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  E.B.R.O. 462
 THE ONTARIO ENERGY BOARD
   IN THE MATTER of The Ontario Energy
   Board Act, R.S.O. 1980, Chapter 332,
   Section 19;
   AND
        IN THE MATTER OF an Application by
   Union Gas Limited to The Ontario Energy
   Board for an Order or for Orders
   approving or fixing just and reasonable
   rates and other charges for the sale,
   distribution, transmission and storage
   of qas.
     Hearing held at 2300 Yonge Street,
     25th Floor, Hearing Room No. 1,
     Toronto, Ontario on Tuesday, the
     23rd day of January, 1990 at
     9:00 a.m.
 PHASE II
          20
VOLUME
 BEF ORE:
             THE PRESIDING MEMBER
 O.J. COOK
                 MEMBER
 D.A. DEAN
 V.W. BIELSKI
                   MEMBER
    2
(i)
  APPEARANCES
                           BOARD STAFF
  IAN BLUE
                   )
  IAN DICK
                   )
                    ) UNION GAS LIMITED
GLENN LESLIE
 BURTON H. KELLOCK )
                       ENERGY PROBE
 DAVID
            POCH
                   NORTH CANADIAN
  PETER
            BUDD
 MARKETING INC.
                ) TRANSCANADA
) LIMITED
 NEIL PATTERSON
                           TRANSCANADA PIPELINES
 G. SADVARI
 J.A. RYDER
                  CITY OF KITCHENER
 PETER
            THOMPSON ) INDUSTRIAL GAS
              )
                        USERS ASSOCIATION
 B. CARROLL
 HENRY ARNDT
                   CERTAIN NAMED
 UNIVERSITIES
 GARY FLOOD
                    )
                              THE CONSUMERS' GAS
                     )
 ROBERT HOWE
                              COMPANY LTD.
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P. ATKINSON ) F. CASS ) PPG CANADA INC. W. FRUEHAUF D.I. MULRAIN HUSKY OIL MICHAEL PETERSON GAZ METROPOLITAIN INC. BRYAN ICG UTILITIES KEITH (ONTARIO) LTD. 3 3 (ii) IND EXO FPR OCEE DING S Page No. JANET PATRICIA ELLIOTT; ALLAN DAVID COWAN; Sworn GARY BLACK; Recalled Direct Examination by Mr. Leslie 3368 Cross-Examination by Mr. Blue 3379 Cross-Examination byMr. AtkinsonCross-Examination byMr. Peterson 3495 3537 Cross-Examination by Cross-Examination by Mr. Thompson 3549 3593 Mr. Ryder Cross-Examination by Mr. Sadvari 3604 Cross-Examination by Mr. Budd 3617 Examination by the Presiding Member 3622 Re-Direct Examination by Mr. Leslie 3625 4 4 (iii) INDEX OF EXHIBITS No. Description Page No. T2.19 Document entitled "Revenue-to-3411 Cost Comparisons". 5 5 (iv) T O Ś UND ERTA KING LIS S Description No. Page No. U.20.1 Union to answer as to whether more 3402 costs are shifted to the non-M12 the existing methodology, than under and if more costs are shifted to the non-M12 than under the existing methodology, why is this appropriate? U.20.2 Union to report on whether any 3410

written to Union protesting the	
elimination of the fifth block.	2400
U.2U.3 Ms. Elliott and Mr. Adie to give	3420
an explanation of why historically	
the revenue-to-cost ratio for the	
M5A and M7 interruptible customers	
are different.	
U.20.4 To provide a written reconciliation	3424
rates were assumed for nurposes of	f
the anguer in EPPO 456 and	what
the actual rate is Ind to answer:	WIIac
will discussion inveload in	
Will discussion involved in	
settling the final order affect	
the deficiency calculation?	2420
U.20.5 Union to provide priority ranking	3438
according to 412-3 of customers	
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reduction on a PGVA balance.	
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line was sold at book value.	
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6 (v) LIS T of UND ERTA KING No. Description Page No. U.20.8 Union to provide the amount that would come out of rate base and therefore out of the amount of costs allocated to the M12 and M2 customers, should the Board deny the loss of critical unit planning philosophy.	S 3491
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6 (v) LIS T of UND ERTA KING No. Description Page No. U.20.8 Union to provide the amount that would come out of rate base and therefore out of the amount of costs allocated to the M12 and M2 customers, should the Board deny the loss of critical unit planning philosophy. U.20.9 Union Undertakes to provide 3 the impact that allocating the CI	S 3491 563 L
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all classes. U.20.10 To provide whether Union will permit 3572 a customer currently on a buy/sell on a T-service rate to transfer or bundled T immediately, without to waiting until the end of their T buy/sell contract. or U.20.11 Union undertakes to show the series 3580 of numbers from which the numbers Sub B were derived. is provide U.20.12 То whether the 3581 contractual minimum bill provisions are standard, and whether they recover more than the costs incurred no Union. by U.20.13 Union to compare delivery options 3588 for interruptible customers. 7 7 (vi) LIS T O Ś UND ERTA KING S Description No. Page No. U.20.14 Union to use a typical T1 customer 3590 a 85 per cent load factor, to at show what that customer would pay under the rates in existence before October, the October rates, and under the current proposed rates. U.20.15 Union to provide a yellow-paged 3594 version of Exhibit K7, Schedule 4, and K8, Schedule 2. U.20.16 Union will undertake to determine 3621 why the in-franchise T service customers are not priortised equally with Union's in-franchise customers, and if it isn't enough consequence that they also have an obligation to deliver. 8 8 ΤА ERRA and

	CHANGES		
Page	No. Line No.	Discrepancy	
to Vo	lume 17,	Tuesday, January 16, 2	1990:
2696	19	height s	/r pipe
2738	17	delete va	ariety
2738	18	witnessed	d s/r witness
2749	10	s/r of q	ood to look
2815	11	s/r Unigas or M	ark Resources
2821	14	s/rIdo feel that	it's in there
to Vo	lume 18.	Wednesday, January 17	. 1990:
2947	2.4	s/r change in reques	ted return as
2217	a result	of reducing	
2948	5	generated s	/r generating
2949	5	and s/r (	n
2950	9	rates s/	r rights
2961	4	s/r requests which	need economic
2001	ratification ar	e forwarded	
2982	1	aircraft	s/r airframe
2984	19	forum s/	r form
2986	16	There s/	r Thig
3038	23	s/r particular tran	amiggion line
3030	12	old and new	s/r rolled-in
3048	21	is s/r h	olde
3059	4	surfaces	a/r gerwiceg
3061	20	of g/r of	-her than
3095	20 6		/r or with
3101	5	invoked by	y g/r without
3101	12	contrite	g/r contrary
3110		the oil s/	r the off oil
3111	12	that is s/r that	Inion is
3124	2	DGBA g/r	DGVA
3124	7	DCBA g/r	DCVA
2122	, วว	roba s/i	reduction
5120	22	COSC S/1	reduction
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	CHANGES		
Page	No. Line No.	Discrepancy	
3130	10-13	set up the round	table in the
	environment, in	the economy, and	
	the goal	that institution	
	basically promo-	tes to stay in on	
	the development	s/r decision to	

set up the Roundtable on and the Environment and Economy, goal of that institution is basically to promote sustainable development. 3131 address and s/r aggressively 7 s/r should have 3133 1 should a а 3134 2 expand the s/r spend a 3134 12 be a merit for a s/r merit a 3143 25 it's obvious s/r it's not obvious 3151 19 but to s/r but to adopt 3155 4 at s/r to get 3159 17 payback that s/r payback gap 3162 13 500 s/r 5000 3164 7 gross earning s/r gross underearning 3170 in s/r than 1 3178 15 Brooklyn New York Gas s/r Brooklyn Union Gas 3189 11 M3 s/r M2 10 [ Page: 3367] ---Upon commencing at 9:09 a.m. THE PRESIDING MEMBER: Good morning. Please be seated. Gentlemen, could we deal with any preliminary matters at this time? Mr. Leslie? MR. LESLIE: I have two filings, sir. They have been distributed. One is the response to Undertaking 18.1. The other is described as the "Fifth Addendum to the Prefiled Evidence of Mr. Cowan and Ms. Elliott". It's Exhibit N13. That deals with the disposition of the Kirkwall line. I will in a few moments, sir, ask Ms. ~ Elliott to briefly describe the proposals as contained in that evidence to the Board. THE PRESIDING MEMBER: Yes. Thank you, Mr. Leslie. Mr. Blue, do you have any preliminary matters? MR. BLUE: No, thank you, sir. THE PRESIDING MEMBER: Mr. Leslie, will you proceed? MR. LESLIE: Thank you, sir. The panel today is Mr. Al Cowan, Ms. Pat

	Elliott, Mr. Gary Black. Mr. Black has been sworn. Ms. Elliott and Mr. Cowan have not. Perhaps they	
	[ Page: 3368]	1
	should be now.	
~	THE PRESIDING MEMBER: Yes, would you	
	people come forward and be sworn by Mrs. Bielski,	
~	JANET PATRICIA ELLIOTT;	
~	ALLAN DAVID COWAN; Sworn	
~	GARY BLACK; Recalled	
	DIRECT EXAMINATION BY MR. LESLIE:	
~	Q. Mr. Black, if I could start with you,	
	you are Union's Manager of Storage and Transportation	
	Services?	
~	MR. BLACK: A. That's correct.	
~	Q. And your prefiled evidence for the	
	purposes of this appearance is Exhibit N15?	
~	A. Yes.	
~	Q. And I understand you have one	
	correction you wish to make to that evidence?	
~	A. Yes. At page 9 of 11, Tab 2, that	
	The last paragraph should be crossed off That begins	
	with. "Upon entrance into the queue the customer shall	
	have five business days" That paragraph should be	
	deleted.	
~	Q. All right. Subject to that	
	correction, do you adopt that evidence?	
~	A. Yes, I do.	
	[Elliott,Cowan, Black dr ex (Leslie) Page: 3369]	2
~	0 Mg Flligtt vour evidence is at	
	g. MS. Errocc, your evidence is at	
~	MS. ELLIOTT: A. That's correct.	
~	0. And vou are Union Gas' Manager of	
	Rate Design and Cost of Service?	
~	A. That's right.	
~	Q. And I understand there are some	
	corrections you wish to make to your evidence?	
~	A. Yes, there is. Attached to the	
	package that Mr. Leslie referred to as the disposition	
	of the Kirkwall deferral account there is an exhibit,	
	Exhibit K6, Schedule 5, page 1 of 2. That replaces the	
	yellow page filed on January the 17th.	

The line 2, "Gas in Underground Storage", the amount under Column C should have been \$10,457,000, and under Column D should have been \$7,544,000. The corresponding totals in that column should have read \$17,154,000 and \$25,319,000. The corrected schedule replaces the was filed on the 17th of January. schedule that THE PRESIDING MEMBER: And the Schedule we have this morning reflects those corrected figures? MS. ELLIOTT: That's right. THE PRESIDING MEMBER: Thank you. ~ MS. ELLIOTT: In addition, there is a 13 Black dr ex (Leslie) Page: 3370] [Elliott,Cowan, schedule or Exhibit N13, Tab 3, Schedule 2, and it also replaces the same schedule filed on the 17th of January. On the Schedule that was in error the decimal was over one too far to the left. place The new totals or the new per unit charges in Column C, line 1, should be .02 cents per metre cubed, and that applies all That's the way down. the CIL per unit cost recovery. THE PRESIDING MEMBER: Excuse me. Just have this, this to be sure we is the new exhibit filed N13, Tab 3, Schedule -this morning, MS. ELLIOTT: That's right. That's the new numbers--Those are the corrected numbers. THE PRESIDING MEMBER: This reflects 0.0203 as residential unit charge? MR. ELLIOTT: That's correct. THE PRESIDING MEMBER: Thank you. MR. BLUE: Ms. Elliott, just so I'm clear, on the corrected Tab 7, Schedule 1 to Exhibit N13, the one that you filed this morning, the numbers are correct? MR. ELLIOTT: That's correct. On the one you are replacing there are one too many zeros. MR. BLUE: Thank you. MR. ELLIOTT: I would also like to make а 14 [Elliott,Cowan, Black dr ex (Leslie) Page: 3371] correction to the Rate Schedule R1, and it was filed

	under Tab 6 of Exhibit N13. Under the Rates section,
	Item C, the "FST Downstream Differential", on the
	schedule filed it reads that it's .5644 cents per cubic
	metre, and it should be .5631 cents per
cubic	metre.
~	THE PRESIDING MEMBER: Yes, I believe
	that's that was corrected earlier, but thank you.
~	MS. ELLIOTT: Okay. I would also like to
	make a change to the M2 rate schedule that was filed,
	blue. And that's filed under Exhibit L4.
~	THE PRESIDING MEMBER: One moment,
	please. Yes, I think we have that.
~	MS. ELLIOTT: Page 2 of 2, the company
	policy relating to terms of service. Part B was a new
	section.
~	THE PRESIDING MEMBER: Excuse me, could
	you repeat the reference again for the benefit of the
	Board?
~	MS. ELLIOTT: Exhibit L4. It's the M2
	rate schedule, page 2 of 2.
~	THE PRESIDING MEMBER: Yes?
~	MS. ELLIOTT: The paragraph that deals
	with the delivery pressure and the 12 zones? Last week
	I was informed that they're not going to be able to
	implement this effective April 1, so the rate schedule
	[Elliott,Cowan, Black dr ex (Leslie) Page: 3372]
	effective April 1 should have two paragraphs relating
	to delivery pressure. One takes effect from April to
	June, which applies the atmospheric pressure for the
	entire franchise area and assumes it to be 99.285
	kiloPascals, and the second from July on would be this
	12 zones.
~	The next change I would like to make is
	to the M6 rate schedule under the same exhibit, page 1
	of 2.
~	THE PRESIDING MEMBER: This is M6A?
~	MS. ELLIOTT: M6A, page 1 of 2, the Rates
	section, paragraph 2, where it refers to the minimum
	bill as the daily charge of 79 or \$79.23. That
	should have been split to a delivery charge and a gas
	supply charge, and it should read "a daily delivery
	charge of \$33.35, and if applicable a daily gas supply
	charge of \$45.88".
~	I would also like to correct the M12 rate

schedule filed under the same exhibit, page 2 of 6. the "Fuel Ratios" April to October for firm Under transportation without compression at Union's Dawn compression station, easterly flow, should be 0.1 per cent and not 0.5 per cent as filed. 16 [Elliott,Cowan Black dr ex (Leslie) Page: 3373] Further down, with Dawn compression, - I'm sorry - westerly flow should read easterly flow not 0.0 0.5 per cent, per cent. On page 3 of 6, summer fuel ratio, April to October for transportation without Dawn compression easterly should read 0.1 per cent, not 0.5. My last correction is to Exhibit L6, Schedule 7. I'll make the correction to the yellow Line 4, Column C, the proposed copy. -- recovery of proposed increase from the interruptible commercial/industrial contract should read 0.2364. The unit rate after recovery in column D should read 12.1876 for a percentage change in column E of 1.98 per cent. Those are all my corrections. MR. LESLIE: Q. All right. Ms. Elliot, with those corrections and changes, do you adopt Exhibit N13? MS. ELLIOTT: A. I do. Cowan, you are Union Gas's Q. Mr. Manager of Rates and Revenue Forecast? MR. COWAN: A. That's correct. O. And your evidence is also contained in Exhibit N13? A. Yes, it is. 17 [Elliott,Cowan Black dr ex (Leslie) Page: 3374] Q. I understand you have one correction you wish to make to your evidence? A. Yes. I have one correction to an interrogatory. I don't think it is necessary to turn it up. Interrogatory R.1, 14.22 revised, which is on the blue pages, makes reference to a forecast and it refers to it as a forecast made at the zero quarter. Obviously, since it is on blue paper, it should read,

