

April 10, 2012

**Sent by E-mail and Courier  
Filed on RESS**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto, ON M4P 1E4

Your reference  
EB-2011-0210

Our reference  
01015413-0025



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Dear Ms. Walli:

**Union Gas Limited – 2013 Rebasing Application (EB-2011-0210)**

Please find attached the information requests of Association of Power Producers of Ontario for the above-noted proceeding.

Yours very truly,

*Original signed by*

John Beauchamp

JB/mnm

Enclosure

Cop(y/ies) to: All parties to the proceeding

DOCSTOR: 2399274\1

## **Union Gas 2013 Rebasing Application**

**EB-2011-0210**

### **Interrogatories from the Association of Power Producers of Ontario (APPrO)**

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#### **B. Rate Base**

#### **Issue 1: *Is UNION'S FORECAST LEVEL OF CAPITAL SPENDING IN 2013 APPROPRIATE?***

##### **Interrogatory 1:**

**Reference:** Exhibit B1, Tab 6, Page 2

Union discusses its integrity program and also provides a forecast for its 2013 integrity program. APPrO wishes to better understand Unions IMP. Union forecasts 2013 IMP expenditures of \$15.46 million and \$14.73 million respectively for Capital and O&M expenditures in Table 1.

- a) Please indicate if these expenditures are based on an average of prior expenditures by plant type, pre-survey work already completed or some other means.
- b) Please summarize the results of the IMP program since 2007 and in particular please indicate the implications for future IMP program expenditures.
- c) Please provide a forecast of IMP programs over the next 5 years.
- d) Please elaborate on changes Union has made to its design standards as a result of the IMP programs since 2002.

##### **Interrogatory 2:**

**Reference:** Exhibit B1, Tab 6, Page 19

Union discusses its plan to replace the existing NPS 16 pressure control bypass valve at Dawn Great Lakes with a 36" control valve to reduce pressure loss and

improve design efficiency. In order to better understand the need for the expenditure:

- a) Please confirm that this valve is in the Dawn yard at the interconnect between Union & TCPL. If not confirmed please provide additional information about the other interconnection pipeline
- b) Please elaborate on the specific system benefits of the reduced pressure loss that will be gained from replacing this valve.
- c) Union made certain modifications in the last several years to accommodate Dawn to Dawn-TCPL firm deliveries. Does this expenditure relate to the provision of this service?
- d) Please provide receipt/delivery information at the Dawn – Great Lakes measurement facility from November 2010 to the present to show how flows that are changing will subsequently benefit from the reduced pressure loss.
- e) What additional revenue from 2013 onwards will be associated with this expenditure?

### **Interrogatory 3:**

**Reference:** Exhibit B1, Tab 6, Page 20

Union indicates that \$12.3 million is required for several storage projects with each project less than \$1 million, and further indicates that these expenditures will help ensure safety, integrity and reliability.

- a) Please indicate if any of these expenditures will also result in increased deliverability or increased storage space and if so by how much. Explain.
- b) Union notes that this expenditure will among other things include integrity work. Please explain if any of this work is already covered Table B2 Tab 6, also how this integrity work is different than the integrity work in Table 1.

**Interrogatory 4:**

**Reference:** Exhibit B1, Tab 9  
Exhibit A2, Tab 1, Schedule 1, Page 2

Union indicates that it is planning on spending \$215 million from 2012 to 2014 to develop an LCU compressor at Parkway West. Union notes that no incremental revenue is associated with this expenditure. This will provide back-up coverage for a potential loss at:

Parkway A (24,000 HP) that provides 1.0 PJ/d of compression, or	
Parkway B (47,000 HP) that provides <u>1.8</u> PJ/d of compression.	
Total	2.8 PJ/d

Union also notes that it is contracted to provide firm service to:

Enbridge	1.6 PJ/d, and
TransCanada	<u>2.0</u> PJ/d
Total	3.6 PJ/d

Union has also indicated in the second reference above that there has been M12 turnback capacity of 67,000 GJ/d for 2013 and a total of 576,973 GJ/d is at risk of turnback between 2014 and 2018.

APPrO would like to better understand the volume flows and capability in and around Parkway, the need for LCU, the risks of potential failures at Parkway, alternative options considered in lieu of an LCU unit, and cost and benefits associated with this planned expenditure.

a) The Need for LCU

At B1, Tab 9, Page 3, Union states that *"The increase in design day and peak day send out through Parkway compression (today and forecast) and the shift to year-round exports through Parkway compression makes LCU protection at Parkway critical."*

- i. Please explain the difference between 'design day' and 'peak day' sendout.
- ii. Union indicates at A2 Tab1 Schedule 1 Table 4, that 1.86 PG/d of turnback capacity is at risk to 2018. In light of this risk highlighted by Union, how is adding compression LCU capability consistent with the risk of turnback capacity?

