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**By electronic filing and by e-mail**

March 16, 2012

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
27<sup>th</sup> floor  
Toronto, ON M4P 1E4

Dear Ms Walli,

**Union Gas Limited**  
**2013 Rebasing Application**  
**Board File No.: EB-2011-0210**  
**Our File No.: 339583-000123**

This letter contains the preliminary comments of Canadian Manufacturers & Exporters ("CME") on the Draft Issues List (the "List").

We agree with counsel for the School Energy Coalition ("SEC") that the use of the phrase "Does the evidence support ..." in the framing of each and every issue in the List is unacceptable. The fact that an Applicant has adduced some evidence to support each of the component parts of its request for rate relief is not determinative of matters relevant to those topics. All of the questions in the List should be reframed in terms of "appropriateness" as counsel for SEC suggests.

We also agree with counsel for SEC and others that the pre-hearing scrutiny of this re-basing application should not be constrained by a rigid interpretation of items in the List to exclude any topic not specifically identified therein.

We are attaching a copy of our Working Re-Draft of the List that we prepared to help us identify all of the topics that all of the parties wish to have listed. Our Working Draft of this document re-phrases the questions contained in the List attached to the Board's Procedural Order as suggested by counsel for SEC. We have also added a "General" section and have changed a couple of the section headings to make them consistent with the phrases used by Union in its rate filing. We have adopted SEC's suggestion to re-label section F as "Revenue Requirement" rather than "Revenue Deficiency".

We have also added a section at the end entitled “Deferral Accounts” which has traditionally been a separate topic in the Board-approved Issues List.

There is clearly overlap between some of the questions contained in this Working Draft and the listing of the questions can be more appropriately arranged to include general questions at the beginning of each major topic heading followed by the more specific issues that parties wish to raise.

In the document, we have identified the additional issues proposed by CME.

Under section B “Rate Base”, the additional issues proposed by CME are:

1. Is Union’s allocation of capital expenditures between utility and non-utility (“unregulated”) operations appropriate?
2. Is Union’s proposed Parkway commitment for unbundled customers appropriate?
3. Is the existing Parkway obligated delivery requirement for semi-unbundled customers necessary or reasonable?

Under “Cost of Service”, the additional issues proposed by CME are:

1. Is the gas supply plan for 2013 appropriate?
2. Is the allocation of O&M costs between utility and non-utility operations appropriate?
3. Is the proposed system integrity space value and its allocation for 2013 appropriate?

Under “Cost Allocation”, the additional issues proposed by CME are:

1. Should the cost allocation methodology be modified to separate Parkway Station metering and compression costs and Kirkwall station metering costs from Dawn Trafalgar Easterly costs?
2. Is Union’s allocation of all Dawn Trafalgar Easterly costs, including metering and compression costs, based on commodity-kilometres?

Under “Rate Design”, the additional issues proposed by CME are:

1. Is the allocation of transmission costs to non-utility storage based on the M16 interruptible service rate appropriate?
2. Is the proposal to change the rate design for services originating at Kirkwall to eliminate Kirkwall measuring and regulating costs appropriate?

Under "Deferral Accounts", the additional issues proposed by CME are:

1. Should the description of the Short-term Storage and Other Balancing Service deferral account (No. 179-70) be modified to address the EB-2011-0038 decision?
2. As a result of the EB-2011-0038 Decision, eliminating NGEIR's Decision allocating 21% of short-term storage transaction revenues to Union's non-utility business, should a credit amount be recorded in the short-term storage services deferral account to relieve ratepayers from having absorbed the burden of both the cross-charge and the 79/21% split of short-term storage revenues in 2008 and 2009?
3. Should deferral accounts for transmission-related transactional services that were eliminated in the EB-2007-0606 incentive ratemaking proceeding be re-established?

If possible, we plan to participate in the Issues Conference on Monday by telephone. Can arrangements be made to accommodate our participation in that fashion?

Yours very truly,



Peter C.P. Thompson, Q.C.

PCT\slc\kt  
enclosure

c. Chris Ripley (Union)  
Crawford Smith (Torys)  
Intervenors EB-2011-0210  
Paul Clipsham (CME)

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## **CME'S WORKING DRAFT**

### **Union Gas Limited 2013 Rates EB-2011-0210**

#### **Draft Issues List**

##### **A. General**

###### ***(Proposed by SEC)***

1. Has Union responded appropriately to all relevant Board directions from previous proceedings?
2. Are Union's economic and business planning assumptions for the Test Year appropriate?
3. Is service quality, based on the OEB specified performance indicators and any other appropriate metrics, acceptable, and are Union's proposals to maintain or enhance service quality appropriate?
4. What impact, if any, has the IRM rate-setting process had on Union's costs and business processes?

