ONTARIO ENERGY BOARD

STAFF SUBMISSION ON
SETTLEMENT PROPOSAL FILED
ON AUGUST 1, 2017

Union Gas Limited Disposal of Non-Commodity Related Deferral/Variance Accounts and Earnings Sharing
EB-2017-0091

August 9, 2017

Background

Union Gas Limited (Union Gas) filed an application with the Ontario Energy Board (OEB) on April 21, 2017 for approval to dispose and recover certain 2016 non-commodity related deferral and variance account balances. Union Gas indicated in its application that its 2016 actual utility earnings did not exceed the threshold as agreed to in the Settlement Agreement[1] and therefore there is no sharing of earnings with ratepayers.

The total net balance of all the deferral and variance accounts that were requested for disposition by Union Gas would result in a $45.771 million debit as at December 31, 2016. The total rate impact for a typical residential customer in the South (Windsor to Hamilton) was $13.61 and $35.56 for customers in other service areas. The stated amounts ($13.61 and $35.56) were proposed to be recovered over a six-month period, from October 1, 2017 to March 31, 2018.

A Notice of Hearing was issued on May 9, 2017 and was served and posted as per the direction of the OEB.

In Procedural Order No. 1 dated June 2, 2017, the OEB scheduled a round of interrogatories and a three-day Settlement Conference starting on July 17, 2017, with the objective of reaching a settlement among the parties on the issues.

In Procedural Order No. 2 issued on June 23, 2017, the OEB deferred the final disposition of Union's 2016 Greenhouse Gas Emissions Impact Deferral Account (GGEIDA). The OEB however noted that it would consider the interim disposition of the account in this application and the issue of interim disposition was added as an issue for the settlement conference.

In its application, Union provided information with respect to relocating its data centres from company-owned facilities in Chatham and at Dawn to third-party hosted data centres as part of consolidating data centres across the Spectra Energy group of companies. Union was not seeking any specific relief with respect to the capital costs incurred. Since the OEB was not required to make a decision on costs incurred in this application and the costs would be reviewed in the next rebasing proceeding, the OEB in Procedural Order No. 2 determined that the information filed by Union was sufficient at this time. The OEB therefore determined that interrogatories related to GGEIDA and data centre consolidation did not require a response from Union.

[1] Union Gas 2014-2018 Incentive Ratemaking Mechanism Settlement Agreement, EB-2013-0202

Union filed a settlement proposal on August 1, 2017, reaching a settlement on all issues in the proceeding.

Union Settlement Proposal

OEB staff has reviewed the settlement proposal filed by Union in the context of Union's 2014-18 Incentive Regulation Mechanism (IRM) Framework, other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is of the view that the settlement proposal is in accordance with the principles established in Union's IRM Framework and other infrastructure leave to construct applications. OEB staff submits that the settlement proposal adequately protects the public interest.

OEB staff supports the proposed settlement proposal on the following basis:

- OEB staff and intervenors were satisfied with the calculations underpinning the balances in the deferral and variance accounts and that they were in accordance with OEB approved methodologies or previous OEB decisions.
- Union agreed to certain adjustments to the deferral accounts that reduced the total amounts payable by ratepayers. As part of the adjustments, Union agreed to forego the balance in the OEB Cost Assessment Variance Account and has agreed to request final disposition of the GGEIDA in a later proceeding. The adjustment is a net reduction of $3.064 million.
- Parties agreed to dispose of the balances in the Parkway West Project Costs Deferral Account on an interim basis. Union has agreed to provide better evidence of the overspending in the 2017 deferral and variance account disposition proceeding. Parties accepted the balances and the level of spending with respect to the other capital costs deferral and variance accounts.
- The deferral and variance accounts conform to accounting orders

OEB staff is also of the view that the accompanying explanation and rationale is adequate to support the settlement proposal.

OEB staff offers the following commentaries on the disposition of the balances in the deferral and variance accounts.

