



BY EMAIL and RESS

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2300 Yonge Street
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October 5, 2018
Our File: EB20180105

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2018-0105 – Union Gas ESM and DVA – SEC Submissions

We are counsel to the School Energy Coalition ("SEC"). Pursuant to Procedural Order No. 2, please find SEC's submissions on the application by Union Gas Ltd ("Union") for approval to clear certain balances in certain deferral and variance accounts. With the exception of the issues raised below, SEC does not oppose disposal and recovery of the balances at issue in Union's application.

1. ***OEB Cost Assessment Variance Account (179-151)***. Union seeks approval to recover a balance of \$1.167M in its OEB Cost Assessment Variance Account.¹ SEC submits that the amount is below Union's materiality threshold of \$4M and this should not be recovered from ratepayers.

The OEB Cost Assessment account was established on a generic basis by the Board by letter dated February 9, 2016, in response to the revision of the methodology used to apportion its costs under section 26 of the *Ontario Energy Board Act*.² Since it was the Board's view that the new methodology "may result in material shifts in the allocation of costs", it created a generic variance account to capture the difference between the cost assessment amounts built into rates and the cost assessments that will result from the application of the new model.³

The creation of this generic account was not meant to ensure that all balances would be recoverable, no matter the individual magnitude on a given regulated entity. The Board's letter was clear that "regulated entities are reminded that, in the normal course, any disposition of deferral and variance account balances must meet any OEB default or company-specific materiality thresholds".⁴ Pursuant to Union's current approved IRM framework, its materiality threshold is \$4M.⁵ The current annual balance in the account is below the materiality threshold and so recovery should be denied.

¹ Exhibit A-1, p.63

² OEB Letter, Revisions to the Ontario Energy Board Cost Assessment Model, February 9, 2016.

³ *Ibid*

⁴ *Ibid*, p.2

⁵ EB-2013-0202, Exhibit A-1, p.36, section 4.8(5).

2. **Lobo D/Bright C/Dawn H Compressor Project Costs Variance Account (179-144).** Union seeks approval to dispose a balance of \$4.918M related to certain Dawn-Parkway expansion facilities approved of in EB-2015-0200.⁶ In addition to capturing the difference between the forecast annual net revenue requirement included in rates and the actual delivery net revenue requirement in each of the IRM, the account was meant to capture revenue generated from the sale of excess capacity.⁷ While the mechanics described in the approved Settlement Proposal are admittedly not as clear as one would wish, Union agreed to include in a deferral account variances in the actual revenue generated from the forecast surplus capacity of 30,393 GJ/d from the sale of long-term firm capacity.

In the interest of Settlement, Union will include in the deferral account balance a credit of \$1.34 million related to the 30,393 GJ/d of surplus capacity. As addressed at B.ANE.18, the \$1.34 million is the maximum annual revenue that could be realized from the sale of long-term firm surplus capacity effective November 1, 2017 (30,393 GJ/d x \$0.121/GJ/d x 365 days). Variances in the actual revenue generated from the surplus capacity to the \$1.34 million will also be recorded in the deferral account, and will be subject to review at the time of disposition of the account. The account is symmetrical, meaning that it will capture both positive and negative variances in actual revenue generated from the surplus capacity relative to the \$1.34 million to be included as a credit in the deferral account.⁸

Union's position is that since its Dawn-Parkway surplus in the winter of 2017/2018 was in excess of 30,393 GJ/d, no amount of long-term Dawn-Parkway revenue was earned to apply against the balance in the account. This approach is inappropriate. It requires that *all* Dawn-Parkway surplus capacity be sold in excess of 30,393 GJ/d, before any amount is created in the deferral account. No such requirement is included in the agreed upon terms in the approved settlement.

Just as reasonable an approach is to apply all sold long-term Dawn-Parkway excess capacity, first against the 30,393 GJ/d forecast created by way of the Lobo D/Bright C/Dawn H Compressor project. But that would similarly not be fair to Union. Surplus capacity on the Dawn-Parkway system cannot be attributed to any specific Union project or asset.

