EB-2016-0004

INTERROGATORIES FOR UNION GAS LIMITED

FROM THE CONSUMERS COUNCIL OF CANADA

CCC Interrogatory 1

Reference: General

Please specify whether any of the submitted material is intended to be accepted as expert evidence; if so, please specify precisely which assertions within the submitted material are intended to be expert opinions and identify the relevant expert.

CCC Interrogatory 2

Reference: Ex. A/T1/p. 5

If Union was directed to implement a mechanism whereby its customers were required to subsidize the expansion of natural gas undertaken by another distributor how would Union propose that mechanism be designed and administered?

CCC Interrogatory 3

Reference: Ex. A/T1/p. 8

Preamble: Even if the Board is unable to accept the concept that a limited level of cross subsidization from existing to new customers is in the public interest, enabling lowered individual project threshold PI's to below 0.8 is appropriate. The rationale for this is that Union's recent Rolling Project Portfolio history has resulted in a positive NPV averaging $14.6 million[4] 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 from existing customers.

a) Please confirm that in the scenario outlined above, although there is no apparent subsidization by existing customers in favour of new customers, there remains a subsidy flowing from new customers connecting to a project that has a PI above 1.0 in favour of new customers connecting to a project that has a PI below 1.0.

b) Please provide an analysis illustrating how the change proposed in the scenario above would permit Union to complete some of the projects in Ex. A/T1 Appendix D of EB-2015-0179, including an assessment as to how many of the 103 listed projects would become feasible by allowing projects to go below an individual PI of .8 without compromising the existing Rolling Project Portfolio PI requirements. In doing the analysis please assume that both TES and ITE revenue is available for 10 years. Please also comment on the pace of the completion of the projects that would result from allowing the use of "surplus" NPV to offset the cost of projects below a PI of .8.

CCC Interrogatory 4

Reference: Ex. A/T1/ p. 9

Preamble: "In future facilities applications Union is directed to… file an estimate of the costs of any reinforcement of existing lines that may be necessary as a result of the specific application, and an assessment of the impact of these costs on the economics of the project;…"

a) Please confirm that Union is only asking that the Board explicitly include in any new or Revised Guidelines the already existing practice of including reinforcement costs in the economic evaluation of proposed projects, and is not proposing a change to Union's actual practice in this regard since 1997. If Union is asking for approval of a new practice going forward, please explain and quantify the impact of that new practice on the economics set out in Ex. A/T1 Appendix D of EB-2015-0179.

CCC Interrogatory 5

Reference: Ex. A/T1/p. 13

Preamble: Although Union continues to prefer to apply postage stamp ratemaking principles as noted in its response to Issue 5, existing utilities should not be prevented from resorting to community or project specific rates to make projects feasible.

a) Please explain how community or project specific rates would be determined? For example, is it the case that in order to propose a project specific rate, Union would have to perform a full allocation study to re-allocate existing costs and allocated proposed new costs to existing and newly proposed customers?

CCC Interrogatory 6

Reference: Ex. A/T1/ p. 13

Preamble: For this reason, Union proposes that a maximum 40-year term be used for heat and water heating load for commercial and industrial customers.

a) Does Union believe that the proposed maximum 40-year term for heat and water heating load for commercial and industrial customers will have a material effect on the economic evaluation of any of the 103 projects listed in Ex. A/T1 Appendix D of EB-2015-0179? If so please recalculate the natural PI for any of the 103 projects where Union believes the impact of the proposed change is material.

CCC Interrogatory 7

Reference: Ex. A/T1/p. 14

Preamble: Union proposes the maximum customer forecast period be extended from 10 to 25 years.

a) Does Union believe that the proposed customer forecast period extension from 10 to 25 years will have a material effect on the economic evaluation of any of the 103 projects listed in Ex. A/T1 Appendix D of EB-2015-0179? If so please recalculate the natural PI for any of the 103 projects where Union believes the impact of the proposed change is material.

b) Does Union include forecasts for interruptible service revenue in its economic evaluations? If not why not? If not are there projects listed in Ex. A/T1 Appendix D of EB-2015-0179 for which the forecast revenue from interruptible service is material, and if so please recalculate the natural PI for any of the 103 projects where Union believes there will be material revenue from interruptible service.

c) For each of the 103 community expansion projects, how would Union prioritize which projects to proceed with first?

CCC Interrogatory 8

Reference: Ex. A/T1/p. 19-20

Preamble: Union proposes that in cases where a community expansion project or collection of projects is not economically feasible, as demonstrated by a PI of 1.0 or better in a Stage 1 DCF analysis, public interest factors should be considered in assessing whether to proceed with the projects. However, Union submits that a further assessment of the impacts of not proceeding with a project should not be required. An assessment of not proceeding would be broader and much more complex than an assessment of the impacts of proceeding, as it would require a public policy view that would be very difficult for project proponents to quantify or assess. For example, an assumption on potential negative impacts on the community if businesses elect to move to other communities because of high energy costs would be required. Union does not believe this additional perspective would be of meaningful assistance to the Board in evaluating project applications.

a) Does Union agree that economic impact of allowing a project with a PI less then 1.0 to proceed is to, assuming no contributions in aid of construction or approved supplemental charges (i.e. the proposed ITE and TES charges) that bring the effective PI up to or above 1.0, approve a subsidy from existing customers to the benefit of new customers? If not why not?

b) Assuming Union agrees with the proposition in part a), does Union agree that the proposed public interest factors to be considered should be limited to the public interest of the existing customers that are required to fund the subsidy for the proposed new customers? If not why not?