"Second Quarter." Q. All right. Thanks, Do Mr. Cowan. you adopt your evidence as found in Exhibit N13? Yes, I do. Α. Mr. Black, yesterday there was a Q. discussion between whether Mr. Atkinson and Mr. Adie an incentive to regarding the possibility of offering firm customers on Union's system to accept in the event that there interruptions was a loss of critical unit -- on the system as an alternative to the facilities' proposals that have been made. Mr. Adie indicated that that was not something that had been explored by him. I understand that you do wish to comment on that alternative. Could you do that now? MR. BLACK: A. Yes. don't think it is Ι a feasible or a practical alternative in that it [Elliott,Cowan Black dr ex (Leslie) Page: 3375] wouldn't be feasible because you would have to have all the contract customers from Hamilton east, that is 103 customers, accept this service. And from a practical point of view, you could not initiate the interruption wouldn't be able to contact 103 customers in time. You to have them go off service in the time that's required to provide the protection that you need. Q. Could you explain to the Board why it would require 103 customers to accept that kind of an interruption in order to compensate for the loss of a critical unit? Α. You would need the 103 to give you a volume to compensate for the most critical unit and when you are talking about a Union load, it has to be а higher load than the loss of critical unit capacity because Union's load is not at the end, so you would have to have more load interrupted along the line to give you the equivalent capacity required at the end, as defined by the loss of critical unit. Q. All right. Thank you, sir. Ms. Elliot, yesterday, again, there was а discussion of authorized incentive overrun rates. This was between Mr. Blue and Mr. Adie. And an undertaking

was given to explain to the Board why no study on that subject had been tendered in this case, notwithstanding 19 [Elliott,Cowan Black dr ex (Leslie) Page: 3376] a direction by the Board in their EBRO 456 decision to that effect. I understand it you are in a position to explain to the Board why no such study is available. Would you do that now? MS. ELLIOTT: A. Yes. In the decision in EBRO 456, the Board found that we should file the completed. I think there has been a study not yet misunderstanding as to what we were -- what we had positioned ourselves, as far as authorized incentive overrun, and it goes back to prefiled evidence in 456, at Exhibit N13, where we indicated we were currently working on a proposal in connection with the Board's directive in EBRO 412-III, to propse an authorized incentive overrun service. In the same hearing at Exhibit N14, Mr. Adie and Mr. Hockin indicated that it was premature to propose another overrun service at this time. time, we had reduced our At that authorized overrun rates to equate to service contracts at 100 per cent load factor, which is a lower rate than they would be paying for the service under their contract, and there was no evidence at that time that further changes were required. In our revised evidence in 456, we supported the position we put forth in the 20 [Elliott,Cowan Black dr ex (Leslie) Page: 3377] white pages and we have no evidence that further changes were required, and that was our position on authorized incentive overrun. There was never a study underway, as a result of a misunderstanding of our wording in the evidence. And in this case, our position continues to be that we have no evidence that further changes to our overrun rate are necessary. Q. All right. Thank you. And finally, Ms. Elliott, with reference to the fifth addendum to your and Mr. Cowan's evidence, dealing with the disposition of the Kirkwall line, could you describe

for the Board the proposals that are contained in that evidence or summarize those proposals? A. What we have handed out this morning is a schedule, labelled as Exhibit N13, Tab 7, Schedule 2. It shows the calculation of the balance in the deferral account. The sale of our Kirkwall line was completed on Friday, January the 19th, and the balance in the deferral account is calculated on this exhibit and it is \$669,000. This amount represents the cost of service for the Kirkwall line for the balance of fiscal 1990, and it is to be refunded to Union's customers. 21 [Elliott,Cowan Black dr ex (Leslie) Page: 3378] The schedule labelled Exhibit N13, Tab 7, Schedule 1 shows the allocation of that balance and the calculation of the unit rate rebate that we are proposing to refund to our customers. This balance will be a one-time adjustment combined with the PGVA rebate and the CIL charge for billing purposes. N13, pages 1 and 2 describe the Exhibit allocation of the balance in the deferral account and the calculation of the rebate amount. MR. LESLIE: All right, thank you. That is all I have, sir. THE PRESIDING MEMBER: Thank you, Mr. Leslie. With regard to the direction in the Board's decision, Mr. Leslie, I take it what we have from Ms. Elliott is in response really to heard Undertaking U.19.3, and so we will not be getting a written response to that undertaking. Is that your understanding? MR. LESLIE: Yes, sir. I apologize. I should have said that we felt that it might be just as well to deal with it that way, as to file something subsequently, so that would be our intention. THE PRESIDING MEMBER: All right. Thank you. Mr. Blue. 22 [Elliott,Cowan, Black Page: 3379] CROSS-EXAMINATION BY MR. BLUE:

Q. Ms. Elliott and gentlemen, I would ~ like to start with Union's proposed cost allocation Ms. Elliott, you are the person study, and I take it, who will be answering questions about it? MS. ELLIOTT: A. That's correct.  $\sim$ Q. As I understand it, Union has filed its proposed cost allocation study as Exhibit Kl in this case, right? A. Exhibit K1 is the narrative that describes the cost allocation process. Exhibits K2 through K8 also contain schedules. if someone wanted to understand Q. But ~ Union's basic methodology, Exhibit K1 describes it in a nutshell? A. That's correct. Q. And you have also prepared a seasonal cost study this year which Mr. Feingold is going to speak to tomorrow? A. That's correct. Mr. Feingold was hired to prepare a seasonal cost study and speak to it. just so we understand the Q. And Elliott, Union is not proposing position, Ms. to act on that seasonal cost study? A. That's correct. 23 [Elliott,Cowan, Black cr ex (Blue) Page: 3380] Q. Ms. Elliott, just to make the record clear and because we have new staff and members Board this year, could you very briefly take us through K1 and explain Union's cost allocation methodology and functionalization and allocation and the basic steps in the methodology? A. Certainly. As K1 indicates, the objective of the cost study is to take Union's cost of service for the test year and allocate it to our various rate classes. Q. Could I just make sure that Ι understand? Basically we are taking a pool of costs which is Union's cost of service and we are trying to decide how to recover that, those costs, from customers? That's the beginning point and the objective at the end? A. Yes, that's the objective at the end.

Q. Okay. process takes the pool of costs Α. The and goes through a process to allocate them to our customer classes based on the cost causality; that is, classes cause us to incur certain costs, and we those attempt through the cost study to measure the costs related to each class of customer. O. Yes. 24 [Elliott,Cowan, Black cr ex (Blue) Page: 3381] Α. The fact that we operate an integrated system means that a great deal of judgment is required in identifying the cost components and allocating them to the class of -- each class of customer. The first step that we go through is to functionalize the costs; that is, to take costs and the divide them into four functions: production or gasrelated, storage, transmission, and distribution. Q. And are those four functions, the functions you spoke about a moment ago, as being parts integrated system? of an That's correct. The functional-Α. ization step is probably the clearest step because the OEB system of accounts is set up in the same fashion. We have a series of accounts for each of the four functions. There are other costs that are not cleanly defined to any of the functional groups that we have to allocate or functionalize into the categories. Q. Okay. So we have taken that pool of costs and we have divided it into four functions, so we have four separate groups of costs according to these functions. Then what's the next step? The step after that is to classify Α. those costs. 25 [Elliott,Cowan, Black cr ex (Blue) Page: 3382] What do you mean by "classification"? Ο. Α. The classification is according to their cost of incurrence as to whether they are commodity-related, and that's related directly to the gas, the commodity. The next step or the next classification is capacity-related, and those are the

demand costs. Q. Just so I'm clear now, when you say ~ "commodity-related", commodity is the gas, right? A. Commodity is the gas. O. So we have the cost of gas, but presumably we have also other costs which vary with the amount of gas you buy? A. That's correct. And that would be transportation 0. costs, that might be parts of your storage for gas? I don't know. A. No, primarily it's the gas. Q. Just the gas? Yes? A. There are costs related to the purchase of and/or the transportation of gas, costs that we view as varying with respect to the volume of gas we buy or move. Most of those are administration costs. Q. All right. And the demand-related 26 [Elliott,Cowan, Black cr ex (Blue) Page: 3383] costs would tend to be the fixed costs of the various facilities in each function? A. That's correct. That's correct. I take it that as with all cost O. And allocation exercises there is some judgment and some -about whether something is commodity-related or demand-related? A. Yes, there is that judgment. There is also a determination as to whether they're storagerelated or transportation-related and then further down whether they're storage demand or transportation demand. Q. Now, for each function, then, we have two branches: demand-related and commodity-related. So now we have eight pools of costs? A. There is actually a third classification, and that's customer-related--0. Yes, all right. A. --which are costs that relate to--0. Serving --A. -- the number of customers we serve. Q. And would each function have customer

	COS	sts							
~	Α.	No.							
~	Q.	Pardon me	2?						
	[E]	lliott,Cov	van, Black		cr ex	(Blue)	Page:	3384]	27
~	A.	No.							
~	Q.	That woul	d be dist	ributio	n main	ly?			
~	Α.	Mostly di	stribution	n. And	our g	eneral			
	adr	ministrati	ve costs a	are cust	tomer-:	related.	We a	ctually	
	set	c up a cus	stomer-rela	ated cla	assifi	cation.			
~	Q.	All	right.	( 	So we ]	have the	funct	ions	
	divid	led into at	least	two p	pools a	ind distr	ibutio	n costs	
	divide	d into thr	ee additio	nal	pools	5. T	hen wha	t's the	
	nez	kt step?			-				
~	Α.	Then we t	ake the va	arious ]	pools v	with	7 .		
	tne	IUNCTIONS	ALIZED COST	ts that	~~~~~	nave be	en cla:	ssiilea	
	auator	portaing to	d and	they re	capac.	lly-, CO	$t_{0}$ + hor	$y^-, or$	
	Custo	der-relate		CHEII	we	alloca		i to our	
~		Right Z	nd	now T	realiza	o we are			
	z. aet	ting into	the black	k arts.	but b	asicallv	T take	≏ it	
	voi	ı allocate	e them try	ina to 1	use soi	me logic	al bas	is for	
	deteri	nining what	t costs sh	ould	be a	allocated	d to	each	
	cla	ass?							
~	Α.	That's co	orrect. We	e take a	a look	at			
	the c	costs and	what	they're	e relat	ted to ar	nd how	they're	
	ind	curred on	our system	n, and w	we, to	the bes	t of or	ur	
	abili	ty, select	t an alloca	ation	met	chod that	c refle	cts the	
	COS	st incurre	ence.						
~	Q.	You've de	escribed th	nis in y	your K				• •
	[E]	lliott,Cov	van, Black		cr ex	(Blue)	Page:	3385]	28
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	exi +h	M12 augt	detail, Du	at just		exampie	, Lell d then	how	
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	red	zidential	rate class	11015 C( 22	USC AL	e arroca	LEG IU.		
~	Σ	Okar		) hecaus		perated	a	storage	
	and	transpor	tation sv	stem that	at ser	vices	u i	ocorage	
	011	-of-franc	chise custo	omers. M	we a	after we	have		
	fui	nctionaliz	zed our cos	sts we d	classi	fied the	m; we a	seqment	
	ar	part of ou	ir i	facilit	ies – a	and thos	e are	the	
	Dawn	/Trafalga	r faciliti	es - to	alloca	ate costs	3	to our	
	Ml	2 customer	class.						
~	Q.	Yes?							
~	Α.	Once we ł	nave ident:	ified tl	he				

	Dawn/Trafalgar costs, and those are the costs of the	
	Dawn station, facilities along the Dawn/Trafalgar	
	system, we allocate those costs to our M12 Rate Class	
	based on the design of the system, and the exhibits	
	that support that cost allocation are filed under K6.	
~	The primary actually, the SNT group	
	and the M12 group only bear storage and transportation	
	costs We take the storage costs allocated to or	
	classified as storage demand so we have four	
	classifications of costs of storage that we allocate to	
	the M12 class the first one being storage space	
	Those are the costs related to the space	
the	annual	
CIIC	amaar	29
	[Elliott,Cowan, Black cr ex (Blue) Page: 3386]	
	turnover.	
~	Q. Yes?	
~	A. Those are costs like base pressure	
	gas, half of the wells and lines to inject to inject	
	and withdraw into the storage space, and the O&M costs	
	related to it. We take the total costs of storage	
	space and divide that by the total working capacity	
	that we have	
~	Q. Yes?	
~	Ato arrive at a per unit allocation	
	factor	
~	Q. Yes?	
~	Awhich is	
~	Q. So basically what that exercise has	
	done has been to divide up is to come to some	
	meaningful measure of costs times volumes that you can	
	allocate to particular customers or to this particular	
	rate class?	
~	A. That's correct.	
~	Q. Yes.	
~	A. Another classification of storage	
	costs are the demand-related costs.	
~	Q. Yes?	
~	A. Those are the costs related to the	
	peak day demand	30
	[Elliott,Cowan, Black cr ex (Blue) Page: 3387]	
~	Q. Yes?	
~	Aof getting the gas out of storage.	
	Those are costs the carrying costs on the gas in	

	underground storage related to the peak day demand, again the remaining half of the wells and lines, and O&M costs and some dehydrator costs, as well as the costs of the Dawn station that are functionalized as storage.
~	Q. Ms. Elliott, I don't think it's necessary to go on too much further, but the point that
	you are making is that the allocation of costs to rate classes is a sophisticated is a sophisticated
	exercise; that is, you have to determine what costs are
	appropriate to that particular rate class, and I judge from what you're saying that you have to use different allocation factors depending on different costs and the allocation factor should be a relevant allocation
	factor?
~	A. That's correct. The allocation
	factor used should reflect the costs that are in the classification, and we have selected allocation factors that reflect the cost causality of each classification
~	Q. All right. And the selection of
	allocation factors I take it is a judgmental matter?
~	A. I wouldn't say the selection of
	[Elliott,Cowan, Black cr ex (Blue) Page: 3388]
	allocation factors
~	Q. I am not going to question. I am just
~	Ais really directly related to the
	basically come from the Systems Design people, the
~	Q. I understand that, but you would
	agree with me that whether a particular measure is a
	proper allocation factor or not is something that cost allocation experts and engineers can argue about at
	length?
~	A. There certainly are alternative
~	allocation factors.
	costs should be allocated again is a matter of
	judgment?
~	A. That's right. To the extent that the
	costs aren't specifically identified to a function or
	to a classification, there is judgment involved in
	TUNCCIONALIZING AND CLASSILYING COSUS AS WELL AS

allocating them. O. All right. Now, you've described the methodology and we have established that it's a sophisticated piece of analysis. [Elliott,Cowan, Black cr ex (Blue) Page: 3389] What, Ms. Elliott, is the objective of a cost allocation study? Why does a company like Union sit down and have you and your staff go through this exercise? What's your objective? A. Well, the primary use of the cost been allocated to allocation study, once the costs have the rate class, is to the rate design support proposals, in front of the Ontario Energy Board in this case. O. But presumably the objective is to that the rates charged to particular customer prove groups reflect the costs incurred by those customers on Union's system? Well, yes, that's correct. Α. Q. All right. Now we have gone over your general methodology. Just tell us what changes to the methodology you are proposing this year. You have covered them in your testimony, but again I just want to get a clear description of them on the record. major change this year A. I quess the over the past years is our allocation of demand costs or capacity costs to our M12 customers. Q. Yes? Α. There has been no change in the functionalization and classification of costs, and we cr ex (Blue) Page: 3390] [Elliott,Cowan, Black have not changed the allocation units. What we did change is actually the revenue recovered from the M12 class. 0. All right. the transportation demand A. I could use as an example and explain what we had done in costs past cases and what's reflected in our rates. Once we have identified the transportation demand costs on the Dawn/Trafalgar system we allocate those costs based on an allocation factor which is a commodity kilometre factor,

32

33

which is

actually the design day load weighted for the distances travelling. O. Yes? Right? ~ that comes up with a per unit Α. And ~ cost of -- for a commodity kilometre. To come up with the M12 rate, in the past we have multiplied that by the distance travelled by the M12 load, which is the 228.94 kilometres. Ο. That's Dawn to Oakville? ~ A. Dawn to Trafalgar. O. Yes? divided by 12--A. And Q. Yes? A. --to get a monthly rate. We then 34 [Elliott,Cowan, Black cr ex (Blue) Page: 3391] multiplied that rate by the forecasted demand of the M12 customers on our system. O. Yes? A. What we saw happening this year was the fact that our M12 customers with new coming on load in November are -- what we use for our allocation units is a design day demand. So you multiply -- you divide by the design day demand. By dividing by 12 you assume that that demand occurs 12 months out of the year. 35 [Elliott,Cowan Black cr ex (Blue) Page: 3392] O. Yes. -- when we went --Α. Q. And that is, of course, not so? it's not so. And when you Α. No, multiply by the billing units, which is actually your forecasted demand times the term of the contract, we came out with an amount of revenue recovery that was less than the actual peak day cost of for the service M12 class. O. Yes. what we did after we saw what A. So, this was creating, we took a look at our allocation to the class. divide the cost We continued to of service by the peak day demand, the commodity kilometre

calculation. Then we multiplied that by the actual M12 portion of that peak day demand--O. Yes? A. --to get a cost related to the M12 customers based on their design day load. It was then that pool of costs that we had to recover from the customers. We used a weighted average monthly demand to come up with a unit rate for the M12 class. propose to do for the M12 What we 36 [Elliott,Cowan Black cr ex (Blue) Page: 3393] customers this year is no different than what we have done in the past for all of our in-franchise customers. Ο. Yes. You asked about the Α. M2 class, in particular. The costs that are allocated to the M2 are basically the M2 design day class demand divided by the total system design day demand. O. Yes? A. What we are doing for the M12 class this year is the M12 design day demand divided by the system design day demand. total O. All right. That is very clear. And you have filed just so that we can track it through, Exhibit N13, Tab 2, Schedule 2 revised and Schedule 1 revised, which shows us the difference in numerical terms. Is that right, Ms. Elliott? A. That's correct. Q. Okay. Let's just pull those out. A. I take it you are looking at the yellow pages? Q. Yes, I am. A. Okay. Just to make sure I 0. understand. Do you have those in front of you? 37 [Elliott,Cowan Black cr ex (Blue) Page: 3394] A. I have them. right. Ο. All Now, under the current ~ methodology, which I think you have styled, "previous rate demand calculation"?

That's correct 7

~	A. 'Inat's correct.
~	Q. Under your current method, what you
	really do is derive the rate and then use the rate to
	determine the cost to be allocated to the M12
	customers. Have I got that right?
~	A. That's right.
~	0. And under the existing or previous
	demand rate calculation, as you styled it, actual costs
	will equal revenues as long as the forecast volumes are
	for all of the 12 months as we just discussed?
~	That's correct
	A. Illat 5 correct.
	Q. And the unit goat derivation aggumed 12 months of
	sald, the unit cost derivation assumes iz months of
	recovery?
~	A. That's correct.
~	Q. So, when the problem with that, I
	guess, is when you add a contract during the year, it
	increases the total costs and the MI2 design day
	demand, but the revenue recovery will only take place
	for part of the year?
~	A. That is correct. It increases the
	[Elliott.Cowan Black crex (Blue) Page: 3395]
	allocation units on peak day, but the billing
units	
	don't reflect 12 months of demand.
~	0. Right, okay. And would you expect
	that to be an on-going problem. Ms. Elliott? The
	reason I ask that is that your M12 contracts typically
	begin on November 1st. don't they? I mean, once you
	have signed one up and built your system, it happens in
	one year but then after that ?
~	A Yes That seems to be the case
~	0 All right So could I conclude from
	that that given the fact that Union's M12 contracts or
	the fact that Union often has M12 contracts begin
	partway through the year that you could have adopted
	the methodology that you are proposing to adopt in this
	che methodology that you are proposing to adopt in this
	A No this is not a new problem, is it:
~	A. NO, CHISIS IS NOU a new problem. In
	Tact, In response to one of the interrogatories, we
	went back a number of years and we have had this
	proprem difference between the allocated cost and
	the revenue recovered for a number of years.
~	Q. Yes. That is interrogatory R1.14.2,

I believe? A. That's correct. right. O. All What I am sort of wondering is, having read Exhibit R1.14.2, the 39 [Elliott,Cowan Black cr ex (Blue) Page: 3396] interrogatory response was maybe you should have been using your new proposed methodology all along. Would you agree with that? A. Well, I guess the reason it became apparent in this application was really the magnitude of the problem. Q. Yes. Well, if I look at page 4 of Interrogatory R.14.2, perhaps we could just focus on the magnitude of the problem for a second. Do you have that page, Ms. Elliott? A. I do. Q. Yes. And if you look on the ~ right-hand column, which shows the difference between the two methodologies, start at the bottom of the page, we see back in 1984, the difference was \$401,000; and then in '85, in EBRO 397, it was \$344,000; in EBRO 405-II in 1987, it was \$241,000; and then it jumped in 456 to \$3,243,000; and it has jumped by an order of magnitude in EBRO 462 to \$12,588,000. And I take it that is the increase you are referring to? A. That's correct. In years of major facilities expansion and significant contract increases, which is reflected in the 1990 test year, EBRO 456, and in the 1991 test year, there are significant dollar --40 [Elliott,Cowan Black cr ex (Blue) Page: 3397] Q. Now, is that increase shown for EBRO of 4 in the schedule to 462 on page 4 Interrogatory 14.2, is that increase due to the very large TCPL capacity increase originally forecast for November 1, 1990? A. It is. It is in part due to that. right. Q. All  $\sim$ Actually, the number that corresponds Α. to the yellow revised schedules is \$7,888,000. Q. I'm sorry. The number is what?

