SETTLEMENT PROPOSAL

May 17, 2002

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This Settlement Proposal is filed with the Ontario Energy Board ("the Board") in connection with the application of The Consumers' Gas Company Ltd., carrying on business under the trade name Enbridge Consumers Gas, for an order or orders approving or fixing rates for the sale, distribution, transmission, and storage of gas in Fiscal 2002 (the "Test Year"). A Settlement Conference was conducted on April 22, 23, 24, 25, and 26 and on May 2, 3, 9, and 13, 2002 in accordance with Rule 38 of the Board's *Rules of Practice and Procedure* and the Board's *Settlement Conference Guidelines* ("Settlement Guidelines"). The Settlement Proposal arises from the Settlement Conference.

The following parties participated, in whole or in part, in the Settlement Conference: Enbridge Consumers Gas ("ECG"); the Ontario Energy Board's technical staff ("Board Staff"); Canadian Manufacturers and Exporters ("CME"); Coalition for Efficient Energy Distribution ("CEED"); Consumers' Association of Canada ("CAC"); Green Energy Coalition ("GEC"); Heating, Ventilation, Air Conditioning Contractors Coalition Inc. ("HVAC"); Industrial Gas Users Association ("IGUA"); Pollution Probe Foundation ("Pollution Probe"); Ontario Association of School Business Officials ("Schools"); TransCanada PipeLines Limited ("TCPL"); and Vulnerable Energy Consumers Coalition ("VECC").

The Settlement Proposal deals with all of the issues on the Board's Issues List, even if there was no agreement to settle a particular issue or if there was an agreement but not unanimity, such that each issue could fall within one of the following three categories:

1. an issue for which there is a complete settlement, because ECG and all of the other parties who discussed the issue either agree with the settlement or take no position on the issue;

2. an issue for which there is a partial settlement, because ECG and certain of the other parties who discussed the issue agree with the settlement, or take no position on the issue, but one or more of the other parties disagree(s) with the settlement; and

3. an issue for which there is no settlement, because ECG and the other parties who discussed the issue are unable to reach an agreement to settle the issue.

A complete or a partial settlement could be conditional in nature; for example, such a settlement may enumerate the condition(s) on which the settlement would be implemented. Each conditional settlement would be so labelled.

There are complete settlements for 26 issues, in the result, and only the following four of them are conditional: Issue 2.2 (Link pipeline at pp. 12-13), Issue 6.3 (budgets for Z-factors at pp. 29-30), and Issues 9.1 and 9.2 (CIS at pp. 38-39). There are no agreements to settle the following eight issues: Issue 2.1 (Alliance and Vector at pp. 11-12), Issue 2.3 and 2.4 (cost allocation of gas supply management costs and cost of managing system gas on a "stand-alone" basis at pp.

13-14), Issue 4.2 (DPWAMS at pp. 22-23), Issue 5.3 (affiliate outsourcing at pp. 25-27), and Issues 10.1, 10.2, and 10.3 (deferred taxes at pp. 39-41).

This Settlement Proposal was prepared in accordance with Rule 39 and the Settlement Guidelines. It lists the parties who participated in the discussion of each issue, other than Board Staff, prior to indicating whether or not there is an agreement to settle the issue. Board Staff has been excluded from the issue-by-issue lists because Board Staff participated in the discussion of all issues, for the purposes described in the Settlement Guidelines, and there is accordingly no need to include Board Staff in each such list. Board Staff takes no position on any issue and, as a result, is not a party to this Settlement Proposal.

The Settlement Proposal describes the agreements reached on the settled issues, including the rationale for each of them, and delineates for reference purposes the scope of the dispute over the issues for which there is no settlement or, when required by any conditional settlement of an issue, the scope of the conditional aspect(s) of the settlement; identifies the parties who agree and who disagree with each settlement, including the latter's grounds for disagreement, or alternatively who take no position on the settled issue; and provides a direct and transparent link between each settlement and the supporting evidence in the record to date. In this regard, the parties who agree with the individual settlements are of the view that the evidence provided is sufficient to support the Settlement Proposal in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings on the settled issues. This is the case with all settlements, whether conditional or not, and whether complete or partial.

The supporting evidence for each settled issue is identified individually by reference to its exhibit number in an abbreviated format; for example, Exhibit A, Tab 8, Schedule 1 is referred to as A-8-1. A concise description of the content of each exhibit is also provided. In this regard, ECG's response to an interrogatory is described by citing the name of the party and the number of the interrogatory (e.g., Board Staff Interrogatory #1), whereas another party's response to an interrogatory is described by citing the names of both parties and the number of the interrogatory (e.g., CAC Response to ECG Interrogatory #1).

Exhibit N2, Tab 1, Schedule 1 and Exhibit N2, Tab 2, Schedules 2 through 7 demonstrate the effect of the Settlement Proposal on Rate Base, Cost of Service, Utility Income, and Capital Structure for the Test Year. Exhibit N2, Tab 2, Schedules 8 and 9 provide the proposed revenue recovery by rate class and a revenue comparison (current vs. proposed). The "N2" series of exhibits is intended to assist the Board in its review of the financial consequences of the Settlement Proposal.

According to the Settlement Guidelines (p. 3), the parties must consider whether a settlement proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. ECG and the other parties who participated in the Settlement Conference, including Board Staff, consider that no settled issue requires an adjustment mechanism.

This Settlement Proposal is a package insofar as the settled issues are concerned and, as such, no agreement to settle a particular issue can be considered as acceptable to ECG or the other parties, or both, in isolation from the agreements to settle the other issues in the package. No particular settlement, then, can be construed as representing the position that ECG or the other parties, or both, would take on the appropriate resolution of the corresponding issue in the absence of the other settlements. The individual settlements are inextricably linked to one another, in other words, and so neither ECG nor the other parties can withdraw from the Settlement Proposal except in accordance with Rule 40.02.

The Settlement Guidelines prescribe the following three conditions for the Board's acceptance of a settlement proposal as a package (p. 8):

- the evidence supports the settlement proposal;
- the settlement proposal is in the public interest; and
- all evidence relevant to the issues is available to all parties, and to the Board, both in the settlement proposal itself and as part of the public record.

ECG and the other parties are confident that this Settlement Proposal satisfies these conditions and, in consequence, they expect the Board to accept it as a package insofar as the settled issues are concerned. They recognize, though, that the Board may not accept this Settlement Proposal in its entirety. In this event, according to the Settlement Guidelines, "the Board will reject the settlement proposal as a whole and will proceed to a hearing of all of the issues on the issues list" (p. 8).

ECG and the other parties would prefer, however, that the Board take an intermediate step in this event. Rule 39.04 allows the Board to "direct the parties to make reasonable efforts to revise the settlement proposal" when the Board holds either of the views specified in the rule. ECG and the other parties would like to have an opportunity to elaborate on the rationale for the package, if it is inadequate, or to improve the quality and detail of the supporting evidence. ECG and the other parties would like the Board to make findings on the settled issues, by accepting the Settlement Proposal, prior to hearing evidence and argument on the unsettled issues.

GAS VOLUME BUDGET

1.1 **ECG's gas volume forecast for the 2002 Test Year, including estimated average uses and the forecasting methodology (*per* Issue 1.1 of the RP-2000-0040 Settlement Proposal).**

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's forecasts of gas sales and transportation volumes, or throughput, for the Test Year, as set out in its pre-filed evidence (A-8-1, updated on 2002-01-25), totalled 11 776.3 10^6m^3. These forecasts were based on a forecast of degree days for the Test Year that were prepared using the methodology developed by Dr. de Bever in the EBRO 464 proceeding (A-24-1). This methodology forecasts annual degree-days by means of a regression model that uses a constant and a five-year weighted average of the Environment Canada degree days, as explanatory variables, estimated over the full cycle length. The five-year weighted average included data up to and including Fiscal 2000; in other words, it incorporated a two-year lag necessitated by the absence of actual weather data for Fiscal 2001 and the Test Year.

- ECG subsequently updated its forecast of degree days for the Test Year (A-24-1, 2002-04-18) to include actual degree-day data for Fiscal 2001. The updated forecast reduced the lag in the five-year weighted average of the Environment Canada degree days from two years to one year.

- The effect of ECG's degree-day update was to: (i) reduce the throughput forecast by 52.8 10^6m^3, from 11 776.3 10^6m^3 to 11 723.5 10^6m^3; (ii) decrease revenues by approximately $10.9 million and gas costs by $7.4 million; and (iii) increase the gross revenue deficiency by approximately $3.5 million (A-24-1, p. 9 of 15).

- ECG's Test Year forecasts of average uses for residential customers (Rate 1) and general service customers (Rate 6) were developed using a methodology that was first used in Fiscal 2001. This methodology develops average uses based upon econometric (i.e., regression) models for not only the heating and water heating residential revenue class, but also the other residential revenue classes and all of the general service revenue classes in the apartment, commercial, and industrial sectors (C-4-1 for Rate 1 and C-4-2 for Rate 6).

- ECG claims that normalized average uses for the Test Year on a six-month actual and six month forecast basis, assuming normal weather for the latter, are 2 962 m^3 for Rate 1 and

22 101 m^3 for Rate 6. Budgeted figures are 2 970 m^3 and 22 125 m^3, respectively, for the Test Year.

- In the agreement to settle Issue 1.1 in the RP-2000-0040 Settlement Proposal, the other parties expressed their concern about the new average uses forecasting methodology, in general, and the accuracy of the new models, in particular, and reserved their right to examine the methodology in ECG's next rates case. The RP-2000-0040 Settlement Proposal accordingly required ECG to file evidence, in this proceeding, on results that its forecasting models would have generated for Fiscal 2001 using actual data for all driver variables. These results allow parties to assess the models' performance for Fiscal 2001 (A-25-3) and, as they indicate, the average use models are good objective predictors of average uses and do not exhibit any systematic bias.

- Given the limited experience with ECG's econometric models for forecasting average uses, however, the other parties believe that it is too soon to pronounce definitively on whether these models are working well, or not, at this point. ECG nevertheless proposes, and the other parties nevertheless accept, the results that these models produce for the Test Year -- 11 776.31 10^6m^3 -- as the throughput forecast for the Test Year.

- The other parties do not accept ECG's updated throughput forecast of 11 723.5 10^6m^3, based on the inclusion of actual degree day data for Fiscal 2001, as the update was seen by them to be untimely. ECG therefore proposes, and the other parties accept, that the throughput forecast for the Test Year -- 11 776.31 10^6m^3 -- will not be adjusted for the consequential effects of decreases in gas savings in the 2002 DSM plan (see Issue 8.1 at pp. 32-34), increases in customer additions (see Issue 6.2 pp. 28-29), and increases in the average use for Rate 6 customers.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-8-1	Gas Volume Budget
A-22-1	Economic Outlook
A-24-1	Budget Degree Days
A-25-1	Average Use Model for Rate 1
A-25-2	Average Use Model for Rate 6
A-25-3	Average Use Models, RP-2000-0040 Settlement Agreement Commitment Issue 1.1
C1-2-1	Customers, Volumes and Revenues by Rate Class, 2002 Budget
C1-2-2	Comparison of Average Customer Numbers by Rate Class, 2002 Budget and 2001 Actual

C1-2-3	Comparison of Gas Sales and Transportation Volume by Rate Class, 2002 Budget and 2001 Actual
C1-2-4	Comparison of Gas Sales and Transportation Volume by Rate Class, 2002 Budget and 2001 Actual
C1-2-5	Comparison of Gas Sales and Transportation Revenue by Rate Class, 2002 Budget and 2001 Actual
C2-2-1	Customers, Volumes and Revenues by Rate, Class, 2001 Actual
C2-2-2	Comparison of Customer Numbers by Rate Class, 2001 Actual and 2000 Actual
C2-2-3	Comparison of Gas Sales and Transportation Volume by Rate Class, 2001 Actual and 2000 Actual
C2-2-4	Comparison of Gas Sales and Transportation Volume by Rate Class, 2001 Actual and 2000 Actual
C2-2-5	Comparison of Gas Sales and Transportation Revenue by Rate Class, 2001 Actual and 2000 Actual
C2-2-6	Comparison of Gas Sales and Transportation Volume by Rate Class, 2001 Actual and 2001 OEB Approved
C3-2-1	Customers, Volumes and Revenues by Rate Class, 2000 Actual
C3-2-2	Comparison of Gas Sales and Transportation Volume by Rate Class, 2000 Actual and 2000 OEB Approved
C3-2-3	General Service System-Wide Total Normalized Average Use
C3-2-4	General Service Average Uses, Historical Normalized and OEB Approved
I-1-4 to 6	Board Staff Interrogatories #4 to 6
I-2-3 to I-8, 45, 58	CAC Interrogatories #3 to 8, 45,58
I-4-2 to 10, 28 to 30	CME Interrogatories #2 to 10, 28 to 30
I-8-9, 24	IGUA Interrogatories #9, 24
I-11-2 to 4, 40 to 49, 55, 56	VECC Interrogatories #2 to 4, 40 to 49, 55, 56.

