

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

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

**TECHNICAL CONFERENCE QUESTIONS**

**FROM THE**

**SCHOOL ENERGY COALITION**

*[Note: All questions have been assigned to issues. However, please provide answers that respond to each question in full, without being restricted by the issue or category. Many questions have application to multiple issues, but all have been asked only once to avoid duplication.]*

**D. Cost of Service**

1. [J.D-1-1-3 (a)] Please explain the difference between the compromise accounting method and normal USGAAP accounting.
2. [J.D-1-2-6 (a)] Please confirm that inflation from 2007 to 2013 is expected to be 11.8% based on Canada CPI, and 12.9% based on Ontario CPI. Please advise the GDP IPPI cumulative change for the same period.
3. [J.D-1-2-6 (d)] Please confirm that (subject to immaterial rounding differences), the figures in the two attached tables are correct in all respects. Please provide an explanation at the Technical Conference of each of the major changes in OM&A per customer by cost type, including in particular any material accounting or operational changes that affect the increases or decreases.
4. [J.D-1-5-3 Attach 1] Please provide a breakdown of line 1 and an explanation of the increases.
5. [J.D-1-5-4 Attach 1] Please provide a breakdown of line 1 and an explanation of the increases.
6. [J.D-1-5-5 Attach 1] Please explain the reason for the increase in overhead capitalization, and the impact in 2013 of that change.

7. [J.D-1-5-7 Attach 4, p. 3] Please explain the references to “closed loop management system development” and “fraud issue”.
8. [J.D-1-15-1 Attach 1] Please provide a verbal explanation of the logic behind this budget development.
9. [J.D-2-2-1] Please provide a table, in a form similar to that in the attachment from EB-2011-0354, Exhibit D2-1-1, page 46, showing the total actuals/budgets for each of the allocated affiliate services categories for 2007 and 2012, and the amounts allocated or budgeted to be allocated to the utility in each of those categories in each year.
10. [J.D-3-15-1] Please provide the list requested.
11. [J.D-7-15-1 (b)] Please provide the list of specific project investments from Appendix B that are projects of Union Gas or its affiliates.
12. [J.D-7-15-1 Attach 1] With respect to the ETIC business plan:
  - a. Please explain the nature of the incremental costs of ETIC, since all of the people involved appear to be internal staff of the members.
  - b. P. 13. Please provide a status report on the action items listed on this page.
  - c. P. 19 and others. Please provide a breakdown of all amounts expected to be paid by ETIC to CGA for services such as legal support, information technology, and any other CGA services to ETIC.
  - d. P. 21. Please provide a copy of the “Regulatory Ask” paper.
  - e. P. 24. Please provide an explanation of the Integrated Community Energy Systems project.
13. [J.D-8-1-1] Please provide the unredacted report.
14. [J.D-8-1-5] Please walk us through a verbal explanation of the \$2.8 million impact, and any offsetting impacts that are related to it.
15. [J.D-8-2-1] Please provide the numbers in the table in CGAAP.
16. [J.D-9-2-5] Please provide a verbal explanation of the STIP measures and how they relate to ratepayer benefit.
17. [J.D-9-3-1 Attach 1] Please confirm the following proposed increases in the Management category from 2007 to 2013:

- a. FTEs increase from 845 to 1031, 22.0%
  - b. Average Compensation increases from \$123,604 to \$144,156, 16.6%
  - c. Total Compensation increases from \$104.5 million to \$148.6 million, 42.2%
18. [J.D-11-1-2] Please provide the requested material, plus the same material for 2011 income taxes.
19. [J.D-11-1-3 (a)] Please provide the requested material.

#### **E. Cost of Capital**

20. [J.E-1-1-2 (a)] Please provide a reference for the assumptions as to greater equity thickness in each of the ratings reports for the utility and its parent companies. Please reconcile this response with page 6 of the most recent DBRS Update (attachment to J.E-2-15-3).
21. [J.E-2-15-1] Please confirm that these are still the most recent ratings reports on these companies.
22. [J.E-2-15-3 Attach 1 p 3] Please provide a further discussion of the possibility of rating separation between Union and Spectra.
23. [J.E-2-15-3 Attach 1 p 3] Please confirm that the 35% equity thickness used by S&P is incorrect.
24. [J.E-2-15-3 DBRS p. 3] Please confirm DBRS' stated opinion is that one of Union's Strengths is that it will maintain good credit metrics, and that assumes the current 36% equity thickness.
25. [J.E-2-15-4] Please confirm that Mr. Fetter has had no other consumer advocate clients.

