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June 22, 2017

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON M4P 1E4

VIA EMAIL

Dear Ms. Walli,

Re: EB-2015-0179 – Updated Community Expansion Proposal
Final Arguments of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the final submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-referenced proceeding. We have also directed a copy of the same to the Applicant.

Best regards,

[*original signed*]

Cynthia Khoo
Counsel to VECC

cc: Ms. Karen Hockin, Manager Regulatory Initiatives
khockin@uniongas.com

EB-2015-0179

ONTARIO ENERGY BOARD

Union Gas Limited

Application for Community Expansions

Final Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

22 June 2017

Cynthia Khoo, Counsel for
Vulnerable Energy Consumers Coalition

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1. Issues in this Proceeding

1.1 Union Gas Limited ("Union") is seeking approval of the following items:

a) Section 36 approval for a System Expansion Surcharge ("SES") rate for each of the four Community Expansion Projects; and

b) Section 90 Leave to Construct ("LTC") approvals for facilities required to serve the Kettle and Stony Point First Nation and Lambton Shores, Milverton, and Prince Township Project areas (the latter now in abeyance).

1.2 Issues related to Section 36 are the most contentious as they go to the implementation of the Board's EB-2016-004 Decision (the "Community Expansion Policies") and the existing E.B.O. 188 System Expansion policies of the Board. The Section 90 issues generally relate to land easement, safety and other technical engineering matters.

1.3 The Board did not provide an issues list in this case. However, VECC believes the following questions are relevant to this proceeding:

SECTION 36 QUESTIONS

1. **ARE THE PROPOSALS COMPLIANT WITH THE REQUIREMENT OF THE BOARD'S DECISION IN EB-2016-004 AND THE CURRENT E.B.O. 188 POLICIES? SPECIFICALLY:**
    - **a) HOW IS IT DETERMINED WHETHER THE POLICIES OF E.B.O. 188 (PORTFOLIO) OR THE COMMUNITY EXPANSION POLICIES OF EB-2016-0004 (STANDALONE) APPLY TO THE PROJECTS?**
    - **b) SHOULD THE SYSTEM EXPANSION SURCHARGE (SES) LEVEL BE SET FOR A PROJECT TO REACH A P.I. OF 0.8 OR 1.0?**
    - **c) IS UNION'S SYSTEM EXPANSION SURCHARGE (SES) IN ACCORDANCE WITH THE RELEVANT BOARD POLICY AND IS THE TERM AND STRUCTURE APPROPRIATE?**
    - **d) IN THE CONTEXT OF THESE APPLICATIONS, WHAT IS THE "RATE STABILITY PERIOD"?**
    - **e) ARE THE ECONOMIC RISKS OF THE PROJECT BORNE BY THE APPROPRIATE PARTIES?**

2. **IS THE ECONOMIC EVALUATION OF THE PROJECT(S) REASONABLE? SPECIFICALLY:**
    - **a) ARE THE ATTACHMENT FORECASTS REASONABLE?**
    - **b) ARE THE CAPITAL COSTS FORECAST REASONABLE?**

SECTION 90 QUESTIONS

3. **DO THE FACILITIES ADDRESS THE OEB ENVIRONMENTAL GUIDELINES FOR HYDROCARBON PIPELINES AS APPLICABLE, INCLUDING CONSULTATION OF LANDOWNERS AND INDIGENOUS PEOPLES?**

4. **ARE THERE ANY OUTSTANDING LANDOWNER MATTERS FOR THE PROPOSED FACILITIES WITH RESPECT TO ROUTING AND CONSTRUCTION MATTERS?**

5. **ARE THE PROPOSED FACILITIES DESIGNED IN ACCORDANCE WITH CURRENT TECHNICAL AND SAFETY REQUIREMENTS?**

6. **IF THE BOARD APPROVES THE PROPOSED FACILITIES, WHAT CONDITIONS, IF ANY, ARE APPROPRIATE?**

1.4 VECC has made no submissions with respect to section 90 issues (questions 3 through 5). These issues address typical leave to construct matters, which historically are carefully reviewed by Board Staff. To our understanding, there are no significant deviations from the standard Board-accepted practice in this case.

1.5 We agree with Union,[1] with respect to Prince Township, in the understanding that this proposal is being deferred because of outstanding issues related to land and other section 90 matters. As such, we believe VECC's submissions on this issue may be applied to Union's proposal for Prince Township.

