Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 1

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

Question:

Please provide a summary table for the years 2000 to 2007 inclusive showing, on an actual basis:

- a) Utility rate base (year-end)
- b) Annual capital investment
- c) Annual Operating and Maintenance expenses
- d) Return on Equity (ROE) in dollars and percentage
- e) Delivery rate change from previous year for Rates M2 and T3
- f) GDP IPI FDD

Response:

Please see attached.

Line No		2000	2001	2002	2003	2004	2005	2006
•	Utility Rate Base	2.898.3	3.134.0	3.107.7	3.044.3	3.044.7	3.080.9	3.197.5
5	Annual Capital Investment (\$millions)	203.38	218.12	192.73	134.78	146.60	230.60	337.66
ę	Net Utility Operating and Maintenace Expense (\$millions)	243.75	253.86	280.88	281.49	298.31	302.81	310.24
4	Return on Equity (\$millions) - Actual	107.70	97.80	112.80	127.60	121.10	116.40	94.90
5	Return on Equity (%) - Actual	10.62	9.30	10.75	11.98	11.36	10.79	8.48

a) to d)

Question: August 22, 2007 Answer: September 4, 2007 Docket: EB-2007-0606 / EB-2007-0615

Exhibit C15.1 Page 2 of 4

Exhibit C15.1 Page 3 of 4

Rate M2 Delivery Rates 2000-2007 Percent Change in Average Unit Price Includes Monthly Customer Charge, Delivery and Storage; Excludes Prospective Recovery

Line No.	Particulars	EBRO Number	Average Unit Price (cents/m ³) (a)	M2 Delivery Percent Change (%) (b)
1	Decision January 1, 2000	RP-1999-0017	9.1317	
2	Decision January 1, 2001	RP-2001-0029	9.5061	4.1%
3	Decision January 1, 2002	RP-2001-0029	9.2827	-2.4%
4	Decision January 1, 2003	RP-2002-0130	9.1410	-1.5%
5	Decision January 1, 2004	RP-2003-0063	9.7904	7.1%
6	Decision January 1, 2005	RP-2003-0063	9.7154	-0.8%
7	QRAM January 1, 2006	EB-2005-0531	9.5996	-1.2%
8	QRAM January 1, 2007	EB-2006-0502	10.3666	8.0%

Rate T3 Delivery Rates 2000-2007 Percent Change in Average Unit Price

Line		EBRO	Average Unit Price	T3 Delivery Percent Change
No.	Particulars	Number	(cents/m ³)	(%)
			(a)	(b)
1	Decision January 1, 2000	RP-1999-0017	2.0625	
2	Decision January 1, 2001	RP-2001-0029	2.3842	15.6%
3	Decision January 1, 2002	RP-2001-0029	2.1204	-11.1%
4	Decision January 1, 2003	RP-2002-0130	2.0972	-1.1%
5	Decision January 1, 2004	RP-2003-0063	2.1050	0.4%
6	Decision January 1, 2005	RP-2003-0063	1.9619	-6.8%
7	QRAM January 1, 2006	EB-2005-0531	1.8187	-7.3%
8	Decision January 1, 2007	EB-2005-0520	1.7385	-4.4%

Question: August 22, 2007 Answer: September 4, 2007 Docket: EB-2007-0606 / EB-2007-0615

e)

Inflation Index: 2002 = 100.0 GDP IPI FDD

Year	Q1	Q2	Q3	Q4
1999	93.4	93.7	94.0	94.3
2000	94.9	96.1	96.4	96.9
2001	97.0	97.9	98.0	98.2
2002	98.9	99.6	100.4	101.1
2003	101.3	101.0	102.0	101.7
2004	102.3	103.3	103.4	103.8
2005	104.4	105.2	105.8	105.9
2006	107.0	107.2	107.6	108.0
2007	109.1	109.9	n.a	n.a
2007	109.1	109.9	n.a	n.a

source: Statistics Canada

Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 1

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

Question:

Where appropriate, please provide weather normalized adjustments to the components shown in the preceding table for the years 2000 to 2007 inclusive, as follows:

a) Using the Board approved weather normalization method; and,

b) Using the Company's proposed 20-year declining trend weather normalization method.

Response:

a) and b) Please see attached schedule.