- iii. Please provide records of correspondence or meeting minutes where shippers on Union have specifically expressed the concern that Union lacks LCU service at Parkway.
- b) Union indicates at B1 Tab 9, page 4 that: *"An outage of the Dawn-Parkway system interconnection at Parkway (including the valve site) would result in no gas being delivered to Parkway (Consumers) and Lisgar"*.
  - i. Please indicate if the potential loss of deliveries at each of these two locations is the result of a compressor failure (i.e. an actual loss of a critical unit) or the loss of the valve site. If the latter, does Union not have many loads or interconnections that are fed from a single valve site?
  - ii. In the event of an actual compressor failure, does Union have the capability to 'bypass' the compressor unit to 'freeflow' gas at the Parkway suction pressure to the discharge piping to allow some flow to feed into the downstream systems? If so, how much?
  - iii. Please provide a schematic to show how the feed to Lisgar is routed in, around or through Parkway.
  - iv. Does Union use the Trafalgar compressor to facilitate deliveries to Lisgar?
- c) Volume Flows and Capability
  - i. Please confirm that the total compression capability exceeds the current contracted capacity by 0.2 PJ/d.
  - ii. Union also has an obligated delivery at Parkway for certain direct purchase customers. Please indicate how these volumes are integrated into the overall obligations at Parkway.
  - iii. Union indicates that it does not have 100% LCU coverage at Parkway currently; please indicate how much redundancy currently exists at Parkway taking into account the current surplus capacity? How does this change by 2018 if Union experiences the full turnback noted.
  - iv. Is the new compressor station at Parkway West intended to cover the loss of one compressor failure at either Parkway A or Parkway B, or is it intended to cover the failure of both compressors?
- d) The Risks of Potential Failure at Parkway
  - i. Union indicates that providing LCU coverage is critical at Parkway. Please provide a list of all the failures that have occurred over the last 3 years at Parkway A and B and include the duration of the outage and the loss of throughput. For each failure indicate if the outage occurred on a design day or within 10% of a design day.

- ii. Has Union performed a full engineering risk assessment of potential for failures at the existing Parkway station, if so please provide a copy of such studies.
  - iii. Please provide a more detailed line diagram that illustrates the current piping configuration at Parkway that illustrates the Dawn-Parkway lines, compression units, and how these interconnect with TCPL & Enbridge currently. Please also provide a second line diagram that illustrates how Parkway West would functionally be integrated into this system.
- e) Alternatives Considered
  - i. Has Union considered alternatives to building the Parkway West station? If so, please provide details on the alternatives considered.
  - ii. APPrO understands that a portion of the volumes compressed at Parkway are transported by TCPL to delivery points in eastern Canada for domestic and export use. Please indicate if Union considered not providing any LCU coverage and letting shippers replace lost throughput on other pipeline systems feeding their market (APPrO understands that the TCPL Mainline is substantially underutilized from WCSB, and capacity exists via backhaul from Dawn on GLGT to Emerson and then 'around the horn' to eastern Canada).
  - iii. At D1, Tab 9, Union reserves the full amount of Hagar LNG capability as system integrity space to manage its integrated system. Given the transition of more gas flow from Parkway east and north and the resulting surplus capacity that exists on the TCPL system southwards from Hagar to Parkway, please explain why Hagar LNG could not be used as a partial or full alternative to Parkway West.
  - iv. Please provide the regas rate at Hagar.
  - v. Has Union considered offering the LCU protection at Parkway as on an add-on service only and let shippers decide to contract for the service or not? Please explain.
- f) Costs and Benefits of the Parkway West Station
  - i. Union has been delivering volumes to TCPL & Enbridge at Parkway for many years, presumably without 100% LCU coverage. Please indicate why Union is pursuing this LCU development at this point in time.
  - ii. Will the new Parkway West compressor station provide any additional firm capacity over and above the current contracted firm capacity to TCPL or Enbridge?

- iii. Will the new compressor provide any capacity to generate incremental discretionary revenue not otherwise able to be provided by the existing compression? If so please provide Union's forecast for 2013.
- iv. What percentage of the existing Dawn-Trafalgar transmission rate base does this proposed investment in Parkway West represent?
- v. Please estimate how the M12 rate would change as a result of this \$215 million in expenditure related to the proposed Parkway West station once the Parkway West station is operational and the capital cost included in tolls.
- vi. What benefit will infranchise customers receive from Parkway West?
- g) Rate Design
  - i. Please describe how Union proposes to recover the costs of the Parkway West compressor station.
  - ii. Since Parkway West is being constructed to enhance the reliability of service only to those shippers east of Parkway, has Union considered a rate rider that incorporates a 'system reliability exit fee' to recover the costs of Parkway West?

**Issue 2: DOES THE EVIDENCE SUPPORT THE PROPOSED UPDATES TO UNION'S LEAD/LAG STUDY?**

**Issue 3: IS UNION'S PROPOSAL TO TERMINATE REPORTING ON NEW BUSINESS-RELATED DIRECTIVES FROM PRIOR FACILITY PROJECTS APPROPRIATE?**

**Issue 4: IS THE PROPOSED TEST YEAR RATE BASE APPROPRIATE?**

**Issue 5: IS THE PROPOSED WORKING CAPITAL ALLOWANCE APPROPRIATE?**

**Issue 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?**

**Issue 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?**

**Issue 8: IS THE ALLOCATION OF CAPITAL EXPENDITURES BETWEEN UTILITY AND NON-UTILITY ("UNREGULATED") OPERATIONS APPROPRIATE?**

## **C: Operation Revenues**

**Issue 1: *IS UNION'S GENERAL SERVICE DEMAND FORECAST APPROPRIATE?***

**Issue 2: *WHAT IS THE APPROPRIATE METHODOLOGY TO BE USED TO FORECAST DEGREE DAYS FOR THE TEST YEAR?***

**Issue 3: *IS THE 2012 CONTRACT CUSTOMER DEMAND FORECAST APPROPRIATE?***

### **Interrogatory 1:**

**Reference:** Exhibit C1, Tab 2

In Table 1 Union forecasts a declining Power related volumes 2013 Forecast compared to 2011 Actual, and 2012 Forecast. APPrO would like to better understand these declines, and the linkage, if any, between throughput and contract demand.