GAS COSTS AND TRANSPORTATION

2.1 ECG's Alliance and Vector transportation arrangements, including the cost consequences of the notional deferral account (*per* Issue 2.1 of the RP-2000-0040 Settlement Proposal).

(No Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, TCPL, and VECC.

ECG and the other parties are unable to reach an agreement to settle this issue. The following delineates, from their perspective, the scope of the dispute over the issue.

This issue arises from the agreement to settle Issue. 2.1 in the RP-2000-0040 Settlement Proposal that, in effect, deferred the issue to this proceeding on the terms and conditions specified therein. ECG and the other parties disagree on the prudence or the imprudence, as the case may be, of ECG's Alliance and Vector transportation arrangements. They also disagree on the basis for and the amount of any cost disallowance *vis-à-vis* the notional deferral account or otherwise.

The following evidence is relevant to this issue:

A-14-1	Gas Costs
A-14-4	Alliance and Vector Transportation Arrangements
A-14-7	Rebuttal Evidence of W.G. Foster
A-14-8	Rebuttal Evidence of R.G. DeWolf
A-14-9	Reply Evidence of ECG
D1-2-1	Summary of Gas Cost to Operations, Fiscal 2002
D1-2-2	Summary of Storage and Transportation Costs, Fiscal 2001-2002
D2-2-1	Summary of Gas Cost to Operations, Fiscal 2001
D2-2-2	Summary of Storage and Transportation Costs, Fiscal 2000 – 2001
D2-2-4	Transportation Cost Differential
D3-2-3	Summary of Gas Cost to Operations, Fiscal 2000
D3-2-4	Summary of Storage and Transportation Costs, Fiscal 1999 – 2000
I-2-26 to 41, 63 to 95	CAC Interrogatories #26 to 41, 63 to 95
I-4-29, 30	CME Interrogatories #29, 30
I-8-30	IGUA Interrogatory #30
I-11-25, 27 to 32, 66 to 72	VECC Interrogatories #25, 27 to 32, 66 to 72
L-2-1	Evidence of M.P. Stauft for CAC
I-12-1 to 20	CAC Responses to ECG Interrogatories #1 to 20
M1-1-1	Impact Statement No. 1
M1-2-7	Summary of Gas Costs to Operations, Fiscal 2002

2.2 Underutilization of Link pipeline, including related cost consequences.
(Complete Conditional Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, TCPL, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG originally proposed to continue the 50:50 sharing ratio of the net cost of ECG's underutilization of its service entitlement with Niagara Gas Transmission Limited -- an affiliate -- for the Link pipeline, as between customer and shareholder, notwithstanding the continual low level of ECG's actual utilization relative to budget. The other parties oppose ECG's proposal because they believe ECG's service entitlement for the Link pipeline is now redundant by virtue of ECG's low actual utilization of it.

- ECG has reconsidered its proposal, in the light of this opposition and its estimated utilization of its service entitlement for the Link pipeline in the foreseeable future, and has decided to withdraw the proposal. ECG's shareholder will accordingly bear the cost consequences of ECG's underutilization of its service entitlement for the Link pipeline.

- There is no corresponding adjustment of ECG's revenue requirement, though, but rather a year-end calculation of the cost consequences of underutilization in ECG's Purchased Gas Variance Account ("PGVA") for the Test Year. This calculation would usually occur at the time of clearing the PGVA. A calculation now, on the other hand, would require numerous consequential calculations including, ultimately, ECG's revenue requirement as well as the preparation of another impact statement.

- ECG proposes to follow the usual timing for calculating the cost consequences of underutilization in the PGVA and, in addition, to hold the customer whole *vis-à-vis* interest on the amount attributable to underutilization that would otherwise be recorded in the PGVA. The other parties accept ECG's proposal as a practical solution for a timing problem.

- ECG also proposes to eliminate the underutilization entries in the PGVA for Fiscal 2003 and thereafter subject, however, to the condition that ECG can apply to reinstate them in the future when its utilization of the Link pipeline increases markedly from the current actual level. The other parties accept ECG's proposal subject, however, to the condition that they can oppose any such application.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: TCPL.

The following evidence supports the settlement:

A-14-1	Gas Costs
A-12-1	Deferral and Variance Accounts
I-2-24	CAC Interrogatory #24
I-11-26	VECC Interrogatory #26.

2.3 Cost allocation of gas supply management costs (*per* Issue 2.2, Cost Allocation, of the RP-2000-0040 Settlement Proposal).
- and -
2.4 Cost of managing system gas on a "stand-alone" basis (*per* Issue 2.2, Cost Allocation, of the RP-2000-0040 Settlement Proposal).

(No Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CEED, CAC, IGUA, Schools, and VECC.

ECG and the other parties are unable to reach an agreement to settle these issues. The following delineates, from their perspective, the scope of the dispute over the issues.

Both issues arise from the agreement to settle Issue 2.2 in the RP-2000-0040 Settlement Proposal. The settlement of Issue 2.2 included, as one component, “the methodology used to allocate gas supply management costs to system gas customers, on the one hand, and to direct purchase customers on the other”. ECG undertook to conduct a cost allocation study, using the fully allocated costing (“FAC”) methodology, for this purpose. ECG also undertook “to retain a consultant to ascertain the costs of managing system gas as a discrete business, on a so-called ‘stand-alone’ basis, and how these costs would vary from the costs allocated to system gas customers in the study”.

ECG prepared the FAC study for the Test Year (G2-3-4) but, for the reasons given in ECG’s pre-filed evidence (G1-1-2), ECG did not use an account-level forecast of operations and maintenance ("O&M") costs for the Test Year in the study. ECG has undertaken to prepare another FAC study, using an account-level forecast of O&M costs for Fiscal 2003, and will file the study as part of ECG's rates application for Fiscal 2003.

ECG also retained a consultant for the purpose described earlier -- the costs of managing system gas on a stand-alone basis -- and he prepared a “Report on Cost of Managing System Gas Supply” (A-14-6). ECG proposes to use the functions identified in this report in preparing the FAC study for Fiscal 2003.

Some of the other parties contend that the consultant’s study has not identified all of the functions -- and the associated costs -- that would be required by a person who provides system gas on a stand-alone basis; that is, separated from distribution service *per se*, in a manner similar to direct purchase gas, instead of integrated with distribution service as is now the case. These parties also contend that, if the Board finds there are additional functions, the Board should direct ECG to include them in the FAC study for Fiscal 2003 and, in addition, the Board should consider requests for other relief in this proceeding.

The following evidence is relevant to these issues:

A-14-6	Cost of Managing System Gas Supply
G1-1-2	Allocation of Gas Supply Management Costs
I-1-14	Board Staff Interrogatory #14
I-2-51	CAC Interrogatory #51
I-3-56 to 75, 85 to 87	CEED Interrogatories #56 to 75, 85 to 87
I-4-15	CME Interrogatory #15
I-11-24, 50	VECC Interrogatories #24, 50.

2.5 Implications of the Quarterly Rate Adjustment Mechanism (QRAM) and outsourcing the arrangements on ECG's Risk Management Program (study to be filed in Jan/02 *per* Issue 2.3 of the RP-2000-0040 Settlement Proposal).

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CEED, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The agreement to settle Issue 2.3 in the RP-2000-0040 Settlement Proposal provided that ECG would form a working group to examine the principles that underpin ECG's Risk Management Program. The working group comprised members from ECG and the following other parties: CME, CEED, CAC, IGUA and VECC. (There were also members from A.E. Sharp Limited and Toronto Hydro Energy Services Inc.)

- The members of the working group decided, after examining the objectives of the program as well as the underlying principles, that change at this time is neither necessary nor desirable for either the objectives or the underlying principles. They also decided to combine the objectives of the program, after revising them for this purpose, into a single objective.

- ECG nevertheless retained a consultant, with the concurrence of the working group's other members, to review ECG's Gas Supply Risk Management Policies and Procedures Manual, and to recommend any requisite changes, in the light of two recent events: Enbridge Inc.'s role as a provider of risk management services to ECG; and ECG's implementation of its QRAM procedures. The consultant -- Peyton Feltus of Randolph Risk Management -- has completed his work.

- ECG proposes to update this manual in due course, having regard to the consultant's recommendations, and to file the updated manual for examination in ECG's next rates case. The other parties accept ECG's proposal because, under the circumstances, there is no apparent need for an earlier update and examination.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: CEED.

The following evidence supports the settlement:

A-14-5	Gas Supply Risk Management
I-1-9, 12, 13, 77	Board Staff Interrogatories #9, 12, 13, 77
I-2-52	CAC Interrogatory #52
I-4-34	CME Interrogatory #34
I-11-23, 73	VECC Interrogatories #23, 73.

2.6 Changes to the QRAM adjustment to include the introduction of Large Corporations Tax and Capital Tax.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The agreement to settle Issue 2.2 in the RP-2000-0040 Settlement Proposal presented a new methodology for adjusting the utility price -- ECG's forecast price for rate-making purposes during a test year -- and clearing ECG's Purchased Gas Variance Account on a quarterly basis when the specified thresholds for, respectively, adjustment and clearance are met. The acronym "QRAM" is used to describe this quarterly rate adjustment mechanism.

- The Board approved the RP-2000-0040 Settlement Proposal, including the settlement of Issue 2.2, at the end of a one-day hearing on May 30, 2001. The QRAM procedures did not contemplate, at the time, adjustments to give effect to changes in ECG's forecast of Large Corporation Tax (federal) and Capital Tax (provincial).

- ECG's initial application to the Board under the QRAM procedures, under file No. EB-2001-0790 (RP-2001-0032), nevertheless included adjustments for both taxes. The gas cost decrease had the effect of reducing these two taxes, and thus ECG's revenue requirement as well, by a total of $500,000 on an annualized basis. The following excerpt from Exhibit Q2-2, Tab 2, Schedule 1 explains ECG's rationale in this regard:

  > 6. Exhibit Q2-3, Tab 2, Schedule 3, represents a small change to improve the gas cost unit rate change process. Elements affecting the year-end value of the components of the Company's taxable capital calculation have been included. The value of rate base at the end of the fiscal period and the changes represented by working cash and GST level changes will affect the Company's forecast of Large Corporations Tax ("LCT") and Capital Tax. These taxes are levied at rates of 0.225% for the Federal LCT and 0.3% for Provincial Capital Tax. Further, Capital Tax is deductible in the determination of taxable income whereas LCT is not. The calculations shown at Schedule 3 quantify the reduction to the Company's forecast of LCT and Capital tax as a result of this decline in the purchased cost of gas.

- ECG did likewise with its second QRAM application, under file no. EB-2002-0213 (RP-2001-0032), and the effect was a reduction of $400,000 in these two taxes, and thus in ECG's revenue requirement as well, on an annualized basis. ECG's rationale was the same as in the prior QRAM application.

- ECG's rationale is accepted by the other parties and, as a result, so too is ECG's *ad hoc* and unilateral modification of its QRAM procedures. ECG and the other parties accordingly ask the Board to approve this modification on a *nunc pro tunc* basis.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on this issue: none.

The following evidence supports the settlement:

(EB-2001-0790)	
Q2-2-2-1	Annualized Impact of Q2 Adjustment on Fiscal 2002 Revenue Requirement
Q2-3-2-1	Impact on Revenue Requirement
Q2-3-2-3	Impact on Capital and Large Corporation Taxes
(EB-2002-0213)	
Q3-2-2-1	Annualized Impact of Q3 Adjustment Fiscal 2002 on Revenue Requirement
Q3-3-2-1	Impact on Revenue Requirement
Q3-3-2-3	Impact on Capital and Large Corporation Taxes

COST OF CAPITAL

3.1 Establishment of the return on equity for fiscal 2002 using the Board's existing Return On Equity (ROE) Guidelines.
-and-
3.2 ECG's proposal for a review of the ROE Guidelines. <u>NOTE</u>: Issue deferred to a separate phase of the proceeding.

(Complete Settlement)

The following parties participated in the discussion of these issues: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle these issues on the following basis:

- By letter dated August 16, 2001 to the Board, ECG requested the Board to initiate, as soon as possible, a "comprehensive and generic examination" of its *Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities* ("ROE Guidelines") dated March 1997. Some of the other parties responded to ECG's request in their own letters to the Board.

- By letter dated October 5, 2001 to the Board, ECG withdrew its earlier request for a generic proceeding and requested, instead, that the Board hear and decide ECG's proposal for a review of the ROE Guidelines in this proceeding. By letter dated November 16, 2001 to ECG, the Board advised that a review of the ROE Guidelines would follow in a separate phase of this proceeding. Procedural Order No. 1 contains a provision to this effect (para. 2) and so too does the Issues List attached to Procedural Order No. 2 as Appendix "A".

- By letter dated April 10, 2002 to the Board, ECG asked for confirmation that Fiscal 2002 rates, determined in accordance with the Board's decision in this phase of the proceeding, would be interim and would remain so until the Board's decision in the ROE phase of this proceeding. By letter dated April 15, 2002 to ECG, the Board responded that the "retroactive application of any change in ROE resulting from a review of the ROE guidelines is an issue to be determined in the ROE phase of the hearing".

