Ontario Energy Board

EB-2011-0210

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, pursuant to section 36(1) of the Ontario Energy Board Act, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2013.

WRITTEN SUBMISSIONS OF THE CITY OF KITCHENER

Introduction

1. The City of Kitchener ("Kitchener"), an active intervenor in this proceeding and in prior rates proceedings of Union Gas Limited ("Union"), is a large volume contract customer of Union. Kitchener receives regulated storage and transportation services from Union under Rates T3 and M12. Kitchener is the only embedded gas distribution utility served by Union under Rate T3 [Oral Hearing Tr. Volume 11, page 43, lines 7-14].

2. Kitchener is limiting its submissions to the Ontario Energy Board ("Board") in this proceeding to the first and eighth of the approved Issues under category "H – Rate Design": *Are the rates proposed in Exhibit H just and reasonable*; and, *Is the splitting of T1 into two rate classes effective January 1, 2013 appropriate?* The specific submissions which follow address Union's current and proposed monthly customer charges for Rate T3, existing Rate T1 (no redesign) and redesigned Rates T1 / T2.

3. The thrust of our submissions is that the proposed Monthly Charge under Rate T3 is not just and reasonable, relative to the proposed Monthly Charges for existing Rate T1 (without redesign) and Rates T1 and T2 (with redesign), given the comparability in customer size and load characteristics between large Rate T2 customers and Kitchener.

4. Kitchener has also collaborated with CCC, CME, and FRPO and is a joint sponsor of the evidence of John Rosenkranz, filed as Exhibit K10.7. Kitchener fully supports the recommendations presented in Mr. Rosenkranz's written and oral evidence in this proceeding.

Rate T1, T2 and T3 Monthly Charges

Summary of Current and Proposed Charges

4. The current approved and proposed charges for existing Rates T1 and T3 are shown at updated Exhibit H3, Tab 1, Schedule 2, page 8. The current approved Monthly Charge for Rates T1 and T3 is, respectively, $ 1,795 and $ 17,567. The proposed Monthly Charge for existing Rates T1 (without redesign) and T3 is, respectively, $ 6,601 and $ 21,661.

5. The proposed charges for redesigned Rates T1 and T2 are shown at updated Exhibit H3, Tab 11, Schedule 1. The proposed Monthly Charge for redesigned Rates T1 and T2 is, respectively, $ 2,001 and $ 6,000.

6. Under the existing and proposed rate designs, Kitchener bears by far the highest customer-related charges of all of Union's rate classes [Technical Conference Tr. June 1, 2012, page 136, lines 21-26]. This rate treatment implies that among all of its in-franchise customers, Kitchener is the most costly for Union to connect to its system. For reasons which follow, Kitchener believes this treatment is unreasonable and should be remedied.

Nature of Customer-Related Costs

7. Union incurs capital and operating costs to attach customers, including Kitchener, to its system. These costs are classified and allocated to rate classes under Union's cost study. Union agrees with the characterization that customer-related costs have *more to do with connecting a customer* to the utility system and maintaining that connection *than how that customer actually takes service and imposes demands on the utility system* [Hearing Tr. Volume 11, page 55, lines 9-14, emphasis added].

8. Customer-related costs include a portion of mains, services, measuring and regulating stations (capital and depreciation) and billing-related costs (operating and maintenance). Certain measuring and regulating equipment is more demand-related and not customer-related [Hearing Tr. Volume 11, page 56, lines 4-18].

9. Kitchener submitted interrogatories in this proceeding to seek information from Union on the capital costs of measuring and regulating stations ("gate stations") placed in service for Kitchener and comparably sized Rate T2 customers [Exhibits J.B-1-8-1(e) and J.H-8-8-1]. Union's responses to these interrogatories suggest that gate station capital costs for comparably sized T2 customers exceed the cost for Kitchener's gate

stations. However, it is not clear if the customer-related portions of these capital costs as allocated by the cost study are comparable.

