

Union Gas Limited
2017 Deferral Account Disposition and Utility Earnings

EB-2018-0105

OEB STAFF INTERROGATORIES

August 8, 2018

Staff-1

**Ref: Deferral and Variance Account Balance Summary
Exhibit A / Tab 1 / Appendix A / Schedule 1**

Preamble:

Union requested disposition of gas supply, storage and other deferral accounts. The net balance in the deferral accounts requested for disposition is a \$2.2 million debit from ratepayers as at December 31, 2017.

Question(s):

- a) Please provide a statement confirming whether the balances proposed for disposition are consistent with the account balances reported in the applicant's 2017 RRR filing (2.7.1) and its 2017 audited financial statements.
- b) For each account requested for disposition, please provide a continuity schedule for the period commencing from the establishment of the account or from the last approved disposition of the account, whichever is more recent, to the date of the most recent audited actuals. This continuity should show separate itemization of opening balances, new amounts recorded during the period, approved dispositions, other adjustments, interest, and closing balances.
- c) Are there any deferral and variance accounts with balances that are not being brought forward for disposition as part of this application and which are not cleared through the Quarterly Rate Adjustment Mechanism proceeding, the Demand Side Management deferral account proceeding, or the Cap-and-Trade compliance plan proceeding? If so, please provide details including the account name, balances and reasons for not seeking disposition.

- d) Were there any adjustments made to deferral and variance account balances that were previously approved by the OEB on a final basis? If so, please provide an explanation of the nature and amount of any adjustment and include any supporting documentation.

Staff-2

**Ref: Unabsorbed Demand Costs (UDC) Variance Account
Exhibit A / Tab 1 / pp. 2-5**

Preamble:

Union noted that its 2017 approved rates included planned unutilized pipeline capacity of 9.5 PJ in Union North West, 3.1 PJ in Union North East and 0 PJ in Union South. Union cited schedules from both the Dawn Reference Price proceeding and the 2017 rates proceeding where these volumes can be found.

Question(s):

- a) Can you please advise where, in the cited schedules (footnotes found at Exhibit A / Tab 1 / p. 2), these volumes can be found or how they can be derived.
- b) Please provide the detailed calculation for the actual UDC collected in rates amount of \$11.9 million.

Staff-3

**Ref: Upstream Transportation Optimization Variance Account
Exhibit A / Tab 1 / p. 6**

Preamble:

Union noted that, on an actual basis, it credited \$15.57 million in rates in 2017 related to optimization revenues. This is \$2.15 million greater than the OEB-approved amount of \$13.43 million.

Question(s):

- a) Please provide the detailed calculation supporting the actual \$15.57 million amount credited in rates.

Staff-4

**Ref: Short-Term Storage and Other Balancing Services Variance Account
Exhibit A / Tab 1 / Appendix A / Schedule 3**

Question(s):

- a) Please explain the year-over-year reduction from \$2.7 million (actual 2016) to \$0.7 million (actual 2017) in C1 off-peak storage revenues.

Staff-5

**Ref: Gas Distribution Access Rule (GDAR) Costs Deferral Account
Exhibit A / Tab 1 / pp. 12-14**

Preamble:

Union noted that 2017 is the final year that the capital costs associated with the three prior GDAR-related Notices of Amendments to a Rule are expected to have a revenue requirement impact.

Question(s):

- a) Please advise whether it is Union's intent to seek closure of the GDAR costs account in a future rate case or maintain the account to address potential future changes to the GDAR.

Staff-6

**Ref: Conservation Demand Management (CDM) Deferral Account
Exhibit A / Tab 1 / pp. 15-16
EB-2016-0245 / Rate Order / Appendix F / p. 13**

Preamble:

Union noted that the balance in the CDM deferral account is a credit to ratepayers of \$0.25 million, which reflects 50% of the net revenue associated with the "Whole Home Pilot Delivery" program.

Question(s):

- a) For each year 2011-2017, please provide a table showing the balance in the CDM deferral account (including a detailed breakdown of the costs and revenues).

- b) For previous years (2011-2016), please advise whether the balance disposed in the account has been based on the net revenues (revenues minus costs) generated from CDM activities.
- c) Please provide rationale supporting the disposition of net revenues as opposed to gross revenues in the context of the description set out in the CDM deferral account (Account No. 179-123) accounting order.