- a) For each year from 2007 to 2013 and within each applicable rate class, please show the aggregate amount of gas-fired generating capacity (MW) identified by dispatchable and baseload (or self-dispatching (e.g. NUGs and CHP).
- b) For each year from 2007 to 2013 and within each applicable rate class please show:
  - i. The aggregate contract demand volumes for gas-fired generating capacity customers
  - ii. The aggregate contracted minimum annual volumes
- c) Please provide a list of the coal-fired generating plants in each of Union South and Union North franchise area and show the operative generating capacity (MW) at the beginning of each year from 2007 to 2013.



- d) For 2013 please identify how much of Union's forecast of power related volumes in line 1, is attributable to the closure of coal units since 2007.

**Interrogatory 2:**

**Reference:** Exhibit C1, Tab 2

In Table 2 Union forecasts a declining Total Revenues in 2013 Forecast compared to 2010 Actual, 2011 Actual, and 2012 Forecast. APPrO would like to better understand the rationale for the decline.

- a) Please provide the major econometric or other material assumptions used to prepare this forecast that materially affect the revenue forecast.
- b) Please provide Union's natural gas price elasticity's of demand for each of the sectors in Table 2
- c) Please provide revenue assumptions for 2013 associated with interruptible or other discretionary revenues for each market sector.

**Issue 4: *IS THE 2013 S&T FORECAST APPROPRIATE?***

**Interrogatory 1:**

**Reference:** Exhibit C1, Tab 3

Union has indicated that it is reducing its exchange revenues forecast for 2013 due to TCPL's proposed elimination of its FT-RAM program:

- a. Please describe in detail how Union was able to generate revenue from this program.
- b. TCPL in its filing with the National Energy Board<sup>1</sup> indicates that there are other ways to alleviate the impact of the elimination of RAM including increased diversions, use of alternate receipt points and increased use of other services, and as such IT and STFT. Given that the use of these alternate strategies will very

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<sup>1</sup> RH-3-2011 Section 8.0 Page 28

likely include increased transportation to and from Dawn, has Union incorporated any additional short term transportation revenue or exchange revenue to reflect the mitigating strategies that TCPL is suggesting will be a market response as a result of the elimination of its FT-RAM program. Please explain.

**Interrogatory 2:**

**Reference:** Exhibit C1, Tab 3, Page 10, Table 3

Exhibit A2, Tab 1, Schedule 1, Pg 12, Table 4

Union is not forecasting any increase in Dawn-Parkway short term revenue in 2013. In A2, it is indicated that there is in excess of 1 PJ of available Dawn-Trafalgar capacity. In addition, it appears that Union will access Marcellus gas and downstream winter markets through bi-direction flow capability at Kirkwall and bidirectional flow capability at the downstream export points at Niagara. Please explain why Union would not expect to see some short term sales using this excess 1 PG/d of capacity?

**Issue 5: *IS THE PROPOSED AMOUNT FOR THE TEST YEAR OTHER REVENUES, INCLUDING THE METHODOLOGIES USED TO COST AND PRICE THOSE SERVICES, APPROPRIATE?***

**Issue 6: *HAS UNION LEVIED PROPER CHARGES AND ALLOCATIONS TO NON-REGULATED BUSINESS AND AFFILIATES, AND PROVIDED PROPER CREDIT FOR THESE SERVICES AND ALLOCATIONS IN CALCULATING REVENUE REQUIREMENT TO BE RECOVERED FROM REGULATED SERVICES?***

#### **D. Cost of Service**

##### **Issue 1: *IS THE O&M BUDGET APPROPRIATE?***

###### **Interrogatory 1:**

**Reference:** Exhibit D1, Tab 5, Page 4

With regards to the overall DSM budget, please confirm that no stakeholder agreement or Board approval is in place for DSM programs or costs for T1/Rate 100 customers after December 31, 2012.

##### **Issue 2: *ARE THE 2013 AFFILIATE CHARGES APPROPRIATE?***

##### **Issue 3: *HAS UNION COMPLIED WITH THE AFFILIATE RELATIONSHIPS CODE ("ARC") AND THE BOARD'S "THREE PRONG TEST" (AS DESCRIBED BY THE BOARD IN THE E.B.R.O. 493/494 DECISIONS WITH REASONS)?***

##### **Issue 4: *ARE THE PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION PROPOSED IN THE 2011 DEPRECIATION STUDY APPROPRIATE?***

##### **Issue 5: *ARE THE CHANGES TO UNACCOUNTED FOR GAS APPROPRIATE?***

##### **Issue 6: *IS THE PROPOSED COMMUNITY INVESTMENT FUNDING APPROPRIATE?***

##### **Issue 7: *IS THE PROPOSED ENERGY TECHNOLOGY INNOVATION CANADA PROGRAM FUNDING APPROPRIATE?***

###### **Interrogatory 1**

**Reference:** Exhibit D1, Tab 2, Page 6

Union indicates that its O&M budget for ETIC program will be \$5.0 million and will be based on the 6 mainly natural gas utilities included in the 2011 EU scorecard.