Exhibit C15.2 Page 2 of 2

	Ι	2000	2001	2002	2003	2004	2005	2006
(a)	Weather normalization adjustment using Bo	ard Appro	ved					
	Return on Equity (\$million's) Return on Equity (%)	5.1 0.5	22.7 7 7	16.9 1 6	1.1	1.5	2.1	19.9 1-8
			1.1	0.1	1.0	0.1	7.0	0.1
(q)	Weather normalization adjustment using 20	year decli	ning trend					
	Return on Equity (\$million's)	(10.2)	15.8	8.1	(10.9)	(4.4)	(8.5)	14.6
	Return on Equity (%)	(1.0)	1.5	0.8	(1.0)	(0.4)	(0.8)	1.3

Note:

1 Positive number indicates a year in which Union experienced warmer than normal weather (i.e. this amount is added back in order to determine weather normalized ROE)

Question: August 22, 2007 Answer: September 4, 2007 Docket: EB-2007-0606 / EB-2007-0615

Exhibit C15.3

UNION GAS LIMITED

Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 1, p. 2

Issue 10.1 - Should an ESM be included in the IR plan?

Question:

Respecting the statement "incentive-diluting effects" of an earnings sharing mechanism ("ESM") as quoted from page 16 of the OEB's Natural Gas Forum Report:

- a) Please provide any reports, data, research or analysis in the possession of the company which examine the effects of the ESM on the company as approved in RP-1999-0017, during the term of its operation; and,
- b) Please provide the details of any facts which the company relies on to support its proposal to exclude an ESM from the next incentive regulation plan.

Response:

- a) No reports, data, research or analysis of the nature requested are available.
- b) Please see interrogatory response provided at Exhibit C1.15.

Answer to Interrogatory from <u>City of Kitchener ("Kitchener")</u>

Reference: Exhibit B, Tab 1

Issue 10.1 - Should an ESM be included in the IR plan?

Question:

For the years 2001 to 2007 inclusive please provide a table showing:

a) Allowed ROE

b) Actual ROE (before sharing under ESM)

c) Actual ROE (after sharing under ESM)

d) Amount of excess earnings credited to customers under the ESM

e) Amount of excess earnings retained by Union under the ESM

f) Actual heating DDD

g) Normal heating DDD

Response:

Exhibit C15.4 Page 2 of 2

a) to g)

Line No.		2001	2002	2003	2004	2005	2006	2007
-	Allowed Return on Equity (%)	9.95	9.95	9.95	9.62	9.63	8.89	
2	Actual ROE before earnings sharing	9.30	10.75	12.75	11.36	11.38	8.80	
Э	Actual ROE after earnings sharing	9.30	10.75	11.98	11.36	10.79	8.48	
4	Excess Earnings shared with customers (after tax) \$ millions	•	ı	8.30	•	6.27	3.60	
5	Excess Earnings retained by Union (after tax) \$ millions		•	8.30	,	6.27	3.60	
9	Actual heating DD	3,748	3,976	4,246	4,126	4,041	3,605	N/A
7	Normal heating DD	4,288	4,284	4,268	4,170	4,180	4,177	4,139

Question: August 22, 2007 Answer: September 4, 2007 Docket: EB-2007-0606 / EB-2007-0615

Answer to Interrogatory from <u>City of Kitchener ("Kitchener")</u>

Reference: Exhibit B, Tab 1

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

Question:

Assuming approval of Union's application, please show the change in delivery rate for each rate class for 2008 in percentage terms.

Response:

Please see interrogatory response provided at Exhibit C2.2 a).

Answer to Interrogatory from <u>City of Kitchener ("Kitchener")</u>

Reference: Exhibit B, Tab 1

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

Question:

Assuming approval of Union's application, please show Union's proposed rate change for each component of the T3 rate.

Response:

Please see interrogatory response provided at Exhibit C2.2 a).

Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 1

Issue 14.1 - Are there adjustments that should be made to base year revenue requirements and/or rates?

Question:

Weather Normalization Method

At page 12 of Exhibit B, Tab 1, Union proposes an adjustment of approximately \$ 7 million to base rates to fully reflect the 20-year declining trend weather forecasting methodology.

- a) Please confirm that this adjustment is an annualized amount.
- b) Please provide the details of this adjustment by rate class.
- c) If this adjustment is approved by the Board, would an offsetting reduction in Union's ROE be appropriate since the adjustment would presumably mitigate "a substantial risk to the company" during the term of the IR plan?
- *d) Please provide the percentage reduction in ROE that would offset the forecasting methodology adjustment.*
- *e)* If Union is not prepared to accept a reduction in its allowed ROE in this manner, please provide an explanation or rationale.

Response:

- a) Confirmed. The adjustment of approximately \$7 million will be applied to 2007 base rates only. No future adjustments will be made during the incentive regulation term.
- b) Please see interrogatory response provided at Exhibit C3/C16/C33.3 a).
- c) to e) No. A reduction in Union's ROE is not appropriate. Please see interrogatory responses provided at Exhibits C13.28 and C23.14.

Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 2

Issue 14.1 - Are there adjustments that should be made to base year revenue requirements and/or rates?

Question:

Weather Normalization Method

At page 1 of Exhibit B, Tab 2, Union states that "the weather normalization method is also used for...allocating storage capacity to customers electing semi-unbundled and unbundled service".

