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June 6, 2017

RESS AND COURIER

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

Dear Ms. Walli:

Re: EB-2015-0179 Union Gas Limited ("Union") Community Expansion Proposal – Settlement Status

We are legal counsel to Union Gas Limited ("Union"). Further to the Ontario Energy Board's (the "Board") Procedural Order No. 7 dated April 26, 2017, Union and certain intervenors attempted to negotiate a settlement proposal. Unfortunately, the Parties are unable to settle and as such, a proposal will not be filed.

As a result of the foregoing, Union would like to proceed as expeditiously as possible to complete the proceeding. As noted by Union in its evidence, a decision from the Board in this matter is respectively requested by June 30, 2017 to permit the communities to have service this year at the same cost and project economics as noted in evidence. For this reason and because extensive interrogatories were asked and responded to, Union requests that the hearing in this matter proceed as a written hearing. As such, Union proposes the following schedule:

- June 12 - Argument-in-Chief
- June 19 - Intervenor and OEB Staff submissions
- June 23 - Union reply submissions.

The foregoing would exclude the issue raised by Batchewana First Nation of Ojibways relating only to the Prince Township leave to construct.

At the request of some intervenors, as part of the discontinued settlement discussions, Union provided clarification of certain aspects noted in its application. These are attached to this correspondence and Union asks that the questions and answers form part of the record.

Yours truly,

Original signed by

Charles Keizer

CK/

cc:

Mark Kitchen, Union
Karen Hockin, Union
Michael Millar, Legal Counsel, Board Staff
Khalil Viraney, Board Staff
EB-2015-0179 Intervenors

The summary would confirm the following facts or provide clear answers the following questions:

1. Union will assume the risk of forecasting errors by imputing revenues for the first 10 years in amounts equal to:
    i. forecasted attachments *x* actual NAC over the 10 year term *x* 2017 rates.
    ii. Imputed revenue will assume perfect recovery of SES revenue within the projects first 10 years.

Response:

Not Correct. To provide further clarity:

For the first 10 years of each project, Union will include the following in its forecast for ratemaking purposes:

- SES revenue as calculated in the DCF provided at Tab 2, Section A, B, C, and D, Schedule 6 for each project.
- The attachment forecast as provided at Tab 2, Section A, B, C, and D, Schedule 2 for each project multiplied by the target normalized average consumption to arrive at the volume forecast that will be included in the calculation of base Rate M1, 01, M2 and 10 delivery rates. This ensures inclusion of 100% of the attachments as forecast when calculating rates for all customers.

Delivery price adjustments (for example related to the NAC deferral mechanism) will apply to the community expansion customers in the same manner as they are applied for all Rate M1, M2, 01 and 10 customers.

After 10 years the actual attachments and the actual SES revenues will be used for ratemaking purposes, subject to Board review and approval.

Union addressed this at response at Exhibit C.Staff 3c)

2. Any errors in the capital cost forecast will simply be recaptured as part of the next rate rebasing, before the 10 years is up, and therefore Union takes no risk on the capital cost side (other than the risk that the Board determines such costs were imprudent). Neither do the new customers. Instead, all existing customers (including new customers) will assume that risk as part of a future rate application.

Response:

All customers would bear risk of prudently incurred capital costs being higher than forecast, or the benefit of the capital costs being less than forecast.
In general terms, the capital cost for the projects are the initial mains installed in year one (and associated infrastructure such as stations, etc.) plus the cost of connecting individual customers in years 1 to 10. The risk of material variance in capital costs is primarily related to the year 1 cost to install the mains and associated infrastructure that customers are subsequently attached to. Thereafter the variance in forecasted capital cost of years 1-10 is primarily related to the variance in the number of attachments that occur.

Union will include the actual cost of installing the mains and actual costs of connecting customers in rate base. The actual cost could be higher or lower than the forecasted cost. There is no mechanism for cost recovery of the projects during Union's IRM; as such Union bears the cost of the actual capital expenditure until the impacts of the project are included in a future rate application.

When the impacts of the project are included in a future rate application, the Board will have an opportunity to determine if the costs were incurred prudently. At that time, rate base will reflect actual cost for the mains and infrastructure and a forecast of capital costs for attachments expected to occur up to the end of the year for which rates are being set. Example: If the mains cost is as forecast and Union exceeds the forecasted attachments the overall total capital cost will be greater than forecast and the additional capital will be supported by additional revenue in excess of the revenue forecasted for the project (more customers than forecast).

