

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

1. Ref: Union Ex. B, Tab 1, page 18 of 48

Issue Number: 1.1

Issue: What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

In its evidence under the topic of Revenue Cap vs. Price Cap, Union states that a price cap will provide greater incentives for the utility to implement productivity improvements compared to cost of service regulation.

- a) Does Union believe that a price cap provides greater incentives for the utility to implement productivity improvements compared to a revenue cap? Please elaborate.

2. Ref: Union Ex. B, Tab 1, page 1 of 48

Issue Number: 1.1

Issue: What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks

Union states in evidence that it is proposing to implement a five year price cap regulatory framework that will take effect January 1, 2008.

- a) If the Board decided on a revenue cap for Union, would Union's IR parameter proposals change (e.g., plan term, marketing flexibility, inflation factor, off-ramps, etc.)?

3. Ref: Union Ex. B, Tab 1, page 12 of 48

Issue Number: 1.3

Issue: Should weather risk continue to be borne by the shareholders, and if so what other adjustments should be made?

Union states in evidence that the 20-year trend forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates.

- a) Does Union believe that its shareholders should continue to bear weather risk? Please explain.
- b) If the weather risk was removed from the shareholder, would Union need to change its proposed IR plan? Please explain.

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

4. Ref: Union Ex. B, Tab 1, page 32 of 48

Issue Number: 3.1

Issue: How should the X factor be determined?

Union states that “the proposed stretch factor is purely an ad hoc add-on. Its value cannot be determined from the logic of price indexing as are other components of the price cap formula.”

- a) Does the stretch factor have to be determined from the logic of price indexing to have validity?
- b) Does Union believe that the benefits of improved performance under the plan should be shared between the company and its customers?
 - i. If yes, what features of its proposed plan ensure that customers receive a just and reasonable share of plan benefits?
- c) Suppose that a company has an opportunity in year 1 of a five year plan to reduce costs or bolster revenue for three years. Will rebasing ensure that consumers benefit from this initiative?
- d) Do companies have an incentive under some PBR plans to defer certain kinds of expenditures until the end of the plan and then to try to recover them in the next rate case?
 - i. Is it possible, because of this problem, that customers sometimes do not experience any net benefits from PBR at the time of rebasing?

5. Ref: Union Ex. B, Tab 1, page 32 of 48

Issue Number: 3.1

Issue: How should the X factor be determined?

Union states that it “has had significant motivation to implement productivity improvements over the last ten years”.

- a) Does an incentive to improve productivity necessarily translate into superior productivity growth?

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

6. Ref: Union Ex. B, Tab 1, pages 32-34 of 48

Issue Number: 3.3

Issue: What are the expected cost and revenue changes during the IR plan that should be taken into account in determining the appropriate X factor?

Union states in evidence that there is no justification for a stretch factor during its next IR plan term. During the IR period, Union will manage the risks under the price cap formula relating to: declining use per customer beyond the amount provided in the price cap formula; changing workforce demographics; compensation and pension and benefit cost pressures; natural gas price volatility; and changes in the exchange rate.

- a) Please substantiate Union's claim that the noted events are risks to Union's ability to manage its business within an annual inflationary increase during the IR term.
- b) Please elaborate whether the noted events could benefit Union. For example could a pension plan re-evaluation, decline in the Canadian dollar, reduction or stability in gas prices and a younger work-force result in increases to Union's revenues and/or reductions in its costs?
- c) Please provide Union's estimate, with supporting documentation where applicable, of the adjustment that would be required to the price cap formula to mitigate the risk of declining average use beyond the amount provided in PEG's recommendation.
- d) Please provide examples of other jurisdictions / cases where an IR plan was approved without a stretch factor.

7. Ref: Union Ex. B, Tab 1, page 11 of 48

Issue Number: 4.2

Issue: How should the impact of changes in average use be calculated?

Union states in evidence that as approved by the Board in the EB-2005-0520 Decision with Reasons dated June 29, 2006 Union will be splitting the existing M2 rate class into two new rate classes – M1 and M2.

- a) Please complete the tables below for Union's new M1 and M2 rate classes.

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

M1 rate class					
Years	Annual Normalized Volume (m ³)	If no DSM - Annual Normalized Volume (m ³)	Number of Customers	Average Use per Customer (m ³)	If no DSM - Average Use per Customer (m ³)
2000					
2001					
2002					
2003					
2004					
2005					
2006					

M2 rate class					
Years	Annual Normalized Volume (m ³)	If no DSM - Annual Normalized Volume (m ³)	Number of Customers	Average Use per Customer (m ³)	If no DSM - Average Use per Customer (m ³)
2000					
2001					
2002					
2003					
2004					
2005					
2006					

- b) During the data and information gathering phase supporting PEG's study, were there any considerations given to or analyses conducted to determine whether different PCIs should apply to the new M1 and M2 due to their respective average use trends?
- c) Does Union believe that a common PCI for the new M1 and M2 rate classes is appropriate? Please explain.

