April 9, 2012

BY EMAIL ONLY

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2011-0210
Union Gas Limited – 2013 Rates
Energy Probe – IRs to Union Gas Limited

Pursuant to Procedural Order #4, please find Interrogatories of Energy Probe Research Foundation (Energy Probe) to the Applicant.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh

David S. MacIntosh
Case Manager

cc: Chris Ripley, Union Gas Limited (By email)
Crawford Smith, Torys LLP (By email)
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EB-2011-0210

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2013.

**INTERROGATORIES ON BEHALF OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

April 9, 2012

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UNION GAS LIMITED
2013 RATES – COST OF SERVICE
EB-2011-0210

ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES

B. Rate Base

1. Is Union's forecast level of capital spending in 2013 appropriate?

EP Interrogatory # 1

Ref: Exhibit B 1, Tab 2, Page 4 &
Exhibit B 1, Tab 4, Page 2 &
Exhibit B 1, Summary, Schedule 2, Line 62

a) **For Distribution New Business ($48.6m 2013) please provide the total annual Capital Cost and average Capital Cost per customer addition for 2007-2013. Provide explanatory notes.**

b) **For Distribution ($155m 2013) and Transmission ($114.1m 2013) Capital projects indicate which projects are a) new (and $ amount) and b) which are deferred due to IRM (and $ amount).**

EP Interrogatory # 2

Ref: Exhibit B1, Tab 3, Pages 1

Union will no longer offer the Market Charge option as a means of financing community expansion projects. The reason for this change is that on average, customer additions for these projects have been lower than forecast. This is the case despite the fact forecast attachments are based primarily on customer survey responses obtained prior to construction. As a result, Union has not been able to recover the full amount of the Market Charge.

a) **Show where this change is reflected in the Distribution New Business Guidelines B1, Tab 3, Appendix A.**

b) **How will this affect the 2013 attachments for a) new homes b) conversions compared to prior years?**

c) **Also identify the change in the DNB guidelines related to the residential service lateral lengths and costs.**

d) **Is Union seeking approval of the (revised) DNB guidelines? If so, please identify where in the evidence that is requested.**

EP Interrogatory # 3

Ref: Exhibit B1, Tab 3, Table 1

a) **Update B1, Tab3, Table 1- Ontario Housing Starts for 2011 Actuals and Forecast 2012 and 2013.**

b) **Please provide the 2012 and 2013 data for Union's franchise for each of the rate zones.**

EP Interrogatory # 4

Ref: Exhibit B1, Tab 3, Appendix B

a) **Please provide the total Sensitivity of 2013 RR to change in 1000 residential and 10 commercial customer additions.**

b) **Identify Capital (return) and Revenue components separately.**

EP Interrogatory # 5

Ref: Exhibit B1, Tab 5, Page 4 &
Exhibit B1, Summary Schedule

a) **For the listed Transmission Projects please identify key dates/timing-LTC application approval, in-service etc.**

b) **How much is the 2013 rate base increase attributable to the listed projects?**

EP Interrogatory # 6

Ref: Exhibit B1, Tab 6, Table 2

Please provide the IMP 10 year Plan capital expenditure forecast from 2012-2021.

EP Interrogatory # 7

Ref: Exhibit B1, Summary, Schedule 2, Page 7, Line 158

A business case that identifies the cost and benefits of the request is jointly prepared by the business sponsor and IT. The level of detail of the business case and the number of times it is reviewed to ensure alignment to business value depends on the size and complexity of the request.

a) **Please provide the Business Case and Project Justification, Cost Breakdown and Multi-Year Budget(s) for Union Line Modernization.**

b) **Explain why this Project cannot be rescheduled for Completion in 2015.**

2. Are the proposed updates to Union's lead/lag study appropriate?

EP Interrogatory # 1

Ref: Exhibit B1, Tab 8, Schedule 1 and Schedule 7

a) **Please provide Copies of the equivalent Schedule 1 and Schedule 7 O&M Expense Leads and Lags approved by the Board in 2007.**

b) **Please provide references to the 2007 evidence and any additional explanatory notes.**

c) **In particular, provide details of the changes affecting the increase for 2013 including controllable expenses.**

EP Interrogatory # 2

Ref: Exhibit B1, Tab 8, Schedule 8 and Schedule 9

a) **Update 2010 Study year (2011 actual 2012 Bridge year estimate) Compare to Board Approved.**

b) **Please provide detailed explanatory notes.**

4. Is the proposed Test Year Rate Base appropriate?

EP Interrogatory # 1

Ref: Exhibit B1, Tab 9 [Parkway West Section 5]

No capacity created by the LCU protection at Parkway will be sold as firm transportation capacity. The facilities are proposed to be completed for November 1, 2014 at a cost of $120 million.

a) **Please explain in quantitative terms how much capacity will be created at Parkway and describe the constraints preventing Union from selling firm capacity.**

b) **Please provide by year 2014 – onward the Additional Revenue from the Parkway West Project and Provide a Revenue Requirement 2012- forward calculation and 20 year cash flow (discounted).**

c) **Show separately by year the Loss of revenue from Kirkwall and provide the projected total net revenue for the Dawn-Parkway System 2012-2022.**

EP Interrogatory # 2

Ref: Exhibit B1, Summary, Schedule 2, Page 1 of 10 &
Exhibit B3, Tab 2, Schedule 4

Please provide the Status of all Leave to Construct Applications related to the 2013/2014 listed Transmission Capital projects. Include Date of Application, Docket No and projected Date of OEB Order(s).

