March 6, 2014

Union Gas 2014 IRM Rates
EB-2013-0365

Canadian Manufacturers & Exporters ("CME"), City of Kitchener ("Kitchener"), Federation of Rental Housing Providers of Ontario ("FRPO") and Ontario Greenhouse Vegetable Growers ("OGVG")

Answer to Interrogatory from Board Staff

Staff Interrogatory 1

Ref: Evidence of CME, Kitchener, FRPO and OGVG, Page 1

The evidence has made five recommendations and noted that two issues should be reviewed as part of Union's next rate rebasing proceeding.

a) Please identify all the recommendations that should be reviewed as part of Union's next rebasing proceeding.
b) Please explain how the remaining recommendations should be dealt with. If the evidence recommends addressing the recommendation in the current proceeding, please explain how the changes can be accomplished under the current IRM framework.

Response:

a) Recommendations 4 and 5 (review compression O&M cost allocation and Parkway compression cost allocation) should be addressed at the next rebasing. The cost study for Union's next rate rebasing should include evidence to either support a modification to the cost allocation methodology or support the continuation of the existing methodology.

b) Recommendation 1 (consistent allocation of Dawn compression and M&R costs to Dawn-Trafalgar Easterly and Dawn Station) and Recommendation 2 (allocate Kirkwall and Parkway M&R costs based on peak demand) should be implemented in this proceeding as part of the process to develop 2014 rates from the base period costs and quantities approved in the 2013 rebasing proceeding. Union should reallocate the base period costs for these specific cost categories prior to making the other adjustments that are necessary to calculate the 2014 rates. Recommendation 2 also modifies the allocation of any Parkway West project M&R costs that will be included in rates during the IRM period.

   Recommendation 3 (reduced M12/C1 rate for deliveries upstream of Parkway compression) should also be reviewed in this proceeding. This adjustment only affects the calculation of M12 rates after the cost allocation is completed.

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Answer to Interrogatory from Board Staff

Staff Interrogatory 2

Ref: Evidence of CME, Kitchener, FRPO and OGVG

Page 2 of the evidence notes that Union is not proposing any changes to the allocation of Kirkwall metering costs.

a) Please explain whether the evidence seeks a change to the allocation of Kirkwall metering costs.
b) In response to a Board staff interrogatory (Exhibit B1.3), Union indicated that if the Kirkwall station costs were to be allocated on the basis of bi-directional demands to and from Kirkwall, the impact on Union South in-franchise rate classes would be $34,000. In case the evidence seeks a change to the allocation of Kirkwall metering costs, please explain whether the re-allocation is material enough to require a change in this proceeding.

Response:

a) Yes, the evidence recommends that Kirkwall metering plant and O&M costs should be directly assigned to customer classes based on peak day demands through the Kirkwall station.

b) In Exhibit B1.3 Union show that the Kirkwall station costs are approximately $1,570,000 per year. These costs are currently allocated using the DTTRANS allocation factor, which means that 11.30% ($177,410) is allocated to Union South and 5.02% ($78,814) is allocated to Union North (see Table 1 of the evidence). Attachment 1 to Exhibit B.13 shows that if Kirkwall station costs are allocated based on bidirectional flows, 2% of costs ($34,000) are allocated to Union South and no costs are allocated to Union North. The impact of the change in cost allocation is therefore a cost reduction of $143,410 per year for Union South and a cost reduction of $78,814 per year for Union North. This is a material change, particularly when it is extended over a 5-year IRM period.

   The evidence recommends changes to the allocation of the Kirkwall station and Parkway station M&R costs, as well as the Dawn station M&R costs that are currently included in Dawn-Trafalgar Easterly costs so that these costs are no longer allocated based on distance.

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Answer to Interrogatory from Energy Probe

Energy Probe Interrogatory 1

Ref: Evidence of CME, Kitchener, FRPO and OGVG, Page 1

Preamble: The evidence indicates that the methods Union Gas uses to functionalize and allocate Dawn-Parkway system costs, and design ex-franchise transportation rates (M12 and rate C1), should be modified in three areas to better reflect the use of these facilities.

Please summarize the advantage and disadvantage of each modification taking into consideration the parties affected.