A. \$7,888,000. that should replace the O. And \$12-million? A. Yes. Q. Okay. And that reflects the change in the facilities application? A. That reflects the change, yes. right. O. All But just so I am clear, was it that particular TCPL increase this year that provided the impetus for your request to change the M12 methodology? A. I don't think it was solely the TCPL increases. I recall there were increases for Consumers. There were increases for Consumers, ICG, St. Clair and Kingston. 41 [Elliott,Cowan Black cr ex (Blue) Page: 3398] right. I take that point. O. All And the TCPL increase has been reduced by ~ . the approximately \$5-million you mentioned just a few minutes ago, and the question I just wanted to get your on is: In light of the fact that TCPL has views reduced and in light of the fact that an increase of this size is sort of a one-time event, does Union or do you feel that you should still adopt the change in demand rate calculation? A. I do. I feel that the change appropriately reflects the costs of servicing the M12 and those are the costs that should be recovered class from that class of customer. O. All right. I would now like to talk about the change due to the Kirkwall delivery point. Is that your responsibility again, Ms. Elliot? A. Yes, it is ~ as I understand it, Union is now Ο. And proposing to designate Kirkwall as a delivery point on the Dawn-Trafalgar system? A. That's correct. that is a reflection of O. And the fact that Union has sold the Kirkwall line to TransCanada and TransCanada will need to deliver volumes to Kirkwall for export? 42 [Elliott,Cowan Black cr ex (Blue) Page: 3399]

~	A. Well, that is actually a reflection
	of the fact that we are now we have been contracting
	for delivery at Kirkwall, or to Kirkwall.
~	MR. BLACK: A. There's also provision of
	deliveries to Kirkwall for Consumers.
~	Q. All right. And you are proposing, as
	I understand it, the transportation rate to Kirkwall be
	the same as for the transportation to Oakville under
	the M12 rate schedule?
~	MS. ELLIOTT: A. That is correct.
~	Q. Again, I think you indicate in N13 at
	page 5 that the proposed transportation demand rate
	reflects a weighted average distance for gas
	transported for M12 customers to Oakville of 228.94
	kilometres, and to Kirkwall, 188.65 kilometres?
~	A. That is collect.
~	Q. The average of those two numbers is
	219.87 kilometres for the test year?
~	A. That was what the average was,
	according to the white pages.
~	Q. Yes. What is it now? What is the
	number now?
~	A. I actually don't have that number for
	the yellow pages.
~	Q. Well, you can inform me later what it
	[Elliott,Cowan Black cr ex (Blue) Page: 3400]
	is, but I think the point is, do you want to use the
	average for establishing the M12 rate?
~	A. Actually, the methodology we have
	proposed for determining the rate, the weighted average
	distance doesn't come into the rate calculation any
	longer.
~	Q. 1 see. Why not?
~	A. What we are doing is, we are taking
	the costs and allocating the MI2 proportion based on
	the total M12 commodity kilometre over the M12
	commodity kilometres over the total commodity
	Kilometres times the total cost of service gives the
	MI2, the allocated costs to the MI2.
~	where distance comes into play is in the
	allocation units, themselves.
~	V. RIGHT. THE Allocation units,
	LIEMSELVES, I UNDERSTAND IT, WILL DE REDUCED
~	A. IES.

Q. -- compared to what they were for just a Dawn-to-Trafalgar delivery? A. Because part of the load that we otherwise have moved to would Trafalgar is moving a shorter distance, the allocation units are reduced. Q. Now, have system allocation units, as a whole, declined or just the M12 allocation units? 44 [Elliott,Cowan Black cr ex (Blue) Page: 3401] A. I don't know that I can answer that question. I would have to look at the Union load over the past. The total allocation units for the Dawn-Trafalgar system are Union's own load to all of the various -- the kilometre posts, as well as the M12 load. Q. Could you check that for me and have someone back at the office do it and let me know? you repeat it again? A. Can Q. Yes. I just really wanted to know if the allocation units that have been reduced because of the inclusion of the Kirkwall delivery point have been the system-wide allocation units or just the allocation units for the M12 customers? I'm sorry. You wanted to know A. Oh. if the total system allocation units are reduced to reflect the Kirkwall delivery point? Q. Yes. answer is, "Yes." Sorry. Α. The 45 [Elliott,Cowan, Black cr ex (Blue) Page: 3402] Q. Oh, okay. When you've done all this, costs shifted to the non-M12 than Ms. Elliott, are more the existing methodology? under A. Simply -- you are looking at the effect of the Kirkwall delivery point in isolation? Yes. Ο. A. I don't know. Q. Okay. Could you check that and let us know? THE PRESIDING MEMBER: Mr. Blue, are you seeking an undertaking number on that? MR. BLUE: Yes, sir. THE PRESIDING MEMBER: That will be U.20.1.

~	MR. BLUE: And, Mr. Chairman, could we	
	include in that the following follow-up questions? If	
	more costs are shifted to the non-M12 than under the	
	existing methodology, why is this appropriate?	
~	THE PRESIDING MEMBER: That can be done,	
	Ms. Elliott?	
~	MS. ELLIOTT: That can be done.	
~	THE PRESIDING MEMBER: We will include	
	that, yes.	
	UNDERTAKING NO. U.20.1: Union to answer as to	
	whether more costs are shifted to the	
	non-M12 than under the existing	
		46
	[Elliott,Cowan, Black cr ex (Blue) Page: 3403]	
	methodology, and if more costs are	
	shifted to the non-M12 than under the	
	existing methodology, why is this	
	appropriate?	
~	MR. BLUE: Q. Now, in averaging the	
	allocation units for the MI2 customers, that means that	
	customers does that mean, I should ask, that	
	customers pay the same for delivery to Kirkwall as for	
	delivery to Tratalgar?	
~	MS. ELLIOTT: A. Yes.	
~	Q. And the question is: Why is that	
	fair to me as an M12 customer if I want delivery only	
	to Kirkwall? Why couldn't you have developed two	
	separate M12 rates, one for delivery to Kirkwall and	
	one for delivery to Trafalgar?	
~	A. Well	
~	Q. Three questions, very bad	
	cross-examination, but all come to the same point.	
~	A. We took a look at our Dawn/Trafalgar	
	system and the M12 transportation on that system and	
	allocated the costs to the M12 customers, and we	
	basically didn't want a situation where we were zoning	
	or offering a distance-based rate for Kirkwall	
and	one	
	for Trafalgar.	
~	We took the position that we have a	
	rolled-in facility and that delivery out of our	
	[Elliott.Cowan, Black crev (Blue) Page: 34041	47
	[LIIIOCC, COwaii, Diach CI CA (Diac, Tage, 5104]	
	franchise area, regardless of the distance it	
	travelled, would be charged at the same rate	
	crateriea, would be charged at the bane rate.	

	Q. I understand the position. What	
	would be the disadvantage to Union of having separate	
	rates rather than a rolled-in rate?	
~	A. I guess in the past we have taken the	
	position that we are not offering distance-based rates	
	to our in-franchise customers and we don't feel it	
	appropriate to offer distance-based rates to our	
	out-oi-iranchise customers.	
~	Q. But would distance-based rates add to	
~	A It would mean either another rate	
	schedule or more rates on the M12 rate schedule	
~	0 And would it mean then that	
	in-franchise industrial customers will all be asking	
	for specific rates applicable to them?	
~	A. I don't know that that's the case.	
~	Q. I am just trying to you say that	
	Union just doesn't want to charge, just get into	
	distance-based rates and that's the reason why you	
	haven't differentiated the rates?	
~	A. We didn't feel it appropriate to	
	offer two different rates for service along our	
	Dawn/Trafalgar system, the only difference being the	0
	[Elliott,Cowan, Black cr ex (Blue) Page: 3405]	0
	distance it travelled, the gas travelled.	
~	distance it travelled, the gas travelled. Q. Do you happen to know what the	
~	distance it travelled, the gas travelled. Q. Do you happen to know what the difference in the bus fare is?	
~	distance it travelled, the gas travelled. Q. Do you happen to know what the difference in the bus fare is? A. No, sir, I don't.	
~ ~ ~ ~	distance it travelled, the gas travelled. Q. Do you happen to know what the difference in the bus fare is? A. No, sir, I don't. Q. Let's talk about your proposed	
~ ~ ~	distance it travelled, the gas travelled. Q. Do you happen to know what the difference in the bus fare is? A. No, sir, I don't. Q. Let's talk about your proposed reduction in the M2 rate blocks, because that's another	
~ ~ ~	<pre>distance it travelled, the gas travelled. Q. Do you happen to know what the difference in the bus fare is? A. No, sir, I don't. Q. Let's talk about your proposed reduction in the M2 rate blocks, because that's another change you are making in this year's</pre>	
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A. That's correct. ~ you are proposing to reduce the O. And number of rate blocks in the M2 schedule from five to four. And you give the reasons for that in Exhibit N13 at page 8? A. That's right. 49 [Elliott,Cowan, Black cr ex (Blue) Page: 3406] Q. And basically the story here is that back in EBRO 405-2 the Board asked Union to increase the eligibility, or lower rather the eligibility requirements for --A. M4.  $\sim$ O. -- for M4, and the result of that you had several of your larger commercial customers enter into contracts and go M4? A. That's correct. O. And this led to very few people being left in the fifth rate block? A. That's correct. right. And your position is that O. All the proposed four rate blocks instead of five rate blocks better reflects the costs of treating those customers? A. No, sir. Actually, it reflects the use of the rate structure. right. Now, presumably if you O. All are eliminating the fifth block all the people who are now in the fifth block will go into the fourth block? A. That's correct. Q. And that means they will get slightly higher rates than they had been getting? A. That's correct. 50 [Elliott,Cowan, Black cr ex (Blue) Page: 3407] And it's possible, isn't Q. All right. it, that even though volumes in the last block might be compared to the total M12 volumes small they might be а significant proportion of a given M2 customer's load? A. You said M12? Are you talking about M2? Q. M2, yes. In other words, although the customers in the fifth rate block may be small ~ relative to your total M2 customers, to them the volume

of gas that they are getting might be a significant proportion of their cost if it sold? It might be important to them? MR. COWAN: A. If I could maybe answer Mr. Blue? that, There are very few M2 customers left now that actually consume in that fifth block, and in fact, the majority of the volume that we would have experienced in fiscal '90 in that fifth block would be two customers that now have moved contracts. You have a very, very large account - since this to be is a monthly number, you realize - to actually get into that fifth block. Q. Yes. A. In fact, the majority of the volumes really there would relate to two accounts in the auto [Elliott,Cowan, Black cr ex (Blue) Page: 3408] sector. I believe one has now moved to M4 and one has moved to M5. O. All right. typical M2 customers will A. So very few that fifth block. ever get into If you look over time back in fiscal '84 in EBRO 388, about 3.8 per cent of the total M2 commercial/industrial volumes were in that block. As of 456, fiscal '90, that was down to .8 per cent and will have dropped further now with the shift of those two customers. We just don't think it is material to have a fifth block confuse the M2 rate schedule when the use of any given customer is unlikely to get into that block anymore. The four blocks is now more appropriate, reflecting the M2 use --Cowan, how many 0. Mr. customers are left in the fifth block of the M2 class? A. The exact number, I can't tell you. There aren't that many. Q. Roughly? A. I would be surprised if there are more than five or six myself.

Q. And what kind of businesses are they? A. They have to be very large industrial 52 [Elliott,Cowan, Black cr ex (Blue) Page: 3409] or commercial users, and they may get into the fifth block for maybe one, maybe two months of the year, if that. Remember that the annual contract requirement is roughly 700,000 metres cubed per year. O. Yes. A. This fifth block is 400,000 per month to get in there. So, as I say, there are so very few customers that ever get in there, and then maybe they will get in there maybe for one month, maybe two at the most. O. All right. A. As I say, most of those customers have now moved or are in the process of moving to a contract account, so we don't see any need to have that fifth block anymore. Q. Have any of the customers in the fifth block written to Union protesting the elimination of the fifth block? A. I am not aware of any, sir, no. Q. Would you be the one in Union who be aware if such letters are received? would I may be, or Mr. Adie may be because Α. chances are they could also be his accounts. Q. Could you check that out for us? A. Certainly will. 53 [Elliott,Cowan, Black cr ex (Blue) Page: 3410] THE PRESIDING MEMBER: Undertaking No. U.20.2. MR. BLUE: Thank you, sir. ---UNDERTAKING NO. U.20.2: Union to report on whether customers in the fifth block anv have written to Union protesting the of the fifth block. elimination MR. BLUE: Q. Does it cost you anything to maintain five blocks? MR. COWAN: A. No, sir. Q. So this is really in the nature of a housekeeping change? A. That's correct. One thing, obviously

we wouldn't have any complaints directly from customers since this hasn't been implemented or approved yet. The only complaints we would have had is through the various parties who may have read our proposal and ouidence so	
Q. Do you think that eliminating the fifth block will encourage all eligible M2 customers to switch to M4?	
<ul> <li>A. I don't think it will have any effect, sir, because any of the remaining M2s may not be getting into the fifth block very often, and the majority of their load would be in the third and fourth block, and they would still be eligible to move their</li> </ul>	54
[Elllott,Cowan, Black cr ex (Blue) Page: 3411]	
contract where consumption is in the third and fourth blocks. Again, you have got to bear in mind that these are monthly numbers in the block and the 700,000 is the annual amount. That's really the key.	
Q. All right, Mr. Cowan. Thanks very much.	
I now want to talk about revenue-to-cost ratios in K7, Ms. Elliott. Can we try that for a few minutes?	
MS. ELLIOTT: A. Sure. Q. And we should probably dig out Exhibit K7, Schedule 4, revised. That's the blue page. And we should dig out the exhibit that Ms.	
haplin gave	
to Mr. Birmingham this morning, entitled "Revenue-to-Cost Comparisons".	
And that, Mr. Chairman, should be Exhibit T2.19.	
THE PRESIDING MEMBER: I'm sorry?	
MR. BLUE: T2.19. EXHIBIT NO. T2.19: Document entitled	
"Revenue-to-Cost Comparisons".	
THE PRESIDING MEMBER: Thank you.	
MR. BLUE: Q. Ms. Elliott, back to a	
purpose of a cost allocation study is to apportion	
[Elliott,Cowan, Black cr ex (Blue) Page: 3412]	55
costs to rate classes, hopefully on a cost causality	

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basis? MS. ELLIOTT: A. That's correct. ~ allocated costs O. And which flow out of your cost allocation study don't represent the actual costs which each customer group incurs for Union but really is your best estimate of those costs in a given class? Is that fair? A. That's correct. O. And then you design the rates to recover the allocated costs, right? A. We design the rates to recover the revenue deficiency. Q. Yes. And then if we look at the revenue-to-cost ratios as shown on Exhibit K7, Schedule 4, what we see is what classes are over-contributing and which classes are under-contributing according to your cost allocation study, is that right? A. Yes. Q. Right. So looking at Exhibit K7, we see for each year shown on each column basically decimals, and those decimals are the ratio of costs to revenues? A. That's correct. Q. So when the decimal is less than 1, [Elliott,Cowan, Black cr ex (Blue) Page: 3413] that means that that particular class of service shown on the left is not recovering all of the costs, and if it's greater than 1 we see that that class of service is recovering more than its costs? A. Yes, that's correct. Q. Okay. According to your cost  $\sim$ allocation study, but not in any absolute sense? A. These compare our revenue recovery to our allocated costs. Q. All right. Now, we have established, Ms. Elliott, this is a blue copy. Is there a yellow version of this exhibit? A. No, sir, there isn't. O. All right. A. The yellow version would look much the same as the blue version. right. Now, just looking at the O. All ~ trend over the years, it appears to me, and do you agree, that Union seems to be moving towards cost-based

rates? A. Yes, Union is moving its revenue recovery close to its allocated costs. Union's long-term O. All right. Is that objectives, to have revenue recovery equal to its calculation of costs? 57 [Elliott,Cowan, Black cr ex (Blue) Page: 3414] I don't believe it is. The cost A. No, one of the inputs into rate design. I allocation is say it's a major input. We look at the costs would allocated to each rate class. There are also marketing aspects to the rate design as far as what the -- what the costs the will bear, and we have basically maintained a class of stability or tried to maintain a level of level stability in our rates such that we are maintaining a historical relationship. Q. So you are telling me that Union's rates stand on a four-legged or sit on a four-legged stool: one is the cost allocation study, the second leg is marketing considerations, the third leg is what the traffic will bear, and the fourth consideration it? - stability is - what was of rates. A. That's correct. If your question to me was "Is our objective to get these numbers all 1.000?", I would have to say that's not the case. Would you say in a perfect world that Q. would be nice, but we don't live in a perfect world and have these other factors such as competition, stability, which I guess is a political consideration, and considerations of what the traffic can bear? A. That's correct. The cost allocation 58 [Elliott,Cowan, Black cr ex (Blue) Page: 3415] is an indicator of the cost to service that study customer, but it isn't viewed as the absolute cost to serve we leave it this way? Since O. Can Union is a regulated business, that in a perfect world you would like to have a cost-to-revenue ratio of 1.0, and to the extent that they're not you should be able

to justify with cogent business reasons why they're not

Would that be fair?

