EVIDENCE OF J. ROSENKRANZ ON BEHALF OF CME, CCC, CCK, & FRPO

Answers to Board Staff Interrogatories

Interrogatory #1

Ref: Rosenkranz Evidence

Preamble: Mr. Rosenkranz's 4th recommendation is as follows: Union should provide a more detailed description of its proposed methodology for assigning replacement project costs to non-utility storage and utility storage.

Questions/ Requests:

a) Please provide a suggested methodology for assigning replacement project costs to non-utility storage and utility storage.

Response:

In EB-2011-0038 proceeding, the Board approved a methodology for the one-time separation of non-utility storage plant and utility storage plant for the existing storage pools that were in service at the time of the NGEIR Decision. This methodology used an arithmetic average of the storage space and storage deliverability allocation factors from the EB-2005-0520 cost study to calculate a non-utility storage factor of 37.7%.

Union proposes that the costs of plant additions that are replacement or maintenance projects, and do not result in an increase in storage space or deliverability, will be allocated between non-utility storage and utility storage using the same factors as were used in the original allocation of the base assets (Exhibit J.B-6-16-1). For storage pools where storage space and deliverability has remained unchanged, this makes sense. However, since the time of the NGEIR Decision, Union has expanded the space and/or deliverability of nearly half of the pre-NGEIR storage pools. All of the additional space and deliverability created by these expansions went to Union's non-utility storage operation. For these expanded pools, the original plant allocation factors, based on the storage space and deliverability that existed in 2006, are no longer valid. As the proportion of non-utility storage plant for a storage pool increases, the non-utility storage business should pay a greater portion of the maintenance and replacement project costs, and O&M costs.

Union should therefore update the allocation factors for each of the pre-NGEIR storage pools to reflect the increase in storage space and/or deliverability that has occurred since the NGEIR decision. The revised allocation factors can be calculated using an arithmetic average of storage space and storage deliverability percentages, just as was done for the one-time separation plant separation that was approved by the Board. An example showing how the non-utility allocation factors for the storage pools in service at the time of the NGEIR Decision would be updated is provided in the Attachment.

