



**PUBLIC INTEREST ADVOCACY CENTRE**  
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September 28, 2007

VIA EMAIL

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
26<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: Union Gas / Enbridge Gas Distribution Inc. - Incentive Rate Regulation for  
Natural Gas Utilities B-2007-0606 / EB-2007-0615**

Please find enclosed Tech Conference Questions for Union Gas. With respect to EGD and PEG, the timing of their answers and updated evidence means that we will not be able to provide questions for those two panels until at least Monday.

Yours truly,

Michael Buonaguro  
Counsel for VECC

**VECC Technical Conference Interrogatories for Union Gas Limited  
EB-2007-0606**

1. Ref.: Exhibit 32.2 (c) and (e)

**Issue Number: 4.2**

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

- a) Please provide comparable figures to those provided in 32.2 (c) and (e) for all rate classes for the percentages of customer related costs and of fixed costs recovered through fixed charges.
- b) Please provide a response to the following hypothetical scenario:  
consider a gas distribution utility that was regulated under a cost-of-service regime that had two rate classes, a general service rate class and a contract class. Total fixed costs in year 0 are \$200 of which \$100 is allocated to general service and \$100 is allocated to contract. Rates are designed so as to recover \$102 from general service and \$98 from contract. Recovery of fixed costs from general service is through a combination of a fixed charge and variable charge whereas recovery of the fixed costs from contract is entirely from a fixed demand charge. In particular, based on the forecast demand from the contract class, the demand charge is set to exactly recover \$98 from the contract class. Expectations are realized in year 0 (e.g., actual HDDs are as forecast and approved, etc.) and the fixed costs are entirely recovered, \$102 from general and \$98 from contract. In the following year, year 1, total fixed costs are still \$200 but the contract demand for the contract class has fallen by 10%:
  - a. Under a cost-of-service regime, are the two rate “baskets” self-contained or can a reduction in revenue from one be recovered from the other?
  - b. Under a price cap scheme, are the two rate “baskets” self-contained or can a reduction in revenue from one be recovered from the other?
  - c. Under a cost-of-service regime, how would rates be set for year 1.; and
  - d. Under a price cap regime whereby maximum rate increases are set according to a pre-specified formula dependent on exogenous inputs (e.g., economy-wide inflation rate less a pre-determined, fixed offset, the latter of which is specific to each of the rate classes), how would rates be set for year 1?

2. Ref.: Exhibit 32.4 (b)

**Issue Number: 8.1**

**Issue: What is the appropriate plan term for each utility?**

- a) At a high level, does Union have any general strategy or process in mind to identify areas of their operations in which productivity improvements are available?
- b) Does Union expect most of its productivity improvements in the IR plan period to arise from savings in capital costs, labour costs, or materials/non-labour costs?

3. Ref.: Exhibit 32.6

**Issue Number: 1.2**

**Issue: What is the method for incentive regulation that the Board should approve for each utility?**

- a) Does Union agree that under incentive regulation there can be a financial incentive for a utility to defer, out of the IR plan period, at least some maintenance and some capital expenditures that would have otherwise been undertaken (i.e., under a cost-of-service regime)? If so, please explain how this perverse incentive can be mitigated. If not, please explain why not.
- b) Does Union agree that there is any difference between a price cap and a revenue cap plan in addressing the incentive-to-defer problem described in the previous part, other than setting up deferral accounts or similar instruments?

3. Ref.: Exhibit 32.8 (a)

**Issue Number: 3.1**

**Issue: How should the X factor be determined?**

Please provide the annual cost corresponding to the net plant value of \$3.499B that was provided in the original answer.

4. Ref.: Exhibit 32.13 (a)

**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)?**

Please comment, regarding the claim of accelerating, decreasing normalized average use, in light of the fact that the data Union has provided appears to show that for the latest 7 years, 2000-2006, the average percentage decline in M2 NAC was 1.21% whereas for the previous seven-year period, 1993-1999, the average percentage decline in M2 NAC was 1.29%.

5. Exhibit C32.21 (a)

**Issue Number: 9.1**

**Issue: Should an off-ramp be included in the IR plan?**

Please elaborate on Union's response to this IR, providing (i) the circumstances of "historical productivity and future productivity expectations and opportunities" that would have to exist in order that a stretch factor would be required in an IR plan and (ii) how an impartial outside observer could determine whether or not a stretch factor was required.

6. Exhibit 32.24 (b)

**Issue Number: 14.1**

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

Please repeat the Goldfeld-Quandt test using HDD data from Toronto Pearson from 1960 through 2006.