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VIA RESS AND COURIER

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Ms. Kirsten Walli
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
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Dear Ms. Walli:

Re: EB-2018-0264 – EPCOR Natural Gas Limited Partnership (EPCOR) Southern Bruce Rate Application.

Industrial Gas Users Association (IGUA) Request for Oral Hearing; Reply to EPCOR.

We write in reply to EPCOR's letter of September 25th, in turn responding to our letter of September 17th in which we submitted IGUA's request for an oral hearing of the unsettled issues in EPCOR's rate application, and in particular for an oral hearing of the cost allocation and rate design issues (Issue 6) and of the issue of recovery of costs due to changes in construction schedule (Issue 5).

Issue 6: Cost Allocation and Rate Design

EPCOR has suggested that IGUA (through our September 17th letter) suggested that the respective role of management judgement and cost allocation in EPCOR's determination of its proposed rates *"first came to light"* in EPCOR's interrogatory responses (IRRs). That is not what our letter said. What our letter said was:

> *The respective roles of "judgement" and cost allocation were highlighted only in EPCOR's interrogatory responses.*[1] [Emphasis added.]

In fact, in our letter we footnoted both the IRRs and the prefiled evidence which gave rise to these IRRs. The prefiled evidence on this topic is contained in a few sentences included in Ex7/T1/S1. At paragraph 6 (at page 2) of that schedule EPCOR states:

[1] Our September 17th letter, page 2, paragraph 1.

> *The CIP process did not establish rates for individual rate classes but in building up its revenue requirement as detailed above, EPCOR worked to confirm the level of revenue from each rate class (based on savings to consumers at a particular rate level).*

At paragraph 2 (at page 3) EPCOR states:

> *EPCOR notes that this [cost allocation] 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.*

This is essentially the extent of EPCOR's prefiled evidence on how it did, and did not, set its rates. This evidence gave rise to Staff interrogatory 21, the response to which, EPCOR states in its September 25th letter *"references the role of management judgement"* and *"touches on the cost allocation principles, methodology and framework adopted for the South Bruce operation, including adjustments made to the cost allocation model"* [emphasis added].

IGUA repeats, that the roles of management judgement and cost allocation were highlighted (i.e. elaborated on) only in EPCOR's IRRs. That is, rather than pre-filing a complete explanation of how it proposes to establish its first set of rates, which will remain in place for a decade, EPCOR *"referenced"* and *"touched on"* its approach in its pre-filed evidence, leaving the first real explanation for IRRs. In the result, the first real evidence on this topic of central importance to this rate case, indeed to any rate case, was provided only in the IRRs. Thus IGUA's request that it be permitted an opportunity in an oral hearing to test this evidence.

Similarly in respect of the topic of cost allocation, EPCOR cites 10 IRRs that provide details of cost allocation results (8 from IGUA and 2 from Staff). Review of these IRRs reveals that the information provided in them is generally of the sort that would normally be provided in a cost allocation study pre-filed in support of proposed rates. Again, now that the evidentiary basis has been provided, IGUA requests that it be permitted the opportunity in an oral hearing to test this evidence, in order to understand the basis for, and the impacts of, the *"management judgement"* applied by EPCOR in allocating its costs to classes of customers to be served[2], as well as the impacts of different judgements regarding such allocations.

In its reply to IGUA's request for an oral hearing to address the basis for EPCOR's first set of rates proposed to be in place for a decade, and proposed to embed a subsidy from IGUA's members in the area to other customers which EPCOR will seek to connect during that decade, EPCOR references *"the context"* of its application as being *"different from a typical rates application in that no ratepayer in South Bruce will be compelled to pay EPCOR's rates."* EPCOR says that *"potential customers can make a choice on whether or not to connect to the system based on the utility's approved rates"*. EPCOR further notes, presumably as justification for now proceeding directly to written argument, the *"multiple OEB proceedings, including an initial application, a generic hearing, a competitive process, leave to construct and now a rates application"* to which it has been subject in respect of its proposal to bring gas service to South Bruce.

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[2] Ex1/T2/S1/p.41, paragraph 31, as referenced in our September 17th letter, page 2, footnote 1.

It is trite, but begs repeating, that the issues of EPCOR's rates has been consistently deferred for examination, for the first time, in the current proceeding.

EPCOR is a regulated gas distributor with an obligation to serve customers who wish to connect.[3] To the extent that consumers in the South Bruce area want natural gas delivery service, they have to take that service from EPCOR. They have no other choices for that service.

EPCOR has been given a monopoly franchise to serve the area, and as a consequence it requires an order of this Board to charge for distribution of gas.[4]

In these respects, EPCOR is no different than other regulated gas distributors. There is nothing about EPCOR's *"context"* that suggests to IGUA that the Board need not fully consider and determine whether the rates proposed by EPCOR are just and reasonable. In order to do so properly, it is respectfully submitted, the Board should have the benefit of a complete and properly tested record on cost allocation and rate design. That record, as it stands, is not complete and properly tested.

Issue 5a): Recovery of Costs Due to Changes in Construction Schedule

In respect of its request to recover an incremental $1.764 million from customers due to changes in construction schedule, EPCOR's September 25th letter merely re-asserts that the record is sufficient for parties to make written arguments and for the Board to make a final determination. We continue to believe that the record in this respect is sparse, and that the Board would benefit from further understanding the basis for EPCOR's proposal to shift this risk back to ratepayers. However, if EPCOR wishes to proceed on the record as it stands and the Board finds this acceptable then we are prepared on behalf of IGUA to proceed directly to written argument on this issue.

Yours truly,

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[3] *Ontario Energy Board Act, 1998*, section 42(2).
[4] *Ibid*, section 36.