#### **H. Rate Design**

26. [J.H-1-1-2 (a)] Please explain how Union is responding to the declining revenues and volumes in the North delivery area.
27. [J.H-1-5-2] Please confirm that the revenue to cost ratios will each be 4.7% below their base amount (i.e. an average of unity) due to the application of S&T transactional credits.
28. [J.H-1-15-1 and -2] Please confirm the utility's proposal that the monthly fixed plus variable distribution charge for a customer with 49,999 annual m3 (i.e. just below the former breakpoint) should go up by about 70% from 2012 to 2013, and then down by about 35% from 2013 to 2014. Please explain the relationship between these shifts and cost causality.

29. [J.H-1-15-1 Attach 1 and J.H-1-15-2] Please confirm that the average unit cost to serve a customer just above the breakpoint is 39.1% higher than the average unit cost to serve a customer just below the breakpoint. Please explain why M2 and 10 customers are more costly per unit to serve than M1 and 01 customers.
30. [J.H-1-15-2 Attach 4] Please confirm that line 12 is correct.
31. [J.H-3-15-3] Please provide responses to the questions asked.
32. [J.H-3-15-4] Please confirm that the reasons for the former 50,000 breakpoint did not include any discontinuity of costs between rates M1 and M2 (or 01 and 10).
33. [J.H-4-4-1] Please extend Table 1 to include 2014 proposed \$ and %.

**O. Other Issues**

34. [J.O-4-15-1] Please advise the location in the filed evidence of Attachments 1 and 2 referred to.
35. [J.O-7-1-1] Please provide a further explanation of the change in treatment of IDC.

Respectfully submitted on behalf of the School Energy Coalition this 29<sup>th</sup> day of May, 2012

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Jay Shepherd

OM&A Per Customer Comparison by Cost Type  
2007 Board Approved to 2013 Proposed

Customers 2007 1,289,359  
(J.D-1-2-6 #2) 2013 1,399,591

Line #	Cost Type	2007 Board Approved	Per Customer	2013 Proposed	Per Customer	Gross Change	Percent Change	Per Cust. Change	Percent Change
1	Salaries/Wages	\$159,896	124.01	\$193,786	138.46	\$33,890	21.20%	14.45	11.65%
2	Benefits	\$55,621	43.14	\$85,769	61.28	\$30,148	54.20%	18.14	42.06%
3	Materials	\$9,132	7.08	\$9,958	7.11	\$826	9.05%	0.03	0.46%
4	Employee Expenses/Training	\$12,798	9.93	\$14,330	10.24	\$1,532	11.97%	0.31	3.15%