Deferral and Variance Accounts

Union filed a draft Rate Order along with the settlement that shows the rate changes as a result of the settlement proposal. Although Union has filed the draft Rate Order along with the settlement proposal, parties to the settlement have not reviewed the draft Rate Order. Union has confirmed this in the cover letter[2] filed along with the settlement proposal. OEB staff is of the opinion that for future reference, having parties review the draft Rate Order as part of reviewing the settlement proposal is a more efficient process considering that the OEB then does not need to initiate a process for reviewing the draft Rate Order.

Appendix C of the draft Rate Order shows all the balances of the deferral and variance accounts. The amounts in the individual deferral and variance accounts are different from the pre-filed evidence[3]. In addition to changes made to the principal amounts arising from the Settlement Agreement, the amounts are different because the draft Rate Order calculates interest to September 30, 2017 as compared to the pre-filed evidence that calculated interest up to December 31, 2016. Although OEB staff has no major concerns with the revisions and acknowledges that it is standard practise to include OEB-approved interest rates up to the implementation date, it is necessary to point out that the settlement proposal does not state that the individual balances will be updated to reflect interest up to September 30, 2017. In fact, the settlement proposal discusses each deferral and variance account wherein the parties accept the balance and interest as noted in the pre-filed evidence. OEB staff would like to remind all parties that in such instances, the settlement proposal should clearly state that although parties accept the amounts as noted in the discussion, they acknowledge that the balances will be updated to reflect interest up to the implementation/effective date. OEB would further point out that Enbridge in its deferral account Application provides two columns – the first one with actuals up to a certain date and another column with forecasted balances up to October 1, 2017 (the implementation date)[4]. Union could adopt this mechanism in future applications.

Below is a list of the deferral accounts for which Union is seeking disposition and their balances as filed in the pre-filed evidence. It is to be noted that as per the settlement proposal, Union is not seeking disposition of the OEB Cost Assessment Variance Account (179-151). The debit balance of $832,000 will be borne by Union and not disposed of through this or any future proceeding.

The parties also agreed that the 2016 balance in the GGEIDA will not be disposed of on an interim basis in this proceeding and the final disposition will be deferred to other concurrent applications before the OEB.

[2] Cover letter to settlement proposal dated August 1, 2017
[3] Exhibit A, Tab 1, Appendix A, Schedule 1
[4] Enbridge Gas Distribution Inc. 2016 Deferral Account Disposition and Earnings Sharing Application, EB-2017-0102, Exhibit A, Tab 2, Schedule 1, Appendix A

A number of deferral accounts have a zero balance. OEB staff will not be making a submission on these accounts or the GGEIDA and the OEB Cost Assessment Variance Account.