- a) Please identify the 6 EU utilities used in the scorecard.
- b) Please provide Union's understanding of the level of approved funding provided by:
  - i. Other Canadian gas utilities for the ETIC program in 2012 and 2013
  - ii. US gas utilities for 2012 and 2013

- c) Footnote 1, indicates that the ETIC budget was based on 0.29% of \$1,830 million. Please explain the basis for using \$1,830 million.
- d) Please provide details on how the funds for 2011 were spent as well as the details for the proposed 2012 and 2013 spending.
- e) Please indicate how much of these proposed funds for 2013 are allocated to Rate 20, Rate 25, Rate 100, and T1.
- f) Please indicate specifically what benefits customers in Rate 20, Rate 25, Rate 100 and T1 will receive from the results of this program.

**Issue 8: *IS THE FORECAST OF EMPLOYEE FUTURE BENEFIT COSTS WHICH WILL BE INCURRED UNDER USGAAP APPROPRIATE?***

**Issue 9: *ARE THE TEST YEAR HUMAN RESOURCES RELATED COSTS (WAGES, SALARIES, BENEFITS, INCENTIVE PAYMENTS, LABOUR PRODUCTIVITY AND PENSION COSTS) INCLUDING EMPLOYEE LEVELS, APPROPRIATE?***

**Issue 10: *ARE THE AMOUNTS PROPOSED FOR CAPITAL AND PROPERTY TAXES APPROPRIATE?***

**Interrogatory 1:**

**Reference:** Exhibit D1, Tab 4, Page 3

Union indicates that it is including an additional \$0.16 million in property tax expenses due to an Enbridge related Assessment Review Board (ARB) ruling to re-classify odourant stations from commercial to industrial. Please confirm that this ARB decision is a final and non-appealable form.

**Issue 11: *IS THE AMOUNT PROPOSED FOR INCOME TAXES, INCLUDING THE METHODOLOGY, APPROPRIATE?***

**Issue 12: *IS THE PROPOSAL TO UPDATE THE BAD DEBT EXPENSE AS PART OF THE QUARTERLY RATE ADJUSTMENT MECHANISM (GRAM) PROCESS APPROPRIATE?***

**Issue 13: *IS THE PROPOSAL TO CONTINUE TO ADJUST THE UNACCOUNTED FOR GAS, COMPANY USED GAS AND INVENTORY FOR RESALE COSTS AS PART OF THE GRAM PROCESS APPROPRIATE?***

**Issue 14: *IS THE GAS SUPPLY PLAN FOR 2013 APPROPRIATE?***

**Issue 15: *IS THE ALLOCATION OF O&M COSTS BETWEEN UTILITY AND NON-UTILITY OPERATIONS APPROPRIATE?***

**Issue 16: *IS THE PROPOSED SYSTEM INTEGRITY SPACE AND ITS ALLOCATION FOR 2013 APPROPRIATE?***

**Interrogatory 1**

**Reference:** Exhibit D1, Tab 9  
Exhibit G1, Tab 1  
Exhibit G3, Tab 5, Schedule 23, Pages 5 and 6

- a) Union indicates that in EBRO 499, 9.7 PJ of integrity space was required consisting of 9.1 PJ of southern storage and 0.6 PJ of Northern LNG. What is the deliverability associated with each of these storage resources?
- b) Although the aggregate integrity space is proposed to decline from 9.7 PJ to 9.5 PJ, Union indicates that it is proposing to increase that portion of the integrity space related to storage pool hysteresis by a factor of 4 from 0.5 PJ to 2.0 PJ (from EB-2005-0520).
  - i. Please identify the individual storage pools that are now experiencing increased hysteresis.
  - ii. When did the change requiring additional integrity space to account for pool hysteresis begin to occur?
  - iii. Has the additional hysteresis been influenced in any way by any of the storage development programs on existing pools (including, but not limited to, adding additional wells, delta pressuring, lowering cushion, down hole simulation programs, adding compression or debottlenecking gathering lines etc.) that Union has implemented over the last 10 years?
- c) In Exhibit D1, Tab 9, Union describes hysteresis as the effective reduction in reservoir pressure caused by well interference which lowers deliverability performance (i.e. rate of withdrawals from storage). Union indicates in Exhibit G1, Tab 1, Page 4 that 1.2 PJ of the integrity space will be filled on November 1 while 0.7 PJ of the integrity space will remain empty on November 1 to manage late season injections. Please explain if hysteresis space is required to manage lower deliverability or withdrawal

performance, why it is necessary to reserve this empty integrity space to accommodate late season injections.

- d) In Exhibit G1, Tab 1, Page 4, Union indicates that it is reserving 3.5 PJ space for late season injections.
  - i. Please explain what drives the need for late season injections?
  - ii. If late season injections are as a result of choice of when to purchase and inject gas into storage, why is this choice an integrity issue?
- e) Is the hysteresis problem that Union is experiencing not simply a downgrading of overall storage deliverability performance that results in a lowering of overall storage space available, rather than a storage integrity issue?
- f) Union indicates at Exhibit D1, Tab 8, Page 1, that:

*As an integrated storage and transmission system operator Union requires system integrity space to support the integrity of the system as a whole and provide the provision of service to all customers. It provides reserve capacity and allows for the operational balancing necessary to manage all of the services Union offers and ensures the integrity of Union's storage, transmission and distribution systems.*

Since this supports all services including storage, please indicate how much of this integrity space has been allocated to non-utility storage. Explain.