CCC Interrogatory 9

Reference: Ex. A/T1/p. 21

Preamble: E.B.O. 134, which provides guidelines for assessment of natural gas transmission projects, provided for use of further economic assessment to enable understanding of the public benefits of expansion. This assessment takes the form of both a Stage 2 and Stage 3 DCF analysis, as outlined in Union's proposal, which also provides the results of a Stage 2 assessment. This type of analysis was not deemed necessary for distribution projects in E.B.O. 188, since the Guidelines include minimum portfolio PI's of 1.0 or greater, which supported the intent of ensuring that existing ratepayers were held harmless from the cost of expansion to new customers.

a) Please provide the basis for the assertion that "This type of analysis was not deemed necessary for distribution projects in E.B.O. 188, since the Guidelines include minimum portfolio PI's of 1.0 or greater, which supported the intent of ensuring that existing ratepayers were held harmless from the cost of expansion to new customers." Please provide any other references known to Union that explain why the Stage 2 and Stage 3 DCF analyses were included as part of E.B.O. 134 and omitted from E.B.O. 188.

CCC Interrogatory 10

Reference: Ex. A/T1/p. 24

It is Union's position that it should be permitted to recover the revenue requirement associated with community expansion costs in rates that are outside of the approved incentive ratemaking framework. Please point to the provisions of the Settlement Agreement that would allow for such recovery.

CCC Interrogatory 11

Reference: Ex. A/T1/p. 22

In its EB.2015-0179 Application Union proposed the introduction of a municipal contribution mechanism known as the Incremental Tax Equivalent (ITE). The ITE value is based on the estimated value of the incremental property taxes collected from Union as a result of the project for a period of time that matches the Temporary Expansion Surcharge. Why wouldn't Union seek to maximize the amount of the municipal contribution? Why is its proposal the optimum approach?

CCC Interrogatory 12

Reference: Ex. A/T1/p. 38

Please provide copies of all correspondence between Union and the relevant Ministries (Economic Development, Employment and Infrastructure, Energy and Agriculture) regarding the Province's proposed natural gas expansion loan and grant program. When does Union expect the details of these programs to be defined?

Reference: Ex. A/T1/ S1/p. 18 (London Economics)

Preamble: Internal cross-subsidization has been applied in other jurisdictions including Ohio, Nebraska and North Carolina. In 2014, Ohio passed a bill permitting natural gas companies to apply infrastructure development riders to recover costs of gas distribution expansion projects that could be applied to all customers of the natural gas utility. In 2012, Nebraska passed legislation allowing utilities to apply a rural infrastructure surcharge to customers within an expansion area and to a broader set of utility customers as well. In North Carolina, the 1991 Natural Gas Expansion/Cost Act specified that distribution expansion surcharges apply to all customers of the Local Distribution Company ("LDC") that was carrying out the expansion.

a) Please confirm that the cited examples of internal cross-subsidization are based on enabling legislative provisions. Please provide any known examples of a regulator creating an explicit cross subsidy between existing customers and new customers without grounding that subsidy in legislation that explicitly provided for internal cross-subsidization; to the extent any such examples exist, please provide a cite for the regulator's authority to create such a subsidy.

CCC Interrogatory 13

Reference: Ex. A/ T1/ S1/p. 22 (London Economics)

Preamble: The application was made by NYSEG who petitioned the NYPSC seeking to expand their service offering to the remaining areas in the Town of Plattsburgh. The proceeding went on for two years before a decision was reached on July 29, 2014 that would allow NYSEG to expand to the remaining areas of Plattsburgh and recover the costs of expansion over a ten-year development period as opposed to the traditional five. In its decision the NYPSC commented that "a ten-year development period is appropriate in this case given the current price of natural gas as compared to alternative fuels and the density of potential customers in the economic footprint. Further, a ten-year period will reduce monthly billing impacts for customers." NYSEG would recover the costs of expansion from all connecting customers in the approved area (both existing and new customers) using a uniform surcharge of 9.95 cents per cubic meter of natural gas.

a) With respect to the cited decision of the NYPSC (Case 12-G-0499), please provide the precise cite for the assertion that a uniform surcharge of 9.95 cents per cubic meter of natural gas was levied on all connecting customers in the approved area (both existing and new customers). (CCC has reviewed the cited decision and can only find reference to a Contribution in Aid of Construction surcharge of $0.282 per therm to be charged only to new customers in new expansion areas.)

b) Please discuss the differences and similarities between the Board's E.B.O. 188 Requirements and the requirements imposed by the NYPSC's 1989 Policy Statement, specifically the difference between using PI thresholds as opposed to Development Periods.

c) Please provide analysis as to which of the projects listed in Ex. A/T1 Appendix D of EB-2015-0179 would become feasible if the NYPSC's 1989 Policy Statement was applied as the appropriate threshold, using the extended 10 Year Development Period approved in Case 12-G-0499. For projects that do not become feasible using a 10 Year Development Period, please provide the Development Period that would have to be approved in order to meet the requirement of the 1989 Policy Statement that the project earn or exceed the full allowed rate of return in the last year of the Development Period.

CCC Interrogatory 14

Reference: Ex. A/T1/S1/p. 32 (London Economics)

Preamble: The Telecommunications Act of 1993 describes the federal government's policy objective, among others, to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas, in all regions of Canada.

a) Please provide citations for any similarly broad federal or (Ontario) provincial policy objective imposed on the OEB with respect to the rendering of affordable natural gas service of high quality to Canadians in both urban and rural areas in all regions of Canada and/or Ontario.