unionGas
A Spectra Energy Company

November 28, 2016

BY COURIER & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

RE: EB-2016-0186 – Union Gas Limited ("Union") – Panhandle Reinforcement Project Responses to Undertakings for Day 1

Dear Ms. Walli,

Please find attached Union's responses to Undertakings J1.1, J1.2 and J1.3 received in the hearing on November 22, 2016. Union is in the process of finalizing responses to the remaining Undertakings. All responses will be filed in RESS and copies will be sent to the Board.

If you have any questions with respect to this submission please contact me at 519-436-5473.

Yours truly,

Karen Hockin
Manager, Regulatory Initiatives

Encl.

cc: Zora Crnojacki, Board Staff
Mark Kitchen, Union Gas
Charles Keizer, Torys
All Intervenors (EB-2016-0186)

UNION GAS LIMITED

Undertaking Response
To Mr. Wolnik

TO LOOK FOR THE STUDIES THAT MR. WOLNIK IS ASKING ABOUT AND TO PROVIDE AN UPDATE

Union confirms there are no studies over the last 5 years regarding the relationship between DSM programs and impact on peak day.

UNION GAS LIMITED

Undertaking Response
To Mr. Aiken

FOR M4 LARGE, TO PROVIDE A SCHEDULE WHERE THERE IS NO CHANGE IN EITHER DEPRECIATION OR THE COST ALLOCATION

Please see Attachment 1 for the delivery bill impacts of typical small and large in-franchise customers.

The bill impact for a large Rate M4 customer using Board-approved depreciation rates and cost allocation methodology is approximately $15,991.

Please see Attachment 2 for a detailed summary of Union's cost allocation proposal, per Board Panel Chair Duff's request at Day 1 of the transcripts page 171, lines 9-15, following questions on cost allocation beginning on page 169 line 15 through page 171.

UNION GAS LIMITED
Delivery Charges and Impacts for Typical Small and Large Customers
Based on Board-Approved Cost Allocation Updated for the Project and
Board-Approved Depreciation Rates of Approximately 50 Years

		Delivery Charges			
		EB-2016-0040 Approved 01-Apr-16 (1)	EB-2016-0186 Proposed 01-Jan-18	Delivery Charge Impact	
Line No.	Particulars	($)	($)	($)	(%)
		(a)	(b)	(c) = (b - a)	(d) = (c / a)
	Union North				
1	Rate 01 - Small	435	433	(2.03)	-0.5%
2	Rate 10 - Small	4,232	4,205	(27.23)	-0.6%
3	Rate 10 - Large	13,579	13,504	(74.43)	-0.5%
4	Rate 20 - Small	73,272	72,659	(612.86)	-0.8%
5	Rate 20 - Large	281,495	279,512	(1,983.10)	-0.7%
6	Rate 25 - Average	62,814	62,409	(405.28)	-0.6%
7	Rate 100 - Small	260,184	258,790	(1,394.52)	-0.5%
8	Rate 100 - Large	2,106,720	2,096,428	(10,292.52)	-0.5%
	Union South				
9	Rate M1 - Small	346	347	1.93	0.6%
10	Rate M2 - Small	3,297	3,363	65.87	2.0%
11	Rate M2 - Large	10,642	10,916	274.24	2.6%
12	Rate M4 - Small	37,374	39,333	1,959.03	5.2%
13	Rate M4 - Large	277,378	293,369	15,990.80	5.8%
14	Rate M5 - Small	30,596	30,440	(155.83)	-0.5%
15	Rate M5 - Large	169,794	169,031	(763.06)	-0.4%
16	Rate M7 - Small	656,550	671,835	15,285.60	2.3%
17	Rate M7 - Large	2,513,626	2,580,327	66,700.80	2.7%
18	Rate M9 - Large	384,526	383,685	(841.18)	-0.2%
19	Rate M10 - Average	5,570	5,490	(79.29)	-1.4%
20	Rate T1 - Small	132,068	147,962	15,893.51	12.0%
21	Rate T1 - Average	201,822	228,048	26,226.39	13.0%
22	Rate T1 - Large	445,903	508,291	62,387.84	14.0%
23	Rate T2 - Small	511,030	637,897	126,867.35	24.8%
24	Rate T2 - Average	1,186,197	1,507,146	320,948.57	27.1%
25	Rate T2 - Large	1,936,196	2,472,295	536,099.15	27.7%
26	Rate T3 - Large	3,552,739	3,555,805	3,066.36	0.1%

Notes:
(1) Reflects Board-approved rates per Appendix A in Union's April 2016 QRAM filing (EB-2016-0040).

