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Reply to the Attention of Mike Richmond
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Our File No. 231915
Date May 9, 2017

RESS AND DELIVERED BY COURIER

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Attention: Kristen Walli
Board Secretary
boardsec@ontarioenergyboard.ca

Dear Ms. Walli:

Re: EB-2015-0179 (Phase II)
Union Gas Limited Application for Community Expansion Projects
Interrogatories of Canadian Propane Association

Further to Procedural Order No. 7, please find attached the Interrogatories of the Canadian Propane Association.

Two paper copies will also be delivered to your attention.

Yours truly,

Michael Richmond

Mike Richmond

Attach.
cc by email: Parties of Record

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B, and in particular S. 36 thereof;

AND IN THE MATTER OF the Ontario Energy Board Act, 1998, c.15, Schedule B, and in particular, S. 90 thereof;

AND IN THE MATTER OF an Updated Application by Union Gas Limited for an Order or Orders for approval of Union's Distribution System Expansion Project proposals;

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities required to serve the communities of Milverton, Prince Township and, the Chippewas of Kettle and Stony Point First Nation and Lambton Shores.

INTERROGATORIES OF CANADIAN PROPANE ASSOCIATION TO UNION GAS LIMITED

All references in these interrogatories are to Union's Updated Application filed March 31, 2017, Exhibit A, unless otherwise stated.

CPA Question No. 1 – SUFFICIENCY OF RATE STABILITY TERM

References: Tab 1, Page 3 of 15, Table 1.

The CPA wishes to better understand whether and how the rates applied for and the duration of the rate stability period will place forecast risk for the rate stability period on the utility, in order to help the Board determine whether the rates applied for and the duration of the rate stability period are sufficient to fund the actual long-tem costs, and to help the Board confirm that forecast risk for the rate stability period in fact does rest with the utility.

Union asserts in Table 1 that "Customer forecast risk" rests with "Utility". We wish to better understand how this will be ensured.

(a) Does the phrase "Customer forecast risk" as used here and elsewhere in the Application, refer to:

(i) the risk that fewer customers connect than forecast?

(ii) the risk that customers connect later than forecast, resulting in a shorter effective SES Term for those customers?

(iii) the risk that, regardless of the number of connections, distributed gas volumes are lower than forecast?

(iv) the risk that customers who are forecasted to remain as customers for the duration of the SES Term disconnect before the end of the SES Term?

(v) all of the above?

(b) If the answer to (a) above is (i), (ii), (iii) or (iv) (but not "all of the above"), who will bear the risks of each of remaining scenarios described in (i), (ii), (iii) and (iv) above? Please describe the mechanism by which such at-risk entities or groups will fund the shortfalls associated with each such risk.

(c) What does Union mean by the reference to "Utility" as bearing the Customer forecast risk? Does this mean that:

(i) there will be a capital call from shareholders to pay for the unfunded capital expense?

(ii) Union Gas Limited will pay for the unfunded capital expense from revenues earned from its operations distributing gas to customers across Ontario?

(iii) the unfunded capital expense will be paid for from another source, in which case please describe such funding source.

(d) If the project revenues are lower than forecast (whether due to Customer forecast risk or otherwise, including because SES Term was too short), is it possible that any part of the shortfall might be:

(i) included in financial statements or projections included as part of any future M1/M2 rate application process *during the SES Term*, and therefore (if approved by the OEB) eventually funded in whole or in part by M1/M2 customers across the province?

(ii) included in financial statements or projections included as part of any future M1/M2 rate application process *after the SES Term*, and therefore (if approved by the OEB) eventually funded in whole or in part by M1/M2 customers across the province?

(iii) included in financial statements or projections included as part of any future application *during the SES Term* for a change to the SES amount, and therefore funded by M1/M2 rate application process during the SES Term, and therefore (if approved by the OEB) eventually funded in whole or in part by expansion customers?

(iv) included in financial statements or projections included as part of any future application *after the SES Term* for a change to the SES amount, and therefore funded by M1/M2 rate application process during the SES Term, and therefore (if approved by the OEB) eventually funded in whole or in part by expansion customers?

(v) included in financial statements or projections included as part of any future application to extend the SES Term, and therefore (if approved by the OEB) eventually funded in whole or in part by expansion customers?

(e) If the answer to any of the five sub-questions in (d)(i) to (d)(v) above is “No”, what assurance does the OEB have, or what assurance can Union provide to the OEB and customers, that the situation described in each such sub-question will never occur

(i) during the SES Term; nor

(ii) following the SES Term?