C. Operating Revenues

1. Is Union's general service demand forecast appropriate?

EP Interrogatory # 1

Ref: Exhibit C1, Tab 1, Table 5 &
Exhibit C1, Tab 1, Appendix A, Table 5

a) **Please provide a Copy of the Rudden Report Filed in EB-2005-0520.**

b) Please provide forecast Weather Normal Values for 2001-2010 and compare to actual.

c) Please provide full details of Independent and Dependent variables, weighting and formulation of the Residential Average Use Regression Equation(s).

d) Compare the formulation to the Enbridge Residential Average use and weather normalized regression/ Discuss the differences.

e) Why, apparently, is there no gas price-demand/use relationship? Has this been tested? Discuss.

EP Interrogatory # 2

Ref: Exhibit C1, Tab 1, Figure 1

a) Please provide the Statistics for the 20 year declining trend line and the existing weather normal method.

b) Graph actual and the proposed 20 year declining trend and the current approved weather normal line on a Version of Figure 1. (larger scale) Discuss the differences.

c) Please provide summary details of weather data supporting the North and South franchise HDD estimates. Source (e.g. Environment Canada), number and location of weather stations and period of data.

d) Show how the HDD and weather normal variables current and proposed, are derived from the data. Discuss data driven errors.

EP Interrogatory # 3

Ref: Exhibit C1, Tab 1, Page 16: Appendix A Table 6

a) Explain in some detail the genesis of the Harvest Season Variable. For example, is it related (physically and statistically) directly to one or more measurable weather characteristics, cloud cover etc.?

b) Why is such a variable also not applicable to general service residential demand?

EP Interrogatory # 4

Ref: Exhibit C1, Tab 1, Page 21, 3.4/ DSM Plan Impact

Significant changes to forecast DSM related savings resulted from the 2012-2013 DSM Plan Settlement Agreement.

Please provide an update of the demand forecast of 64,000 10 3 m 3 and sector estimates (residential 21,101 10 3 m 3) consistent with the Settlement Agreement for Resource Acquisition Programs.

EP Interrogatory # 5

Ref: Exhibit C1, Tab 1, Page 23-25

Please update Figures 5-8 to reflect 2011 actuals and revised 2012 and 2013 NAC, including DSM impacts.

EP Interrogatory # 6

Ref: Exhibit C1, Tab 1, Page 11, Table 6

Please provide the supporting analysis for the Fall Weather Coefficient including causality and forecast results and forecast accuracy with/without the variable

EP Interrogatory # 7

Ref: Exhibit C1, Tab 1, Page 20, Table 6 and Page 22, line 7

The forecast saved volumes from DSM in the industrial market are 7,387 10^3m^3 and account for approximately 12% of the total volume savings from DSM.

If Industrial customers achieve an "opt out" in 2013, what will be the impact on the forecast 2013 DSM savings for the sector and in total?

EP Interrogatory # 8

Ref: Exhibit C1, Tab 1, Figures 5-8

a) **Please provide 2011 actual NACs and discuss how this affects the 2012 and 2013 forecasts.**

b) **Is Union open to continue the NAC true ups implemented during IRM? Please discuss.**

EP Interrogatory # 9

Ref: Exhibit C1, Tab 1, Appendix A, Table 8

a) **Please discuss why the ex-post error of 3.9% for Rate 01 is acceptable forecast accuracy.**

b) **Please provide the ex-post error for 2011 and discuss the implications of this for the 2013 forecast.**

2. What is the appropriate methodology to be used to forecast degree days for the Test Year?

EP Interrogatory # 1

Ref: Exhibit C1, Tab 1, Figure 1

a) **Please provide the Statistics for the 20 year declining trend line and the existing weather normal method.**

b) **Graph actual and the proposed 20 year declining trend and the current approved weather normal line on a Version of Figure 1. (larger scale) Discuss the differences.**

EP Interrogatory #2

Ref: Exhibit C1, Tab 5, Figure 1

a) **Why is Pearson Airport Data comparison relevant to Union's Franchise?**

b) **Indicate where weather data are available in the Southern, Northern and Eastern Delivery Zones.**

c) **Please provide a summary of weather data for each zone and how this is used.**

d) **Please provide normalization analysis for each zone.**

e) **Demonstrate how the HDD for each zone is/is not correlated with Pearson Airport Data.**

f) **Are the Statistics reported in Table 1 for Pearson Airport or for the average of the three (2) franchise zones?**

g) **If not already provided above, please provide a similar figure for the Northern Region HDD forecasts as has been provided in Figure 1 for Toronto Pearson Airport. Provide the equations used to calculate the 20year trend and 30 year average forecasts, also the associated regression statistics.**

h) **Do the statistics change if 2011 data are included? Please provide an estimate.**

i) **Could the data and HDD analysis be influenced by other (excluded) Weather variables including Wind speed/wind chill?**

j) **Has Union done any assessments of other variables, using data from either Pearson Airport or other locations, including Wind Speed data?**

k) **Please update the forecast and Summary Schedule 1 to include 2011 results.**

3. Is the 2013 Contract Customer Demand forecast appropriate?

EP Interrogatory # 1

Ref: Exhibit C1, Tab 2 and Tables 1-4 and Appendix A (Contract demand)

a) **Has the contract demand forecast methodology (in use since 2008) been approved by the Board?**

b) **If so, point to or provide a copy of the evidence supporting the approval.**

c) **If not, provide details on methodology, including data sources equation(s) weighting, coefficients, results and forecast error.**

d) **Please update Tables 1-4 for 2011 and provide a separate comparison of forecast (outlook) vs actual for each market segment. Discuss the differences.**

e) Has the 2011 data been incorporated into Appendix A Table 1.? If so, please provide a copy.

