EPCOR

2000 – 10423 101 St NW, Edmonton, AB
T5H 0E8 Canada
**epcor.com**

December 14, 2017

**VIA RESS AND COURIER**

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

Dear Ms. Walli:

**Re: EPCOR Southern Bruce Gas Inc. Interrogatories**
**South Bruce Expansion CIP Proposals EB-2016-0137 | EB-2016-0138 | EB-2016-0139**

Pursuant to Procedural Order No. 9, please find EPCOR Southern Bruce Gas Inc.'s proposed interrogatories and background information related to such interrogatories for the above applications.

Sincerely,

*[Original signed by]*

Bruce Brandell
Director, Corporate Development
EPCOR Commercial Services Inc.
bbrandell@epcor.com
(780) 412-3720

**INTERROGATORIES**

**ON BEHALF OF**

**EPCOR SOUTHERN BRUCE GAS INC.**

## EPCOR-1

**Ref: Procedural Order 9 / Appendix A / Board Interrogatory 2(b) to Union**

**Preamble for OEB:**

EPCOR Southern Bruce Gas Inc. ("**EPCOR**") understands that the intent of interrogatory 2(b) from the Board to Union Gas Limited ("**Union**") is to develop a scenario in which Union's attachment rates are normalized with the information provided in EPCOR's common infrastructure proposal ("**CIP**") to allow for a point of comparison between the two submissions. EPCOR is concerned that the current wording of this interrogatory may yield an answer which does not provide a valid point of comparison. As an example, within the Commercial Customer Type there are three usage categories, Small, Medium and Large. The parties have agreed to use annual consumption levels for these categories of 4,693m$^3$, 26,933m$^3$ and 75,685m$^3$ respectively. One method of answering this interrogatory would be to assume a 65% attachment rate for each of these usage categories. A second method would be to start with retaining all the customers in the Large usage category, then working down to the Medium and Small categories until a 65% attachment rate for the total market size of the Commercial Customer type has been achieved. In this second method, the effect would be biased towards retaining higher volume customers resulting in a much higher overall volume for the Commercial Customer type. Such a result would not reflect reality, nor provide the necessary comparable clarity between the two proposals. A utility would not refuse to attach a Small usage Commercial Customer, and an expectation of a 100% attachment rate of Large usage Commercial Customers would be unreasonable. Therefore, this method will not be a valid comparison with EPCOR's submission as EPCOR made the legitimate assumption that it will attach a similar percentage of Commercial Customers in all three categories. One method of ensuring the results for this scenario are normalized with EPCOR's submission is to use the same average consumption for Commercial Customers that EPCOR used. This average consumption can then be multiplied against the number of Commercial Customers necessary to reach an attachment rate of 65%. For the Board's information, the average consumption volume EPCOR used for Commercial Customers is 11,144 m$^3$.

A second concern is that in reducing its attachment rate, Union can focus on eliminating higher cost customers. This may result in a reduction of the geographical area serviced by the gas delivery system as high cost areas are eliminated. This will create a scenario that is not a valid comparison to EPCOR's original submission as, in order to meet the objectives of the municipalities and ratepayers to maximize the benefit of natural gas within the area, EPCOR's CIP proposes to service high and low cost customers who live within an extended geographical area.

**Interrogatory to Union:**

In order to address the above concerns, EPCOR suggests that Board interrogatory 2(b) be reworded as follows:

2(b) Use attachment rates of 60% residential and 65% commercial (at an average consumption of 11,144 $m^3$ for all Commercial Customers) to recalculate and provide the following metrics and CIP criteria. When recalculating the following metrics and CIP criteria, all other assumptions used in Union's CIP should remain the same (e.g. timing of customer attachments).

1. Net Present Value (NPV) of 10-year Revenue Requirement
2. Cumulative 10 year Revenue Requirement
3. Cumulative 10 year Revenue Requirement per Unit of Volume
4. Customer Years
5. Cumulative 10 year Volume

**EPCOR-2**

**Ref: Procedural Order No. 9 / Appendix A / Board Interrogatory 2(c) to Union and EPCOR**

**Preamble for OEB:**

For Board interrogatory 2(c), EPCOR would like to clarify the intent of the underlined words:

Assuming no industrial customers (and associated pipe and volumes)…

EPCOR understands that the underlined words relate only to the pipe that is used to directly connect a particular industrial customer and not to the more general system requirements necessary to distribute the volume from the tie-in with Union's transmission system to that industrial customer. In order to determine the more general system requirements, EPCOR and Union will have to redesign their respective systems. This task will require significant effort and cost. As a system that does not attach to industrial customers is not economically viable, it is not clear how prudent such an exercise will be.

**Interrogatory to EPCOR and Union:**

Therefore, EPCOR proposes that Board interrogatory 2(c) to Union and EPCOR be clarified as follows:

> Assuming no industrial customers (and the pipe used to directly connect the industrial customers and associated volumes with all other assumptions remaining the same)…

This wording will ensure that the parties answer the interrogatory using the same assumptions, allowing for a better comparison between the results.

