UNION GAS LIMITED

Answer to Interrogatory from
Corporation of the City of Kitchener ("CCK")

Ref: EB-2012-0433, Section 12, paragraph 8 and Schedule 12-2

a) Please specify and quantify the "benefit" received by Kitchener from the development of the Project as the sole in-franchise customer of Union in the Southern Area served under Rate T3.

b) Please confirm that in Union's economic analysis of the Project, there is no change to Kitchener's contracted service levels under Rate T3, in particular, its firm daily contract demand (CD).

c) To the extent that Kitchener is not changing its contracted service levels and not imposing additional costs for Union to serve its load under Rate T3, please explain how the principle of cost causality is not violated by the current allocation methodology which yields an increase in total allocated costs to Kitchener under Rate T3 as a result of the Project.

Response:

a) As described in EB-2012-0433, Section 12, there are several benefits to in-franchise and ex-franchise customers as a result of the Parkway West Project.

As it relates to the City of Kitchener, the specific benefits of the Parkway West Project include:

- A Dawn-Parkway transmission system that remains as fully contracted as possible, which means that transportation rates remain economic for in-franchise and ex-franchise customers. Any de-contracting on the Dawn-Parkway system that results in unutilized transmission capacity will increase rates for the remaining in-franchise and ex-franchise customers.

- Maintaining and increasing the health and liquidity of the Dawn Hub benefiting all parties (in-franchise and ex-franchise) that buy or sell gas at Dawn. Avoiding restrictions in the market place due to reliability concerns of Union's Dawn-Parkway system, which will impact the market's view of the Dawn Hub as a liquid trading point and could result in higher gas prices for all.

b) Confirmed.

c) The principle of cost causality is not violated by the current cost allocation methodology of Dawn-Parkway transmission costs.

In Union's 2013 Board-approved cost allocation study, the costs associated with Parkway are allocated between in-franchise and ex-franchise rate classes using distance weighted Dawn-Parkway design day demands.

This cost allocation recognizes that the Dawn-Parkway transmission system is designed to meet easterly design day requirements and that a rate class' use of the Dawn-Parkway system depends on that rate class' design day demands and the distance those design day demands are required to be transported on the Dawn-Parkway system.

While the City of Kitchener's design day demands on Dawn-Parkway are not changing, the costs associated with the Dawn-Parkway system are increasing as a result of the Parkway West project. Accordingly, all rate classes (including Kitchener in Rate T3) are contributing to the recovery of Parkway West Project costs based on how they use the Dawn-Parkway system on a peak day (i.e. distance weighted design day demands).

UNION GAS LIMITED

Answer to Interrogatory from
Corporation of the City of Kitchener ("CCK")

Ref: EB-2012-0433, Section 12, paragraph 17 and Schedule 12-2

For Rate T3, please explain why the reduction in the allocation of overhead costs (indirect costs and taxes) does not offset (let alone "more than offset") the Dawn-Parkway Easterly Transmission costs "directly attributable to the Project".

Response:

As described in EB-2012-0433, Section 12, adding the Parkway West rate base and operating costs as Dawn-Parkway transmission costs to the 2013 Board-approved cost allocation study results in the reallocation of costs that are functionalized based on rate base and O&M. Specifically, indirect costs and taxes are reallocated from distribution, storage, and other transmission-related functional classifications to the Dawn-Parkway function classification.

As a wholesale customer taking service under Rate T3, the City of Kitchener is allocated a lower proportion of distribution costs than an end-use distribution customer in, for example, Rate M1. In particular, under the current approved cost allocation methodology, the City of Kitchener is not allocated any distribution demand-related costs. Accordingly, the reallocation of indirect costs and taxes from the distribution functional classifications to the Dawn-Parkway functional classification benefits the rate classes that are allocated a higher proportion of distribution costs in the 2013 Board approved cost allocation study.

Please see Attachment 1.

UNION GAS LIMITED

Rate M1 and Rate T3 Cost Allocation Impacts of the 2016 Parkway West Project Revenue Requirement by Functional Classification

		2013 Board Approved Cost Study (EB-2011-0210)				2013 Board Approved Cost Study including the 2016 Parkway West Project (EB-2012-0433)				Difference	
		Rate M1		Rate T3		Rate M1		Rate T3		Rate M1	Rate T3
Line No.	Particulars (1)	($000's)	(%)	($000's)	(%)	($000's)	(%)	($000's)	(%)	($000's)	($000's)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i) = (e - a)	(j) = (g - c)
1	Storage	22,778	6%	1,377	30%	22,543	6%	1,366	29%	(235)	(11)
2	Other Transmission	23,572	6%	1,987	44%	23,269	6%	1,961	42%	(303)	(26)
3	Dawn to Parkway Transmission Demand	8,268	2%	938	21%	9,474	2%	1,075	23%	1,206	137
4	Distribution	347,783	86%	244	5%	345,447	86%	243	5%	(2,336)	(2)
5	Total	402,401	100%	4,547	100%	400,734	100%	4,644	100%	(1,667)	98

Note:
(1) Storage, Transmission and Distribution functions only. Excludes the Purchase Production functional classification.

4.

UNION GAS LIMITED

Answer to Interrogatory from
Corporation of the City of Kitchener ("CCK")

Ref: EB-2012-0433, Section 12, paragraph 20

Based on Union's current outlook of its next regulatory framework, when would base rates be adjusted to reflect the actual revenue requirement associated with the Project?

Response:

Rates will be adjusted annually by the Projects' revenue requirement through the Incentive Regulation ("IR") term. If there are any differences between the revenue requirements built into rates and the actual revenue requirements, these variances will be captured in the deferral account and disposed of annually. At the end of the IR term, rates will be adjusted to reflect the actual revenue requirements. Union's next rebasing proceeding is anticipated for setting rates effective January 1, 2019.

UNION GAS LIMITED

Answer to Interrogatory from
Corporation of the City of Kitchener ("CCK")

Ref: EB-2012-0433, Section 12, paragraph 10

a) In Union South, please quantify the proportion of overall supplies by Union system customers and direct purchase customers, respectively, met by obligated deliveries at Parkway.

b) How are the obligated deliveries at Parkway met by Union system customers and direct purchase customers?

c) Union states that "a portion of the Parkway delivery obligation of sales service and direct purchase customers is met through Dawn-Parkway transportation services." Please quantify the respective portions of the Parkway delivery obligation for sales service and direct purchase customers met through these transportation services. Are the transportation services firm?

d) If the Dawn-Parkway transportation services used to meet a portion of the Parkway delivery obligation are firm and curtailed by Union, why would Union South in- franchise customers be exposed to providing the curtailed portion of those volumes through the market? Would the impacted customers not be relieved of their obligation to deliver at Parkway due to Union's curtailment of a firm transportation service underpinning the delivery?

Response:

a) Union delivers approximately 31% of system supply and Union's direct purchase customers deliver approximately 67% of their overall supplies (ie DCQ) through obligated deliveries at Parkway.

b) and c) Union delivers approximately 52% of system supply at Parkway through firm Dawn-Parkway transportation services and about 48% through firm Empress to Parkway transportation. Union is not aware of all of the different ways that direct purchase customers meet their Parkway obligation, however, Union estimates that approximately half of the Parkway obligation is met through M12 contracts with Union.

d) Contracting for Dawn to Parkway transportation services to fulfill the Parkway obligation is no different than contracting for services on another pipeline, such as TCPL, to meet the Parkway obligation. With one exception, a curtailment of service on TCPL does not relieve the customer of their contractual obligation at Parkway and neither would a curtailment of transportation services on Union's system.