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1.0?

[Elliott,Cowan Black cr ex (Blue) Page: 3416] A. I guess I am not sure in a perfect what I would like. (laughter) world I haven't had about a perfect time to think world. Q. Well, let me take the perfect world out of it and say that if you are looking for fairness in rate design, the objective should be cost-based rates, and to the extent they're not cost-based in the sense that the cost and revenue ratios being 1.0, there should be good reasons to explain why that is not so. Would you agree that? A. Sure. Q. All I wanted to talk about right. last year's issue for a moment and this is really Mr. Arndt's issue, but it is one that we are interested in. It relates to the ratios for the the M5A and the M7 interruptibles. Do you remember that discussion? A. I remember the Board's decision, yes. Q. Yes. K7, Schedule 4 really doesn't split out the separate rates for the M5A and M7 customers, does it? A. It doesn't split the firm from the in those rate classes; that is correct. interruptible O. All right. As I understand it, from reading the record, Mr. Arndt's argument last year on behalf of the [Elliott,Cowan Black cr ex (Blue) Page: 3417] universities in Union's area was that there appeared to have been a movement away from cost-based rates in the M5A and M7 interruptible rates; is that right? I don't recall the Α. I am sorry. discussion that went on, but... O. All right. Well, we will let the record speak for itself, but you are aware that the Board, in its decision, agreed with Mr. Arndt's argument and ordered Union to transfer \$200,000 of the rate increase for the M5A interruptibles to the M7 interruptibles? A. Yes. I am aware of that. 0. now I would like to go to Exhibit ~ . And T2.19, which we prepared last evening, and try to focus on this issue. Do you have T2.19 in front of you?

59
~	A. I do.	
~	Q. And have you had a chance to verify	
	the numbers?	
~	A. I don't have 456 numbers with me.	
~	Q. Will you accept them subject to check?	
~	A. I will.	
~	Q. All right. And if we look at the numbers, the revenue-to-cost ratios for the M5A and the M7 interruptibles appear to be close to the	61
	[Elliott,Cowan Black cr ex (Blue) Page: 3418]	
	Board-adjusted ratios from last year. I am comparing the column under the heading, "Board adjusted ratio," with the 462-II ratio.	
~	<ul> <li>A. Yes. That indicates that the \$200,000 adjustment that we made in our 456 rates, we have carried forward into our</li> <li>462 rate proposals.</li> </ul>	
~	Q. But the ratio for the M5A interruptibles is higher than for the M7. That is shown on the right-hand column, entitled "Ratio"?	
~	A. That's correct.	
~	Q. Do you consider that to be appropriate?	
~	A. I guess in the case that that is what the Board has historically approved as a relationship or as a ratio for each of those classes, that	
~	Q. But didn't you think the Board, in asking for the \$200,000 adjustment was doing its best with the evidence before it, and what you should be	
	were basically the same for those two classes? Two questions, but the same point.	
~	A. No, sir. That is not what I thought.	
~	Q. Okay. Why not?	
~	A. I guess, in proposing the rates in	
	[Elliott,Cowan Black cr ex (Blue) Page: 3419]	62
	462, we maintained that the historical levels approved by the Board are basically the proposed levels that we have in 462.	
~	There was, I guess, very little further consideration in this rate case as to	
other	changes in	

our proposed rate structure for rate recovery. Q. So, you were really trying to result that the replicate the Board thought was appropriate for last year and then made no further inquiries? We were trying to maintain historic Α. of revenue-to-cost relationships. level Q. Subject to what the Board had --Subject to the Board's adjustment in Α. 462, yes. 0. And you went no further than that? Α. We went no further. is there any reason, other than Ο. And history and happenstance, why the ratios for those two classes are different? I am not aware of any reason, but Mr. Α. Adie may be aware of reasons for marketing purposes, as to why those ratios are different. The customers in are different. those classes They are not the same type of customers. 63 [Elliott,Cowan Black cr ex (Blue) Page: 3420] Q. Is one set of customers sharper than the others? A. I am not sure that --0. I am trying to understand what you are telling me. are trying to compare the A. I quess you M5 class with the M7 class and the customers in those classes, the load factors of those customers and the make-up of those customers are not the same. The M7 class is a larger customer with a higher load factor than the M5. I just don't see how that Yes. 0. justifies a separate revenue-to-cost ratio for the class, but why don't we do this: Why don't we leave an open transcript undertaking, and perhaps you and Mr. Adie can get together and give us an explanation of why historically the revenue-to-cost ratio for the M5A and M7 interruptible customers are different. THE PRESIDING MEMBER: Undertaking No. U.20.3. ---UNDERTAKING NO. U.20.3: Ms. Elliott and Mr. Adie to give an explanation of why

historically the revenue-to-cost ratio M5A and for the M7 interruptible customers are different. MR. BLUE: O. Could we now talk about the CIL deficiency, Ms. Elliott? 64 [Elliott,Cowan Black cr ex (Blue) Page: 3421] MS. ELLIOTT: A. Sure. cover this, I believe, in your O. You addendum to Exhibit N13, page 1. third A. In my third addendum, I cover the disposition of the balance in the CIL deferral account. O. All right. Just so that we get the history straight, Union has a deferral account, and I it's 179-28, to collect the difference between think the Board's approved rates to CIL and the revenue as forecast in the 1990 case, for which you used I think the interim T-service rate? A. Actually, the revenue used in the 1990 case was based on the Board's decision in EBRO 456 as to the revenue. Q. Yes. And then, CIL managed get the to approve a bypass rate in EBRO 457? Board That is correct. Α. as a result of that, Union Ο. And recovered less in revenue from CIL than it had forecast in the EBRO 456 case? A. That is correct. Q. the difference between what it And forecast and what it actually received is what we put into the -- or what Union put into the deferral account 179 - 28?65 [Elliott,Cowan Black cr ex (Blue) Page: 3422] A. That's the \$1,050,000. ~ what you address in your third 0. And addendum is how you intend to recover the deficiency that is in the deferral account? That is correct. Α. Q. And you intend to recover it from to the design day each rate class proportionate distribution demand of the sales classes? A. That's correct. Q. So, everyone on Union's system is

going to pay for that deficiency? A. Everybody in Union's franchise area. ~ Q. All right. Now, the number that you calculate for the deficiency is \$1,050,000? A. That is correct. the deficiency that you Q. And forecast in EBRO 456, when the issue was still pending, was \$973,000. Do you remember that number? A. I remember that number. 0. What is the difference between that number and the \$1,050,000? A. I believe it's the actual bypass rate that resulted from the Board's decision in EBRO 457. right. Can you provide us with Q. All a written reconciliation of those two numbers, showing 66 [Elliott,Cowan Black cr ex (Blue) Page: 3423] what rates you assumed for purposes of the answer in EBRO 456 and what the actual rate is? A. Is that -- I've got the \$1,050,000 ~ from evidence of Mr. Birmingham in Exhibit N10. Q. He is with counsel now. A. I am just not... MR. LESLIE: Mr. Chairman, I think the difference, I think the difference has to do with changes in the TCPL rates, but rather than give you an incomplete answer now, we will do the undertaking. MR. BLUE: Could we have a number, Mr. ~ Chairman? THE PRESIDING MEMBER: All right. We will give it No. U.20.4. MR. BLUE: All right. Q. Ms. Elliott, I understand that there is still some quibbling between Union and CTL over a settlement of the final order. Is that your understanding? MR. COWAN: A. That is my understanding, ~ Mr. Blue. right. All I want to know is, O. All will this discussion involved in settling the final order affect the deficiency calculation? A. I don't believe it will. I believe 67 [Elliott,Cowan Black cr ex (Blue) Page: 3424]

the discussion -- it's Mr. Adie would have been the one I know the discussion is more on who is more up on it. the transitional agreement of getting the storage rights down from 80-million, I believe, down to 38-million over a period of time, April 1 through October 31st, '89. I think that is the portion that CIL had some trouble signing, but I don't believe - you would have to check, but I would have to take that subject to check with Mr. Adie. Q. Well, I tell you, we want to be awfully careful aboutthis because ifit's going toaffect the deficiencynumber I would like to know about it, so we can A. That's why I said I would take it ~ subject to check. Q. All right. A. I said I would have to check with Mr. Adie on where things stand. MR. BLUE: Q. Could we just add that information request then to U.20.4, Mr. Chairman? THE PRESIDING MEMBER: Yes. That would be appropriate. Thank you. ---UNDERTAKING NO. U.20.4: To provide a written reconciliation of the two numbers, ~ ~ showing what rates were assumed for 68 [Elliott,Cowan Black cr ex (Blue) Page: 3425] purposes of the answer in EBRO 456 and ~ what the actual rate is. And to answer: Will discussion involved in settling the final order affect the deficiency  $\sim$ calculation?  $\sim$ MR. BLUE: Q. You said, Ms. Elliott, you are recovering the deficiency from all in-franchise customers? MS. ELLIOTT: A. I am recovering the deficiency from all in-franchise customers that have a distribution demand on our system, which would leave out the M9 and M10 rate classes. O. Why are you not recovering it from ~ all system customers? It seems to me that the deficiency is something that all customers should bear on the grounds that they would all have higher rates if CIL had built its own pipeline and completely

bypassed Union's system? Α. The methodology we choice to allocate the deficiency was to assume that CIL wasn't on our system--Q. Yes? A. --and how it affected our allocation units. If you take CIL out of the distribution demand, how that impacts the allocation units and the transmission demand. And if you are speaking as to why from the out-of-franchise we are not recovering 69 [Elliott,Cowan Black cr ex (Blue) Page: 3426] impact on our Dawn-Trafalgar customers, CIL has no allocation units, so having them on the system or not didn't impact the out-of-franchise on the system customers. Q. All right. A. It did, however, impact our allocated it based on the in-franchise customers and we distribution demand which had the result of not allocating costs to customers that bear their own -the costs of their own distribution facilities. Q. Well, Ms. Elliott, this is where the objectives of rate-making that depart from mere cost causality come into play. You have made the decision on a cost allocation basis, not considering marketing, not considering stability, not considering what traffic can bear, and perhaps not considering fairness. Would you not consider it fairer to have all Union's customers bear a share of this deficiency, even though that may not be demanded by your cost allocation study; simply on the grounds that it's a benefit to the system as a whole, including the Dawn-Trafalgar system? A. Yes. The methodology I chose here was the methodology that was approved in the 456 rates. 70 [Elliott,Cowan Black cr ex (Blue) Page: 3427] Q. Yes? A. In answer to your question, yes, it have been allocated based on using the could transmission demand and then adjusted for ability to pay.

Q. Would you consider having all ~ customers bear a share a fairer method of allocating deficiency than the one you are proposing? "all customers," are you A. By, referring to out-of-franchise customers, as well? Q. Yes. I don't think it appropriate to A. No. allocate costs to our out-of-franchise customers in the that they-- they have their own customers that event may or may not cause them to incur costs of bypass, as well; that this is a cost that should be borne by our in-franchise customers. O. All right. Did you consider any other allocations than the one you are proposing? You the reason I ask that is, I keep thinking of the know, That is charged to all SNG premium. customers, isn't it? A. Yes, it is. In this case, what I did was propose an allocation that reflected what was approved in our rates in 456, and I --71 [Elliott,Cowan Black cr ex (Blue) Page: 3428] 0. I think I am correct that this Board didn't approve any specific point of allocation in 456, did it? A. Well, it didn't approve a specific allocation for CIL, but in the revenue-to-cost ratios that it approved, we were allocating the CIL revenue deficiency in our proposed rates to all of our classes of customers. In the decision, the Board increased our revenue or increased the revenue from CIL, thereby reducing the revenue deficiency, which we had to take out of our rate proposals. This allocation methodology reflects the methodology used in 456 to allocate the CIL deficiency. O. All ~ right. A. And as far as consideration of other ~ methods in 456, I can't speak to what other methods may be considered there. would agree with me that it would O. You be open to Union to propose something different than was in 456, had it wanted to do so? A. Yes.

Q. All right. Thank you. MR. BLUE: Mr. Chairman, I am about to area and I think it is in Mr. Black's move to a new 72 [Elliott,Cowan Black cr ex (Blue) Page: 3429] so this would be a convenient time to break, if area, the Board wishes to. THE PRESIDING MEMBER: Yes. We will break now for 20 minutes. ---Recess at 9:39 a.m. 73 [Elliott,Cowan, Black cr ex (Blue) Page: 3430] ---0n resuming at 11:04 a.m. THE PRESIDING MEMBER: Be seated, please. Mr. Blue, whenever you are ready? MR. BLUE: Yes. Thank you, Mr. Chairman. Black, I want to talk about 0. Mr. queueing procedure, and you have described this in some detail in Exhibit N15, Tabs 1 and 2, and in Tab 1 you have given us the numbers and in Tab 2 you've given us a description of the policy about how you call for, receive, and accept applications for storage and transportation service, is that right? Yes. The description is MR. BLACK: A. a proposal, still subject to comments by customers and the Board. It's something that we put a lot of thought into and think it comes very close to a final procedure, but there may be slight changes required as we get various comments or questions. O. All right. Now, I want to talk specifically about short-term storage service. Can we try that for a few minutes? A. Yes. as I understand O. And it, short-term storage service is restricted to a term of one year or less? A. That's correct. 74 [Elliott,Cowan, Black cr ex (Blue) Page: 3431] it comes from firm storage space And Q. that may become available during the contract year? A. Yes, that's normally the case. Q. And your proposal is that if you

	decide that there is space available you will send an
	offer to all customers in the queue for short-term
	storage?
~	A. Yes.
~	Q. And the customer's execution of the offer will indicate the customer's acceptance of the offer, and then if it is successful it goes into storage in the order of priority established by the queue?
~	A. That's right.
~	Q. You say, as I understand it, in page 2 of 11 - I don't think you need to turn it up - that the customer can counter offer but Union has no offer to accept the counter offer?
~	A. That's correct.
~	Q. Now, one clarification question.
~	Let's assume that you have a customer who
	<pre>is No. 2 in the queue who counter offers for lower than your offer and you accept it. As of what date does that customer go in the queue: the date of the acceptance of the counter offer, or the date of the</pre>
	[Elliott,Cowan, Black cr ex (Blue) Page: 3432]
	first indication of interest?
~	A Well at that point you already have
	the queue established
~	0 Yes?
~	A And all you're trying to do now is
	establish a contract So you have a first second
	third gueue position filled
~	O Yes?
~	A We go out with a proposal with a
	contract offer, where we would put a rate that we feel is appropriate. The first person in the queue may
	if they accept it, then they have maintain their
	position. If the second person in the queue also
	accepts it, they maintain their position in the queue.
~	Q. Yes?
~	A. Now, they both could have counter
	offered, and the first person in the queue may have
	counter offered with a lower rate than the second
	counter offered with a lower rate than the second person in the queue.
~	counter offered with a lower rate than the second person in the queue. Q. Yes?

	the service because they were willing to pay more for
~	Q. Let's assume well, that's assuming
	<sup>76</sup> [Elliott,Cowan, Black cr ex (Blue) Page: 3433] you only had enough storage space for one.
~	A. That's correct. You get into all
	sorts of combinations where maybe there was enough to
had	a
naa	smaller volume, and then you could pick up the rest
	from the first person.
~	Q. What if you have enough to serve
	both?
~	A. They would each get it at the rate
	they counter offered, assuming it was an acceptable
	counter offer.
~	Q. All right. Can we put it this way
	then, just so I understand what the policy behind the
	queueing proposal is? If a customer who is at the
	lower
	sufficient storage available then you would give the
	priority to the customer that had paid the highest in
	the order of level of payments? Is that fair?
~	A. That's correct.
~	Q. All right.
~	A. There was an attempt to let the
	market forces determine what the going rate should be.
~	Q. That sort of makes me ask: Why do
	you bother having to queue? Why don't you just call
	[Elliott,Cowan, Black cr ex (Blue) Page: 3434]
	for have an auction?
~	A. Well, this still says that if the
	first person in the queue is willing to meet the
	offered rate, they maintain their position. Now, if
	all meet the rate, if they all counteroffer with the
	same rate we have proposed, the queue position is
~	0  Iunderstand that but if you are
	trying to dispose of spare storage capacity, why not
	have an auction instead of a gueue. Instead of you
	setting the price and making the offer, why don't you
	call for tenders for the
~	A. Well, it was administration, just to

come up with the simplest system that still allowed people to maintain their position in the queue, come back with something that they feel is appropriate. It was just the easiest system we could think up. Q. What do you base your offer price on? A. We would be talking to the customers in the queue to get a feel for just what the market bear, what was the competition. could We came up with something that we felt was realistic, given what we knew from information we obtained. O. All right. So you are making no bones about it, Mr. Black. You are going to -- this 78 [Elliott,Cowan, Black cr ex (Blue) Page: 3435] price is not necessarily cost price; it's based on what you can get for it? A. That's correct. 0. Thank you. Will it in all cases recover the costs? Α. Yes. Q. Now, long-term storage I take it is for no less than 10 years? That's correct. Α. O. Can we have a look at Exhibit R1, 14.3? That's the response to Board staff Interrogatory 14.13? And at the same time could you turn up Exhibit N15, Tab 1, page 2 of 2, and page -- Tab 1. I'm sorry, that's at page 2 of 5 and page 3 of 5. That's N15, Tab 1? Α. Q. Yes. Page 2 of 5 and page 3 of 5. Α. Yes?  $\sim$ Ο. Mr. Black, the response to Board ~ staff Interrogatory 14.13 shows a request for peak storage service and you have the table in the middle of the interrogatory response. Do you see it? A. Yes. Q. A, B and C. Then when we go over to page 2 of 5 for the long-term storage queue, we see Company A and B and different numbers. What's the 79 [Elliott,Cowan, Black cr ex (Blue) Page: 3436] relationship between these tables? A. Well, the Interrogatory 14.13 is addressing requests for storage for the summer of '89,

so fiscal '90. Q. Yes? ~ A. And those were short -- that's a short-term storage, as I recall. Q. Right. A. Whereas page 2 of 5 is long-term storage. Q. Well, "J" is for "just a minute". Line 2 of that table on 14.13 talks about up to five years. That's sort of what confuses. A. Where is the five years? Q. Line 2 or position 2, Company B, volume up to five bcf, term up to five years, on Exhibit R1 --A. As I recall, that was the request that was made that they would like to have had that for five years, but we weren't in a position to offer it. Q. So even though that was their request, this is essentially short-term service? A. Yes. Q. For that year? All right. Thank you. Go on with your explanation, please? 80 [Elliott,Cowan, Black cr ex (Blue) Page: 3437] A. Well, page 2 of 5 deals with the long-term storage queue and page 3 of 5 is the short-term, and page 3 is dealing with short-term storage requests starting in fiscal '91, and fiscal --'91. O. And we are not comparing similar sets of data? A. No, the one -- the interrogatory is for the summer past, and the exhibit, page 3, is for the up-coming summer. short-term storage queue Q. Now, in the list shown on page 3 of 5 of Tab 1, are the companies shown there in order of priority? And I judge from your earlier answer that they're not. These have not been put into the A. No. priority ranking according to 412-3. Q. And why not? A. Just an oversight. We could do that. MR. BLUE: Could we have a transcript undertaking for that, Mr. Chairman?

THE PRESIDING MEMBER: Mr. Black, I take ~ it you have to do some research to do it? MR. BLUE: Or can you do it right now? MR. BLACK: It would be easier to do it undertaking. I will have to cross-reference the on an 81 [Elliott,Cowan, Black cr ex (Blue) Page: 3438] companies and look through the priority list. THE PRESIDING MEMBER: We will give it number U.20.5. MR. BLUE: Thank you, sir. ---UNDERTAKING NO. U.20.5: Union to provide priority ranking according to 412-3 of customers in the queue for storage. MR. BLUE: Q. Mr. Black, with respect to queueing in Interrogatory 14.14, Exhibit R1.14.14, you gave an explanation of why Union considers it necessary to maintain the confidentiality of potential customers who apply to be in the queue? MR. BLACK: A. Yes. ~ said that some occupants of the Ο. You queue are more apt to be marketers and brokers may be compromised if the queue is made public? That's correct. Α. Q. Could you just explain to the Board why that is, why they could be compromised? could have a situation where a Α. You broker is first in the queue and if they are lining up an arrangement to broker that capacity to another user if that other user is also in the queue further down they would know that all they had to do was refuse the deal with the broker and the storage may come to them in any event. 82 [Elliott,Cowan, Black cr ex (Blue) Page: 3439] Q. Well, wouldn't an open auction eliminate all that need to have confidentiality? Well, I think that's one of the Α. situations. You just don't know what all is going on out there, and if you make it public you put the customers into awkward situations, and I think an auction gets fairly complicated perhaps. We haven't looked into it thoroughly. Q. Well, I note -- I stand to be

	corrected by those here more knowledgeable than I am, but it's my understanding that people applying for the	
~	TransCanada queue sure are well-known. Isn't that so?	
~	$0 \qquad \text{T mean why} \qquad \text{is it any skin off}$	
	Union's nose whether the names of the people applying for queueing storage capacity, those names are made public? I don't understand that.	
~	A. Well, we are trying to work with the	
~	<pre>customers, those who have got their act together and have done their planning and seen fit to obtain a position in the queue, and I think to break that up you aren't really rewarding them for having made the proper steps in a timely fashion. Q. But you are quite prepared to kick</pre>	
	them out of the queue or tell them there is no room if	
	[Elliott,Cowan, Black cr ex (Blue) Page: 3440]	83
~	someone further down the queue is willing to pay more than they are? A Well then it gets into "what is the	
	value?", and certainly they would lose out if the situation they were in didn't warrant paying what someone further down was willing to pay.	
~	Q. I am correct, am I, that Union's first offer price in the queue is a maximum price?	
~	A. Not necessarily, no. As I said, we	
	would try to determine what was likely to be accepted. We will tend to err on the high side.	
~	Q. Well, again, tell us why all the	
	problems of relations with clients and determining who	
_	should get to use the storage wouldn't	
be	solved by	
	just publishing the open price and saying that you are going to have an open queue known to everyone, and	
	offers have to be in by a certain date, and that they	
	will be put in an order on the basis of 'first	
	Come/lirst received/lirst accepted'?	
~	A. WEIL, aside II on would arready	
	same situation where a broker could have contracted	
	for the space and then ended up not being able to sell	
	it because the other party didn't enter into it	
	thinking that they would get some more space or	

[Elliott,Cowan, Black cr ex (Blue) Page: 3441] whatever. You do have a chance where the space won't be used. 0. Really? ~ A. This was a very real case where the - we know the party that was behind the party broker was not going to enter into the agreement with the broker. So you could end up with storage not being used. O. And you've had the situation where storage has not been used? No. We have been able A. No. to make is up front with their needs. sure everyone me that if a broker had Q. It seems to he can't use the broker has got a storage space problem, wouldn't he? A. He would have, yes. O. Right. And Union could then take it off his hands for an appropriate fee and then sell it aqain to someone else? A. Given enough time a lot can happen. But if you recall, last summer, all these arrangements took place in about October 1st, and you just run out of time, not only to get the contracts in place but for the person to arrange for the qas to be delivered to fill the space. It's a decreasing window. What we try 85 [Elliott,Cowan, Black cr ex (Blue) Page: 3442] to do is come up with something that let's you meet the situations that normally arise. O. All right, Mr. Black. Thank you. I we understand that. think I have got a couple of questions on the bank gas account in connection with the new bundled T-service that Mr. Adie couldn't handle, and did you read the transcript of my discussion about the bank gas account yesterday? I didn't. A. No, Q. All right. I just wanted to know how the R1C rate which applies to all volumes sold by Union in excess of the maximum carried-over variances were struck, and that rate I think was \$10.86.23 cents per

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10(3)m(3). I also wanted to know how the rate in R1F ~ to all volumes not delivered which applies Union in to the event the customer's supply fails, how that rate was arrived at. I think the number was 7.5931 per 10(3)m(3). MS. ELLIOTT: A. The rates on the R1 rate schedule that apply to the bank gas purchase, that is the gas supply charge for a general service, bundled T-service. It's equivalent to the M2 gas supply charges, the cost of service related to inventory 86 cr ex (Blue) Page: 3443] [Elliott,Cowan, Black carrying costs of gas in underground storage and weighted average cost of gas, and there are other commodity-related costs of gas. Q. All right. the failure to deliver the 7.5931 A. And is the delivery cents per cubic metre charge component of an M2 rate or the T2 rate. If look to the T2 you rate schedule, those two numbers show up there, the 7 being the charge to deliver the gas to the cents the 10 cents being the cost of the gas customer, and on it. and the carry 87 [Elliott,Cowan Black cr ex (Blue) Page: 3444] Q. All right. Thanks for the numbers. Mr. Black, just coming back to the queuing procedure, I forgot to ask you: Have any of your customers asked you for the queuing list, since the Board's last decision? I believe we have had at MR. BLACK: A. least one, yes. Q. And have you provided it to the people who have asked to see it? A. Yes. We have and we will. haven't you just made public to 0. So, people who ask for it, the people in the queue? A. Well, they would know where they stand, but they wouldn't know who the other people were because of their code names. Q. I see. So it is all done by code

	names?	
~	A. Yes.	
~	Q. I would like to come back now, Ms.	
	Elliott, to the Cl transportation rate for short-term	
	storage and transportation. Is that your	
	responsibility?	
~	MS. ELLIOTT: A. Yes, it is.	
~	Q. All right. As I understand it, Cl	
	customers may contract to deliver customer-owned gas to	
	[Elliott,Cowan Black cr ex (Blue) Page: 3445]	88
	Union between Dawn and St. Clair, Dawn and Oiibway and	
	Oakville, Kirkwall and Dawn; is that right? Those	
	are	
~	A. That's correct.	
~	Q. And the rate for the CI firm	
	transportation approximates the cost of service for a	
	their cost ellegation study?	
	Non That is correct	
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	A. ies. illat is correct. O And this is a range rate: correct?	
~	Q. And this is a range rate on this rate	
	schedule are range rates.	
~	0. Yes. And the bottom of the range is	
	equal to the firm rate at 100 per cent load factor and	
	the top of the range is the firm rate at a 20 per cent	
	load factor; right?	
~	A. For transportation, yes.	
~	Q. All right. And the firm rate at a 20	
	per cent load factor, of course, is higher than a firm	
	at a 100 per cent load factor?	
~	A. That's right.	
~	Q. By how much?	
~	A. Well, the differences are on the Cl	
	rate schedule on page 2 of 3.	
~	Q. Yes?	89
	[Elliott,Cowan Black cr ex (Blue) Page: 3446]	0,
~	A. The Part C, the interruptible	
	transportation commodity rates	
~	Q. Yes?	
~	Afor St. Clair, between St. Clair	
	and Dawn, the minimum is \$1.29.5.	
~	Q. This is per 10(3)m(3)?	
~	A. Per 10(3)m(3). The maximum is	

\$5.65.8. between St. Clair and Dawn, the Q. So, can vary by as much as 400 per cent, between rates Ojibway and Dawn they can vary as much as 300 per cent, between Oakville Kirkwall and Dawn, Ojibway, St. Clair, they can vary as much as about 400 per cent, just in very rough figures? A. Yes. ~ O. And you negotiate the capacity for ~ this service based on negotiated rates? MR. BLACK: A. That is correct. O. All right. And customers paying the highest rate, Mr. Black, presumably receive the highest quality of service? A. That's right. Well, they would receive the -- they would be first in the queue, or at least, they would be the first to get served. O. All right. And the short-term [Elliott,Cowan Black cr ex (Blue) Page: 3447] storage rate operates in much the same way; there's a range rate. And where are the differences between the ceiling floor and the shown --MS. ELLIOTT: A. On page 1 of 3 on the C1 rate schedule. The minimum of the range is \$3.39.1 per 10(3)m(3) and the maximum is \$5.94.2. cents 0. So, there can be a variation there of about 80 to 90 per cent from the top to the bottom? A. Yes. Q. And the rates are negotiated, Mr. Black, and priority of service depends on how much you pav? MR. BLACK: A. That is correct. Q. Now, in the Cl rate schedule, page 1 of 3 -- no, on all the pages -- you make the point that in negotiating the rate to be charged for the storage of gas under storage space and deliverability, the matters that are to be considered include the minimum storage volumes for which a customer is willing to commit to; two, whether the customer is contracting for firm or interruptible service during Union's peak or nonpeak periods; three, utilization of facilities; and competition. And I take it that, four, four, competition, looms large over the first three

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## factors?

A. It is significant, yes. 91 [Elliott,Cowan Black cr ex (Blue) Page: 3448] again, you make no bones about Q. And it. You charge what the market will bear for the service? A. As much as we can determine, yes. Q. All right. Now, what do you mean by "competition", when you use the word, "competition"? Α. This would be alternatives that the customer has. Rather than use this service, there may be other ways he has got of satisfying the need, so we attempt to determine what rate will let us meet the competition. Q. What sort of competition is there for a short-term storage? A. Well, in this case, often it is whether they will interrupt them. They may just interrupt the market, eliminate the need. They may to go for winter service. There are a number of elect alternatives that they can go to, to meet a winter demand. Storage is one of them. Q. Now, you told me yesterday, Mr. Black, that you signed up virtually all of the customers who are able to interrupt that you know of, to interruptible rates, and those are customers that have basically a boiler use for gas. MR. LESLIE: Mr. Black wasn't here 92 [Elliott,Cowan Black cr ex (Blue) Page: 3449] yesterday, Mr. Blue. I think MR. BLUE: Mr. Adie. Yes, I am sorry. MR. BLACK: A. He would be talking about Union's in-franchise; whereas, the customers I am dealing with are out-of-franchise. MR. BLUE: Q. All right, all right. And typically, who would the customers that have an ability to interrupt, but who also want to sign up for short-term transportation or storage be? A. Virtually all our LDC M12 customers have interruptible customers; Kingston, GMi, Consumers, ICG. O. And we would agree that interruption is really not an attractive thing for any

LDC	to have	
	to do in Ontario or Quebec?	
~	A. Well, it is something that they have	
	within their control and they usually use their	
	interruptibles in a planning fashion, to meet	
~	Q. Yes?	
~	Atheir gas balance.	
~	Q. Yes?	
~	A. Some plan to interrupt; others may	
	not, so you cannot say that it is something that they	
	avoid at all costs or that they don't do. It's something that some plan to do. That is the value of	
	[Elliott,Cowan Black cr ex (Blue) Page: 3450]	3
	interruption, interruptible customers.	
~	Q. Well, I mean, isn't it sort of like	
	the choice between having a broken leg and being	
	reassessed for income tax, interrupting versus not	
	having storage, paying you? Neither is a particularly	
	attractive choice, but they are not really competitive	
<b>31120</b>	uses? You do It II you have to, but you	
sure	don't want to have to do it?	
~	A Well it boils down to an economic	
	decision perhaps with some publicity rolled in	
	political aspects.	
~	Q. All right. So, interruption is one	
	alternative to short-term storage and transportation.	
	What is another alternative?	
~	A. Is to buy winter gas, winter pipeline	
	supplies, or to	
~	Q. And I understand that there is not a	
	lot of that available on short notice these days?	
~	A. It's been very tight this last year.	
~	Q. Right. What are the other what is	
	another alternative besides interruption and buying	
	winter pipeline gas to short-term storage and	
	transportation?	
~	A. That's all I can think of, right off.	
~	Q. Mr. Black, isn't it a fact that for	1
	[Elliott,Cowan Black cr ex (Blue) Page: 3451]	+
	the test year, for the foreseeable future, the people who require short-term storage and transportation don't	
	have a lot of choice, other than to come to Union and	

ask for that service? Isn't that the real situation? A. It's tight. I wouldn't say that is entirely the case, but it is tight. Q. Okay. And, Mr. Black, then, when you have rates for this service that vary by the wide margins that we say we can, aren't you really acting more like a discriminating monopolist than as someone who is competing with other services? MR. LESLIE: Mr. Chairman, maybe Mr. Blue  $\sim$ can rephrase that question, so it doesn't have a lot of economic and potentially legal concepts associated with it. MR. BLUE: Just acting an economic basis. We are not proposing to send the transcript --MR. LESLIE: Well, Mr. Blue, I do not want to get into a fight over this, but "discriminating monopolist" is a very loaded set of terms. THE PRESIDING MEMBER: Mr. Black, can you deal with the question on the economic basis only? MR. BLACK: The customer -- even if storage with Union is the only option he has got to avoid interrupting or whatever, the economics includes 95 [Elliott,Cowan Black cr ex (Blue) Page: 3452] the cost of this gas, other transportation to Union and so on, so they will come to Union with some idea of what the economics are, and we will do our best to make it happen. MR. BLUE: Q. But when I said, "discriminating monopolist," all I was trying to establish is, you are acting logically by charging the highest price you can get for the service in a tight situation; isn't that true? MR. BLACK: A. No. In this last year, we had a situation where the arrangement didn't go through for the customer's own reasons, but in that did offer to transport the minimum rate situation, we to try and make that particular arrangement happen, but it didn't. But we did offer to provide the service at the minimum. Q. I understand that, Mr. Black, but

that was a negotiated price that wasn't satisfactory to the customer, presumably? A. Yes. What he was trying to put together required even lower costs somewhere else. We went as low as we could go. O. Right. A. But it shows that given circumstances, the range is used and we aren't always 96 [Elliott,Cowan Black cr ex (Blue) Page: 3453] at the top of the range. As a matter of fact, for the year we are in now, we are somewhere between the middle and the top, but not at the top. didn't you tell me a while ago --Q. But let me ask you the question directly: Aren't you trying to get the best price, the highest price you can in a situation of tight supply of storage and transportation service when it's needed? A. We are trying to get what it is worth, no matter what the situation. Q. Yes. And that is the highest price you can get? A. Yes. O. All right. Under your range rate and your negotiation policy, Mr. Black, I guess we under could leave it this way: You have a lot of discretion what to about charge? That is limited by what the Α. customer communicates to us. So I think that, you know, no matter what the range, if the market cannot bear it, you cannot use it. Q. That is always true, but within the range, you have a wide discretion what about what to charge? 97 [Elliott,Cowan Black cr ex (Blue) Page: 3454] A. It is wide enough, we feel, to meet what various conditions we might encounter. Q. Well, would you call it a wide discretion? It is reasonable. I do not Α. know. Everybody determines "wide" differently. Q. All right. Who has priority for

