K1.5

Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

**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 for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2013.

**BEFORE:** Marika Hare
Presiding Member

Karen Taylor
Board Member

## DECISION AND ORDER

Union Gas Limited ("Union") filed an application on November 10, 2011 with the Ontario Energy Board (the "Board") under section 36 of the *Ontario Energy Board Act, 1998* for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2013 (the "Application"). The Board assigned file number EB-2011-0210 to the Application and issued a Notice of Application on December 1, 2011. This is the first cost-of-service application for setting rates since 2007. From 2008 to 2012 rates were set under an Incentive Regulation Mechanism ("IRM") which adjusted rates through a mechanistic formula.

definition for this maintenance category and a delineation of what has changed since EB-2005-0520 that would result in a change to the allocation methodology.

**Purchase Production General Plant**

Union noted that it currently functionalizes general plant costs in proportion to the functionalization of rate base and O&M costs. However, general plant costs are functionalized to the Purchase Production function based on O&M costs only since there are no other plants costs functionalized to Purchase Production. The Purchase Production general plant costs are classified to Purchase Production Other and allocated to Union South in-franchise customers in proportion to delivery volumes, excluding the T1 and T3 rate classes.

Union proposed to classify general plant costs to both the Purchase Production System and Purchase Production Other classifications in proportion to the components of Purchase Production System and Other O&M. Union also proposed to allocate general plant costs to rate classes in proportion to the components of Purchase Production System and Other O&M. Union noted that this methodology change ensures general plant costs that are functionalized to purchase production are classified and allocated to rate classes on the same basis.[62]

LPMA supported this proposal and no other parties commented on this issue.[63] Union submitted that no parties raised any concerns in regards to this proposal and therefore it should be approved as filed.[64]

**Board Findings**

The Board approves Union's proposal to update the allocation of purchase production general plant costs. The Board accepts Union's submission that this methodology better reflects cost allocation principles than the existing methodology.

**Parkway Station Costs**

Mr. Rosenkranz, an expert witness for CME, CCC, City of Kitchener and FRPO, described the manner in which the costs of transporting gas on the Dawn-Parkway

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[62] Exhibit G1, Tab 1 at pp. 14-15 (Updated).
[63] Oral Hearing Transcripts, EB-2011-0210,Volume 15 at p. 77.
[64] Oral Hearing Transcripts, EB-2011-0210,Volume 16 at p. 140.

transmission system are divided and allocated. Mr. Rosenkranz noted that these costs are divided into two distinct categories: the cost of the compressors needed to move gas from the Dawn Hub into the Dawn-Parkway system (Dawn Station costs); and all remaining costs (Dawn-Trafalgar Easterly costs). Mr. Rosenkranz noted that the Dawn-Trafalgar Easterly costs include Union's transmission pipelines, the compressors at Lobo, Bright, and Parkway, and the metering facilities at Kirkwall and Parkway. Dawn-Trafalgar Easterly costs are allocated using a distance-based commodity-kilometre methodology while Dawn Station costs are allocated on the basis of design-day demand.[65]

Mr. Rosenkranz noted that Union delivers and receives gas at Parkway and that the predominant direction of physical flow at Parkway is from Union to TCPL and Enbridge.[66][67] Mr. Rosenkranz noted that the metering and compression facilities at Parkway Station are designed to meet Union's design day requirements to export gas from Union to TCPL and Enbridge.

Mr. Rosenkranz noted that metering costs are a function of design day demand and that compression horsepower at Parkway is determined by Union's peak day requirement to deliver gas to TCPL and Enbridge. In addition, Mr. Rosenkranz stated that Union's metering and compression assets at Parkway are not used to transport or deliver gas to any of Union's upstream in-franchise markets connected to the Dawn-Parkway transmission system. Therefore, Mr. Rosenkranz recommended that the Parkway station costs be separated from the overall Dawn-Trafalgar Easterly Transmission costs and allocated to rate classes on the basis of design day requirements.[68]