Response:

Recommendation 1	(consistent allocation of Dawn compression and M&R costs to Dawn-Trafalgar Easterly and Dawn Station)
Advantages:	Cost allocation more closely aligned with cost causation
Disadvantages:	None identified
Recommendation 2	(allocate Kirkwall and Parkway M&R costs based on peak demand)
Advantages:	Cost allocation more closely aligned with cost causation Union North customers no longer charged for Kirkwall M&R costs; In-franchise customers no longer charged for Parkway(Consumers) & Lisgar M&R costs; M&R costs required to provide M12 Kirkwall-Parkway service no longer prorated based on short distance of haul
Disadvantages:	Increase in costs allocated to ex-franchise customers
Recommendation 3	(reduced M12/C1 rate for deliveries upstream of Parkway compression)
Advantages:	Improve price signal to M12 customers that use Parkway compression; Reduce costs to Enbridge for service contracted to delivery points upstream of compression; No change in costs allocated to in-franchise customers.
Disadvantages:	Proposed 10% rate adjustment is not based on a full cost study, and may not reflect all of the cost difference between compressed and uncompressed Parkway deliveries.

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Answer to Interrogatory from Energy Probe

Energy Probe Interrogatory 2

Ref: EB-2011-0210 Decision dated October 25, 2012, Pages 72-73

Preamble: With respect to Parkway Station Costs and the evidence provided by expert witness Mr. Rosenkranz in EB-2011-0210, the Board's Decision notes, as highlighted by Energy Probe, that there may be a number of unintended consequences associated with Mr. Rosenkranz's proposal which have not been considered in the context of the application.

On Page 72 of the Decision the Board summarizes Energy Probe's concerns as follows: "Energy Probe supported Union's existing allocation of Parkway Station Costs for four reasons. First, the peak design day criteria has not been challenged by parties. Second, if the proposal were to be accepted by the Board, more Parkway Station Costs would be borne by ex-franchise customers, exacerbating decontracting and lowering revenue which would need to be offset by higher rates to in-franchise customers. Third, costs would increase for customers of Enbridge. Finally, as per the Settlement Agreement relating to this application, the agreement to re-examine the Parkway delivery obligation could also result in changes to the treatment of the cost allocation for Parkway Station Costs."

a) Please discuss how the concerns raised by Energy Probe in EB-2011-0210 are considered in the evidence submitted by CME, City of Kitchener, FRPO & OGVG.
b) Please identify other consequences resulting from CME, City of Kitchener, FRPO & OGVG's proposal and discuss how these consequences have been considered in the proposal.

Response:

a) First, the evidence does not challenge the principle that Dawn-Parkway system costs should be allocated on the basis of design day demands. The proposed modifications to Union's cost study are based on this principle. The proposal is also consistent with current practice, which allocates certain costs based on design day demands (e.g. Dawn Station costs), and other costs based on distance-weighted design day demands (e.g. Lobo compressor station costs).

   Second, the current proposal tempers the cost impact on ex-franchise rates relative to the EB-2011-0210 proposal by leaving the cost allocation for Parkway compression costs unchanged. There is also no evidence that an increase in M12 tolls of the size that has been contemplated would cause decontracting by ex-franchise customers. Union's evidence in the Parkway West and Brantford-Kirkwall/Parkway D leave to construct proceedings is that ex-franchise demand for transportation services to Parkway has increased, and is expected to continue to increase, despite projected increases M12 tolls that will result from these projects. For example, the Parkway West project is projected to raise the M12 Dawn-Parkway rate by 14 percent, from $0.078/GJ/day to $0.089/GJ/day (EB-2012-0451/EB-2012-0433/EB-2013-0074 Decision and Order, January 30, 2014, page 9).

Third, the cost impact on Enbridge consumers would be less under the current proposal for the reasons stated above. In addition, the evidence recommends a change in the M12 rate design to have lower rate for M12 service to Enbridge meters that are located upstream of Parkway compression, which would further reduce the cost impact on Enbridge customers.

Fourth, the Parkway delivery obligation is a separate issue. However, Union's evidence in this proceeding is that the proposed change to Parkway delivery obligation would increase Union South rates and reduce ex-franchise transportation rates, which should mitigate Energy Probe's concerns about increasing costs for Enbridge and other ex-franchise shippers.

b) The other consequence of the proposal is to better align the toll for Kirkwall to Parkway transportation service with the cost of the facilities used to provide the service. This will improve the price signals that influence the demand for future expansion of the Dawn-Parkway transmission system.

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Answer to Interrogatory from TransCanada PipeLines

TCPL Interrogatory 1

Ref: Review of Dawn-Parkway System Cost Allocation Issues – John Rosenkranz, Summary of Recommendations, Page 1

Please summarize the user pay cost based tolling principles underlying your proposal.

