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EB-2013-0202
Exhibit A
Tab 2
Settlement Agreement

EB-2013-0202

UNION GAS LIMITED

SETTLEMENT AGREEMENT

July 31, 2013

The draft UFG accounting order can be found at Appendix F.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.6 Major Capital Additions

The parties agree to Y factor treatment for major capital projects that meet the criteria in sections (i) through (viii) below. If the two major facility expansion projects set out below meet the criteria and are approved by the Board in their respective leave to construct applications and, provided they continue to meet the requisite criteria, the net delivery revenue requirement impacts of those projects will be treated as Y-factors in each year of the IRM term beginning with the first year that each project comes into service:

1. The facilities included in the Parkway West Project as that term is used in EB-2012-0433. The current forecast of the net delivery revenue requirement impacts are shown in Appendix G. Rate recovery would, assuming the current forecast of 2015 as the in-service year, commence with rates effective January 1, 2015;
2. The facilities included in the Brantford-Kirkwall Pipeline and Parkway D Compressor Station Projects as those terms are used in EB-2013-0074. The current forecast of the net delivery revenue requirement impacts is shown in Appendix G. Rate recovery would, assuming the current forecast of 2016 as the in-service year, commence with rates effective January 1, 2016.

Y-factor treatment also applies to additional capital projects that result in net delivery revenue requirement impacts over the IRM term which meet the requisite criteria specified below.

The criteria that must be met for any capital project to qualify for Y factor treatment are as follows:

- i) A minimum increase, or a minimum decrease, of \$5 million in net delivery revenue requirement for a single new project (the “Rate Impact Threshold”). For the purposes of making this determination, capital costs are those costs relating to that capital project as defined under the applicable accounting rules. For the purpose of determining whether the Rate Impact Threshold is met, the net delivery revenue requirement associated with the capital project for each of the years from the in-service year until 2018 shall be calculated; should the net delivery revenue requirement exceed the Rate Impact Threshold in any year, the project would meet the Rate Impact Threshold criterion. The rate adjustment for each year will be based on the forecast net delivery revenue requirement impacts for each specific year, subject to true-up to actual as discussed in subparagraph (viii) below.

In determining net delivery revenue requirement for any year, the following parameters will be applied:

- Depreciation expense will be calculated using 2013 Board-approved depreciation rates;
- Required return assumes a capital structure of 64% long-term debt and 36% common equity;

- The incremental long-term debt cost will be calculated based on expected financing costs for the incremental borrowing required by the project, at market rates in effect at the time the project is approved;
 - The return will be calculated using the 2013 Board-approved return on equity of 8.93%;
 - Income and other taxes related to the equity component of the return will be calculated using the 2013 Board-approved tax rate of 25.5%;
 - Incremental delivery revenues associated with the project will be calculated as an offset to the delivery revenue requirement;
 - For the in-service year, all components of the calculation except taxes (but including, without limitation, depreciation, cost of debt, and return) will be calculated only for the period from the month of in-service to the end of the year; and,
 - Union agrees to make no changes to these parameters during the IRM term.
- ii) The capital cost of the project, using the same capitalization policies as were in place for the purposes of the approved EB-2011-0210 revenue requirement, must exceed \$50 million. Provided, however, that in the event that Union is required to change its accounting standard from USGAAP to any other standard (including IFRS), and as a result its capitalization policies must change, the capitalization policies under the new accounting standard shall apply;
- iii) The project is outside the base rates on which this incentive regulation framework is set;

- iv) The project must be needed to serve customers and/or to maintain system safety, reliability or integrity, and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objective relative to the reasonably available alternatives;
- v) The project will be identified to stakeholders and the Board as soon as possible, including in that year's stakeholder review session where practical (see Section 12.2);
- vi) The project will be subject to a full regulatory review equivalent to a leave to construct proceeding, in which the applicant must demonstrate need, safety or reliability purposes, and economic viability prior to inclusion in rates. For any project that requires leave-to-construct approval of the Board, the full regulatory review will be conducted in that proceeding. For any project that does not require leave-to-construct approval of the Board, Union commits to filing its annual rate adjustment application with the Board by July 1 of the year prior to rate impacts of the project going into effect, to allow sufficient time for a full regulatory review of the project in its rates application;
- vii) Subject to direction otherwise from the Board, Union will allocate the net revenue requirement using 2013 Board-approved cost allocation methodologies. Any party, including Union, may take any position with respect to the proposed allocation for any particular capital project during review of the project, or its rate impacts, by the Board; and,
- viii) The project will include a deferral account request to capture any differences between the forecast annual net delivery revenue requirement and the actual net delivery revenue requirement for each year of the IRM term for which the project is included in rates. The true-up will occur annually during the period the project is subject to Y

factor treatment. If, at the end of the 2018 year, the actual net delivery revenue requirement has not exceeded the \$5 million minimum for every year the project has been in service, then the project will be deemed not to have qualified, and all amounts collected thereon shall be refunded/debited to ratepayers through an end of IRM term true-up deferral account mechanism.

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The following parties take no position: Six Nations, TCPL

7 DEFERRAL AND VARIANCE ACCOUNTS

(Complete Settlement)

The parties agree that the Deferral and Variance Accounts described and listed in Appendix H will continue during the term of the IRM. It is understood and agreed that Union will make no changes in the manner in which it administers and clears the Deferral and Variance Accounts during the course of the IRM without first fully disclosing the proposed changes to the parties, and then obtaining prior Board approval for such proposals. Moreover, it is understood and agreed that Union will administer the pass through items of expenses and savings in a manner that is compatible with the principle that neither Union nor its ratepayers should gain or lose on such pass through items.

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The following parties take no position: Six Nations, TCPL