CPA Question No. 2 – EFFECT OF NO CAPITAL PASS THROUGH ON RATES AND RATE STABILITY TERM

Reference: Tab 1, Page 6 of 15, Lines 1-8

Union proposes that the capital investments for these projects no longer be subject to capital pass through treatment.

(a) Please describe the comparative impact

  i. on expansion customers, and
  ii. on all M1/M2 customers

  of capital pass through treatment for these projects *versus* non-capital pass through treatment for these projects. Without limiting the foregoing, please include in your response answers to the following questions:

(b) whether capital pass through treatment would require a higher SES or a longer SES Term, and
  i. if so, the extent of the difference;
  ii. if not, why not.

(c) whether not seeking capital pass through treatment means that any part of the capital costs of or capital investments in these projects could ever be included in financial statements or projections included as part of any future M1/M2 rate application process *during the SES Term* (including after the end of the 2014-18 IRM framework), and therefore (if approved by the OEB) eventually funded in whole or in part by M1/M2 customers across the province?

(d) whether not seeking capital pass through treatment means that any part of the capital costs of or capital investments in these projects could ever be included in financial statements or projections included as part of any future M1/M2 rate application process *after the SES Term* (being after the end of the 2014-18 IRM framework), and therefore (if approved by the OEB) eventually funded in whole or in part by M1/M2 customers across the province?

CPA Question No. 3– DISCLOSURE TO CUSTOMERS OF SES RATE AND SES TERM

Reference: Tab 1, Page 7 of 15, Lines 8-9

Union submits that the potential customers will be informed of the details of the SES as a project is developed, as well as at the time their application to Union for service is made.

(a) Will Union disclose details of the SES at other times, such as when Union is marketing the project in an effort to generate applications for service, or when potential customers are considering whether or not to apply for service? What is the form and content of Union's proposed disclosure?

(b) No mention is made in Union's Application of any disclosure with respect to the SES Term. Will Union also disclose details of the SES Term at each of the times listed in (a) above?

(c) What will Union disclose or market to potential customers about the Rate Stability Term, and in particular what will or may happen after the end of the Rate Stability Term, in order to ensure that potential customers have a complete and comprehensive understanding of the impact of the rate stability program?

(d) What will Union disclose or market to potential customers about the potential need to convert their equipment to natural gas-compatible equipment, the costs of such conversion, the responsibility for such costs, and any available mechanisms to levelize such costs throughout the rate stability period?

(e) What will Union disclose or market to potential customers about the potential need to install lateral gas lines across their properties to connect to the expansion project, the costs of such installation, the responsibility for such costs, and any available mechanisms to levelize such costs throughout the rate stability period?

CPA Question No. 4 – DURATION OF SES TERM

Reference: **Tab 1, Page 6 of 15, Lines 15-18**
Tab 1, Page 15 of 15, Table 3
Tab 2, Sections A, B, D, Schedule 6
OEB Decision with Reasons, EB-2016-0004, pages 18-20

The OEB determined in EB-2016-0004 that the principles embodies in EBO 188, which include an economic test to ensure that projects are self-financing and pose no risk to existing ratepayers, should continue to apply to expansion projects. The OEB called for minimum rate stability periods to ensure that the expansion rates are representative of the actual underpinning long-term costs.

Union proposes a fixed SES Terms of 12 years for the Kettle and Stony Point FN and Lambton Shores project. Union claims in Table 3 that the Profitability Index for such Project, based on a 12 year SES Term, is PI = 1.03. However, Schedule 6 indicates that the Profitability Index after 12 years is PI = 0.8, and does not reach PI = 1.0 until Year 30, and does not reach PI = 1.03 until Year 40.

(a) Please explain the discrepancy.

(b) Please revise Schedule 6 of Section A to reflect the scenario where the SES continues to be collected until the Profitability Index is PI = 1.0, and identify what year, between 13 and 30, that would occur in this scenario ("**Year X**" for the purposes of question (c) below).

(c) Why has Union not proposed an SES Term of Year X, in order to "ensure" that the project is self-financing (PI = 1.0) and that no part of the project costs will ever be borne by other ratepayers?

Union proposes a fixed SES Terms of 15 years for the Milverton, Rostock, Wartburg project. Union claims in Table 3 that the Profitability Index for such Project, based on a 15 year SES Term, is PI = 1.01. However, Schedule 6 indicates that the Profitability Index after 15 years is PI = 0.9, and does not reach PI = 1.0 until Year 31, and does not reach PI = 1.01 until Year 36.

(d) Please explain the discrepancy.

(e) Please revise Schedule 6 of Section B to reflect the scenario where the SES continues to be collected until the Profitability Index is PI = 1.0, and identify what year, between 16 and 31, that would occur in this scenario ("**Year X**" for the purposes of question (f) below).

(f) Why has Union not proposed an SES Term of Year X, in order to "ensure" that the project is self-financing (PI = 1.0) and that no part of the project costs will ever be borne by other ratepayers?

Union proposes a fixed SES Terms of 22 years for the Prince Township project. Union claims in Table 3 that the Profitability Index for such Project, based on a 22 year SES Term, is PI = 1.0. However, Schedule 6 indicates that the Profitability Index after 22 years is PI=0.9, and does not reach PI = 1.0 until Year 38.

(g) Please explain the discrepancy.

(h) Please revise Schedule 6 of Section D to reflect the scenario where the SES continues to be collected until the Profitability Index is PI = 1.0, and identify what year, between 23 and 38, that would occur in this scenario ("**Year X**" for the purposes of question (i) below).

(i) Why has Union not proposed an SES Term of Year X, in order to "ensure" that the project is self-financing (PI = 1.0) and that no part of the project costs will ever be borne by other ratepayers?

(j) We assume from the Application that, in Union's view, the proposed SES Terms are mathematically appropriate to "ensure" that the projects are self-financing and represent the actual underpinning long-term costs of the projects <u>if</u> Union's customer and volume forecasts are accurate. Is it Union's view that the proposed SES Terms are also mathematically appropriate to "ensure" that the projects are self-financing and represent the actual underpinning long-term costs of the projects <u>even if</u> Union's customer and volume forecasts are inaccurate? Please explain.

(k) Is there any chance that Union's customer and volume forecasts could turn out to be inaccurate? If there is any such chance, wouldn't a longer SES Term or a higher SES rate be more likely to "ensure" that the projects are self-financing and that the SES and the SES Term represent the actual underpinning long-term costs of the projects?

(l) Why has Union not proposed to continue charging the SES beyond the SES Term until the project has been fully paid for, in order to actually "ensure" that the projects are self-financing and that no part of the project costs will ever be borne by other ratepayers?

CPA Question No. 5 – EFFECT OF NATURAL GAS GRANT PROGRAM ON RATE STABILITY TERM

Reference: Ontario Ministry of Infrastructure Natural Gas Grant Program Application Form [http://www.infrastructureontario.ca/NGGP]

Tab 2, Sections A, B, C, D, Schedule 6
Tab 1, Page 13 of 15, Lines 9-15
OEB Decision with Reasons, EB-2016-0004, page 20

(a) With respect to each Project, does Union intend to apply for a grant under the Ministry of Infrastructure's Natural Gas Grant Program?

(b) If the response to (a) is "yes" or "maybe" (or any anything other than "no") for one or more Projects, please complete, to the best of your ability given current estimates and projections, the table below for each such Project. This is taken from Table 1 of the Natural Gas Grant Program Application Form.

Total Eligible Project Costs (A)	$
Recovery from prevailing rates over 40 years (B)	$
Recovery from System Expansion Surcharge (C)	$
Contribution from municipality or First Nation (D)	$
Other Contributions (e.g. from businesses or industry) (E)	$
Total Grant Funding Requested (F) (A-B-C-D-E=F)	$

(c) According to Schedule 6 of Sections A, B, C, and D of the Application, over a 40 year term, the net present value of cash inflows (with $0 in Natural Gas Grants) equals the net present value of cash outflows, such that the Projects are self-financing without any Natural Gas Grants. Accordingly, the calculation (A-B-C-D-E) will result in F being zero or negative for each Project.

i. If the response to (b) shows F being any positive number, please explain how that is the case and why any of the figures for (A), (B), (C), (D) or (E) above differ from the related figures in Schedule 6 of the Application.

ii. If the response to (b) shows F being zero or negative, then Union would not appear to be eligible for a Natural Gas Grant. If the response to (a) was "yes" or "maybe" (or any anything other than "no") for one or more Projects, please explain the contradiction between such response and the apparent ineligibility.

(d) Union states at Page 13 of its Application that if Natural Gas Grant Program funding is awarded, Union would reduce the SES Term.

i. Now that the details and criteria for the Natural Gas Grant Program have been released, please advise whether the statement above continues to be true.

ii. If Natural Gas Grant Program funding is awarded and then, due to a change in government policy, subsequently revoked, would Union proposed to once again alter the SES Term?

iii. If the answer to either of i or ii above is "Yes", such that the SES Term may change from time to time, please explain how such an SES Term can be considered a "rate stability period" as described by the OEB in EB-2016-0004.