

# *Aiken & Associates*

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November 17, 2015

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli,

**RE: EB-2015-0179 - Interrogatories of London Property Management Association**

Please find attached the interrogatories of the London Property Management Association for Union Gas in the above noted application.

Sincerely,

*Randy Aiken*

Randy Aiken  
Aiken & Associates

Encl.

cc: Chris Ripley, Union Gas Limited (e-mail)

**Union Gas Limited**

**Application for approval to expand natural gas service to certain rural and remote communities in Ontario; for certain exemptions to meet revenue recovery requirements that apply to pipeline projects and approval to construct facilities to serve the communities of Milverton, Prince Township and the Chippewas of Kettle and Stony Point and Lambton Shores**

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**INTERROGATORIES  
OF  
LONDON PROPERTY MANAGEMENT ASSOCIATION**

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**November 17, 2015**

### LPMA.1

Ref: Exhibit A, Tab 1, page 56

- a) Please explain to which "customers" the surcharge revenue would be disposed of annually.
- b) Please explain why the surcharge revenue would not be considered an aid to construction and used to reduce the capital cost of the projects included in rate base.
- c) If the surcharge revenue were treated as an aid to construction, thereby reducing rate base and associated costs with the projects, what would be the impact on the overall costs of the projects proposed in this application? Please provide all assumptions and calculations.

### LPMA.2

Ref: Exhibit A, Tab 1, pages 17-21

- a) How will Union take into account that some contract customers may hit their MAV (due to weather, production increases, etc.) whereas other contract customers may have consumption below this level (page 17)? Does this mean that some contract customers may end providing required financial contributions while others do not?
- b) Why is Union not proposing a CIAC with the option of monthly payments for a pre-determined period as opposed to a one-time payment?
- c) Please expand Table 1 to include a residential customer that uses solar water heating and a ground source heat pump for water and space heating. Please provide all assumptions used in terms of energy use.
- d) What is the basis for the determination of a desired payback period of 3.75 years?
- e) What evidence does Union have that the expected annual consumption of residential customers in these new service areas will be 2,200 m<sup>3</sup> per year?
- f) What assumptions has Union used to determine that the 2,200 m<sup>3</sup> per year is a realistic expectation for the annual use for the projects proposed in this application? For example, what assumptions have been used for water heating (tank vs. tankless)?
- g) What is the impact on the economics of the projects and the level of subsidy proposed by Union from existing ratepayers if the actual annual residential use is above or below 2,200 m<sup>3</sup>? Please explain fully.
- h) Does the TES rate remain fixed for the entire term, or does it get adjusted to reflect actual annual consumption?
- i) Will the TES rate be the same for all projects, or will it be project specific to reflect different annual consumptions expected for residential customers in different project areas, due to weather differences, house size and age differences, etc.? If not, why not?

**j) How was the maximum TES term of 10 years determined? Similarly, how was the minimum term of 4 years determined?**

**k) Please explain why it is appropriate for different projects to have different terms for the TES and ITE. In other words, why should customers have to pay the additional costs for 10 years while others pay for only 4 years, both for projects which are subsidized by existing customers?**

**l) Please explain why it is appropriate that a customer that connects near the end of the TES term effectively pays less than a customer that connects near the beginning of the term for the same long term benefit of having access to natural gas.**

**m) Does Union have any concerns that general service customers may delay the switch to natural gas to avoid the cost of the TES, in addition to delaying the conversion costs that they will incur?**

### **LPMA.3**

**Ref: Exhibit A, Tab 1, page 26 & Appendix D**

**a) Are the figures shown in Table 3 cumulative? For example at a minimum PI of 0.6, there are 21 projects and 22 communities. Do these figures include the 14 projects and 15 communities shown for a minimum PI of 0.5?**

**b) Please explain what is meant by "natural PI" in Appendix D.**

**c) For each of the projects listed in Appendix D for which Union is seeking approval in this application, please provide the term of the TES and ITE to achieve a PI of 0.8.**

### **LPMA.4**

**Ref: Exhibit A, Tab 1, page 27**

**a) Please explain what is meant by incremental common project costs (line 7) for contract customers.**

**b) If the contract customer required a firm CD that resulted in an increase in the size of pipe to the community being served, would that contract customer be responsible for the incremental cost of the project, or would the cost of the larger pipe be recovered from all customers?**

**c) If the contract customer required a firm CD that resulted in no change in the size of the pipe to the community being served, what incremental costs would that contract customer be responsible for, and in particular, would they pay a port of the cost of the pipe to the community?**

**LPMA.5**

**Ref: Exhibit A, Tab 1, pages 28-31**

- a) How many of the five proposed projects could be completed with the Investment Portfolio remaining at or above the EBO 188 minimum requirement?**
- b) What is the impact on the PI of 1.02 noted on line 15 of page 29 if the PI for each of the individual projects was set at:**
- i) 0.5;**
  - ii) 0.6; and**
  - iii) 0.7?**
- c) For each of the three PI's requested in part (b) above, please provide a revised version of Table 4 showing the impact on the rolling project portfolio.**
- d) Is Union concerned about the discrimination in requiring community expansion customers to pay to raise the PI to as little as 0.4, while requiring new customers that are not included in a community expansion to pay to raise the PI to 0.8? If not, please explain fully.**

**LPMA.6**

**Ref: Exhibit A, Tab 1, pages 31-32 & Appendix F & Appendix D**

- a) What is the total capital cost of the 5 projects Union is proposing in this application?**
- b) Please provide a table that shows a summary of the information provided in Appendix F that is the total annual revenue requirement impact for each of 2016 through 2018 for the 5 projects Union is proposing in this application in aggregate? Please break out the total revenue requirement for each year into its components, such as O&M, cost of debt, return on equity, depreciation, income taxes, property taxes, etc.**
- c) Do the natural PI's and gross capital costs shown in Appendix D include any upfront CIAC that is received (i.e. provincial funding) that is noted on page 32?**
- d) What provincial funding does Union expect to receive for each of the 5 projects that Union is proposing in this application?**
- e) What is the level of provincial funding required for each of the projects if the PI for each project was required to be:**
- i) 0.5;**
  - ii) 0.6; and**
  - iii) 0.7,**
- assuming that the TES, ITE and contract customer contributions were maintained, as proposed by Union?**

**LPMA.7**

**Ref: Exhibit A, Tab 1, pages 32-33**

- a) Please confirm that the Community Expansion Project Deferral Account would not be impacted by differences between forecasted revenue and actual revenue from any of the projects. If this cannot be confirmed, please explain.**
- b) How does Union propose to deal with the difference between forecast volumes and actual volumes with regards to the TES and ITE revenue in the Community Expansion Contribution Deferral Account? In particular, will Union or ratepayers be at risk for differences in forecast and actual volumes to which the TES applies?**

**LPMA.8**

**Ref: Exhibit A, Tab 1, page 22**

- a) Will the ITE revenue collected from the municipalities be equal to the actual value of the incremental property taxes collected from Union as a result of the project? If not, please explain fully how the estimated taxes have been estimated.**
- b) Has Union negotiated such a deal with each of the municipalities impacted by the five projects for which Union is seeking approval in this application? Please provide details, if applicable, of any such agreements.**

**LPMA.9**

**Ref: Exhibit A, Tab 1, page 30**

**The evidence states that Union can complete approximately 30 projects under its proposal. Does this figure reflect provincial funding, or is it based on no provincial funding received for any of the projects?**

**LPMA.10**

**Ref: Exhibit A, Tab 1, pages 36-37**

- a) Please confirm that the figures provided in Tables 5 and 6 do not assume any provincial loans or grants. If this cannot be confirmed, please provide the amount of provincial grants or loans included in the calculations.**
- b) Please confirm that in order to achieve of PI and rolling PI of 1.0 at the corporate level, the incremental investments would need a PI of about 0.8.**

**LPMA.11**

**Ref: Exhibit A, Tab 1, page 38**

**Please provide a stage 2 analysis, including each of the three alternative scenarios referenced, including the additional costs to be paid for by existing customers over the 40 year horizon used in the net present value calculation, as noted on page 39.**

