

**ONTARIO ENERGY BOARD STAFF INTERROGATORIES**

**ON EVIDENCE OF UNION GAS LIMITED**

**Ontario Energy Board Community Expansion Proceeding**

**EB-2016-0004**

Interrogatory # 1

Ref: Evidence of Union Gas Limited EB-2016-0004, Page 11, Lines 15-21

The evidence states that historically, Union Gas Limited (Union) based the capital cost in the economic analysis of a project on the minimum pipeline system design necessary to meet the demand expected through the project's customer forecast period. In some cases, a project will be planned with a preferred design, for example with increased pipe size, to account for other system needs. Historically, Union has not included the cost premium for a preferred system design in the economic analysis, and proposes that this practice be confirmed.

- a) Please provide examples of other system needs.
- b) Please explain who would bear the costs of any difference between the minimum pipeline system design and the preferred system design.
- c) Please clarify if Union is proposing the preferred design system as the recommended approach for the economic analysis or does it propose to provide the preferred design analysis in addition to the current economic analysis that is required under the existing guidelines.

Interrogatory # 2

Ref: Evidence of Union Gas Limited EB-2016-0004, Page 13, Lines 2-4

Union in its evidence refers to the EBO 188 requirement to use existing rate schedules for new distribution system expansion requirements. Union has argued that using existing rate schedules creates a barrier for existing utilities as they are unable to develop unique rate schedules to reflect the cost of expansion.

If the Ontario Energy Board (OEB) were to revise the EBO 188 guidelines so that existing utilities can develop new rate schedules for specific expansion projects, does Union intend to develop separate rate schedules for community expansion projects?

## Interrogatory # 3

Ref: Evidence of Union Gas Limited EB-2016-0004, Page 24 and EB-2015-0179, Section 4.5, Pages 32-34

Union proposed a capital pass through mechanism to recover the net revenue requirement associated with the gross capital investment of the 29 community expansion projects that it had proposed in EB-2015-0179.

Do the individual projects referred to in EB-2015-0179 meet the capital pass through criteria agreed to in the Settlement Agreement (EB-2013-0202) approved by the OEB?

## Interrogatory # 4

Ref: Evidence of Union Gas Limited EB-2016-0004, Pages 28-30

Union has listed the minimum requirements that any utility proposing to provide natural gas service in Ontario should meet and fulfil core expectations that the OEB has of existing gas utilities in Ontario. Union further submits that if the OEB's expectations of new entrants are not the same as expectations of existing utilities, then the ability of existing utilities to compete on a level playing field with new entrants to extend service to new areas would be seriously jeopardized.

Please confirm that the existing gas utilities in Ontario that are regulated by the OEB fulfil the minimum requirements, core expectations and financial ability that is listed by Union including Natural Resource Gas Limited.

## Interrogatory # 5

Ref: Evidence of Union Gas Limited EB-2016-0004, Page 32, Lines 13-15, Page 34, Lines 9-13

Union has noted that the OEB's attempts to encourage new entrant natural gas LDCs appears to be in conflict with provincial efforts to encourage electric LDC consolidation. Union has questioned the OEB's efforts to encourage new entrants in order to achieve its objective of providing gas service to additional northern and rural communities. Union has further submitted that encouraging new entrants is not likely to result in a more efficient natural gas sector in Ontario.

- a) Is it the opinion of Union that the OEB should only approve applications from the incumbent utilities for community expansion projects and not approve the applications of new entrants?
- b) If a new entrant meets the minimum expectations set by the OEB, is it the opinion of Union that such an entrant should not be allowed to operate because it would pass on the substantive administrative and management infrastructure costs to consumers and not be as efficient as an incumbent utility?

#### Interrogatory # 6

Ref: Economically efficient approaches to community expansion – expert assistance in the matter of Union Gas Limited’s community expansion application (EB-2015-0179)

The London School of Economics in its report has provided examples of several jurisdictions to provide a high-level overview of the funding mechanisms adopted for community expansion projects across North America. The report has referred to practices in New York, Nebraska, North Carolina and Alberta.

Please confirm whether the funding approaches to expand into communities that are uneconomic to serve was facilitated through specific legislation or general powers of the regulatory bodies.

#### Interrogatory # 7

Ref: Updated Evidence in EB-2015-0179, Exhibit A, Tab 1, Appendix D

Union has provided a list of 103 municipalities that provides natural Profitability Index (PI) and PI with the Temporary Expansion Surcharge and Incremental Tax Equivalent. Of these, Union targeted 29 community projects in its application. Please provide a revised table using a rate of  $0.18\text{m}^3$  for the first three years of the project and  $0.27\text{m}^3$  for the next seven years of the project. Also, assume an upfront capital contribution of \$500 from each new customer.

- a) Would using a lower rate in the first three years of the project impact the uptake of natural gas service in the new communities? If yes, please quantify the potential uptake in the first 3 years of the project. Please provide the requested information in a table for the 29 community expansion projects referred to in EB-2015-0179.

- b) Please provide the total subsidy that would be paid by existing customers for the 29 community expansion projects referred to in Union's application (EB-2015-0179) under the above scenario.
- c) Please confirm that the natural PI listed in the table in Appendix D is the same as the PI referred to in the OEB's EBO 188 guidelines.

#### Interrogatory # 8

Ref: Evidence of Parkland Fuel Corporation

The evidence filed in this proceeding by Parkland Fuel Corporation offers an extensive critique outlining a number of concerns with the use of cross subsidies to support system expansion.

Is Union able to provide a high level response to the concerns regarding cross subsidies raised by Parkland Fuel Corporation's evidence?

#### Interrogatory # 9

Ref: Evidence of Canadian Propane Association, Exh. 3, Tab 3, Page 6

The evidence of Canadian Propane Association (CPA) notes that in the event the OEB authorizes cross-utility subsidization to occur, such that customers of one utility subsidize the expansion undertaken by another distributor, the OEB can mitigate some of the adverse impacts by removing the return on rate base component embedded in the subsidy so that there is only a return "of" and not "on" the capital investment associated with the expansion. With the return component removed, utilities will continue to benefit from the remaining non-financial, social and other benefits of natural gas expansion.

- a) Please provide Union's opinion on the approach proposed by CPA.
- b) Does Union agree with the proposed approach of the CPA? If no, why not?

#### Interrogatory # 10

Ref: Evidence of Canadian Propane Association, Exh. 9, Tab 9, Pgs. 8-9

The CPA in its evidence has noted that Union in response to an interrogatory in EB-2015-0179 confirmed that the price used for propane in their analysis were for auto propane and not residential propane. Since 2012, residential propane prices have been

significantly lower than auto propane prices. Gas Processing Management Inc. has claimed that the expected payout period for a switch from propane to natural gas will likely exceed 7 years and not approximately 4 years as claimed by Union.

Please provide Union's opinion on CPA's conclusion with respect to propane prices and the larger than expected payout period to switch from propane to natural gas.