1.6 With respect to issue 6, VECC believes the Board should attach the standard conditions of leave to construct, with respect to timing and reporting. However, below we have made submissions with respect to reporting where the SES and the capital expenditures of proposed projects are concerned.

2. Proposal Overview

2.1 The four projects in this application have a forecast capital cost of $11.36 million[2].

Table 3: Proposed Community Expansion Projects

Project	Maximum Potential Customers	Forecast Customers	Gross Capital	Aid to Construction	Net Capital	SES Term (Years)	P.I.
Kettle and Stony Point F.N. and Lambton Shores	512	364	$2.10	$0.00	$2.10	12	1.03
Milverton, Rostock, Wartburg	961	739	$5.98	$0.00	$5.98	15	1.01
Delaware Nation of Moraviantown	71	38	$0.56	$0.31	$0.25	40	1.00
Prince Township	395	291	$2.72	$0.00	$2.72	22	1.00
TOTAL	**1,939**	**1,432**	**$11.36**	**$0.31**	**$11.05**		

(Note: All dollars are in millions.)

2.2 Union uses the standard economic modelling employed for E.B.O. 188 projects in this Application. This discounted cash flow model evaluates the profitability of each project as measured by a profitability index (PI) or its equivalent, a net present value (NPV). Union proposes funding the community expansion projects to a P.I. of 1.0, using an economic evaluation based on a 40-year asset life. Revenues take the form of Union's existing rate plus a term-limited system expansion surcharge (SES) applied to a forecast attachment of (M1, 01, M2 and 02) customers. The amount of the surcharge is 0.23 /m3, the same as the Temporary Expansion Surcharge that Union originally proposed.

[1] Union Argument-in-Chief, page 3
[2] Exhibit A, Tab 1, ADDENDUM, page 15

2.3 The Application proposes including the actual (depreciated) capital costs of the projects in rate base at the time of rebasing. During the first ten years of the project, Union proposes including as revenue the amount that its projected capital attachment schedules imply, using the normalized average use per customer. Therefore, Union would be deemed to have collected the SES, whether it actually does so or not.

2.4 To the extent that a municipality or First Nation makes an up-front voluntary financial contribution to a Project, Union will treat the contribution as an Aid-to-Construction, which will reduce the net capital cost of the project in year 1. If a municipality or First Nation agrees to provide ongoing financial support to a Project in the form of an annual payment for an agreed upon term, Union will treat the financial support as revenue.

2.5 Table 2 shows a comparison of Union's original application with the amended application that was filed after the EB-2016-0004 decision[3].

Table 2
Comparison of Union's Initial and Updated Proposals

Proposal Component	Initial Proposal (Tab 1 Updated)	Updated Proposal (Tab 1 Addendum)
General		
Project Eligibility	Minimum 50 potential customers	Not Required
Gross Capital	$135 million Program for up to 29 Projects	$11 million for 4 specific Projects
Capital Pass-Through	Yes	No
Capital Pass-Through Deferral Account	Yes	No
Community Expansion Contribution Deferral	Yes	No
Project Minimum P.I.	0.4	1.0
Rolling Project Portfolio P.I Exemption	Yes	No
Investment Portfolio P.I. Exemption	Yes	No
Maximum Pre-existing Ratepayer Long Term	$2.00/month	$0
Customer Forecast risk	All ratepayers	Utility
Surcharge		
Type	Volumetric "TES"	Volumetric "SES"
Applicability	General Service	General Service
Value	$0.23/m^3	$0.23/m^3
Term	Varies by Project, Max 10 years	Varies by Project

[3] Exhibit A, Tab 1, ADDENDUM, page 3

Municipal/First Nation Contributions		
Type	Mandatory	Voluntary
Basis	ITE - Incremental value of property taxes	Voluntary

2.6 Union has made a number of changes to its application to make it compliant with the Board's Decision in EB-2016-0004. The utility has greatly reduced the number of projects it proposes to proceed with and has eliminated the request for a capital pass-through. All projects are now required to meet a P.I. of 1.0 with the assistance of the SES charge.

