

November 24, 2016

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

**RE: EB-2016-0334 – Union Gas Limited – November Estimate of January 2017 QRAM**

Dear Ms. Walli:

The purpose of this letter is to inform the Ontario Energy Board (“Board”) of the estimated change in the commodity portion of an average residential sales service customer’s bill that is expected when Union Gas Limited (“Union”) files its January 1, 2017 Quarterly Rate Adjustment Mechanism (“QRAM”) application. As described in more detail below, Union expects that the gas commodity portion of the bill will increase by more than 25%. This letter also describes Union’s proposed customer communication regarding the January 1, 2017 bill impacts.

In its QRAM Review Decision (EB-2014-0199), dated August 14, 2014, the Board determined that it:

*“will require Enbridge, NRG and Union, one month in advance of the normal QRAM filing date, to complete a preliminary estimate of the change in the commodity portion of a typical residential system supply customer’s bill that arises from the forecasted reference price (based on the most current 21-day strip available at the time) for the next quarter and the forecasted PGVA balances to be cleared. A gas distributor that anticipates an increase or decrease of 25% or more on the commodity portion of a typical residential system supply customer’s bill (which includes all commodity related rate riders) must file a letter with the Board describing the anticipated increase or decrease and the cost drivers underpinning the anticipated change. The letter must include information regarding the 21-day strip used and the forecasted PGVA balances that the distributor expects to clear.”* (pp. 4-5)

In accordance with the Decision, Union prepared a November 2016 estimate of the January 2017 QRAM impacts on the commodity portion of an average residential sales service customer’s bill. Based on its November 2016 estimate, Union forecasts that the commodity-related bill increase for an average residential customer in Union South will be approximately 59% and the commodity-related bill increase for an average residential customer in Union North East will be approximately 47% to 49% (depending on the zone of the customer prior to the change to the Union North East Zone). Union is not forecasting a commodity-related bill impact increase or decrease greater than 25% for residential customers in Union North West.

The forecasted commodity-related bill increases for Union South and Union North East customers are the result of the change from an Alberta Border Reference Price to a Dawn Reference Price at January 1, 2017, per Union's Dawn Reference Price Settlement Agreement ("Dawn Reference Price Settlement") in EB-2015-0181. The Union South gas commodity rates are also increasing as a result of an increase to the deferral balance in the Union South gas commodity deferral accounts.

The Union South and Union North East gas commodity bill increases are partly offset by decreases in the other components of the bill implemented as part of the Dawn Reference Price Settlement, such as changes to the storage and transportation charges. When other components of the bill are included, the net total bill impact for both the Union South and Union North East is less than 10% related to changes from the Dawn Reference Price Settlement.

Further detail is described below.

#### Forecasted Reference Price Change

Effective January 1, 2017, the Union South and Union North East gas commodity rate will be based on a Dawn Reference Price rather than the Alberta Border Reference Price as approved in the Dawn Reference Price Settlement. The estimated Dawn Reference Price based on the current 21-day strip ending October 31, 2016 is \$4.352/GJ (16.8901 cents/m<sup>3</sup>). This represents an increase of \$1.540 /GJ (5.9767 cents/m<sup>3</sup>) or approximately 55%, as compared to the October 2016 QRAM (EB-2016-0247) Alberta Border Reference Price of \$2.812/GJ (10.9134 cents/m<sup>3</sup>). The change in the reference price for the commodity rate results in an annual bill increase of approximately \$131 for the average residential sales service customer in Union South and Union North East.

#### Gas Commodity-related Deferral Accounts

The gas commodity-related deferral accounts are impacted by both cost variances related to the true-up of forecast to actual deferral balances and recovery variances representing the true-up of forecast recoveries to actual recoveries. The deferral account balances are disposed of prospectively through price adjustments. The bill impact of the gas commodity-related price adjustments for an average residential sales service customer in Union South is an increase of \$23. The bill impact of the gas commodity-related price adjustments for an average residential sales service customer in the Union North East is a net decrease of \$18.