- ECG's responses to interrogatories indicate that, when applying the ROE Guidelines and using the September 2001 spread between the interest rates for 10-year and 30-year Government of Canada bonds, the resultant ROE would be 9.66% for the Test Year. The other parties accordingly propose, and ECG accepts, 9.66% as the allowed ROE for the Test Year, on an interim basis, pending the Board's decision in the ROE phase of this proceeding. ECG and the other parties consider that the use of the September 2001 spread here is consistent with the use of prior information, instead of updates, in the settlement of Issue 6.2 (inputs to the formula for O&M expense at pp. 28-29).

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issues: none.

The following evidence supports the settlement:

A-10-2	Evidence of K.C. McShane
A-10-3	Update to Evidence of K.C. McShane
I-1-15, 16	Board Staff Interrogatories #15, 16
I-8-6, 7	IGUA Interrogatories #6, 7
I-11-6, 57	VECC Interrogatories #6, 57.

3.3 ECG's estimates of the cost of short-term and long-term debt for the 2002 Test Year.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's financing plan for the Test Year was reflected in its initial and updated pre-filed evidence (A-10-1, updated 2002-01-18 and 2002-04-23; M1-2-8, filed 2002-04-18). The following were elements of this financing plan:

  - maintaining an average common equity base of 35% of total capitalization through the use of internal cash flows;

  - raising funds through the following three Medium-Term Note ("MTN") issues:

    - $200 million on September 27, 2001 at an actual effective cost rate of 4.715 %;

    - $100 million on November 1, 2001 at an actual effective cost rate of 3.19 %; and

    - $150 million on February 1, 2002 at an estimated cost rate of 6.725%;

  - increasing ECG's bank facility by $360 million, from $290 million to $650 million, as a result of the requirement of credit rating agencies that companies with an R-1 (low) credit rating must maintain fully committed bank facilities equal to the size of their commercial paper programs; the cost, in the Test Year, of the $650 million bank facility comprises an annual stand-by cost of $521,300 ("Commitment Fee"), payable in quarterly instalments, and a one-time, non-amortizable, upfront fee of $410,000 ("One-Time Fee") paid in December 2001;

  - incurring short-term unfunded debt at a cost rate of 14.77% (M1-2-8) based on ECG's interest rate forecast for 90-day commercial paper, weighted by the short-term borrowing pattern projected for Fiscal 2002, and the annual Commitment Fee and the One-Time Fee, calculated as follows:

$$\frac{[(\text{Weighted Average Cost of Borrowing Short-Term Unfunded Debt} \times \text{Short-Term Debt Component of Rate Base}) + \text{Commitment Fee \& One-Time Fee}]}{\text{Short-Term Debt Component of Rate Base}}$$

$$= \frac{[(2.83\% \times \$7{,}800{,}000) + \$521{,}300 + \$410{,}000]}{\$7{,}800{,}000}$$

$$= 14.77\ \%\text{; and}$$

  - redeeming, at par, $100 million of outstanding preference shares and re-issuing $100 million of new, 5-year fixed-rate preference shares, in July 2002, at an estimated effective cost rate of 5.49% because the re-issuance is unavoidable in order to prevent another downgrade in ECG's credit rating.

- The other parties do not accept, as part of ECG's financing plan, the $150 million MTN issue in the light of ECG's advice that this MTN issue was not made in February 2002, as previously forecast, and may not be made within the Test Year. In these circumstances, ECG agrees to remove the $150 million MTN issue from ECG's financing plan for the Test Year and to increase the short-term debt component of its capital structure by a corresponding amount.

- The other parties do not accept the Commitment Fee and the One Time Fee as a cost of short-term debt but, instead, they agree to the recovery of both fees in ECG's cost of service. ECG will treat the Commitment Fee and the One-Time Fee accordingly. This change will reduce the effective cost rate of ECG's short-term debt from 14.77% to 2.83%.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-10-1	Cost of Capital
E1-1-6	Fiscal 2002 Calculation of Short-term Unfunded Debt
I-4-11	CME Interrogatory #11
I-8-14	IGUA Interrogatory #14
I-11-7, 8, 58, 59	VECC Interrogatories #7, 8, 58, 59
M1-1-1	Impact Statement No. 1
M1-2-4	Ontario Utility Capital Structure, 2002 Test Year
M1-2-9	Alternate Short-Term Debt Cost Rate Treatment.

RATE BASE

4.1 ECG's Capital Budget for the 2002 Test Year.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG proposed a Capital Budget of $271.4 million for the Test Year (A-11-1, B1-2-1). This budget is $21.6 million or 8.6% above the Fiscal 2001 actual expenditure of $249.8

million. Capital expenditure increases in the Capital Budget for the Test Year are driven by higher capital requirements for system improvements and upgrades, computers and communication equipment, and underground storage capital and are partially offset by a decrease in customer related distribution plant.

- Of the $271.4 million in proposed capital spending, $111.8 million is for customer-related capital expenditures, $108.5 million is for system improvements and upgrades, $37.6 million is for general and other plant, and $13.5 million is for underground storage plant. The forecast average capital cost per customer addition is $2,331 based on a forecast of 47,772 customer additions. This forecast compares with an actual average capital cost per customer addition of $2,279 in Fiscal 2001, based on 53,688 actual customer additions.

- Of the $271.4 million in proposed capital spending the Test Year, $27.8 million is for computer and communication equipment expenditure and, of that, $13.0 million is for ECG's proposal to develop a distribution plant work and asset management solution ("DPWAMS") as part of its routine and cyclical information technology expenditures. The portion of ECG's proposed capital budget attributable to DPWAMS is considered separately in Issue 4.2 (DPWAMS at pp. 22-23).

- ECG will reduce the non-DPWAMS portion of its Capital Budget for the Test Year by $13.4 million, from $258.4 million to $245 million, as a means of accommodating the concerns of the other parties about ECG's actual capital expenditures relative to its budget in Fiscal 2001. The consequential effect of this reduction in capital expenditures is a reduction of rate base on a half-year effective average of averages basis of $6.7 million and, based on an interrogatory response (I-8-15), a reduction of $1.3 million (approx.) in ECG's revenue requirement for the Test Year.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-11-1	Capital Budget
A-19-1	Summary of Capital Requisitions Policy
A-20-1	Schedule of Depreciation Rates
B1-1-1	Utility Rate Base – Comparison of 2002 to 2001
B1-2-1	Comparison of Utility Capital Expenditures, 2002 Budget and 2001 Actual
B1-2-2	2002 Capital Expenditures by Project (Projects Exceeding $500,000)
B1-2-3	Gross Customer Additions and Average Cost per Customer Addition, 2002 Budget and 2001 Actual

B1-2-4	System Expansion Monitoring, 2002 Budget
B1-2-5	2002 Forecast of New Major Projects Exceeding $500,000 Discounted Cash Flow Analysis and Net Present Value Results
B2-2-1	Comparison of Utility Capital Expenditures, 2001 Actual and 2001 OEB Approved
B2-2-2	2001 Capital Expenditures by Project (Projects Exceeding $500,000),
B2-2-3	Gross Customer Additions and Average Cost per Customer Addition, 2001Actual and 2001 OEB Approved
B2-2-4	System Expansion Monitoring, 2001 Actual
B2-2-5	Net Book Value of Property, Plant & Equipment Being Transferred to Affiliates as of October 1, 2000
B2-2-7	2001 New Major Projects Exceeding $500,000
B3-2-1	Comparison of Utility Capital Expenditures, 2000 Actual and 2000 OEB Approved
B3-2-2	2000 Capital Expenditures by Project (Projects Exceeding $500,000), 2000 Actual and 2000 OEB Approved
B3-2-3	Gross Customer Additions and Average Cost per Customer Addition, 2000 Actual and 2000 OEB Approved
B3-2-4	System Expansion Monitoring, 2000 Actual
B3-2-5	Net Book Value of Property, Plant and Equipment Being Transferred to an Affiliate or Separated from the Utility at October 1, 1999
B3-2-7	2000 Actual Results of New Major Projects Exceeding $500,000 Discounted Cash Flow Analysis and Net Present Value Results
B3-2-8	Summary of EBLO/PL Capital Costs, Attachments, and Volumes - Budget vs. Actual as at December 31, 2000
I-1-17 to 21, 29 to 31, 33	Board Staff Interrogatories #17 to 21, 29 to 31, 33
I-2-2, 9 to 15, 47, 59 to 62	CAC Interrogatories #2, 9 to 15, 47, 59 to 62
I-4-12, 17	CME Interrogatories #12, 17
I-8-15, 16	IGUA Interrogatories #15, 16
I-11-9 to 12, 33	VECC Interrogatories #9 to 12, 33
M1-1-1	Impact Statement No. 1
M1-2-2	Ontario Utility Rate Base, 2002 Test Year.

4.2 ECG's Distribution Plant Work and Asset Management Solution (DPWAMS) information technology project.

(No Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

ECG and the other parties are unable to reach an agreement to settle this issue. ECG is prepared to respond to interrogatories from the other parties. ECG will use its best efforts to file responses to these interrogatories prior to the commencement of the Board's oral hearing.

The following evidence is relevant to this issue:

A-11-1	Capital Budget
A-11-2	IT Capital Budget

I-1-22 to 28	Board Staff Interrogatories #22 to 28
I-2-16 to 19, 96 to 111	CAC Interrogatories #16 to 19, 96 to 111
I-4-13, 80 to 89	CME Interrogatories #13, 80 to 89
I-7-1 to 8	HVAC Interrogatories #1 to 8
I-8-46 to 50	IGUA Interrogatories #46 to 50
I-10-1 to 13	Schools Interrogatories #1 to 13
I-11-13, 78 to 89	VECC Interrogatories #13, 78 to 89.

ASSET SHARING ARRANGEMENTS AND AFFILIATE SERVICES

5.1 ECG's disposition of previously shared assets since October 1, 2000.
-and-
5.2 ECG's sharing of utility-owned assets with affiliates: methodology and non-O&M cost consequences, including the independent consultant's assessment report (*per* Issue 5.1 of the RP-2000-0040 Settlement Proposal).

(Complete Settlement)

The following parties participate in the discussion of this issue: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- Issue 5.1 is no longer an issue because there has been no disposition of assets that were previously shared with ECG’s affiliates since October 1, 2000.

- With respect to utility-owned assets that are shared with affiliates in the Test Year, ECG proposes to follow the rate base elimination approach that was used in the agreement to settle Issues 5.1, 5.2, and 5.3 in the RP-2000-0040 Settlement Proposal. Under this approach, the forecast lease revenue to be collected from affiliates for the Test Year is eliminated as a revenue item and the value of the shared assets are eliminated from rate base. ECG's affiliates in this context are Enbridge Inc., Enbridge Commercial Services Inc., Enbridge Services Inc., and CustomerWorks Limited Partnership.

- In the agreement to settle Issue 5.1 in the RP-2000-0040 Settlement Proposal, ECG agreed to retain an independent consultant to assess and report on the basis for allocating rate base asset values to affiliates, and the accuracy of the allocated asset values, for Fiscal 2002. ECG retained CB Richard Ellis and filed its report (A-16-3) in this proceeding.

- The primary area of concern of CB Richard Ellis was with the rate base allocation methodology for non-building assets, which includes computer infrastructure, communication infrastructure, and office furniture. CB Richard Ellis recommended that ECG quantify each of these asset categories and adopt an allocation methodology as follows: computer infrastructure, based on the number of computer workstations – 48.9%; communication infrastructure, based on the number of handsets – 42.3%; and office furniture, based on the number of office workstations – 49%. ECG updated its evidence to reflect the rate base allocation methodology recommended by CB Richard

Ellis for non-building asset categories. The update resulted in an increase of $2.0 million in the rate base non-utility elimination and, based on an interrogatory response (I-2-53), a reduction of $0.5 million (approx.) in ECG's revenue requirement for the Test Year.

- In its pre-filed evidence (A-16-1), ECG initially proposed a rate base non-utility elimination of $37.8 million. This amount was subsequently increased to $40.2 million, an increase of $2.4 million. Of this amount, $0.4 million was due to the impact of Fiscal 2001 actuals on rate base and $2.0 million was a result of ECG's acceptance of the recommendations of CB Richard Ellis, as described above.

- The following is a breakdown of the $40.2 million of rate base value attributable to non-utility activities in the Test Year:

Type of Asset	Rate Base Value	Allocation Factor	Non-Utility Allocation %	Portion Attributable to Non-utility Activities
Server Infrastructure	$ 0.0	Server Capacity Utilization	0.0%	$ 0.0
Computer Infrastructure	$ 1.1	Number of Computer Workstations	48.9%	$ 0.5
Communications Infrastructure	$ 8.7	Number of Handsets	42.3%	$ 3.7
Buildings	$ 74.1	Space (ft^2)	40.8%	$ 30.3
Office Furniture	$ 9.9	Number of Office Workstations	49.0%	$ 4.9
NGV Refueling Facilities	$ 1.6	NBV of Identified Sites	52.1%	$ 0.8
Total	$ 95.4			$ 40.2

- The other parties are concerned that ECG has underforecast the rate base non-utility elimination in respect of affiliate leases of office space from ECG. In particular, the other parties claim that the rate base value of the 28,539 $ft.^2$ of building space relinquished by an affiliate on March 31, 2002 should not be added back to rate base for the balance of the Test Year.