3. Compliance with Board Policies

3.1 In EB-2016-004, the Board determined that upfront investment is one of the primary barriers to natural gas system expansion, even when gas service might serve the long-term economic benefit of consumers. The Board said that it would therefore allow utilities to charge "stand alone" rates to new expansion communities.[4] In this instance, there are no competing utility claims for service to the proposed project communities, and Union does not propose to charge "stand alone" rates to these communities. Instead, Union proposes adding a surcharge to its existing rates, that would be applied to these community expansion projects. Such a charge is contemplated in EB-2016-0004:

> An incumbent utility with existing rates may still propose to collect a surcharge over and above those rates to make up for the shortfall in revenues to cover the cost of the expansion. This form of funding does not depart from the mechanics or principles embodied in the E.B.O. 188 assessment. However, in situations where surcharges are proposed, distributors should ensure that the level of revenues generated through the surcharge (in addition to base rates) can readily be compared to the revenues that would otherwise be collected from a stand-alone rate that might be charged by another distributor.[5]

3.2 The new EB_2016-004 Community Expansion policies do not supersede policies that are based on the Board's E.B.O. 188 decision, as indicated by the following:

> Contiguous expansion of the existing system with development on the edge of serviced areas would continue to be managed under the E.B.O. 188 framework. Demarcation criterion will be needed to separate those projects that would appropriately be dealt with in that manner rather than applying for new rates.M[6]

3.3 This begs the question of what constitutes contiguous expansion and what lies in that finding. Milverton will receive service from a lateral pipeline currently serving the City of

[4] EB-2016-0004 Generic Decision on Community Expansion, November 17, 2016, page 4
[5] Ibid, page 21
[6] EB-2016-0004, Proceeding on Community Expansion, page 19.

Stratford. This lateral line will be approximately 20.5 km in length, and along the way serves the communities of Wartburg and Rostock[7]. Moraviantown will be served by a continuation of what Union calls its "Norton Line" for less than 5 km into the Moraviantown community.[8] Prince Township is contiguous with the services that Union provides the city of Sault Ste. Marie.[9] Arguably, the same could be said for the facilities that Union proposes for its Kettle Point and Lambton County projects.[10]

3.4 In determining the appropriate level of the SES charge, it is important to understand why Union believes these projects must meet a P.I. of 1.0 or greater. The reasons are not clear to us. Absent the Community Expansion proceeding, these projects would appear to have fit within the E.B.O. 188 guidelines if they received sufficient contribution-in-aid of construction. EB-2016-0004 addresses both the issue of competitive franchises (standalone projects) and the issue of alternatives to lump-sum contributions in aid of construction (E.B.O. 188 projects). The Community Expansion decision provides for a surcharge to be used in lieu of a contribution-in-aid of construction. That is what Union has done, and it seems only appropriate that the next step would involve evaluating how the projects fit within Union's investment portfolio; there is no reason to omit this step. That evaluation should use the SES charge to bring the projects to a profitability of somewhere between 0.8 and 1.0.

3.5 Indeed, the Board has in the past allowed the Utility discretion to put in its portfolio projects with contribution-in-aid of construction, but at a P.I. of less than 1.0. For example, the Board considered this issue in its decision regarding expansion to the northern Ontario community of Red Lake:

> Union has used a P.I. of 1 in its analysis of the capital contribution required for Phase II. The Board notes that the gas utilities have some discretion under E.B.O. 188 to determine the economic feasibility of individual expansions projects while maintaining a positive investment portfolio. Under E.B.O. 188 a P.I. of 1 is not required for attaching new communities and the minimum profitability threshold for individual projects of this nature may be a P.I. of 0.8.[11]

3.6 The Board's decision in EB-2016-0004 ("Community Expansion Decision") expands on the principles of E.B.O. 188. EB-2016-0004 contemplates standalone non-postage stamp rates and no cross-subsidy. E.B.O. 188 provides for postage stamp rates with some project cross-subsidy provided the rolling portfolio of projects remains profitable. Projects are eligible under E.B.O. 188 provided they have a P.I. of 0.8 or greater. E.B.O. 188 allows that P.I. to be achieved with the help of a contribution-in-aid of construction, but that contribution need not bring the project to the level of 1.0.[12]

[7] Exhibit A, Tab 2, Section B, Schedule 11, Updated, pages, 1 and 5
[8] Exhibit A, Tab 2, Section C, Schedule 1, Updated
[9] Exhibit A, Tab 2, Section D, Schedule 1, Updated
[10] Exhibit A, Tab 2, Section A, Schedule 1, Updated
[11] EB-2010-0040/EB-2011-0041/0042, July 25, 2011, page 37.
[12] E.B.O. 188, Section 4.3 Board Findings

3.7 In VECC's submission, the proposed projects are not contemplated by the Community Expansion "standalone" policies articulated in EB-2016-0004. This is not an instance of two utilities competing to serve a single territory. Rather, if the projects are contiguous to current services, the policy to be applied is E.B.O. 188.