Mr. Rosenkranz noted that once the Parkway Station costs have been separated in the cost allocation, the costs should be recovered from those services that use the Parkway facilities. In addition, Mr. Rosenkranz recommended the establishment of a non-export M12 service that can be used by in-franchise customers to meet an obligated delivery requirement at Parkway. The non-export M12 service would allow shippers to deliver gas to Union but would not give shippers the right to deliver gas to TCPL or Enbridge. Mr. Rosenkranz recommended that the costs for this service should be allocated on the

[65] Exhibit K10.7 at p. 2.
[66] Ibid at p. 3.
[67] Exhibit B1, Tab 9, Schedule 2 shows that the flows through Parkway are predominately export based.
[68] Exhibit K10.7 at p. 3.

same basis as the Dawn-Trafalgar Easterly costs (exclusive of the Parkway Station Costs).[69]

Board staff[70], LPMA[71], BOMA[72], FRPO[73], Kitchener[74] and others supported the recommendations of Mr. Rosenkranz, as discussed above. LPMA submitted that the Parkway Station is not used to transport or deliver natural gas to any of the upstream in-franchise markets that are connected to the Dawn-Trafalgar transmission system. LPMA submitted that it is clear that the Parkway station metering and compression do not provide any benefits to in-franchise customers. As a result, these customers should not pay any of the associated costs.[75]

Energy Probe supported Union's existing allocation of Parkway Station Costs[76]for four reasons. First, the peak design day criterion 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.

Union noted that the treatment of Parkway station costs was last reviewed by the Board in EBRO 493/494. Union noted that with the exception of Energy Probe, which continues to support the current allocation, intervenors support Mr. Rosenkranz's proposal reflected in his evidence at Exhibit K10.7.

Union stated that the submission and recommendations of Mr. Rosenkranz are based on the premise that in-franchise customers receive little or no benefit from the Parkway Station and, therefore, in-franchise customers should not be responsible for Parkway Station costs. Union submitted that this premise is unfounded, and was determined to be so by the Board in EBRO 493/494. The Parkway Station provides benefits to in-

[69]Ibid at pp. 3-4.
[70] Board staff Argument, August 17, 2012, at pp. 19-20.
[71] Oral Hearing Transcripts, EB-2011-0210, Volume 15 at p. 77-82.
[72] BOMA Factum for Argument at p. 54.
[73] Oral Hearing Transcripts, EB-2011-0210, Volume 14 at p. 158.
[74] City of Kitchener Argument, August 17, 2012, at p. 1.
[75] Oral Hearing Transcripts, EB-2011-0210, Volume 15 at p. 79.
[76] Oral Hearing Transcripts, EB-2011-0210, Volume 14 at pp. 65-66.

franchise ratepayers in a number of ways. First, obligated deliveries received on the discharge side of Parkway provide a direct benefit to in-franchise shippers by reducing the size of the Dawn-Trafalgar facilities servicing in-franchise rate classes. Absent the Parkway obligation, in-franchise rates would be higher. Therefore, Union submitted that in-franchise ratepayers receive a substantial benefit from the existence of the Parkway Station.

Union also noted that its North in-franchise customers receive a benefit from being connected to Parkway because, without it, they could not access Dawn storage.

Union noted that in EBRO 486, it was directed by the Board to prepare an M12 cost allocation study to ensure that there was no cross-subsidiary among rate classes using the Dawn-Trafalgar transmission system. That study was filed with the Board in EBRO 493/494. The Board's decision addresses the allocation of the Dawn Station and Dawn-Trafalgar costs, including the Parkway Station.

Union submitted that nothing has changed as it relates to the design of the Dawn-Trafalgar system and the Parkway Station, and how it was used at the time of the EBRO 493/493 decision and how it is used now. On this basis, Union submitted that the proposal to change the allocation methodology should be rejected.[77]

**Board Findings**

The Board agrees with Union that in-franchise customers benefit from the Parkway Station. The Board also notes, as highlighted by Energy Probe, that there may be a number of unintended consequences associated with Mr. Rosenkranz's proposal, the consequences of which have not been considered in the context of this application. The Board will therefore not approve the separation of the Parkway Station costs from overall Dawn-Trafalgar Easterly Transmission costs, as proposed by Mr. Rosenkranz at this time. The Board will revisit this issue as part of Union's 2014 rates proceeding, after the Board receives Union's report on the outcome of the Parkway Obligation Working Group[78].