	se	rvice if two customers negotiate the sa	me price and
	Yo	u don't have enough to go around?	
~	Α.	For which service?	
~	Q.	Short-term storage and	
	tr	ansportation.	
~	Α.	Well, they are individual.	
~	Q.	Short-term storage then?	
~	Α.	For short-term storage, you	are into
	the pr ma co	rocess we talked about earlier, where ke an offer at a certain rate and unter-offer, so	e we would d they could
~	Q.	You have done all that and you	end up
~	with tw th fi	vo with the same price. Do I conci e queue does have meaning; the person wi rst gets it?	lude that then, ho was there
~	∩ ∩	Could we now talk about the $M7$	rance
	y. ra	teg Mr Black?	Lange
	Ia	ces, m. brack.	98
	[	Elliott,Cowan Black cr ex (Blue)	Page: 3455]
~	MS. ra	ELLIOTT: A. I can speak to the nge rates.	e M7
~	Ο.	Okay, Ms. Elliott. Where do we	find
	~ th	e spread in the range?	
~	Α.	The M7I rate schedule.	
~	Q.	Okay. I have got the M7C rate	
	sc	hedule. I need the M7I?	
~	Α.	You can use the M7C.	
~	Q.	Okay. Let's use the M7C.	
~	Α.	The only services we have a	range
	ra	te for are the interruptible service	
~	Q.	Yes?	
~	Α.	and the seasonal service.	
~	Q.	Yes?	
~	Α.	And those rates are found	d under the
	ra	tes section, paragraph 0.1,	paragraph
(b), a	a month	ly	
	de in	livery commodity charge; paragraph 2, for terruptible, a delivery commodity charge	or e shall not
	exci	eed an average of 1.7927 cents per	cubic metre
~	0	Yes?	
~	∑• ∆	nor be less than 0 1581 cents per	
	<u>، ۱۰</u>	bic metre	
~	0	So. the range there it seems to	o be
	$\times \cdot$		

an order of magnitude or 1,000 per cent or greater than 1,000 per cent? 99 [Elliott, Cowan Black cr ex (Blue) Page: 3456] range is actually the historic A. The ~ range for that service. We set the minimum to recover the variable costs and the maximum is set basically by adding the historic range to the minimum. Q. All right. Thank you. And this rate, as I understand it, is for special large combined volume industrial and commercial? M7C rate class is for combined A. The service. That is a combination of firm and interruptible or interruptible and seasonal or any of the three services. There's actually four M7 rate schedules; one for firm, one for interruptible, one for seasonal, and then one for a combination of. Q. All right. Could we now turn to N13, Tab 5, Schedule 1, and I would like to use the revised yellow version. A. Okay. Q. And I am looking at the gas supply charge on the right-hand column for the firm, interruptible and seasonal rates; that is, lines 8, 9 and 10. A. Okay. 100 [Elliott,Cowan, Black cr ex (Blue) Page: 3457] Q. Now, is the reason for the difference between the gas supply charge for those three services due to the inventory carrying costs of gas in underground storage? A. Yes, it is. Q. Okay. Then, can you assist us with why the inventory carrying costs of gas in storage for interruptible service is greater than they are for firm service, that's why they're greater on line 9 than they are on line 8? A. It actually reflects the use of storage by the interruptible class and the

interruptible customers require more storage than firm customers. We are carrying more gas in inventory for customers than we are for the firm. those O. Why? I'm sorry. A. That's also reflected -- if you look at the cost allocation study--Q. Yes? A. --the allocation of space to those classes, which can be found at Exhibit K5, Schedule 2--O. Let me get that, please. Yes, I have it. A. On line 7 --THE PRESIDING MEMBER: Excuse me. Are we 101 [Elliott,Cowan, Black cr ex (Blue) Page: 3458] in yellow or blue? MS. ELLIOTT: Oh, it shouldn't matter. The numbers are the same on both schedules, yellow and blue, on line 7 and 8. MR. BLUE: Q. Yes? MS. ELLIOTT: A. The special large volume firm and interruptible, that shows the space which is the excess of the winter allocation of over the annual usage, and the interruptible usaqe customers are using much -- twice the space, 2-1/2times the space that the firm customers are using. O. Yes. Could you explain the logic of why that is so? I think I understand it, but if I try to articulate it I would step on my necktie and fall down. A. It actually reflects the forecast for in -- that are classified as the the customers interruptible, special large volume interruptible, and that their peak day or their winter volumes are greater than their annual volumes, so that we are bringing in more gas through the summer. They're not using it, so it's going into storage and then they are using it in the winter. at the firm, there is a Looking better load factor customer in that class, so we are bringing 102 [Elliott,Cowan, Black cr ex (Blue) Page: 3459] the summer. They are also using it. it in through We are not putting as much into storage for the firm customers as we are for the interruptibles.

~	Q. All right. Thank you.	
~	Now, I just want to spend a couple of	
	minutes with you on the minimum delivery charge for the	
	M7 interruptible service, and I think we	
find	this in	
	the rate schedule for the M7C customers; is that	
	correct?	
~	A. Yes, the minimum charge for	
	interruptible is actually, it's .1581 cents per	
	cubic metre.	
~	Q. Yes. And is that delivery charge set	
	to cover the variable costs of service?	
~	A. It's set to recover fuel and SNG.	
~	Q. All right. Now, when we look at the	
	delivery, the firm delivery charge up on	
line	1 of page	
	1 of 2 of the M7C schedule, we see that it's .2871	
	cents per M(3)?	
~	A. Yes.	
~	Q. And what does that delivery charge	
	include that the interruptible delivery charge does not	
	include?	
~	A. Well, that will recover a return on	
	[Elliott,Cowan, Black cr ex (Blue) Page: 3460]	13
	fixed costs.	
~	Q. Why wouldn't the delivery charge for	
	interruptible then recover return on fixed costs?	
~	A. The minimum recovers only the	
	variable costs, and that's consistent with the minimum	
	as it was approved by the Board in 412-III,	
I	believe.	
	The minimum of the range should recover the variable	
	cost of service.	
~	Q. But, Ms. Elliott, the delivery charge	
	is designed to cover the costs of delivery to the	
	customer. If that is the case, wouldn't it make sense	
	for it to have the same components for each service?	
~	A. Well, the interruptible delivery	
	charge is a range rate. To the extent that we have no	
	one positioned at the pottom of the range with those	
	customers, their rates do recover, do contribute	
	Lowards the lixed Cost of Service. It's only if you	
	nave a customer at the pottom of the range that you're	
	not recovering any fixed costs.	

Q. That's a point. That's a point. All right. I think we have enough evidence to argue. I want to talk about the disposition of the purchased gas valuation account balance. I think that's you, Mr. Cowan? MR. COWAN: A. It's either myself or 104 [Elliott,Cowan, Black cr ex (Blue) Page: 3461] Mrs. Elliott. right. Again, just to sketch the O. All history briefly for the record, in the Board's Decision in the gas cost case, EBRO 456-IV, the Board authorized to establish a purchase gas variation Union account and Union has done so; is that correct? MS. ELLIOTT: A. That's correct. components of the O. All right. And the PGVA account are set out I believe at Exhibit N13, Tab 3, Schedule 1? A. That's our proposal for the disposition of the balance. right. I'm sorry, then where do Q. All I find the components of the account? A. The balance was actually calculated A. The at Exhibit N10, Tab 1, Schedule 1. right. I don't know if we need O. All to turn that up, but what are the sources of the amounts in the PGVA? Perhaps we should turn it up. MR. RYDER: What schedule is that, Mr. Blue? MR. BLUE: That's Exhibit N10, Tab 1, Schedule 1. MS. ELLIOTT: You want the revised corrected version that totals 18,471,000? 105 [Elliott,Cowan, Black cr ex (Blue) Page: 3462] MR. BLUE: Q. Yes. That's the one I have. Now, part of that, Ms. Elliott, as I understand it, is as a result of the TCPL toll reduction ordered by the National Energy Board. MS. ELLIOTT: A. That's correct. Part of the variation in price for our FST and FS deliveries and our buy/sell deliveries is due to the toll

reduction. right. And what -- how Q. All big is ~ the pool of dollars attributable to that particular toll reduction in TCPL? Is it about --A. I don't have the total. I have the  $\sim$ value of the toll reduction on our buy/sell purchases, is 7,028,000. which Q. So would the total effect of the TCPL toll reduction be greater than that? A. It would be greater than that, given Union's own supply -- also would have a component of toll reduction in it. MR. BLUE: Perhaps we could have a transcript undertaking for the amount of the effect of the TCPL toll reduction on a PGVA balance, Mr. Chairman. THE PRESIDING MEMBER: U.20.6. 106 [Elliott,Cowan, Black cr ex (Blue) Page: 3463] ---UNDERTAKING NO. U.20.6: Union to provide the amount of the effect of the TCPL toll reduction on a PGVA balance. MR. BLUE: Q. Could anyone assist us with the number of the NEB rate decision that made that Order? MS. ELLIOTT: A. I believe it was RH-1-88. proposal about how to O. And in your dispose of the balance in the PGVA account in N13, Tab 3, Schedule 1, as I understand it, buy/sell customers will be refunded those funds which had been overcollected due to the non-pass-through of the TCPL toll reductions, right? A. Buy/sells will be refunded the amount -- if I can go back a bit. price was approved and approved Our buy to change with the toll reductions and so we dropped -on July 1st when TCPL's tolls were reduced we reduced our buy price to reflect the toll reduction. Q. What was that date again? A. July 1st, '89. Q. Thank you. ~ A. So we reduced our buy price by something in the order of \$3.42 a thousand to all of our buy/sell customers. We did not, however, reduce

[Elliott,Cowan, Black cr ex (Blue) Page: 3464] our sales price. That had an impact on the margin to the buy/sell customers--O. Yes. ~ A. --that reduced their margin by \$3.43. are proposing here is to refund What we to those customers that reduction in the buy price. Ιt corresponds to our proposal to have our buy price remain constant to match our sales price. The buy/sell service is a bundled delivery service. O. Yes? A. And to the extent that our sales - - do not reflect a toll dip change our buy price rates should not reflect the toll change but leave the customers whole. So we are in this proposal refunding to the customers the money that we didn't pay them for the period July 1, 1989 to March 31st, 1990. Q. All right. Fine. Now, the balance of the TCPL toll ~ I understand it, will be refunded to reduction, as customers on a volumetric basis sales as a one-time rebate? A. Right. The balances for Union's supply, our cost of gas, was reduced by the toll reduction as well, and that balance will be refunded to our sales customers. 108 [Elliott,Cowan, Black cr ex (Blue) Page: 3465] thing I'm not clear about, Ms. 0. One Elliott, is whether Ontario buy/sell customers who arrange their own transportation in the case of TCPL are included in the buy/sell volumes which are to get the TCPL toll reduction benefit from Union. Is that so? A. I think Ontario buy/sell customers are the only ones that are getting the toll reduction. Western buy/sell customers, we pay the tolls on TCPL's system. 0. Oh, that's right. Okay. Thank you. Is there any distinction between the refund for obligated-to-deliver and the no-obligation-to-deliver buy/sell customers? A. That's the difference between -- if you are looking at Exhibit N13, Tab 3, Schedule 1,

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revised? Q. Yes? ~ A. Dated December 1st? There are two columns there, "FS" and "FST". Q. Just a minute, I haven't got mine, please. A. Both of those are obligated deliveries. O. Yes? 109 [Elliott,Cowan, Black cr ex (Blue) Page: 3466] there is no refund to A. And  $\sim$ deliveries. We non-obligated pay them our WACOG and that is what is in our sales rates. shouldn't they get a refund, too? Q. Why A. The buy price for a non-obligated delivery is our weighted average cost of gas, which is what is included in our sales rates. We didn't reduce the buy price for our non-obligated deliveries to reflect any toll reductions, so they are not getting any money back. Q. Thank you. Do the sales customers get all the residual benefits of the TCPL toll reduction? A. Yes, they do. Q. I think you've told me this, but are there any volumes which already have received benefits, yes, from the lower TCPL tolls which also will benefit from the PGVA disposition? A. Could you repeat that? Q. Yes. Are there any volumes which ~ have already received the benefit of lowered TCPL tolls and which are to benefit from your PGVA disposition to these toll reductions? cover A. I'm not aware of any, no. right. And I take it this is a O. All 110 [Elliott,Cowan, Black cr ex (Blue) Page: 3467] forecast disposition? A. That's correct. Q. Right. Now, what will you do if it turns out that your volumetric assumptions are incorrect? How will you adjust your disposition? A. If the volumetric assumptions on --

	in determining the balance in the PGVA account are
	incorrect? Or
~	Q. No. You say that you are
	distributing it to the sales customers on a volumetric
	basis. What happens if your assumptions about the
	volumes are incorrect?
~	A. We are going to distribute it to the
	sales customers based on their actual
volumes	from
	April to March.
~	Q. April, '89 to March, 1990?
~	A. That's correct.
~	Q. I see. All right. Let's come to the
	sale of the Kirkwall which you spoke to this morning,
	Ms. Elliott.
~	THE PRESIDING MEMBER: This is the fifth
	addendum?
~	MS. ELLIOTT: This is the fifth addendum.
~	MR. BLUE: Yes, it is, sir.
~	Q. I have got several questions about
	[Elliott,Cowan, Black cr ex (Blue) Page: 3468]
th	e addendum, and I apologize for jumping around with
	them but I have only had a few minutes with this
	exhibit.
~	Firstly, the estimated sales proceeds
	shown on N13, Tab 7, Schedule 2, yellow
~	MS. ELLIOTT: A. Yes?
~	Qyou show as \$18,192,000?
~	A. That's correct.
~	Q. How was the sale amount determined?
	And what I have in mind here, was it a negotiated
ā	amount or was it sold at book value?
Was it th	he amount
	that was allowed in rate base? What does that number
	represent?
~	A. It was sold at book value.
~	0. That was awfully nice of you. Why
	did Union sell it at book value?
~	A I wasn't party to any of the
	negotiations as far as the sales price for the Kirkwall
	line That's the value that we are carrying it at
~	O Okay I understand that you are not
	responsible
~	Could we get a transgript undertaking to
	COULD WE SEC & CLAMPOLIPE UNDELCANING LO

explain why the Kirkwall line was sold at book value? THE PRESIDING MEMBER: U.20.7. 112 [Elliott,Cowan, Black cr ex (Blue) Page: 3469] ---UNDERTAKING NO. U.20.7: Union to explain why the Kirkwall line was sold at book value. MR. BLUE: Q. All right, then. The \$18,192,000 at book value then is the amount that should come out of rate base? MS. ELLIOTT: A. That's correct. Q. Okay. Now, let's go back to page 1. You have told us how the Kirkwall deferral account is calculated at Schedule 2. 113 [Elliott,Cowan Black cr ex (Blue) Page: 3470] should just finish off I am sorry. We that schedule. So, if we drop down to -- if your turn to Tab 7, Schedule 2 again--A. Okay. Q. --and go to line (b), "Net Deferral Account Balances," and you have municipal taxes at \$58,000? A. Yes. Q. That seemed to be a bit low to us. How do you arrive at that particular number? A. Those are the municipal taxes on that line -- the balance out to 1990; 71 days of the year. Q. All Is the same true for the right. depreciation number? That is correct. Α. O. All right. And that would imply that the deferral account would only start attracting costs from between January 19th until March 31st; is that right? the period which we did not own A. For the Kirkwall line, yes. should the Board conclude from Q. But that, that Union was not putting any costs related to the Kirkwall line into the deferral account prior to January 19th, 1990? 114 [Elliott,Cowan Black cr ex (Blue) Page: 3471] A. That is correct.

Q. Where are those costs being charged? costs for the Kirkwall line? Α. The Ο. Yes. Α. To our... To your cost of service? Q. A. To our cost of service. Well, then, we had better go back to Q. EBRO 456, page 195 and look at the purpose of the deferral account, and I am reading from paragraph 8.25 of EBRO 456, page 195. And perhaps Mr. Birmingham will give you copy to look at. MR. LESLIE: I am sorry. What was the page reference, Mr. Blue? MR. BLUE: It starts at page 195. Elliott, it starts at paragraph Q. Ms. 8.25, and the Board said, and I quote: its EBLO 218, 219 decision, the In Board cautioned that the allocation of the costs for the Kirkwall pipeline may become an issue in future rate cases, ~ should Union's forecast supporting the construction of the pipeline be shown to have been ineptly prepared or unduly ~ self-serving. 115 [Elliott, Cowan Black cr ex (Blue) Page: 3472] Strong words, indeed, for the Board. The Board also stated that in its Union should reaccess its next rate case, toll methodologies and propose an alternative cost allocation treatment to ensure that the costs of the Kirkwall facilities are shared in an equitable  $\sim$ manner among all customers. And then there is a description of the history of the project and then there is, on page 197, a description of the position of the parties, and then at page 198, there is the Board's finding. Paragraph 8.33, and I guote: The Board has dealt with this matter in Chapter 3 rate base and has directed Union to set up a deferral account to record the impact of these transactions ~ as they affect rate base, utility income

and total cost of service for the 1990 test year. Consequently, the only direction necessary is that Union further clearly quantify in its next rate case the impact of such deferral account, including carrying charges on its future ~ test years, cost allocation study and 116 [Elliott,Cowan Black cr ex (Blue) Page: 3473] rate base, the Board so directs. End of quote. Ms. Elliott, did you read that at some subsequent to the Board's decision in EBRO 456 point coming out? are asking me if I read the A. You  $\sim$ decision before it came out? After it came out. Α. No. I read it after it came out, yes. 0. those words from the Board seemed O. And ~ an indication that you were to establish the to me Kirkwall deferral account for the whole of the test year and capture costs in it for the whole of the test year. MR. LESLIE: Mr. Blue we, may be able to cut this short. If you look at the Board's Order dealing with this, those Reasons for Decision were reduced to an Order, and what it provided for was a deferral account, 179-29, in accordance with Appendix the Order, to record the impact on Union's 1990 E2 to test year cost of service. In the event that the Kirkwall facility be sold prior to April 1, 1990, union shall clearly quantify in its next main rate case the impact of such deferral account on its future test cost allocation study and rate design. years 117 [Elliott,Cowan Black cr ex (Blue) Page: 3474] Now, all of that has been done and the treatment is in accordance with the rate order or the accounting order referred to in the Board's Order. MR. BLUE: Well, I am obliged to my friend Mr. Leslie for that, and the Order doesn't seem to say a lot different from what the decision does and what it means I guess is something he