3.8 What EB-2016-0004 does do is provide an alternative to a lump-sum contribution in aid of construction for E.B.O. 188 projects. In this case, Union's proposed SES charge serves the same function. The SES addresses customer affordability and improves the economics by promoting customer attachments, through allowing a closer match of the customer's savings to the incremental costs. Given this, it remains unclear why these projects are not included in Union's investment portfolio or why customers contribute more than the amount necessary to bring the projects to a P.I. of 0.8.

3.9 CCC put this question directly to Union, which referred to page 4 of the Community Expansion Decision in its response:

> Union did not consider it appropriate to apply a minimum project P.I. of between 0.8 and 1.0 as provided for in E.B.O. 188 to the four proposed projects. This would result in a cross subsidy from other new ratepayers in established service areas in favour of the new ratepayers in a community expansion area. The reason for taking this approach is that the EB-2016-0004 decision clearly indicates that the communities that receive the benefits should be the ones who are paying the costs.[13]

However, the passage upon which this response relies actually states:

> **The other chief measure proposed to enable more expansions was a subsidy from existing customers**. The OEB has determined that this is not appropriate. As noted above, the economic benefits of expansion to many communities are much greater than the costs. This approach would also distort the market to the detriment of existing energy services that compete with gas, such as propane, and new gas distributors who do not have an existing customer base. **Under these circumstances**, it would not be appropriate to require existing customers to pay for a portion of any expansion. The communities that receive the benefit will be the ones paying the costs. (emphasis added)

3.10 The issue the Board was grappling with was the concept of allowing a general subsidy from the body of ratepayers. Reading EB-2016-004 in its entirety makes clear that the decision does not call for abandoning the principles of E.B.O. 188. Moreover, the E.B.O. 188 policies continue to allow for a limited amount of intergenerational cross-subsidy within the confines of the rolling and investment portfolios.

3.11 In VECC's submission, this project falls within the scope of the policies articulated under E.B.O. 188. That is, they are eligible for inclusion in the portfolio of expansion projects of Union Gas. In EB-2016-004, the Board stated that "contiguous" projects would remain under that policy. As we have noted, at least two projects are contiguous to Union's current service territory. Arguably, all 4 projects are contiguous to Union's current

[13] Exhibit C.CCC.2

service territory.

3.12 The Board has previously allowed the utility to have discretion in deciding whether a particular project must meet the 0.1 or the 0.8 P.I. In our submission, the Board should bring greater clarity this issue. As it stands, we are unable to determine whether customers are receiving equal or fair treatment. In the extreme, this could result in a project with an initial P.I. of 0.79 paying an SES calculated with a 1.0 P.I. requirement, whereas a similar project with an initial economic evaluation that results in a P.I. of 0.8 might be included in the investment portfolio, with no SES. The table below shows that, based on a constant SES, the number of years over which new customers may have to pay the surcharge varies significantly, depending on the required P.I. threshold:[14]

Project	**SES Term Expiry (Years)**		**Aid Required (Thousands)**	
	P.I = 1.0	**P.I.=0.8**	**P.I = 1.0**	**P.I = 0.8**
Kettle Point/Lambton Shores	12	7	$0	$0
Milverton/Rostock/Wartburg	15	10	$0	$0
Moraviantown F.N.	40	40	$311	$235
Prince Township	22	12	$0	$0

3.13 In our submission, each of these projects is contiguous to Union Gas's current serving territory. Each is thus eligible for inclusion in Union's investment portfolio. We can see no reason why they could not be included in the investment portfolio at a P.I. below 1.0, but above 0.8 with the SES, given the relatively small capital expenditure of these projects. VECC recommends that the Board order Union to calculate the SES at the mid-point P.I. of 0.90, and incorporate these projects into its investment portfolio.