8. Ref: Union Ex. B, Tab 1, pages 26-31 of 48

Issue Number: 4.3

Issue: If so, how should the impact of changes in average use be applied (e.g., to all customer rate classes equally, should it be differentiated by customer rate classes or some other manner)?

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

Union states in evidence that it has been experiencing flat to declining total distribution throughput growth at the same time that the number of customers and costs continue to grow.....Declining use of Union's general service group is identified in Charts 3, 4, 5, 6, 7, 8 and 9.

a) Please complete the following table.

General Service Group (summation of all the individual rate classes within the general service group [i.e., M2, Rate 01 and 10])					
Years	Annual Normalized Volume (m ³)	If no DSM - Annual Normalized Volume (m ³)	Number of Customers	Average Use per Customer (m ³)	If no DSM - Average Use per Customer (m ³)
2000					
2001					
2002					
2003					
2004					
2005					
2006					

b) Please complete the following table.

All Other Service Group (total minus summation of all the individual rate classes within the general service group)					
Years	Annual Normalized Volume (m ³)	If no DSM - Annual Normalized Volume (m ³)	Number of Customers	Average Use per Customer (m ³)	If no DSM - Average Use per Customer (m ³)
2000					
2001					
2002					
2003					
2004					
2005					
2006					

c) Please confirm that the annual normalized volume does not include the volumetric losses captured in the LRAM?

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

9. Ref: Union Ex. B, Tab 1, pages 36-37 of 48

Issue Number: 4.3

Issue: If so, how should the impact of changes in average use be applied (e.g., to all customer rate classes equally, should be differentiated by customer rate classes or some other manner)?

Union states in evidence that a simpler and more intuitive approach to calculate the X factor applicable to the general service rate classes (M2, Rate 01 and Rate 10) should be used. This would be calculated by adjusting the company wide average use factor by the combined revenue share of the general service rate classes. Further, Union recommends that there not be an average use factor adjustment for rate classes other than the general service rate classes.

- a) Union states that “it does not understand how the ADJ can be determined using PEG’s approach without doing a productivity study by rate class.” Is Union concerned with how the growth in the output of the service groups impacts the utility’s costs at the rate class level? Please explain.

10. Ref: Union Ex. B, Tab 1, page 37 of 48

Issue Number: 5.1

Issue: What are the Y factors that should be included in the IR plan?

- a) Please list Union’s 2007 deferral and variance accounts that have been approved by the Board.
- b) Please indicate those accounts that Union is seeking approval to continue during the IR plan.

11. Ref: Union Ex. B, Tab 1, page 40-41 of 48

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

Union states in evidence that these permits fees should be included as a Z factor.

- a) Did Union consider whether permit fees should be included as a Y factor?
 - i. If yes, why was this option rejected?

Board Staff Interrogatories

Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

- b) Based on historical number of permits per year, please provide a forecast (or a range) of the annual amount that Union expects to be considered for recovery as a Z factor.
 - i. Does Union propose that all permit fees be expensed or would some fees be capitalized?
 - ii. If yes, please provide an itemization of permit categories and a description including rationale of their respective accounting treatment.
- c) Please provide a list of municipalities in its franchise area that have passed a by-law to charge utilities for permits.

12. Ref: Union Ex. B, Tab 1, page 40 of 48

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

Union states in evidence that the criteria for causation is amounts that should represent an increase or decrease in costs resulting from, attributed to or in respect of, directly or indirectly, a Z factor event.

- a) Please provide examples of the types of costs that could be indirectly attributed to or in respect of a Z factor event.

13. Ref: Union Ex. B, Tab 1, page 40 of 48

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

Union states in evidence that the criteria for materiality is the threshold amount should be \$1.5 million per Z factor event. The Z factors will be symmetrical (i.e. cost increases or decreases).

- a) Please confirm whether the threshold amount should be: 1) \$1.5 million per Z factor event or 2) \$1.5 million per item within a Z factor event (as approved by the Board for Union's trial PBR plan in RP-1999-0017).

14. Ref: Union Ex. B, Tab 1, page 40 of 48

Board Staff Interrogatories

Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

Issue Number: 6.1

Issue: What are the criteria for establishing Z factors that should be included in the IR plan?

Union states in evidence that the criteria for “the inability of management to control” is the amount that must be attributable to a Z factor event which means an event, change, effect or occurrence outside of management’s control.

- a) Please give examples of an “occurrence outside management’s control”.
- b) Please give examples of an “effect outside management’s control”.

15. Ref: Union Ex. A, Tab 2, Application, para 3(d)

Issue Number: 10.1

Issue: Should an ESM be included in the IR plan?

Union states in evidence that it is not proposing an ESM in the IR plan.

- a) Please outline the rationale for Union’s position. For example, does Union believe that an ESM dilutes the incentive to achieve efficiencies?

16. Ref: Union Ex. B, Tab 1, pages 42-43 of 48

Issue Number: 11.1

Issue: What information should the Board and stakeholders be provided with during the IR plan?

In its evidence on Reporting Requirements, Union states that there should be no additional constraints on the utility’s ability to manage its business other than what exists today (e.g., legislation, Undertakings, ARC, GDAR and RRR).