and	Ι	can argue
		about.
~		MR. LESLIE: I think that is probably
		best.
~		MR. BLUE: All right.
~		Q. Going to page 1 of 2 of the fifth
		addendum, Ms. Elliott, you refer to the balance in the
		deferral account. Then you say, and I quote:
		This amount will be refunded as a
~		lump sum adjustment to all customers,
~		including storage and transportation
~		customers purchasing or transporting gas
~		with Union from February 1, 1990 to March
~		31, 1990.
		Right?
~		MS. ELLIOTT: A. Yes.
~		Q. And was the or were the amounts in
		the deferral account collected from all of Union's
		customers?
		$\begin{bmatrix} \pi \end{bmatrix} $
		[Elliott, Cowan Black Cr ex (Blue) Page: 3475]
~		A Ves In that the cost of service for
~		the Kirkwall line is included in our 1990 approved
		rates they will be recovered from those customers
~		O From all customer classes?
~		Q. Flom all customer classes: A All customer classes including
		storage and transportation sustamers
~		$\circ$ All right
~		$\chi$ . All ingle. $\Lambda$ We are proposing here to refund the
		cost of service relating to the period where we did not
		own the facilities to those customers that are paying
		for them
~		0 In the second paragraph you say:
		The amount of the refund to each
~		rate class will be calculated by
~		allocating the balance in the deferral
~		account in proportion to the
~		Dawn-Trafalgar transmission demand costs
~		recovered from each class in the rates
~		approved in FBRO 456
		Right?
~		A That is right
~		0 And the question is To that
-		2. And the question is that
		arrocacron meenodorogy che arrocacron meenodorogy chat

	wa	s used in	collecting t	he costs?				
~	Α.	Yes, it i	s.					110
	[	Elliott,Co <sup>,</sup>	wan Black	cr ex	(Blue)	Page:	3476]	119
~	Q.	So,	you are	being	totally	7		
	symme	etrical?	You are	getti	ng	it back	Ξ	
in exac	tly t	he		-	-			
	san	ne allocati	lon method by	which you	collect	ted	it?	
~	Α.	Which you	recovered	it,	yes.			
~	ο.	All	right.	Thank	you. Co	uld we	have	
	a	look at Ta	b 7,	Schedule 2	again?			
~	Α.	Okay.	-		-			
~	Q.	And	you have s	hown us wha	at costs	are		
	in	the, or w	ill be in	the P	GVA bala	ince or	the	
	Кi	rkwall	sorry, I'm ba	ack on the	last to	pic	what	
	am	ounts will	be in the K	irkwall de:	ferral a	.ccount		
~	Not	iceably mi	ssing are an	y O&M expe	nse.			
	Wh	y is that?	2					
~	Α.	The	0&M expens	es or	the i	ncremer	ntal	
	O&	M expenses	related to 1	Kirkwall a:	re insic	nificar	nt.	
	The c	osts we ind	cur for a trai	nsmission	lin	e would	be the	2
	cost	s of	people inspe	ecting it,	monitor	ing the		
line, a	nd					-		
7	we are	going to i	ncur the	se costs ar	nyway. W	le	are not	
(	going	to rea	duce our O&M e	expenses fr	om	the sal	e date.	
~	Q.	Are	there any a	assignable	overhea	ıds		
	as	sociated w	ith the Kirk	wall line?				
~	Α.	Over and	above those	that were				
	as	signed to	the project	on its con	structio	n?		
~	Q.	Yes.						
~	Α.	There are	overheads	capi	talized	in		120
	[	Elliott,Co	wan Black	cr ex	(Blue)	Page:	3477]	120
	bo	ok value.	There are n	o additiona	al overh	neads.		
~	Q.	All	right.	Thank y	you.			
~	Cou	ld we go t	o Tab 7, Sch	edule 1, w	hich			
	is	the propo	sed method f	or determin	ning the	e Kirkwa	all	
	re	bate via c	ustomer clas	s, and we l	have the	e propos	sed	
	re	bate for f	irm customer	s shown in	line 11	., for		
	\$5	35,000?						
~	Α.	That is t	he rel	bate for or	ur firm			
	st	orage and	transportati	on custome:	rs,	our	M12	
	cu	stomers, y	es.					
~	Q.	How	did you	calcu	late tha	it rebat	ce?	
~	Α.	That is i	n proportion	to the real	covery			
of the Kirkwall costs. Q. If I went to your rate base ~ allocation, I would find the allocation factor that \$535,000? gave you that A. That is, if you went to the cost  $\sim$ allocation study for the storage and transportation customers, you would see that allocation factor. Q. All right, okay. We will try that. A. In fact, if you go to Exhibit R7, Question 5, which is a response to an interrogatory from TCPL --Q. What is that again, please? A. R7, Question 5. 121 [Elliott,Cowan Black cr ex (Blue) Page: 3478] Q. Just let me turn that up.
A. Page 4 of 4 is a table breaking down the allocated costs of the Dawn-Trafalgar system based on the approved rates. Q. Yes? A. If you go down to the middle of the page, transportation demand without Dawn compression. O. Yes? A. Storage and transportation across to the allocated costs, you will see 79.9 per cent. Q. Yes? A. That is the same percentage as \$535,000 of six hundred and sixty-nine. Thank you very Q. Oh. much. ~ THE PRESIDING MEMBER: Excuse me, Mr. Blue. Could we inquire at this stage as to how much remaining time you foresee for this panel? MR. BLUE: Mr. Chairman, I will probably be through within the half hour. THE PRESIDING MEMBER: All right. We will press on until you are finished then. MR. BLUE: I would be obliged. THE PRESIDING MEMBER: Then we will go for lunch. Thank you. Mr. Blue, perhaps I may interrupt while 122 [Elliott,Cowan Black cr ex (Blue) Page: 3479] you are getting ready for the next series of questions. Were there legal expenses incurred of any

significance on the Kirkwall sale, and if so, how were	:
they treated or how have they been treated?	
~ MS. ELLIOTT: I don't know that. Maybe	
we could add that to our	
~ MR. LESLIE: I think we could give you an	
undertaking on that, Mr. Cook. My understanding is	
that the transaction was done by people within Union,	
so that the answer, I would expect, is something like	2
the answer on 0&M expenses. They were expenses they	r
really just represent salaries that are being paid	l
people, in any event, but	
~ THE PRESIDING MEMBER: All right. Thank	
vou. Ithink we will leave it at that. Thank you.	
~ MR BLUE: O Could we talk about the	
M12 interruntible rates? Is that you again Ms	
Filiott?	
$\sim \qquad MS E I I I O TT \cdot \Lambda W i + b Mr Black c$	
aggistance	
$\sim$ 0 0 kay In the higtory again the	
Poard in EPPO 456 directed Union to examine its costs	
and other factors considered appropriate relative to	,
the M12 interruptible rate and progent its findings in	
the next rate and here have done that?	L
the next rate case. And you have done that?	123
[Elliott,Cowan Black cr ex (Blue) Page: 3480]	
~ MS ELLIOTT: A Well we have addressed	
that My response to that was the fact that our	•
interruptible rate uses the firm rate as a starting	ſ
point So to the extent that we have	1
looked at the	
costs for the firm rate we use that rate as a starting	r
point for our interruptible And then the rate is	1
discounted for the conditions of service and the	2
conditions of service allow for interruption of	:
approximately 80 days in the year or 20 per cent of the	2
year where that service is not available or it may not	
be available	•
$\sim$ That is basically the methodology we used	
in deriving the rate	
All wight Now Ma Ellight I just	
want to balance my books so to speak about some	
want to barance my books, so to speak, about some	
hit inconsistent	:
DIL INCONSISCENCE.	
- INCLISSIONSWELL WAND TO LOUDK AL IS	
EXHIBIT KI.IA.A. DO YOU HAVE CHAC:	

I do. Α. And there, the Board said: Q. Please provide any cost information which is currently available that justifies establishing the interruptible rate demand charge at 80 per cent of the 124 Page: 3481] [Elliott,Cowan Black cr ex (Blue) firm M12 demand charge; (b) what other  $\sim$ factors are relevant in determining the rate for this service? The answer: There is no cost analysis which supports establishing the interruptible rate demand charge at 80 per cent of the firm M12 demand charge; (b) in designing the rate, consideration was given to maintaining the level of differential that has been approved by the Board historically. ~ And that is pretty clear answer; right? Α. That is right. When we look at Exhibit N13, page 7, 0. blue pages, it appears that the story has changed a little bit, and I am reading from paragraph 4(b) under the heading, "M12 Interruptible Rate," immediately following the quotation from paragraph 9.72 of the Board's decision, and here, Union says: establishing the M12 In interruptible transportation rate, Union used, as a starting rate, the rate for firm service. The conditions of service  $\sim$ under the interruptible rate allowed for ~ 125 [Elliott,Cowan Black cr ex (Blue) Page: 3482] a period of interruption of up to 40 days during the winter, November to March, and for 40 days during the summer, April to October. Therefore, setting the M12 ~ interruptible charge at 80 per cent of the firm rate reflects the approximate level of service guaranteed to the customer. Right? A. That is right.

~	Q. And what troubled me about this is	
	that this seems to be a gloss on the answer that you	
	gave in 14.4, and what I wanted to ask you was: Did	
	you think up this description after writing the	
	response to Interrogatory 14.4?	
~	A. No, sir. I didn't think it up. It	
	is basically a difference in timing, though.	
~	The answer to 14.4 is consistent with the	
	answers to the similar question in 456.	
~	0. Yes.	
~	A And that was my information that T	
	had at the time in response to that interrogatory	
~	0 How did your information change	
	between the time you responded to 14 4 and wrote the	
	material on N13 page 72	
	120 Ilacerrar on Nr5, page	5
	[Elliott,Cowan Black cr ex (Blue) Page: 3483]	
~	A. Practically speaking, it was just	
	further discussions with the people in the SNT group	
	and people that knew more about how the service was	
	offered that led me to my response, sir, the paragraph	
	in Exhibit N13.	
~	Q. All right. You would agree with me	
	that we still don't have a cost analysis underlying the	
	rate?	
~	A. And the reason you don't have a cost	
	analysis is because our costs are allocated based on	
	our design of the system.	
~	When we design the system, we take	
	interruptibles off, so we do not design for	
	interruptibles.	
~	0. Okay. Let me pick on an aspect of	
	your answer, and it is this: According to your	
	explanation, 40 days during the summer and 40 days	
	during the winter justified the 80 per cen charge, but	
	as I understand it, the winter is shorter than the	
	summer?	
	12	7
	[Elliott,Cowan, Black cr ex (Blue) Page: 3484]	
~	A. That's correct. The winter is 151	
	days and summer is 215.	
~	Q. Right. So if you took 40 over 151, I	
	think you would get a 26 per cent reduction, not a 20	
	per cent reduction.	
~	A. Okay.	

Q. And the question then is: Why ~ shouldn't the interruptible rate be 74 per cent of the firm rather than 80 per cent, if you are going to do it the way you say justifies the80 per cent?IR. BLACK: A.I thinkit's merely to MR. BLACK: A. give some reasonableness to the 80 per cent. We aren't coming forward saying this is the methodology for establishing 80 per cent. It's a judgmental factor that was chosen based on history and what we have seen elsewhere. It turns out that a 40-day interruption in the winter is, as you say, a little more than 20 per but that's not the way the 80 per cent was cent, arrived at. Would you agree O. All right. with me, Mr. Black and Ms. Elliott - and I want an answer from each of you - that there really is no justification for the way that the interruptible rate is set at the present time, other than history? Would you agree with 128 [Elliott,Cowan, Black cr ex (Blue) Page: 3485] Ms. Elliott? that, MS. ELLIOTT: A. Well, I wouldn't agree is no justification. There is history, there and there are the conditions of service, and there is the way it has been accepted. If you are looking for a formula to calculate the rate, then there isn't one. Q. All right. Mr. Black, do you agree with that? MR. BLACK: A. I will agree with that, yes. 0. I want to talk about the loss of critical unit from a cost accounting point of view. As I understand it, the evidence that we have received after the hearing resumed was that the capital cost of the expansion that Union is now proposing be included in rate base, and I base this on Exhibit J5.3, yellow, page 1, but the number is \$240,674,000. Is that number familiar to you, Ms. Elliott? MR. LESLIE: Could we have that reference again?

MR. BLUE: Sure. J5.3, page 1. It's the I am just trying to establish that the yellow copy. capital program for this fiscal year is \$240,674,000, 241-million. 129 cr ex (Blue) Page: 3486] [Elliott,Cowan, Black MR. LESLIE: We are having trouble with the .3, I think, Mr. Blue. MS. ELLIOTT: I think that number represents our revised capital expenditures for fiscal 1991. MR. BLUE: Q. And the portion of costs in that expansion attributable to loss of critical I believe, according to unit, Exhibit J7.2, is about \$19,743,000? And that's based on it being Lobo B compressor. MS. ELLIOTT: A. You are saying the in the \$240-million related to-costs Lobo compressor O. The station. --the Lobo compressor are 19.7? Α. ~ THE PRESIDING MEMBER: Excuse me. Would you make sure your mike is on, Ms. Elliott? Thank you. MR. BLUE: A. Yes. MS. ELLIOTT: A. Yes. O. All right. And just accept for the moment that the evidence before the Board based on Union's present system expansion plan is that the Lobo B compressor station is the critical unit? sir. A. No,  $\sim$ It is a loss of critical unit Q. protection facilities? 130 [Elliott,Cowan, Black cr ex (Blue) Page: 3487] Α. Yes. Okay. I agree. That's your understanding, isn't it? 0. That's my understanding, yes. Α. Right. Okay. Now, with that Ο. background, can you tell me what proportion of total of the revised system expansion program costs have been allocated to the M12 customers? And I think we can get a picture of this Exhibit J5 -- sorry. Sorry. Our problem by looking at couldn't find it out in J5. Could you tell us is we how much of the proposed system expansion costs have

been allocat	ed to the	M12 customers	5?	
~ A. I can't t	cell you how much	n of the		
incremental co	osts are al	located to the	M12 customers	
but I can t	cell you how much	of the total co	ost of the	
Dawn/Trafalga	ır system i	s allocated to	the M12	
customers.				
~ Q. Well, I v	was really	y interested in	n the	
incremental c	cost. Is t	hat	ls it a	
big job to tell	L			
us how much	of those costs h	nave been alloo	cated to the	
M12 customer	cs?			
~ A. I guess ]	I would expect th	nat in		
percentage t	erms it would be	the same	percentage.	
~ Q. I see. A	All right.	. That's	s fine. And	
what percentag	ge is it? What wo	ould be the the	ne appropriate	
[E]liott Con	wan Black	crex (Blue)	Page: 3488]	131
		or en (brac)	1090 3100]	
percentage?				
~ A. It's 85.2	2 per cent.			
~ Q. Thank you	_ ۱.			
~ A. And	that's in prop	portion to the	lr	
design day o	demand.			
~ Q. All	right. N	ow, in a	allocating the	
costs of t	he Dawn/Trafalga	r system, inclu	uding the	
portion of t	the capital expar	nsion program a	attributable	
to it, to the	M12 customer	s, do you show a	separately the	
bundle of co	osts associated w	with loss of cr	ritical unit	
protection?				
~ A. No,	I don't. The	installation of	of the	
compressor at	Lobo plant	B is par	t of the	
Dawn/Trafalgar s	system, and as	such is r	olled into the	
cost of the Daw	vn/Trafalgar syst	em and al	located to all	
of Union's d	customers.			
~ Q. Right. S	30 from your poir	nt of view		
it's just pa	art of it's a	planning princ	ciple. If	
it's approved a	as part of the sys	stem then it's	just part	
of the system	costs that	are allocated	like all other	
systems cost	s?			
~ A. That's co	prrect.	_		
~ Q. I don't t	think I asked you	ı when I		
was to te	ell me how	much of	the Dawn/	
Iratalgar system	· · · · · · · ·			
and the syst	cem expansion cos	sts are allocat	ted to the M2	137
[Elliott,Cov	wan, Black	cr ex (Blue)	Page: 3489]	1.52

customers. Perhaps you better give me that percentage too, before we go on. about 11 per cent? Α. How Are the fixed costs of  $\sim$ Ο. Thank you. the Dawn/Trafalgar system covered entirely in demand charges for the M12 and M2 customers? A. For the M12 they are. For the M2 they're not. Our M2 rate structure is a \$7.25 monthly charge and the balance is a commodity charge. 0. So we are safe in assuming that for the M12 customers all fixed costs are recovered in the demand charge, and none in the commodity charge and none in the delivery charge? A. That's correct. Q. Sorry. They don't have a delivery charge. for transportation, for storage. A. Not Q. -- none in the commodity charge? A. Yes. O. All right. And just so the record is ~ abundantly clear, there is nothing in the -- or there proposal to have anything in the M12 or M2 rates is no that would refer to loss of critical unit protection? A. That's correct. Q. Ms. Elliott, if the Board denies the 133 [Elliott,Cowan, Black cr ex (Blue) Page: 3490] loss of critical unit protection planning philosophy in this case -- just make that assumption with me for the sake of my question. Can you do that? A. Okay. If the Board denies loss of critical Ο. ~ unit planning philosophy and Union decided not to build a compressor at Lobo, what amount would be deducted from the allocation to the M2 and M12 customers? A. At this point I can't give you a specific amount. I would have to have someone calculate for me what the amount of rate would be base reduced by for Lobo plant B. It's my impression that there are some costs that are related to the compressor station as it is and that it wouldn't be the total capital cost of the compressor. I don't have the numbers. Assuming --

