DR QUINN & ASSOCIATES LTD.

VIA E-MAIL

May 15, 2017

Ontario Energy Board
Attn: Kirsten Walli, Board Secretary
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto ON M4P 1E4

RE: EB-2017-0306 – EDG/Union Merger – J3.5 Impact of Rebasing - Clarification

We are writing on behalf of FRPO out of concern for the evolution of our undertaking request of Union Gas to understand the potential impact of rebasing on the Dawn-Parkway system. Our reading of Union Gas' consideration of our request that was provided after the Monday lunch break unduly narrows our request to the impact of the PDO.

Our specific request was to estimate the impact of rebasing on the Dawn-Parkway system at the margin (May 15 Transcript, Page 27, lines 21-24). We had focused in lead up to the request on the addition of assets and capacities, the costs of which were included in rates. While we understand Union's focus on the PDO as we have been using J2.5 as a tool, we were asking more broadly about rebasing based upon the assets included in rates at the end of 2018 (Tr. Page 26, lines 25-28).

The fact that were seeking a broader impact of rebasing is emphasized in that depreciation of the Dawn-Parkway assets that were in rate base at the outset of the IRM period ought to be considered also (Tr. Page 30, line 16 to Page 31, line 14). However, in being limited in time, we did not get to pages 8 and 9 of our supplemental compendium, K3.1, that show that while the costs of the assets were put into rates, the billing units associated with those capacity increases were not. If one were to look at the impact of rebasing at the margin at the end of 2018, it would be clear that the billing units would require adjustment also.

Putting the high-level factors together, we are seeking an analysis at the margin from initial 2013 rates at the start of rebasing until 2018 that estimates the percentage impact of Dawn-Parkway changes on in-franchise and M12 rates by looking at the percentage changes in rate base and billing units:

- Rate base associated with Dawn-Parkway capacity, net of depreciation, increased X%
- Billing units including in-franchise needs and ex-franchise needs, increased Y_1% and Y_2%
- Provide specific delineation of the treatment of PDO costs and surplus capacity costs

By looking at macro percentage changes, we respectfully submit that this undertaking could be performed to provide the Board with an estimate of the percentage impact on Dawn-Parkway rates for Enbridge (as an M12 customer) and Union's in-franchise customers.

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We trust this letter provides a better understanding of our request and ask Board staff counsel to bring this letter to the attention of the panel for their understanding and consideration.

Respectfully Submitted on Behalf of FRPO,

Dwayne R. Quinn
Principal
DR QUINN & ASSOCIATES LTD.

c. Andrew Mandyam, EGD, M. Kitchen - Union Gas,
EGDRegulatoryProceedings, UnionRegulatoryProceedings
Parties to EB-2017-0306

MR. QUINN: It's in the rate-setting mechanism and the deferred rebasing period. Our premise here is there is excess capacity that the customers have.

MS. SPOEL: Well, that's fine. I don't need to hear your argument now --

MR. QUINN: Okay.

MS. SPOEL: -- I just want to understand why it was -- where this all fits into the picture. Now I understand, so thank you.

MR. KITCHEN: I just wanted to pick up on one thing that Mr. Quinn said, that if we defer rebasing, these will stay in rates for the term of the rebasing period. If we were to rebase, they would be built into rates through cost allocation.

MR. QUINN: Well, we would like to see what that would look like, so since you've led that, Mr. Kitchen, what would the impact be? Can you take an undertaking to demonstrate what you believe the impact would be and how you would allocate those costs, including the 106 of excess capacity that's demonstrated in 2017 and '18?

MR. CASS: Well, my concern, Madam Chair, is Mr. Quinn is now asking for really a cost study that would be done if there was a rebasing. Of course the applicant's proposal is that there be a deferral of rebasing.

MR. QUINN: And Mr. Cass, to be clear, I'm just asking for what the impact would be on the Dawn-Parkway system if Union were to rebase, based upon the assets that are in place in -- at the end of 2018.

[Witness panel confers]

MR. KITCHEN: Mr. Quinn, I am not even sure that's doable without doing a full cost study, because it requires us to -- you can't just look at this one piece of the Dawn-Parkway system. You have to rebalance everything, and I'm just, I'm not sure how we could do it without doing a full cost study.

Second, what should happen, right, is that the costs that show up in column E at line 17 would simply be allocated to in-franchise rate classes because the in-franchise demands, distance-weighted demands, on the Dawn-Trafalgar system would increase for in-franchise rate classes, and they would decrease for others. So I'm just not sure how we could do this.

MS. ANDERSON: So Mr. Kitchen, is there something that you can provide on this matter that doesn't require a full cost study?

MR. KITCHEN: I'll offer this: What we'll do is at lunch we can sit and talk and see what we can provide.

MS. ANDERSON: Okay, thank you.

MR. QUINN: If I may, Madam Chair, I'm going to ask Mr. Kitchen, we're interested in the impact at the margin. Not a full cost study, just what the impact would be at the margin; is that doable?

MR. KITCHEN: That's what we're going to talk about at lunch.

MR. QUINN: Can we have an undertaking to ensure that we can at least have a response?

during the four-year period?

MR. REDFORD: That's correct, that would have been -- it would have been an IR back from EB-2017-0087.

MR. QUINN: It's in my compendium on page 11, yes.

So Union was able to have no interruptions and sell millions of dollars worth of Dawn-Parkway capacity during the years of the IRM period, correct?

MR. REDFORD: Well, again, you know, we would sell capacity available on the day in our system, which would not just include any excess capacity, but would include capacity that was not nominated by firm customers at the timely window.

So to the extent that people aren't using their capacity, then we would look to sell it out into the market.

MR. QUINN: Okay. So I don't know that we need to go through the specific numbers, so I'm going to jump to -- so you've added approximately 20 percent capacity since the initiation of the PDO shift, and that has gone into rates through the capital pass-through, correct?

MR. KITCHEN: That's correct.

MR. QUINN: And the original costs that are in base rates have not been depreciated over the period, correct?

MR. KITCHEN: We are under a price cap, so we apply the price cap to the base.

MR. QUINN: Okay. So as you're considering the undertaking, we would like to understand again what that impact would be of rebasing, including the depreciation that would be seen at that time. So I am just trying to give you that context for the benefit of your consideration.

MR. KITCHEN: I think you'll have to explain this a little bit better for me.

MR. QUINN: The original assets, the 6,800 tJs that were in base rates, have not been depreciated over the five-year period?

MR. KITCHEN: That's correct.

MR. QUINN: They would be depreciated if you were to do a rebasing. That would have a material impact on your results, so I'm just trying to make sure that's not forgotten in your consideration would be what the impact would be on rebasing.

MR. KITCHEN: I think that's one of my challenges in trying to do this cost allocation study that you want us to do for this particular case. It's not a simple matter.

But as I've said, we will undertake to provide -- we'll discuss it and see what we can do.

MS. ANDERSON: Mr. Quinn, I do need to check in on timing, just to make sure everyone is clear. The hearing plan I have in front of me had you at 30 minutes today, because you had the 20 minutes the last time.

MR. QUINN: Madam Chair, I had 90 minutes in my original request; it was cut down to 60 minutes. I've actually worked a fair amount trying to tighten this up over the weekend. Unfortunately, with the addition of J2.5, it gave me a vehicle. But there is information