- ECG agrees to eliminate an estimated rate base value, for the Test Year, of $2.6 million associated with the 28, 539 $ft.^2$ of vacated building space. The estimated impact on the 2002 revenue requirement of treating the vacated space as non-utility is $0.5 million (I-8-33).

- The other parties are satisfied with ECG's response to the recommendations of CB Richard Ellis as contained in its report (A-16-3).

The following parties agree with the settlement: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-16-1	Asset Sharing Arrangements
A-16-3	Review and Analysis of the Allocation of Rate Base Asset Values to Affiliates
I-1-34 to 36, 79	Board Staff Interrogatories #34 to 36, 79
I-2-53 to 55	CAC Interrogatory #53 to 55
I-4-14, 35	CME Interrogatories #14, 35
I-8-32 to 34, 45	IGUA Interrogatories #32 to 34, 45
I-11-34 to 36, 74, 75	VECC Interrogatories #34 to 36, 74, 75.

5.3 ECG's affiliate services arrangements, including the implications of outsourcing Gas Services and Operational Services, as defined in Exhibit A, Tab 14, Schedule 3, to affiliates and their personnel located in Alberta.

(No Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CEED, CAC, HVAC, IGUA, Schools, and VECC.

ECG and the other parties are unable to reach an agreement to settle this issue. The following delineates, from their perspective, the scope of the dispute over the issue.

Enbridge Operational Services Inc. ("EOS") provides the following services to ECG under an outsourcing arrangement effective October 1, 2000: Gas Control, Nominations and Scheduling, and Reconciliations (A-14-3, I-3-54). EOS is an affiliate of ECG.

Enbridge Inc. ("EI") provides the following services to ECG under an outsourcing arrangement effective August 1, 2001: Gas Supply Planning, Gas Supply Acquisition, Risk Management, Contract Management, Transactional Services, and Regulatory Support (A-14-3, I-3-44). EI is an affiliate and the ultimate parent of ECG.

Notwithstanding ECG's outsourcing arrangements with EI, however, EI is entitled to engage in the following businesses as a principal for its own account: gas acquisition, gas sales, gas supply management, and gas storage. EI is not entitled, on the other hand, to act as a principal for its own account when providing Gas Supply Acquisition and Transactional Services to ECG until protocols are in place for the disclosure to, and approval by, ECG of any transaction in which EI would be ECG's counterparty. ECG claims that these services are the only two in which EI could have a conflict of interest: buying gas for ECG as ECG's agent from itself as a principal, for example, or selling a Transactional Service for ECG as ECG's agent to itself as a principal.

Some of the other parties claim that EI has a conflict of interest when EI is engaged in transactions of its own regardless of whether ECG is EI's counterparty. These parties claim that EI is in a position to prefer its own commercial interests over ECG's interests, in terms of Transactional Services, and to use its access to utility assets and information to compete against other participants in the gas trading and sales business.

ECG, EI, and EOS are working on amendments of the two outsourcing arrangements in order to harmonize them. The amendments will provide for the sharing of ECG's information by EOS and EI so that they each have the information, from one another as well as ECG, that they each need to provide their respective services to ECG (I-3-55).

The policy aspect of this issue can be stated in the form of two questions. Should the Board restrict or otherwise condition ECG's outsourcing of utility functions by including terms and conditions to this effect in its rate order? And, if so, what terms and conditions would be appropriate?

Some of the other parties believe that contractual provisions are not capable of adequately addressing their concerns about the outsourcing arrangements and, therefore, they believe that a Board order is necessary to impose appropriate terms and conditions to prevent conflicts of interest and other harm to customers. These parties note that, unlike a Board order, the contractual provisions and protocols (when made) comprising ECG's outsourcing arrangements may be amended at any time by ECG and its affiliates (or their assigns) and, in addition, no other person can enforce compliance with the contractual provisions or protocols.

Some of the other parties also consider that the protocols contemplated by ECG's outsourcing arrangement with EI do not address their concerns about this arrangement for two reasons. One is that the protocols would apply only to transactions in which ECG and EI are counterparties and, as a result, the protocols do not even address the other types of conflict of interest that these parties see arising from this outsourcing arrangement. The other reason is that the protocols are not yet available for review, according to ECG, and so these parties can only speculate at this point on whether the protocols would address their concerns about transactions in which ECG and EI are counterparties.

Some of the other parties have concerns about the broader implications of the outsourcing of utility functions to an affiliate or otherwise. There is a concern, in ECG's case, that ECG is outsourcing utility functions in advance of rebasing its revenue requirement for an Incentive

Regulation Plan. There is also a concern that the Board may lose regulatory oversight of utility functions when a utility no longer performs them.

ECG does not see a need for the Board to restrict or otherwise condition ECG's ability to outsource utility functions to affiliates, by acquiring services from them, because the outsourcing arrangements do or will contain provisions or protocols, as the case may be, that prevent the only conflicts of interest that ECG sees arising from the outsourcing arrangements. ECG does not think access to utility information of the type given by ECG to EI and EOS, or by them to one another, could impair competition in the sale of gas or otherwise even if either affiliate were active in Ontario markets. ECG accordingly does not consider regulatory oversight of an outsourcing arrangement, other than the cost consequences, is either necessary or practical.

The jurisdictional aspects of this issue involve the Board's power under the *Ontario Energy Board Act, 1998* to restrict or otherwise condition a utility's outsourcing arrangements. ECG and the other parties do not consider it useful to delineate the scope of the jurisdictional aspects prior to examining the issue during the Board's oral hearing.

The following evidence is relevant to this issue:

A-14-3	Gas and Operational Services
A-16-2	Affiliate Services
I-1-2, 11, 37 to 40	Board Staff Interrogatories #2, 11, 37 to 40
I-3-35 to 55, 81 to 84, 88	CEED Interrogatories #35 to 55, 81 to 84, 88
I-4-31	CME Interrogatory #31
I-8-23, 26 to 29	IGUA Interrogatories #23, 26 to 29
I-9-2	OAPPA Interrogatory #2
I-11-22, 33	VECC Interrogatories #22, 33.

PBR O&M

6.1 Review of the specific results of the Company's Service Quality Indicators for fiscal year 2001 (*per* Board direction, Para. 3.0.22, E.B.R.O. 497-01).

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The specific results of ECG's Service Quality Indicators ("SQIs") for Fiscal 2001 are accepted by the other parties, for the reasons given in the supporting evidence, and there is accordingly no need for the Board to take remedial action in this regard.

- There are no proposed changes in the targets for ECG's SQIs during the Test Year.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-26-1	Service Quality Indicators
A-26-2	Performance Measures - Service Quality Indicators
I-1-41	Board Staff Interrogatory #41
I-4-33	CME Interrogatory #33.

6.2 ECG's proposed inputs to the formula for the derivation of the 2002 Test Year O&M expense, including a review of the 2002 consensus forecast of inflation.
(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's proposed customer growth and inflation factors, respectively, are 3.03% and 2.2%. The forecast customer growth factor is based upon an increase of 46,433 in the average number of bills based on forecast customer additions of 47,772. The inflation factor was derived from a consensus forecast of the Ontario consumer price index that was prepared in December 2001; the forecasters are those approved by the Board in the EBRO 497-01 proceeding.

- ECG’s proposed customer growth factor of 3.03% for the Test Year is accepted by the other parties, without regard to the higher actual customer growth through March 2002, and ECG’s O&M expenses for the Test Year will be calculated accordingly.

- ECG’s proposed inflation factor of 2.2% for the Test Year is also accepted by the other parties, without regard to the lower March 2002 consensus forecast of the Ontario consumer price index, and ECG’s O&M expenses for the Test Year will be calculated accordingly.

- ECG and the other parties did not use updated information for these two factors because one update tends to offset the other and, in any event, they consider that the use of prior information here is consistent with the use of September 2001 information in the settlement of Issues 3.1 and 3.2 (ROE at pp.17-18).

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-9-1	PBR O&M
A-9-2	Rate Hearing Expense Z-factor
D1-1-1	Cost of Service, 2002 Test Year
D1-1-2	Cost of Service, Comparison of Utility Cost and Expenses, 2002 Budget and 2001 Actual
D2-1-1	Cost of Service, 2001 Actual
D2-1-2	Cost of Service, Comparison of Utility Costs and Expenses, 2001 Actual and 2000 Actual
D2-1-3	Cost of Service, Comparison of Utility Costs and Expenses, 2001 Actual and 2001 OEB Approved
D3-1-1	Cost of Service, 2000 Historical
D3-1-2	Cost of Service, Comparison of Utility Costs and Expenses, 2000 Actual and 2000 OEB Approved
I-1-42, 43	Board Staff Interrogatories #42, 43
I-2-46	CAC Interrogatory #46
I-4-18, 19, 21, 32	CME Interrogatories #18, 19, 21, 32
I-8-10 to 12	IGUA Interrogatories #10 to 12.

6.3 Symmetry in ECG's budgeting for Z-factors (*per* Issue 6.4 of the RP-2000-0040 Settlement Proposal).

(Complete Conditional Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The settlement of Issue 6.4 in the RP-2000-0040 Settlement Proposal included ECG's undertaking to give management a directive, in its budget letters, to be alert for savings as well as costs in the budgeting process for Z-factors. Management's response to the directive is subject to examination in this proceeding.

- ECG's budget letter for the Test Year, which also included Fiscal 2003, contains the following directive as the means of discharging ECG's undertaking (A-5-1, p. 4):

> It is important to note that z-factors can be either a significant increase or decrease to your operating budget. Z-factors can arise from federal and provincial tax changes, accounting changes, regulatory requirements or orders, environmental exposure, decommissioning costs, hazardous waste clean-up or other specific liabilities or

> catastrophic events. All identified z-factors will be discussed at your business unit budget review meeting.

- The other parties concur that ECG has discharged its undertaking for the Test Year subject, however, to the condition that ECG undertakes to give its management a similar directive whenever a budget would include Z-factors. ECG undertakes to do so.

- The settlement of Issue 6.4 in the RP-2000-0040 Settlement Proposal also articulated a principle, to which ECG and the other parties subscribed, that "no party should benefit at the expense of the others on the amount of the Board's costs allocated and billed to ECG" by the Ministry of Energy, Science and Technology ("MEST"). ECG accordingly undertook to develop, for examination in this proceeding, " a mechanism whereby ECG would recover only the Board's costs that are allocated and billed by MEST to ECG."

- ECG developed such a mechanism as an integral part of the Z-factor for rate hearing expense (A-9-2). ECG's mechanism is accepted by the other parties, for the reasons given in the supporting evidence, and ECG has accordingly discharged its undertaking.

The following parties agree with the settlement: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-5-1	Budget Letter
I-2-1, 44	CAC Interrogatories #1, 44.

TRANSACTIONAL SERVICES

7.1 ECG's forecast of Net Revenue for Transactional Services for the 2002 Test Year.
(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, TCPL, and VECC.

- ECG's pre-filed evidence (A-13-1) forecasts a Gross Margin of $10.010 million and marginal O&M costs of $0.783 million. ECG's update (December 14, 2001) forecasts the same Gross Margin but lower marginal O&M costs of $0.656 million.

- ECG claims that billed and signed business is $8.8 million, for the first six months of the Test Year, and forecast business is an additional $0.4 million by the end of the Test Year. ECG claims that total business, then, will be $9.2 million for the Test Year.

- ECG's historical performance, on the other hand, indicates to the other parties that ECG will achieve better-than-forecast results. In Fiscal 2001, for example, the following were the forecast (as settled) and the actual results ($ million):

	forecast	actual
Gross Margin	$10.700	$14.112
Marginal O&M	0.638	0.504
Net Revenue	$10.062	$13.068

- ECG claims that the Test Year will more likely be closer to forecast than last year's actual value and, as well, that the marginal O&M costs for the Test Year will more likely be closer to forecast than last year's actual value, having regard to the reasons for the Fiscal 2001 results (I-4-26). The other parties are skeptical because, based on historical performance, the Test Year results could be considerably higher than forecast. The sharing ratio of 75:25 (customer: shareholder) for the clearance of a credit balance in the Transactional Services Deferral Account for the Test Year ("2002 TSDA"), in this event, would operate to ECG's benefit.

- The other parties would accordingly prefer a higher Gross Margin and lower marginal O&M costs so that, for rate-making purposes, there would be a higher Net Revenue subject to the sharing ratio of 90:10 (customer: shareholder). In response to these concerns, ECG proposed a sharing ratio of 90:10 for the clearance of a credit balance in the 2002 TSDA for the Test Year. ECG also accepted lower marginal O&M costs of $0.550 million as proposed by the other parties.