4. Project Economic Evaluation

4.1 Union uses a discounted cash flow model to evaluate the profitability of each proposed project. Revenues take the form of Union's existing rate, plus a term-limited surcharge (SES) applied to a forecast attachment of customers. The costs are primarily main extension and customer attachment capital costs.

4.2 Union made a number of changes to both the revenue and costs in its revised application. These are shown below:[15]

[14] Exhibit C.CCC.2
[15] Exhibit C.SEC.10

	Original Evidence (A-1, p.45, Table 1)				Revised Application (A-1, Addendum, p.15)		
Project	Maximum Potential Customers	Forecast Customers	Capital Cost - Preferred Design ($M)	Minimum Design - Preferred Design ($M)	Maximum Potential Customers	Forecast Customers	Capital Cost ($M)
Milverton	818	526	4.93	4.77	961	739	5.98
Prince Township	375	242	2.72	2.72	395	291	2.72
Lambton Shores Kettle Point FN	496	281	2.42	1.79*	512	364	2.1
Moraviantown FN	70	61	0.54	0.49	71	38	0.56

*Adjusted for correction given by Union in interrogatory response

Revenues

4.3 VECC notes that the amended application has a more aggressive customer attachment forecast[16]. During the first 10 years of the project, Union has proposed including as revenue the amount implied by its projected capital attachment schedules, using the normalized average use per customer. Therefore, Union is deemed to have collected the SES, whether it actually does so or not. Since Union is at risk for the customer attachment forecast (at least for the first 10 years), there would seem little reason for the Utility to over forecast customer attachments. In fact, the opposite is true. VECC believes the explanation given for the updated increase in attachments is reasonable.

4.4 VECC is also aware of the Board's response to CPA in its letter of May 2, 2017, where it stated:

> The OEB will accept CPA as an intervenor only with respect to the issue of the term of the rate stability period in the second phase of the EB-2015-0179 proceeding. According to the CPA's request, the focus of its intervention would be the accuracy of Union's customer connections forecast and the proposed treatment of various costs and revenues.
>
> The OEB does not consider the issue of forecasted customer connections to be a determinative matter when a utility is permitted to charge standalone rates to new expansion communities. The profitability of a project is only relevant if the avoidance of a cross subsidy from existing to new customers is an issue. The OEB ruled in the EB-2016-0004 Generic Proceeding on Community Expansion Decision with Reasons that no subsidy will be permitted from existing customers to new customers; therefore, evidence related to forecasted customer connections does not need to be tested.[17]

4.5 While we take no stance as to whether or to what extent CPA, or any other party, may participate in this proceeding, we are somewhat confused and concerned by the statement regarding the issue of customer attachments. First, no standalone rates are

[16] Changes to the customer attachment forecast are discussed in response to C.Staff.6
[17] OEB EB-2015-0179 Letter to Mr. Richmond, May 2, 2017.

being proposed for these projects. What is being proposed is a “rate rider” type of charge—the SES to be added to the current approved small volume rates. Second, the profitability of these projects is important to consider both because there is a potential for cross subsidies and because the profitability of the project informs the calculation of the SES charge.

4.6 Even if a project is not included in the investment portfolio, there remains the potential for intergenerational cross-subsidies. This inevitably happens when a project does not meet a P.I. of precisely 1.0. Projects that have an actual P.I. of less than 1.0 are subsidized by ratepayers and those that exceed 1.0 provide a net benefit to the shareholder. The profitability of the project is in turn determined by the revenues derived from customer attachment against the capital costs.

4.7 The SES is designed to recover the difference between a given P.I. and a target P.I., the latter of which Union proposes be 1.0, in this proceeding. To determine P.I., one subtracts the discounted costs from discounted revenues over a 40-year period. Customer attachments are a direct input into calculating the proposed SES because they inform the revenue side of the economic evaluation, much in the same way that Union’s estimate of capital costs also informs calculation of the SES. To the extent that either revenues or capital costs vary, they impact the resulting P.I. and therefore the SES charge that Union would require to bring the project to a specific P.I. Simply put, if Union underestimates the profitability of a particular project, then the resulting SES would be higher than necessary, and vice versa.

4.8 Given the above, both forecast customer attachments (including their timing) and the forecast capital costs are central to determining reasonableness of the SES.

