PETER C.P. THOMPSON, Q.C.
T 613.787.3528
pthompson@blg.com

Borden Ladner Gervais LLP
World Exchange Plaza
100 Queen St, Suite 1300
Ottawa, ON, Canada K1P 1J9
T 613.237.5160
F 613.230.8842
blg.com

Borden Ladner Gervais

By email

November 18, 2014

Karen Hockin
Manager, Regulatory Projects
Union Gas Limited
50 Keil Drive North
Chatham, ON N7M 5M1

Dear Ms. Hockin,

Union Gas Limited ("Union") – Hagar Liquefaction Service Rate
Board File No.: EB-2014-0012
Our File No.: 339583-000180

This letter is a follow-up to Union's response to Canadian Manufacturers & Exporters ("CME") Interrogatory No. 5 marked as Exhibit B.CME.5.

By way of preamble, we are attempting to ascertain information which will help interested parties determine the effects on rates of keeping Union's venture into the competitive LNG fuel market outside the ambit of utility regulation. In that connection, we wish to obtain from Union a presentation which separates the revenue requirement associated with existing pre-expansion Hagar LNG facilities from the incremental Hagar LNG facilities related entirely to LNG fuel services with all pre-expansion costs being allocated on a fully allocated cost basis.

For the purposes of the questions which follow, please assume that making cost allocation changes related to the existing Hagar facilities is inappropriate during the IRM term, and that there will be no separation of these facilities between liquefaction and other functions prior to 2019.

Under this assumption, could Union please provide a response to the following follow-up questions prior to the commencement of the oral hearing next week in order to shorten our expected examination of Union's witnesses.

(a) Please provide an exhibit which shows the revenue requirement associated with existing Hagar LNG facilities only, with all costs allocated on a fully allocated basis. Is this the revenue requirement of $5.098M, excluding compressor fuel, shown at line 27 of Column (a) in Exhibit B.CME.5, Attachment 1, page 2? If not, then please present an exhibit which shows the derivation of the requested revenue requirement amount.

(b) Please provide an exhibit which shows the Net Annual Liquefaction Capacity of the existing facilities. Is this Net Annual Liquefaction Capacity amount 1,058,890 GJ's as shown at the bottom of page 2 of the Reply Affidavit of Mr. Gaske sworn on November 6, 2014? If not, then what is Union's calculation of that Net Annual Liquefaction Capacity amount?

(c) Please provide Union's current forecast of LNG fuel sales in 2015, 2016, 2017 and 2018. Paragraph 6 of the Gaske Affidavit indicates that Union is forecasting 152,640 GJ's of LNG fuel sales in 2016 (305,280 GJ's on an annualized basis) and 610,560 GJ's of LNG fuel service in 2018. Are these numbers correct for 2016 and 2018?

(d) Please provide Union's comments on an approach whereby:

  (i) The pricing of LNG fuel services is not determined by the Board and all incremental costs associated with Union's proposed expansion of the LNG facilities at Hagar to serve the competitive LNG fuel market are classified as non-utility costs, and;

  (ii) During the remainder of the IRM term, ratepayers will be compensated for Union's use of existing Hagar LNG liquefaction capacity to support services to the competitive LNG fuel market under the auspices of a methodology which reflects the Board's traditional practice of imputing a revenue credit for the benefit of ratepayers to prevent them from having to subsidize non-utility activities supported by utility assets;

(e) The numbers in the Gaske Affidavit and the revenue requirement of the existing pre-expansion facilities is in the amount of $5.098M as described in question (a) above can be used to illustrate the derivation of a revenue credit to ratepayers. The imputed revenue credit to ratepayers in 2018 for Union's non-utility use of existing LNG facilities to support forecasted sales of LNG fuel of 610,560 GJ's, being 58% of total net utility liquefaction capacity, would be 58% of $5.098M or about $2.957M. Using 2016 forecasted LNG fuel sales of 152,640 GJ's or about 14% of total utility liquefaction capacity of 1,058,890 GJ's, the imputed revenue credit to utility ratepayers would be 14% of $5.098M or about $714,000. The revenue credit in each of the years 2015 to 2019, based on LNG fuel sales forecast for each of those years, can be trued-up for actuals under the auspices of an appropriate deferral account. Having regard to this illustration, please provide a response to the following question:

  (i) Does Union object to the approach illustrated above so that during the remainder of the IRM term, ratepayers receive a revenue requirement credit for the extent to which the total existing Hagar liquefaction capacity is used to support the sale of LNG fuel services? If so, then please fully explain why Union regards such an approach to be objectionable.

If possible, we would appreciate receiving Union's written response to these questions by Friday, November 21, 2014, so that the information will be available prior to the commencement of the hearing on Monday, November 24, 2014.

Yours very truly,

Peter C.P. Thompson
PCT\slc

c. Charles Keizer (Torys)
Board Secretary, Ontario Energy Board
Intervenors EB-2014-0012
Paul Clipsham and Ian Shaw (CME)
Vince DeRose and Emma Blanchard (BLG)

OTT01: 6653454: v1