10. While Union is confident of the level of accuracy in its cost study of the allocation of customer-related costs to rate classes [Hearing Tr. Volume 11, page 57, lines 11-21], Kitchener has its doubts when it considers the results of that allocation and how it is reflected in rates. A clear example of how these doubts have arisen is found in the Attachment to Exhibit JT2.19. This Attachment shows a 354% and 26% increase, respectively, in customer-related costs allocated to Rates T1 / T2 and Rate T3 [Hearing Tr. Volume 11, page 58, line 6 to page 59, line 11].

11. These are not the results one would reasonably expect from the application of a relatively stable cost methodology to large volume customers served by Union. Kitchener acknowledges the proposed change in methodology cited by Union for meter and regulator repairs and equipment on customer premises. However, setting this factor aside, the results of the allocation of customer-related costs for 2013 remain extreme, in our respectful view, and are cause for concern.

Customers Served Directly Off Transmission Main

12. Union's updated evidence at Exhibit H1, Tab 1, page 35, lines 16-17 notes that "…customers served directly off transmission main are generally larger in terms of daily contracted demand and annual consumption than those customers served off distribution main…". Union's proposed redesign of Rate T1, if approved, would result in the migration to Rate T2 of the majority of current Rate T1 customers that are served directly off transmission main. This migration is shown at Table 15 of updated Exhibit H1, Tab 1, page 40.

13. Similar to 14 of the 20 large T1 customers that would migrate to Rate T2 under Union's proposal, Kitchener is served directly off transmission main [Hearing Tr. Volume 11, page 47, lines 20-22].

Multiple Redelivery Points

14. In the existing T1 class, certain customers have multiple delivery points at which Union provides service. The Monthly Charge under existing Rate T1 and proposed Rates T1 and T2 applies at the redelivery point level [Hearing Tr. Volume 11, page 50, line 21 to page 51, line 6]. Additional customer-related assets are required to provide service to Rate T1 and T2 customers with multiple delivery points [Hearing Tr. Volume 11, page 54, line 25 to page 55, line 2].

15. For Union's purposes in deriving the Monthly Charge under Rate T3, Kitchener does <u>not</u> have multiple redelivery points [Updated Exhibit H3, Tab 1, Schedule 2, Page 8, line 27, column ("Billing Units")]. This implies fewer customer-related assets and associated costs for Rate T3, relative to comparable T2 customers.

Proposed Recovery of Customer–Related Costs – No Redesign

16. The forecast revenue from the current Monthly Charge for existing Rate T1 significantly under-recovers the customer-related costs allocated to the class by the 2013 cost study. The under-recovery is $ 4.671 million with an indicative revenue-to-cost ratio of 0.27 [Hearing Tr. Volume 11, page 40, lines 4-23].

17. The forecast revenue from the current Monthly Charge for Rate T3 also under-recovers the customer-related costs allocated by the 2013 cost study, although not remotely to the same extent as Rate T1. The under-recovery is $ 0.049 million with an indicative revenue-to-cost ratio of 0.81 [Updated Exhibit H3, Tab 1, Schedule 2, page 8, line 27].

18. Absent any redesign of its existing Rate T1 class, Union proposes that the Monthly Charge be increased to $ 6,601 to fully recover the allocated customer-related costs for 2013. This is a 267% increase in the Monthly Charge which Union does not consider to represent "rate shock" due to the subjective nature of that term [Hearing Tr. Volume 11, page 41, line 12 to page 42, line 5].

19. In Kitchener's respectful submission, any subjectivity that may reside in the term "rate shock" is overwhelmed by the quantum of Union's proposed increase to the Rate T1 Monthly Charge, absent any redesign. Two or more parties may reasonably disagree that a proposed 10% increase in rates, for example, is rate shock. This disagreement vanishes well before the proposed increase reaches 267%. In our respectful submission, Union's proposal is a textbook illustration of rate shock and is thereby suspect as measured by sound utility rate-making principles.

20. The quantum of Union's proposed increase of $ 4,094, or 23%, to the current Monthly Charge of $ 17,567 under Rate T3 is about an order of magnitude less, in percentage terms, than the proposed increase for existing Rate T1. Setting aside any dispute over the reasonableness of the level of the current Monthly Charge for Rate T3, from its customer viewpoint, Kitchener considers a proposed increase of 23% to be rate shock and is thereby suspect as measured by sound utility rate-making principles. This viewpoint is also influenced by Kitchener's role as a gas

distribution utility. Kitchener – and its end use customers – would not take lightly a proposal to increase its rates by 23%, let alone by 267%.

