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Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL FILED ON DECEMBER 21, 2017

Union Gas Limited 2018 Rates for Distribution, Transmission and Storage of Natural Gas Effective January 1, 2018
EB-2017-0087

January 4, 2018

Background

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.

Union Gas' current application for 2018 rates is based on a price cap adjustment that sets rates on an annual basis using an inflation factor less productivity and other adjustments. The framework set in 2013 ends on December 31, 2018[1].

The OEB issued Procedural Order No. 1 on October 27, 2017, that approved a list of intervenors in the proceeding and provided for parties to file interrogatories, intervenor evidence and interrogatories on intervenor evidence. The Industrial Gas Users Association (IGUA) filed evidence on November 27, 2017. The evidence provided an overview of the rate impact on IGUA members as a result of the current cost allocation methodology used to allocate Panhandle Reinforcement project costs.

In the Panhandle Reinforcement Leave to Construct application[2], Union Gas proposed to allocate the Panhandle System demand costs related to the project, in proportion to the firm Union South in-franchise Panhandle System Design Day demands, updated to include the incremental firm Project Design Day demands. Union Gas' proposed cost allocation was different from the OEB-approved cost allocation methodology. Union Gas noted that with the addition of significant project costs related only to the Panhandle System and no change to the cost of the St. Clair System, the use of the combined system for cost allocation purposes no longer reflected the costs to serve the customers on each respective transmission system. Union Gas submitted that its proposed interim allocation of project costs better reflected the principles of costs causality during the remainder of the IRM term.

The OEB in its Decision[3] determined that a change in cost allocation cannot be adequately considered during the Incentive Regulation Mechanism (IRM) term and such changes should be reviewed in Union Gas' next rebasing proceeding, which at the time was expected to be in 2019.

In Procedural Order No. 3 issued on November 29, 2017, the OEB dismissed IGUA's evidence noting that cost allocation issues can be better addressed in a rebasing proceeding or prior to Union Gas entering another price cap rate mechanism framework

[1] EB-2013-0202
[2] EB-2016-0186
[3] EB-2016-0186 Decision and Order, February 23, 2017, page 11

and not in the last year of the current IRM framework where rate changes are supposed to be mechanistic. The OEB determined that the evidence of IGUA was out of scope and would not be addressed in this proceeding.

By a letter dated December 6, 2017, IGUA requested a review under Part VII of the OEB's *Rules of Practice and Procedure* for a part of Procedural Order No. 3. Although IGUA accepted the OEB's determination that it would not be making changes to the cost allocation methodology in this proceeding, it submitted that it should not be precluded from exploring other possible options for the OEB to consider in addressing what would in its view be a very significant and negative impact on IGUA members.

The OEB in its Decision dated December 11, 2017 dismissed IGUA's request for a review. The OEB noted that although IGUA had suggested potential remedies that would not involve direct changes to the cost allocation methodology in this proceeding, it did not believe that the proposed IGUA evidence was necessary to advance such arguments.

A settlement conference between Union Gas and intervenors was held on December 13, 2017 with the objective of reaching a settlement on the issues. Union Gas filed a settlement proposal on December 21, 2017, along with a draft Rate Order reaching a settlement with the parties on two issues in the proceeding. There was a partial settlement on the Panhandle Reinforcement Project costs. The final allocation of Panhandle Reinforcement Project costs for 2018 will proceed to argument. The settlement proposal did not discuss or mention the other issues in the proceeding.

Union Settlement Proposal

OEB staff has reviewed the settlement proposal filed by Union Gas in the context of Union Gas' 2014-18 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 Gas' 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 settlement proposal and notes the following:

- Union Gas agreed to adjust the Panhandle Reinforcement capital costs to reflect Union Gas' latest forecast capital cost of $242.8 million as opposed to the amount approved by the OEB in the leave to construct application[4] ($264.5 million). The parties also agreed that any variance between actual and forecast net delivery revenue requirement will continue to be captured in the Panhandle Reinforcement Project Costs Deferral Account.

- The draft Rate Order appropriately reflects the adjustments agreed to in the IRM Framework, amounts approved by the OEB in prior leave to construct applications and the adjustments agreed to in the settlement proposal with the exception of certain issues identified later in this submission.