5	Contract Services	\$50,061	38.83	\$66,376	47.43	\$16,315	32.59%	8.60	22.15%
6	Consulting	\$6,447	5.00	\$13,172	9.41	\$6,725	104.31%	4.41	88.22%
7	General	\$20,645	16.01	\$22,190	15.85	\$1,545	7.48%	-0.16	-0.98%
8	Transportation and Maintenance	\$7,523	5.83	\$9,761	6.97	\$2,238	29.75%	1.14	19.53%
9	Company Used Gas	\$4,911	3.81	\$2,502	1.79	-\$2,409	-49.05%	-2.02	-53.07%
10	Utility Costs	\$3,269	2.54	\$4,682	3.35	\$1,413	43.22%	0.81	31.94%
11	Communications	\$7,969	6.18	\$6,380	4.56	-\$1,589	-19.94%	-1.62	-26.25%
12	DSM Programs	\$11,874	9.21	\$24,232	17.31	\$12,358	104.08%	8.10	88.00%
13	Advertising	\$2,255	1.75	\$2,386	1.70	\$131	5.81%	-0.04	-2.52%
14	Insurance	\$7,004	5.43	\$9,056	6.47	\$2,052	29.30%	1.04	19.11%
15	Donations	\$404	0.31	\$788	0.56	\$384	95.05%	0.25	79.69%
16	Financial	\$2,884	2.24	\$1,871	1.34	-\$1,013	-35.12%	-0.90	-40.23%
17	Lease	\$3,202	2.48	\$4,191	2.99	\$989	30.89%	0.51	20.58%
18	Cost Recovery from Third Parties	-\$2,106	-1.63	-\$2,549	-1.82	-\$443	21.04%	-0.19	11.50%
19	Computers	\$4,226	3.28	\$6,465	4.62	\$2,239	52.98%	1.34	40.93%
20	Reg. Hearing & OEB Cost	\$6,000	4.65	\$4,300	3.07	-\$1,700	-28.33%	-1.58	-33.98%
21	Outbound Affiliate Services	-\$5,741	-4.45	-\$13,706	-9.79	-\$7,965	138.74%	-5.34	119.94%
22	Inbound Affiliate Services	\$11,933	9.25	\$11,888	8.49	-\$45	-0.38%	-0.76	-8.22%
23	Bad Debt	\$11,600	9.00	\$6,600	4.72	-\$5,000	-43.10%	-4.28	-47.58%
24	Other	\$100	0.08	\$141	0.10	\$41	41.00%	0.02	29.89%
25	Total Gross O&M Expense	\$391,907	303.95	\$484,569	346.22	\$92,662	23.64%	42.27	13.91%
26	Indirect Capitalization	-\$51,528	-39.96	-\$52,032	-37.18	-\$504	0.98%	2.79	-6.97%
27	Direct Capitalization	-\$7,350	-5.70	-\$21,652	-15.47	-\$14,302	194.59%	-9.77	171.38%
28	Total Capitalization	-\$58,878	-45.66	-\$73,684	-52.65	-\$14,806	25.15%	-6.98	15.29%
29	Total Utility O&M Expense	\$333,029	258.29	\$410,885	293.58	\$77,856	23.38%	35.28	13.66%
30	Non-Utility Allocations	-\$6,807	-5.28	-\$13,766	-9.84	-\$6,959	102.23%	-4.56	86.31%
31	Total Net Utility O&M Expense	\$326,222	253.01	\$397,119	283.74	\$70,897	21.73%	30.73	12.15%
32	Excess Utility Cross-Charge Surcharge	-\$599	-0.46	-\$2,261	-1.62	-\$1,662	277.46%	-1.15	247.73%
33	Net	\$325,623	252.55	\$394,858	282.12	\$69,235	21.26%	29.58	11.71%