Please see Attachment 1 for the estimated gas commodity-related deferral account balances and the estimated price adjustment rate change for Union South and Union North East effective January 1, 2017.

#### Bill Impacts Including Other Dawn Reference Price Settlement Impacts

##### *Union South*

As the Dawn Reference Price reflects a landed commodity cost at Dawn and will be used to set the Union South gas commodity rate, there is no longer a separate transportation charge for Union South customers. Consequently, the increase of \$131 related to the gas commodity rate and the increase of \$23 related to the gas commodity-related deferral accounts is partly offset by a \$99 decrease in the Union South transportation rate, which will be set to zero at January 1, 2017, and a \$10 decrease related to upstream compressor fuel costs, per the Dawn Reference Price Settlement. Union estimates that the net Union South total bill impact associated with gas commodity and gas transportation changes related to the Dawn Reference Price Settlement is an increase of \$45, or approximately 7%.

Please see Attachment 2 for a summary of the overall estimated Union South gas commodity and transportation bill impacts associated with the January 1, 2017 QRAM projection and changes related to the Dawn Reference Price Settlement.

### *Union North East*

The increase of \$131 related to the gas commodity rate is partly offset by the forecast net decrease of \$18 to the Union North East gas commodity-related deferral accounts and a decrease of \$8 to \$10 related to the change in recovery of upstream transportation fuel. Per the Dawn Reference Price Settlement, Union is recovering upstream transportation fuel costs in Union North storage and transportation rates and is no longer recovering the upstream transportation fuel in Union North gas commodity rates. The change to the Union North storage and transportation rates was filed as part of Union's 2017 Rates application ("2017 Rates") in EB-2016-0245.

The overall estimated gas commodity-related bill impact associated with the factors described above is a net annual increase of approximately \$103 to \$105 for the average residential sales service customer in Union North East. This represents a 47% to 49% increase to the current approved gas commodity portion of the bill.

The increase to the gas commodity portion of the bill for Union North East sales service customers is partly offset by the corresponding gas supply plan portfolio changes, as filed in 2017 Rates. In 2017 Rates, Union implemented storage and transportation cost allocation and rate design changes based on the gas supply plan for the calendar year 2017, which reflected the gas supply plan changes to serve Union North East from Dawn. These changes resulted in bill decreases of \$23 to \$62. Including the changes to the gas commodity, storage and transportation portion of the bill associated with the Dawn Reference Price Settlement, Union has estimated that the net total Union North East bill impact is an increase of \$42 to \$82, or approximately 4% to 9%.

Please see Attachment 3 for a summary of the overall estimated Union North East gas commodity, storage and transportation bill impacts associated with the January 1, 2017 QRAM projection and changes related to the Dawn Reference Price Settlement.

### Customer Communication

In its EB-2014-0199 Decision, the Board determined that it:

*"is of the view that additional information and education for customers would be beneficial, as well as earlier notification of a pending large increase. If an increase greater than 25% is anticipated on the commodity portion of a typical residential system supply customer's bill (which includes all commodity related rate riders), the distributor must use best efforts to ensure that its customers are made aware of the proposed price change through, for example, the issuance of a press release describing the anticipated increase, based on the preliminary estimate, and the cost drivers for it." (p. 5)*

Union has developed a customer communication plan to address the rate and service area changes effective January 1, 2017 which includes customer communication of changes resulting from the Dawn Reference Price Settlement as well as other 2017 Rates changes and the introduction of cap-and-trade charges to customers' bills. The plan will continue to evolve as necessary as the rate changes are implemented.