## **Interrogatory 2**

**Reference:** Exhibit D1, Tab 9, Page 3, Table 1  
Exhibit D3, Tab 2, Schedule 2

Union indicates in Exhibit D1, Tab 9, Page 3, Table 1 that the provision for UFG forecast variances is increasing from 1.8 PJ to 2.2 PJ (22% increase). Exhibit D3, Tab 2, Schedule 2 indicates a) that 2013 total forecasted throughput is comparable to the 3 year history, and b) the 3 year history clearly shows UFG volumes declining. Please explain why a 22% increase if system integrity space is required for UFG in light of relatively constant throughput and declining UFG ratios?

**Issue 17: *IS THE PROPOSED PARKWAY COMMITMENT FOR DIRECT PURCHASE CUSTOMERS APPROPRIATE?***

**Issue 18: *IS THE EXISTING PARKWAY OBLIGATION DELIVERY REQUIREMENT FOR DIRECT PURCHASE CUSTOMERS APPROPRIATE?***

**Interrogatory: 1:**

**Reference:** Exhibit B1, Tab 5, Page 8  
Exhibit A2, Tab 1, Schedule 1, Page 12

APPrO wishes to better understand the impact of obligated deliveries:

- a) Please provide the annual volume of obligated deliveries that Union has relied on arriving at Parkway commencing 2007 through to and including 2013.
- b) Please provide Union's policy related to obligated deliveries for new and existing direct purchase customers arranging their own gas supply.
- c) At Exhibit A2, Tab 1, Schedule 1, Page 12, Union indicates that it is forecasting cumulative surplus capacity as follows (GJ/d):

	<b>2013</b>	<b>2014-2018 (at Risk)</b>
Dawn-Kirkwall	978,386	1,283,523
Dawn-Parkway	67,000	576,973

Please confirm that these volumes are for each of the full physical paths between Dawn and Kirkwall as well as between Dawn and Parkway.

- d) In the event that surplus capacity exists as shown to Parkway, please confirm that the dependence on obligated deliveries can be reduced by the amount of the surplus capacity.
- e) Please confirm that if a customer situated in either Windsor or Sarnia were to source its gas at Dawn, that Union would not require the use of its Dawn-Trafalgar transmission system to deliver the gas to the customer. If not confirmed, please explain.
- f) In light of the continued evolution of the natural gas industry from the mid-1980's when direct purchase customers were required to take

assignment of the long term, longhaul TCPL contracts, to the current day market where a vibrant, liquid market hub exists at Dawn and is the 'go to market centre' for gas consumers in Ontario, is it time to re-evaluate the Parkway obligation? Please explain.



**E. Cost of Capital**

**Issue 1: *IS THE FORECAST OF THE DEBT FOR THE TEST YEAR, INCLUDING THE MIX OF SHORT AND LONG TERM DEBT AND PREFERENCE SHARES, AND THE RATES AND CALCULATION METHODOLOGIES APPROPRIATE?***

**Issue 2: *IS THE PROPOSED CHANGE IN CAPITAL STRUCTURE INCREASING UNION'S DEEMED COMMON EQUITY APPROPRIATE?***

**Issue 3: *IS THE PROPOSAL TO USE THE BOARD'S FORMULA TO CALCULATED RETURN ON EQUITY APPROPRIATE?***

**F. Revenue Deficiency**

**Issue 1: *ARE THE REVENUE REQUIREMENTS AND REVENUE DEFICIENCY OR SUFFICIENCY FOR THE TEST YEAR CALCULATED CORRECTLY.***

**Interrogatory 1:**

**Reference:** Exhibit F3, Tab 1, Schedule 1  
Exhibit H3, Tab 1, Schedule 1

The Exhibits below present different numbers for revenues generated by current rates

Exhibit F3, Tab 1, Schedule 1, Column 1 (see Line 1)      \$1,598,544

Exhibit H3, Tab1, Schedule 1, Page 2 (see Line 19)      \$1,679,040

Please explain why those numbers do not match and provide the detail of the discrepancy

**Interrogatory 2:**

**Reference:** Exhibit H3, Tab 1, Schedule 1, Page 2, Column (e), Line 19

- a) Please explain why Union is requesting rates that generate revenues \$2.228 million higher than the allocated cost (\$1,676,812 vs. \$1,679,040)
- b) Please provide the following breakdown for the corresponding cost sources of the requested revenue of \$1,676,812

Particulars	(\$000)
Cost of gas	
Operating and Maintenance	
Depreciation	
Other financing	
Property and capital taxes	
Return on rate base	
Income taxes	
Other expenses	
Total	<u>1 676 812</u>

- c) Please provide the breakdown of the Cost of Operating and Maintenance amount provided in the table above with the same level of details as in Exhibit D1, Summary Schedule 2.