**LPMA.12**

**Ref: Exhibit A, Tab 1, page 40**

**a) Please explain fully why Union is proposing that the TES and ITE contributions be rebated to customers on an annual basis, rather than be accounted for as capital contributions that would reduce rate base, thereby reducing the revenue requirement for all future years to reflect the reduction in the cost of debt, return on equity, depreciation and income taxes.**

**b) Please explain how Union plans to treat any contributions received from contract customers.**

**c) Please explain how Union plans to treat any provincial loans or grants received.**

**LPMA.13**

**Ref: Exhibit A, Tab 1, pages 42-43**

**a) Please explain how Natural Gas Access Loans would be treated as an aid-to-construction by Union. For example, are the loans expected to be made available to Union, customers or municipalities?**

**b) Does Union have any more up to date information related to provincial funding than it did when the evidence was created? If yes, please provide details. If no, will Union commit to providing any information or knowledge it obtains related to the provincial loans and grants as soon as Union is able to provide it to parties?**

**c) Approximately what percentage of the \$200 million in Natural Gas Access Loans and \$30 million in Natural Gas Economic Development grants does Union believe would flow to its franchise territory as opposed to the territories of other distributors?**

**d) Please provide a table that shows for each of the 30 projects for which Union has indicated that it would proceed with, the aid-to-construction from provincial loans or grants that would result in a PI of 0.5, 0.6, 0.7 and 0.8.**

**LPMA.14**

**Ref: Exhibit A, Tab 1, pages 44-46**

- a) Is the difference in the capital costs shown in Table 8 (Preferred Design and Minimum Design) based on the difference in costs noted on page 44 at lines 6-11?
- b) Does Union propose to include the incremental cost associated with the preferred design in the amounts to be recovered from existing customers? If yes, please explain fully why existing customers should pay this additional cost.
- c) Please expand Table 8 to include four columns that show the provincial funding needed as an aid-to-construction required for each project to reach a PI of 0.5, 0.6, 0.7 and 0.8, respectively.
- d) Please provide a version of Table 8 that shows the PI for each project if the TES/ITE period is extended to 60 months where it is currently proposed to be 48 months.
- e) Given the current schedule for this proceeding, Union will not receive a decision before December 31, 2015. What is the latest date that Union could receive a decision in 2016 and still complete the projects in time to service the customers in the 2016 timeframe?

**LPMA.15**

Ref: Exhibit A, Tab 1, pages 43-45

- a) Has Union incorporated any demand side management activity into the determination of the facilities needed to serve the projects? If not, why not? If yes, please describe.
- b) Will DSM dollars be available to potential customers in the project areas to ensure that they use the least amount of gas possible? If not, please explain why not. If yes, please provide details of any special arrangements that will be made.
- c) Is Union aware of any CDM related money or programs from the IESO that may be available to customers to switch from electricity to natural gas? If yes, what assumptions has Union used in its calculations of the economics of the conversions for customers?

**LPMA.16**

Ref: Exhibit A, Tab 1, Appendix D

Please provide a revised Appendix D table that shows for each of the 30 projects which Union has identified it could proceed with if its proposal is accepted by the Board to show the following:

- a) the total TES amount forecasted to be collected;
- b) the total ITE amount forecasted to be collected; and
- c) the amount forecasted to be collected from existing customers to make up for the shortfall in the PI.

Please provide the requested amounts in both discounted and undiscounted amounts.