###### ***(Proposed by Board Staff)***

1. Are sustainable efficiency improvements (or efficiency gains) achieved under incentive regulation reflected in Union's CoS estimates?
2. Has Union encroached on its utility storage space during the IR term? Does Union expect to encroach on its utility storage space in 2013?
3. How does Union plan to address the issue of providing transportation services (using utility assets) to non-utility storage customers?

###### ***(Proposed by FRPO)***

1. For facility investments made by Union to support ex-franchise services, is their inclusion in rate base and the proposed cost allocation and ratemaking appropriate?

##### **B. Rate Base (Exhibit B)**

1. Is Union's forecast level of capital spending in 2013 appropriate?
2. Are the proposed updates to Union's lead/lag study appropriate?

## **CME'S WORKING DRAFT**

3. Is Union's proposal to terminate reporting on new business-related directives from prior facility projects appropriate?

### ***(Additional Issues proposed by SEC)***

4. Is the proposed Test Year Rate Base appropriate?
5. Is the proposed working capital allowance appropriate?
6. Are the methods proposed by Union to allocate the cost and use of capital assets between regulated and non-regulated activities appropriate, and are the proposed allocations to the regulated business appropriate for the Test Year?
7. Do Union's Asset Condition Assessment information and Investment Planning Process appropriately address the condition of the distribution system assets and support the OM&A and capital expenditures proposed for the Test Year?
8. Has Union made productivity investments during the IRM period? If so, what are the current costs and benefits from those investments, and are they being reflected appropriately in the Test Year revenue requirement?
9. Is the proposal for the amounts, disposition and continuance of Union's existing Deferral and Variance Accounts appropriate?
10. Are the proposed new Deferral and Variance Accounts appropriate?
11. Have all impacts of the conversion of regulatory and financial accounting from CGAAP to USGAAP been identified, and reflected in the appropriate manner in the Application, the revenue requirement for the Test Year, and the proposed rates?

### ***(Additional Issue proposed by LPMA)***

12. Are the capital expenditures and accumulated depreciations forecasts for 2011 and 2012 used in the calculation of the 2013 rate base appropriate?

### ***(Additional Issue proposed by Board Staff)***

13. Do the capital expenditures outlined in Union's CoS estimates represent a deferment of capital expenditures that should have been made under Union's incentive regulation plan?

### ***(Additional Issues proposed by CME)***

14. Is the allocation of capital expenditures between utility and non-utility ("unregulated") operations appropriate?
15. Is the proposed Parkway commitment for unbundled customers appropriate?

## CME'S WORKING DRAFT

16. Is the existing Parkway obligated delivery requirement for semi-unbundled customers necessary or reasonable?

### C. Operating Revenues (Exhibit C)

1. Is Union's general service demand forecast appropriate?
2. Is the use of a 20-year declining trend weather normal methodology appropriate? **(Variation proposed by SEC)** What is the appropriate methodology to be used to forecast degree days for the Test Year?
3. Is the 2013 Contract Customer Demand forecast appropriate?
4. Is the 2013 S&T forecast appropriate?
5. Is the 2013 Other Revenue forecast appropriate? **(Variation proposed by SEC)** Is the proposed amount for Test Year Other Revenues, including the methodologies used to cost and price those services, appropriate?

#### **(Additional Issue proposed by SEC)**

6. Has Union levied proper charges and allocations to non-regulated businesses and affiliates, and provided proper credit for those charges and allocations in calculating revenue requirement to be recovered from regulated ratepayers?

### D. Cost of Service (Exhibit D)

1. Is the 2013 O&M budget appropriate?
2. Are the 2013 affiliate charges appropriate? Has Union complied with the Board's "three prong test" (as described by the Board in the E.B.R.O. 493/494 Decision with Reasons)? **(Variation proposed by SEC)** Are the amounts included by Union in its costs with respect to charges from affiliates, or allocations from unregulated businesses or affiliates, including the methodologies used to cost, price, and allocate those amounts, appropriate?
3. Are the provisions for depreciation, amortization and depletion proposed in the 2011 Depreciation Study appropriate?
4. Are the changes to unaccounted for gas appropriate?
5. Is the proposed community investment funding appropriate?
6. Is the proposed Energy Technology Innovation Canada program funding appropriate?