**Issue 2: IS THE OVERALL CHANGE IN REVENUE REQUIREMENT REASONABLE GIVEN THE IMPACT ON CONSUMERS**

## **G. Cost Allocation**

### **Issue 1: *Is UNION'S UTILITY COST ALLOCATION STUDY, INCLUDING THE METHODOLOGIES AND JUDGEMENTS USED AND THE PROPOSED APPLICATION OF THAT STUDY WITH RESPECT TO THE TEST YEAR APPROPRIATE?***

#### **Interrogatory 1:**

**Reference:** Exhibit C3, Tab 2, Schedule 3  
Exhibit G3, Tab 5, Schedule 1, page 11 (see Other Supplies – UFG) and page 23 (see account code 721 and 725)  
Exhibit G3, Tab 1, Schedule 1, Appendix A, Page 7  
Exhibit G3, Tab 1, Schedule 1, Appendix B, Pages 7, 10 and 11  
Exhibit G3, Tab 1, Schedule 1, Appendix C, Page 5  
Exhibit G3, Tab 5, Schedule 3, Page 16  
Exhibit G3, Tab 1, Schedule 1, Appendix C, Page 2

- a) Please explain how the T1 customers which represents 0.005% can be allocated 4.6% of administrative costs (4,331/93,862), 4.8% of employee benefits costs (2,718/56,299), and 13.4 % of “other supplies – UFG” costs (1,772/13,232).
- b) Please explain how the M12 customers can be allocated 8.7% of administrative cost (8,142/93,862), 9.7% of employee benefits (5,445/56,299) and 44 % of “other supplies – UFG” costs (5,910/13,232).
- c) In your explanation to questions a) and b), please explain how the “other supplies – UFG” cost amount, of which 88% is originally functionalized to the “Purchase Production” function, ends up allocated to rate T1 and M12 at a level of 57.4%.
- d) Why are there not any “other supplies – UFG” costs functionalized partly to “transmission” and “Distribution” function?
- e) The LABOUR functionalization factor is described as followed “*Functionalizes costs to the functions in proportion to labour expenses*”. Explain how the proportion of labour expenses is obtained for rate T1 and M12 and provide the proportion used.
- f) The O&MEXP functionalization factor is described as followed “*Functionalizes costs to the functions in proportion to components of O&M*”. Explain how the proportion of components of O&M is obtained and provide the proportion used for rate T1 and M12.
- g) Classification Factors FIRST, FOURTH, SECOND and THIRD; please provide the details of what those columns are, and provide an example of those columns for the Transmission function.

- h) UFGALLO factor; explain how the amount of “Other supplies – UFG” (G3 tab 5 Schedule 3 page 16) subject to the UFGALLO is determined?
- i) Allocation Factors F24T-BENEFITS, F24T-COMPMAINT and F24T-GENOPS; please provide the detail showing how much each of these amounts allocated to rates M12, M12X and C1.
- j) Allocation Factor DTTRANS; please provide the firm design day demand for each rate category noted below used to calculate this allocation factor.

Line No.	Particulars	Peak Demand (10 <sup>3</sup> m <sup>3</sup> /d)
<b><u>North Delivery</u></b>		
1	R01	
2	R10	
3	R20	
4	R25	
5	R100	
<b><u>South Delivery &amp; Storage</u></b>		
6	M1	
7	M2	
8	M4	
9	M5A	
10	M7	
11	M9	
12	M10	
13	T1	
14	T3	
<b><u>North Transportation &amp; Storage</u></b>		
15	R01	
16	R10	
17	R20	
18	R25	
19	R100	
<b><u>Ex-Franchise</u></b>		
20	M12	
21	M13	
22	M16	
23	C1	

**Issue 2: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO THE ALLOCATION OF OIL SPRINGS EAST APPROPRIATE?**

**Issue 3: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO THE ALLOCATION OF TECUMSEH METERING AND REGULATING COSTS APPROPRIATE?**

**Issue 4: IS THE COST ALLOCATION STUDY METHODOLOGY TO ALLOCATE THE COST OF SYSTEM INTEGRITY APPROPRIATE?**

**Interrogatory 1**

**Reference:** Exhibit G3, Tab 1, Schedule 1, Pages 12 and 13  
Rate 20 Tariff Sheets

Union indicates that it is allocating the costs of storage space and system integrity space to Union North customers “using excess peak over annual average demand (i.e. the difference between what a rate class takes on an average day and what it requires on its peak day)”.

Union’s Rate 20 tariff sheets indicate under storage service: “For load balancing purposes for customers using Transportation Service on this rate schedule. If at the sole discretion of Union, adequate supplies exist, bundled and unbundled storage and delivery/redelivery services will be provided.”

- a) Is storage space allocated to contract customers on the same basis as the excess peak over annual demand?
- b) Union’s tariff sheets imply that access to storage by a Union North customer is at Union’s option. Please provide a copy of Union’s policy for allocating storage space to a new Union North customer.
- c) Please provide the total storage space allocated to Union North customers, by rate class.
- d) To the extent that access to storage space by a Union North customer is different than Union’s cost allocation methodology, please explain such differences.

**Interrogatory 2**

**Reference:** Exhibit G3, Tab 1, Page 15, Transmission – Dawn Trafalgar Easterly

Union describes the Transmission – Dawn Trafalgar Easterly demand costs for a Union North customer as follows: “Costs are allocated to customers in the North

using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day)."

- a) This transmission capacity is presumably used to transport gas from storage to the North. Is this cost allocation methodology consistent with the way a new Union North customer is able to contract for storage space?