4. Is the 2013 S&T forecast appropriate?

EP Interrogatory # 1

Ref: Exhibit C1, Tab 3, Table 4

Please update the status of the TCPL FT-RAM Program.

5. Is the proposed amount for Test Year Other Revenues, including the methodologies used to cost and price those services, appropriate?

No Questions - see Section O re Late Payment Policy/Revenue

D. Cost of Service

1. Is the 2013 O&M budget appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab 2, Page 5 Customer Growth

a) Please update the 2007 Cost Study $110 for customer adds. Why is this still valid?

b) Customer Charge covers what costs? Please provide a breakdown.

c) Please provide Costs vs Customer Charge revenue 2007-2013.

EP Interrogatory#2

Ref: Exhibit D1, Tab 2, Page 8

Union's costs allocated to the non-utility business in 2013 are forecast to increase to $6.9 million (was $7.8 million) over the 2007 Board-approved amount. Annually, cost groups are reviewed to ensure an appropriate allocation between regulated and unregulated work. The 2013 forecast assumes $2.3 million for the excess utility space cross charge. The cross charge will be updated in the phase II evidence.

If O&M costs have increased for 2013 by almost $20 million since filing, please explain why the Non- utility allocation has *decreased* by $1million?

2. Are the 2013 affiliate charges appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab 7

The 2012 and 2013 forecasts are based on 2011 Service Level Agreements ("SLA") plus inflation, plus/minus known changes for specific SLAs.

a) **Provide an update to the SLAs for 2013 services, either the 2012 SLAs plus material changes or the same based on 2011 for 2012/2013.**

b) **When are SLAs for the forward rate (or test year) updated? When will 2013 SLAs be available and are they filed with the Board?**

EP Interrogatory # 2

Ref: Exhibit D1, Tab 3, Page 15 &
Exhibit D1, Tab 7, Table 2, Line 6

a) **Explain the increase in affiliate HR costs over 2012-2013.**

b) **If this is due in part, to sourcing SAP payroll services from Spectra, provide details of how the total costs are allocated across Spectra companies:**
   - **total cost across Spectra,**
   - **total and % of cost allocated to Union Gas, and**
   - **allocation methodology (cost drivers etc).**

4. Are the provisions for depreciation, amortization and depletion proposed in the 2011 Depreciation Study appropriate?

No Questions

5. Are the changes to unaccounted for gas appropriate?

EP Interrogatory # 1

Ref: Exhibit D3, Tab 2 Schedule2,

Please explain the high volume of UFG in 2009 relative to 2010 and 2011.

6. Is the proposed community investment funding appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab 8

a) **Provide Community investment funding history 2007-2011 and projection 2012/2013.**

b) **How much has the shareholder invested in community projects over the same period?**

7. Is the proposed Energy Technology Innovation Canada program funding appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab 10, Pages 1 –7

In 2011, 2012 and 2013, Union is projecting expenditures of $0.6 million, $3.0 million and $5.0 million respectively, related to the ETIC program.

a) **Is participation in ETIC voluntary to GGA members?**

b) **What is the basis of CGA Funding? Is it Formula Based and what is the formula/allocation for Union?**

c) **Please provide copy of CGA- ETIC Agreement and funding Commitment(s).**

d) **How many Gas Utilities are funding the CGA- ETIC program? Please provide list and numbers. Position Union's Commitment in context.**

e) **What are the current ETIC Projects? Provide the 2011 -2012 portfolio summary and costs and delineate Union's share of funding for each project.**

f) **What other R&D is Union Funding from Rates-Internal and External e.g. GRI? Provide a summary list and costs- 2011 actual and projected 2012/2013.**

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

EP Interrogatory # 1

Ref: Exhibit D1, Tab 3 &
Exhibit D1, Tab 3, Table 4,

a) **Please provide a breakdown of the drivers for the $19.4 million increase in future benefits.**

b) **Please provide an update of the expected return on plan assets.**

9. **Are the Test Year Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?**

EP Interrogatory # 1

Ref: Exhibit D1, Tab 3, Appendix A &
Exhibit D3-D6, Tab 6, Schedule 1/2

Please provide comprehensive summary tabulation of Total Compensation 2007-2013 for the 4 groups of employees listed in the Towers Watson Letter:

Executives, Managers, Salaried Professionals, Unionized Employees

- **# incumbents (FTE end of Year). Also indicate # temp and part time**
- **Average Compensation**
- **Base Pay**
- **Incentive Pay Standard bonus and STIP**
- **Benefits**
- **Totals for each component of TC- Salary Incentive Pay Benefits**
- **Total Compensation (reconciled to O&M expense for year)**

EP Interrogatory # 2

Ref: Exhibit D1, Tab 3, Page 7

To validate the competitiveness of its programs, Union compares its programs to a cross-section of national companies of similar revenue size, including energy utilities as well as organizations with operations in Ontario.