**LPMA.17**

**Ref: Exhibit A, Tab 1, Appendix H**

- a) Other than the being related to a community expansion project, what are the differences between the TCS and the TES, as defined on page 2?**
- b) Please explain what Union means by a district rolling project PI as used on page 3.**

**LPMA.18**

**Ref: Exhibit A, Tab 1, Appendix H**

**At page 3 the guidelines state that where the cost of proposed projects exceeds the capital available in a particular year or would result in failure to meet minimum portfolio performance (PI) targets, Union will proceed with the most profitable projects.**

- a) Does this mean that community expansion projects are ranked lower than profitable projects with regards to access to limited capital? Please explain fully.**
- b) Could the spending on community expansion projects result in delays in attaching customers in more profitable projects? Please explain fully.**

**LPMA.19**

**Ref: Exhibit A, Tab 1, Appendix J**

- a) Does Union expect to start all 30 potential community expansion projects in 2016? If not, please provide a revised version of Appendix J that shows the current expectations of when projects will be placed into service.**
- b) Please provide a version of Appendix J that reflects only projects that would achieve a PI of:
  - i) 0.5,**
  - ii) 0.6, and**
  - iii) 0.7**assuming the TES and ITE but no provincial loans or grants.**
- c) Please provide a version of Appendix J that reflects Union's proposals but excludes the following projects from the 30 potential community expansion projects:
  - i) the largest capital expenditure project; and**
  - ii) the largest two capital expenditure projects.****

**LPMA.20**

**Ref: Exhibit A, Tab 1, Appendix K**

**Please provide a version of Appendix K for each of the requested scenarios in parts (b) and (c) of LPMA.19.**

**LPMA.21**

**Ref: Exhibit A, Tab 1, Appendix K**

**What is the basis for the allocation shown in column (a)?**

**LPMA.22**

**Ref: Exhibit A, Tab 1, Appendix L & M**

**a) Please provide a version of each of Appendix L and M for each of the requested scenarios in parts (b) and (c) of LPMA.19.**

**b) Please show the calculation of the rate impacts for a small, medium and large M2 customer and a small M4 customer using each of the scenarios in parts (b) and (c) of LPMA.19, along with the impacts from Union's proposal.**

**LPMA.23**

**Ref: Exhibit A, Tab 2, Section A**

**a) Please explain the difference in the PI shown in Section A of 0.73 and that shown in Exhibit A, Tab 1, Appendix D of 0.42. Is this difference solely related to the TES and ITE? If not, please explain the difference fully.**

**b) Section 4.3 of Exhibit A, Tab 1, states that one of the criteria that must be met for a community expansion project is that the municipality agrees to a binding commitment to make an ITE contribution for the estimated TES term of the project. Lambton Shoes did not agree to the ITE. Please explain why this project qualifies at a community expansion project given that it does not meet one the criteria.**

**LPMA.24**

**Ref: Exhibit A, Tab 2, Section A, Schedule 7**

**a) What is the impact on the Stage 1 DCF of updating the general service rates to those proposed by Union effective January 1, 2016?**

**b) Please provide the calculation of the revenues showing the number of customer attachments, average annual use and rates used for each type of general service customer included in the project. Please provide a live Excel spreadsheet that shows this calculation.**

**c) What is the impact on the PI if the average annual use varies by 10% from that used in the forecast?**

d) Please provide all data used in the derivation of the average use used in the forecasts for each type of general service customer included in the project.

**LPMA.25**

**Ref: Exhibit A, Tab 2, Section B**

a) Please explain the difference in the PI shown in Section B of 0.57 and that shown in Exhibit A, Tab 1, Appendix D of 0.32. Is this difference solely related to the TES and ITE? If not, please explain the difference fully.

b) Section 4.3 of Exhibit A, Tab 1, states that one of the criteria that must be met for a community expansion project is that the municipality agrees to a binding commitment to make an ITE contribution for the estimated TES term of the project. Please confirm that municipality has agreed to the ITE. If this cannot be confirmed, please provide details.

**LPMA.26**

**Ref: Exhibit A, Tab 2, Section B, Schedule 7**

a) What is the impact on the Stage 1 DCF of updating the general service rates to those proposed by Union effective January 1, 2016?

b) Please provide the calculation of the revenues showing the number of customer attachments, average annual use and rates used for each type of general service customer included in the project. Please provide a live Excel spreadsheet that shows this calculation.

c) What is the impact on the PI if the average annual use varies by 10% from that used in the forecast?

d) Please provide all data used in the derivation of the average use used in the forecasts for each type of general service customer included in the project.

