

EB-2016-0004

Ontario Energy Board

**IN THE MATTER OF GENERIC PROCEEDING
ON NATURAL GAS EXPANSION IN
COMMUNITIES THAT ARE NOT SERVED**

**VULNERABLE ENERGY CONSUMERS COALITION
("VECC")
CROSS-EXAMINATION COMPENDIUM**

UNION GAS

May 11, 2016

TAB 1

1 the regulated service that it provides, such rates would not be in accordance with the just
2 and reasonable standard.

3
4 2. Imposing a charge on Union's customers for purposes of subsidizing another utility's
5 cost of service would be contrary to the established ratemaking principle of "benefits
6 follow cost". Union's customers would be incurring costs without receiving any
7 corresponding benefits. On the flip side, another utility's customers would be receiving a
8 benefit without incurring any corresponding costs. To establish rates on this basis would
9 not be consistent with the just and reasonable standard. This would be comparable to
10 having Union's customers pay more to subsidize an industrial customer's cost of labour. It
11 is unrelated to any aspect of the service to Union's customers.

12
13 3. Subsidization would also be contrary to the standalone principle of ratemaking, which
14 holds that only those costs and risks that pertain to the activities of a regulated utility in
15 respect of the provision of service to ratepayers should be reflected in the revenue
16 requirement of that utility. To charge a subsidy would be to include in Union's revenue
17 requirement costs that are unrelated to the activities of the regulated utility. Alternatively,
18 it would mean that amounts would be included in rates that are in addition to Union's
19 revenue requirement. This too would be contrary to the just and reasonable standard.

1 4. It would also be contrary to the just and reasonable standard if another utility was
2 permitted, through the rates it charges to its own customers, to earn a return on the portion
3 of its rate base that, if subsidization is permitted, would effectively have been paid for by
4 Union's ratepayers. In effect, the subsidy would be subsidizing the return of the other
5 utility and, if the subsidy were to occur, the other utility should have corresponding
6 reduction in rate base or return.

7

8 **3. Issue**

9 *Based on a premise that the OEB has the legal authority described in Issue #1, what are*
10 *the merits of this approach? How should these contributions be treated for ratemaking*
11 *purposes?*

12

13 As stated in response to Issue 2, Union does not accept the premise that the Board has the
14 legal authority to establish a framework whereby the customers of one utility subsidize the
15 expansion undertaken by another. Union sees no merit in this approach. In response to
16 EB-2015-0179, Exhibit B.Staff.2 b) Union said it would be "inappropriate" for start-up
17 utilities to be financed by existing utility ratepayers.

18

19 **4. Issue**

20 *Should the OEB consider exemptions or changes in the EBO 188 Guidelines for rural,*
21 *remote and First Nation community expansion projects?*

TAB 2

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada (“CCC”)

Reference: Exhibit A, Tab 1, 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 million₄ 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.

Response:

- a) Confirmed.
- b) The number of projects that become feasible would depend on the minimum Project PI that could be applied. Regardless, the number of projects undertaken would remain limited by Union's Investment Portfolio and Rolling Project Portfolio PI's. In EB-2015-0179 at Exhibit B.LPMA.5 b), Union provides the estimated impact on the Investment Portfolio of proceeding with the first 4 Projects identified. The Union South Investment Portfolio, when the three projects in Union South are applied, drops below the minimum PI of 1.1 (PI plus a safety factor) required by E.B.O. 188. Based on this very few projects could proceed each year. As a result fewer than the 3 proposed projects could proceed in one year. The Rolling Project

Portfolio would appear to be able to withstand additional projects beyond what the Investment Portfolio could support, as noted in the first table (“As Filed”) in EB-2015-0179 at Exhibit B.LPMA.5 Attachment 1.

Consequently the result of the approach would be to stretch any Community Expansion program over a much longer time period, potentially many years.

TAB 3

+UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association, Greater Toronto (“BOMA”)

Reference: p. 20, Paragraph 58

In community expansion projects in the past ten years, please provide a comparison of Union's forecast and actual costs of expansion programs, together with the actual versus forecast conversions for the ten year period, with reference to OEB case numbers in cases where leave-to-construct was required.

Response:

Union has completed one significant Community Expansion Project in the most recent 10 years, the project to serve Red Lake (EB-2011-0040). Attachment information for that project is provided in EB-2015-0179 at Exhibit B.Staff.14. Estimated and actual costs as filed with the Board April 22, 2014 for Phase 2 of the Red Lake Project are provided in Attachment 1. The most significant variation in proposed verses actual costs can be found in the construction of plastic mains. Additional rock excavation and changes in the scope of the project resulted in these additional costs.