Proposed Recovery of Customer–Related Costs – With Redesign

21. The proposed Monthly Charge of $ 2,001 for redesigned Rate T1 recovers all of the customer-related costs allocated by the cost study. The proposed Monthly Charge of $ 6,000 for the Rate T2 class recovers only about 50% of the customer-related costs allocated under the cost study [Updated Exhibits H1, Tab 1, page 44, lines 6-8 and H3, Tab 11, Schedule 1, lines 9 and 15, column (e)].

22. Union is comfortable with its proposed different treatment in rates of the customer-related costs among the redesigned Rates T1 / T2 and Rate T3 [Hearing Tr. Volume 11, page 53, lines 14 to 28]. Kitchener does not share this comfort, either with respect to the level of customer-related costs or their recovery in rates through the Monthly Charge.

Comparability of T2 and T3 Load Characteristics

23. Kitchener's daily contract demand and annual volume load characteristics for rate-making purposes under Rate T3 are similar to customers in the proposed Rate T2 class [Hearing Tr. Volume 11, page 46, lines 21-24]. Kitchener's annual load factor of 32% differs from the average annual load factors of 63% and 66%, respectively, for redesigned Rate T1 and T2 customers [Response to Undertaking J11.3 as provided at Hearing Tr. Volume 11, page 72, line 21 to page 73, line 5].

24. In Kitchener's respectful submission, the fact that its annual load factor is roughly half of the average annual load factor of customers in the proposed Rate T2 class does not in any way support a proposed Monthly Charge for T3 which is more than triple the proposed Monthly Charge for Rate T2. This proposed rate treatment defies logic and flies in the face of Union's own evidence at Exhibit H1, Tab 1, Page 38, line 17 through Page 39, Figure 1 which derives and illustrates the proposed breakpoint between mid-market T1 and large market T2 <u>based on firm daily contract demand</u> (customer size) and <u>not load profile</u>.

25. When it comes to connecting customers to Union's system (or to any other utility network) and incurring costs to do so and to maintain that connection, the <u>size</u> of the customer matters and not how that customer takes service. The facts in this proceeding support the conclusion that Kitchener is comparable in size to the larger customers served under existing Rate T1 that would migrate to the new Rate T2 class, upon Board

approval. It follows that the Monthly Charge under Rate T3 should be similar to Rate T2 and not a multiple of the charge, as proposed by Union.

Monthly Charge under Rate T3 is Excessive and Should be Reduced

26. Given the foregoing evidentiary basis, Kitchener respectfully submits that its bears a disproportionate share of customer-related costs under its Rate T3 service which are unreasonably (and fully) reflected in the current Monthly Charge of $ 17,567 and even more unfairly reflected in the proposed Monthly Charge of $ 21,661. These charges are excessive, both in absolute terms and when compared to similarly sized customers in the existing Rate T1 class and proposed new Rate T2 class that, like Kitchener, are directly served from transmission main and do not have multiple redelivery points.

27. While Kitchener does not object, in principle, to Union's proposal to split the existing Rate T1 class into a new Rate T1 mid-market service and a new Rate T2 large market service, Kitchener does object to the proposed differential rate treatment for customer-related costs to be recovered under the Monthly Charge for Rates T1, T2 and T3.

28. Kitchener respectfully submits that the Monthly Charge under Rate T3 should not exceed the comparable charge approved by the Board for Rate T2 if it allows the proposed redesign to proceed. Alternatively, if the Board does not approve the Rate T1 redesign, then the Monthly Charge under Rate T3 should not exceed the comparable charge approved by the Board for existing Rate T1.

29. In either alternative, based on the updated evidence cited above, granting the requested rate relief to Kitchener would result in a Monthly Charge under Rate T3, effective January 1, 2013, of no more than $ 6,001.

All of which is respectfully submitted.

The Corporation of the City of Kitchener
James A. Gruenbauer, CMA
Manager, Regulatory Affairs and Supply

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