- *a)* Please confirm that the weather normalization method only impacts the allocation of storage capacity if the aggregate excess methodology is used.
- *b) If this is not the case, please explain fully how the weather normalization method impacts the allocation of storage capacity to customers.*
- c) Assuming that the aggregate excess methodology is used to allocate storage capacity to semi-unbundled and unbundled customers, please provide a comparison table which illustrates the allocation of storage capacity to such customers by rate class, including T1 and T3, using the 50/50 blended method and 20-year declining trend method.
- d) Please estimate, at current pricing levels, the incremental annualized margin achieved by Union on storage capacity notionally released (clawed back) from semiunbundled and unbundled customers for market based sales by the use of the 20-year declining trend method.

Response:

a) The Board confirmed in the NGEIR Decision (EB-2005-0551) that it supported the continued use of the aggregate excess method as the default method for allocating cost-based storage space (NGEIR Decision pp. 89).

At this time, Union cannot comment on the impact of weather normalization on any other undefined storage allocation methodology.

Under the aggregate excess methodology not all customers who are allocated storage space would be affected by a change in weather normalization method. Under Union's current Board approved method, only rate classes that are deemed heat sensitive would be affected by changing from the 55/45 blend to the 20 year declining trend method. This would include all general service rate classes, as well as the T3, M9 and U9 rate classes which also serve heat sensitive or general service loads.

b) Using current weather and demand data, changing to the 20 year declining trend method would cause the allocation of storage capacity to T3, M9, U9 and general service customers to decrease on a per customer basis. The subsequent decrease in the storage allocation is caused by a decrease in winter volumes which is greater than the decrease in the average day volumes. This creates a lower requirement for storage.

T1 customers would not be impacted by the weather method change as T1 forecasted demands do not include any 20 year or 30 year weather normalizations. T1 customers are not weather normalized because they typically are much less heat sensitive.

c) The following table represents a comparison of the approximate changes to the allocated storage space of the affected unbundled, and semi-unbundled rate classes.
T1 customers would not be affected by the change in weather normalization methods.

	55/45	20 Year Declining	
<u>PJ's</u>	Blend	Trend	Difference
U2 (1)	3.92	3.83	0.09
T3 (2)	3.11	3.04	0.07
Total			0.16

(1) Amount of Storage Space (SSS and SPS) allocated as at April 1/07.
(2) Based on forecast for November 2008.

d) Assuming that there were no customer additions or incremental demands from existing in-franchise customers the capacity outlined in part (c) could be sold into the secondary market. Based on the winter 2008/2009 theoretical value of storage of approximately \$1.053 CDN/GJ, the margin generated from 0.16 PJs of storage space would be approximately \$170,000. Union is still obligated to provide storage space to in-franchise customers, at cost, up to the 100 PJ cap outlined in the EB-2005-0551 Decision.

Answer to Interrogatory from City of Kitchener ("Kitchener")

Reference: Exhibit B, Tab 2, page 7

Issue 14.1 - Are there adjustments that should be made to base year revenue requirements and/or rates?

Question:

Weather Normalization Method

Please provide the statistical correlation between weather in Union's franchise area and Enbridge's Niagara region and Eastern region in a similar fashion to that shown for Toronto Pearson airport.

Response:

Please refer to table presented below. The correlation between Union's two regions and Enbridge Gas Distribution's three regions indicates a high correlation only with the Toronto region. The correlations with Niagara and Eastern are low and in the 50 to 60 percent range.

	Union	Union	EGD	EGD	EGD
	South	North	Niagara	Toronto	Eastern
Union South	100%				
Union North	91%	100%			
EGD Niagara	64%	51%	100%		
EGD Toronto	93%	90%	63%	100%	
EGD Eastern	65%	61%	89%	73%	100%

Answer to Interrogatory from <u>City of Kitchener ("Kitchener")</u>

Reference: Exhibit B, Tab 1, pages 42 to 45, and Tab 2

Issue 11.1 - What information should the Board consider and stakeholders be provided with during the IR plan?

Question:

During the term of the IR plan, how will Union track the impact of its proposed change in weather normalization method, if approved, on throughput volumes and revenues, and ensure that this reduction is kept separate from reductions caused by DSM programs (captured by the LRAM) or declining average use per customer, i.e. no "double counting"?

Response:

Weather normalized total throughput volumes are estimates derived from actual consumption data. These consumption estimates indicate what the total throughput volumes would have been under normal weather conditions. The LRAM related volumes are not included in the actual and reported annual throughput volumes. The LRAM related volumes are estimates of what the consumption that would have been if Union did not offer DSM programs. Since there are DSM programs being offered these estimated volumes never occurred.