- ECG and the other parties accordingly agree on the following forecasts for the Test Year:
    - Gross Margin $10.010 million
    - Marginal O&M expense 0.550 million
    - Net Revenue $ 9.466 million

- ECG and the other parties also agree on the following sharing ratios for the Test Year:
    - 90:10 (customer: shareholder) to allocate, for rate-making purposes, the forecast Net Revenue;
    - 90:10 (customer: shareholder) to clear a credit balance in the 2002 TSDA; and
    - 0:100 (customer: shareholder) to clear a debit balance in the 2002 TSDA.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: TCPL.

The following evidence supports the settlement:

A-12-1	Deferral and Variance Accounts
A-13-1	Transactional Services
I-2-21 to 23	CAC Interrogatories #21 to 23
I-3-1 to 26, 28 to 34, 76 to 80, 85	CEED Interrogatories #1 to 26, 28 to 34, 76 to 80, 85
I-4-26, 27	CME Interrogatories #26, 27
I-8-20 to 22	IGUA Interrogatories #20 to 22
I-11-19, 62	VECC Interrogatories #19, 62.

DEMAND SIDE MANAGEMENT (DSM)

8.1 ECG's DSM Plan for the 2002 Test Year, including the O&M budget, the volume target and the level of the proposed Shared Savings Mechanism (SSM) incentive rate.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, GEC, IGUA, Pollution Probe, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's pre-filed evidence on the DSM Plan for the Test Year (A-15-1) included an operations and maintenance budget ("Budget") of $13.5 million, as a Z-factor, and a forecast of gas savings ("Savings Target") of 80 $10^6 m^3$. ECG subsequently updated its evidence (2001-12-07) by reducing the Budget from $13.5 million to $13.03 million. This amount was based on a new Savings Target of 100 $10^6 m^3$. The manner in which the revised Budget was derived differed from previous years. Previously, Budget was established by estimating the level of expenditure required to meet ECG's Savings Target. For the Test Year, however, the Budget was derived on the basis of the Savings Target by setting: (i) the fixed costs component at the level of the actual fixed costs for Fiscal 2001 (i.e., $4.07 million); and (ii) setting the variable costs at the ratio of Fiscal 2001 actual variable costs to the actual gas savings achieved in Fiscal 2001 (i.e., $0.09/$m^3$ on a Savings Target of 100 $10^6 m^3$ or $9.0 million).

- Subsequently, ECG reduced the Savings Target from 100 $10^6 m^3$ to 96.30 $10^6 m^3$ to reflect the removal of the filter alarm measures from the residential DSM programs. The decision to remove the filter alarm measures was made in response to the concerns of some parties that these measures resulted in few savings and were, accordingly, not cost-effective. Indeed, Union Gas Limited intends to discontinue the promotion of furnace filter alarms, as part of its DSM programs, for this very reason.

- ECG's original pre-filed evidence (A-15-1), filed on 2001-09-25, assumed a continuation of the Shared Savings Incentive Mechanism ("SSM") that was accepted by the Board in the EBRO 497-01 proceeding. Under the SSM, an incentive for exceeding the target for gas savings is calculated in accordance with the following formula:

    - Incentive=0.35 x eligible amount

      Where:

    - the value of the eligible amount is equal to the difference between the value of the actual net benefits and the value of the pivot point for the fiscal year;

    - the value of the actual net benefits for the fiscal year is equal to the net present value of resource benefits based on the Total Resource Cost ("TRC") Test using the Company's actual performance for the fiscal year; and

    - the value of the pivot point for the fiscal year is equal to the net present value of resource benefits, based on the TRC Test, using ECG's DSM plan and budget, approved in a rates case proceeding, for each fiscal year.

- In its 2001-12-07 update, ECG proposed a reduction in the marginal incentive rate of 0.15, from 0.35 to 0.20, of the net benefits calculated in accordance with the TRC Test. The reduction would only apply to the Test Year.

- The other parties support ECG's proposed reduction of the marginal incentive rate under the SSM to 0.20, for the Test Year only, but they do not accept ECG's proposed Budget and Savings Target. Some of them are concerned with the level of the Budget and the manner in which it was established. Others are concerned that the Savings Target is not high enough. These competing concerns have resulted in the following agreement as a compromise: a Budget of $10.85 million, comprising $4.00 million in fixed costs and $6.85 million in variable costs, and a Savings Target of 94 10^6m^3.

- ECG and the other parties agree that ECG's DSM Plan for the Test Year shall be as described in ECG's updated pre-filed evidence (A-15-1, updated 2001-12-07), as amended to: (i) reflect the removal of the filter alarm measures from the residential DSM programs and the agreement on the Budget and Savings Target, as described above; and (ii) the following four changes to programs in the residential and business market sectors, which changes are made in response to the findings of the Independent Auditor in respect of ECG's DSM Monitoring and Evaluation Report for Fiscal 2000 (A-15-4):

- **residential**: inclusion of a $10.0 unit installation charge in respect of showerheads delivered through the water utilities; no impact on the Budget and Savings Target;
- **residential**: inclusion of a $50 unit charge in respect of construction heaters; no impact on the Budget and Savings Target;
- **business markets**: removal of the volumetric savings attributable to electricity and water savings, from the savings target of the commercial education program; no impact on the Budget and Savings Target; and
- **business markets**: use of the specific avoided cost "load types" for the commercial and multi-residential programs (e.g., combined space heating and water heating, water heater, and space heating); no impact on the Budget and Savings Target.

- The other parties agree that ECG will not be required to change any other program elements or assumptions underpinning its 2002 DSM Plan, absent a corresponding change in the Budget or the Savings Target, or both, if applicable.

The following parties agree with the settlement: ECG, CME, CAC, GEC, IGUA, Pollution Probe, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-15-1	Demand Side Management
A-15-3	Avoided Gas Costs
A-15-5	Fiscal 2002 DSM Monitoring and Evaluation Plan
I-1-44 to 60	Board Staff Interrogatories #44 to 60
I-4-22 to 25, 36 to 79	CME Interrogatories #22 to 25, 36 to 79
I-6-1 to-6	GEC Interrogatories #1 to 6
I-8-31	IGUA Interrogatory #31
L-6-1	Evidence of Chris Neme for GEC.

8.2 Scope of the Demand Side Management Variance Account-Operating (*per* Issue 8.1 of the RP-2000-0040 Settlement Proposal).

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, GEC, IGUA, Pollution Probe, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The other parties agree with ECG's proposal to limit the use of the 2002 DSMVA to recording differences between forecast and actual variable costs only, up to 20% of the forecast variable costs. ECG and the other parties also agree that overages in variable costs should be subject to recovery through the Demand Side Management Variance Account-Operating for the Test Year ("2002 DSMVA"), if and when ECG achieves more than 89 $10^6 m^3$ of DSM-related volumetric savings up to the usual cap of 20% of the variable component of the agreed Budget; that is, 20% of $6.85 million or $1.37 million. ECG will require prior Board authorization to accumulate, in the 2002 DSMVA, amounts in excess of $1.37 million. Put another way, the parties agree that the volumetric target, for the purpose of the commencement of recording all differences between forecast and actual variable costs (the “DSMVA Savings Target”), will be different than the volumetric Savings Target used for the purpose of calculating the incentive available under the SSM; that is, 89.0 $10^6 m^3$ vs. 94.0 $10^6 m^3$.

- For further clarity, the parties also agree that overages in variable costs will be subject to recovery through the DSMVA, up to the 20% cap, on the basis of the ratio of the variable cost component of the Budget ($6.85 million) to the DSMVA Savings Target (89 $10^6 m^3$); that is, $0.077/$m^3$.

The following parties agree with the settlement: ECG, CME, CAC, GEC, IGUA, Pollution Probe, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-15-1 Demand Side Management
A-15-3 Avoided Gas Costs
A-15-5 Fiscal 2002 DSM Monitoring and Evaluation Plan
I-1-44 to 46, 48 to 54, 56 to 60
Board Staff Interrogatories #44 to 46, 48 to 54, 56 to 60
I-4-22 to 24, 36 to 79
CME Interrogatories #22 to 24, 36 to 79

I-6-1 to 6	GEC Interrogatories #1 to 6
I-8-31	IGUA Interrogatory #31
L-6-1	Evidence of Chris Neme for GEC.

8.3 Clearance of balances recorded in the 2000 Shared Savings Mechanism Variance Account (2000 SSMVA) and the 2000 Lost Revenue Adjustment Mechanism (2000 LRAM) (*per* Issue 8.3 and 11.1 of the RP-2000-0040 Settlement Proposal).

(Complete Conditional Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, GEC, HVAC, IGUA, Pollution Probe, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The EBRO 497-01 Settlement Proposal established the monitoring and reporting requirements for ECG's annual DSM Plan. The RP-1999-0001 Settlement Proposal modified these requirements in order to implement an independent evaluation, verification, and audit ("Independent Audit") of ECG's DSM Plan, including the amount initially claimed by ECG for the Shared Savings Mechanism Variance Account ("SSMVA"). In the RP-2000-0040 Settlement Proposal (*per* Issues 8.3 and 11.1), ECG accepted the proposal of other parties to synchronize the clearance of the Lost Revenue Adjustment Mechanism for Fiscal 2000 ("2000 LRAM") with the clearance of the SSMVA for Fiscal 2000 ("2000 SSMVA").

- ECG's Monitoring and Evaluation Report for Fiscal 2000(A-15-4) was first made available to the Audit Subcommittee of the DSM Consultative on December 27, 2001, some eight months after ECG first promised intervenors it would be available. After a preliminary review of the Draft Audit Report prepared by the Independent Auditor and of the Interim Reconcilliation Report prepared by Kai Millyard Associates, it was determined that there were serious data omissions and errors, as well as questions with respect to assumptions. As a result, ECG is unable to file its audited SSM claim for Fiscal 2000 until a later date. Resolution of these issues may have a material impact on the amounts, positive or negative, that are ultimately recorded in the 2000 SSMVA and the 2000 LRAM. It has not been possible for ECG and the other parties to resolve these issues in time to agree, for the purpose of this Settlement Proposal, on the amounts that are to be cleared from the 2000 SSMVA and the 2000 LRAM.

- In order to permit the issues to be resolved and the Independent Auditor to complete its work, ECG and the other parties agree to defer the disposition of this issue. The other parties further agree to work with ECG to complete the tasks that are prescribed in Appendix A, by the dates therein specified. The Independent Auditor shall finalize the Independent Audit and issue a Final Audit Report, in accordance with the instructions of the Audit Subcommittee.

- Where there is no consensus among the members of the DSM Audit Subcommittee regarding the assumptions and the data inputs that should be used in calculating the recommended SSM claim, the Independent Auditor will be instructed, by the Audit Subcommittee, to: (i) include, in the Final Audit Report, the sensitivity of results arising from the use of alternative assumptions and data inputs; and (ii) recommend, where possible, the assumptions and data inputs that should be used to calculate the SSM claim.

- The Final Audit Report will be circulated to ECG and the other parties in the week of June 24, 2002, in accordance with Appendix A. ECG will finalize the amounts to be recorded in the 2000 SSMVA and the 2000 LRAM by July 31, 2002 in accordance with Appendix A (pp. 51-53). A settlement conference for this issue will be convened following the delivery of the position papers by the other parties. Resolved and unresolved issues will be presented to the Board in the proceeding established to examine ECG's rates application for Fiscal 2003, or earlier, if the schedule permits.

- If there is no consensus among members of the Audit Subcommittee on the recommendations to be made to ECG and the other parties in respect of the Final Audit Report, then Tasks 8 and 9 in Appendix A will be foregone and ECG will bring forward its revised SSM claim for consideration by the other parties in the settlement conference.

- ECG and the other parties agree that the DSM Consultative will consider, in the context of considering ECG's DSM Monitoring and Evaluation Report for Fiscal 2001, the necessity, feasibility, and advisability of broadening the Independent Auditor's mandate and terms of reference to include a "value for money audit". Appendix B (pp. 54-56) is a general description, which was prepared by one of the other parties (at the request of some of the other parties who are not familiar with the concept), of what could be involved in a value for money audit. ECG and the other parties confirm that there is no agreement, at this time, on the value for money audit issues. If consensus on these issues cannot be reached by the DSM Consultative, any party may bring the issue before the Board for resolution.

The following parties agree with the settlement: ECG, CME, CAC, GEC, HVAC (value for money audit only), IGUA, Pollution Probe, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-15-1	Demand Side Management
A-15-4	2000 DSM Monitoring and Evaluation Report
I-1-47, 50, 55	Board Staff Interrogatories #47, 50, 55

I-4-25	CME Interrogatory # 25
I-8-31	IGUA Interrogatory #31
L-6-1	Evidence of Chris Neme for GEC.

CUSTOMER INFORMATION SYSTEM (CIS)

9.1 Appropriateness of CIS as a Z-factor in the 2002 Test Year.
- and-
9.2 ECG's proposed CIS Z-factor in the 2002 Test Year.

