uniongas
An Enbridge Company

September 12, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: EB-2018-0105 - Union Gas Limited - 2017 Disposition of Deferral Account Balances and 2017 Utility Earnings – Updated Interrogatory Response

On August 24, 2018, Union Gas Limited ("Union") filed its responses to the interrogatories received in the above-noted proceeding.

Union is enclosing an update to interrogatory Exhibit B.FRPO.1 c) to provide a further breakdown of the "Other Changes" noted in Line 7 of the Exhibit B.FRPO.1, Attachment 1.

If you have any questions concerning this submission please contact me at 519-436-5334.

Yours truly,

[Original Signed by]

Vanessa Innis
Manager, Regulatory Applications

c.c.: Crawford Smith (Torys)
Lawrie Gluck (OEB)
Michael Millar (OEB)
EB-2018-0105 Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

Reference: Exhibit A, Tab 1, pages 41-43 and EB-2013-0365 Settlement Agreement

Preamble:

We are interested in understanding better the application of principles from the EB-2013-0365 Settlement Agreement to the current situation and the deferral account 179-138.

Excerpt from the EB-2013-0365 read:

> ***The ultimate objective of the modified proposal is to remedy an inequity. The guiding principle is to keep Union whole rather than to enhance or reduce its earnings during the operation of the Incentive Regulation Mechanism ("IRM") to December 31, 2018.*** *(emphasis added).*
> *….*
>
> *10. Union will include in its annual rate case filings a report on:*
> *(a) Capacity that could become available, or could be made available, in the 2 years commencing with the test year, and could be used to further reduce the PDO in place at the time of the rate case filing on a more cost effective (i.e. lower revenue requirement) basis than the cost of the PDCI. Parties in the rate review process may explore any such options and advocate for further physical displacement of remaining PDOs to Dawn or other delivery points less costly to deliver to than Parkway.*
>
> *(c) The measures that Union used and the costs incurred to manage the Parkway delivery shortfall (described in paragraph B.2) to acquire incremental resources, the costs of which are not already recovered in base rates, Y factors and/or existing deferral and variance accounts.*
>
> *If the costs incurred to manage the Parkway delivery shortfall component of the PDO reduction in any year are less than the annual demand costs related to the shortfall in that year and actual fuel costs in that year for capacity equal to the shortfall capacity, then the entire amount of such cost savings will accrue to Union.*
>
> *Conversely, if the actual costs in any year to manage the Parkway Delivery shortfall in that year exceed annual demand costs and actual fuel costs in that year for capacity equal to the shortfall amount, then Union will be entirely responsible for those excess costs. Parties further agree that ratepayers will be entitled to recover from Union that portion of the costs incurred by Union to manage the Parkway Delivery shortfall to the*

extent that the cost of the measures used by Union to manage the shortfall are already covered in base rates, Y factors and/or existing deferral or variance accounts.

Question:

Please populate the Tables 1 and 2 in Attachment 1 to the IR's.

Pertaining to Tables 1 and 2:

a) For the following categories in Table 1, please confirm that the recovery of the costs of that capacity falls into one of either "*base rates, Y factors and/or existing deferral or variance accounts.*"

  i) Line 1 - Capacity in Base Rates

  ii) Line 2 - PDO Capacity from Temporarily Available Capacity in In-franchise Rates

  iii) Line 3 - PDO Capacity from Dawn-Kirkwall Capacity in In-franchise Rates

  iv) Line 4 - PDO Capacity from PDO Capacity from Customers with M12 service in In-franchise Rates

  v) Line 5 - Incremental Build Capacity in Rates

b) If any of the above are not confirmed, specify where the recovery occurs and how it is classified.

c) For line 7 in Table 1, please provide a complete description of the Other Changes that have served to reduce Total Physical capacity over the last three design winters.

  i) Please ensure the description outlines the various components that contribute to the reduction of the capacity.

  ii) Please advise if there are technical solutions such as compressor refinements that could minimize these reductions in a cost effective manner.

  iii) Please advise if there were errors in the forecast or simulation that contributed to the difference.

  iv) If the change is the interaction of the new build facilities with the existing facilities, please specify if that was evidenced in any of the build proceedings.

    (1) If the reduction came as a result of the combination of new facilities with old, did it contribute to additional facilities being built (e.g., if reduction did not happen, only 2 compressors would have been required in the 2017 build). Please provide the supporting analysis that demonstrates that is not the case

Response:

In this proceeding, Union is asking to dispose of the 2017 balances in its deferral and variance accounts, including the credit balance of $0.121 million in the Parkway Obligation Rate Variance Deferral Account No. 179-138. The purpose of Deferral Account No. 179-138 is to record the rate variances associated with the timing differences between the effective date of the Parkway delivery obligation changes (November 1) and the inclusion of the cost impacts in approved rates (January 1 of the following year). The information requested in Exhibit B.FRPO.1 through Exhibit B.FRPO.4 relates to the Parkway Delivery Obligation ("PDO") but not to the requested relief in this proceeding. Similar information was requested in EB-2017-0306/EB-2017-0307 proceeding, for which the Board has not yet rendered its Decision. As noted in the Reply Argument in that proceeding:

> *"In each rates proceeding subsequent to the PDO Settlement Agreement, Union has proposed to adjust rates as contemplated by the Agreement and the Board has approved these adjustments. In none of the proceedings has any party objected to the adjustment."*[1]

In order to be responsive to the questions posed in this proceeding, Union has provided much of the information requested in its responses on the topic of PDO, however, as set out above, the information is not relevant to the relief requested in this proceeding.

Please see Attachment 1 for Table 1 and Attachment 2 for Table 2.

a) Paragraph B.10 of The Settlement Framework for Reduction of Parkway Delivery Obligation ("PDO Framework") describes the annual reporting requirements Union is to include in its annual rate applications. The preamble to this question includes Section 10 c) of the PDO Framework that references the annual reporting requirements on the Parkway delivery shortfall position.