Union addressed how capital costs would be treated in response at Exhibit.C.SEC.1.

3. After 10 years, Union will cease imputing forecast attachments/revenues and instead be credited only for actual revenues. Any variance from the forecasted revenues will not be borne by or benefit Union or new customers after 10 years, but instead will be borne by or benefit existing customers (including new customers) as part of the next rate rebasing

Response
After the 10 year forecast period, subject to Board review, any variance from forecast will be borne by or benefit all customers (existing and new).

This was addressed by Union at response at Exhibit C.Staff.3c) (excerpt) :

> *Following conclusion of the 10 year forecast period, Union will continue to bear customer forecast risk until such time as it otherwise seeks approval from the Board in a rates application. In the future rates application Union would seek approval to reset the historical expansion area customer forecast at actual levels for ratemaking purposes. The Board would then have the opportunity to approve or adjust any resulting rate impacts as part of the rates application process.*
>
> *Annual reporting at the project level for the duration of the customer forecast period at the annual stakeholder meeting, as proposed by Union, would provide ongoing information on forecast achievement levels*

4. Whether the SES amount can ever be changed once approved, and in what circumstances

Response: Once set for these projects, the SES amount will not be changed through the entire term in which it is applied.

5. Whether the SES Term can ever be reduced once approved, and in what circumstances

Response: The SES term would only be reduced by Union in the following scenarios:

- if a government grant or another source of Aid-to-Construction is provided for the project. In these circumstances and after allowing for any reduction in municipal payments (to the level required by the government grant program), the funding would result in the SES term being reduced.
- if incremental annual municipal funding were to be committed for the project.

6. Whether the SES Term can ever be extended once approved, and in what circumstances

Response: The approved SES term for each project will not be extended by Union.

7. Exactly how each of the following revenue sources will be treated (i) if confirmed prior to project construction and (ii) if confirmed after the project is in service:
   i. Provincial grants (one time or regular stream)
   ii. Municipal or First Nations grants (one time or regular stream)
   iii. Contract customers
   iv. Further expansions

Response:

i-ii) One time Provincial grants, Municipal grants, or First Nations **grants** for the capital costs of a project will be applied to the project as an Aid-to-Construction, regardless of whether the grant is awarded before or after construction.

If the province, municipality or First Nations has agreed to make **payments over time** to support economic feasibility of a project the payments will be treated as an offset to the annual cost of owning and operating the assets, regardless of whether the contribution is confirmed before or after construction. Union does not expect this last circumstance to occur after construction.

This was addressed in responses at Exhibit C.SEC.8, Exhibit C.Staff.13, Exhibit C.CPA.5d) and Exhibit C.Staff.3 b).

iii) **Contracts :** There are no known customers who would be eligible for contract rate classes in any of the four project areas. If a contract rate eligible customer chooses to construct a facility in one of the project areas prior to the end of the SES term, the P.I. for that customer's connection will need to be a minimum of 1.0. In determining the P.I. for the connection, Union's current policies as applied to all customer additions will apply. If the new contract customer connection can be accommodated without additional infrastructure the capital cost of the connection used for purposes of determining the P.I. will be based on the cost of the service lateral and metering station specific to the customer.

For a future contract customer connection the SES amount of $0.23 would not apply as a "surcharge" in excess of the existing rates as proposed for general service customers. The $0.23/m^3$ surcharge is priced at a point that makes it economic for general service customers to convert. Contract sized customers have lower alternative fuel options and to meet a PI of 1.0 the contract customer may need to contract for a number of years, pay a rate in excess of rates provided for in the rate schedule for a multi-year contract, or pay Aid-to-Construction.

Contracts were addressed by Union in response at Exhibit C.CCC.3

iv) **Further Expansions**: Extending the infrastructure to new areas beyond the SES zone will require those new areas to pay the SES for the greater of the remaining SES term of the project from which it is being extended from, or the term needed for that extension project to meet a P.I. of 1.0. If an SES term of the extension is greater than the remaining term for the area the project is being connected to, Union would be required to apply to the OEB for a new SES term for the extension project.

This was addressed by Union at response at Exhibit C.Staff.3 f)