OM&A Per Customer Comparison by Cost Type  
2007 Actual to 2013 Proposed

Customers 2007 1,289,359  
(J.D-1-2-6 #2) 2013 1,399,591

Line #	Cost Type	2007 Actuals	Per Customer	2013 Proposed	Per Customer	Gross Change	Percent Change	Per Cust. Change	Percent Change
1	Salaries/Wages	\$164,371	127.48	\$193,786	138.46	\$29,415	17.90%	10.98	8.61%
2	Benefits	\$56,365	43.72	\$85,769	61.28	\$29,404	52.17%	17.57	40.18%
3	Materials	\$9,973	7.73	\$9,958	7.11	-\$15	-0.15%	-0.62	-8.01%
4	Employee Expenses/Training	\$12,034	9.33	\$14,330	10.24	\$2,296	19.08%	0.91	9.70%
5	Contract Services	\$51,194	39.71	\$66,376	47.43	\$15,182	29.66%	7.72	19.44%
6	Consulting	\$7,277	5.64	\$13,172	9.41	\$5,895	81.01%	3.77	66.75%
7	General	\$18,032	13.99	\$22,190	15.85	\$4,158	23.06%	1.87	13.37%
8	Transportation and Maintenance	\$7,318	5.68	\$9,761	6.97	\$2,443	33.38%	1.30	22.88%
9	Company Used Gas	\$3,167	2.46	\$2,502	1.79	-\$665	-21.00%	-0.67	-27.22%
10	Utility Costs	\$3,316	2.57	\$4,682	3.35	\$1,366	41.19%	0.77	30.07%
11	Communications	\$7,981	6.19	\$6,380	4.56	-\$1,601	-20.06%	-1.63	-26.36%
12	DSM Programs	\$11,569	8.97	\$24,232	17.31	\$12,663	109.46%	8.34	92.96%
13	Advertising	\$2,118	1.64	\$2,386	1.70	\$268	12.65%	0.06	3.78%
14	Insurance	\$8,030	6.23	\$9,056	6.47	\$1,026	12.78%	0.24	3.89%
15	Donations	\$377	0.29	\$788	0.56	\$411	109.02%	0.27	92.56%
16	Financial	\$1,661	1.29	\$1,871	1.34	\$210	12.64%	0.05	3.77%
17	Lease	\$3,382	2.62	\$4,191	2.99	\$809	23.92%	0.37	14.16%
18	Cost Recovery from Third Parties	-\$3,289	-2.55	-\$2,549	-1.82	\$740	-22.50%	0.73	-28.60%
19	Computers	\$4,102	3.18	\$6,465	4.62	\$2,363	57.61%	1.44	45.19%
20	Reg. Hearing & OEB Cost	\$5,752	4.46	\$4,300	3.07	-\$1,452	-25.24%	-1.39	-31.13%
21	Outbound Affiliate Services	-\$6,476	-5.02	-\$13,706	-9.79	-\$7,230	111.64%	-4.77	94.97%
22	Inbound Affiliate Services	\$6,303	4.89	\$11,888	8.49	\$5,585	88.61%	3.61	73.75%
23	Bad Debt	\$7,300	5.66	\$6,600	4.72	-\$700	-9.59%	-0.95	-16.71%
24	Other	\$101	0.08	\$141	0.10	\$40	39.60%	0.02	28.61%
25	Total Gross O&M Expense	\$381,958	296.24	\$484,569	346.22	\$102,611	26.86%	49.98	16.87%
26	Indirect Capitalization	-\$47,275	-36.67	-\$52,032	-37.18	-\$4,757	10.06%	-0.51	1.39%
27	Direct Capitalization	-\$7,251	-5.62	-\$21,652	-15.47	-\$14,401	198.61%	-9.85	175.09%
28	Total Capitalization	-\$54,526	-42.29	-\$73,684	-52.65	-\$19,158	35.14%	-10.36	24.49%
29	Total Utility O&M Expense	\$327,432	253.95	\$410,885	293.58	\$83,453	25.49%	39.63	15.60%
30	Non-Utility Allocations	-\$7,127	-5.53	-\$13,766	-9.84	-\$6,639	93.15%	-4.31	77.94%
31	Total Net Utility O&M Expense	\$320,305	248.42	\$397,119	283.74	\$76,814	23.98%	35.32	14.22%
32	Excess Utility Cross-Charge Surcharge	-\$2,261	-1.75	-\$2,261	-1.62	\$0	0.00%	0.14	-7.88%
33	Net	\$318,044	246.67	\$394,858	282.12	\$76,814	24.15%	35.46	14.37%

**INDEPENDENT EVALUATION OF 2013  
REGULATORY COST ALLOCATION METHODOLOGY RESULTS**



Including the support services budget (incorporating primarily administration, accounting and IT), EGD's RCAM ratio went from 12.3% to 7.9%. While EI total budget costs for departments and support services increased by 255% from \$84.1 million to \$214.4 million from 2007 to 2012, EGD's RCAM allocation for Primary Services increased by 164% from \$10.3 million to \$16.9 million over the same period.

Unless EGD's demand for shared services has kept pace with the growth of EI departmental budgets, MNP would expect to see EGD take on a smaller portion of EI's department costs through the RCAM. Although EGD demand for services has increased, particularly for HR and IT support, as evidenced below the ratio of EI's department costs has decreased over time.