UNION 2016 DEFERRAL AND VARIANCE ACCOUNT BALANCES

	GAS SUPPLY ACCOUNTS			
	Account #	**Account Name**	**Balance as Dec 31, 2016 ($000's)**	**Balance as Sept 30, 2017 ($000's)**
1	179-107	Spot Gas Variance Account	-	-
2	179-108	Unabsorbed Demand Cost Variance Account	3,003	3,027
3	179-128	Gas Supply Review Consultant Costs	-	-
4	179-131	Upstream Transportation Optimization	11,646	11,742
5	179-132	Deferral Clearance Variance Acct. - Supply	293	296
6	179-132	Deferral Clearance Variance Acct. - Transport	23	23
		Total Gas Supply Accounts	**14,965**	**15,088**
	STORAGE ACCOUNT			
7	179-170	Short-Term Storage & Other Bal. Services	(2,226)	(2,244)
	OTHER ACCOUNTS			
8	179-103	Unbundled Services Unauthorized Storage Overrun	-	-
9	179-112	Gas Distribution Access Rule Costs	443	443
10	179-117	Carbon Dioxide Offset Credits	-	-
11	179-120	IFRS Conversion Costs	-	-
12	179-123	Conservation Demand Management	-	-
13	179-132	Deferral Clearance Variance Account	(79)	(80)
14	179-133	Normalized Average Consumption	23,631	23,824
15	179-134	Tax Variance	(198)	(199)
16	179-135	Unaccounted for Gas Vol. Variance Account	5,189	5,232
17	179-136	Parkway West Project Costs	(1,415)	(1,426)
18	179-137	Brantford-Kirkwall/Parkway D Project Costs	(1,598)	(1,612)
19	179-138	Parkway Obligation Rate Variance	2,822	2,846
20	179-139	Energy East Pipeline Consultation Costs	-	-
21	179-141	Unaccounted for Gas Price Variance Account	(1,199)	(1,209)
22	179-142	Lobo C Compressor/Hamilton-Milton Pipeline Proj.	1,699	1,714
23	179-143	Unauthorized Overrun Non-Compliance a/c	(107)	(107)
24	179-144	Lobo D/Bright C/Dawn H Compressor Project	523	527
25	179-149	Burlington-Oakville Project Costs	257	259
26	179-151	OEB Cost Assessment Variance Account	832	-
27	179-152	Greenhouse Gas Emission Impact Deferral a/c	2,232	-
28	179-153	Base Service North T-Service TransCanada Capacity	-	-
		Total Storage & Other Accounts	**30,806**	**30,212**
		TOTAL DEFERRAL ACCOUNT BALANCES	**45,771**	**43,056**

The total balance as per the pre-filed evidence was $45.771 million. As a result of the settlement proposal, the amount for disposition has been reduced to $43.056 million. This amount reflects the adjustments agreed to by the parties and revised interest calculations up to September 30, 2017. Accordingly, the revised rate impact for a typical residential customer in the South (Windsor to Hamilton) would be $12.61 and $34.47 for customers in other service areas. The rate impact is cumulative and will be collected over a period of six months (from October 1, 2017 to March 31, 2018).

Unabsorbed Demand Cost Variance Account

Union's 2016 approved rates include planned unutilized capacity of 6.3 PJ in Union North and 0 PJ in Union South. Union collected $5.475 million in rates for unabsorbed demand costs (UDC) during 2016 and recorded an associated interest debit of $0.012 million. Actual UDC costs in 2016 were $19.569 million offset by $10.451 million in released capacity value and a credit of $0.652 million related to a change in contracted capacity on Centra Transmission Holdings and Centra Pipeline Minnesota resulting in a net cost of $8.466 million. The variance between the UDC amount collected in rates and the actual UDC cost, including the interest debit of $0.012 million[5], is a net debit in the UDC Variance Account of $3.003 million.

The increase in planned unutilized capacity, since the 2013 cost of service filing, was primarily driven by an increase in the upstream transportation capacity required to meet design day requirements as discussed in the Gas Supply memorandums filed each year.

In response to an OEB staff interrogatory[6], Union noted that the 2015/16 Gas Supply Plan included 15.5 PJ of planned unutilized capacity and resulting UDC for Union North. The difference between planned UDC of 15.5 PJ and the total unutilized capacity of 31.5 PJ in 2016 was primarily due to significantly warmer than normal weather for Union North and Union South which resulted in lower demand and transportation throughput. Union's presentation[7] made to all stakeholders in April 2017 indicated that the winter of 2015/16 was 12.8% warmer than normal.

[5] Interest calculations noted in the discussion of all deferral and variance accounts are up to December 31, 2016 in line with the amounts noted in the settlement proposal.
[6] Response to OEB staff interrogatory #3
[7] 2017 Annual Stakeholder Meeting, April 13, 2017, Exhibit A, Tab 5

In light of the significantly warmer weather, OEB staff recognizes that Union would be required to move less gas than forecast but still incur the UDC charges and it would also be difficult to re-sell unwanted capacity. OEB staff has no concerns with respect to the balances in this account.