SEC submits the equitable approach is that a *proportionate* share of all revenue generated by the sale of long term surplus capacity be applied to the deferral account. This treats all surplus capacity on the system the same. Since the evidence is that total Dawn-Parkway surplus capacity was about 106,000 GJ/d⁹, Union should be required to credit ratepayers 28.7% (30,393/106,000 GJ/d) of all revenue generated from the sale of long-term firm surplus capacity in winter 2017/2018. SEC requests that Union provide that amount in its reply submissions.

Further, SEC notes that in its pre-filed evidence, Union appears to take the position that the approved settlement provides that the maximum annual revenue that can be recorded in the deferral account due to the sale of surplus capacity is \$1.34M.¹⁰ SEC disputes this interpretation of the settlement. It is clear that the referenced \$1.34M was a placeholder amount based on the 30,393 GJ/d excess capacity at the then approved M12 rate. (\$121/GJ/d).¹¹ The settlement is clear that the " account is symmetrical, meaning that it will capture both positive and negative variances in actual revenue generated from the surplus capacity relative to the \$1.34 million to be

⁶ Exhibit A-1, p.52

⁷ EB-2015-0200, Settlement Proposal, dated November 13 2015, p.23-24, section 10

⁸ *Ibid*

⁹ Interrogatory Response, B.FRPO.1, Attachment 2

¹⁰ Exhibit A-1, p.51

¹¹ EB-2015-0200, Settlement Proposal, dated November 13 2015, p.23-24, section 10

included as a credit in the deferral account.” [emphasis added]¹² If the proportionate revenue generated from surplus which will be based on 2017 approved M12 rates is higher than \$1.34M, then that is the amount to be credited to ratepayers.

- 3. Parkway Obligation Rate Variance Account (179-138).** SEC understands and shares other parties’ concerns regarding the possibility of double recovery by Union of amounts related to the elimination of the Parkway Delivery Obligations (“PDO”). Notwithstanding those concerns, SEC does not take issue with the proposed clearance of the account as proposed by Union, since doing so does not impact the issue of potential double recovery. The Parkway Obligation Rate Variance simply records variances associated with the timing differences between the effective date of the PDO changes in a given year (November 1st) and the inclusion of costs in rates (the following January 1st).¹³

Consistent with the terms of approved PDO settlement agreement (EB-2013-0365)¹⁴, the Board will have to consider the issue of potential double recovery during this IRM period, but that is not an issue for this proceeding. Insofar as there is double recovery of costs included within the timing difference amounts captured in the Parkway Obligation Rate Variance Account, those amounts will need to be rebated to customers at the time the Board considers the broader issue.

- 4. Earning Sharing Mechanism.** In its earning sharing calculation, Union has included \$5.6M in integration costs related to the merger of Spectra Energy and Enbridge Inc.¹⁵ A portion of that amount is related to severance costs related to certain corporate-wide shared services functions that were rationalized.¹⁶ SEC is concerned about the allocation of integration costs among the various Enbridge Inc. operating entities. For example, it is not entirely clear why Union is bearing \$5.6M in corporate integration costs, whereas Enbridge Gas over the same period incurred none.¹⁷

Since the inclusion or removal of integration costs will not push Union into an earning sharing calculation, SEC raises the issue to only flag the issue with the Board. SEC requests that Union provide detailed information in its pre-filed evidence in its 2018 ESM application on how corporate integration costs are allocated to it.

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

¹² *Ibid*

¹³ EB-2013-0365, Settlement Proposal, dated June 3 2014, Appendix B Attachment 1

¹⁴ EB-2013-0365, Settlement Proposal, dated June 3 2014, Appendix B para. 10(c):

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.

¹⁵ Exhibit A-2, p.2; Interrogatory B.LPMA.13(a)

¹⁶ Interrogatory B.LPMA.13(b)

¹⁷ EB-2018-0131, Interrogatory Response I.B.EGDI.EP.2(b) “There are no 2017 O&M costs that can be attributed to the Enbridge Inc./Spectra merger”



Shepherd Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and interested parties (by email)