Union will communicate the service area and rate changes to the general service customers using the following methods:

- January 2017 rate inserts – “transition” inserts have been designed for January 2017 which will include rate change information and both the former rate zone and new rate zone identifiers for customers that will see a change in their service areas.
- Customer newsletter inserts – rate change and service area change information will be provided in both the residential InTouch and small business Energy link newsletter inserts in January 2017.
- Social media – mid-December updates regarding rate changes for January 1, 2017.
- Uniongas.com – current and historical rates will be posted on the Union website, as well as, FAQ’s for both residential and small business customers.
- IVR messaging – customers will hear a message about change rates and service areas when they call Union’s contact centres in January 2017.
- Call Centre – Union customer representatives provide ongoing support to customers through the year and are available to discuss rate changes and answer individual questions as required.

Union will file its January 1, 2017 QRAM application on December 9, 2016.

If you have any questions with respect to this submission please contact me at 519-436-5334.

Yours truly,

*[Original signed by]*

Vanessa Innis  
Manager, Regulatory Applications

c.c.: EB-2016-0245 Intervenors

UNION GAS LIMITED  
Gas Commodity and Transportation Deferrals  
Calculation of Estimated January 2017 Price Adjustments

Line No.	Particulars	Account Balances (\$000's)			Disposition Volume (10 <sup>3</sup> m <sup>3</sup> ) (d)	Price Adjustment (cents/m <sup>3</sup> )		
		Cost Variances (a)	Recovery Variances (b)	Total Change (c) = (a + b)		Proposed January 2017 (e) = (d / c)	Expiring January 2016 (f)	Total Change (g) = (e - f)
<u>Union South</u>								
1	South Purchase Gas Variance Account:	10,407	(400)	10,007	3,415,230	0.2930	(0.5742)	0.8672
2	Inventory Revaluation	27,472	471	27,943	4,493,785	0.6218	0.4568	0.1650
3	Total Union South	<u>37,879</u>	<u>71</u>	<u>37,950</u>		<u>0.9148</u>	<u>(0.1174)</u>	<u>1.0322</u>
<u>Union North East</u>								
<u>Gas Commodity</u>								
4	North Purchase Gas Variance Account	(3,890)	(382)	(4,273)	1,078,555	(0.3961)	0.0115	(0.4076)
5	Inventory Revaluation	27,472	471	27,943	4,493,785	0.6218	0.4568	0.1650
6	Spot Gas	(1)	(8)	(8)	1,078,555	(0.0008)	(0.0092)	0.0084
7	North Fuel	(504)	(9)	(513)	1,078,555	(0.0476)	(0.0186)	(0.0290)
8	Union North East Purchase Gas Variance Account	(4,298)	-	(4,298)	771,926	(0.5568)	-	(0.5568)
9	Total Commodity	<u>18,779</u>	<u>72</u>	<u>18,850</u>		<u>(0.3795)</u>	<u>0.4405</u>	<u>(0.8200)</u>
<u>Gas Transportation</u>								
10	North Tolls	(226)	(99)	(325)	1,440,001	(0.0226)	(0.3512)	0.3286
11	Load Balancing	0	(1)	(1)	976,292	(0.0001)	0.0002	(0.0003)
12	North East Tolls and Fuel Account	(88)	-	(88)	1,042,686	(0.0085)	-	(0.0085)
13	Total Transportation	<u>(314)</u>	<u>(100)</u>	<u>(414)</u>		<u>(0.0312)</u>	<u>(0.3510)</u>	<u>0.3198</u>

UNION GAS LIMITED

Rate M1 Bill Impacts for an Average Residential Customer with Annual Consumption of 2,200 m<sup>3</sup>  
at January 1, 2017 based on Dawn Reference Price Settlement and the November 1, 2016 QRAM Projection

