

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters (“CME”)

MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 18 of 44

Question:

The Applicants state "All transaction costs will largely be incurred, paid for and financed prior to January, 2019 and hence will be borne by the EGD and Union shareholders and not by ratepayers."

- (a) CME would like to better understand what "largely" means in this context. Please state the estimated transaction costs that will be incurred, paid for or financed after 2019, both in real dollar terms and as a percentage of the total transaction costs.
- (b) Will the applicants seek to recover the transaction costs that are incurred, paid for or financed after 2019 from ratepayers?

Response

a-b) Please see the response to BOMA Interrogatory #7 found at Exhibit C.BOMA.7.

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Answer to Interrogatory from
Canadian Manufacturers & Exporters (“CME”)

MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 25 of 44

Question:

The Applicants state "Field Operations have been excluded from the scope of the analysis at this time to reflect that service areas for each utility do not directly overlap."

- (a) Why do the applicants feel as though there are no efficiency opportunities given that EGD and Union's have contiguous, and sometimes interlinked service areas?

Response

The Applicants have not indicated that there are no potential efficiencies in Field Operations. However, at this time the focus of the amalgamation is to bring together systems and processes that over time will allow Field Operations procedures to be harmonized throughout the new Amalco franchise area. This approach will ensure the delivery of safe and reliable service to Amalco's customers is maintained.

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MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, pages 25-26 of 44

Question:

The Applicants state "The estimated capital investment required for the integration of systems and technology to support the amalgamation of EGD and Union is estimated to be between \$50 million and \$250 million to deliver potential cost synergies of between \$350 million and \$750 million over the 10 year deferred rebasing period."

- (a) To the extent that it is not already part of the record, please provide any working papers or any other documents that the Applicants used to derive the estimated costs and potential savings of the amalgamation.

Response

Please see the response to BOMA Interrogatory #16(d) part (i) found at Exhibit C.BOMA.16.

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MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 30 of 44

Question:

The Applicants state: "This reduction is based on an estimated reduction of approximately \$4 per customer across the combined 3.5 million customer base. These efficiencies could be the result of activities such as a digitization campaign to increase e bill customers, increase collections efficiencies, and workforce alignment."

- (a) Would EGD and Union separately be able to undertake a digitization campaign to increase e bill customers absent a merger?
- (b) If the answer to a) is yes, have EGD and Union previously engaged in such campaigns?
If not, why not, if yes, what were the actual savings as a result of the campaign.

Response

a-b) EGD and Union have independently promoted e-bill with some success over the past several years and would be able to continue to do so absent amalgamation. However, EGD and Union believe that Amalco would have a broader and consistent reach across the province enabling stronger results for e-bill campaigns in the future. In addition, customers with multiple accounts (franchises/chains/retail) across the province would also benefit from a common portal and e-bill system driving adoption of e-billing higher.

Mailing a paper bill costs roughly \$10 per year. These costs are not incurred for e-bill customers, therefore the savings are roughly \$10 per year. A 1% increase in e-bill adoption of 3.5 million customers is roughly a savings of \$350,000 a year.

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MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 32 of 44

Question:

The Applicants state: "While a detailed analysis of options is required, the estimated cost efficiencies are based on integrating Union and EGD into a Maximo software system. Management estimates that a potential range of implementation costs could be between \$30 million for data and business process migration to \$85 million for full implementation. The estimate for migrating Union processes and data into Maximo is approximately \$50 million."

- (a) What other elements of Union's business would be migrated if the Applicants were to elect to fully migrate Union onto Maximo?
- (b) Would there be increased opportunities for efficiencies if Union was fully migrated onto the Maximo software system? If so, to the extent that it is not already provided on the record, please explain these increased opportunities for efficiencies, and estimate their dollar value over time.
- (c) Please explain the difference between the \$30 million cost for data and business process migration for Union, and the \$50 million cost for migrating Union processes and data.

Response

- a-c) The company has not conducted a detailed integration planning exercise. The pre-filed evidence and information provided in the response to BOMA Interrogatory #16(d) part (i) found at Exhibit C.BOMA.16 explains the content of the high level planning completed to date.