Staff-7

Ref: Tax Variance Deferral Account
Exhibit A / Tab 1 / pp. 25-26

Preamble:

Union noted that the purpose of the tax variance deferral account is to record 50% of the variance in costs resulting from differences between the actual tax rates and the approved tax rates included in rates as approved by the OEB. For 2017, there is no impact related to income tax, however, there is a credit balance of \$0.33 million included in the account related to Harmonized Sales Tax (HST) changes. The relevant tax changes are being phased in over time.

Question(s):

- a) In the context of the scheduled timing of the noted HST changes, please advise whether it is reasonable to expect that the credit balance in the account will continue to grow in each of 2018 and 2019.
- b) Please confirm that it is Union's proposal to close this account effective January 1, 2019 as discussed in the EB-2017-0307 application.

Staff-8

Ref: Unaccounted for Gas (UFG) Volume Variance Account
Exhibit A / Tab 1 / pp. 27-28

Preamble:

Union noted that the actual 2017 UFG costs are \$13.83 million and the UFG costs recovered in 2017 rates are \$11.12 million.

Question(s):

- a) Please provide the detailed calculation supporting the 2017 actual and recovered in rates UFG amounts.
- b) Please provide actual and approved UFG percentages for each year 2007-2017.

Staff-9

**Ref: Major Capital Projects – Generic Questions
Exhibit A / Tab 1**

Question(s):

- a) For each major capital pass-through project, please confirm that 2018 is the last year for which there are OEB-approved revenue requirement amounts.
- b) If Amalco's proposed merger and price cap framework (EB-2017-0306 / EB-2017-0307) is approved:
 - I. Please confirm that Union intends to include the approved 2018 revenue requirement amounts associated with the major capital pass-through projects in base rates beginning in 2019.
 - II. Please confirm that the approved 2018 revenue requirements associated with the major capital pass-through projects will not be escalated in 2019 (or in subsequent years) by the proposed price cap index.
 - III. Please confirm that the variances captured in the major capital project related accounts will be measured against the approved 2018 revenue requirement amounts with no changes.
- c) In calculating the actual revenue requirement related to the major capital projects, Union uses the average long-term debt rate from the year in which the asset was brought into service to calculate the debt portion of the utility required return. Please advise whether Union intends to continue this practice post-2018 in the context of the EB-2017-0307 proposals.
- d) For each major capital pass-through project, please provide an updated forecast of the total final capital cost of the project and the total capital cost that was approved by the OEB (including a detailed breakdown by asset type). Please

also provide the final year in which there are expected to be capital costs incurred.

- e) For each major capital pass-through project, please discuss how incremental project-related revenues are reflected in rates and whether the incremental revenues are trued-up through the relevant major capital project cost variance accounts.

Staff-10

**Ref: Parkway West Project Costs
Exhibit A / Tab 1 / pp. 28-35**

Preamble:

Union noted that the balance in the account is a credit to ratepayers of \$0.53 million (plus interest).

The balance includes a credit of \$0.41 million, which represents the difference between the 2017 OEB-approved revenue requirement and the 2017 actual revenue requirement.

The remaining \$0.11 million credit represents a true-up regarding property taxes between the 2015 revenue requirement included in the EB-2016-0118 proceeding and the actual 2015 revenue requirement. The true-up is due to the assessment authority not applying an assessment on the Parkway West compressor and buildings, and not reclassifying the land from farm to commercial.

Union proposed that the balance in the account be disposed on an interim basis, consistent with the treatment in the EB-2017-0091 proceeding, and that the prudence review be part of a future proceeding.

Question(s):

- a) Please advise whether the noted true-up was caused by Union including in its calculation of the 2015 actual revenue requirement related to this project a \$0.11 million property tax debit that was never actually charged. If so, please explain why that would have been included in the 2015 actual revenue requirement calculation in EB-2016-0118.

- b) Please advise whether there are future capital or OM&A costs associated with the “Heritage Houses” issue referenced at Exhibit A / Tab 1 / p. 31. If so, please provide an estimate of these costs and the year(s) in which these costs are expected to be incurred.
- c) Please advise when Union intends to file evidence with respect to the prudence review.

