unionGas

February 24, 2014

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

RE: EB-2012-0451 – Greater Toronto Area ("GTA") LTC Project
EB-2012-0433 – Parkway West Project
EB-2013-0074 – Brantford – Kirkwall/Parkway D Project
Union Gas Limited – Reply Comments on Draft Accounting Orders

Dear Ms. Walli,

We are writing pursuant to Procedural Order No. 14 in this proceeding to provide Union's response to the comments received from Board staff with respect to the draft accounting orders filed by Union February 10, 2014. Board staff requested that Union "explain the rationale for proposing to track differences in the revenue requirements as opposed to differences between the pre-approved estimated costs and actual costs". Union's response follows.

The accounting orders filed by Union were the same as those filed by it as part of the evidence in the proceeding. Throughout the proceeding no concerns were raised by Board staff, or any other party, with respect to the wording or the content of the accounting orders. The draft accounting order for the Parkway West Project (Account number 179-136) was filed at Schedule 12-7 in Union's July 3, 2013 updated evidence. The draft accounting order for the Brantford-Kirkwall/Parkway D Project (Account number 179-137) was filed in Union's prefiled evidence at Schedule 10-8. Union specifically referred to the deferral accounts, what they would track and what was included, in response to a number of interrogatories including I.A3.UGL.EnergyProbe.13 e):

> *The proposed deferral account will track any variance between the Parkway West Project costs approved in rates and the actual annual revenue requirement for the Project.*
>
> *The costs approved in rates and the actual annual revenue requirement for the Project will be based on the costs (return, taxes and depreciation) associated with*

the Project facilities deemed to be in service each year (i.e. included in rate base) as well as any operating and maintenance expenses.

Other interrogatories where deferral account treatment was addressed include; I.A3.UGL.CCK.3, I.A3.UGL.LPMA.7, I.B5.UGL.VECC.3, I.B6.UGL.BOMA.42, and I.C5.UGL.VECC.4.

Further, the wording and approach in the accounting orders is as contemplated by the IRM Settlement Agreement between Union and stakeholders and approved by the Board in EB-2013-0202. In Section 6.6 of the Settlement Agreement, filed as Exhibit A, Tab 2 of the IRM Application, the parties agreed to treat Major Capital Additions as Y factors during the IRM period provided they meet the following eight criteria summarized below:

(1) The project will result in a minimum increase, or decrease of $5 million in net delivery revenue requirement;

(2) The capital cost of the project exceeds $50 million;

(3) The project is outside the base rates on which the incentive regulation framework is set;

(4) The project must be needed to serve customers and/or to maintain system safety, reliability or integrity and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objectives relative to the reasonably available alternatives;

(5) The project will be identified to stakeholders and the Board as soon as possible, including the year's stakeholder review session where practical;

(6) The project will be subject to a full regulatory review equivalent to a leave to construct proceeding, in which the applicant must demonstrate need, safety or reliability purposes, and economic viability prior to the inclusion in rates;

(7) Subject to direction otherwise from the Board, Union will allocate the net revenue requirements using 2013-Board approved cost allocation methodologies;

(8) **The project will include a deferral account request to capture any difference between the forecast annual net delivery revenue requirement and the actual net delivery revenue requirement for each year of the IRM term for which the project is in rates.**

The eighth criterion specifically identifies what would be captured in the deferral account and that is the difference between the forecast annual net delivery revenue requirement and the actual net delivery revenue requirement.

Finally, the revenue requirement calculations explicitly take into account the capital costs of $219 million for the Parkway West Project and $204 million for the Brantford-Kirkwall/Parkway D Project. Capital costs are the main driver of the revenue requirement and it is the revenue requirement and not the capital cost which is reflected in rates. In Union's submission, it is therefore appropriate to the track the revenue requirement difference and not the capital cost. Any variance in capital costs will be identified in the process of reviewing any potential revenue requirement variance.

Accordingly, Union respectfully requests that the Board approve the draft accounting orders as filed.

If you have any questions with respect to this submission please contact me at (519) 436-5473.

Yours truly,

[Original signed by]

Karen Hockin
Manager, Regulatory Initiatives

cc: Crawford Smith, Torys
Myriam Seers, Torys
All Intervenors