Please provide the latest Salary/compensation/benefits comparison study(ies).

EP Interrogatory # 3

Ref: Exhibit D1, Tab 3, Page 5

As mentioned previously, approximately 30 executive and leadership employees at Union participate in an additional variable pay plan.

a) **Please provide details of LTIP PSUs and Phantom Stock Units 2007-2013 # grants, $ amounts and outstanding units and cost.**

b) **Please provide average strike price for each historic year and forecast for 2012 and 2013.**

c) **Reconcile to Total Compensation cost for 2013.**

EP Interrogatory # 4

Ref: Exhibit D1, Tab 3, Appendix A

a) **Summarize Union's Proposed S&W increases (Base Pay and incentives) for each of the 4 groups for 2011 (actual), 2012 forecast and 2013 forecast.**

b) **Has Towers Watson opined on these increases, given the larger picture of public sector wage settlements and Union's 2013 revenue requirement and rate increases**?

c) **Please provide the Sensitivity for 2013 to a 300 basis point (0.3%) change in average compensation.**
   i. **Total Compensation cost and**
   ii. **Overall O&M**

EP Interrogatory # 5

Ref: Exhibit D1, Tab 3, Page 15 &
Exhibit D3, Tab 6, Schedule 1 / 2

At Union, 44% of existing employees will be eligible to retire within the next five years.

a) **Please provide the profile of Retirements by the 4 job/compensation types historic 2007-2011 and forecast 2012-17.**

b) **How do retirements affect the average vacancy rate of 69 FTEs?**

c) **Separate the 2011 actual FTE and Vacancy data for the regulated and unregulated businesses.**

EP Interrogatory # 6

Ref: **Exhibit D1, Tab 7,Appendix A [HR Benchmarking]**

HR – Benchmark comparisons indicate that Union has a lower total cost of the HR function as per $1,000 revenue than the majority of the utilities in the industry. When compared against respondents within a similar revenue range and region, Union is in line with the median.

a) **Please explain why HR costs are at Median but in Supplemental Benchmarking HR Function is below 25th percentile, i.e. expensive per Employee at $2,414 (2010).**

b) **Please update the forecast HR Cost per employee for 2013.**

10. Are the amounts proposed for capital and property taxes appropriate?

No Questions

12. Is the proposal to update the bad debt expense as part of the Quarterly Rate Adjustment Mechanism ("QRAM") process appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab 2, Page 9

To manage the impact of changes in the cost of gas on bad debt expense, Union is proposing to update the bad debt expense as part of the Quarterly Rate Adjustment Mechanism similar to unaccounted for gas, Company used gas, and gas inventory for resale. The bad debt expense in the 2012 and 2013 forecast is at historic lows as a result of the current cost of gas. This forecast is based on the January 1, 2011 weighted average cost of gas ("WACOG") of $202.610 per 10 3 m3. An increase of 10% in WACOG will increase Union's bad debt expense approximately $0.4 million.

a) **Provide the cost of gas component of the bad debt expense for each year 2007 through 2011.and forecast 2012/2013**

b) **Does Union have a Regression Equation for forecasting Bad Debt Expense? If so, provide a Summary and historical results. If not, identify the Factors that Drive Bad Debt Expense.**

c) **How much is explained by Gas Price Changes and by these other factors? Please provide sensitivities.**

d) **If the 2013 forecast is flat why is it necessary to adjust bad debt quarterly for gas prices?**

e) **Based on the above responses, please show the amounts that would have been accounted for under Union's current proposal from 2007-present.**

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?

No Questions

14. Is the gas supply plan for 2013 appropriate?

No Questions

15. Is the allocation of O&M costs between utility and non-utility operations appropriate?

No Questions

16. Is the proposed system integrity space value and its allocation for 2013 appropriate?

EP Interrogatory # 1

Ref: Exhibit D1, Tab1, Page3/ 4

There are no material changes in the proposed 2012 – 2016 Gas Supply Plan from the Gas Supply Plan filed in Union's 2007 rates proceeding (EB-2005-0520).

Please provide the amount of storage integrity space during IRM 2007 -2012 and compare to the 2013 9.5 PJ.

17. Is the proposed Parkway commitment for direct purchase customers appropriate?

No Questions

18. Is the existing Parkway obligated delivery requirement for direct purchase customers appropriate?

No Questions

E. Cost of Capital

1. Is the forecast of the cost of debt for the Test Year, including the mix of short and long Term debt and preference shares, and the rates and calculation methodologies for each, appropriate?

EP Interrogatory # 1

Ref: Exhibit E3, Tab 1, Schedule 2

a) **For the $150 m 25 year MTN (line 1), provide the term sheet as issued in 1990.**

b) **Has Union considered approaching Bondholders to buy/retire this debt early and replace it as part of a new MTN issue at 3.5-4.00% coupon rate (20-25 years)?**

c) **Estimate the penalty and the net gain to the utility and its ratepayers from such retirement.**

2. Is the proposed change in capital structure increasing Union's deemed common equity component from 36% to 40% appropriate?