**LPMA.27**

**Ref: Exhibit A, Tab 2, Section C**

a) Please explain the difference in the PI shown in Section C of 0.58 and that shown in Exhibit A, Tab 1, Appendix D of 0.35. Is this difference solely related to the TES and ITE? If not, please explain the difference fully.

b) Section 4.3 of Exhibit A, Tab 1, states that one of the criteria that must be met for a community expansion project is that the municipality agrees to a binding commitment to make an ITE contribution for the estimated TES term of the project. Please confirm that municipality has agreed to the ITE. If this cannot be confirmed, please provide details.

**LPMA.28**

Ref: Exhibit A, Tab 2, Section C, Schedule 6

- a) What is the impact on the Stage 1 DCF of updating the general service rates to those proposed by Union effective January 1, 2016?
- b) Please provide the calculation of the revenues showing the number of customer attachments, average annual use and rates used for each type of general service customer included in the project. Please provide a live Excel spreadsheet that shows this calculation.
- c) What is the impact on the PI if the average annual use varies by 10% from that used in the forecast?
- d) Please provide all data used in the derivation of the average use used in the forecasts for each type of general service customer included in the project.

**LPMA.29**

Ref: Exhibit A, Tab 2, Section D

- a) Please explain the difference in the PI shown in Section D of 0.50 and that shown in Exhibit A, Tab 1, Appendix D of 0.38. Is this difference solely related to the TES and ITE? If not, please explain the difference fully.
- b) Section 4.3 of Exhibit A, Tab 1, states that one of the criteria that must be met for a community expansion project is that the municipality agrees to a binding commitment to make an ITE contribution for the estimated TES term of the project. Please confirm that municipality has agreed to the ITE. If this cannot be confirmed, please provide details.

**LPMA.30**

Ref: Exhibit A, Tab 2, Section D, Schedule 7

- a) What is the impact on the Stage 1 DCF of updating the general service rates to those proposed by Union effective January 1, 2016?
- b) Please provide the calculation of the revenues showing the number of customer attachments, average annual use and rates used for each type of general service customer included in the project. Please provide a live Excel spreadsheet that shows this calculation.
- c) What is the impact on the PI if the average annual use varies by 10% from that used in the forecast?
- d) Please provide all data used in the derivation of the average use used in the forecasts for each type of general service customer included in the project.

**LPMA.31**

**Ref: Exhibit A, Tab 2, Section E**

- a) Please explain the difference in the PI shown in Section E of 0.40 and that shown in Exhibit A, Tab 1, Appendix D of 0.08. Is this difference solely related to the TES and ITE? If not, please explain the difference fully.**
- b) Section 4.3 of Exhibit A, Tab 1, states that one of the criteria that must be met for a community expansion project is that the municipality agrees to a binding commitment to make an ITE contribution for the estimated TES term of the project. Please confirm that municipality has agreed to the ITE. If this cannot be confirmed, please provide details.**

**LPMA.32**

**Ref: Exhibit A, Tab 2, Section E, Schedule 6**

- a) What is the impact on the Stage 1 DCF of updating the general service rates to those proposed by Union effective January 1, 2016?**
- b) Please provide the calculation of the revenues showing the number of customer attachments, average annual use and rates used for each type of general service customer included in the project. Please provide a live Excel spreadsheet that shows this calculation.**
- c) What is the impact on the PI if the average annual use varies by 10% from that used in the forecast?**
- d) Please provide all data used in the derivation of the average use used in the forecasts for each type of general service customer included in the project.**

**LPMA.33**

**Ref: Exhibit A, Tab 3**

- a) Please explain why customers on a small main extension project should be subject to a PI of 1.0 as a result of having less than 50 potential customers, whereas customers in a community expansion project have a required PI of 1.0.**
- b) If a customer pays an up-front CIAC, how does Union treat that payment for regulatory purposes? For example, is it treated as revenue, subject to earnings sharing, or is treated as a reduction to rate base? Please explain fully.**
- c) Please explain why the TCS contributions should be treated any differently than CIAC, if that is the result of Union's proposal.**
- d) Does the ITE apply to the small main extension projects?**