Response:

In this context, we understand "user pay" to refer to the principle that customers who do not directly cause facilities to be constructed, but still use and benefit from the facilities, should pay a share of the costs of the investment. Recommendation 1 (consistent allocation of Dawn compression and M&R costs to Dawn-Trafalgar Easterly and Dawn Station) and Recommendation 2 (allocate Kirkwall and Parkway M&R costs based on peak demand) would modify the cost allocation factors to better reflect cost causation, but would still recover costs from all customer classes that use the compression or M&R facilities. Recommendation 3 (reduced M12/C1 rate for deliveries upstream of Parkway compression) would continue to recover Parkway compression costs from in-franchise and ex-franchise customers that did not directly cause these facilities to be built, but use the Dawn-Parkway system.

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Answer to Interrogatory from TransCanada PipeLines

TCPL Interrogatory 2

Ref: i) Review of Dawn-Parkway System Cost Allocation Issues – John Rosenkranz, Page 3

ii) Review of Dawn-Parkway System Cost Allocation Issues – John Rosenkranz, Summary of Recommendations, Page 1

Preamble: TransCanada seeks to further understand Mr. Rosenkranz's assumptions of flows at Parkway as a result of the approved GTA Projects.

a) Please describe the changes in flows to Enbridge at Parkway(Consumers) and Lisgar that you expect will occur in the 2015-2016 timeframe assuming completion of Enbridge's GTA facilities and Union's approved facilities. Please include your analysis of volumes that will flow through compression facilities at Parkway and volumes that will not flow through compression facilities at Parkway.
b) Please describe the changes in flows to TransCanada at Parkway that you expect will occur in the 2015-2016 timeframe assuming completion of Enbridge's GTA facilities and Union's approved facilities.
c) Would you consider these expected flow changes to be relatively large in scope?

Response:

a) Mr. Rosenkranz understands that with the completion of Enbridge's GTA facilities and Union's facilities at Parkway, Union's existing contracts with Enbridge will be amended to reduce Union's firm delivery obligation at the Parkway delivery points located upstream of the Parkway compressors, which includes the Parkway(Consumers) and Lisgar meters, by 400,000 GJ/day, from 1,638,085 GJ/day to 1,238,085 GJ/day. At the same time, Enbridge will increase its M12 contract demand for firm delivery to points located on the discharge side of the Parkway compressors by 800,000 GJ/day. The configuration of the GTA Project that was approved by the Board in EB-2012-0451 is designed to allow Enbridge to receive 800,000 GJ/day at a new Parkway Gate Station that would be built adjacent to the Union Parkway West facilities.

   To be clear, under Recommendation 3 (reduced M12/C1 rate for deliveries upstream of Parkway compression), once the Enbridge GTA facilities and Union facilities at Parkway are completed, the M12 rate for all Parkway meters located on the discharge side of the Parkway compressors should be the same, whether it is the existing Parkway(TCPL) meter or a new Enbridge or TCPL meter.

b) Mr. Rosenkranz understands that as a result of the Brantford-Kirkwall/Parkway D expansion projects design day deliveries to TCPL at Parkway will increase by 336,041 GJ/day (736,041 GJ/day minus 400,000 GJ/day delivered to Enbridge). This information is from Section 7, page 9, of Union's application in EB-2013-0074.

c) Mr. Rosenkranz understands that Union Gas is currently able to deliver at least 2,200,000 GJ/day to TCPL at Parkway under design conditions. An additional 336,041 GJ/day would be an increase of about 15 percent.

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Answer to Interrogatory from TransCanada PipeLines

TCPL Interrogatory 3

Ref: Review of Dawn-Parkway System Cost Allocation Issues – John Rosenkranz, Summary of Recommendations, Page 1

Preamble: TransCanada seeks to further understand the cost and rate impacts of Mr. Rosenkranz's proposal.

Assuming your functionalization and allocation proposals in reference i) are accepted:

a) Please provide the total annual cost increase to M12 shippers by shipper. Please include all calculations and assumptions.
b) Please provide the total annual cost increase to M12 shippers by shipper as a percentage of the total annual costs allocated to M12 shippers. Please include all calculations and assumptions.
c) Please provide the rate impact ($/GJ) to Rate M12. Please include all calculations and assumptions.
d) Please provide the additional annual cost that will be borne by all Ontario power generators. If a precise amount is not available, please provide a directional impact and explain your reasoning.
e) Please provide the additional annual cost for Enbridge at current contractual levels. Please include all calculations and assumptions.
f) Please provide the additional annual cost for Enbridge at contractual levels expected to be in place when Enbridge's GTA project is in service. Please include all calculations and assumptions.
g) Please provide the additional annual cost for Union North customers resulting from your M12 rates. Please include all calculations and assumptions.

