ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Kitchener Utilities

MAADs Issues List – Issue No. 1

Preamble: Kitchener Utilities is the only customer in the T3 rate class. Since April 2011, Kitchener Utilities' T3 contract demand (Design Day Demand) has been 2,350,000 m3. However, as per Union's 2013 OEB-approved cost of service, the T3 Design Day Demand has been 2,511,000 m3. Since then, Union's capital project costs and PDO and PDCI costs have been allocated based on the higher Design Day Demand. Kitchener Utilities has incurred higher inappropriate charges as a result of being assigned the higher Design Day Demand, and if left uncorrected for a further ten years (the Applicants' deferred rebasing period), it will continue to incur inappropriate higher charges.

Question:

a) If the OEB grants the Applicants' request for approval of the amalgamation and a deferral of rebasing (for any period), would the Applicants correct the Design Day Demand parameter for 2019 rates, or at any point in the rebasing deferral period?
b) If the answer to (a) above is "Yes" (i.e., the Applicants would correct the T3 Design Day Demand parameter), please explain when and how.
c) If the answer to (a) above is "No" (i.e., the Applicants would not correct the T3 Design Day Demand parameter), please explain whether a deferral of rebasing would be appropriate in the context of this application, given the Board's requirement to ensure rates are just and reasonable.
d) Given that Kitchener Utilities' contractual Design Day Demand is lower than the factor used in Union's 2013 cost of service:
   i. Why didn't Union use the contractual Design Day Demand in its cost allocation?
   ii. If the lower Design Day Demand had originally been used in Union's 2013 cost of service, please provide by year for each year since the 2013 cost of service:
   A. the 'adjusted' Transportation by component cost impact for T3; and
   B. Actual Transportation by component costs incurred by T3.

Response:

a) The Applicants will not be updating the Design Day Demand used in the calculation of certain allocation factors in 2019 or during the proposed deferred rebasing period, as the Applicants are not completing a cost allocation study until rebasing in 2029. Please see the response to CCC Interrogatory #31found at Exhibit C.CCC.31.

b) The Applicants will not be updating the Design Day Demands, as per the response to part a).

c) The Applicants have applied to the Board to adjust rates during the deferred rebasing period using a price cap mechanism, which is deemed to be a just and reasonable method for rate setting during an incentive regulation period.

d)

i. Union does not use Contract Demand for cost allocation purposes because it is a parameter negotiated between the customer and Union that is used for billing purposes and does not necessarily reflect a customer's demand on Design Day. The Design Day Demand used for cost allocation purposes is based on Union's system design and is determined using a regression analysis of the customers actual metered usage versus actual weather (heating degree days) for each day of the winter operating season, extrapolated to Design Day weather conditions.

ii. Union does not support the premise that Contract Demand should have been used in the 2013 cost allocation study, as described in part i. above, and that it is practical to adjust only one component of a forecast included in a comprehensive cost allocation study. Accordingly, Union has not provided the requested cost allocation impacts.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Kitchener Utilities

MAADs Issues List – Issue No. 1

Preamble:

The Applicants' Applications assumed that the Applicants were entitled to elect a 10-year rebasing deferral period. In its decision of March 1, 2018, the OEB disagreed, and the appropriateness of a deferral period (and if so, the length of the deferral period) is now an issue in this proceeding.

Question:

a) What is the Applicants' rationale for a ten-year rebasing deferral period?
b) Will the Applicants still amalgamate if the OEB denies the Applicants' request to defer rebasing?

Response:

Please see the response to Board Staff Interrogatory #4 found at Exhibit C.STAFF.4.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Kitchener Utilities

Rate Mechanism Issues List – Issue No. 2

Preamble: Kitchener Utilities is the only customer in the T3 rate class. Since 2009, Kitchener Utilities' annual consumption has averaged 261.7 million m3, as follows:

Year	Kitchener Annual Consumption (million m3)
2009	264,173,992
2010	253,595,306
2011	264,031,939
2012	239,361,187
2013	273,597,001
2014	288,979,190
2015	263,235,038
2016	250,166,643
2017	258,356,034

However, per Union's 2013 OEB-approved cost of service, the T3 annual consumption used for cost allocation is 272,712,000 m3.