Costs

4.9 Union proposes taking on the risk of customer attachments for the first 10 years. The revenue risk is symmetrical, because if more customers attach or attach earlier[18] than forecast, there would be, *ceteris paribus,* a benefit to Union’s shareholder, while the reverse is also true.

4.10 However, the same cannot be said for the capital side of the equation. Union intends to take on no risk for capital expenditures:

> 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

[18] It is the nature of discounted cash flow modelling that costs and benefits that occur early in the project life have a much large effect on its economic standing than they do in the latter years of the project.

> 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.[19]

4.11 The result is that Union may be predisposed to underestimate capital costs, since it is the actual and not the forecast costs that will be included in rate base. Again, all things being equal, if the actual capital costs are less than forecast, then Union will collect more revenues than necessary through an inflated SES, and overearn. If the reverse is true and the capital costs are greater than forecast, Union will continue to earn a return on the actual capital expenditures because the actual costs will be included in rate base. However, now the SES revenue will be insufficient to reach the estimated P.I. Given the proposal is to maintain the SES fixed over the life of the project, the resulting shortfall must come from the general body of ratepayers. That is, current ratepayers will subsidize the projects if future rates are calculated using higher than anticipated capital costs.

4.12 If the Board aims to eliminate all cross-subsidies, then it would need to review the SES charge once Union has expended the majority of its capital for these projects. As Union has indicated, most of this capital spending occurs in the initial phase, to build mains and make initial attachments.[20] The Board could order Union to revisit the SES requirement for each project after this initial year. Given that the proposal is to fix the charge, but vary the term for each project, the result would be an adjustment to the term of the charge.

4.13 Since Union could include in rate base any costs beyond its economic evaluation estimates, it has no incentive to keep the capital costs at or below the forecast. In fact, the current proposal would reward Union for underestimating capital costs, through higher overall rate base returns. However, if the Board accepts VECC's recommendation of revisiting of the SES term after the project is in place, there would be an opportunity to scrutinize these costs, and adjust them if necessary. Such a review, which is both explicit and near the time of the original forecasts, would provide a minimal check against any incentive to increase rate base unnecessarily through these projects.

The SES and Rate Stability

4.14 The EB-2016-004 decision discusses the concept of a minimum period of rate stability. Ten years is used as an example:

> A minimum rate stability period of 10 years (for example) would ensure that rates applied for are representative of the actual underpinning long-term costs. The utility would bear the risk for that 10-year period if the customers they forecast did not attach to the system. At present, once an expansion is approved, the

[19] Union Letter Settlement Status June 6, 2017
[20] Ibid

utility bears little long-term risk if its forecasts were overly optimistic, or its actual costs higher than expected. The cost is absorbed into rates and paid for by other ratepayers.

As mentioned above the rate stability feature of the framework introduces a discipline that significantly reduces the need to scrutinize a proponent's projected revenues. As the rates will be stand-alone and designed to cover the costs of the proposed expansion the existing customers will be held harmless. Overstated costs would lead to overstated rates and where there is competition for the approval, a proponent will risk not being chosen. Where there is no competition, a proponent will still be incented to have as low a rate as it can afford to encourage customers to connect and provide the return on the proponent's investment during the rate stability period. The proponent will also have to obtain approval to adjust rates beyond the rate stability period.[21]

4.15 The "rate stability" that the Board appears to contemplate in EB-2016-004 is that associated with standalone rates in a new franchise. This is not the proposal before the Board. Rate stability can exist in Union's proposal only insofar as it relates to the SES charge. All customers, current and future, will have to pay the Board's approved rates, which change over time. The proposed projects would charge the SES to their future customers. It is only the SES that Union proposes remain fixed for a given period, as shown in the table below.[22]

Table 2: Rate Approvals

Project	SES Rate	SES Term Expiry[11]
Kettle and Stony Point First Nation and Lambton Shores	$0.23/m^3$	December 31, 2029
Milverton, Rostock and Wartburg	$0.23/m^3$	December 31, 2032
Delaware Nation of Moraviantown First Nation	$0.23/m^3$	December 31, 2057
Prince Township	$0.23/m^3$	December 31, 2039

4.16 Union tested the surcharge at several different levels and terms in telephone surveys conducted with potential customers in the Milverton, Lambton Shores, and Prince Township project areas in February 2017. Based on the results of those surveys, Union submits that an SES of $0.23/m3 remains appropriate for community expansion projects.