EP Interrogatory # 1

Ref: Exhibit E1, Tab 1, Table 2 &
Exhibit A3, Tab 2

The Company is required by Undertakings to the Lieutenant Governor in Council of Ontario to maintain sufficient common equity at the level approved by the OEB.

The quarterly dividend payment is determined to allow the Company to maintain the common equity component at the level approved by the OEB. (interim Financial Statements A3, Tab 2 page 23)

a) **Does Union agree that, as stated on page 23, the 36% deemed equity is the OEB –approved *minimum* Common Equity.**

b) **Why is Union proposing to increase its Equity to 40% to meet capital requirements when it already has debt financing available, including a short term debt facility of 500m which will reduce to 400m in 2013 and a shelf prospectus for 500m of long-term debt with terms of from 1-31 years?**

c) **Does Union agree that these capital components have a lower cost of capital to ratepayers than equity?**

d) **Please provide a comparison table the shows the actual and proposed deemed Capital Structures for Union Gas based on the Interim Financial statements and provide the historical perspective comparison 2007-2011.**

e) **Summarize the dividend policy for Union/Spectra.**

f) **Please provide the dividend history 2007-2011 and the post dividend debt/equity ratios.**

g) **Compare the dividends to be paid in 2013 based on a 40% equity component relative to 36%.**

EP Interrogatory # 2

Ref: Exhibit E1, Tab 1, Page 5 &
OEB Cost of Capital Report Page 50

For electricity transmitters, generators, and gas utilities, the deemed capital structure is determined on a case-by-case basis. The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and that a full reassessment of a gas utility's capital structure will only be undertaken *in the event of significant changes in the company's business and/or financial risk.* [emphasis added] (OEB COC Report Page 50)

a) **Has Union listed all the factors that Union and its consultants are using to justify a change in circumstances to which the Board refers? If not, provide any additional factors.**

b) **Please provide the quantitative evidence on changes to financial risk in the form of recent financial performance including financial ratios.**

c) **Delineate clearly how financial risk for 2013 will be affected by application of the Board's new ROE-Setting formula.**

EP Interrogatory # 3

Ref: Exhibit E2, Page 12 &
Exhibit A3, Tab 6

Similarly, in January 2011, DBRS published its views on the importance of regulatory support: "[T]he Company operates in a stable, supportive regulatory environment that allows it to recover prudently incurred operating expenses and capital expenditures in a timely manner and earn a reasonable return on its investments."[reference 7 DBRS Research: "Union Gas Limited," January 31, 2011.]

a) **Please provide a comparison of Ratings for (all) securities of Union Gas from DBRS and S&P.**

b) **Please provide the DBRS Comparable ratings for the S&P Peer group A3, Tab3 [S&P Report] page 6-See below.**

c) **Discuss the differences in terms of Union's current financial risk from an investor perspective.**

EP Interrogatory # 4

Ref: Exhibit E2, Pages 15, 16, 20 &
Exhibit A3, Tab 6, DBRS and S&P Reports

Most important in this case, as discussed below, the S&P matrix clearly illustrates that Union Gas' current equity thickness of 36% stands far below S&P's guidelines for the utility sector, which covers a range from 55 to 65%.(Page 15/16) and such a low equity component certainly influences the rating agencies and debt and equity investors.(page 20)

a) **Please provide the comparable statement(s) from DBRS.**

b) **If there are none, provide your view of why this may be the case.**

c) **Based on your response to interrogatories above, please confirm or amend this referenced statement as it applies to <u>regulated Canadian Gas utilities</u>.**

EP Interrogatory # 5

Ref: Exhibit E2, Page16, Tables 1 and 2

a) **Please provide a summary Peer comparison table of capital structure and financial risk based on financial ratios (per evidence page 16 but including interest coverage and return on capital) *using S&Ps data from the above reference* Tables 1 and 2.**

b) **Please provide your conclusions on current financial risk from this comparison**.

c) **Has Financial risk for Union changed materially since S&P's report in 2011? If so, please provide details of those changes.**

EP Interrogatory # 6

Ref: Exhibit E2, Page 16 &
Exhibit F2, Page 28, Table 3

a) **Please provide all available *<u>Canadian</u>* Comparables (at a minimum Enbridge Gas Distribution) showing Equity Thickness DBRS and S&P Ratings and Financial Risk indicators.**

b) **Where possible include financial ratios, especially Interest Coverage.**

3. Is the proposal to use the Board's formula to calculate return on equity appropriate?

EP Interrogatory # 1

Ref: Exhibit A2, Tab 1, Schedule 1, Table 3

a) **Please provide the normalized actual ROE 2007-2011.**

b) **Please provide the amounts credited to shareholder and ratepayers under ESM.**

EP Interrogatory # 2

Ref: Exhibit F2 &
OEB Cost of Capital Report

The Board in the COC Report determined a risk premium approach was most appropriate for its ROE –Setting Formula.