- a) Would filing the following additional information on an annual basis constrain Union’s ability to manage its business – Standard ROE calculation schedules and Capital expenditures (annual actual capital expenditures by USoA accounts)?
 - i. If yes, please explain.

17. Ref: Union Ex. A, Tab 2, Application, para 7

Issue Number: 12.1.1

Issue: What should be the information requirements?

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

In its application Union states that it may apply to the OEB for approving interim rates and accounting orders as may from time to time appear appropriate or necessary.

- a) Please clarify if: 1) Union is requesting that its 2007 base rates be declared interim as of January 1, 2008 or 2) Union is intending to come forward with a proposal for an Interim Rate Order that would supersede, on an interim basis, the 2007 Board approved rates until such time that a final Rate Order is issued and effected in rates. If the latter is applicable, please indicate when Union will be filing its proposal.

18. Ref: Union Ex. B, Tab 1, page 45 of 48

Issue Number: 13.1

Issue: What information should the Board consider and stakeholders be provided with at the time of re-basing.

Union proposes that at the time of re-basing, it would provide historical year actuals (2011), bridge year (2012) and test year (2013).

- a) Does Union believe that including “continuity of rate base by plant type” schedules (tracking the actuals for 2007, 2008, 2009, 2010 and 2011) in the re-basing material will avoid time-consuming and onerous after the fact information collecting at the time the 2013 test year is examined?
- i. If no, please explain.

19. Ref: Union Ex. B, Tab 1, page 12 of 48

Issue Number: 14.1

Issue: Are there adjustments that should be made to base year revenue requirements?

Union states in evidence that it is requesting the elimination of the following three deferral accounts (179-69 -Transportation Exchange Services Account, 179-73 -Other S&T Services Account and 179-74 -Other Direct Purchase Services Account) beginning January 1, 2008.

- a) Please provide historical year end balances for each year from 2003 to 2006 and estimate for 2007 for each of the three accounts that Union has requested to eliminate. Please use the following headings for the table:

Year	Account No.	Balance for disposition
------	-------------	-------------------------

Board Staff Interrogatories
Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

		credit/(debit)
2003		
2004		
2005		
2006		
2007 (est)		

- b) In Union's view, should the Transportation and Storage Revenue in 2007 base rates be also adjusted if the three deferral accounts are eliminated?

20. Ref: Union Ex. B, Tab 1, page 12 of 48

Issue Number: 14.1

Issue: Are there adjustments that should be made to base year revenue requirements and/or rates?

Union states in evidence that the 20-year trend forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates.

- a) Please confirm that the 2007 Settlement Agreement in proceeding EB-2005-0520 included base rates that would be adjusted for only one more year to reflect a 50:50 weighting in fiscal 2008.

21. Ref: Union Ex. B, Tab 1, page 17 of 48

Issue Number: 12.3.2

Issue: How should the changes in the rate design be implemented?

Union states in evidence that it should have the ability, as it currently does under cost of service regulation, to adjust the fixed monthly charge and the variable charge on a revenue neutral basis annually. Also, Union states that it has been slowly (in increments of \$1 or \$2 per year) moving the fixed monthly charge towards full customer-related cost recovery.

- a) Please provide Union's target(s) and associated timelines for moving the fixed monthly charge towards full customer-related cost recovery. For example, is Union planning to implement 100% of full customer-related cost recovery in the next 5 years?

Board Staff Interrogatories

Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

- b) Based on the response to part (a), and using Union's 2007 Board approved rates, please provide the impact on distribution rates (in absolute and relative terms) of adjusting the fixed monthly charge and variable charge on a revenue neutral basis for the M2, Rate 01, Rate 10 rate classes for the following sub-classification of customers:
 - i. Typical residential customer with heating and water heating
 - ii. Typical residential customer with water heating
 - iii. Medium commercial customer
 - iv. Large commercial customer
- c) When adjusting the fixed monthly charge and the variable charge on a revenue neutral basis, could the fixed monthly charge and the variable charge increase/decrease more than the allowed price cap?
- d) Does Union agree that an increase in the fixed monthly charge mitigates the impact of declining average use?
 - i. If no, please explain.
- e) If Union applies to further increase the fixed monthly charge during the IR plan term, is it Union's view that a corresponding adjustment to PEG's X factor should be performed?
 - i. If no, please explain.
 - ii. If yes, please describe the process in which PEG's X factor would be adjusted.

22. Ref: Union Ex. B, Tab 1, page 17 of 48

Issue Number: 12.3.2

Issue: How should the changes in the rate design be implemented?

Union states in evidence that it would not be appropriate to apply the price cap equally to fixed and variable charges as it would result in fixed monthly charges that are not whole numbers.

- a) Please explain why having the fixed monthly charges that are not whole numbers is a concern.

Board Staff Interrogatories

Union Gas – 2008 Rates under an IR Framework (EB-2007-0606/0615)

- b) Are there other reasons (in addition to the fixed monthly charges not being whole numbers) why Union would not apply the price cap equally to fixed and variable charges? Please explain.
- c) Has customer acceptance been an issue in the past when Union received approval to increase the fixed monthly customer charge?