



EB-2017-0087

Union Gas Limited

**Application for natural gas distribution, transmission
and storage rates effective January 1, 2018**

PROCEDURAL ORDER NO. 3

November 29, 2017

Union Gas Limited (Union Gas) filed an application dated September 26, 2017 with the Ontario Energy Board (OEB) pursuant to section 36 of the *Ontario Energy Board Act, 1998* (Act), for an order or orders approving rates for the distribution, transmission and storage of natural gas, effective January 1, 2018. The Industrial Gas Users Association (IGUA) filed evidence requesting a change to the current cost allocation methodology used to allocate Panhandle Reinforcement project costs.

The OEB has previously directed that IRM rate changes are supposed to be mechanistic in the current IRM framework. Cost allocation changes are outside of the scope of this proceeding accordingly the evidence of IGUA will not be considered as part of the evidentiary record.

The Union Gas 2013 application for a multi-year Incentive Ratemaking (IRM) framework, EB-2013-0202, established the IRM framework for Union Gas' current application for 2018 rates. The framework sets rates on an annual basis using a price cap and other adjustments. With respect to cost allocation, the OEB- approved settlement stated:

Subject to direction otherwise from the Board, Union will allocate the net revenue requirement using 2013 Board-approved cost allocation methodologies. Any party, including Union, may take any position with respect to the proposed allocation for any particular capital project during review of the project, or its rate impacts, by the Board¹;

¹ EB-2013-0202 Settlement Agreement, Union Gas Limited, Page 21, July 31, 2013

In the Panhandle Reinforcement Leave to Construct application, EB-2016-0186, Union proposed to allocate the Panhandle System demand costs in proportion to the firm Union South in-franchise Panhandle System Design Day demands. The OEB-approved cost allocation methodology allocates costs based on the combined Panhandle and St. Clair System. With the addition of significant Panhandle System project costs, Union submitted that the use of the combined system for cost allocation purposes no longer reflected the costs to serve the customers. The OEB Decision determined that a change in cost allocation cannot be adequately considered during the IRM term and such changes should be reviewed in Union's next rebasing proceeding. Neither IGUA nor any other party requested a review of this decision.

Union's IRM term is ending in 2018 and it was expected to file a rebasing proceeding for 2019 rates. The Union and Enbridge Gas Distribution Inc. (Enbridge) merger application proposed a 10-year adjustment to rates using a price cap index². In response to an interrogatory³, Union has indicated that it intends to address concerns with the cost allocation of all Panhandle System and St. Clair System costs in its 2019 price cap index rates application.

As an approved intervenor in the current proceeding, the Industrial Gas Users Association (IGUA) filed evidence providing an overview of the rate impact on IGUA members as a result of the current cost allocation methodology. IGUA noted that a number of its members were T2 customers who would have a rate increase of 16.2% in 2018. The aggregate difference between using the existing allocation methodology and Union's proposed allocation methodology in the Panhandle Reinforcement leave to construct application will be approximately \$926,000 in 2018 for the four specifically identified IGUA members. IGUA submitted that this was a material impact for, and a significant concern of IGUA's Sarnia area members.

The OEB is of the opinion that cost allocation issues can be better addressed prior to Union entering another price cap rate mechanism framework. It would not be appropriate to address cost allocation changes in the last year of the current IRM framework where rate changes are supposed to be mechanistic. Furthermore, the merger Application of Union and Enbridge has not yet been approved, and it is possible that Union and Enbridge could be required to file evidence dealing with some components of rebasing applications. The OEB is of the opinion that any cost allocation changes are appropriate to be considered for the setting of 2019 rates. In addition, the Notice in the current proceeding did not include any specific reference to cost allocation as an issue.

² Union and Enbridge MAADs and Rate Framework Applications, EB-2017-0306 and EB-2017-0307

³ Union response to interrogatory, Exhibit B.IGUA.4, part c, November 21, 2017

The OEB has reviewed the evidence of IGUA and has determined that the issue raised by IGUA in its evidence is thus out of scope and will not be addressed in this proceeding. Accordingly, further examination of the evidence submitted by IGUA through interrogatories is not required for the determination of the application. The OEB reminds all parties that it will not provide for costs related to review of IGUA's evidence or for preparing interrogatories on that evidence.

All filings to the Board must quote the file number, **EB-2017-0087** and be made electronically in searchable/unrestricted PDF format through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.oeb.ca/OEB/Industry>. If the web portal is not available, parties may email their documents to the address below.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Khalil Viraney at Khalil.Viraney@oeb.ca and Board Counsel, Michael Millar at Michael.Millar@oeb.ca.

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DATED at Toronto, November 29, 2017

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary