
 - I= Inflation
 - Set annually using Statistics Canada data.
 - X= Productivity
 - Set at zero based on the utilities historic productivity (subject to OEB approval).
 - Y = Pass through adjustments and deferrals for cost of gas, Demand Side Management, normalized average use per customer, capital pass-through deferrals.
 - Capital expenditures are based on the utilities' Asset Management Plans to support growth and replacement and maintenance of existing assets.
 - Z = Material variances outside of management's control have been included in the analysis, set at zero.

Potential Efficiency Opportunities

- A high-level review has identified that utility investments in the range of \$50-\$250 million could achieve potential savings of \$350M-\$750M over a ten-year period in five general areas: customer care, distribution work management, utility shared services, storage and transmission, gas supply and gas control; management and other functions.
- The estimated range of related investment and cost savings are based on a preliminary high-level comparison of best practices between the two utilities, industry benchmarking information and the utilities prior experience with related system implementations and capital investments.
- The savings could be generated by optimizing systems and the workforce, and applying best practices from each utility..
- Subject to and following a favourable regulatory decision on the MAADs application, a utility Project Management Office will begin a detailed exploration of potential opportunities and determine an optimal approach to achieving efficiencies, while continuing to safely and reliably operate the assets and deliver exceptional customer service. These plans will address specifics around potential workforce changes, office locations and more.
- For the first five years, the upfront investment needed, associated risk and any resulting savings remain with shareholders.
- In the following five years any savings in excess of 300 basis points of our established Return on Equity are shared 50:50 between customers and shareholders.
- At the end of the 10-year term, the accrued efficiencies then serve to reduce customer delivery rates when they are re-set.

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Governance and Decision Making

- A Utility Project Management Office will be established in 2018 and will be accountable for developing a comprehensive integration roadmap, monitoring project streams and cross-stream issues/impacts, identifying program-level risks and mitigation strategies, and driving results and accountability.
- Implementation plans will ensure organizational capacity to support and adopt the required changes. Capital investments will be subject to stand alone investment review and approvals.

Service Quality

- Enbridge is committed to maintaining a high standard of operational excellence. An integral component of the regulatory framework is ongoing monitoring of performance against service quality indicators for customer service, operations, system reliability and safety.

No Harm Test

- The No Harm Test considers whether or not the transaction has an adverse effect on meeting the Ontario Energy Board's statutory objectives, set out in section 2 of the OEB Act, 1998.
- The two primary areas of focus to protect the interests of consumers are price and the reliability and quality of gas service.
Price: the proposed amalgamation of the utilities into a single entity provides an opportunity to increase the cost efficiency of the distribution, transmission and natural gas storage services provided to consumers that could not be achieved as separate entities. Ratepayers are expected to experience lower rates through the deferred rebasing period than they otherwise would have.
Reliability and quality of gas service: The utilities are committed to providing safe and reliable service to both in-franchise and ex-franchise customers. The amalgamated utility will continue to be subject to and report on all existing Service Quality Requirements ("SQR"). The Applicants have provided a proposed scorecard for review and approval as part of the Rate Setting Mechanism Application.
- The transaction also supports continued utility investments in energy infrastructure that will benefit customers and Ontarians in general and the continued provision of cost-effective energy conservation programs to all customer classes.

Supplier contracts / vendor arrangements

- While the two utilities have submitted a joint application to the Ontario Energy Board for approval to integrate, no formal regulatory approval has been received. For now, Union Gas and Enbridge Gas Distribution are continuing to operate independently and there is no change to current contractual arrangements.
- As we proceed with our integration, we are committed to keeping you informed of any changes to ensure a smooth transition.

Workforce changes

- Potential areas of efficiency have been identified at a high-level. The specific details will be determined once a detailed analysis of each is complete. This work will begin following and subject to a favourable decision by the Ontario Energy Board on our application. No decisions have been made.

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- We do anticipate some reduction in our workforce. Management changes are expected to be implemented early in the regulatory term, whereas other employee changes will be implemented more gradually over time. Workforce changes will be thoughtfully planned, ensuring we have the talent we need for the future.
- We will make decisions based on our corporate values of integrity, safety and respect.
- We also anticipate opportunities for growth in the utility business, and this will create new jobs that don't exist today.

Offices and Work locations

- We understand how important Union Gas and Enbridge Gas Distribution's overall business operations are to the communities we serve, and we remain committed to maintaining a presence in all the communities we serve.
- We have corporate offices in Chatham and Toronto – and we will continue to have a presence in both communities. Chatham has always been a major resource location for Union Gas and that will continue. There are significant advantages that come with our major Chatham location, including a low cost of living, easy access to other major centres and a strong historical relationship with the community. Enbridge Gas Distribution's North York office also offers many benefits, with its proximity to Canada's largest urban centre and key stakeholders.

Call Centres

- A high-level review has identified potential opportunities to generate efficiencies by eliminating the duplication of customer support services and customer information systems. No decisions have been made. The specific details will not be known until a detailed analysis of each potential opportunity is complete subject to and following a favourable regulatory decision.

Branding of Integrated Utility

- We have not discussed or determined the brand of the integrated utility.
- This work will be completed once the framework is approved.

Investments in our Communities

- Enbridge Gas Distribution and Union Gas are strongly aligned in their charitable giving practices and their support for local communities. We will continue to invest in the communities in which we operate.

Technology changes

- The long-term framework would give the utilities up to ten years to fully explore and implement potential efficiency opportunities and to recoup the significant investments that are needed to harmonize services.

Unregulated Storage:

- Customers will continue to receive the same storage services they currently receive.
- Storage will continue to be provided to in-franchise customers of the integrated utility at market prices.

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Growth Strategy

- Pursuing integration of Enbridge Gas Distribution and Union Gas is directly aligned to the Enbridge vision to be the leading energy delivery company in North America and deliver energy and value to shareholders.
- As Al Monaco shared in the All Company Forum, our plan is to grow the business. From the utility perspective, this includes expanding our distribution network into new communities, establishing a foothold in new lines of business (e.g. geothermal) and greening our grid (e.g. Renewable Natural Gas and hydrogen). We continue to be interested in acquisition opportunities.
- Creating an integrated utility platform would allow us to both deliver value to our current customers and grow our business.