OEB staff notes that the settlement proposal is silent on a number of other issues. It is not known whether the intervenors have a position on any of the other issues. OEB staff in their commentary discuss the other issues as well as the issues noted in the settlement proposal.

Price Cap Adjustments

The framework includes a price cap adjustment (PCI) that uses an inflation (I) and a productivity factor (X); PCI = I – X. OEB staff has no issues with the calculation or the implementation of the price cap adjustment.

There are a number of Y and Z factor adjustments.
The Y factors include:

- Cost of gas and upstream transportation costs as defined in EB-2011-0210 (Union Gas' last rebasing proceeding)
- Demand Side Management (DSM) budget changes as determined in EB-2015-0029 (DSM proceeding) and any subsequent OEB proceeding
- Loss Revenue Adjustment Mechanism (LRAM) for the contract rate classes
- Unaccounted for Gas (UFG) volume variances
- Major capital additions

Most of the major capital additions and the associated revenue requirements have been approved in prior leave to construct applications. The Panhandle Reinforcement Project has been recently completed (November 2017). The parties agreed to use the actual latest total forecast capital cost for purposes of calculating the 2018 revenue requirement. OEB staff has no concerns with using the latest available cost considering that the amount is lower than OEB-approved.

[4] EB-2016-0186

However, there was no agreement with respect to the final allocation of Panhandle Reinforcement Project costs for 2018. The settlement proposal refers to the OEB's Decision dated December 11, 2017 wherein the OEB noted that IGUA's evidence was not necessary to argue for potential remedies that would not involve direct changes to cost allocation methodology in this proceeding. The settlement proposal does not articulate the exact position of IGUA or the description of the unsettled issue. It only states that the unsettled issue would proceed to argument.

OEB staff has no concerns with any of the other Y factors. Cost of gas and upstream transportation costs are as filed in Union Gas' January 1, 2018 Quarterly Rate Adjustment Mechanism (QRAM) application. Changes in upstream gas costs will continue to be determined using the OEB approved QRAM methodology.

Union Gas has included an approved DSM budget of $63.3 million in 2018 rates. The difference between actual and budgeted for 2018 will be captured in the DSM variance account.

For the contract rate classes, Union Gas will continue to adjust volumes and calculate rates to capture the Loss Revenue Adjustment Mechanism (LRAM) volume impacts. As the audit processes associated with the 2015 and 2016 DSM program results are not yet complete, Union Gas is not able to true-up the 2015 pre-audit volume adjustment made in 2017 rates and proposes to adjust 2018 volumes by 2016 pre-audit results. The variances related to the difference between the 2015 and 2016 pre-audit and post-audit results respectively, will be captured in the LRAM deferral account until the LRAM volume impacts are trued up in an annual rate adjustment.

Updates to the Rate M12 Schedule C

Union Gas has proposed to update the Rate M12 schedule to include the fuel ratio and fuel rate for westerly transportation from Kirkwall to Dawn available under the M12-X service. The 2018 M12-X Kirkwall to Dawn fuel ratio is set at 0.158% (or $0.006/GJ) which is consistent with the Rate C1 Kirkwall to Dawn transportation fuel ratio. This issue was completed settled. The proposed change results in a decrease to the fuel ratio customers are currently charged. There is no impact to customers as a result of this proposal as the difference between the fuel provided in-kind for M12-X Kirkwall to Dawn transportation and the actual fuel usage for each customer had previously been trued up through the Yearly Commodity Required process, an internal process of Union Gas to balance fuel usage of customers.

Union Gas proposed to remove the VT3 Westerly Parkway to Kirkwall and Parkway to Dawn fuel ratio and fuel rate from the Rate M12 Schedule C as Union Gas no longer offers this service under Rate M12. This issues was fully settled and OEB staff has no concerns.