2012 RCAM - Services Review - (\$)	EI Department Budget		RCAM Allocation		EGD RCAM % of EI Dept Budget		
	2007	2012 ISA Agreed	2007 OEB Approved	2012 ISA Agreed	2007	2012 ISA Agreed	Variance from 2007 to 2012
Alternative & Emerging Technology (10106)	2,110,298	5,332,830	132,892	-	6.3%	0.0%	-6.3%
Audit Services (Calgary) (10050)	1,013,972	2,598,546	56,281	137,506	5.6%	5.3%	-0.3%
CEO (10000)	5,602,432	12,954,780	843,476	1,918,027	15.1%	14.8%	-0.2%
CFO (10045)	1,530,913	3,719,515	220,142	330,663	14.4%	8.9%	-5.5%
CIO (10001)	2,697,401	4,030,466	1,180,225	1,254,040	43.8%	31.1%	-12.6%
Corp Climate Change	61,320	-	15,238	-	24.9%	0.0%	-24.9%
Corporate Admin. (10071)	641,502	1,544,417	59,057	28,055	9.2%	1.8%	-7.4%
Development and Planning (10107)	3,078,670	10,826,264	790	-	0.0%	0.0%	0.0%
Corporate Controller (10047)	5,302,675	15,939,163	208,518	268,893	3.9%	1.7%	-2.2%
Corporate HR (10092)	1,453,644	3,946,946	328,785	457,808	22.6%	11.6%	-11.0%
Corporate IT Operations (10009) livelink licence only	-	702,993	-	36,743	0.0%	5.2%	5.2%
Corporate IT Operations (10009) no livelink licence	1,674,358	1,479,996	151,216	105,770	9.0%	7.1%	-1.9%
Corporate Law (10077)	1,459,539	5,979,072	208,594	326,004	14.3%	5.5%	-8.8%
Corporate Law Legal Fees (10020)	306,600	600,000	44,226	36,612	14.4%	6.1%	-8.3%
Corporate Secretarial (10070)	2,314,249	4,423,865	310,424	138,077	13.4%	3.1%	-10.3%
Corporate Secretarial Legal Fees (10024)	1,175,300	1,220,000	179,319	87,253	15.3%	7.2%	-8.1%
BD East	1,075,543	-	107,554	-	10.0%	0.0%	-10.0%
EFS Strategy & Services (10040)	1,048,304	701,602	350,486	145,374	33.4%	20.7%	-12.7%
EGD Charge	334,194	1,716,941	16,265	2,113	4.9%	0.1%	-4.7%
Enterprise Content Management (10075)	523,784	5,821,798	221,714	304,287	42.3%	5.2%	-37.1%
Enterprise Risk (10046)	-	10,938,498	-	673,278	0.0%	6.2%	6.2%
EPI Charge	4,015,713	14,905,724	54,825	48,135	1.4%	0.3%	-1.0%
Executive VP Corporate Law	-	3,765,602	-	112,968	0.0%	3.0%	3.0%
Group VP Gas Strategy	3,371,759	-	570,125	-	16.9%	0.0%	-16.9%
People & Partners (10094)	1,703,382	3,898,081	394,860	763,916	23.2%	19.6%	-3.6%
HR Enterprise Business Solutions (10089)	-	2,001,904	-	599,029	0.0%	29.9%	29.9%
HRIS Services (10095)	994,368	4,698,241	371,208	1,460,590	37.3%	31.1%	-6.2%
Industry Associations (10023)	475,211	15,914	44,321	856	9.3%	5.4%	-3.9%
Investor Relations (10043)	1,993,628	2,423,890	314,820	65,225	15.8%	2.7%	-13.1%
IT Planning and Governance (10012)	-	4,772,072	-	751,601	0.0%	15.8%	15.8%
Labour Relations (10093)	437,232	1,014,064	177,611	453,245	40.6%	44.7%	4.1%
Risk Insurance (10051)	555,782	1,108,561	67,219	33,257	12.1%	3.0%	-9.1%
Pension & Benefits (10096)	572,092	-	237,893	-	41.6%	0.0%	-41.6%
Investment Review (10109)	1,991,541	2,423,985	35,413	-	1.8%	0.0%	-1.8%
Public & Government Affairs (10072)	3,311,502	16,935,260	319,489	444,382	9.6%	2.6%	-7.0%
Records Management (10079)	-	1,151,750	-	60,198	0.0%	5.2%	5.2%
Organizational Effectiveness(10090)	468,447	3,004,859	52,235	530,855	11.2%	17.7%	6.5%
Tax Services (Calgary) (10049)	1,940,759	3,162,738	6,899	40,013	0.4%	1.3%	0.9%
Total Compensation (10091)	849,259	3,829,233	274,700	989,517	32.3%	25.8%	-6.5%
Treasury (10044)	6,529,362	7,222,792	1,004,875	917,929	15.4%	12.7%	-2.7%
Gas P/L Development (East) (10110)	1,355,126	-	40,507	-	3.0%	0.0%	-3.0%
Gas P/L Development (West) (10111)	1,727,342	-	38,213	-	2.2%	0.0%	-2.2%
Total Departmental Costs	65,697,198	170,812,364	8,640,415	13,522,222	13.2%	7.9%	-5.2%
Support Services Budget	18,395,199	43,594,682	1,671,762	3,345,945	9.1%	7.7%	-1.4%
Total Primary Services	84,092,397	214,407,046	10,312,177	16,868,167	12.3%	7.9%	-4.4%