Panhandle Reinforcement Project – Cost Allocation Summary

The current Board-approved cost allocation methodology combines the costs of the Panhandle System and the St. Clair System. The Panhandle System consists of two transmission pipelines between Dawn and the Ojibway Valve Site, associated compressor and transmission stations and measuring and regulating equipment. The St. Clair System includes the St. Clair transmission line and Union's contracted transportation capacity on the St. Clair Pipelines L.P. system, including the St. Clair River Crossing and Bluewater Pipeline. These two systems have been combined for cost allocation since Rate C1 was first included in the cost allocation study in 1999. The primary reason for combining the two systems was because both systems provide transportation service between the river crossings west of Dawn and the Dawn Compressor Station.

The Board-approved cost allocation first allocates costs to ex-franchise Rate C1 and Rate M16 rate classes based on the firm contracted demands on both systems and the average unit cost of the combined system. The next step in the cost allocation is to allocate the remaining costs to in-franchise rate classes based on the Design Day demands of the combined system.

However, the use of the combined system for allocating the Project costs is no longer appropriate because it is no longer representative of cost causation principles. The addition of the Project's net revenue requirement of $25.6 million, which relates only to the Panhandle System, is a significant increase relative to the 2013 Board-approved revenue requirement of the combined system of $7.1 million. The Board-approved cost allocation, when applied to the cost of the Project, is no longer representative of cost causation principles because of the significantly larger cost per unit of demand for the Project (relative to existing) which relates only to the Panhandle System.

The result of using the Board-approved cost allocation for the Project allocates significant costs to ex-franchise Rate C1 and Rate M16 that would require a rate increase in excess of 300% in order to recover the costs. Using the Board-approved cost allocation also disproportionately allocates significant costs to in-franchise Rate T2. The St. Clair System has a large Rate T2 customer base and using the Design Day demands of the combined system to allocate costs to in-franchise rate classes results in an allocation to Rate T2 that is not representative of their use of the Panhandle System.

The Board-approved cost allocation was reasonable when the Panhandle System and St. Clair System had similar costs per unit of demand. With the addition of the Project costs that related only to the Panhandle System and no change to the cost of the St. Clair System, the use of the combined system no longer reflects the costs to serve the customers on each respective transmission system.

Union has therefore proposed an interim cost allocation methodology for the Panhandle Reinforcement Project ("the Project") that is representative of cost causality by allocating costs based on the Design Day demands of the Panhandle System only.

Union's proposal for the cost allocation of the Project is different than the current Board-approved cost allocation in two ways:

- Allocation of the Project costs in proportion to the 2013 Board-approved in-franchise Panhandle System Design Day demands updated for the Project. Union's proposed allocation does not consider the Design Day demands of the St. Clair System because the incremental costs created by the Project relate only to the Panhandle System and does not allocate costs to ex-franchise rate classes because they do not utilize Design Day capacity of the Panhandle System; and
- No update to ex-franchise Rate C1 and Rate M16 demand rates for the Project.

Union's cost allocation proposal for the Project is more representative of cost causation principles and addresses the following concerns with the current Board-approved cost allocation.

Loss of Ex-franchise Market

The Board-approved cost allocation allocates costs to ex-franchise Rate C1 and Rate M16 rate classes based on the firm contracted ex-franchise demands and the average unit cost of the combined system. The addition of the Project costs to the combined system results in a significant increase in the average unit cost. Basing the allocation of costs to ex-franchise rate classes in this manner would result in a significant rate increase in excess of 300% in order for Union to recover the allocated costs.

The current use of an average unit cost of the combined system to allocate costs to ex-franchise rate classes recognizes a contribution to the costs in-franchise customers would otherwise bear for the Panhandle System. In the past, the use of an average unit cost of the combined system has resulted in a demand rate that has attracted ex-franchise interest in the transportation service. If the rate is derived from the average unit cost and is no longer attractive to ex-franchise customers, it could jeopardize the demand for the ex-franchise service.

Rate C1 ex-franchise customers utilize the Panhandle System for transportation service from Ojibway to Dawn. Customers who utilize the Rate C1 transportation service are typically marketers, producers or other pipeline companies that want to move gas to Dawn. These customers largely utilize the Rate C1 service based on market opportunities at Dawn relative to the cost to purchase or produce the gas upstream of Dawn and use the Rate C1 service to get the gas to Dawn. A rate increase of this magnitude would likely reduce or eliminate the demand for the Rate C1 transportation service from Ojibway to Dawn because the market opportunities would be reduced with such a high transportation cost.

Maintaining the Rate C1 transportation service benefits in-franchise customers. At rebasing, any costs allocated to ex-franchise rate classes based on the demand forecast for the service reduces the costs allocated to in-franchise rate classes. In addition, all forecasted revenue in excess of the allocated costs also reduces in-franchise rates.