[77] Oral Hearing Transcripts, EB-2011-0210, Volume 16 at pp. 143-145.
[78] Union Settlement Agreement, June 28, 2012, Section 3.17, p.16

**Kirkwall Station Costs**

In its application, Union did not propose any changes to the allocation of the Kirkwall Station costs. LPMA noted that Mr. Rosenkranz also did not address the issue of Kirkwall metering costs in his evidence. LPMA submitted that the use of the Kirkwall Station has changed over the years and may change further in the future (given the changing flow of natural gas in the northeast area of North America which includes Ontario). LPMA stated these changing dynamics demonstrate the need to review the allocation of the Kirkwall Station costs. The changing flow of natural gas in the northeast has been highlighted by Union in this proceeding through the level of turn-back of M12 capacity that has already occurred and is forecast to occur in the future.

LPMA noted that the Parkway-to-Maple bottleneck has been raised in this proceeding. The dramatic increase in TCPL tolls, especially along the northern Ontario route relative to other routes to the Greater Toronto Area, has illustrated the potential need for the Parkway West project. LPMA stated that all of these issues highlight the fact that there has been considerable change that has taken place with respect to the flows of gas around the Parkway Station, since Union last reviewed the cost allocation and rate design for services offered on the Dawn-Trafalgar system in 1995, and that the Board last approved in Union's 1997 rate case, which was EBRO 493/494. LMPA submitted that the Board should direct Union to review the allocation of Kirkwall metering costs.[79] No other parties commented on this issue and Union did not respond to LPMA's submission in reply.

**Board Findings**

The Board agrees with the submissions of LPMA. The use of the Kirkwall Station has changed substantially over the years and there is a clear need to review the allocation of Kirkwall Station costs. The Board directs Union to undertake a review of the allocation of Kirkwall metering costs as part of its updated cost allocation study which the Board has directed Union, later in this Decision, to file in its 2014 rates filing.

[79] Oral Hearing Transcripts, EB-2011-0210,Volume 15 at p. 80.

### Dawn-Trafalgar Easterly Costs

Union's Dawn-Trafalgar Easterly costs include Union's transmission pipelines, the compressors at Lobo, Bright, and Parkway, and the metering facilities at Kirkwall and Parkway. Dawn-Trafalgar Easterly costs are allocated using a distance-based commodity-kilometre methodology.

LPMA submitted that, with the removal of the Parkway station metering and compression costs discussed above and subject to the review of the Kirkwall metering costs also noted above, the allocation of the remaining Dawn-Trafalgar Easterly costs should continue to be based on the distance-based commodity-kilometre methodology. LPMA argued that there has been no evidence presented in this proceeding to suggest that this allocation methodology is not appropriate for these remaining costs, nor has any evidence been presented in support of another methodology.[80] No other parties commented on this issue.

### Board Findings

The Board approves Union's proposed allocation of the Dawn-Trafalgar Easterly costs. The Board finds that the distance-based commodity-kilometre methodology used to allocate the Dawn-Trafalgar Easterly costs is appropriate and reflective of cost allocation principles.

### Utility / Non-Utility Storage Cost Allocation

Board staff noted that Union's methodology for separating its utility and non-utility storage businesses was originally approved by the Board in EB-2005-0551 and confirmed by the Board in EB-2011-0038. In the EB-2011-0038 Decision and Order, the Board stated:

> The Board finds that the intent of the NGEIR Decision was to effect the one-time separation of plant assets between Union's utility and non-utility businesses. Therefore, there is no need for a subsequent separation (or the filing of another cost study).[81]

[80] Ibid. at p. 81.
[81] Decision and Order, EB-2011-0038,January 20, 2012 at pp. 6-7.