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Answer to Interrogatory from
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MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 34 of 44

Question:

The Applicants State: "The preliminary estimate to implement a common software platform for those areas of shared services is \$13 million. This cost estimate reflects implementation of between 5 to 10 systems resulting with an average implementation cost range of \$2.6 million for 5 systems and \$1.3 million for 10 systems. Overall, management estimates that the range of costs for these shared services systems is between \$5 million and \$20 million."

- (a) Please break out the systems that the Applicants propose to implement a common software platform for. Please indicate the estimated cost of implementation for each system, and explain how migrating more systems will reduce the average cost of implementation.

Response

Please see the response to BOMA Interrogatory #16(d) part (i) found at Exhibit C.BOMA.16.

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MAADs Issues List – Issue No. 2

Reference: EB-2017-0306 Exhibit B, Tab 1, page 34 of 44

Question:

The Applicants state: "Integration of these utility systems would begin in 2019, with preliminary initial cost estimates ranging from \$5 million to \$20 million. An average range of per system capital costs between \$0.5 million and \$2 million has been used to migrate or replace a range of 7 to 30 systems. An estimate of \$14 million has been used as a baseline capital cost estimate for the Other Functions/systems."

- (a) Please list the various systems which might be integrated as a result of this proposal.
- (b) Please indicate the estimated cost of integrating each utility system.
- (c) Please elaborate on the cost relationship of the implementation. For example, if the Applicants elect to migrate 30 systems, will this reduce the estimate cost to \$0.5 million per system?

Response

Please see the response to BOMA Interrogatory #16(d) part (i) found at Exhibit C.BOMA.16.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
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MAADs Issue 4(b); Rate-Setting Mechanism Issue 1(f)

Reference: EB-2017-0306 Exhibit B, Tab 1, page 42 of 44

Question:

The Applicants state: "If, in any calendar year from 2024 to 2028, the actual utility ROE is greater than 300 basis points above the allowed ROE as set out under the OEB's policy, the excess earnings above 300 basis points will be shared 50/50 between the ratepayers and the shareholders."

- (a) Given that EGD's current ESM holds that earnings are shared 50/50 for earnings above the allowed ROE, and Union's current ESM directs that earnings are shared 50/50 for earnings greater than 100 basis points above the allowed ROE and 90/10 for earnings greater than 200 basis points above the allowed ROE, please explain why, in the Applicants' view, the earnings sharing mechanism should be 50/50 for earnings greater than 300 basis points above the allowed ROE.

Response

Please see the response to Board Staff Interrogatory #37 found at Exhibit C.STAFF.37.

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Answer to Interrogatory from
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Rate-Setting Mechanism Issue # 2

Reference: EB-2017-0307 Exhibit B, Tab 1, page 21 of 31; Exhibit B, Tab 1, Attachment 2

Question:

- (a) Many electricity distributors' scorecards contain cost control metrics. Please explain why The Applicants' proposed scorecard does not contain any metrics regarding cost control.
- (b) If the Board were to order cost control metrics to be provided on the scorecard, please provide the measures the Applicants believe would appropriately demonstrate cost control on an ongoing basis.

Response

- a) The proposed Amalco OEB scorecard contains a total of six financial measures in the Financial Performance section. The Applicants have been operating under Incentive Regulation and have been focused on prudently managing costs, while ensuring the safe and reliable operation of their assets. Metrics 17 and 18 on the proposed scorecard, Financial Statement Return on Assets (ROTA) and Financial Statement Return on Equity (ROTE), are all-encompassing financial measures that include cost control and a focus on reducing asset costs. The historical performance on these metrics is provided in the response to Board Staff Interrogatory #62 found at Exhibit C.STAFF.62.
- b) As stated in the response to part a), Metrics 17 and 18 include elements of cost control.

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Answer to Interrogatory from
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Rate Setting Mechanism Issue # 1(e)

Reference: EB-2017-0307 Exhibit B, Tab 1, page 12 of 31

Question:

The Applicants state: "The Applicants propose using a materiality threshold of \$1.0 million for Amalco during the deferred rebasing period. This is consistent with the threshold for electric distributors."

- (a) To the extent that it is not already part of the evidence, please provide the current materiality thresholds for EGD and Union.

Response

Please see the response to Board Staff Interrogatory #23 found at Exhibit C.STAFF.23.