

October 2, 2017

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EPCOR Southern Bruce Gas Inc. Applications for Approval of Franchise Agreements and CPCNs, Board File Nos. EB-2016-0137, EB-2016-0138, EB-2016-0139 - CIP Parameters**

In Procedural Order No. 8 in the above noted proceeding, the Ontario Energy Board (the “Board”) indicated that the proponents had agreed to work together to determine average customer consumption values, and that several Common Infrastructure Plan (CIP) parameters would be used by both proponents in the determination of CIP Comparison Criteria measures. The purpose of this letter is to advise the Board of the details of agreed parameters established by EPCOR and Union Gas.

Customer Consumption<sup>1</sup>

The following annual average consumption values for forecasted mass market customer attachments will be incorporated in the calculation of annual revenue requirements:

Segment/Sub-Segment		Average Annual Consumption (m <sup>3</sup> /year)
Residential	Pre-existing homes	2,149
	Future Construction	2,066
Commercial	Small (0-1,500 m <sup>3</sup> /year)	4,693
	Medium (15,001-50,000 m <sup>3</sup> /year)	26,933
	Large (>50,000 m <sup>3</sup> /year)	75,685
Agricultural	Cash Crop Farm (excl. large grain dryers)	4,720
	Other Agri-Business	4,720

For the above segments, in the year each specific customer attaches, the volume will be 50% of the above figure<sup>2</sup>. Industrial, large grain dryer, and poultry or other similar large farm

<sup>1</sup> EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 5.

<sup>2</sup> OEB Staff Progress Update to the Board, July 20, 2017, p. 5.

consumption values will vary for each proponent, and their volumes in the year of connection will be based on expected connection timing for those customers.

### Depreciation Rates<sup>3</sup>

The following annual depreciation rates, as approved in EB-2011-0210, will be used:

<b>Plant Grouping Code</b>	<b>Description</b>	<b>Book Depreciation Rate<sup>4</sup></b>
<b>TRANSMISSION PLANT</b>		
46100	Land Rights Not tax deductible (25%) Tax deductible (75%)	1.76%
46200	Structures and Improvements Buildings (Including systems to run buildings)	2.03%
46501	Mains - Metallic	1.98%
46600	Compressor Equipment	3.23%
46700	Measuring and Regulating Equipment	2.60%
<b>DISTRIBUTION PLANT- SOUTHERN OPERATIONS</b>		
47100	Land Rights	1.65%
47200	Structures and Improvements Buildings (Including systems to run buildings)	2.22%
47301	Services - Metallic	2.81%
47302	Services - Plastic	2.51%
47400	Regulators	5.00%
47401	Regulator and Meter Installations	2.80%
47501	Mains - Metallic	2.83%
47502	Mains - Plastic	2.31%
47700	Measuring and Regulating Equipment	3.66%
47800	Meters	3.82%

### Inflation Costs<sup>5</sup>

For purposes of CIP comparison, both proponents will apply the most recent four quarter average annual inflation rate as determined from GDP IPI FDD, which is 1.27% as reported for the second quarter of 2017.

<sup>3</sup> EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 5.

<sup>4</sup> Depreciation rates per Union Gas 2013 Rate Case Evidence (EB-2011-0210) – Exhibit D3, Tab 4, Schedule 1.

<sup>5</sup> EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 8.

### Net Present Value of Gross Revenue Requirement<sup>6</sup>

The Board indicated that it would be assisted in seeing the net present value of the gross revenue requirement for each CIP proposal, but also indicated that the costs of debt and return on equity, which are commonly used to establish a discount rate to determine net present value, are not expected to be provided in the proponents CIP submissions<sup>7</sup>. For this reason the proponents have agreed to apply a common discount rate of 4%, which is commonly used as a proxy for a “real” discount rate in DSM and CDM Cost Effectiveness Tests<sup>8</sup>.

### Corporate Tax Rate<sup>9</sup>

Both proponents will apply a corporate income tax rate of 26.5%, which is the sum of 15% federal tax rate and 11.5% Ontario provincial tax rate.

### Prescribed Interest Rate<sup>10</sup>

For the purpose of calculating interest during construction, both proponents will use 2.99%, which is OEB’s Construction Work in Progress (“CWIP”) account prescribed interest rate for Q4, 2017.

Both proponents have agreed upon the above values and will apply them in their respective CIP proposals.

Yours truly,

*(Original signed by)*

Karen Hockin, P. Eng.  
Manager, Regulatory Initiatives  
Union Gas Ltd.

*(Original signed by)*

Bruce Brandell  
Director of Commercial Services  
EPCOR Southern Bruce Gas Inc.

Cc: Charles Keizer, Torys  
Mark Kitchen, Union  
Richard King, Osler  
Britt Tan, EPCOR Utilities Inc.

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<sup>6</sup> Ibid, p. 8.

<sup>7</sup> Ibid, p. 6.

<sup>8</sup> EB-2014-0134 Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p. 35.

<sup>9</sup> *Corporation Tax Rates*, Government of Canada - Revenue Agency, 7 February 2017. Web. 14 September 2017  
<https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

<sup>10</sup> *Prescribed Interest Rates*, Ontario Energy Board, 15 September 2017. Web. 15 September 2017  
<https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates>