EB-2013-0365

Ontario Energy Board

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*, S.O. 1998, c.15 (Schedule. B) for an order or orders approving just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2014

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

FINAL SUBMISSIONS ON OUTSTANDING ISSUES

June 24, 2014

UNION GAS LIMITED

2014 RATE APPLICATION

EB-2013-0365

SUBMISSIONS BY ENERGY PROBE RESEARCH FOUNDATION

1. <u>How these Matters Came Before the Board</u>

By application dated October 31, 2013, Union Gas Limited ("Union") applied to the Ontario Energy Board pursuant to a Board-approved Incentive Rate Mechanism for an order approving rates for the distribution, transmission and storage of natural gas effective January 1, 2014.

A Settlement Conference was held beginning on March 17, 2014. Ultimately, the Conference resulted in a complete settlement of all but two issues: the allocation of Kirkwall Metering Costs and the Leamington Line Project.

On May 15, 2014, the Board issued Procedural Order No. 4 providing for an oral hearing in respect of those matters which remained in dispute. In the Procedural Order, the Board further provided that parties wanting to file evidence in relation to the Leamington Line Project should do so by May 27, 2014. Union was the only party to file such evidence.

The hearing took place on June 5, 2014. Energy Probe monitored the Proceeding.

This argument is addressed to the two issues which are in dispute:

- **Allocation of O&M and Metering Costs at Dawn and Kirkwall. Union's Response to the Board's Directive in EB-2011-0210**
- **The Leamington Line Project**

2. <u>Allocation of O&M and Metering Costs at Dawn and Kirkwall. Union's Response to the Board's Directive in EB-2011-0210</u>

2.1 Union's Evidence

<u>Kirkwall Station</u>

In response to this Board directive, <u>Union is not proposing any changes to the allocation of Kirkwall metering costs.</u> Union argues that the current methodology is appropriate because it treats the Kirkwall metering facilities in a manner consistent with other Dawn-Parkway assets. [Exh. A, Tab 1, p. 20]

As of November 1, 2013 Union had firm contracts for 586,717 GJ/day of Dawn to Kirkwall service and 300,000 GJ/day of Kirkwall to Parkway service, and had no contracts for Kirkwall to Dawn service. Union has also contracted for 21,101 GJ/day of TCPL FT service from Niagara to Kirkwall to supply Union South sales service customers.

Parkway Station

In the 2013 rebasing case, several intervenors and Board staff supported a proposal to separate Parkway Station costs from Dawn-Trafalgar Easterly transmission costs and allocate these costs based on peak demands for gas deliveries into TCPL and Enbridge. Energy Probe supported Union's existing allocation of Parkway Station Costs.

The Board decided not to approve the separation of Parkway Station costs at that time, but said that it would revisit the issue in Union's 2014 rates proceeding.

Recently the Board approved the Parkway West and Brantford-Kirkwall/Parkway D projects. The Parkway West project includes a new compressor to provide loss of critical unit protection at Parkway, and a third connection to Enbridge. The estimated capital cost for the Parkway West project is $219 million, which includes approximately $20 million for the new Enbridge delivery facilities.

The Board declined to consider the rate allocation issues associated with Parkway compression in the leave to construct case, *but noted that this issue could be raised in Union's next cost of service proceeding.*

2.2. CME et al Sponsored Evidence

In the current EB-2013-0365 proceeding, Dr. John Rosenkrantz filed evidence sponsored by CME, City of Kitchener, OGVG and FRPO. This evidence addressed the methods that Union Gas uses to functionalize and allocate Dawn-Parkway system costs, and design ex-franchise transportation rates (Rate M12 and Rate C1). Dr. Rosenkrantz recommended that the cost allocation should be modified in three areas to better reflect the use of these facilities. (Two additional issues should be reviewed as part of the next Union Gas rate rebasing proceeding)

1. Include all Dawn compression plant and operating and maintenance (O&M) costs that are assigned or allocated to the Dawn-Parkway system in the Dawn-Trafalgar Easterly functional cost category, and include all Dawn measuring and regulating (M&R) plant and O&M costs that are assigned or allocated to the Dawn-Parkway system in the Dawn Station functional cost category.

2. Allocate Kirkwall and Parkway M&R plant and O&M costs to customer classes based on each class' peak demand for firm deliveries to TCPL or Enbridge, and firm receipts from TCPL or Enbridge, at that meter station.

3. Create a reduced M12/C1 rate for non-TCPL deliveries to reflect the avoided cost of Parkway compression.

In addition at the next rebasing:

4. Review the allocation of compression O&M costs to consider whether these costs should be allocated based on projected usage instead of distance-weighted demands, and

5. Review the allocation of Parkway compression plant.

Comment

Of the above recommendations, Energy Probe suggests that only the first part of the second recommendation (the allocation of Kirkwall costs) is fully responsive to the Board's directive in EB-2011-0210. The other recommendations were either not adopted by the Board (i.e., Parkway Station cost) or not proposed by Mr. Rosenkranz at all (i.e. Dawn costs) in EB-2011-0210.

2.3. CME et al Position re Dr. Rosenkrantz' Recommendations 1-3

Response to Board Staff Interrogatory

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 shows 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.

Response to Energy Probe Interrogatories

On Page 72 of the Decision (EB-2011-0210) 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.**

***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 March 6, 2014 proceedings is that ex-franchise demand for transportation services to Parkway has**

increased, and is expected to continue to increase, despite projected increases in 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 a 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.**

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.

2.4 Kirkwall Metering Costs Energy Probe Submissions

Energy Probe accepts that the Parkway Delivery Obligation is no longer a factor in the allocation of Dawn-Parkway system costs. We also accept Union's position that the Parkway cost will be considered in Union's next rebasing, not in this case.

That leaves the Kirkwall Metering costs.

Dr. Rosenkrantz' evidence shows the collective impact of his proposals on in-franchise and ex-franchise rate classes:

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2/10/2014

Attachment 2
ESTIMATED CHANGES TO DAWN-PARKWAY SYSTEM COST ALLOCATION
($000)

		2013 Revenue Requirement EB-2011-0210 (2012-07-13 Update)			Move Dawn Compression Costs to Dawn-Trafalgar Easterly and Allocate Dawn-Parkway System M&R Costs Based on Peak Demand				
		Dawn Station	Dawn-Trafalgar Easterly	Dawn-Pkwy System	Dawn Station	Dawn-Trafalgar Easterly	Kirkwall & Parkway M&R	Dawn-Pkwy System	Change
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Union South	3,467	16,961	20,428	516	18,579	34	19,129	(1,299)
2	M1	1,758	8,601	10,359	262	9,422	17	9,701	(658)
3	M2	591	2,894	3,485	88	3,170	6	3,264	(221)
4	M4	172	841	1,013	26	921	2	949	(64)
5	M5	2	8	10	0	9	-	9	(1)
6	M7	79	388	467	12	425	1	438	(29)
7	M9	28	139	167	4	152	0	157	(10)
8	M10	1	4	5	0	4	-	5	(1)
9	T1	636	3,110	3,746	95	3,407	6	3,508	(239)
10	T3	200	976	1,176	30	1,069	2	1,101	(75)
11	Union North/East	921	7,528	8,449	137	8,246	-	8,383	(66)
12	R1	688	5,621	6,309	102	6,157	-	6,260	(49)
13	R10	182	1,488	1,670	27	1,630	-	1,657	(13)
14	R20	48	392	440	7	429		437	(4)
15	R100	3	27	30	0	30	-	30	-
16	M12	16,048	126,304	142,352	2,388	138,355	2,973	143,716	1,364
17	Total	20,436	150,793	171,229	3,041	165,181	3,007	171,229	-

Exhibit K1.3, Rosenkranz Evidence

Union's base rates have been set for the IRM period, and accordingly Energy Probe is of the view that Dr. Rosenkranz' recommendations should NOT be adopted at this time. Rather, the proposed selective changes to the Cost allocation model should be considered as part of an overall comprehensive update of the model.

Accordingly, whether Union is correct that its Board-approved cost allocation methodology best reflects underlying cost causality and the design of the Kirkwall or Parkway Stations is not affected by distance, but how those stations are used on design day, is in Energy Probe's submission, a matter for review at Union's next rebasing proceeding.

3. Leamington Project: Aid to Construct and Contract Terms for new M4 & M5 Customers

Unions Evidence and the Hearing Transcript suggests to Energy Probe there are two issues.

- **E.B.O. 188 Guidelines and how these were applied to the Leamington Expansion Project in the Leave to Construct Project approved by the Board.**
- **Union's Contracting Procedures subsequent to Approval of the LTC.**

3.1 E.B.O. 188 Guidelines and how these were applied to the Leamington Expansion Project in the Leave to Construct Project approved by the Board.

Energy Probe Submissions

In Energy Probe's view this is not a matter that is before the Board in this case.

However, we note Union's Application of the Guidelines for other than residential and general service customers, is based on discretion regarding the timeframe and cash flow of the revenue stream for new contract customers. Perhaps the principles that underlie this discretion should be included in the Appendix to the Guidelines to provider greater clarity for future applications.

3.2 Union's Contracting Procedures subsequent to Approval of the LTC.

Energy Probe Submissions

Union's has some discretion regarding how it proposes to collect the net present value of the required revenue to meet a Project P.I. of 1.

However, the exercise of this discretion appears to have led to a misunderstanding with the Ontario Greenhouse Vegetable Growers (Growers). This seems to be centred on the issue as to whether an aid to construction is required under the Board's E.B.O. 188 Guidelines and how this is related to the contractual terms the Growers were offered as set out in the Union's shell contract Exhibit K1.6 that uses the term "aid to construction".

Energy Probe notes that Mr. Millar and Union witnesses summarized the issue at Tr. Vol. 1 page 158-160:

> MR. MILLAR: We've heard today about -- at least in this case, you gave some of your customers an option between doing an aid to construct or a minimum annual volume; is that right?
> MR. HOCKIN: We're looking for X amount of revenue, so there's -- one method or the other, yes.
> MR. MILLAR: That's right. So you gave them the choice, but in either way, it would allow you to recover X amount of money from them to get the PI to 1; is that -- that's the idea?
> MR. HOCKIN: Correct.
> MR. MILLAR: Is that a common practice? Would that be offered to anyone who had to make an aid to construct?
> MR. HOCKIN: I would say yes.
>
> MR. MILLAR: Do residential customers ever have to pay an aid to construct, or would this be for a subdivision, something like that?
> MR. HOCKIN: Examples where you would see an aid to construct for residential would be a longer main extension. In the case of the residentials, they're already in the forecast for 30 years' worth of revenue, and so you can't extend the, you know, I'll commit to the customer -- the

customer committing for a longer revenue stream.
But there will be rural-type circumstances, where somebody is further away from the existing main and there may be an aid associated with that.

Energy Probe submits that the primary disconnect that brought this matter to the Board appears to be inadequate communication between Union and the Growers both as a group and individually, as to what would be expected at the project implementation and contracting stage.

It is suggested that the E.B.O. 188 Guidelines are in place so that in order to protect existing and new ratepayers, new facilities must be underpinned by a high level of certainty that the Capital Cost will be recovered from the new customers. For Residential and General service customers this is based on a forecast of customer additions over a horizon of up to 40 years. For other customers it is based on a revenue stream (volume x rate) that will collect the Net Present Value of the Capital Costs of the line (as well, separately to the Guidelines, customers individual metering and connection costs).

From Union's evidence it appears to Energy Probe that the Growers were given two options (as noted above). As a standard of fairness in approach it is suggested this is appropriate. However, flexibility in the Terms of Contract and/or Financial Contribution is also appropriate.

Energy Probe accepts Union's position regarding its overall treatment of the collection of the Leamington Project costs, but once again point to the confusion about the basis of the contract terms and inappropriate use of the term "Aid to Construct" rather than Financial Contribution or similar term, in negotiations and in the proposed contracts.

Board Staff have raised two collateral issues:

- **is an Aid to Construction/Financial Contribution a "rate", and therefore**
- **does this "rate" fall under the Board's Section 36 jurisdiction (to approve or amend)?**

We would agree with Board Staff that it is a rate and subject to the application of the Board's ratemaking powers.

In conclusion, Energy Probe submits that there is no evidence to demonstrate that Union has not acted reasonably in its approach to Contracts for the Leamington Line M4 and M5 customers. Absent any evidence on the specific relief requested by OGVA, we cannot comment further.

Costs

Energy Probe requests that it be awarded 100% of its reasonably incurred costs in this case.

Respectfully Submitted at Toronto, June 24, 2014.

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