Question:

a) With the loss of significant demand due to recessions (closure of plants), the increase in heat-sensitive demand, etc, how and when will the reduced annual consumption be incorporated into the cost allocation factors?
b) What method was used to calculate the annual volume consumption in the 2013 cost of service? Is that method still appropriate considering the fluctuating demand?
c) If the OEB grants the Applicants' request for approval of the amalgamation and a deferral of rebasing (for any period), would the Applicants correct the T3 annual consumption parameter for 2019 rates, or at any point in the rebasing deferral period?
d) If the answer to (a) above is "Yes" (i.e., the Applicants would correct the T3 annual consumption parameter), please explain when and how.

e) If the answer to (a) above is “No” (i.e., the Applicants would not correct the T3 annual consumption parameter), please explain whether a deferral of rebasing would be appropriate in the context of this application, given the Board’s requirement to ensure rates are just and reasonable.
f) If the annual volume consumption has decreased and the lower annual volume consumption was used in the 2013 cost of service, please provide by year for each year since the 2013 cost of service:
   i. the ‘adjusted’ Transportation by component cost impact for T3; and
   ii. Actual Transportation by component costs incurred by T3.

Response:

a) Amalco will update the annual consumption used in the calculation of certain allocation factors when a cost allocation study is prepared upon rebasing in 2029. Amalco will also update the corresponding billing units as part of the rate setting process to reflect the forecast annual consumption for 2029. Please see the response to CCC Interrogatory #31 found at Exhibit C.CCC.31.

   Union used the forecast annual consumption of 272,712,000 m^3 to allocate Rate T3 commodity costs within the 2013 cost study and to calculate the Rate T3 commodity rate. To the extent actual consumption is different than the 2013 forecast consumption, Kitchener Utilities will be charged the Rate T3 commodity rate based on actual consumption.

b) Union Gas and Kitchener Utilities agreed that a 3-year rolling average, normalized annual consumption would be used to determine the forecast annual consumption, which was the method used to prepare the 2013 Board-approved forecast. Parties will have the opportunity to review the appropriateness of the forecast used to set rates upon rebasing in 2029.

c) Please see the response provided at part a).

d) The Applicants will not be updating the annual consumption, as per the response to part a).

e) Please see the response to Kitchener Utilities Interrogatory #1(c) found at Exhibit C.Kitchener Utilities.1.

f) Please see the response Kitchener Utilities Interrogatory #1(d) part (ii) found at Exhibit C.Kitchener Utilities.1.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Kitchener Utilities

Rate Mechanism Issues List – Issue No. 2

Preamble:

The Application indicates (EB-2017-0307, Exhibit B, Tab 1, p.31) that the Applicants intend to address the cost allocation of the Panhandle System and St. Clair System in its 2019 Rates Application. Union had proposed to do the same in the Panhandle leave to construction application (EB-2016-0186) but the OEB did not approve Union's proposals for a revised cost allocation methodology. The OEB found that the issue:

> should be deferred to Union's next cost of service or custom IR application. It would be inconsistent to change the … cost recovery for one project, while Union's other assets are … recovered on different bases. A comprehensive review is required for parties to test, and the OEB to assess, the merits and implications of these two proposals and this should be at Union's next cost of service or custom IR application.
>
> While these proposals may have merit, they cannot be adequately considered during the IRM term, for one project in isolation.

Question:

a) In light of the Board's decision in EB-2016-0186, will Union's proposal to address cost allocation for Panhandle include a full cost allocation study for 2019 rates? If not, why not?

Response:

Please see the response to LPMA Interrogatory #43(b) found at Exhibit C.LPMA.43.