**EPCOR-3**

**Ref: Union CIP Proposal / Page 6 – Table 1 / Page 18 – Table 7 / Page 19 – Table 8 / Schedule 5**
**EPCOR's CIP Proposal / Page 2 - Schedule C**

**Preamble:**

In Union's CIP it provided the following:

> Table 1 with a 10 year revenue requirement forecast
>
> Table 7 with a customer attachment forecast
>
> Table 8 with a 10 year volume forecast

In Schedule 5 of Union's CIP, it indicates that phase one of the system will be in service in November 2019. As noted in Schedule C of the joint letter of EPCOR and Union filed with the Board on October 2, 2017, the parties have agreed that the volume recorded for industrial customers will reflect the date a particular industrial customer is forecast to be connected to the system. Table 7 indicates that the three industrial customers served by Union are attached in year 1. The industrial customer volume for year 1 is forecast at 16,596,000 $m^3$ which suggests those customers are connected at the beginning of year 1 as annual industrial volume does not increase materially in year 2 and beyond. There are also 1,507 residential and 105 commercial customers attached in year 1. Given the above volume forecast there is an apparent disconnect when linking theses volumes with the revenue requirement for the 12 months of year 1 which is forecast to be $471,000. The revenue requirement in year 2 is forecast to be $5,234,000 (an increase of 1,000%) and increases annually from that value. It appears that the revenue requirement for year 1 is not aligned with having all industrial customers connected for a full year plus residential and commercial customers connected within that year.

**Interrogatory to Union:**

Please confirm the time period for year 1, including the start and end month and year.

Please provide a detailed explanation as to why the revenue requirement for year 1 is materially different from year 2. The response should include an explanation as to the material drivers for the increase in the revenue requirement from year 1 to year 2.

Please recalculate the revenue requirement and/or forecasted volumes for year 1 taking into account the length of time that the system is in service (including Industrial Customers) for that year. Using that value, recalculate the following CIP metrics, keeping all other assumptions constant:

1. Net Present Value (NPV) of 10-year Revenue Requirement
2. Cumulative 10 year Revenue Requirement
3. Cumulative 10 year Revenue Requirement per Unit of Volume
4. Customer Years
5. Cumulative 10 year Volume

**EPCOR-4**

**Ref: Calculation of comparison criteria in EPCOR and Union CIPs – beginning of 10 year rate stability period**

**Preamble:**

For each of Union and EPCOR's CIPs, the parties did not agree, and the Board did not specify, when during the project life the 10 year rate stability period should begin. As such, options include at the start of project construction, or when the first customer is attached. In EPCOR's CIP, the 10 rate year stability period was started as of January 2019, the year when construction began as EPCOR will have an approved tariff at that time. As a result, for the first year of the project (2019), EPCOR only included industrial volumes for the two last months when the system was in service. This means that over the 10 year rate stability period EPCOR has 110 months of industrial customer volume included in its total volume values. It appears that Union started its 10 year period when the system was in service. As a result, Union appears to have 120 months of industrial customer volume in its total volume values. This will result in two of the three metrics agreed to between the parties – cumulative 10 year revenue requirement per unit of volume and cumulative 10 year volume – are not using the same number of months over which industrial volume is accumulated when calculating the metric. For residential and commercial customers there appears to be no misalignment on the volumes between EPCOR and Union as both EPCOR and Union agreed on the common assumption that residential and commercial customers will be connected at midyear for volume calculation purposes. In order to ensure the agreed to metrics are directly comparable, EPCOR proposes that it recalculate its metrics using the same timing assumption that Union appears to have used by starting the 10 year rate stability period at the time of initial customer attachment.

**Interrogatory to EPCOR and Union:**

Please confirm the point of time in the project that the 10 year rate stability period begins.

If you did not begin the 10 year rate stability period at the time of initial customer attachment, please recalculate the below metrics using that assumption. All other assumptions used in the CIP should remain unchanged:

1. Net Present Value (NPV) of 10-year Revenue Requirement
2. Cumulative 10 year Revenue Requirement
3. Cumulative 10 year Revenue Requirement per Unit of Volume
4. Customer Years
5. Cumulative 10 year Volume

**EPCOR-5**

**Ref: O&M Costing Methodology / Union CIP Proposal**
**O&M Costing Methodology / EPCOR CIP Proposal / Page 26**

**Preamble:**

In Procedural Order No. 8 for these proceedings, the Board reaffirmed the principle of fully allocated costs as set out in the Generic Decision in EB-2016-0004, which prevents cross-subsidization of new expansion customers by current ratepayers[1]. In page 26 of EPCOR's CIP, EPCOR confirms alignment with the Board's direction for fully allocated costs, and provides its methodology of ensuring full costs are borne by Southern Bruce ratepayers fairly and equitably. While in its CIP Union affirms the use of common assumptions, on a number of matters, there is no confirmation of the use of fully allocated costs. Given the importance of this principle and the material impact it could have on the economics of system expansion and on current customers there should be direct confirmation of the use of fully allocated costs.

**Interrogatory to Union:**

Please confirm that when determining the revenue requirement for each year of your CIP all O&M costs were determined using the principle of fully allocated costs. Provide detail as to how this principle was adhered to when calculating these costs.

[1] Page 8 of decision on Preliminary Issues and Procedural Order No. 8 for EB-2016-0137/0138/0139 dated August 22, 2017.