(Complete Conditional Settlement)

The following parties participated in the discussion of these issues: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

There is an agreement to settle these issues on the following basis:

- ECG proposed a CIS Z-factor of $8.604 million (A-18-1) to recover fees that are payable by ECG for CIS services, adjusted for related offsetting credits, during the Test Year. ECG's pre-filed evidence on CIS (A-18-1) and responses to certain interrogatories (e.g., I-1-61) explain the rationale for treating CIS as a Z-factor in the Test Year. This evidence also explains that one of the offsetting credits is designed to negate CIS-related costs that are embedded in the O&M Base under ECG's Targeted Performance Based Regulation ("TPBR") Plan.

- ECG also filed the report on CIS prepared by MICON Inc. in November 2000 (A-18-2); this report was previously filed in the RP-2000-0040 proceeding. The MICON report provides a detailed assessment of the functional capabilities and value of ECG's CIS service arrangement relative to other comparable hosted CIS service arrangements employed by energy distribution utilities. The report indicates that "the service level targets and associated cost of service that ECG is paying for the CIS solution are reasonable and competitive".

- The other parties do not accept ECG's proposal to recover the cost consequences of CIS service for the Test Year, as an O&M expense under the TPBR Plan, by means of a Z-Factor. They do recognize, however, that the CIS service provided to ECG has ongoing value to ECG in providing service to customers.

- ECG is prepared to withdraw the CIS Z-factor for the Test Year, in the light of the other settlements in the "package", notwithstanding that ECG will continue to pay for the CIS services received during the Test Year.

- The settlement of this issue is subject to the following condition: the cost consequences associated with all aspects of customer care, including the cost of supporting customer information systems, will be examined for the purpose of setting ECG's cost of service for Fiscal 2003 that, in turn, will be the base under ECG's forthcoming proposal for an Incentive Regulation Plan.

The following parties agree with the settlement: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-18-1	Customer Information System
A-18-2	Evidence of S.S. Dick
I-1-61 to 64	Board Staff Interrogatories #61 to 64
I-4-20	CME Interrogatory #20
I-8-36 to 38	IGUA Interrogatories #36 to 38
I-11-38, 39	VECC Interrogatories #38, 39.

DEFERRED TAXES

10.1 ECG's proposal to establish a Deferred Income Tax Deferral Account to recover $50 million in deferred taxes through to 2010.

- and -

10.2 ECG's proposal to record in the account $10 million (after tax) in deferred taxes in the 2002 Test Year.

- and -

10.3 ECG's proposed pre-conditions for clearing the account.

(No Settlement)

The following parties participated in the discussion of these issues: ECG, CME, CAC, HVAC, IGUA, Schools, and VECC.

ECG and the other parties are unable to reach an agreement to settle these issues. The following delineates, from their perspective, the scope of the dispute over the issues and, as well, a procedural framework to examine the issues.

ECG claims that its proposals are based on the notional utility account that the Board established in its E.B.O. 179-14/15 Decision with Reasons (March 31, 1999).The amount of the notional utility account is $50 million and, therefore, ECG proposed to establish a Deferred Income Tax Deferral Account ("DITDA") to recover the entire $50 million over 10 years. ECG also proposed to record $10 million for Fiscal 2000 and 2001 combined in the DITDA, in this proceeding, for subsequent recovery in accordance with proposed pre-conditions for clearing the DITDA. ECG claims that current cash taxes payable for these years exceed $10 million (A-17-1).

The other parties claim that ECG has not satisfied the conditions established by the Board for a draw down of the notional utility account, for either Fiscal 2000 or Fiscal 2001, and that events subsequent to the Board's decision raise the issue of whether ECG can draw down any amount of the notional utility account for recovery from customers. One of the subsequent events is the recent sale of the shares of Enbridge Services Inc. (“ESI”) by Enbridge Consumers Energy Inc. (“ECE”) to an affiliate of Centrica plc. ESI is the corporation to which ECG transferred its rental business on October 1, 1999 and one of ESI's subsidiaries, 3696669 Canada Inc. ("Enbridge Canada"), is the corporation to which ESI transferred ECG's former rental business on December 23, 1999 (A-17-1). The other parties claim that ESI and Enbridge Canada together expanded ECG's former rental business after October 1, 1999 rather than winding it down.

The other parties contend that they require tax and accounting information from ESI and Enbridge Canada, among other things, and also a copy of the agreement(s) whereby Enbridge Inc. (“EI”) and ECE effectively sold ESI’s rental business to an affiliate of Centrica plc by selling the shares of ESI. The other parties have requested ECG to provide this information in order to obtain and file information to support their opposition to ECG's proposals. ECG did not provide the requested information, however, because ECG's affiliates declined to make it available to ECG and, in any event, ECG is not a party to the agreement(s) with Centrica plc. (I-1-79, I-8-43). The other parties contend that they and the Board require this information in order to properly examine these issues.

ECG and the other parties agree that these issues should not be examined in the first phase of this proceeding, or in the subsequent ROE phase, but rather in a separate phase or in a new proceeding established for the purpose of examining these issues. ECG and other parties note in this regard that, even if approved, ECG’s proposal would not affect ECG’s revenue requirement and thus rates for the Test Year. The other parties also note that, prior to the Board examining these issues, there will be a number of procedural matters that must be resolved, including the following, and that the resolution of these matters may give rise to related issues:

- a motion by one or more of the other parties seeking disclosure of all relevant information from ESI and its subsidiary as the corporations that owned, operated, and expanded ECG’s former rental business after October 1, 1999; and

- a motion by one or more of the other parties seeking disclosure from the corporations that are party to the agreement(s) related to the sale of the shares of ESI to an affiliate of Centrica plc.

Two of these corporations - - ESI and Enbridge Canada -- are no longer affiliates of ECG as a result of the closing of the share transaction on May 7, 2002. Two others -- ECE and EI - - are still affiliates of ECG.

ECG and the other parties accordingly request the Board to establish a separate phase of this proceeding or a separate proceeding by issuing a procedural order to this effect. ECG and the other parties are not seeking such an order now but, rather, the Board's confirmation that it will issue such an order in due course.

The following evidence is relevant to these issues:

A-12-1	Deferral and Variance Accounts
A-17-1	Deferred Tax
I-1-65, 78, 79	Board Staff Interrogatories #65, 78, 79
I-2-54, 56, 57	CAC Interrogatories #54, 56, 57
I-8-8, 17, 18, 35, 43, 44	IGUA Interrogatories #8, 17, 18, 35, 43, 44
I-11-37, 61, 76, 77	VECC Interrogatories #37, 61, 76, 77.

DEFERRAL AND VARIANCE ACCOUNTS

11.1 Amounts and disposition of balances in the fiscal 2001 deferral and variance accounts.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG filed a summary of the actual deferral account and variance account balances for Fiscal 2001 (A-12-3, updated 2002-04-22); the summary is reproduced in Appendix C (pp. 57-58). ECG proposes to recover, from customers, \$41.8 million in principal and \$5.0 million in interest, based upon the March 31, 2002 balances, for Fiscal 2001. Of these amounts, \$0.9 million in principal and \$0.4 million in interest relates to non-gas supply accounts and \$40.9 million in principal and \$4.6 million in interest relates to gas supply related accounts.

- The balances recorded in the following deferral and variance accounts established for Fiscal 2001, and the proposed clearance of such balances, are accepted by the other parties for the reasons given in the supporting evidence:

  <u>Non-Gas Supply Accounts</u>

  - 2001 Class Action Suit Deferral Account
  - 2001 Deferred Rebate Account
  - 2001 Debt Redemption Deferral Account
  - 2001 Customer Communication Plan Deferral Account

<u>Gas Supply Related Accounts</u>

- 2001 Transactional Services Deferral Account
- 2001 Purchased Gas Variance Account ("2001 PGVA").

- Appendix D (pp. 59-60) is a reconciliation of the forecast and the actual balance recorded in the 2001 PGVA. It explains the large variance between the two.

- The interest calculated on the balances recorded in the following non-gas supply deferral accounts, established for Fiscal 2001, and the proposed clearance of interest (only) on such balances, are accepted by the other parties for the reasons given in the supporting evidence:

  - 2001 Electronic Regulatory Filings Deferral Account;
  - 2001 Customer Information Systems Deferral Account; and
  - 2001 Unbundling Business Activities Deferral Account.

- ECG does not seek to clear, in the Test Year, the $8.6 million in principal and the $0.3 million in interest, unless otherwise indicated, that is recorded in the following non-gas supply deferral and variance accounts:

  - 2001 Demand-Side Management Variance Account-Operating ("2001 DSMVA");
  - 2001 Lost Revenue Adjustment Mechanism ("2001 LRAM");
  - 2001 Lost Revenue Adjustment Mechanism ("2000 LRAM");
  - 2001 Shared Savings Mechanism Variance Account ("2001 SSMVA");
  - 2001 Shared Savings Mechanism Variance Account ("2000 SSMVA");
  - 2001 Electronic Regulatory Filings Deferral Account ("2001 ERFDA") principal only;
  - 2001 Unbundling Business Activities Deferral Account (“2001 UBADA”) principal only;
  - 2001 Working Group-Risk Management Program Deferral Account (“2001 WG-RMPDA”);
  - 2001 Customer Information Systems Deferral Account ("2001 CISDA") principal only;
  - 2001 Independent Consultant Assessment and Report Deferral Account ("2001 ICARDA");
  - 2002 Demand-Side Management Variance Account-Operating;
  - 2002 Deferred Rebate Account; and
  - 2002 Class Action Suit Deferral Account.

- The clearing of the 2000 LRAM and the 2000 SSMVA will be deferred in accordance with the settlement of Issue 8.3 (clearance of the 2000 SSMVA (pp. 36-38).

- The clearing of the 2001 LRAM and the 2001 DSMVA will be synchronized with the clearing of the 2001 SSMVA in accordance with the settlement of Issue 11.3 in the RP-2000-0040 Settlement Proposal.

- The principal amounts recorded in the 2001 ERFDA, 2001 CISDA, and 2001 UBADA are not being cleared because they are being amortized in accordance with previous decisions or orders of the Board.

- ECG is not proposing to clear the 2001 ICARDA and the 2001 WG-RMPDA, in this proceeding, as a result of the potential cost consequences of participation by the consultant(s) or others in the Board's oral hearing.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-12-1	Deferral and Variance Accounts
A-12-2	Proposed Clearing of the 2001 Deferral Accounts
A-12-3	Deferral and Variance Accounts (March 31, 2002)
I-1-66, 70 to 74	Board Staff Interrogatories 66, 70 to 74
I-2-25, 48, 50	
	CAC Interrogatories # 25, 48, 50
I-4-16	CME Interrogatory #16
I-8-19	IGUA Interrogatory #19
I-9-1	OAPPA Interrogatory #1

11.2 ECG's request to continue to establish deferral and variance accounts for fiscal 2002, including new accounts such as the Late Payment Plan Deferral Account (2002 LPPDA).

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's proposal to continue the following deferral and variance accounts for the Test Year, including the accounting methodology, is accepted by the other parties for the reasons given in the supporting evidence:

    - 2002 Union Gas Deferral Account;
    - 2002 Deferred Rebate Account;
    - 2002 Generic Regulatory Hearings Deferral Account;
    - 2002 Class Action Suit Deferral Account;
    - 2002 Debt Redemption Deferral Account;
    - 2002 Lost Revenue Adjustment Mechanism ("2002 LRAM");
    - 2002 Electronic Regulatory Filings Deferral Account;
    - 2002 Shared Savings Mechanism Variance Account; ("2002 SSMVA");
    - 2002 Customer Communication Plan Deferral Account; and
    - 2002 Market Restructuring Deferral Account.

- ECG's proposal to continue the 2001 ICARDA and the 2001 WG-RMPDA for Test Year, including the accounting methodology, is accepted by other parties for the reasons given in the supporting evidence. The continuation is limited, however, to the period ending on the completion of the initial phase of this proceeding.

- ECG's proposal to continue the Purchased Gas Variance Account for the Test Year, including the change in the accounting methodology arising from the agreement to settle Issue 2.2 (Link pipeline, pp. 12-13), is accepted by the other parties for the reasons given in the supporting evidence.

- ECG's proposal to continue the Transactional Services Deferral Account for the Test Year, including the accounting methodology and the revised sharing ratio for a credit balance arising from the agreement to settle Issue 7.1 (Transactional Services, pp. 30-32), is accepted by the other parties for the reasons given in the supporting evidence.

- ECG's proposal to continue the Demand Side Management Variance Account-Operating for the Test Year ("2000 DSMVA"), including the change in the accounting methodology arising from the agreement to settle of Issue 8.2 (DSMVA, pp. 35-36), is accepted by the other parties. The clearance of the 2002 DSMVA and the 2002 LRAM will be synchronized with the clearance of the 2002 SSMVA in accordance with the agreement to settle Issue 11.3 in the RP-2000-0040 Settlement Proposal.

- ECG proposes to establish the Unaccounted for Gas Variance Account for the Test Year ("2002 UAFVA") in order to record the gas costs associated with variances between forecast and actual unaccounted for ("UAF") gas. UAF gas represents the difference between customer-metered consumption and total sendout, as determined by invoices from suppliers, and injections/withdrawals of gas in storage. UAF is the result of meter differences, billing differences, line leakage, unmetered uses, and other factors. The UAF gas forecast is calculated using a regression model that uses adjusted deliveries as its primary explanatory variable (A-12-5). Despite a high R^2 of 0.95 and despite numerous attempts to improve the model, the in-sample forecast error remains high. In Fiscal 2001, for example, the Board-approved UAF level was 13 746 10^3m^3 compared with an actual level of 53 283 10^3m^3. In Fiscal 2000, the actual UAF level was 142 576 10^3m^3 higher than the Board-approved level of 97 565 10^3m^3. The major reason for these large variances is thought to be the result of metering inaccuracies upstream of ECG's transmission and distribution systems that are beyond ECG's control. The other parties remain concerned about ECG's UAF forecasting methodology and the impact that the 2000 UAFVA would have on ECG's incentive to control UAF. They are, however, prepared to support ECG's proposal to establish a UAFVA, on a trial basis, in order to record the gas costs associated with the volumetric difference between ECG's UAF forecast, for the Test Year, 85 056 10^3 m^3 (D-10-3, updated 2002-01-18) and the actual UAF for the Test Year.

- ECG's proposal to establish a Late Payment Penalty Deferral Account for the Test Year, and later a Late Payment Penalty Variance Account instead, is considered in the context of Issue 13.1 (late payment penalty at pp. 48-50).

- ECG's proposal to establish a Deferred Income Tax Deferral Account for the Test Year is considered in the context of Issues 10.1, 10.2, and 10.3 (deferred taxes, pp. 39-41).

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-12-1	Deferral and Variance Accounts
A-12-3	Actual Balances of Deferral and Variance Accounts (March 31, 2002)
A-12-4	Deferral and Variance Accounts Supplemental Evidence
A-12-5	Unaccounted for Gas Variance Accounts
D1-3-1	Unbilled and Unaccounted for Gas Volumes, 2002 Budget
D2-3-1	Unbilled and Unaccounted for Gas Volumes, 2001 Actual 2001 OEB Approved
D3-2-1	Unbilled and Unaccounted for Volumes 2000 Actual vs. 2000 OEB Approved
I-1-69, 70, 71, 74 to 76	Board Staff Interrogatories #69, 70, 71, 74 to 76
I-22-20, 48, 49	CAC Interrogatories #20, 48, 49
I-8-17, 18	IGUA Interrogatories #17, 18.
I-11-14 to 17, 60	VECC Interrogatories #14 to 17, 60.

RATE DESIGN

12.1 ECG's proposal to change the allocation and recovery of carrying costs related to gas in inventory.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG's proposal is intended to achieve a better matching between costs and revenues, and thus to promote fairness, among the rate classes by means of two changes. One is the use of storage space to allocate these costs, instead of winter delivery volumes, because the proposed allocation factor is more reflective of the use of storage space by each rate class. The other change is an extension of the period -- 12 months instead of four -- over which the allocated costs are recovered. The allocated costs would continue to be recovered in the Delivery Charge, for general service customers, and otherwise in the Gas Supply Load Balancing Charge.

- The impact of the proposal, in percentage terms, on Rates 1 and 6 is *de minimus*. These two are the only rate classes that are affected adversely by the proposal.

- ECG's proposal is accepted by the other parties, for the reasons given in the supporting evidence, and ECG's PGVA methodology and its QRAM procedures will be modified accordingly.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

H1-1-2	Rate Design - QRAM
I-1-80	Board Staff Interrogatory # 80
I-8-39 to 41	IGUA Interrogatories #39 to 41
M1-1-1	Impact Statement No. 1
M1-2-11	Proposed Revenue Recovery by Rate Class
M1-2-12	Revenue Comparison, Current Revenue vs. Proposed Revenue.

12.2 ECG's proposed changes to Rider A and Rate 125.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG proposes to revise Rider A -- the Transportation Service Rider -- and Rate 125 in order to rectify an oversight in the applicability of the T-service credit and the Direct Purchase Administration Charge ("DPAC"). The proposal is intended to place Rate 125 customers on the same footing as the other two unbundled distribution rates -- 300 and 305 -- in terms of both the T-service credit and the DPAC. ECG would do so by removing the reference to Rate 125 from Rider A and by incorporating, in Rate 125 itself, the reference to the DPAC.

- The other parties accept ECG's proposal, for the reasons given in the supporting evidence, such that Rider A and Rate 125 will be revised accordingly.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

H2-1-3	Proposed Changes to Rider A and Rate 125
H2-6-1	Rate Handbook
I-8-41	IGUA Interrogatory #41.

12.3 Rate retroactivity in the 2002 Test Year.
(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- ECG filed its application in this proceeding September 25, 2001 and expected, at the time, to reach the settlement process by the end of the year or shortly into the new year. This expectation, as it happens, was not realized.

- ECG is nevertheless mindful, and so are the other parties, of the Board's concerns about retroactive rate-making as they were expressed in the RP-2000-0040 Reasons for Decision (para. 2.2.8, p. 12):

> “[T]he Board cautions the parties that, because retroactive rates do not give accurate price signals in the market and may result in inter-generational subsidization, the Board does not generally endorse retroactive rate-making. In the future, the Board expects the Company to provide cogent evidence and rationale as to the reasons why rates should be retroactive.

- The Board's concerns arose, in part, from the need for a retroactive adjustment as a one-time credit or debit, as the case may be, based on the billed volumes prior to the implementation date of the final rates in the RP-2000-0040 proceeding. There is a similar need in this proceeding because the circumstances are similar notwithstanding ECG's efforts, and the efforts of the other parties, to achieve a more timely rate-making process.

- ECG and the other parties consider that the Board could assist ECG in getting back on track, as it were, by issuing Partial and then Final Decisions with Reasons in this proceeding. The partial decision would dispose of the two unsettled issues that could affect ECG's revenue requirement for the Test Year; namely, Issue 2.1 (Alliance and Vector at pp. 11-12) and Issue 4.2 (DPWAMS at pp. 22-23). ECG could then reflect the effect of the partial decision in its rates application for Fiscal 2003 sooner than would otherwise be the case. The final decision would dispose of the other unsettled issues; namely, Issues 2.3 and 2.4 (cost allocation of gas supply management costs and cost of managing system gas on a "stand-alone basis at pp. 13-14), Issue 5.3 (affiliate outsourcing at pp. 25-27), and Issues 10.1, 10.2, and 10.3 (deferred taxes at pp. 39-41). ECG and the other parties accordingly request the Board to confirm that it is willing to issue two such decisions in this proceeding.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

I-1-3	Board Staff Interrogatory #3.

LATE PAYMENT PENALTY
13.1 ECG's proposal to revise its late payment penalty.
(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- By letter dated October 4, 2001 to ECG, the Board directed ECG to review its late payment penalty ("LPP") in the context of this proceeding. ECG was proposing, at the time, to establish a Late Payment Plan Deferral Account for the Test Year ("2002 LPPDA").

- The Ontario Court of Appeal decided on December 3, 2001 that "the Board will need to address an alternative mechanism for applying late payment penalties forthwith": *Garland v. Consumers' Gas Co.* (2001), 57 O.R. (3d) 127 at 152. By letter dated December 14, 2001 to the Board, ECG provided details of two alternative approaches to revising the LPP and, in addition, proposed a target implementation date of February 1, 2002 for a revised LPP.

- The Board issued Procedural Order No. 1 on January 4, 2002 under file no. EB-2001-0837 (RP-2001-0032). This order directed ECG to file a proposal to revise its LPP by January 10, 2002 and established a written proceeding to examine ECG's proposal. The order also established February 1, 2002 as the implementation date for the revised LPP.

- ECG filed its proposal on January 10, 2002. The proposal presented two options and, in either case, modification of the wording on the face of the Enbridge bill. One option was to simply reduce the percentage for the one-time LPP from 5% to 2% and the other, to adopt a revolving credit style interest charge. ECG recommended the first option as an interim measure effective in the February 2002 billing cycle. ECG nevertheless indicated that a time-based charge -- the second option -- may be the preferred LPP option and, therefore, that ECG may make a proposal to this effect in its rates application for Fiscal 2003.

- ECG also proposed to establish an LPP Variance Account for the Test Year ("2002 LPPVA") to capture the variances between actual and forecast LPP revenues together with the implementation costs of the revised LPP. The 2002 LPPVA would replace the earlier proposal of a 2002 LPPDA.

- The Board accepted ECG's recommendation for one-time penalty of 2%, on an interim basis, in its Decision and Interim Order dated January 31, 2002. The Board did not approve, though, ECG’s proposed 2002 LPPVA.

- ECG proposed in its recent QRAM application, under Board no. EB-2002-0213 (RP-2001-0032), to revise Part III of its Rate Handbook -- “Terms and Conditions Applicable to All Services” -- to incorporate the one-time penalty of 2% in “Section F – Payment Conditions”. The Board approved this proposal in its Decision and Interim Rate Order dated March 22, 2002. ECG and the other parties agree that the Board should do likewise in its final rate order, after the ROE phase, in this proceeding.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

A-27-1	Revised Late Payment Penalty Proposal - January 2002
H1-1-4	Rate Handbook
I-1-67 to 69	Board Staff Interrogatories #67 to 69
I-LPP1-1 to 23	Board Staff LPP Interrogatories #1 to 23
I-LPP2-1 to 17	CAC LPP Interrogatories #1 to 17
I-LPP11-1 to 7	VECC LPP General and Specific Comments # 1 to 7
Q3-3-4-7	Rate Handbook (EB-2002-0213).

AFFILIATE/INTERCORPORATE FINANCIAL TRANSACTIONS

14.1 Affiliate/intercorporate financial transactions.

(Complete Settlement)

The following parties participated in the discussion of this issue: ECG, CME, CAC, IGUA, Schools, and VECC.

There is an agreement to settle this issue on the following basis:

- The issue was described as a "place-holder" on Issues Day for the following reason: "[i]ntervenors are awaiting responses to at least one interrogatory that deal with affiliate and intercorporate financial transactions …" (Tr. 85).

- The principal interrogatory at the time, was VECC Interrogatory #1. ECG's response to this interrogatory (I-11-1) is accepted by the other parties.

The following parties agree with the settlement: ECG, CME, CAC, IGUA, Schools, and VECC.

The following parties disagree with the settlement: none.

The following parties take no position on the issue: none.

The following evidence supports the settlement:

I-11-1 VECC Interrogatory #1.

Enbridge Consumers Gas DSM Consultative Audit Subcommittee
Draft Workplan for Completion of Audit Review of
F2000 DSM Monitoring and Evaluation Report and SSM Claim

Draft Workplan for Completion of Audit Review of F2000 DSM Monitoring and Evaluation Report and SSM Claim (please refer to the attached schedule),

Task 1: Residential Issues

a. The Audit Subcommittee will review the findings of the draft Audit Report, the Company's response and any subsequent additional investigation by the auditor.

Task 2: Business Market Issues

The Audit Subcommittee will make recommendations to the DSM Consultative on the following issues:
a. the removal of electricity and water savings from the CM5 Schools program, consistent with the outcome of the 1999 DSM audit process, and
b. the issue of unintended effects resulting from the present methodology, whereby incremental equipment costs in the business markets are treated differently in the screening of budget and actual program results for the TRC test.

Task 3: Incremental Costs in Business Markets

Through the audit process it was found that many custom project files in the business markets included missing or incorrect information regarding incremental costs.
a. The Company will provide missing data and correct other data for the auditor.
b. Using the methodology approved by the auditor, the Company will examine the files and update the incremental cost information.
c. The auditor will review the Company's work on a spot check basis.
d. The Company will present the results to the Audit Subcommittee.

Task 4: Detailed Review of Additional Custom Projects and related Business Market Issues

The revised Terms of Reference for the audit of the F2000 results called for a detailed review of a small sample of custom projects. In the first phase of the audit, 13 custom projects were examined and 5 chosen for detailed review. The Audit Subcommittee and the auditor acknowledge that this small sample is insufficient to use as the basis for adjustments to the following aspects in the business markets:
- installation rates,
- free ridership,
- documentation,
- savings calculation, and
- attribution among parties.

This phase of the audit will expand the review of custom projects with the intent of developing a sample that is statistically valid and stratified by market sector.
a. The auditor will develop a second sample of custom projects for detailed review.
b. The auditor will review the projects, using the same methodology as in Phase 1 of the audit and develop a report for the Audit Subcommittee.

c. The Company will review the report results and provide comments. The Audit Subcommittee will meet to review the Auditor's Report on the custom projects and the Company's response.

Task 5: Draft Auditor's Report Updated

The auditor updates the draft audit report based upon findings in Task One to Four. Kai Millyard Consulting will update the reconciliation spreadsheet based upon findings in Task One to Four.