4.17 Union chose $0.23/m3 because at this level, savings are evident if a customer switches from propane, oil, or electricity, to natural gas. If Union were to increase the SES, annual savings relative to other fuels would decrease, prolonging the

[21] EB-2016-0004, page 20
[22] Exhibit A, Tab 1, ADDENDUM, page 10

simple payback periods for converting. Union suggests that this would negatively affect the customer forecast. The utility tested this concept in the three proposed projects other than Moraviantown, by proposing various surcharge amounts in the residential telephone surveys noted above. Based on results from those surveys, the likelihood of connecting dropped by 9-11% for each area when the SES was increased from $0.23/m3 to $0.40/m3.[23]

4.18 Union does not intend to update the SES rate, amount, or term, for any project during its lifetime, unless the province or a municipality were to commit grants or annual funding, respectively, to the project.[24]

4.19 While Union has chosen to fix the SES amount while altering the time period during which it charges the SES, an alternative is to fix the time period and vary the charge for each project. The table below shows the results of this approach (albeit based on a P.I. of 1.0, which VECC submits is too high):[25]

Community	**Proposed Term at $0.23 SES** ($/m^3)	**Required SES Rate for P.I. = 1.0** ($/m^3)			
	Yrs.	10 yrs.	20 yrs.	30 yrs.	40 yrs.
Kettle and Stony Point First Nation and Lambton Shores	12	$0.29	$0.15	$0.12	$0.11
Milverton, Rostock and Wartburg	15	$0.37	$0.19	$0.16	$0.15
Delaware Nation of Moraviantown First Nation	40	$0.50	$0.28	$0.25	$0.23
Prince Township	22	$0.53	$0.25	$0.20	$0.17

Notes:
1. SES rates, amount and term, are the figures required to meet a P.I. = 1.0 at the end of the 40 year analysis.
2. For Moraviantown, the rates provided assume the same level of Aid-to-Construction as proposed, at $311,000

4.20 Were Union to use a fixed term the SES charge it would apply would be different for each project. In our view a varying SES charge has a number of difficulties. It is less understandable to customers who might wonder why the surcharge for their service is higher than another. Union would also have to keep account of a varying number of surcharges. New projects would presumably require new SES rates eventually making the rates applied cumbersome and open to confusion.

4.21 VECC agrees with Union's approach to fix the SES charge but vary the time period over which it is applied. This allows for subsequent adjustments to the time period based on actual project economics, with less impact on the attachment forecast. The major deficiency of E.B.O. 188 has been in a utility's inability to align the timing

[23] Exhibit C.Staff.05
[24] Union Letter Settlement Status, June 6, 2017
[25] Exhibit C.SEC.6

of new customers' costs with the benefits they receive from natural gas service. Union has made efforts to more closely align these factors by trying to better understand the potential customer's willingness to pay. It has developed the SES charge in order to balance the need to recover sufficient revenue to bring the project to a profitable level, while simultaneously trying to maximize customer attachments and thereby improving the profitability of the project.

5.0 Reporting

5.1 Union proposes tracking the four proposed projects individually. As part of Union's annual stakeholder meeting, the utility will provide a project-by-project report that outlines the following:

a. Budgeted and actual capital costs, both at a gross level, and net of any aid-to-construction, as of the date the project is in-service; and
b. Cumulative forecasted customer and actual customer attachment rates for the duration of the period.

5.2 VECC supports Union's reporting proposal. However, as noted above, we also believe that the SES term should be recalculated one year after the completion of each project. This reporting could be incorporated into Union's annual filing for rate adjustments.

5.3 Finally, as noted above, at the time of revisiting the SES calculation, Union will be in a position to justify any costs in excess of its original project estimates.

6.0 Summary of Recommendations

6.1 VECC submits that the Board should make the following adjustments to Union's proposal for each project in this proceeding:

1. Include in Union's investment P.I. projects that are continuous to the utility's current service territory.
2. Recalculate the SES charge to meet a project P.I. of 0.90.
3. Recalculate each project's SES term one year after Union completes that project.
4. At the time of recalculating the SES charge, require Union Gas to provide evidence supporting explanation for any capital cost overrun of greater than 10% of its original estimate

7.0 Costs

7.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

ALL OF WHICH IS RESPECTFULLY SUBMITTED