Upstream Transportation Optimization Deferral Account

Union earned $3.358 million in net revenues from upstream transportation optimization during 2016. As per the OEB approved methodology in Union's last cost of service proceeding[8], 90% of the net revenues, or $3.022 million is to be credited to ratepayers. Union has already credited ratepayers $14.668 million in rates[9], therefore, $11.646 million ($14.668 less $3.022 million) is to be collected from ratepayers through the disposition of the deferral account.

Union's upstream transportation optimization revenue was lower due to the elimination of the TransCanada FT-RAM program and a warmer weather in 2016 resulting in fewer transactions and lower realization of exchange prices[10] during the year.

Union further noted that in addition to the warmer weather affecting exchange transactions, Union and TransCanada placed into service a number of projects that resulted in increased flows through the previously restricted Parkway to Maple corridor that reduced demand for Union's exchange services from Dawn and Parkway to more easterly points[11].

The current credit amount built into rates is significant ($14.668 million) and OEB staff is satisfied with the rationale and calculations provided to support the debit balance of $11.646 million.

Deferral Clearance Variance Account

In the EB-2014-0145 Decision, the OEB approved the Deferral Clearing Variance Account to capture the differences between the forecast and actual volumes associated with the disposition of deferral account balances. The deferral account balance is a

[8] EB-2011-0210
[9] As per methodology in EB-2011-0210, Decision and Rate Order, P.16
[10] Average price obtained in 2016 was $0.31/GJ as compared to $0.43/GJ and $0.31/GJ in 2014 and 2015 respectively
[11] Response to OEB Staff interrogatory #4

debit from ratepayers of $0.235 million plus interest of $0.002 million, for a total of $0.237 million[12]. The balance represents an under-recovery of the OEB approved deferral account balances in Union's 2014 Deferral Account Disposition proceeding (EB-2015-0010). As a result of the actual volumes being less than the forecasted volumes, Union has recovered a lower amount than the final deferral account balances approved for disposition in EB-2015-0010.

OEB staff has no concerns with the amount proposed for recovery in the Deferral Clearance Variance Account.

Short-Term Storage and Other Balancing Services Deferral Account

The balance in the Short-Term Storage and Other Balancing Services Deferral Account is a credit to ratepayers of $2.226 million. The account includes revenues from providing storage services, Gas Loans, Enbridge Loan Balancing services, Supplemental Balancing Services and C1 Short-Term Firm Peak Storage. The current amount included in rates is $4.551 million[13]. The balance of $2.226 million is calculated by comparing $6.777 million (90% of the actual revenue from short-term storage and other balancing services) and the revenue of $4.551 million included in rates. OEB staff has no concern with the calculation or the final balance in the account.

Gas Distribution Access Rule Costs Deferral Account

The Gas Distribution Access Rule (GDAR) Deferral Account records the difference between the actual costs required to implement the appropriate process and system changes to achieve compliance with GDAR and the costs included in rates as approved by the OEB. Currently, there are no GDAR related costs included in rates. The balance of the GDAR Deferral Account is a debit from ratepayers of $0.443 million.

Consistent with Union's 2013 Deferral and Earnings Sharing Disposition proceeding[14], Union replaced the capital costs with the annual revenue requirement related to the capital costs of complying with GDAR requirements. The revenue requirement related to the capital costs will continue to be included in future deferral disposition proceedings.

[12] $293,000 + $23,000 - $79,000 = $237,000
[13] EB-2011-0210 Rate Order
[14] EB-2014-0145

In response to an interrogatory[15], Union confirmed that it will not include the revenue requirement related to GDAR costs in proposed rates at the next rebasing. The remaining GDAR related capital costs will be fully recovered in the 2017 non-commodity deferral and earnings sharing application, which will be filed in 2018. OEB staff has no concerns with Union's current balance and its proposed approach.