a) **Why is evidence on other approaches relevant to the Boards formulaic ROE approach and/or are you advocating abandoning the risk premium approach? Please Discuss.**

b) **In its Cost of Capital Report the Board established an initial Risk Premium of 550 basis points, including 50 basis points for transactional costs. Why is a risk premium of 650 basis points now appropriate for Union, especially given an increase in equity thickness? Please justify your response with reference to the COC report.**

c) **Do you accept that the new Formulaic ROE approach adjusts ROE based on a combination of the Utility Bond Spread [Series C29530Y] and 0.5% of the change in Long Canada Bond (LCB) rates [Cansim Series V39056]?**

d) **Confirm that the 2007 base IRM ROE was based on a LCB rate of 4.30% (confirm-Page 34 -35 Exhibit 3) in 2007 (Unions IRM Base Year) and an ROE of 8.54% (confirm EB-2006-0606 Settlement Para 2.3).**

e) **Please provide a calculation that applies the ROE Formula adjustment of 0.5% of the LCB Bond rate change times the Utility Bond spread to 2007 base ROE to estimate the resulting 2012/2013 risk premium and ROE.**

f) **Compare the result to that from the Board's Formulaic ROE for 2012 and Union's proposed test year 9.58% ROE and the ROE 11.2 % (risk premium) in your evidence at Q&A 65.**

g) **Discuss why your recommended ROE of (average) 10.7% is appropriate.**

EP Interrogatory # 3

Ref: Exhibit F2, Page 28, Table 3

a) **Please provide the DBRS and S&P Ratings for the Senior Debt of the listed Canadian Utilities.**

F. Revenue Requirement

1. Are the revenue requirement and the revenue deficiency or sufficiency for the Test Year calculated correctly?

EP Interrogatory # 1

Ref: Exhibit F, Summary Schedules

Please provide an update to reflect the 100% share of ST storage revenues per EB-2011-0038.

G. Cost Allocation

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

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, Appendix A and Appendix B

a) List and quantify, relative to EB-2005- 0520, the Cost Allocation Changes and impact of these +/- on the 2011 revenue requirement for Rate M1 and M2 and Rate R 01 general service classes.

b) Translate this into an increase/reduction % and annual amount for an average general service customer bill in the South and North rate zones.

c) Please provide differences, if any, in impacts for Sales Service and Direct purchase customers.

EP Interrogatory # 1

Ref: Exhibit G3, Tab 1,Schedule 1,Appendix B Page 2

a) When were the Classifications for Crossbore Costs (O&M, Plant, Acc. Dep) developed?

b) Have the classifications been approved by the Board?

c) **Please provide the breakdown of CB costs for 2011-2012 and 2013.**

d) **Show the result of the direct assignments to the rate classes for these years.**

e) **Reconcile to the Revenue Requirement for the classes.**

2. Are the Cost Allocation Study methodology changes to the allocation of Oil Springs East costs appropriate?

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, Page 8 -Oil Springs East

a) **Please provide details -amount of costs and split between transmission and Storage before and after the change.**

b) **Explain the reduction in the allocation to M12.**

c) **Reconcile to revenue requirement impact in G1Tab Appendix B.**

3. Are the Cost Allocation Study methodology changes to the allocation of Tecumseh metering and regulating costs appropriate?

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, page 7

a) **How were Tecumseh metering assets classified/functionalized in EB-2005-0520?**

b) **Please explain in detail the change in allocation.**

c) **Specifically, why are the costs now allocated to in-franchise classes other than M12?**

4. Is the Cost Allocation Study methodology to allocate the cost of system integrity appropriate?

EP Interrogatory # 1

Ref: Exhibit G1, Tab1, Table 1

a) **When was Excess Utility Storage Space first approved Docket year etc.?**

b) **Please provide the Board -Approved Allocation with and without the change for Reserved regulated storage.**

c) **Compare to the current proposal and indicate why this is/is not better for ratepayers.**

5. **Are the Cost Allocation Study methodology changes to allocate the cost of North distribution customer station plant appropriate?**

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, & Appendix B

a) **Please explain the basis of the proposed change to the allocation of Union North Distribution Customer Stations Plant.**

b) **In particular, please explain why Rate M1 is allocated more costs.**

6. **Are the Cost Allocation Study methodology changes to classify and allocate the cost of distribution maintenance O&M (meter and regulator repairs) appropriate?**

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, Page 13 5(ii)

a) **On average how much cost did Union incur for Residential Meter repair - 2007-2011?**

b) **Please provide details -amount of costs and split between customer and customer demand North and South before and gross plant allocation after the change.**

c) **Reconcile to revenue requirement impact in G1Tab Appendix B**

7. **Are the Cost Allocation Study methodology changes to allocate the cost of distribution maintenance O&M (equipment on customer premises) appropriate?**

EP Interrogatory # 1

Ref: Exhibit G1, Tab 1, Page 14 5(iii)

a) **Why has Union decided that for maintenance of equipment on customer premises the costs are primarily related to customer station maintenance and a time based allocation is no longer appropriate?**

b) **Please provide details -amount of costs before and after the change.**

c) **Reconcile to Appendix B.**

8. **Are the Cost Allocation Study methodology changes to classify and allocate the cost of purchase production general plant appropriate?**

No Questions

9. **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?**

No Questions

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?**

No Questions

11. **Is the allocation of all Dawn Trafalgar Easterly costs, including metering and compression costs, based on commodity-kilometres appropriate?**

