EB-2018-0264

ONTARIO ENERGY BOARD

EPCOR Natural Gas Limited Partnership (EPCOR)

Application for gas distribution rates and other charges for the period from January 1, 2019 to December 31, 2028

INTERROGATORIES

of

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

1. **Reference:** Ex1/T2/S1/p8. The evidence indicates that EPCOR will *"[e]xecute an interconnect agreement with Union, including incorporation of the appropriate tariff service"*.

   Questions:

   (a) Please provide an update on discussions with Enbridge Gas (EG) regarding the requisite interconnection agreement.

   (b) Please provide any draft agreements provided to EPCOR.

   (c) Please explain what EPCOR means by the phrase *"appropriate tariff service"*. Please include in the explanation what EPCOR considers to be the appropriate tariff service, and the status of discussions with EG in this respect.

2. **Reference:** Ex1/T2/S1/p32. Table 1-5 in the evidence seems to indicate that EPOR expects adding 2 Rate 16 customers every year starting in 2019, for a total of 20 Rate 16 customers by 2028.

   Ex3/T1/S2/p2. Table 3-9 indicates a relatively steady assumed throughput volume for Rate 16 customers for the years 2020 through 2028.

   Question: Please confirm EPCOR's assumption regarding the number of Rate 16 customers over the rate stability period (customer numbers by year).

3. **Reference:** Ex1/T2/S1/p41, paragraph 31. The evidence states, in reference to the cost allocation study filed;

> *EPCOR notes that the Study is useful as it serves as a comparison and a reasonableness check of the rates and resulting revenue proposed to be recovered from each rate class. However caution should be exercised in attempting to rely on it to directly establish rates for the utility.*

Questions:

(a) Did EPCOR establish its proposed rates using the cost allocations reflected in the study?

(b) If not, please clarify precisely how EPCOR established its proposed rates, including details of any deviations from the cost allocation study (both as to quantum and rationale) and what EPCOR asserts the Board should take from the cost allocation study.

4. **References:** Ex1/T2/S1/pp.42-43/Tables 1-12 and 1-13. Table 1-13 indicates that customers in Rate Classes 16 and 11 will cross-subsidize EPCOR's other customers.

Ex2/T1/S1/p3/paragraph 3 addresses EPCOR's treatment of the value of external funding.

Questions:

(a) Please explain why it is appropriate that Rate 16 and Rate 11 customers cross-subsidize EPCOR's other customers.

(b) Please file a set of rates which eliminate all cross-subsidies (i.e. for which revenue to cost ratios are 1.0 for each of EPCOR's proposed rate classes).

(c) Please explain in detail the impacts of proceeding with the rates provided in response to part (b) of this question as opposed to the rates as proposed by EPCOR.

(d) Please explain in detail how EPCOR's proposal to allocate the $22 million in external funding results in the revenue to cost ratio differences illustrated in Table 1-12 as compared to table 1-13. Please provide full calculations and continuities to illustrate the changes between the two tables.

(e) The evidence at Ex7/T1/S1/p5 indicates that *"EPCOR has allocated the proceeds from external funding in a manner that is aligned with general cost allocation principles"*. Please;

   (i) explain what those principles are;

   (ii) indicate how EPCOR's cost allocation "aligns" with those principles; and

   (iii) indicate and quantify any proposed deviations from strict application of those principles.

5. **Reference:** Ex1/T2/S1/p44/paragraph 40. The referenced evidence describes EPCOR's proposed Rate 16 rate class, including EPCOR's proposal to set the minimum daily demand for rate class qualification at 2,739m^3.

Questions:

(a) Please file a copy of the most current draft of the proposed Rate 16 customer contract and any associated schedules.

(b) Please explain how the proposed minimum daily demand was derived and what EPCOR's objectives are in setting it as the minimum daily demand requirement for customers to qualify for Rate 16.

6. **Reference:** Ex1/T2/S1/p61/Table 2-7. Rows 1-5 of the referenced table address the costs to ECPCOR of Enbridge Gas' (EG) Owen Sound Reinforcement.

Questions:

(a) Please indicate the date used for the Owen Sound Reinforcement to be in service in deriving the referenced costs.

(b) Please provide an update on discussions with EG regarding the date at which the Owen Sound reinforcement is necessary to ensure continuing service to EPCOR. If this date is different from that assumed in the referenced table, please indicate the dollar value to EPCOR of the deferred in-service date.

(c) Is EPCOR aware of discussions between EG and a large customer currently taking service from EG at Mount Forest (upstream of Dornoch) regarding turn back of that customer's capacity and the impact of that turn back on the need date for EG's Owen Sound reinforcement in providing service to EPCOR? If so, please provide any information on this circumstances of which EPCOR is aware and discuss the implications of that information for EPCOR's plans and costs to serve.