ATTACHMENT

SUGGESTED METHODOLOGY FOR UPDATING NON-UTILITY STORAGE FACTOR

Storage Pool	Storage Capacity 12/31/2006	Maximum Deliverability W06/07	Non-Utility Allocation as of 12/31/2006 Space	Non-Utility Allocation as of 12/31/2006 Deliv.	Non-Utility Allocation as of 12/31/2006 Factor	Post-NGEIR Expansions (Example) Space	Post-NGEIR Expansions (Example) Deliv.	Storage Space	Storage Deliv.	Updated Non-Utility Allocation Space	Updated Non-Utility Allocation Deliv.	Updated Non-Utility Allocation Factor
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Bentpath	5,382,000	405,600	2,029,014	152,911	0.377			5,382,000	405,600	2,029,014	152,911	0.377
Bentpath East	4,711,000	0	1,776,047	0	0.377			4,711,000	0	1,776,047	0	0.377
Bickford	22,325,000	164,400	8,416,525	61,979	0.377			22,325,000	164,400	8,416,525	61,979	0.377
Bluewater	2,007,000	13,300	756,639	5,014	0.377	500,000		2,507,000	13,300	1,256,639	5,014	0.439
Booth Creek	1,962,000	0	739,674	0	0.377			1,962,000	0	739,674	0	0.377
Dawn 156	28,121,000	467,300	10,601,617	176,172	0.377			28,121,000	467,300	10,601,617	176,172	0.377
Dawn 167	4,990,000	19,200	1,881,230	7,238	0.377			4,990,000	19,200	1,881,230	7,238	0.377
Dawn 47-49	4,937,000	55,200	1,861,249	20,810	0.377			4,937,000	55,200	1,861,249	20,810	0.377
Dawn 59-85	5,977,000	492,100	2,253,329	185,522	0.377		500,000	5,977,000	992,100	2,253,329	685,522	0.534
Dow A	6,462,000	74,700	2,436,174	28,162	0.377			6,462,000	74,700	2,436,174	28,162	0.377
Edys Mills	2,587,000	40,100	975,299	15,118	0.377			2,587,000	40,100	975,299	15,118	0.377
Enniskillen	3,581,000	51,000	1,350,037	19,227	0.377			3,581,000	51,000	1,350,037	19,227	0.377
Mandaumin	3,909,000	29,400	1,473,693	11,084	0.377			3,909,000	29,400	1,473,693	11,084	0.377
Oil City	1,725,000	27,900	650,325	10,518	0.377			1,725,000	27,900	650,325	10,518	0.377
Oil Springs East	3,736,000	27,900	1,408,472	10,518	0.377			3,736,000	27,900	1,408,472	10,518	0.377
Payne	24,946,000	161,500	9,404,642	60,886	0.377	2,000,000		26,946,000	161,500	11,404,642	60,886	0.400
Rosedale	3,356,000	234,100	1,265,212	88,256	0.377			3,356,000	234,100	1,265,212	88,256	0.377
Sombra	2,203,000	10,700	830,531	4,034	0.377			2,203,000	10,700	830,531	4,034	0.377
Terminus	11,788,000	135,600	4,444,076	51,121	0.377			11,788,000	135,600	4,444,076	51,121	0.377
Waubano	10,179,000	46,200	3,837,483	17,417	0.377			10,179,000	46,200	3,837,483	17,417	0.377
Dow Moore	6,114,000	106,800	2,304,978	40,264	0.377			6,114,000	106,800	2,304,978	40,264	0.377
	160,998,000	2,563,000	60,696,246	966,251	0.377	2,500,000	500,000	163,498,000	3,063,000	63,196,246	1,466,251	0.433

Cols. (b) & (c) — *EB-2011-0038, Exhibit B3.29* *(Units are GJ and GJ/day)*
Column (d) — *(b) * (f)*
Column (e) — *(c) * (f)*
Column (i) — *(b) + (g)*
Column (j) — *(c) + (h)*
Column (k) — *(d) + (g)*
Column (l) — *(e) + (h)*
Column (m) — *((k)/(i)+(l)/(j))/2*

EVIDENCE OF J. ROSENKRANZ ON BEHALF OF CME, CCC, CCK, & FRPO

Answers to Board Staff Interrogatories

Interrogatory #2

Ref: Rosenkranz Evidence

Preamble: Mr. Rosenkranz noted that of the $419,000 of system integrity costs that are allocated to Excess Utility Storage Space, Union reports that $75,300 is associated with the 13 PJ of Excess Utility storage Space and $343,500 is associated with the 66.5 PJ of non-utility storage space. All of this cost is included in the Excess Utility Cross Charge. However, because the Excess Utility Cross Charge is subtracted from utility storage revenue to calculate the storage margins that will be shared with ratepayers, this charge is borne by Union's utility customers, not the non-utility storage business.

Union noted in Exhibit J.D-16-10-1 that it has allocated system integrity costs associated with the non-utility storage business to the Excess Utility Storage Space category in the cost allocation study. The system integrity costs of the non-utility storage business and are included in the non-utility cross charge and paid for by the non-utility. This approach recognizes that the system integrity space is a utility function required to support the integrity of the system as a whole for all customers.

Questions/ Requests:

a) Please explain your understanding of how the system integrity costs related to the non-utility storage business are recovered from ratepayers.

Response:

The $343,500 of system integrity costs associated with 66.5 PJ of non-utility storage space is a cost to ratepayers because including this cost in the Excess Utility Storage Cross Charge reduces the storage margin that is credited to in-franchise rates.