Response:

a) The estimated impact of the functionalization and allocation proposals (Recommendations 1 and 2) on the Rate M12 revenue requirement, as shown on Attachment 2, line 16, is 0.96 percent ($1,364,000/$142,352,000). Mr. Rosenkranz does not have available the information that would be required to calculate the impact by shipper, but assuming that Union Gas does not change its rate design, the annual cost for all shippers would increase by approximately the same percentage.

   Attachment 2 uses the following assumptions:

   2013 Revenue Requirement (cols. (a) – (c)): EB-2011-0210, Exhibit G3, Tab 2

Kirkwall & Parkway M&R (col. (f), line 17): Exhibit B9.2 and Exhibit B9.5

Dawn Station M&R (col. (d), line 17): Attachment 1, line 9, col. (e) multiplied by the ratio of Revenue Requirement to Transmission Plant for Kirkwall, Parkway and Lisgar from Exhibit B9.2 and Exhibit B9.5 [31,953 x (3,007/31,595) = 3,041].

	Transmission Plant	Revenue Requirement
Kirkwall	17,205	1,570
Parkway	11,602	1,205
Lisgar	2,788	232
Sum	31,595	3,007

Dawn-Trafalgar Easterly (col. (e), line 17): Col. (c), line 17 minus cols. (d) and (f).

Kirkwall M&R allocated to in-franchise (col. (f), line 1): Exhibit B1.3, col. (c), line 6.

Costs allocated to customer classes in cols. (d) and (f) in same proportion as col. (a). Costs allocated to customer classes in col. (e) in same proportion as col. (b).

b) See response (a).

c) The 100 percent load factor M12 Dawn to Parkway rate would increase by approximately one percent, from $0.078/GJ to $0.079/GJ.

d) In aggregate, costs for Ontario power generators would either increase or decrease by a relatively small amount. Power generators connected to Enbridge that use Union M12 service would see an increase in costs, while power generators located in Union South that use Rate T1 or Rate T2 would see a cost reduction. Power generators located in Union North that use Rate 20 or Rate 100 transportation service would see no change.

e) Enbridge holds 2,157,173 GJ/day of M12 service to Parkway, which has an estimated annual demand cost of $61.7 million at the current rate of $2.382/GJ/month [2,157,173 x 2.382 x 12]. If the M12 rate increases by 0.96 percent, Enbridge costs would be $0.6 million per year higher.

f) If Enbridge contracts for an additional 400,000 GJ/day, the estimated annual cost before the cost functionalization and allocation changes recommended in our evidence would be approximately $73.1 million [2,557,173 x 2.382 x 12]. If the M12 rate increases by 0.96 percent, Enbridge costs would be $0.7 million per year higher.

g) The estimated annual cost impact of the recommended cost functionalization and allocation changes on Union North sales service customers is shown on Attachment 2, col. (h), line 11.

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Answer to Interrogatory from TransCanada PipeLines

TCPL Interrogatory 4

Ref: Review of Dawn-Parkway System Cost Allocation Issues – John Rosenkranz, Page 3

Preamble: TransCanada seeks to better understand Mr. Rosenkranz's Parkway pressure assumptions.

a) Please provide the sources for the pressures stated above.
b) Please confirm that 6,450 KPag is TransCanada's maximum operating pressure in the area near Parkway and that various scenarios exist where Union is not required to deliver gas to TransCanada at TransCanada's maximum operating pressure of 6,450 KPag.

Response:

a) The minimum delivery pressure to Enbridge of 3,450 kPag is from Union's leave to construct application for the Parkway West project at page 55 of 121. This was filed January 29, 2013 in EB-2012-0433. The minimum pressure of 6,450 KPag at which Union is required to deliver gas to TCPL at Parkway and the maximum operating pressure of the Dawn to Parkway transmission system of 6,160 KPag is from Exhibit B9.6.

b) We are not able to confirm these statements. The Union Gas response stated the minimum contractual pressure that Union is required to provide, but did not give any information about TransCanada's maximum operating pressure. It is our understanding that Union designs the compression facilities at Parkway to meet design day conditions, and that the peak day model includes meeting the minimum contractual delivery pressure at Parkway(TCPL) of 6,450 KPag (6,450 psig). This information can be found in Union's application in the Brantford-Kirkwall/Parkway D leave to construct proceeding (EB-2013-0074, Section 8, pages 3-4).