ONTARIO ENERGY BOARD

NATURAL GAS EXPANSION GENERIC PROCEEDING

INTERROGATORIES TO UNION GAS LIMITED (Union)

From

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

1. **Reference:** Exhibit A, Tab 1, page 7, lines 18-19.

Union states that "*if a Portfolio PI remains above 1.0, the new customers will actually be subsidizing existing customers over the longer term".*

Would this result still obtain once all rates are rebased? Please explain (providing a numerical example).

2. **Reference:** Exhibit A, Tab 1, page 8, lines 4 - 9.

The evidence states:

> *"...Union's recent Rolling Portfolio history has resulted in a positive NPV averaging $14.6 million per year over the most recent three years, and a similar pattern has existed for an extended number of years. Absent the provision of a minimum project PI threshold of 0.8, this annual $14.6 million favourable NPV could have been used to support additional projects at PI's lower than 0.8 even without a need for subsidization form existing customers."*

(a) Please confirm that the cited $14.6 million is not actual revenue, but rather a calculation of what revenue arising from the subject expansions would have been at then current rates if projections regarding customer attachments and volumes turned out to be accurate and rates had not been changed for the duration of the economic evaluation period.

(b) Please comment on how consideration of Union's actual revenues arising from customer attachments for recent system expansions supports Union's position on broadening intra-utility cross-subsidies for new customers.

3. **Reference:** Exhibit A, Tab 1, page 14, lines 12 – 15.

Union proposes extending the customer attachment forecast period for evaluating proposed expansions from 10 years to 25 years of customer attachments. Union justifies its proposal with reference to the useful life of *"typical"* heating equipment.

(a) Please explain what *"typical"* means in reference to heating equipment.

(b) Please explain how the life of a particular customer's heating equipment relates to the appropriate forecast period for the number of customers expected to attach to an expansion.

4. **Reference:** Exhibit A, Tab 1, page 20; Issue 4 (in particular consideration of the value of environmental benefits from gas expansion).

Union cites environmental benefits from gas expansion projects.

(a) Has Union considered how the carbon reduction benefits of gas expansion projects could be monetized to support the economics of the projects?

(b) Who would "own" the carbon reduction credit arising from community expansion projects?

5. **Reference:** Exhibit A, Tab 1, Schedule 1.

Please provide the CVs of the authors of the London Economics report.

6. **Reference:** Exhibit A, Tab 1, Schedule 1, page 7, first paragraph.

Union has proposed a limit to the rate impact on a current residential customer's bill to a maximum of $24 per year for all current and future community expansion projects that it will complete.

(a) Please provide a table which projects ratepayer impacts for all rate classes assuming all of the potential community expansion projects are undertaken.

(b) In the table produced in response to part (a), please include a column providing the ratepayer impacts for each rate class of;

(i) The costs of Union's Winter Warmth program included in 2016 rates.

(ii) The costs of Union's DSM programs included in 2016 rates.

7. **Reference:** Exhibit A, Tab 1, Schedule 1, pages 1 and 12.

London Economics cites the creation of new jobs, *"potential expansion of other industries"*, and *"boosting economic growth in Northern and rural Ontario"* as benefits of gas expansion.

(a) Please detail London Economics' assessment that natural gas expansion will create new jobs, and file copies of any supporting analysis.

(b) Please explain what *"other industries"* London Economics predicts will expand as a result of natural gas expansion, detail this assessment, and file copies of any supporting analysis.

(c) Please detail London Economics' assessment that natural gas expansion will *"boost [ ] economic growth in Northern and rural Ontario",* and file copies of any supporting analysis.

8. **Reference:** Exhibit A, Tab 1, Schedule 1, page 11.

London Economics' evidence discusses "economic efficiency" and associated price signals for *"efficient resource using behaviour".*

Please discuss whether, and if so how, Union's proposal to require existing Union rate payers to subsidize otherwise uneconomic expansions of Union's system to unserved communities furthers principles of "economic efficiency" and encourages *"efficient resource using behaviour".*

9. **Reference:** Exhibit A, Tab 1, Schedule 1, page 12, footnote 26.

London Economics cites a June 30, 2014 *Rate Design Presentation* in the context of setting efficient rates while promoting the expansion of the natural gas distribution network.

(a) Please file a copy of the presentation.

(b) Please explain the context of this presentation (who gave it, to whom, and why).

10. **Reference:** Exhibit A, Tab 1, Schedule 1, page 14, Figure 4.

Please redo the cited table on the basis that the benefits arising from currently uneconomic expansions of gas service to new communities are economic, environmental and social equality benefits which accrue to Ontarians at large, and this is the primary purpose of the expansions and the incurrence of the expansion costs.

11. **Reference:** Exhibit A, Tab 1, Schedule 1, page 14.

The evidence asserts that recovering expansion costs exclusively from new customers would result in *"exorbitantly high rates".*

(a) Please provide the rate levels that London Economics has concluded would be *"exorbitantly high".*

(b) What energy costs/rates has London Economics considered in comparison to those which it asserts would be *"exorbitantly high"?*

12. **Reference:** Exhibit A, Tab 1, Schedule 1, page 17.

The evidence states:

By spreading the rate increase across its customer base, a utility can minimize the cost impact to any one customer, while ensuring rates are fair and equitable, and earning an appropriate return on investment.

(a) Please explain what London Economics means by the phrase *"fair and equitable"* in the foregoing passage.

(b) Please explain how London Economics has determined that cross-subsidization of otherwise uneconomic gas expansions by Union's existing customers' results in rates which are *"fair and equitable".*

13. **Reference:** Exhibit A. Tab 1, Schedule 1, Figure 7.

(a) In the cited figure, London Economics asserts that funding expansions from rates paid by new (expansion) customers is *"[i]nconsistent with the goal of public policy mandates such as the LTEP and the Green Energy Act".*

Please explain this assertion. In so doing, please identify the specific goals considered, and the particular inconsistencies of such a funding mechanism with those goals.

(b) In the cited figure, London Economics asserts that funding expansions through taxes has the disadvantage that *"the inherent nature of a tax is to potentially distort individual behavior".*

Please explain what particular behaviour would potentially be distorted were currently uneconomic gas distribution system expansions to be funded through tax revenues.

14. **Reference:** *Expert Evidence of Adonis Yatchew, Charles River Associates Inc.*, March 21, 2016, on behalf of EPCOR Utilities Inc., paragraph 22.

The evidence cites refers to a successful proposal by Summit Natural Gas of Maine (SNG) to extend gas service to previously unserved areas in that state. The evidence indicates that SNG's business strategy included:

> *…innovative approaches to pricing including accepting a rate of return that is below industry standards for the initials years of the tariff plan, offering pricing structures that include up-front financial incentives to help defray the costs of converting to natural gas and offering "on bill" loans to help bridge the gap between upfront costs of conversion and eventual savings from switching to a cheaper fuel source.*

Please indicate whether Union has considered any of these mechanisms, or any similar customer incentive mechanisms, to facilitate expansion of its distribution system to unserved communities. If it has, please detail those considerations. If it has not, why not?

15. **Reference:** *Comments on Economic Issues Raised in EB-2016-0004*, filed on behalf of Parkland Fuel, paragraph 1.8.

In their evidence, Mr. Dasgupta and Dr. Nieberding discuss the load forecast risk associated with gas system expansions.

(a) Is Union willing to assume the load forecast risk associated with its expansion program?

(b) If not, how does Union propose to allocate that risk?

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