In EB-2015-0179 at Exhibit B.Staff.12, Union provides conversion results for the following projects:

- Pt. Elgin/Southampton/Wiarton (E.B.L.O. 259), in service 1998
- Wingham (E.B.L.O. 253) in service 1996
- Parry Sound (E.B.L.O. 270), in service 1999
- Clifford/Mildmay/Formosa (E.B.A. 883, 884, 995), in service 1999

TAB 4

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association, Greater Toronto (“BOMA”)

Reference: pp. 26-28

Why does Union think that the Board should become more heavily engaged in an RFP process to choose a new supplier for an unserved community? If so, please explain the process Union would envisage.

Response:

Any RFI or RFP process should not usurpt the Board’s authority to set rates.

The Board should be engaged in any RFI or RFP process because the Board has the sole jurisdiction to grant Franchises, Certificates of Public Convenience and Necessity (CPCN), and Leave-to-Construct approval. In the absence of Board involvement, a municipality could conduct an RFI or RFP process only to discover that after the process has been completed and the selected project proponent applies for Leave-to-Construct approval from the Board, it could be denied or granted with conditions that the proponent could not or is not willing to meet.

At a minimum the Board’s engagement should include setting specific parameters that the municipality should address in its evaluation of RFI or RFP responses. These parameters would include an assessment of the factors that Union has identified in its response to Issue 8 at Exhibit A, Tab 1, pp. 25-30. Since a primary component of the Board’s mandate is setting just and reasonable rates, the rates that will be charged to customers in new communities should be a key factor in the assessment of RFI’s or RFP’s.

TAB 5

1 *Franchise Agreements and Certificates of Public Convenience and Necessity to reduce*
2 *barriers to natural gas expansion?*

3
4 Union does not support a need for changes to Municipal Franchise Agreements or
5 Certificates of Public Convenience and Necessity (“Certificates”). However, Union
6 proposes that the Board consider several issues in making decisions to award either of the
7 aforesaid approvals to an LDC.

8
9 The current Model Franchise Agreement was developed in 2000 through an extensive
10 Board hearing process, and the decision from that proceeding was the result of extensive
11 negotiation and compromise spanning the municipalities and the gas utilities. Union does
12 not believe that the current Model Franchise Agreement imposes any specific barriers to
13 expansion. Making any modifications to the current Model Franchise Agreement would in
14 all likelihood be an extensive process, and Union does not support a need for review of or
15 change to existing agreements. Further to this, Union proposes that the current Model
16 Franchise Agreement continue to be adopted by all parties across the Province, as opposed
17 to allowing broad variations in Franchise Agreements to begin to occur. Any variations
18 from the current Model Franchise Agreement should be discouraged. If changes are to be
19 made, they should be reviewed and scrutinized by the Board in an open and public hearing
20 process prior to approval.

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TAB 6

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association, Greater Toronto (“BOMA”)

Reference: General

- a) What are the "contingencies" built into the cost estimates for each of the twenty-nine projects in both dollar and percentage terms? By how much is the contingency amount for each of the projects expected to be reduced, once (i) detailed design; and (ii) tendering for each of the projects has been completed? What impact would that have on the weighted average "natural P/I" for the twenty-nine projects?
- b) Will the contracts for the work be on a fixed price basis? If not, on what basis?
- c) What is the forecast average cost per home of connecting Union's 18,000 homes (twenty-nine communities)?

Response:

- a) Union has completed detailed cost estimates for the four projects filed in EB-2015-0179 as well as project 29 – Kincardine, Tiverton, Paisley, Chesley and project 54 – Ripley and Lucknow (see Exhibit A, Tab 1, Appendix D Updated). The contingencies for those projects are as follows:
 - a. Milverton - \$188,412, 5%
 - b. Prince Township, Sault Ste. Marie - \$96,530, 5%
 - c. Lambton Shores, Kettle and Stony Point First Nations - \$91,709, 5%
 - d. Delaware Nation of Moraviantown - \$38,744, 10%
 - e. Kincardine, Tiverton, Paisley, Chesley - \$5,498,721, 10%
 - f. Ripley, Lucknow – \$1,931,335, 10%

For the remaining 24 projects, high level cost estimates were developed. The contingency amounts within the estimated costs are approximately 25%. It is expected that the contingency amount will reduce for each project once detailed designs are completed. Absent an increase in other capital costs related to the project, the “natural P/I” would increase.

- b) Union has Alliance contracts in place for the completion of work related to the construction of distribution facilities. Union will utilize these Alliance contracts for the construction of its proposed community expansion projects. The work will be executed on a time and material basis.
- c) The forecasted average cost per home based on a capital spend of \$135 million over 18,000 homes is \$7,500