No Questions

H. Rate Design

1. **Are the rates proposed in Exhibit H just and reasonable?**

EP Interrogatory # 1

Ref: Exhibit H1, Tab 1, Section 4 &
Exhibit H3, Tab 1, Schedule 1

The 2013 proposed revenue to cost ratios are within an acceptable range and are generally consistent with those approved by the Board in EB-2005-0520.

a) **Confirm the 2013 Rates and R/C ratios presented in the Schedule are without the General Service rate redesign.**

b) **Why is R100 R/C ratio for Delivery and Transmission/Storage "within an acceptable Range"?**

c) **Why are the rate increases averaging 7.0% (South) and 20% (North) acceptable and in line with the principles articulated at the first reference? Please discuss.**

d) **Explain in detail what rate mitigation for 2013 Union is proposing for classes in excess of the generally accepted 10% rate increase level, particularly for the North/East service area.**

2. Is Union's response to the Board directive to review the M12 and C1 ratemaking methodology appropriate?

No Questions

3. Is the proposal to lower the breakpoint between small and large volume general service customers to 5,000 M3 per year effective January 1, 2014 appropriate?

EP Interrogatory # 1

Ref: Exhibit H1, Tab 1, Tables 5 and 6 Updated

a) **Compare EGD and Union General Service rate class Structures including volume cut offs, Average Volumes and customer charge.**

b) **Comment on the differences in the above and why Unions 2013 proposals are appropriate.**

EP Interrogatory # 2

Ref: Exhibit H1, Tab 1, Page 20

The increase in rate class size in the Rate 10 and Rate M2 is consistent with Union's rate review guidelines and will ensure viable large volume General Service rate classes with improved rate class composition. The increase in rate class size will allow for more meaningful average pricing and rate stability in these rate classes.

a) **Please provide a copy of Unions rate review guidelines.**

b) **Show how rate stability will result for customers above the proposed Breakpoint.**

c) **Show how the new block structure will stabilize delivery bills stating in 2014.**

EP Interrogatory # 3

Ref: **Exhibit H1, Tab 1, Table 12 Updated &**
Exhibit H3, Tab 1, Schedule 3

a) **Confirm the Bill Impact shown in Table 12 appears reduced due to the higher base rates resulting from the increased 2013 revenue requirement.**

b) **Does Union agree that the major issue remains the big increase for M1 customers 7,000-30,000 m3/year?**

c) **Provide a Version of Exhibit H3, Tab 1, Schedule 3 that shows the Combined Impact of 2013 Revenue deficiency recovery AND rate design for "old M1" customers' 2014 base rates.**

d) **What Rate mitigation is Union Proposing for these customers?**

4. Is the proposal to harmonize the general service rate structures between the North and South operating areas effective January 1, 2014 appropriate?

EP Interrogatory # 1

Ref: **Exhibit H1, Tab 1, Tables 9 & 10**

a) **Please provide the percentage of the fixed costs recovered through the monthly charge in 2013 for general service rates M1, M2, 01, 10.**

b) **Please provide a comparison to Board approved rates for 2007.**

c) **What has changed to require increased fixed charges?**

d) **How much does the increase reduce Union's Business and Financial Risk? Please Comment.**

5. Is the proposal to lower the eligibility for the M4 and M5A rate classes to a daily contracted demand of 2,400 M3 and a minimum annual volume of 350,000 M3 effective January 1, 2014 appropriate?

No Questions

6. **Is the introduction of an M4 interruptible service offering effective January 1, 2014 appropriate?**

No Questions

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 M3 effective January 1, 2014 appropriate?**

No Questions

8. **Is the splitting of T1 into two rate classes effective January 1, 2013 appropriate?**

No Questions

9. **Is recovering UFG on transportation activity in the winter months for the Dawn to Dawn-Vector transportation service appropriate?**

No Questions

10. **Is the proposal to modify the M1 and M2 rate schedules appropriate?**

EP Interrogatory # 1

Ref: Exhibit H1, Tab 1, Tables 7 and 8, Updated

a) **Compare EGDIs General Service Block structures to Unions Current (2013) and Proposed 2014.**

b) **Comment on the differences in the above and why Unions 2013 proposals are 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?**

No Questions

12. Are the proposed changes to the Distributor Consolidated Billing fee to $0.57 per month per customer appropriate?

No Questions

13. Are the proposed changes to the Gas Supply Administration Fee appropriate?

EP Interrogatory # 1

Ref: Exhibit H1, Tab 3, Updated

a) **Please provide the drivers for the changes proposed to the gas supply administration fee.**

b) **What is the dollar impact for customers in the general service rate classes?**

c) **Compare Union and EGD Gas Supply fees.**

14. 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?

EP Interrogatory # 1

Ref: Exhibit H1, Tab 1, Table 12, Updated

What Rate Mitigation is Union considering if the 2013 Revenue Requirement is substantially the same as filed?

DV. Deferral and Variance Accounts

1. Are Union's proposed and existing deferral and variance accounts appropriate?

EP Interrogatory # 1

Ref: Exhibit H, Tab 4,Appendix B &
Exhibit A1, Tab 6, Deferral Account # 179-126 and #179-127

Please provide the status of these Accounts and whether they will be used in 2013.