The Panhandle System is designed to meet in-franchise demands on Design Day and the Project is required to meet the increase in in-franchise Design Day demands. Ex-franchise has no impact on the need for the Project and do not use any Design Day capacity. The Rate C1 and Rate M16 customers that use the Panhandle System actually flow counterflow to the direction of the Design Day demand (i.e. ex-franchise activity flows from Ojibway to Dawn, Panhandle Design Day demands flow Dawn to Ojibway). Although Rate C1 is not obligated on Design Day, any ex-franchise counterflow activity on Design Day actually benefits Panhandle System as the gas arriving at Ojibway reduces the gas that needs to come from Dawn.

Union's proposal to not allocate any Project costs to the ex-franchise rate classes and to not update the rate recognizes that the facilities are designed for in-franchise Design Day and the loss of the ex-franchise firm demands based on a significant increase in the rate would increase the in-franchise burden of costs upon rebasing.

Allocation to In-franchise Rate Classes

The Board-approved cost allocation allocates costs not allocated to ex-franchise rate classes to in-franchise rate classes based on the combined Design Day demands of both the Panhandle System and St. Clair System. The Panhandle System and St. Clair System have significantly different proportions of Design Day demands by rate class as compared below:

		Design Day Demands		Project Cost Allocation Factors	
Line No.	Rate Class	St. Clair System (1) (%)	Panhandle System (2) (%)	Board-Approved Allocation (3) (%)	Proposed Allocation (3) (%)
		(a)	(b)	(c)	(d)
1	Rate M1	7%	40%	21%	40%
2	Rate M2	2%	14%	7%	14%
3	Rate M4	0%	14%	7%	14%
4	Rate M5	-	0%	0%	0%
5	Rate M7	-	4%	2%	4%
6	Rate T1	9%	5%	6%	5%
7	Rate T2	82%	23%	42%	23%
8	Total In-franchise	100%	100%	85%	100%
9	Rate C1	-	-	13%	-
10	Rate M16	-	-	3%	-
11	Total Ex-franchise	0%	0%	15%	0%
12	Total	100%	100%	100%	100%

Notes:
(1) Percentages by rate class derived from Exhibit A, Tab 8, Schedule 2, line 6.
(2) Exhibit A, Tab 8, Table 8-1.
(3) Exhibit A, Tab 8, Table 8-3.

The allocation of costs to Rate T2 is much higher using the combined system allocator than the proportion of Rate T2 Design Day demands of the Panhandle System only. The Design Day demands of the St. Clair System are not driving the Project costs and it would not be fair to allocate to Rate T2 a proportion of the Project costs based on their proportion of demands of the combined system which includes the St. Clair System. As well, the proportionate use of the Panhandle System by Rate M1 is much greater than the combined system allocator. The use of the Panhandle System Design Day demands only to allocate the Project's costs more appropriately reflects cost causation principles by allocating the costs to rate classes that use the Panhandle System and are driving the need for the Project. The combined allocation was reasonable when the two systems had similar costs per unit of demand. With the addition of the revenue

requirement of the Project to the existing revenue requirement and incremental Panhandle System Design Day demands, the combined allocation is no longer reasonable.
Union's proposal to allocate the Project costs to in-franchise rate classes using Panhandle System Design Day demands updated for the Design Day demands of the Project recognizes that an allocation using the combined system is not representative of the use of the Panhandle System only. The proposed allocation reflects each rate classes' use of the Panhandle System and appropriately reflects cost causation and addresses the concerns with the current Board-approved methodology.

Union will review the cost allocation and rate design for all Panhandle System and St. Clair System costs as part of its 2019 rebasing. During the interim period, Union has proposed a cost allocation that is representative of cost causality and provides a transition to 2019 which avoids potential rate volatility upon Union's rebasing if the costs change significantly when Union proposes a cost allocation that represents cost causality for all Panhandle System costs.

UNION GAS LIMITED

Undertaking Response
To Mr. Janigan

TO PROVIDE THE DIFFERENCE IN DEPRECIATION DURING THE TIME FRAME

Depreciation Expense by 2022
20-Year Depreciation Rates and Board-Approved Depreciation Rates

Line No.	Particulars ($000's)	20-Year Depreciation	Board-Approved Depreciation	Difference
		(a)	(b)	(c) = (a-b)
1	2017	6,008	2,486	3,521
2	2018	12,536	5,185	7,351
3	2019	13,056	5,398	7,659
4	2020	13,056	5,398	7,659
5	2021	13,056	5,398	7,659
6	2022	13,056	5,398	7,659
7	Total	70,770	29,262	41,508