## **CME'S WORKING DRAFT**

7. Is the forecast of Employee Future Benefit costs which will be incurred under USGAAP appropriate?

### ***(Additional Issues proposed by SEC)***

8. Are the Test Year Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Union demonstrated improvements in efficiency and value for dollar associated with its compensation costs over the IRM period?
9. Are the amounts proposed for capital and property taxes appropriate?
10. Is the amount proposed for income taxes, including the methodology, appropriate?

### ***(Additional Issues proposed by LPMA)***

11. Are the property and income tax forecasts appropriate?
12. Is the proposal to update the bad debt expense as part of the Quarterly Rate Adjustment Mechanism ("QRAM") process appropriate?
13. Is the proposal to continue to adjust the unaccounted for gas, company used gas and gas inventory for resale costs as part of the QRAM process appropriate?

### ***(Additional Issues proposed by CME)***

14. Is the gas supply plan for 2013 appropriate?
15. Is the allocation of O&M costs between utility and non-utility operations appropriate?
16. Is the proposed system integrity space value and its allocation for 2013 appropriate?

## **E. Cost of Capital (Exhibit E)**

1. Is the proposed change in capital structure, increasing Union's deemed common equity component from 36% to 40%, in combination with use of the Board's formula to calculate return on equity appropriate?

### ***(Additional Issues proposed by SEC)***

2. Is the forecast of the cost of debt for the Test Year, including the mix of short and long term debt, and the rates and calculation methodologies for each, appropriate?

## **CME'S WORKING DRAFT**

3. Is the proposed provision for return on equity for the Test Year appropriate?
4. Is the proposed increase in the equity thickness from 36% to 40% appropriate?

### ***(Additional Issue proposed by LPMA)***

5. Are the forecast costs of long term, short term debt and preference shares appropriate?

### ***(LPMA suggests breaking No. 1 into 2 Issues as follows)***

6. Is the proposed change in capital structure increasing Union's deemed common equity component from 36% to 40% appropriate?
7. Is the proposal to use the Board's formula to calculate return on equity appropriate?

## **F. Revenue Requirement (Exhibit F)**

### ***(SEC proposes heading be changed to "Revenue Requirement")***

1. Is a rate increase to recover Union's delivery related revenue deficiency appropriate? ***(SEC and LPMA propose that this issue be deleted)***

### ***(Additional Issues proposed by SEC)***

2. Are the revenue requirement and revenue deficiency or sufficiency for the Test Year calculated correctly?
3. Does the proposed revenue requirement appropriately reflect the ongoing impact of Union's costs and benefits accrued under IRM?
4. Is the overall change in revenue requirement reasonable given the impact on consumers?

## **G. Cost Allocation (Exhibit G)**

1. Are the Cost Allocation Study methodology changes to the allocation of Oil Springs East costs appropriate?
2. Are the Cost Allocation Study methodology changes to the allocation of Tecumseh metering and regulating costs appropriate?
3. Is the Cost Allocation Study methodology to allocate the cost of system integrity appropriate?



## **CME'S WORKING DRAFT**

4. Are the Cost Allocation Study methodology changes to allocate the cost of North distribution customer station plant appropriate?
5. Are the Cost Allocation Study methodology changes to classify and allocate the cost of distribution maintenance O&M (meter and regulator repairs) appropriate?
6. Are the Cost Allocation Study methodology changes to allocate the cost of distribution maintenance O&M (equipment on customer premises) appropriate?
7. Are the Cost Allocation Study methodology changes to classify and allocate the cost of purchase production general plant appropriate?
8. Is the Cost Allocation Study methodology to allocate the cost of the Dawn to Dawn-TCPL, Dawn to Dawn-Vector and M12 F24-T services appropriate?

### ***(Additional Issue proposed by SEC)***

9. Is Union's Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to Test Year rates, appropriate?

### ***(Additional Issues proposed by CME)***

10. Should the cost allocation methodology be modified to separate Parkway Station metering and compression costs and Kirkwall station metering costs from Dawn Trafalgar Easterly costs?
11. Is the allocation of all Dawn Trafalgar Easterly costs, including metering and compression costs, based on commodity-kilometres appropriate?

### ***(Additional Issue proposed by FRPO)***

12. Are the rate design proposals, including methodologies and judgments used in the application of those proposals with respect to Test Year rates appropriate?