Task 6: Audit Subcommittee Reviews Auditor's Updated Draft Report

The Audit Sub-Committee will meet to review the updated draft audit report and Company's responses. The Audit Sub-Committee will provide feedback to the auditor to enable preparation of final Audit Report.

Task 7: Preparation of Final Auditor's Report

The auditor finalizes the final audit report.

Task 8: Audit Subcommittee Develops Recommendations For DSM Consultative

The Audit Subcommittee will develop recommendations on residential findings, business market issues, incremental costs in business markets, and custom projects (Tasks One to Four) to forward to the DSM Consultative. Kai Millyard Consulting will update the reconciliation spreadsheet based on the Audit Subcommittee recommendations, and prepare the Final F2000 Reconciliation Report.

Task 9: DSM Consultative Review of Audit Sub-Committee Report and Audit Report

The DSM Consultative will review the final audit report, the final F2000 reconciliation report, and the recommendations of the Audit Subcommittee. The DSM Consultative develops recommendations for the Company.

Task 10: Preparation of Revised SSM Claim

The Company will consider the recommendations of the DSM Consultative and submit a SSM claim, within the timelines of the 2003 Rate Case, in accordance with those recommendations that the Company accepts.

ECG DSM Consultative Audit SubCommittee Schedule

		Task	Lead	April		May				June				July			
				22	29	6	13	20	27	3	10	17	24	1	8	15	22
1	Residential Issues																
	a.	Review Draft Audit Report, Company's response and any additional work by auditor	Audit Subcommittee			Mtg											
2	Other Business Market Issues		Audit Subcommittee														
	a.	Removal of electricity and water savings from Education sector															
	b.	Principles re: incremental costs in custom projects															
3	Incremental Costs in Business Markets																
	a.	Provide missing information and correct data	ECG														
	b.	Review of ECG's work (spot check)	Xenergy														
	c.	Present of results	ECG & Xenergy						Mtg								
4	Detailed Review of Additional Custom Projects																
	a.	Select second sample	Xenergy	Mtg													
	b.	Review custom projects	Xenergy														
	c.	Review results and comment	ECG														
	d.	Review Auditor's report and ECG response	Audit Subcommittee								Mtg						
5	Update Draft Audit Report																
	a.	Update Draft Report based on Tasks 1-4	Xenergy														
	b.	Update Spreadsheet based on Tasks 1-4	K Millyard Consulting														
6	Review Updated Draft Audit Report		Audit Subcommittee									Mtg					
7	Prepare and circulate Final Auditor's Report		Xenergy														
8	Develop Recommendations for DSM Consultative																
	a.	Develop recommendations	Audit Subcommittee											Mtg			
	b.	Update Spreadsheet and prepare Final Reconciliation Report	K Millyard Consulting														
9	Review Audit Subcommittee Report & Audit Report		DSM Consultative														
	a.	Develop recommendations for the Company															
10	Prepare Revised SSM Claim		ECG														

Value for Money Audit

GENERAL
Three common types of audits are:

- Financial;
- Compliance;
- Value for money.

FINANCIAL AUDIT
Financial audits are usually conducted annually in accordance with generally accepted auditing standards. The objective is to ensure that an organization's financial statements fairly present the financial situation and the results of operations.

During this kind of audit, it is a current practice to evaluate internal control. Following the study and assessment of this control and at other audit stages, significant weaknesses are pointed out, following discussions, to the managers who then make comments.

COMPLIANCE AUDIT
Certain rules, like provincial statutes and regulations, policies and other regulations, govern good business administration. It is recognized that, even when there are no specific statues, the audit of financial statements must, to a certain degree, ensure that business has been run in accordance with applicable rules.

VALUE FOR MONEY AUDIT
A value for money audit aims to assess to what degree:

- resources are managed with respect to economy, efficiency and effectiveness;
- the responsibility links are reasonably supported in order to respect the obligation of accountability; and
- whether or not an organization is giving value for the money it spends.

Key areas examined include determining whether:

- the management, control and other available data systems are adequate;
- information provided to the administrators and managers, for decision-making, is appropriate and whether operations are carried out according to the rules;
- there are clear definition of objectives and targets;
- accurate and reliable management information is available on a timely a basis;
- there are performance measures and indicators for benchmarking and evaluating performance;
- policies and programs are evaluated, including post implementation review; and
- there is identification of resource consumption and accountability.

The Auditor:

- investigates and reports to the designated authority whether there is a lack of sufficient, relevant and reliable financial and other data available and whether critical underlying assumptions were made explicit when the policy objectives or decisions were made, for further inquiry by the designated authority;
- considers the authority upon which the policy objectives have been determined, and policy decisions taken;
- considers whether there are satisfactory arrangements for considering alternative options in the implementation of policy;
- considers whether established policy aims and objectives have been properly implemented;
- considers whether there is a conflict between different policy aims or objectives, or between the means chosen to implement them;
- considers how far policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- examines and reports on the appropriate allocation of fixed costs (e.g., intermingling of marketing and DSM);

- examines affiliate transactions/single source services;
- examines and assesses the extent to which there are overlapping and/or mutual benefits e.g., DSM benefits and benefit to supplier (e.g., hot water heater turn temperature turn downs).

ENBRIDGE CONSUMERS' GAS COMPANY LTD.
DEFERRAL & VARIANCE ACCOUNTS AS AT MARCH 31, 2002
ACTUAL BALANCES

Col. 1	Col. 2		Col. 3	Col. 4
Line No.	Account Description		Principal (000's)	Interest (000's)
Non-Gas Accounts				
1.	Deferred Rebate Account ("2001 DRA")	Note (3)	1,449.1	278.5
2.	Deferred Rebate Account ("2002 DRA")		0.4	-
3.	Demand-Side Management V / A - Operating (2002 DSMVA)		(1,261.5)	(7.9)
4.	Demand-Side Management V / A - Operating ("2001 DSMVA")		1,785.9	62.5
5.	Generic Regulatory Hearings Deferral Account ("2001 GRHDA")		-	-
6.	Class Action Suit Deferral Account ("2002 CASDA")		28.5	0.1
7.	Class Action Suit Deferral Account ("2001 CASDA")		151.5	7.0
8.	Debt Redemption Deferral Account ("2001 DRDA")		(741.8)	(15.7)
9.	Lost Revenue Adjustment Mechanism ("2001 LRAM")	Note (1)	300.6	13.6
10.	Lost Revenue Adjustment Mechanism ("2000 LRAM")	Note (2)	(15.0)	6.5
11.	Electronic Regulatory Filings Deferral Account ("2001 ERFDA")		65.7	2.4
12.	Customer Information Systems Deferral Account (" CISDA")		1,800.0	103.0
13.	Shared Savings Mechanism Variance Account ("2000 SSMVA")	Note (2)	2,500.0	184.6
14.	Shared Savings Mechanism Variance Account ("2001 SSMVA")	Note (1)	2,500.0	35.4
15.	Unbundling Business Activities Deferral Account ("UBADA")		828.2	39.3
16.	Independent Consultant Assessment & Report D / A ("2001 ICARDA")		44.0	0.3
17.	Customer Communication Plan Deferral Account ("2001 CCPDA")		16.8	-
18.	Market Restructuring Systems Development Deferral Account ("MRSDDA")		-	-
19.	Deferred Tax Notional Amount - Variance Account ("DTNAVA")		-	-
20.	Ontario Energy Board Costs Variance Account ("2001-OEBCVA")		-	-
21.	Working Group - Risk Management Program - Deferral ("2001 WGRMP-DA")		-	-
22.	Sub-total Non-Gas Accounts		9,452.4	709.6
Gas Supply Related				
23.	2001 Purchased Gas Variance Account ("2001 PGVA")		43,297.9	4,612.5
24.	2001 Heating Value Differential Account ("2001 HVDA")		-	-
25.	2001 Transactional Services Deferral Account ("2001 TSDA")		(2,358.0)	(33.4)
26.	2001 Union Gas Deferral Account ("2001 UGDA")		-	-
27.	2002 Purchased Gas Variance Account ("2002 PGVA")		28,406.8	(51.9)
28.	Sub-total Gas Deferral & Variance Accounts		69,346.7	4,527.2
29.	Total Gas and Non-Gas Deferral & Variance Accounts		78,799.1	5,236.8

Note 1: Results of the fiscal 2001 SSM / LRAM claim subject to final audit adjustment.
Note 2: Results of the fiscal 2000 SSM / LRAM claim subject to final audit adjustment.
Note 3: A box denotes those amounts that the Company is requesting to clear.

ENBRIDGE CONSUMERS' GAS COMPANY LTD.
DEFERRAL & VARIANCE ACCOUNTS AS AT MARCH 31, 2002
ACTUAL BALANCES

Col. 1	Col. 2		Col. 3	Col. 4
Line No.	Account Description		Principal (000's)	Interest (000's)
1.	Total Gas and Non-Gas Accounts (from page 1, line 29)		78,799.1	5,236.8
	<u>Amounts not subject to clearing at this time</u>			
2.	Demand-Side Management V / A - Operating ("2002 DSMVA")		1,261.5	7.9
3.	Demand-Side Management V / A - Operating ("2001 DSMVA")		(1,785.9)	(62.5)
4.	Deferred Rebate Account ("2002 DRA")		(0.4)	-
5.	Class Action Suit Deferral Account ("2002 CASDA")		(28.5)	(0.1)
6.	Lost Revenue Adjustment Mechanism ("2001 LRAM")	Note (1)	(300.6)	(13.6)
7.	Lost Revenue Adjustment Mechanism ("2000 LRAM")	Note (2)	15.0	(6.5)
8.	Electronic Regulatory Filings Deferral Account ("2001 ERFDA")		(65.7)	
9.	Customer Information Systems Deferral Account (" CISDA")		(1,800.0)	
10.	Shared Savings Mechanism Variance Account ("2001 SSMVA")	Note (1)	(2,500.0)	(35.4)
11.	Shared Savings Mechanism Variance Account ("2000 SSMVA")	Note (2)	(2,500.0)	(184.6)
12.	Unbundling Business Activities Deferral Account ("UBADA")		(828.2)	
13.	Independent Consultant Assessment & Report D / A ("2001 ICARDA")		(44.0)	(0.3)
14.	Sub-total Non-Gas Deferral/Variance Accounts		(8,576.8)	(295.1)
15.	2002 Purchased Gas Variance Account ("2002 PGVA")		(28,406.8)	51.9
16.	Sub-total PGVA amounts - not subject to clearing at this time		(28,406.8)	51.9
17.	Total amounts proposed for clearing		41,815.5	4,993.6

Note 1: Results of the fiscal 2001 SSM / LRAM claim subject to final audit adjustment.
Note 2: Results of the fiscal 2000 SSM / LRAM claim subject to final audit adjustment.

2001 PGVA Reconciliation

	2001 Forecast	2001 Actual
	$220,812,038 [1]	$220,721,453
2000 PGVA Balance Carried Forward	-	2,694,901
2000 Rider C Differential	-	(5,117,720)
TCPL Toll Change	-	5,343,909
Curtailment Revenue	-	(2,037,460)
Adjustment for Amortization of Link	-	(509,118)
Inventory Re-evaluation Adjustment	-	(44,931,908) [2]
	$220,812,038	$176,164,057
Rider "C" Forecast - September	(3,138,299)	(3,586,821)
	$217,673,739	$172,577,236 [3]
Year-End Adjustments		(5,159,870)
Rider "C" Forecast		
October	(9,987,151)	(8,677,850)
November	(21,473,706)	(14,455,048)
December	(33,758,869)	(19,737,869)
January	(44,088,111)	(30,212,542)
February	(45,748,609)	(28,299,164)
March	(52,718,845)	(22,737,022) [4]
	$ 9,898,447	$ 43,297,871

1. EB-2001-0419, P3-1-2, p. 2.

2. ECG verifies the volumetric sendout monthly using invoices from TCPL and Union as well as information from its own storage operations. To calculate gas costs requires disinquishing between sales sendout and T-Service sendout. Prior to Fiscal 2001 the only way to make any distinction was to assume that the monthly billed T-Service deliveries represented the monthly T-Service consumption (cycle vs. calendar) and the remaining deliveries was all sales. The difference between deliveries and consumption is the basis for determining gas in storage balances. In a typical year, (when there are no price changes), there is no financial impact because of the month to month differences between billed deliveries and calendar consumption.

In Fiscal 2001, ECG experienced a number of events such as multiple price changes and unusual weather patterns. During examination of its monthly financial results ECG realized that these events, along with the timing difference between the billed deliveries and calendar consumption for T-Service, had a significant impact on the gas in storage balances. ECG had overstated the storage withdrawals for sales customers thereby undervaluing the inventory re-evaluation adjustments. ECG then recalculated the inventory balances and made the correcting entry to the PGVA.

3. RP-2001-0032, A-12-3, p. 1 (2001-12-07).

4. Excludes March consumption billed in April totalling $14,272,000. This amount would reduce the 2001 Actual from $43,297,871 to $29,025,871.