   Paragraph B.2 of the PDO Framework describes the quantity and time periods for which Union was forecasting to be in a Parkway delivery shortfall position at the time the PDO Framework was established. The Parkway delivery shortfall was expected to result from temporarily available Dawn-Parkway capacity Union was using to facilitate the initial PDO reduction effective April 1, 2014 that would no longer be available effective November 1, 2015.

As described at Paragraph B.2 ii):

> *Effective November 1, 2015, the temporarily available Dawn to Parkway capacity will be used for other purposes leaving Parkway in a delivery shortfall position. The demand*

[1] EB-2017-0306/EB-2017-0307 Reply Argument of the Applicants, filed June 28, 2018, p. 71

costs associated with the temporarily unavailable capacity as described above will nevertheless remain in delivery rates to be used by Union to manage the Parkway delivery shortfall through the acquisition of incremental resources, the costs of which are not already covered by base rates, Y factors and/or deferral and variance accounts and subject to the reporting and risk allocation measures described in paragraph B.10 (c) below.

Union has reported in its annual rate application that there were no additional costs to manage the Parkway delivery shortfall and has managed the shortfall through M12 Dawn-Kirkwall turnback that was not forecast at the time the PDO Framework was established.

The Parkway delivery shortfall was eliminated effective November 1, 2017 when M12 Dawn-Kirkwall turnback created sufficient permanent capacity to replace the temporarily available capacity. Accordingly, Union no longer has a Parkway delivery shortfall to manage as described in the PDO Framework.

The PDO Framework provided Union the ability to include the Dawn-Parkway demand and fuel costs in in-franchise rates associated with the temporarily available and permanent Dawn-Parkway capacity used to facilitate PDO reduction (shift). The demand costs included in Union's annual rate application recovers from in-franchise customers the revenue Union is no longer receiving through M12 Dawn-Parkway and Dawn-Kirkwall contracts. The paragraphs in the PDO Framework that reference "costs of which are not already covered by base rates, Y factors and/or deferral and variance accounts" are in reference to the incremental costs Union may have incurred to manage the Parkway delivery shortfall. It is not in reference to the demand costs included in Union's rates.

The response to parts i) to v) is provided below. Please also see the response at Exhibit B.EP.7 b).

i) The capacity in base rates is recovered in base rates.

ii) The PDO capacity from temporarily available capacity in in-franchise rates was included in base rates as an annual Y-factor adjustment. The PDO Framework provided Union the ability to include the Dawn-Parkway demand costs in rates associated with the temporarily available Dawn-Parkway capacity used to facilitate the PDO shift.

iii) The PDO capacity from Dawn-Kirkwall capacity in in-franchise rates was recovered in base rates through M12 Dawn-Kirkwall contracts. These contracts were turned back and used to facilitate the PDO shift. The recovery of these costs is now included in base rates as an annual Y-factor adjustment (Parkway Delivery Obligation) of in-franchise customers. The rate variances associated with the timing differences between the effective date of the PDO changes and the inclusion of cost impacts in approved rates are recorded in the Parkway Obligation Rate Variance deferral account.

iv) The PDO capacity from customers with M12 service in in-franchise rates was recovered in base rates through M12 Dawn-Parkway contracts. These contracts were turned back and used to facilitate the PDO shift. The recovery of these costs is now included in base rates as an annual Y-factor adjustment (Parkway Delivery Obligation) of in-franchise customers. The rate variances associated with the timing differences between the effective date of the PDO changes and the inclusion of cost impacts in approved rates are recorded in the Parkway Obligation Rate Variance deferral account.

v) The recovery of the costs associated with the incremental build capacity in rates is included in base rates as an annual Y-factor adjustment (Capital Pass-through) with deferral account true-up by Project to reflect the true-up of forecast costs included in rates to actual costs.

b) Please see the response at part a).

c)

i) Capacity refers to the demand which is able to be served from the Dawn Parkway system. The total Dawn Parkway system capacity changes from year to year due to various factors including modelling changes, in-franchise and ex-franchise demand changes and PDO reduction along the Dawn Parkway system. The table below provides further detail on the Other Changes shown in line 7 of Attachment 1:

Line No.	TJ/d	Winter 13/14	Winter 14/15	Winter 15/16	Winter 16/17	Winter 17/18
1	Starting Capacity	6,803	6,803	6,801	7,014	7,509
2	In-franchise [1]		(1)	86	18	22
3	Ex-franchise [2]		58	(74)	83	17
4	Enbridge Shift [3]		-	(137)	(6)	-
5	PDO		2	(157)	(103)	(98)
6	Model Changes [4]		(61)	62	60	(17)
7	Build		-	433	443	456
8	Ending Capacity (Sum lines 1-7)		6,801	7,014	7,508	7,889
9	Year to Year Changes [5] (Sum lines 2-6)		(2)	(220)	52	(76)
10	Cumulative Difference		(2)	(222)	(170)	(246)

Notes:

1 Union South and North in-franchise demand and demand location changes
2 Ex-franchise Dawn to Parkway, Kirkwall to Parkway demand changes and Dawn to Kirkwall demand turnback
3 Enbridge shift from suction to discharge as discussed in EB-2013-0074, Section 8, p. 6
4 Model changes include Heat Value, Demand Profile Changes, and other model changes
5 Changes excluding build capacity shown on line 7

ii) There are no compressor refinements that can be completed in a cost-effective manner that can minimize the capacity reductions.

iii) There are no errors in the forecast or simulation that contributed to capacity reduction.

iv) The capacity reduction is not related to the interaction of new and old facilities.