### ***(Additional Issues proposed by APPrO)***

13. Should Union modify its rate design for large industrial customers (including gas-fired generation), to include an "opt-out" provision from its ratepayer funded DSM program? The Board has previously defined large industrial gas customers as customers in Rate 100 and T-1 (EB-2008-0346). Rate T-2 if approved, would be afforded similar treatment.
14. Should Union modify its rate design for contract rate classes other than Rate 100, in Union's Fort Frances, Western, Northern or Eastern Zones to offer an "opt-out" provision from its ratepayer funded DSM program for those industrial

## **CME'S WORKING DRAFT**

and power generation customers, that have a maximum daily requirement equal to or greater than the maximum daily requirement threshold for a Rate 100, but do not meet the other provisions under Rate 100?

### **H. Rate Design (Exhibit H)**

1. Is Union's response to the Board directive to review the M12 and C1 rate-making methodology appropriate?
2. Are the rates proposed in Exhibit H3, Tab 2 just and reasonable?
3. Is the proposal to lower the breakpoint between small and large volume general service customers to 5,000 m<sup>3</sup> per year effective January 1, 2014 appropriate?
4. Is the proposal to harmonize the general service rate structures between the North and South operating areas effective January 1, 2014 appropriate?
5. Is the proposal to lower the eligibility for the M4 and M5A rate classes to a daily contracted demand of 2,400 m<sup>3</sup> and a minimum annual volume of 350,000 m<sup>3</sup> effective January 1, 2014 appropriate?
6. Is the introduction of an M4 interruptible service offering effective January 1, 2014 appropriate?
7. Is the proposal to lower the eligibility for the M7 rate class to a combined firm, interruptible and seasonal daily contract demand of 60,000 m<sup>3</sup> effective January 1, 2014 appropriate?
8. Is the splitting of T1 into two rate classes effective January 1, 2013 appropriate?
9. Is recovering UFG on transportation activity in the winter months for the Dawn to Dawn-Vector transportation service appropriate?
10. Is the proposal to modify the M1 and M2 rate schedules appropriate?
11. Is the proposal to modify the M12, M13, M16 and C1 rate schedules including Schedule A, Schedule A-2013 and Schedule C appropriate?
12. Is updating the utility/non-utility allocator used to calculate margin for sharing for short-term storage services to 59:41 appropriate?
13. Are the proposed changes to the Distributor Consolidated Billing fee to \$0.57 per month per customer appropriate?
14. Are the proposed changes to the Gas Supply Administration Fee appropriate?

## **CME'S WORKING DRAFT**

15. Is the proposal to eliminate the Late Payment Penalty Litigation (No. 179-113) and the Harmonized Sales Tax (No. 179-124) deferral accounts appropriate?
16. Is the proposal to modify the wording of the Short-term Storage and Other Balancing Services (No. 179-70), Average Use Per Customer (No. 179-118), and the Inventory Revaluation Account (No. 179-109) deferral accounts appropriate?
17. Is the proposal for an Energy Technology Innovation Canada deferral account appropriate?

### ***(Additional Issue proposed by SEC)***

18. Are the proposed effective dates of each of the rate design changes appropriate?

### ***(Additional Issues proposed by LPMA)***

19. Is Union's proposal to continue with its various deferral and variance accounts appropriate?
20. Are rate mitigation measures required to address the rate impacts on some customers as a result of the proposed January 1, 2014 rate design proposals?

### ***(Additional Issues proposed by CME)***

21. Is the allocation of transmission costs to non-utility storage based on the M16 interruptible service rate appropriate?
22. Is the proposal to change the rate design for services originating at Kirkwall to eliminate Kirkwall measuring and regulating costs appropriate?

## **I. Deferral Accounts (Additional heading suggested by CME)**

### ***(Additional Issues proposed by CME)***

1. Should the description of the Short-term Storage and Other Balancing Service deferral account (No. 179-70) be modified to address the EB-2011-0038 decision?
2. As a result of the EB-2011-0038 Decision, eliminating the NGEIR Decision's allocation of 21% of regular short-term storage margins to Union's non-utility business and increasing the ratepayer share of such revenues to 100%, should a credit amount be recorded in the Short-Term Storage Services in 2008 and 2009 deferral account to relieve ratepayers from the burden of both the cross-charge and the 79/21% split of short-term storage revenues?

## **CME'S WORKING DRAFT**

3. Should deferral accounts for transmission-related transactional services that were eliminated in the EB-2007-0606 incentive ratemaking proceeding be re-established?

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