Parkway Delivery Obligation

In Union Gas' 2014 rates application[5], the OEB approved a framework for the reduction of Parkway Delivery Obligation (PDO). Union Gas' large volume direct purchase customers east of Dawn have an obligation to deliver gas at Parkway (the Parkway Delivery Obligation). In the 2013 rates proceeding (EB-2011-0210), Union Gas' direct purchase customers requested that Union Gas eliminate PDO and allow customers to deliver gas at Dawn because the cost to these customers to maintain the obligation exceeded the delivery rate benefit of the obligation. In the 2014 rates proceeding, Union Gas reached an agreement with parties on the PDO issue.

In response to an OEB staff interrogatory, Union Gas has confirmed that the $1.130 million credit for 2018 reflects the PDO cost of $24.855 million included in 2018 proposed revenue less the PDO cost of $25.985 million included in 2017 rates[6]. Union Gas expects to incur $24.855 million of costs related to PDO in 2018 in accordance with the PDO Settlement Agreement. The $24.855 million includes $11.431 million of demand and fuel costs associated with PDO turn-back and $13.424 million of Parkway Delivery Commitment Incentive costs for payment to customers for any remaining obligated deliveries at Parkway.

However, these amounts have changed from the original filing. The amount in the settlement proposal draft Rate Order for 2018 is $24.602 million[7] as compared to $24.885 million in the original filing. Further, the amounts for 2017 rates is also different as compared to the original filing. Considering that the settlement proposal did not reference the Parkway Delivery Obligation or settle these amounts, it is not clear how the amounts changed as compared to the original filing. The schedule seems to indicate a reduction in compressor fuel costs but there is no further explanation. Union Gas is requested to provide further clarification at the presentation day or in final arguments.

[5] Eb-2013-0365
[6] Interrogatory Response Exhibit B.Staff.7
[7] Rate Order Working Papers, Schedule 20, Page 1

Deferral Account Closure Requests

The Energy East Pipeline Consultation Costs (EEPCC) Deferral Account was established in 2014 as part of Union Gas' 2015 Rates proceeding. The OEB allowed Union Gas to create a deferral account for its allocation of Energy East consultation costs. No further consultation costs are expected. Accordingly, Union Gas has requested approval to close the EEPCC Deferral Account effective January 1, 2018. OEB staff has no concerns with Union Gas' request.

Bill Impacts and Implementation of Rate Order

As per the original application, the net annual bill increase for a typical Union Gas South residential customer consuming 2,200 m^3 per year was $9.60 per year while annual bill increases for a typical Union North residential customer consuming 2,200 m^3 per year ranged from $10.75 to $14.03 per year.

As a result of the settlement proposal, the net annual bill increase for a typical Union Gas South residential customer consuming 2,200 m^3 per year is $9.34 per year while annual bill increases for a typical Union North residential customer consuming 2,200 m^3 per year ranges from $10.84 to $14.15 per year.

Although Union Gas South residential customers will see a slight decrease in the annual bill as a result of the settlement, Union North customers will see a slight bill increase. Considering that the settlement has resulted in a slightly lower revenue requirement as compared to the original filing, Union Gas has not provided any explanation for the bill increase relating to northern customers as a result of the settlement proposal. The explanation for the increase should be provided at the presentation of the settlement proposal. OEB staff notes that while the original filing compared bill impacts to the October 1, 2017 commodity rate adjustment (QRAM), the draft Rate Order submitted along with the settlement proposal compares the bill impacts to the January 1, 2018 QRAM filing. OEB staff further notes that January 1, 2018 QRAM rate changes[8] were approved by the OEB on December 20. 2017 and the settlement proposal for this proceeding was submitted on December 21, 2017 along with the draft Rate Order. This

[8] As per the January 1, 2018 QRAM adjustment, customers in the south will see a bill decrease of approximately $28 per year while customers in the north will see a bill decrease ranging from $5.50 to $23.55 per year.

is one of the reasons why the draft Rate Order was not available for comments during drafting of the settlement proposal.

Union has proposed to implement new rates on the first billing cycle on or after February 1, 2018. Rate adjustments for the period January 1 to January 31, 2018 will be recovered from general service rate classes through a temporary charge or credit in rates for the period February 1, 2018 to December 31, 2018. OEB staff has no concerns with the proposed rate recovery approach.

OEB staff has reviewed the draft Rate Order and has no additional concerns.

– All of which is respectfully submitted –