Normalized Average Consumption Deferral Account

The purpose of the Normalized Average Consumption (NAC) deferral account is to track the variance in delivery revenue and storage revenue and costs resulting from the difference between the target NAC included in OEB-approved rates and the actual NAC for general service rate classes Rate M1, Rate M2, Rate 01 and Rate 10. For 2016, the balance in the NAC deferral account is a debit from ratepayers of $23.506 million plus interest of $0.125 million for a total of $23.631 million.

The 2016 target NAC for each rate class was approved in Union's 2016 rates proceeding[16]. The variance in the NAC deferral account is the difference between the target NAC used to set rates and the actual NAC in the year. There is a two year lag between the target NAC used to set rates and the actual NAC for the year. The target NAC used to set 2016 rates was based on 2014 actual NAC weather normalized for 2016.

In response to an interrogatory[17], Union indicated that since 2013, actual NAC has been trending down at an average rate of 1.5% per year. For Rate M1, the actual NAC is less than target NAC by 185 m^3/customer[18] and for Rate 01, actual NAC is less than target NAC by 227 m^3/customer[19].

The declining trend in NAC is driven by a number of factors:

- Efficiency gains due to advancements in the space and water heating industries particularly in the residential market.
- Demand Side Management (DSM) programs promoted by Union and other energy saving initiatives.
- Customer behaviour, including comfort desires (thermostat settings).

[15] Response to OEB staff interrogatory #5
[16] EB-2016-0116
[17] Response to OEB staff interrogatory #8
[18] 2016 Target NAC – 2,852 versus actual NAC of 2,667 m^3/customer
[19] 2016 Target NAC – 3,015 versus actual NAC of 2,788 m^3/customer

Union also confirmed that the NAC deferral account includes all DSM and other efficiency gains in the general service market and there is no further revenue recovery through the previously used system of the Loss Revenue Adjustment Mechanism (LRAM). Since 2014, the LRAM deferral account applies to contract rate customers only. There is no double counting or double recovery through the LRAM and the NAC deferral account[20].

Parties asked several interrogatories related to the balance in the NAC deferral account. Some intervenors did express concern with the significant variance and balance in the NAC deferral account. In response, Union indicated that it has agreed to conduct and file a study in its next rebasing proceeding to assess the continued appropriateness of its methodology for determining the NAC and will specifically look into the forecast impact of ongoing structural changes in general service customer gas consumption and the forecast impact of DSM savings[21].

OEB staff is satisfied with the underlying calculations to derive the NAC deferral account balances and confirms that it is in line with the OEB approved methodology[22].

Tax Variance Deferral Account

The total balance in the Tax Variance Deferral Account is a credit to ratepayers of $0.198 million. The credit relates to ratepayers' portion (50%) of Union's incremental savings from the reduction of input tax credits on Harmonized Sales Tax. OEB staff has no concerns with the disposition of this account.

Unaccounted for Gas Volume Variance Account

The account was approved in Union's 2014-2018 Settlement Agreement[23] and is set up to capture the difference between Union's actual unaccounted for gas (UFG) costs and the OEB approved UFG costs included in rates, in excess of $5.0 million. Based on 2016 actual volumes, Union only recovered $10.784 million in UFG costs for 2016 through rates. In contrast, Union's actual 2016 UFG costs were $20.969 million as a result of the actual UFG percentage of 0.427% being greater than the 2013 OEB-approved UFG percentage of 0.219%. The difference between the amount recovered in

[20] Response to OEB staff interrogatory #7
[21] Response to Consumers Council of Canada interrogatory #2
[22] Approved in 2014-2018 IRM Settlement Agreement – EB-2013-0202 and EB-2014-0271
[23] EB-2013-0202

rates and actual UFG costs is $10.184 million ($20.969 million – $10.784 million). Union is seeking to recover from customers the amount in excess of the $5.0 million threshold established by the OEB. The balance in the UFG Volume deferral account is a debit from ratepayers of $5.184 million ($10.184 million less $5.0 million) plus interest of $0.005 million, for a total balance of $5.189 million.

In response to an interrogatory[24], Union noted that variances in UFG can result from leakage or other losses, discrepancies in measurement, variations of temperature and/or pressure, as well as the estimate of gas delivered but not yet billed at the end of each reporting period. The amount of $10.184 million increase above the amount recovered in rates is primarily driven by a decrease in delivery volumes recorded in January 2016 related to estimated consumption in December 2015 with no corresponding offset in the consumption estimates at the end of 2016.

OEB staff accepts Union's calculation and the rationale for the increase in UFG. OEB staff further notes that the shareholder has also made a $5.0 million contribution to the excess UFG as a result of the agreed to symmetrical dead-band.

Parkway West Project Costs Deferral Account

The Parkway West Project Costs deferral account tracks the difference between the actual revenue requirement related to costs for the Parkway West Project and the revenue requirement included in rates. The account was approved in the Parkway West leave to construct proceeding[25]. The balance in the Parkway West deferral account is a credit to ratepayers of $1.412 million plus interest of $0.003 million for a total of $1.415 million[26]. Although capital expenditures were higher in 2016 (by $14.3 million), the credit balance is due to lower OM&A costs (lower by $1.1 million to OEB approved) and tax related timing differences (lower by $0.3 million).

The OEB approved a total spending of $219 million in the leave to construct application[27]. The actual cost to date is $228 million[28]. The project was placed in service

[24] Response to OEB staff interrogatory #9
[25] EB-2012-0433, Decision and Order, January 30, 2014
[26] Exhibit A, Tab 1, page 30
[27] EB-2012-0433 Decision and Order, January 30, 2014
[28] Response to APPrO interrogatory #2

in November 2015. Union has however indicated that it expects to incur further costs in 2017 related to final cleanup and resolution of Heritage Houses on site[29].

Union noted that higher capital costs were due to higher material and labour costs related to clean-up work, commissioning costs, third-party engineering, environmental, permitting and timing of finalizing contractor costs.

In the Parkway West leave to construct decision[30], the OEB noted that any excess costs over and above the pre-approved amount will be examined at Union's next rate application after the completion of the project.

Although the project is in service, Union expects to incur additional capital costs. Union has also not provided sufficient evidence to justify the overspending. The intervenors therefore agreed to dispose of the balances in the account on an interim basis. The final disposition of the balances in the account will occur when prudence of all spending (including prior to 2017) above the pre-approved amount will be assessed as part of Union's 2017 Deferral Account and Earnings Sharing proceeding that will be filed in 2018. Union has also agreed to provide better evidence on any overspending on the project and the measures adopted by Union to rigorously control its expenditures.

OEB staff is satisfied with the agreement reached on this issue. OEB staff is of the opinion that the evidence and interrogatory responses did not provide sufficient rationale for the increase in capital expenditures related to the Parkway West Project. It was therefore not possible to conduct a prudence review on the overspending in this proceeding.

Brantford-Kirkwall/Parkway D Project Costs Deferral Account

This account tracks the difference between the actual revenue requirement related to costs for the Brantford-Kirkwall/Parkway D Project and the revenue requirement included in rates. The account was approved in the leave to construct application[31]. The balance in the deferral account is a credit to ratepayers of $1.593 million plus interest of $0.0005 million for a total of $1.598 million. The credit represents a true-up to actuals of

[29] Response to LPMA interrogatory #8
[30] EB-2012-0433
[31] EB-2013-0074

the revenue requirement included in the 2015 Deferral Account and Earnings Sharing proceeding to reflect a property tax reassessment that occurred in 2016.

The capital spending for the project to-date as at December 31, 2016 is lower than forecast by $7.048 million. This is because contingency costs that were included in the original estimate for unforeseen expenditures were not required. Although actual costs for the prime contractor were higher than the original estimate, this was offset by lower material and equipment costs.

The project was completed and in-service as of November 2015. Union has indicated that final clean-up will be completed in 2017[32]. The total OEB approved capital costs for the project was $204 million[33]. Union is still expected to incur some final cleanup costs. The forecasted final cost of the project is $197.351 million. This is lower than the OEB approved amount. The intervenors accepted the balance in the deferral account. OEB staff has no concerns with the disposition of the balance in the account given the insignificant variance between the updated forecast and what was embedded in rates

Parkway Obligation Rate Variance Account

In the 2014 Rates approved settlement proposal[34], Union and intervenors agreed to permanently shift the Union South Direct Purchase (DP) Parkway Delivery Obligation to Dawn over time and agreed to the payment of a Parkway Delivery Commitment Incentive for any continuing obligated Daily Contract Quantity deliveries at Parkway beginning November 1, 2016. The costs of the change in delivery obligation are borne by all customers of Union. This is because DP customers with a Parkway Delivery Obligation are conferring a benefit on all users of the Dawn-Parkway transmission system in terms of the avoided costs to build additional infrastructure to transport the gas from Dawn to Parkway. DP customers that deliver to Parkway receive an incentive payment from Union.

To account for the actual effective date of November 1, 2016, Union is proposing to recover $2.822 million from ratepayers for the November 1, 2016 to December 31, 2016 period through this variance account. The $2.822 million includes $2.0 million of Dawn

[32] Response to OEB staff interrogatory #12
[33] EB-2013-0074
[34] EB-2013-0365

Parkway demand costs, $0.821 million of compressor fuel costs and $0.001 million of interest.

OEB staff has no concerns with the balance in the variance account.

Unaccounted for Gas Price Variance Account

The UFG Price Variance Account captures the difference between the average monthly price of Union's purchases and the applicable OEB-approved reference price[35], applied to Union's actual UFG volumes. For 2016, the balance in the account is a credit to ratepayers of $1.196 million plus interest of $0.003 million for a total of $1.199 million.

Union's actual UFG for 2016 was 0.427% as compared to the 2013 OEB approved UFG percentage of 0.219%. OEB staff inquired into the higher UFG percentage as compared to the UFG approved in 2013 rates. Union in reply to an interrogatory[36] noted that the 0.219 UFG percentage used in approved rates was determined using the weighted average of the previous three years actual UFG. At the time of setting 2013 rates, the three years considered in the calculation were 2009, 2010 and 2011. The OEB approved methodology used a 3:2:1 weighting with the most recent year weighted most heavily. Accordingly, the ratio for UFG in rates was heavily influenced by 2011's favourable ratio (0.105%).

This issue has been discussed earlier in the Unaccounted for Gas Volume Variance Account. OEB staff has no concerns with the calculation of the UFG percentage for 2016.

Lobo C Compressor/Hamilton-Milton Pipeline Project Costs Deferral Account

The account tracks the difference between the actual revenue requirement related to costs for the Lobo C Compressor/Hamilton-Milton Pipeline Project and the revenue requirement included in rates. The balance in the deferral account is a debit from ratepayers of $1.698 million plus interest of $0.001 million for a total of $1.699 million. The balance represents the difference between the $0.683 million included in 2016 rates and the actual revenue requirement of $2.396 million, and a $0.015 million true-up to the revenue requirement included in the 2015 deferral and earnings sharing

[35] EB-2015-0010 Decision
[36] OEB staff interrogatory #9

disposition application[37]. The establishment of the account was approved in the Dawn Parkway 2016 Expansion Decision[38].

The average investment for 2016 recorded an increase of $19.800 million over OEB-approved amounts due to the in-service timing of capital expenditures. This was the main driver for the debit balance in the deferral account. Capital expenditures for the Lobo C Compressor/Hamilton-Milton Pipeline project were $14.058 million higher in 2015 than OEB approved capital expenditures. This increased the opening balance in 2016 for purposes of calculating the average investment.