Line No.	Particulars	Unit Rate Change (cents/m <sup>3</sup> )	Bill Impact (\$)
	Commodity Rate		
1	Reference Price	5.9767	131.49
2	Compressor Fuel	(0.4662)	(10.26)
3	Gas Supply Optimization Margin Credit	(0.2824)	(6.21)
4	Total Commodity Rate	<u>5.2281</u>	<u>115.02</u>
5	Price Adjustment - Commodity (1)	<u>1.0322</u>	<u>22.71</u>
6	Total Gas Commodity Changes	<u>6.2603</u>	<u>137.73</u>
	Transportation Rate		
7	Transportation Rate Excluding Gas Supply Optimization Margin Credit	(4.4855)	(98.66)
8	Gas Supply Optimization Margin Credit	0.2824	6.21
9	Total Transportation Rate (2)	<u>(4.2031)</u>	<u>(92.45)</u>
10	Total (line 6 + line 9) (5)	<u><u>6.2603</u></u>	<u><u>45.28</u></u>
11	Total Commodity Bill at October 2016 QRAM (3)		235.35
12	% Commodity Bill Change (line 6 / line 11)		59%
13	Total Bill at October 2016 QRAM (4)		681.02
14	% Bill Change (line 10 / line 13)		7%

Notes:

- (1) Attachment 1, line 3, column (g).
- (2) Union South transportation rate impact, per EB-2016-0247, Tab 2, Schedule 1, p. 1, column (c), line 11, set to zero.
- (3) EB-2016-0247, Tab 2, Schedule 5, p. 1, column (b), line 9.
- (4) EB-2016-0247, Tab 2, Schedule 5, p. 1, column (b), line 11.
- (5) Total bill impacts reflect only impacts related to the January 1, 2017 QRAM and the Dawn Reference Price Settlement. Total bill impacts do not include other impacts effective January 1, 2017 for 2017 Rates and Cap and Trade.

UNION GAS LIMITED

Union North East Rate 01 Bill Impacts for an Average Residential Customer with Annual Consumption of 2,200 m<sup>3</sup>  
at January 1, 2017 based Dawn Reference Price Settlement and on the November 1, 2016 QRAM Projection

Line No.	Particulars	Previously Northern Zone		Previously Eastern Zone	
		Unit Rate Change (cents/m <sup>3</sup> )	Bill Impact (\$)	Unit Rate Change (cents/m <sup>3</sup> )	Bill Impact (\$)
	Commodity Rate				
1	Reference Price	5.9767	131.49	5.9767	131.49
2	Compressor Fuel	(0.3761)	(8.27)	(0.4764)	(10.48)
3	Total Commodity Rate	5.6006	123.21	5.5003	121.01
4	Price Adjustment - Commodity (1)	(0.8200)	(18.04)	(0.8200)	(18.04)
5	Total Gas Commodity Changes	4.7806	105.17	4.6803	102.97
6	Transportation Rate (2)	(3.5307)	(77.68)	(4.7998)	(105.60)
7	Storage Rate (2)	2.1440	47.17	1.6788	36.93
8	Price Adjustment - Transportation (1)	0.3198	7.03	0.3198	7.03
9	Total Transportation and Storage	(1.0669)	(23.48)	(2.8012)	(61.63)
10	Total (line 5 + line 9) (5)	3.7137	81.70	1.8791	41.33
11	Total Commodity Bill at October 2016 QRAM (3)		215.35		217.59
12	% Commodity Bill Change (line 5 / line 11)		49%		47%
13	Total Bill at October 2016 QRAM (4)		887.17		928.56
14	% Bill Change (line 10 / line 13)		9%		4%

Notes:

- (1) Attachment 1, line 9, column (g).
- (2) Storage and Transportation Rates represent the portion of the proposed 2017 Rates related to the Union North storage and transportation changes, per the Dawn Reference Price Settlement (EB-2015-0181).
- (3) EB-2016-0247, Tab 2, Schedule 5, p. 3, line 11.
- (4) EB-2016-0247, Tab 2, Schedule 5, p. 3, line 13.
- (5) Total bill impacts reflect only impacts related to the January 1, 2017 QRAM and the Dawn Reference Price Settlement. Total bill impacts do not include other impacts effective January 1, 2017 for 2017 Rates and Cap and Trade.