ENBRIDGE GAS DISTRIBUTION INC. AND UNION GAS LIMITED

Answer to Interrogatory from
Kitchener Utilities

Rate Mechanism Issues List – Issue No. 2

Preamble: The Application indicates (EB-2017-0307, Exhibit B, Tab 1, p.31) that the Applicants intend to address the cost allocation of the Panhandle System and St. Clair System in its 2019 Rates Application. Kitchener has previously raised the issue of cost allocation of certain projects to the T3 rate class, and was advised by the Board that the issue could be raised at Union's next cost-of-service proceeding (EB-2012-0451/EB-2012-0433/EB-2013-0074, p.12).

Question:

a) Please provide a breakdown of project costs allocated to T3 rate by year by project for:
   i. Parkway West
   ii. Brantford Kirkwall & Parkway D
   iii. Burlington to Oakville
   iv. Hamilton Milton pipeline / Lobo C
   v. Lobo D, Bright C, Dawn H Compressor
b) Please confirm the benefit to T3 rate class due to each project.
c) Ref EB-2011-0210, IRR J.H-1-8-1, Attachment 1. Please identify and quantify for rate T3, each major component of the demand related costs which the monthly demand charge is intended to recover by year for each year from 2013 to 2018 comparable to Attachment 1. Please include percentage increase/decrease by year and a cumulative variance over the same time frame.
d) Has there been any significant increase in Transportation Monthly Demand Charge since 2013? i. If yes, please provide the reason(s) why the monthly demand charge for transportation service increased since the 2013 cost of service
e) Please confirm that the allocation of costs from the above projects is the primary reason for Kitchener Utilities' annual transportation monthly demand charges having increased from approximately $2.6 million in 2011 to over $5 million in 2018.
f) Please confirm that if the Applicants' rebasing proposal is accepted by the Board, Kitchener Utilities would be precluded from raising their cost allocation concerns with respect to these projects until 2029.
   i. If not confirmed, please indicate when and how Kitchener Utilities could bring these concerns to the Board for adjudication.
   ii. If confirmed, please explain how a deferral of rebasing would be appropriate in the context of this application, given the Board's requirement to ensure rates are just and reasonable.
   iii. If confirmed, please explain how it is acceptable for cross subsidization to continue for an additional 10 years causing price harm to T3.

Response:

a) Please see Attachment 1 for the allocation of capital pass-through project costs to Rate T3 for all projects included in rates during Union's 2014-2018 IRM term.

b) Four of the projects identified in part a) relate to the Dawn-Parkway system (Parkway West Project, Brantford-Kirkwall/Parkway D Project, Hamilton Milton pipeline/Lobo C Project, and the Lobo D, Bright C, Dawn H Compressor Project). The Dawn-Parkway demand costs are allocated to rate classes in proportion to distance weighted Dawn-Parkway Design Day Demands. Rate T3 is allocated a portion of the Dawn-Parkway demand costs based on their use of the Dawn-Parkway system on design day (i.e. distance weighted design day demands).

- Expansion of the Dawn-Parkway system increases the take away capacity from the Dawn Hub which enhances and improves the competitive market for natural gas. Increased trading activity at Dawn increases price transparency and liquidity for natural gas which benefits all customers through increased access to competitively priced gas supply.
- Loss of critical unit protection from the Parkway West project ensures that the portion of Kitchener's Parkway delivery obligation that is met through Dawn-Parkway transportation services can continue to be met reliably. Absent the ability to deliver obligated delivery volumes on the discharge side of the Parkway compressor due to Union curtailing Parkway deliveries, Kitchener would be exposed to providing the curtailed portion of their volumes through the market during a period of highly volatile supply and pricing dynamics.
- A Dawn-Parkway transmission system that remains as fully contracted as possible means that transportation rates remain economic for in-franchise and ex-franchise customers. Any de-contracting on the Dawn-Parkway system that results in unutilized transmission capacity will increase rates for the remaining in-franchise and ex-franchise customers.