The total OEB approved cost for the project was $390.7 million[39]. The total forecasted capital expenditure for the project is $347.6 million. OEB staff has no concerns with the balances in the deferral account considering that the capital expenditures have come below forecast.

Dawn H/Lobo D/Bright C Compressor Project Costs Deferral Account

The account tracks the difference between the actual revenue requirement related to project costs and the revenue requirement included in rates. The deferral account has a debit balance of $0.525 million, less an interest credit of $0.002 million for a total balance of $0.523 million. The balance represents the difference between the $1.716 million credit included in 2016 rates and the actual revenue requirement credit of $1.191 million. The OEB approved the establishment of the account in the 2017 Dawn Parkway Project Decision[40].

In the 2017 Dawn Parkway Project Settlement Proposal (EB-2015-0200), Union agreed to record in the deferral account variances in actual revenue generated from surplus capacity. There was no surplus capacity in 2016 and therefore no actual revenue was earned.

OEB staff is satisfied with the evidence provided by Union for this account and has no concerns with respect to the balance in the deferral account.

---

[37] EB-2016-0118
[38] EB-2014-0261
[39] EB-2014-0261
[40] EB-2015-0116

Burlington-Oakville Project Costs Deferral Account

The account tracks the difference between the actual revenue requirement related to costs for the Burlington Oakville Pipeline Project and the revenue requirement included in rates. The deferral account balance is a debit from ratepayers of $0.258 million, less an interest credit of $0.001 million for a total balance of $0.257 million. The balance represents the difference between the $0.077 million included in 2016 rates and the actual revenue requirement of $0.335 million. The OEB approved the establishment of the account in the 2017 Dawn Parkway Project Decision[41].

Land right costs were $5.004 million lower than the costs included in 2016 OEB approved rates. The NPS 20 inch pipeline costs were $31.147 million lower while station equipment costs were $2.125 million lower than the costs include in 2016 OEB approved rates. Although capital expenditures for 2016 were below the OEB-approved amount, the average investment increased by $2.318 million over the costs included in 2016 OEB-approved rates due to in-service timing. Union has also indicated that it expects none of the approximately $20 million in contingencies budgeted for the project will be utilized.

OEB staff is satisfied with the evidence provided by Union and has no concerns with the balance in the deferral account.

2016 Earnings Sharing

As per Union's approved settlement proposal in EB-2013-0202, Union did not exceed the return on equity (ROE) threshold and therefore there is no earnings sharing with ratepayers. OEB staff is satisfied with the earnings sharing calculation provided by Union.

OEB staff inquired into costs related to the merger of Enbridge Inc. and Spectra Energy to understand whether there was any impact on the earnings sharing as a result of merger related costs. Union, in response to an interrogatory[42], indicated that it incurred $55,260 in employee expenses related to the merger in 2016 and the exclusion of these costs from 2016 utility earnings had no impact on earnings sharing.

[41] EB-2015-0116

[42] Response to OEB staff interrogatory #19

Union further confirmed that all donations are removed from utility expense through the non-utility earnings adjustment[43].

Allocation of 2016 Deferral Account Balances

OEB staff has no concerns with Union's proposed allocation of 2016 deferral account balances. The allocation is consistent with past disposition of deferral account balances and OEB approved methodologies.

Disposition of 2016 Deferral Account Balances

Intervenors accepted Union's proposal to dispose of balances prospectively over six months for general service rate classes (October 1, 2017 to March 31, 2018). For in-franchise contract and ex-franchise rate classes, intervenors agreed to dispose of the net 2016 delivery-related deferral account balances as a one-time adjustment in October 2017 customer bills.

OEB staff notes that Union's proposal is consistent with the disposition mechanism adopted in previous deferral account proceedings and has no concerns with the proposed disposition.

– All of which is respectfully submitted –

[43] Response to OEB staff interrogatory #21