**Issue 5: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO ALLOCATE THE COST OF THE NORTH DISTRIBUTION CUSTOMER STATION PLANT APPROPRIATE?**

**Interrogatory 1**

**Reference:** Exhibit G1, Tab 1, Pages 11-15

Union seeks to change the methodology for allocating Union North customer station costs. Union defines a customer station as one having an hourly consumption in excess of 320 m<sup>3</sup>/h. Union proposes to use a threshold annual consumption of 934,400 m<sup>3</sup>/year (based on annual consumption of 320 m<sup>3</sup>/h X 20 h/d X 365 X 0.40 LF) as the criteria to determine whether a 'customer station' has been constructed for the customer for the purposes of allocating customer station costs to various rate classes in Union North. Union concludes that no Rate 1 customers and a small percentage of Rate 10 customers consume more than 934,400 m<sup>3</sup>/year.

- a) Please confirm that customer stations incorporate the use of meters and regulators on customer premises to measure and reduce the pressure being delivered to the customers.
- b) Please confirm that this cost item relates to the capital cost of the equipment. If not confirmed, explain.
- c) Please confirm that the design criteria Union uses to size and install meters and regulators for individual customer loads is the maximum peak hourly load and not the estimated annual consumption. If not confirmed, explain.
- d) If two customer stations are constructed to meet the same peak hourly demand, and have similar equipment installed and one consumes more than 934,400 m<sup>3</sup>/year and one consumes less than 934,400 m<sup>3</sup>/year, please confirm that the customer station with the lower annual consumption would not attract the same customer station costs.
- e) Please identify the number of customer meter stations in Union North in each rate class that have a design hourly load in excess of 320 m<sup>3</sup>/h.

- f) Please provide the total customer station costs for the North by rate category as proposed by Union for 2013 based on annual consumption of 934,400 m<sup>3</sup>/year.
- g) Please recalculate the customer station costs allocated by rate class if they were allocated on the basis of hourly load in excess of 320 m<sup>3</sup>/h.

**Issue 6: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO CLASSIFY AND ALLOCATE THE COST OF DISTRIBUTION MAINTENANCE O&M (METER AND REGULATOR REPAIRS) APPROPRIATE?**

**Issue 7: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO ALLOCATE THE COST OF DISTRIBUTION MAINTENANCE O&M (EQUIPMENT ON CUSTOMER PREMISES) APPROPRIATE?**

**Issue 8: ARE THE COST ALLOCATION STUDY METHODOLOGY CHANGES TO CLASSIFY AND ALLOCATE THE COST OF PURCHASE PRODUCTION GENERAL PLANT APPROPRIATE?**

**Issue 9: IS THE COST ALLOCATION STUDY METHODOLOGY TO ALLOCATE THE COST OF DAWN TO DAWN-TCPL , DAWN TO DAWN-VECTOR AND M12 F24-T SERVICES APPROPRIATE?**

**Interrogatory 1:**

**Reference:** Exhibit H3, Tab 8, Schedule 1

Union indicates at footnote (1), that it assumes 6 staff are required at a cost of \$1,147,000 plus a further \$300,000 in overtime costs. Please:

- a) Please confirm that for the 13 nomination windows available for FT-SN, that these nomination windows are also shared with 4 NAESB nomination windows and 4 STS windows (to transport gas under TCPL STS service).
- b) Please indicate the number of customers and their respective volumes that contract for F24-T service.
- c) Provide actual labour costs directly incurred to provide F24-T service in each of 2009, 2010, 2011 and forecast for 2012.
- d) Please provide a crewing plan or other similar supporting material to illustrate the need for 6 staff and the related overtime for 2013.
- e) Please explain specifically what is involved in receiving and scheduling a F24 T nomination.
- f) Please indicate if any of the staff proposed to manage F24-T services also process any non-F24-T nominations or perform any other duties



not related to providing F24-T service. Please provide the proportion of time spent in managing non-F24-T workload.

- g) Please indicate if Union allocates any of the costs in Schedule 1 to those parties accessing the TCPL STS windows.
- h) Please provide the total number of Union FTE staff employed in receiving and processing all nominations under all services. Please include their job type and/or function.
- i) What were the total number of all nominations received in 2011 (please include standing nominations that do not change from day to day)?
- j) What was the total number of F24-T nominations received in 2011?
- k) Union also provides F24 S storage, a non-utility storage service, where customers contracting for this service also have access to 13 nomination windows. Please indicate what portion of the costs noted in Schedule 1 is allocated to Union's non-utility service.

**Issue 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?***

**Issue 11: *IS THE ALLOCATION OF ALL DAWN TRAFALGAR EASTERLY COSTS, INCLUDING METERING AND COMPRESSION COSTS, BASED ON COMMODITY-KILOMETRES APPROPRIATE?***

## **H. Rate Design**

### **Issue 1: *ARE THE RATES PROPOSED IN EXHIBIT H JUST AND REASONABLE?***

#### **Interrogatory 1**

**Reference:** Exhibit H3, Tab 1, Schedule 2, Pages 3 and 4  
Exhibit G1, Tab 1, Appendix B, Page 2

Union is proposing to increase Rate 20, Rate 25 and Rate 100 by 43.5%, 43.4% and 29.1% respectively.

- a) Please provide a detailed explanation by rate class illustrating why these rates are increasing as much as proposed.
- b) Please explain why such significant increases are just reasonable and do not constitute rate shock.