EP Interrogatory # 2

Ref: Exhibit H1, Tab 4-Technology and Innovation Canada (“ETIC”)

a) **Confirm that Union proposes that this account will operate to refund ETIC costs under $5 million.**

b) **What is Unions current (April 1, 2012) base commitment (contractual) to ETIC for 2013?**

c) **What is the expected incremental cost forecast for new projects?**

d) **Breakdown how the $5 million is calculated in terms of existing (April 1, 2012) and proposed new 2012 and 2013 commitments.**

EP Interrogatory # 3

Ref: Exhibit H1, Tab4- GDAR Costs (Deferral Account No.179-112)

a) **Why is this account still needed for 2013?**

b) **What activities will require DA Account protection in 2013?**

c) **Please provide balances recorded in 2011 and 2012 YTD.**

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

No Questions

3. **Is the proposal to eliminate the Late Payment Penalty Litigation (No. 179-113) and the Harmonized Sales Tax (No. 179-124) deferral accounts appropriate?**

No Questions

4. **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?**

EP Interrogatory # 1

Ref: Exhibit H1, Tab4- Average Use Per Customer (Deferral Account No. 179-118)

a) **Clarify exactly Union is proposing for 2013.**

b) **Will the AU account record differences from forecast as in the past or is 2013 considered a Cost of Service Year where such mechanisms are not usually approved?**

c) **What is the sensitivity of the 2013 Revenue Requirement to a 1% change in AU forecast for the General Service classes?**

d) **Does continuing the AU deferral account decrease Unions Weather related Business and Financial risk relative to a Cost of Service year without DA protection?**

O. Other Issues

1. Has Union responded appropriately to all relevant Board directions from previous proceedings?

No Questions

2. Are Union's economic and business planning assumptions for the Test Year appropriate?

EP Interrogatory # 1

Ref: Exhibit A2, Tab 3, Schedule 1 & Appendix A

The evidence indicates that the budget planning assumptions were updated in August 2011.

a) **Please clarify whether the Update is partial and still retains some parts of the January 2011 forecast.**

b) **Please provide a Table that provides the most recent data.**

3. **Is service quality, based on the Board specified performance indicators acceptable?**

EP Interrogatory # 1

Ref: No Reference

a) **Please provide a tabulation of Service Quality Indicators/Performance from 2007-2011 and Forecast 2012-2013.**

b) **Show and Discuss trends in SQIs over the IRM Period.**

c) **Overall, does Union believe the data shows SQ has been maintained over the IRM period?**

d) **What specific actions are being taken to rectify under performing SQ performance and trends?**

4. **Are sustainable efficiency improvements (or efficiency gains) achieved under incentive regulation reflected in Union's CoS estimates?**

EP Interrogatory # 1

Ref: Exhibit A2, Tab 5, Table 1

a) **Update Table 1 for 2012 Estimate and Projection for 2013.**

b) **Provide a schedule in the same format as the PEG report [Assessment of Union Gas Ltd. And Enbridge Gas Distribution Inc. Incentive Regulation Plans September 2011] Table 18 (Capital)and Table 19 (Operating Expenses).**

c) **Compare the O&M Growth rate and savings 2007-2010 with PEG Report.**

d) **Calculate TFP for 2007-2011 compare with PEG report 2007-2010.**

e) **Update Table 26 of the PEG report to reflect the latest results.**

f) **How much of the Productivity Gains were due to the (lower) ROE allowed by the Board during the IRM period?**

g) **What Productivity Savings are forecast for Test Year 2013. Provide Details based on the 4 categories of Savings/revenue generation in Table 1 [Exhibit A2, Tab 5, Page 2]**

5. **Are the forecasts of Natural Gas Market Conditions in 2013 and beyond and the impacts on Union, including turnback and mitigation actions by Union, appropriate?**

EP Interrogatory # 1

Ref: Exhibit A2, Tab 1, Schedule 1, Page 12

Union has been able to mitigate the Dawn-Kirkwall turnback for 2011 and 2012 by reselling the 2011 turnback as a Dawn-Parkway service and eliminating winter peaking service requirements in 2012. Union does not have a market for any further turnback in 2013 and beyond. Union is working to repurpose the turnback of Dawn-Kirkwall transmission service as a Dawn-Parkway transmission service. Union's ability to repurpose the turnback of Dawn-Kirkwall transmission service is limited by constraints on the TCPL system at Maple.

a) **Provide the Status of the TCPL Application.**

b) **What is Union's Position on the TCPL Application?**

c) **What is the response to Union's Open Season for the Parkway Extension? Please provide Non-confidential details.**

d) **How is Spectra's publicly announced plan to transport Marcellus gas to Eastern Markets affecting Unions Plans? Please discuss in detail.**

6. **Are Union's customer service policies (including security deposits, late payment penalty, etc.) compatible with Board directives?**

EP Interrogatory # 1

Ref: Exhibit A, Tab 13, Updated

a) **Please provide the status of the proposed changes to Customer Service Polices and Board Approval of these for general service customers.**

b) **Point to the specific changes to the Conditions of Service for the 2012 and 2013 rate years.**

c) **Please update the status of Customer Service Policies for Low Income Customers and (if approved) what changes will be made for the 2012 and 2013 rate years.**

d) **Provide a tabular comparison of key conditions of service for regular and Low Income customers for Union and EGD- late payment, security deposits, Equal Billing, Disconnection, arrears management etc.**

7. 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?

No Questions