The storage margin calculation is described in Exhibit H1, Tab 1, starting on page 4. The total storage margin associated with the sale of 13.0 PJ of excess utility storage space is the total revenue--forecast to be $11.488 million--minus the allocated costs. The allocated costs are the cost of gas ($1.692 million) and the Excess Utility Storage Cross Charge ($4.569 million). In the EB-2011-0038 decision, the Board determined that all of the margin from the sale of the 13.0 PJ of excess utility storage space will be credited to ratepayers, after a 10 percent incentive amount retained by Union. As shown in Table 3, column (b) (H1, Tab 1, page 6), the total storage margin is $5.227, million and the margin included in in-franchise rates is 90% of this amount, or $4.704 million.

Union states, correctly, that the cross charge is the cost associated with the 13.0 PJ of excess utility storage space (H1, Tab 1, page 5). This appears to be what Union has done, except when it comes to system integrity costs. In Exhibit J.D-16-10-1(b), Union says that of the $419,000 of system integrity cost that is included in the Excess Utility Storage Cross Charge, only $75,300 is associated with the 13.0 PJ of Excess Utility Space. The other $343,500 is associated with the 66.5 PJ of non-utility storage space. By including this additional $343,500 in the Excess Utility Storage Cross Charge, instead of assigning this cost to Union's non-utility storage operation where it belongs, the storage margin credited to in-franchise rates is reduced by $309,150 (90% of $343,500). This causes the in-franchise rates to increase, which is a cost to ratepayers, not to Union's non-utility storage operation.

EVIDENCE OF J. ROSENKRANZ ON BEHALF OF CME, CCC, CCK, & FRPO

Answers to Board Staff Interrogatories

Interrogatory #3

Ref: Rosenkranz Evidence

Preamble: Mr. Rosenkranz noted that Union included a new proposal to allocate total Short Term Peak Storage revenue between utility storage and non-utility storage on a calendar year basis. Under Union's proposal, Excess Utility Storage Space would be sold as Short Term Peak Storage and Union would sell additional Short Term Peak Storage from its non-utility storage assets. The total Short Term Peak Storage revenue for each calendar year would be allocated pro-rata between utility storage and non-utility storage. Mr. Rosenkranz argued that Union's proposal is flawed and should be rejected by the Board.

Questions/ Requests:

a) Please provide a proposed alternative methodology for allocating short term peak storage revenue between utility and non-utility storage operations that would, in your opinion, result in a more reasonable outcome for ratepayers.

Response:

Union should separately account for the revenues from each ex-franchise transaction that is underpinned by utility storage assets. This level of detail is necessary to document that non-utility assets are being optimized on behalf of ratepayers, and to avoid cross-subsidies from utility ratepayers to Union's non-utility storage business.

In the NGEIR Decision, the Board determined that functional separation or full divestiture of non-utility storage assets was not necessary, and that utility storage and non-utility storage could continue to be operated as an integrated asset. However, even though operations may be integrated, Union must maintain an accounting separation of utility storage revenues and costs and non-utility storage revenues and costs. From a storage marketing perspective, the same individuals can continue to sell ex-franchise storage services from both utility assets and non-utility assets. The non-utility storage operation is essentially an agent for Union ratepayers, with responsibility for managing a separate utility storage "book".

This arrangement requires that appropriate organizational structures and transaction management systems be put in place to provide accountability and avoid conflicts of interest. However, it is not clear whether Union has done this. [1] Based on the information Union has provided, it appears that Union's proposal to artificially restrict storage sales from excess utility assets to a single type of service (short term peak storage), and allocate total short term peak storage revenues pro rata between its utility and non-utility operations, may be intended as a "work around" for the deficiencies of Union's revenue tracking system that is not in the best interests of Union's ratepayers.

[1] In Exhibit J.C-6-10-7(c), Union states that is revenue tracking system "tracks revenues by service type, not by customer". The fact that Union has, on at least two occasions, oversold non-utility storage space and encroached on utility storage, without compensation, also raises concerns about Union's transaction management systems and internal controls.