#### **Interrogatory 2**

**Reference:** Exhibit H3, Tab 2, Schedule 1, Page 2, Line 19, Columns (d) and (f)

Column (f) indicates that it represents the revenue requirement 'after recovery'. Column (d) is the proposed revenue requirement. The difference between line 19 columns (f) and (d) is \$2,227,000 (col (e)). Please explain what this amount represents.

### **Issue 2: *IS UNION'S RESPONSE TO THE BOARD'S DIRECTIVE TO REVIEW THE M12 AND C1 RATEMAKING APPROPRIATE?***

### **Issue 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?***

### **Issue 4: *IS THE PROPOSAL TO HARMONIZE THE GENERAL SERVICE RATES STRUCTURES BETWEEN THE NORTH AND SOUTH OPERATING AREAS EFFECTIVE JANUARY 1, 2014 APPROPRIATE?***

### **Issue 5: *IS THE PROPOSAL TO LOWER THE ELIGIBILITY TO THE M4 AND M5A RATE CLASSES TO A DAILY CONTRACT DEMAND OF 2,400 M3 AND A MINIMUM ANNUAL VOLUME OF 350,000 M3 EFFECTIVE JANUARY 1, 2014 APPROPRIATE?***

**Issue 6: *IS THE INTRODUCTION OF AN M4 INTERRUPTIBLE SERVICE OFFERING EFFECTIVE JANUARY 1, 2014 APPROPRIATE?***

**Issue 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?***

**Issue 8: *IS THE SPLITTING OF T1 INTO TWO RATE CLASSES EFFECTIVE JANUARY 1, 2013 APPROPRIATE?***

**Interrogatory 1**

**Reference:** Exhibit H1, Tab 1

- a) Please explain the rationale for the \$6,000 monthly charge when the current T1 monthly charge is \$1,793.

**Interrogatory 2:**

- a) Please provide the amount in DSM allocated to and included in each of the new rate T1 and new rate T2.
- b) Please confirm that these DSM amounts have been allocated and recovered in the commodity components.
- c) Please confirm that the commodity rate of rate T1 and T2 are calculated in order to recover 100% of the DSM cost allocated to these rates

**Issue 9: *IS RECOVERING UGF ON TRANSPORTATION ACTIVITY IN THE WINTER MONTHS FOR THE DAWN-DAWN-VECTOR TRANSPORTATION SERVICE APPROPRIATE?***

**Issue 10: *IS THE PROPOSAL TO MODIFY THE M1 AND M2 RATE SCHEDULES APPROPRIATE?***

**Issue 11: *IS THE PROPOSAL TO MODIFY THE M12, M13 M16 AND C1 RATE SCHEDULES INCLUDING SCHEDULE A, SCHEDULE A-2013 AND SCHEDULE C APPROPRIATE?***

**Issue 12: *ARE THE PROPOSED CHANGES TO THE DISTRIBUTOR CONSOLIDATED BILLING FEE TO \$0.57 PER MONTH PER CUSTOMER APPROPRIATE?***

**Issue 13: *ARE THE PROPOSED CHANGES TO THE GAS SUPPLY ADMINISTRATION FEE APPROPRIATE?***

**Issue 14: *ARE THE RATE MITIGATION MEASURES REQUIRED TO ADDRESS RATE IMPACTS ON SOME CUSTOMERS AS A RESULT OF THE PROPOSED JANUARY 1, 2014 RATE DESIGN PROPOSALS?***

**Issue 15: *IS THE PROPOSAL TO CHANGE THE RATE DESIGN FOR SERVICES ORIGINATING AT KIRKWALL TO ELIMINATE THE MEASURING AND REGULATING COSTS APPROPRIATE?***

**DV Deferral and Variance Accounts**

**Issue 1: *ARE UNION'S PROPOSED AND EXISTING DEFERRAL AND VARIANCE ACCOUNTS APPROPRIATE?***

**Issue 2: *SHOULD DEFERRAL ACCOUNTS FOR TRANSMISSION-RELATED SERVICES THAT WERE ELIMINATED IN THE EB-2007-0606 INCENTIVE RATEMAKING PROCEEDING BE RE-ESTABLISHED?***

**Issue 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?***

**Issue 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?***

**O. Other Issues**

**Issue 1: *HAS UNION RESPONDED APPROPRIATELY TO ALL RELEVANT BOARD DIRECTIONS FROM PREVIOUS PROCEEDINGS?***

**Issue 2: *ARE UNION'S ECONOMIC AND BUSINESS PLANNING ASSUMPTIONS FOR THE TEST YEAR APPROPRIATE?***

**Issue 3: *IS THE SERVICE QUALITY BASED ON THE BOARD SPECIFIED PERFORMANCE INDICATORS ACCEPTABLE?***

**Issue 4: *ARE SUSTAINABLE EFFICIENCY IMPROVEMENTS (OR EFFICIENCY GAINS) ACHIEVED UNDER INCENTIVE REGULATION REFLECTED IN UNION'S CoS ESTIMATES?***

**Issue 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?***

**Issue 6: *ARE UNION'S CUSTOMER SERVICE POLICIES (INCLUDING SECURITY DEPOSITS, LATE PAYMENT PENALTY, ETC.) COMPATIBLE WITH BOARD DIRECTIVES?***

**Issue 7: *HAVE ALL IMPACTS OF THE CONVERSION OF THE 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?***