(d) Will any cost reduction resulting from deferral of the Owen Sound reinforcement be included in the proposed CIAC Deferral Account?

7. **Reference:** Ex2/T1/S1/p62, paragraph 4. The evidence addresses treatment of construction work in progress and states; *"…all Capital Expenditures are assumed to be accumulated at the OEB prescribed rate for six months to reflect that construction of the more expensive high pressure mainline assets will take place early in the construction season."*

Questions:

(a) Please provide the value of construction work in progress (CWIP) assumed for 2019.

(b) Please provide the value of CWIP actually expected for 2019.

8. **Reference:** Ex2/T2/S1/p7. The evidence indicates 2 steel pipelines; an NPS 8 from Dornoch to the Bruce Energy Centre and an NPS 6 from the Bruce Energy Centre to Kincardine. The evidence further indicates MDPE pipelines downstream of Kincardine. The evidence indicates 4 stations between Dornoch and the Bruce Energy Centre and 3 stations downstream of the Bruce Energy Centre.

Questions: Please provide a modification of *Table 1 – Summary of Managed Assets*, which adds:

(a) A column which provides the capital cost of each of the assets listed in the table.

(b) Columns for each proposed rate class which indicates the allocation of the cost of each of the assets listed in the table to that rate class.

9. **References:** Ex7/T1/S2/Tables 7-5, 7-15 and 7-24. Table 7-5 indicates that the rate base for the Distribution Mains-Metallic (8" and 6" steel pipe) is functionalized as Distribution Mains H.P. Steel and then Distribution Mains H.P. Steel is classified as Capacity HP. The Capacity HP costs are allocated across all Rate classes with Rate 16 being allocated 36%.

Questions:

(a) Please confirm that the two currently identified Rate 16 customers are located upstream of the 6" steel pipe from the Bruce Energy Centre to Kincardine.

(b) If confirmed, please indicate the basis on which costs of the 6" steel pipe are allocated to Rate 16.

(c) Please provide the detailed calculation used to derive the 36% allocation to Rate 16 referenced.

(d) Please indicate how the rate 16 cost allocations and rates would change if the currently allocated 6" steel pipe costs are removed from rate 16 allocations, and provide supporting quantification and calculations of the changes.

10. **Reference:** Ex2/T2/S1/p8, paragraph 5. The evidence states; *EPCOR will be expected to provide a contribution in aid of construction in the amount of $5.298 million related to the construction of Union's Dornoch Meter and Regulator Station and upstream transmission reinforcement.*

Question: Please provide the allocation of EPCOR's CIAC costs to each proposed rate class.

11. **Reference:** Ex3/T1/S1/p10, paragraph 6. The evidence presents the value to EPCOR of the Southern Bruce Municipalities tax holiday authorization, calculated to equal to $2.208 million over the 10 year rate stability period.

Question: Please provide the allocation of the tax holiday value to each proposed rate class.

12. **Reference:** Ex3/T1/S2/p2. IGUA understands Tables 3-8 and 3-9 to provide volume forecasts as assumed for the purposes of EPCOR's CIP submission.

Question: Please update these tables to provide EPCOR's most recent volume forecasts.

13. **Reference:** Ex4/T1/S1/p18, paragraph 38. The evidence discusses an employee incentive plan which *"reflects EUI (i.e. Corporate) and business level performance"*. Ex4/T1/S1/p21, Table 4-6 provides detail on employee expenses.

Questions:

(a) Please provide the percentage breakdown between *"corporate"* and *"business level"* tied Short-Term Incentive Pay.

(b) Please file a copy of the performance metrics that determine incentive pay awards.

14. **Reference:** Ex4/T1/S1/pp.22 *et seq.* The evidence details shared corporate services and corporate cost allocation. Table 4-7 summarizes the allocation methods applicable to EUI's allocable Corporate Shared Services costs.

Questions:

(a) Please provide the percentage which the EPCOR revenue requirement used for setting proposed rates represents of the sum of (total EUI 2018 revenue + the revenue requirement used for setting EPCOR's proposed rates).

(b) For each department and function listed in Table 4-7, please provide the percentage of total EUI departmental or function costs allocated to EPCOR.

(c) Please explain why costs associated with EOUI's Board of Directors (i.e. the "governance" function) is appropriately recovered from EPCOR ratepayers as a cost of providing gas distribution services, rather than retained by EOUI as a cost of minding its investment in EPCOR.

15. **Reference:** Ex4/T1/S1/p63, paragraph 5. The evidence discusses the tax credits from losses expected to be generated until the year 2025.

Questions:

(a) Does EPCOR's proposed approach to setting rates credit ratepayers with the value of these tax credits from losses?

(b) If so, please explain in detail showing calculations.

(c) If not, please quantify the value of these tax credits from losses.

16. **Reference:** Ex6/T1/S1/p3, Table 6-2. The evidence summarizes the revenue deficiency components which EPCOR presents as applicable to the timeline for an OEB decision relative to the timeline assumed in EPCOR's CIP.

Questions:

(a) Row 2 of the referenced table provides "Property Taxes" related foregone costs. Please confirm that these are not the same taxes in respect of which the South Bruce Municipalities have agreed to provide EPCOR with a tax holiday.

(b) Row 4 of the referenced table provides a figure for *"deferred recovery of upstream changes"*, which are further described at page 7 of the referenced exhibit to include costs related to the CIAC to be paid to Enbridge Gas for, *inter alia*, the Owen Sound Transmission reinforcement.

(i) What is the date of payment of the CIAC related to the Owen Sound reinforcement assumed in the figures presented in the referenced table?

(ii) What is the actual expected date of payment of the CIAC related to the Owen Sound reinforcement?

(iii) If the actual expected date is different from the date assumed in the table in the evidence, please restate the table to reflect the actual expected date.

17. **Reference:** Ex7/T1/S1/p5. EPCOR used *"proxy data and factors from the 2020 Fully Allocated Costing Study completed for EPCOR's Aylmer operation"* in deriving its proposed rates.

Question: Please discuss the similarities and differences between EPCOR's Aylmer operation and the South Bruce expansion. Please include in the discussion information on;

(a) number of customers by type;

(b) nature of distribution services provided; and

(c) nature of distribution facilities used to provide services.

18. **Reference:** Ex7/T1/S1/p7. The evidence provides information on the functionalization adopted by EPCOR in its allocation of costs. Included in the list of functions is *"Industrial Direct Assignment"*.

Questions:

(a) Please provide a list of all costs functionalized as *"Industrial Direct Assignment"* by nature of cost and amount.

(b) Please indicate what rate class(es) such costs are assigned to (and if more than one rate class, how the costs are divided between the them).

19. **Reference:** Ex7/T1/S1/p10, paragraph 8 (continued). The evidence indicates that some costs of the CIAC paid to Enbridge Gas are functionalized as *"Upstream Transportation"* and some are functionalized as *"Industrial Direct Assignment"*.

Question: Please provide a further description of, including the amounts of, CIAC costs functionalized as *"Upstream Transportation"* and CIAC costs functionalized as *"Industrial Direct Assignment"*, and explain the basis for such division.

20. **Reference:** Ex7/T1/S1/p10, paragraph 9. The evidence indicates that some Deferred Upstream Recovery Costs are functionalized as *"Upstream Transportation"* and some are functionalized as *"Industrial Direct Assignment"*.

Question: Please provide a further description of, including the amounts of, Deferred Upstream Recovery Costs functionalized as *"Upstream Transportation"* and those functionalized as *"Industrial Direct Assignment"*, and explain the basis for such division.

21. **Reference:** Ex8/T2/S2. EPCOR has filed its *General Terms and Conditions Rate 16 Customers*.

Questions:

(a) Page 5, section 2: In the event of a Force Majeure on the Upstream Service Provider, will EPCOR receive relief of Upstream Charges? If yes, will this relief be passed on to EPCOR's Rate 16 customers?

(b) Page 5, section 3:

(i) How will EPCOR allocate a “reasonable” proportion of Upstream Service Provider balancing rights to each Rate 16 customer?

(ii) Please file a copy of any contract which EPCOR has executed with, or any draft contract that EPCOR has received from, the Upstream Service Provider (the latest version of these will suffice). (Please update this response if a contract or draft contract is subsequently received from the Upstream Service Provider.)

(iii) Please provide a copy of the Upstream Service Provider’s rate schedule for day-to-day load balancing.

(c) Page 6, section 4:

(i) Will EPCOR provide consumption data in cubic meters on an hourly basis or daily basis?

(ii) Will EPCOR also include the daily heat value so consumption data can be converted from cubic meters to gigajoules?

(d) Page 7, section 9: Please confirm that EPCOR industrial customers are only responsible for charges identified in its Rate 16 schedule.

(e) Page 11, section 17: Please confirm that the reference to “Monthly Fixed Charge” in the second last line of the second paragraph of section 17 is correct (and if not, please correct it).

22. **Reference:** Ex9/T1/S1/p6, paragraph 29. EPCOR proposes an External Funding Variance Account (EFVA) to capture the differences between assumed and actual timing of payment of the external funding available to the project and actual timing.

Question: Please explain why this timing should be at ratepayer rather than shareholder risk.

23. **Reference:** Ex10/T1/S1. EPCOR has not proposed an “off ramp” for its rate plan period.

Question: Please explain why EPCOR has not proposed an “off ramp” for its rate plan period, and why such a mechanism would not be appropriate.