The Burlington to Oakville project was a transmission pipeline project required to address growth and security of supply needs for Union South customers. Union South rate classes, including Rate T3, are allocated costs of other transmission projects in proportion to Union South in-franchise design day demands. The costs associated with other transmission increased as a result of the Burlington to Oakville project and accordingly, all Union South in-franchise customers contribute to the recovery of the project.

c) Please see Attachment 2.

d) The Rate T3 monthly transportation demand charge increased from 9.3582 cents/m^3 in 2013 to 17.9898 cents/m^3 in 2018. The primary drivers for the increase are the addition of capital pass-through project costs, the addition of the Dawn-Parkway delivery obligation costs, and the application of the annual price cap index. The increase in the Rate T3 monthly transportation demand charge is partially offset by the benefit Kitchener Utilities receives from the Parkway Delivery Commitment Incentive (PDCI) credit, effective November 1, 2016.

e) Not Confirmed. The allocation of capital pass-through project costs to Rate T3 is one of the primary drivers of the increase to the Rate T3 transportation monthly demand charge. The other drivers are described in the response to part d).

f) Not Confirmed. Kitchener Utilities may bring forward its concerns about cost allocation in the annual rate setting process. This would require Kitchener to file evidence and to seek relief. To be clear, Union does not agree that there is any inappropriate cross subsidy included in the Rate T3 rate class. Under the Board approved cost allocation methodology, Rate T3 receives a share of the costs associated with facilities used to serve them. The capital pass-through project costs referenced in part a) are functionalized as Dawn-Trafalgar Easterly Demand and Other Transmission Demand which are allocated to all customer rate classes using these systems.

UNION GAS LIMITED
Allocation of Capital Pass Through Project Revenue Requirement to Rate T3 by Year

Line No.	Particulars ($000's)	2014 (1) (a)	2015 (2) (b)	2016 (3) (c)	2017 (4) (d)	2018 (5) (e)
1	Parkway Projects	(1)	(47)	101	109	115
2	Burlington to Oakville Project	-	-	71	425	423
3	Hamilton-Milton Pipeline and Lobo C Compressor Project	-	-	65	268	275
4	Lobo D, Bright C and Dawn H Compressor Project	-	-	(4)	13	286
5	Panhandle Reinforcement Project	-	-	-	-	(7)
6	Total Rate T3	(1)	(47)	234	815	1,092

Notes:
(1) EB-2013-0365, Rate Order, Working Papers, Schedule 10.
(2) EB-2014-0271, Rate Order, Working Papers, Schedule 10 Updated.
(3) EB-2015-0116, Rate Order, Working Papers, Schedule 10, p. 2.
(4) EB-2016-0245, Rate Order, Working Papers, Schedule 10, p. 2.
(5) EB-2017-0087, Rate Order, Working Papers, Schedule 10, p. 2.

UNION GAS LIMITED
Rate T3 Demand Charge Cost Components for Years 2013 to 2018

Line No.	Particulars ($000's)	2013 Revenue Requirement (1)	S&T Transactional Margin	One Time Adjustments	PCI	Capital Pass-Throughs	Parkway Delivery Obligation	Annual Total	Cumulative Total	Percent Change (2)
		(a)	(b)	(c)	(d)	(e)	(f)	(g) = sum(a:f)	(i)	(h)
1	2013 Cost of Service - EB-2011-0210	2,903	(264)	-	-	-	-	2,639	2,639	-
2	2014 Rates - EB-2013-0365	-	-	13	14	2	-	29	2,668	1.1%
3	2015 Rates - EB-2014-0271	-	-	(8)	22	(31)	296	279	2,947	10.5%
4	2016 Rates - EB-2015-0116	-	-	-	21	312	-	334	3,281	11.3%
5	2017 Rates - EB-2016-0245	-	-	-	18	610	807	1,435	4,715	43.7%
6	2018 Rates - EB-2017-0087	-	-	-	14	294	49	358	5,073	7.6%
7	Total	2,903	(264)	5	88	1,188	1,153	5,073		

Notes:
(1) Board-approved 2013 revenue requirement includes the recovery of Dawn-Parkway transmission, Other Transmission, Dawn Station and system integrity costs.
(2) Percent change is calculated as column (g)/prior year cumulative total.