Staff-11

**Ref: Brantford-Kirkwall / Parkway D Project Costs
Exhibit A / Tab 1 / p. 35-36**

Question(s):

- a) Please advise whether the 2015 property tax true-up for the Brantford-Kirkwall / Parkway D project is the same issue as the Parkway West (\$0.11 million) property tax true-up.

Staff-12

**Ref: Unaccounted for Gas (UFG) Price Variance Account
Exhibit A / Tab 1 / p. 44**

Preamble:

Union noted that the actual monthly cost of the Union South gas portfolio in 2017 was \$159.596 / 10³m³, which is \$3.95 / 10³m³ higher than the OEB-approved reference prices included in rates.

Question(s):

- a) Please provide a detailed calculation supporting the price variance of \$3.95 / 10³m³.

Staff-13

**Ref: Lobo D / Bright C / Dawn H Compressor Project Costs
Exhibit A / Tab 1 / pp. 50-58**

Preamble:

Union noted that a small portion of the balance in the account is related to two 2016 adjustments (an interest rate true-up and a capital expenditure related true-up).

Union also noted that, as part of the EB-2015-0200 Settlement Agreement, it agreed to record in the deferral account variances in actual revenue generated from forecast surplus capacity (30,393 GJ/d) relative to the maximum annual revenue of \$1.34 million that could be realized from the sale of long-term firm surplus capacity effective November 1, 2017. Union stated that its actual Dawn to Parkway surplus for the winter 2017 / 2018 was in excess of 30,393 GJ/d, therefore no long-term Parkway revenue was earned from the forecast surplus to apply against the deferral account.

Question(s):

- a) Please further explain the two 2016-related adjustments and provide the 2016 revenue requirement table (EB-2017-0091 / Exhibit A / Tab 1 / p. 56 / Table 20) with an additional column that shows the revised 2016 actuals reflecting the two noted adjustments.
- b) Please explain how Union determines whether there is a credit related to the sale of the surplus capacity (30,393 GJ/d) to apply against the balance in the variance account. Specifically, please discuss why having a Dawn to Parkway surplus in excess of 30,393 GJ/d would mean that there are no revenues (credits) to apply to the account.

Staff-14

**Ref: Ontario Energy Board (OEB) Cost Assessment Variance Account
Exhibit A / Tab 1 / p. 63-64
EB-2017-0091 / Settlement Agreement / p. 17**

Preamble:

Union noted that the 2017 balance in the noted account is a \$1.16 million debit (plus interest). In 2016, the balance in the account was a \$0.83 million debit.

In 2016, Union and the parties agreed that the balance in the account would be borne by Union and not collected from ratepayers.

Question(s):

- a) Please explain why the 2017 balance in the account would not continue to be borne by Union's shareholder in the same manner as 2016.

Staff-15

**Ref: Panhandle Reinforcement Project Costs
Exhibit A / Tab 1 / pp. 64-69**

Preamble:

The net revenue requirement for the account is \$0.083 million, which reflects a total revenue requirement of \$0.368 million net of incremental project revenue of \$0.285 million.

Question(s):

- a) Please explain how the incremental project revenue amount is calculated and show the calculation.

Staff-16

**Ref: Utility Results and Earnings Sharing Calculation
Exhibit A / Tab 2**

Preamble:

Union noted that the increase in O&M expenses of \$15.6 million relative to 2016 was mainly driven by salaries and integration-related costs associated with the merger between Enbridge Inc. and Spectra Energy.

Question(s):

- a) Please provide a detailed breakdown of the merger related costs that were incurred in 2017.
- b) Please advise whether the merger related costs are included in the earnings sharing calculation. If so, please provide rationale supporting the inclusion. Please also provide a revised version of the earnings sharing calculation that excludes the merger-related costs.

Staff-17

Ref: Service Quality

Exhibit A / Tab 2 / Appendix D / p. 8

Preamble:

The OEB approved minimum standard for reconnecting customers is 85% of customers reconnected within two business days of bringing their accounts into good standing. This metric is tracked on a monthly basis. Union's performance relative to this metric in January 2017 was 78.4%.

Question(s):

- a) Please explain why Union was unable to meet the minimum standard in January 2017.