~	MR. BLUE: Can we get a transcript
	undertaking to get that number?
~	THE PRESIDING MEMBER: Mr. Blue, there
	was an undertaking to provide the amount in the rate
	base. Is this what you are after?
~	MR. BLUE: I am asking Union to give us
	the amount that would come out of rate base and
	therefore out of the amount of costs allocated to the
	M12 and M2 customers, should the Board deny the loss of
	. 134
	[Elliott,Cowan, Black cr ex (Blue) Page: 3491]
	critical unit planning philosophy, Mr. Chairman.
~	THE PRESIDING MEMBER: Yes. That will be
	Undertaking U.20.8.
	UNDERTAKING NO. U.20.8: Union to provide the amount
	that would come out of rate base and
	therefore out of the amount of costs
	allocated to the M12 and M2
	customers, should the Board deny the
	loss of critical unit planning
	philosophy.
~	MR. BLUE: Q. All right. Ms. Elliott, I
	know you are going to give us a precise number. Would
	the range be in a range of \$15-to \$20-million?
~	MS. ELLIOTT: A. That would come out of
	rate base?
~	Q. Yes.
~	A. No. I'm not sure. The number you
	quoted earlier of the 19.7-million
~	Q. Yes?
~	Awas the capital expenditures for
	fiscal '91.
~	Q. Yes.
~	A. There were capital expenditures in
	fiscal '90 that are added to that. My impression is
	the compressor, the cost of the compressor is in the
	neighbourhood of 35-million in total.
~	Q. Yes. We better not speculate about
	the number, but directionally let's say it was in
	[Elliott,Cowan, Black cr ex (Blue) Page: 3492]
	the order of magnitude of \$15- to \$30-million without
	being precise; what would that do to the M2 and M12
	rates?
~	A. Well, if directionally you are

talking about \$15-million, the approximate cost of service in the first year is something in the neighbourhood of 10 per cent. It may with be less monthly rate base. So you are talking about taking out of cost of service a million-and-a-half. 85 per cent of that is coming out of the M12 and 11 per of that cent would come out of the М2. Q. And if you do the same analysis for \$30-million, then the effect on the M12 and M2 would be the amount? twice A. That's correct. MR. BLUE: All right. Thank you, Ms. Elliott. Thank you, gentlemen. Thank you, Mr. Chairman, I am through. THE PRESIDING MEMBER: Thank you, Mr. Blue. Obviously, we need to sit this afternoon, gentlemen. Could we get some indication of the time required? We will start with you, Mr. Atkinson. MR. ATKINSON: About 45 minutes, sir.  $\sim$ 136 [Elliott,Cowan, Black cr ex (Blue) Page: 3493] THE PRESIDING MEMBER: Mr. Bryan, ICG? Perhaps you should repeat what you just ~ said, Mr. Bryan. The court reporter didn't pick it up. MR. BRYAN: The matters of concern to us ~ have no have been addressed. We will questions for this panel. THE PRESIDING MEMBER: Thank you. Mr. Thompson? MR. THOMPSON: About 45 minutes. THE PRESIDING MEMBER: Mr. Ryder? MR. RYDER: Ten minutes. THE PRESIDING MEMBER: Mr. Sadvari?  $\sim$ MR. SADVARI: I was going to say 45 minutes, but I assume I will be less from the questions that precede me. THE PRESIDING MEMBER: Mr. Arndt? MR. ARNDT: About 10 minutes, if at all. ~

THE PRESIDING MEMBER: And Mr. Budd? MR. BUDD: Same thing. Ten minutes. MR. SADVARI: I believe Mr. Peterson has a few questions. From what he's told me, it sounds like he would be about 15 minutes. THE PRESIDING MEMBER: Thank you, Mr. Sadvari, for that. All right. I think that gives us some 137 [Elliott,Cowan, Black cr ex (Blue) Page: 3494] indication of how much longer we will be, and probably most of the afternoon, so we will now adjourn until --MR. BLUE: Mr. Chairman, before we adjourn I should advise the Board that my associate Mr. Dick will be here in my place this afternoon. THE PRESIDING MEMBER: Thank you, Mr. Blue. That's satisfactory. Let's adjourn until 2:00 o'clock. ---Luncheon recess at 12:45 p.m. 138 [Elliott,Cowan Black cr ex (Atkinson) Page: 3495] ---On resuming at 2:03 p.m. THE PRESIDING MEMBER: Be seated, please. believe you are next. Mr. Atkinson, I MR. ATKINSON: Yes. Thank you very much, sir. CROSS-EXAMINATION BY MR. ATKINSON: Q. I would like to start by asking some questions about the CIL deferral account referred to in the third addendum, Exhibit N13. I would just like to look at the principle that is inherent in the proposal for recovering the deficiency and also deal with the argument that I can see coming from Mr. Blue, that some part of this deficiency should be picked up from the storage and transportation customers. First of all, the reason that there is a deficiency here is clear, is it not, that the Board has approved a new rate and there is a deficiency because the bypass rate yields less revenue than the rates that CIL was formerly on, and this occurred in the middle of your last test year.

Is that roughly correct? MS. ELLIOTT: A. As far as the million dollars, that is the difference between the revenue forecast that our 1990 rates were based on and the 139 [Elliott,Cowan Black cr ex (Atkinson) Page: 3496] approved revenue after the decision in EBRO 457. Q. I take it that CIL has been an in-franchise sales customer for many years? A. That is true. O. And the fact that rates have gone -would have gone up and down in the rates to CIL, past depending on the rate design approved by the Board from time to time in your various rate cases? A. That is true. Q. It is fair to say that as a result of cost allocation studies and rate design, there may have been some years when CIL would have over-contributed, cost allocation based on your studies, and some years when they would have under-contributed; is that fair? A. I cannot speak specifically to the for CIL costs because in the past, never allocated we separately to CIL. costs in the past been a customer CIL has included in the M7, which is special large volume customers, and the firm class. To the extent that the costs were allocated to that class of customer and the revenue recovered from that class of customer, I think in the past, they have -- the class, in its total, has been an over-contributor to the cost of service. 140 [Elliott, Cowan Black cr ex (Atkinson) Page: 3497] insofar as in the past, ~ O. And that customer class may have over-contributed; I take it that that over-contribution has never been for the benefit of storage and transportation customers? A. That is true. Ο. All right. And if they had been under-contributors, based upon your rate design cost allocation studies, they would never have been expected

to pick up any portion of the under-contributi	.on?
~ A. Given that the storage and	
transportation customers, the M12 rate class i	_s a
cost-based rate, no, they do not contribute to or	
pick-up any under-contribution from our in-franchise	2
customers nor do they get the benefit of	any
over-contribution from our in-franchise customers.	_
~ 0. So, the rate history is crystal clear	
here, isn't it? It has always been this way.	The
proposal that I could see Mr. B	ue
making this morning.	
the idea that some part of this revenue deficie	ncv
would be allocated to storage and transportat	ion
customers that would be a new principle would it r	
~ A As far as allocating costs of our	100.
in-franchise customers or deficiencies from our	
in-franchise customers to the M12 class that	
would be	
new	
11Cw.	141
[Elliott,Cowan Black cr ex (Atkinson) Page: 34	198]
~ Q. And the principle behind designing	
rates based on cost allocation studies is genera	ally
speaking to allocate the costs to the customers	who
cause the costs to be incurred?	
~ A. That is true.	
~ Q. All right. And this deficiency	
arising from the new bypass rate for CIL has not bee	en
caused by the storage and transportati	on
customers, has	
it, in the sense that I use word cause causali	ty.
~ A. No, it has not.	
~ Q. So, in principle - and you are an	
expert in this area - it would be inconsistent for	the
Board to adopt a rate design in this case that we	ould
allocate any part of this revenue deficiency to stor	aqe
and transportation customers. Would you agree w	vith
that?	
~ A. We felt it was inappropriate to	
allocate any of the deficiency to the storage	and
transportation customers yes	ana
$\sim$ 0 And I take it that in coming to that	
conclusion you looked at all of the factors that	one
in your position traditionally looks at in determini	na
how costs should be allocated and how move and how	
now coses should be allocated and now revenues sho	JULU

be recovered; is that fair? A. Yes. 142 [Elliott, Cowan Black cr ex (Atkinson) Page: 3499] Q. Now, you are aware of the fact that storage and transportation customers are distributors who -- Consumers Gas, City of Kitchener, Gaz Metropolitain -- they are the storage and transportation customers? A. Yes. That is right. to the extent that they O. And are regulated by this Board, they have to forecast their storage and transportation costs, don't they? A. To the extent that they are requlated by a Board. GMi, I don't think, is regulated by this and TCPL is also included in that class Board, but -of customer, as well. O. And would you agree with me that from their perspective, it is important that they are able to forecast their rates on the assumption of a generally consistent rate-making philosophy applied to Union Gas? A. I would say consistent rate-making methodology is important to all of our customers. Q. Mr. Blue made mention of the allocation of the SNG premium, which of course has been a hot issue here in the past. Now, that was a gas supply problem, wasn't it? A. That is correct. 143 [Elliott, Cowan Black cr ex (Atkinson) Page: 3500] Q. Petrosar was supplying synthetic natural gas to Union Gas? A. Yes. Q. All right. Petrosar wasn't a customer, was it? A. They were not a customer of ours in that transaction, no. Q. So that to the extent, based on whatever principle was adopted in that case for SNG premium amongst all spreading the customer classes, that has no application in this case, where you are talking about a deficiency resulting from a customer

going on a new rate. They are quite different situations, are ~ they not? One is a cost of service item--Α. Yes? Q. A. -- and the other is the revenue deficiency. Q. Yes, all right. Thank you. And, Mr. Black, I would like to turn to the queueing procedures that Mr. Blue canvassed with you this morning and that is found at Exhibit N15 and in the attachments to that, at Tab 2. First of all, I take from what you say at 144 [Elliott,Cowan Black cr ex (Atkinson) Page: 3501] 1 and 2 of N15, that in pages drafting the queue procedures, Union considered that it was complying with the Board Order, an extract of which is set out at the top of page 2. That is MR. BLACK: A. correct. Q. And that extract from the Board Order reads: Union shall make available on request monthly reports on the volumes of storage requested by customers seeking unallocated storage, the requested term for such volumes, and the ranking of those seeking unallocated storage on a  $\sim$ code name basis. Do you see that? Yes, I do. Α.  $\sim$ Q. And first of all, I take it ~ that does make this information available on Union request--A. Yes, we would. 0. -- in accordance with the Board's Order. And when you sought to put into a code the provisions of the Board's Order, did you start with the basic principle that what you were attempting to develop was a queue for this space? 145 [Elliott,Cowan Black cr ex (Atkinson) Page: 3502] A. Yes.

right. Now, as I read what you Q. All it is essentially a service goes to the have drafted, highest bidder type of procedure as opposed to the queue. Is there anything that Union relied upon in drafting these procedures that comes from any source than the Board Order that I have just read to other you? I just want to have the starting point down. A. Well, one thing to correct is that only in a couple of cases does the rate determine who gets the service. And if all parties in those cases are willing to pay the same rate, then the queue does establish who gets served in what order. Q. Okay. Well, I'll come to that. But when one talks of a queue, do you not think in terms of who's ever first on the queue is the first to be served; that is, first right to service? Α. Not necessarily. That is a common interpretation, I would say, but in the case of pipeline service, you were asking what else might have influenced our approach to this. We are familiar with other types of queues and they didn't directly, but just through thinking about what others have done, we came up with 146 [Elliott, Cowan Black cr ex (Atkinson) Page: 3503] this approach. Board Order doesn't use the word, 0. The "queue"; it uses the word, "ranking," and while I don't know that anything turns on that, Mr. Black, does it not imply that if you are first in line, you are going to enjoy some benefit? A. Well, you do. In this case, you have the benefit of knowing that if you are willing to pay for the service, you will maintain your position in the queue. 147 [Elliott,Cowan Black cr ex (Atkinson) Page: 3504] Q. Let's have a look, then, by way of an example, at tab 2, page 1. And I know Mr. Blue asked а few questions on this, and I will try to be as brief as be. Just looking at the text of this in I can paragraph 2. Paragraph 2 sets out the procedures by which you get on the queue, correct? A. That is correct.

Q. And paragraph 3 then tells you how ~ you go about getting a contract? Α. Yes. insofar as paragraph 2 is 0. Now concerned, that seems to establish a true queue situation, does it not? Tells you how you get into the and if you follow the procedures, you will get on line, the list as quickly as possible? Α. Yes. Ο. So it is a real queue.  $\sim$ And just one question with respect to that. You want all applicants for a slot in the queue to give you a check for \$5,000. I am just wondering why five, why not a thousand, why not ten thousand? How is the 5,000 derived? A. It is just a number we felt would substantiate the parties being serious with their request, but not unduly burdensome. 148 [Elliott, Cowan Black cr ex (Atkinson) Page: 3505] Q. There are some circumstances where Union will be allowed to forfeit or obtain that deposit? A. We would retain the deposit, if the party backed out. Q. So is that 5,000 approved in any rate schedule? A. No. Q. So it has not ever been approved by the Board to your knowledge? A. No. Q. And it was simply arrived at on the feeling that that would indicate the earnestness of the applicant? A. Yes. We are trying to make sure that people are making their requests in a sincere fashion. Q. Most of the people who make these  $\sim$ requests, many of them would be utilites, would they not? A. Many are but many are not. be many 0. There would whom you have had business relationships with for many years? A. Yes.

Q. And therefore many for whom you wouldn't question their desire to be on the queue? 149 [Elliott,Cowan Black cr ex (Atkinson) Page: 3506] A. I would think in the case of a LDC, generally they know that they want it and have the definite need. O. All right. Then could you turn to page 2, please, Mr. Black? Under item 3, this is the contracting procedure, the first sentence states: "If it is determined that space is available for contracting, Union will offer to contract for execution send an to all customers in the queue."x So the fact that you are first in the doesn't matter, does it? Everybody is going to queue get an offer? A. Everybody gets an offer, that's correct. Q. So there is no benefit by being first. If you are last in the queue, you are going to get the same offer, correct? A. That's correct. Q. the price that Union proposes, I And think you indicated to Mr. Blue, that would be set out in the offer. Yes. Α. you indicated that the factors Q. And that would be surveyed in calculating the rate are the 150 [Elliott,Cowan Black cr ex (Atkinson) Page: 3507] various factors referred to in rate C1? A. Yes. Ο. I won't go through those. So you send out an offer to contract to everybody in the queue, right? Α. Yes. O. And again, the common view of that kind of situation would be if you sent me an offer, and I wanted to accept it, I would sign it, and we would have a contract. But that's not the deal here, is it? A. Yes, in this case if we send you an offer, and you are first in the queue and you accept it, you are first in the queue, you get the service. only the case if Q. Yes. Well, that is

other customers in the queue don't counter offer, correct? Α. No. In this case if you accept the offer Union has set out, you would be served, assuming in the queue. The persons second, third, you are first so on in the queue, may or may not accept the offer. They don't know what you are going to do, and they may not like the price we have quoted. So they may refuse to accept the offer we have made and counter offer with a lower rate to retain their position in the queue and to show that they still want the service. In other 151 [Elliott, Cowan Black cr ex (Atkinson) Page: 3508] words, they are willing to contract, but not at the rate Union has asked. Whereas if you are first in the and you accept Union's offer, you get served. queue Q. That isn't what this says, though, is it, Mr. Black? A. That's what it is supposed to say. 0. I see. Because in the last sentence of the first paragraph, it states: "A customer's execution of the offer will indicate a customer's acceptance of the terms and conditions therein, in the event they are the successful party, according to priority established by the queue, and it will serve to maintain their position in the queue."a ~ Now I just want to be sure that Т ~ understand this. Are you saying that if there are ten people in the queue, and Union sends out an offer that indicates a rate, that if I happen to be first in the queue, and I sign it back accepting it, then Union is bound by that acceptance of your offer? Α. Yes. O. And what if the person who is No. 10 in the queue sends it back with a higher price? That is not Α. the arrangement here. We 152 [Elliott,Cowan Black cr ex (Atkinson) Page: 3509] have established the maximum price. The most would in the queue is either accept it or anyone can do with a lower offer. counter offer Q. A lower price?

~	A. Yes.
~	Q. I think you might understand the
	reason why I am having this confusion. The second
	paragraph states:
~	"A customer may counter the price
~	contained in the offer when executing the
~	offer, provided that the counter price is
~	within the approved rate C1 range."i
~	A. Yes, the intent here was to assume
	that our initial offer only had to be accepted to
	retain their position in the queue.
~	Q. So should that read:
~	"A customer may counter the price
~	contained in the offer when executing the
~	offer, provided the counter price is less
~	than the price set out in Union's initial
~	offer"?
~	A. That would be fair, yes.
~	Q. I see. So the philosophy behind this
	is if you didn't accept Union's first offer, then in
	order to maintain your position in the queue, you are
	[Elliott,Cowan Black cr ex (Atkinson) Page: 3510]
	meant to come back with a counter proposal?
~	A. Yes.
~	Q. Is that the philosophy behind it?
~	A. Yes.
~	Q. So that in fact it is not envisaged
	by Union that page 2 of these contracting procedures
	could give rise to a bidding war so to speak, to the
	extent that different people in the queue could bid up
	the price?
~	A. No, that wasn't our intent, although
	you do price becomes a factor, if you get a range of
	counter offers below the offer we made.
~	Q. But if Union always goes out with too
	high a rate or too high a price, then it will
	necessarily follow that there would be a biding
	contest, would there not?
~	A. That's correct, yes.
~	Q. So in the event the rate established
	by Union in the offer to contract is higher than what
	any of the people in the queue feel they wish to pay,
	the only way they can get a lower price is through the
	counter offer scenario?

~	A. That, and to retain their position in the queue, and to get their money back. Q. What is the incentive to Union to put	
	[Elliott,Cowan Black cr ex (Atkinson) Page: 3511]	154
	out an offer to contract at a reasonable price? And I don't want you to be offended by that, but there is obviously an incentive here to go high and let the bidding occur within the reasonable price, unreasonable price range	
~	A. I think I agreed this morning that	
	the tendency will be for us to err on the high side.	
	But our intent would be to come out with an offer that	
	we feel is realistic.	
~	Q. And then am I correct that if	
	customers get what to them is considered to be an	
	unreasonably high offer, and they decide nuts on Union	
	Gas, they don't do anything, they lose their place in	
	the queue?	
~	A. That's correct. I mean to retain	
	their position in the queue, they can	
come	back with a	
	counter offer that's at the minimum of the range. It	
	would just show that they are still interested and in	
	fact wanted the space.	
~	Q. And then Union goes back to them with	
	another offer, is that the idea?	
~	A. IES.	
~	they don't accept the subsequent offer, as you refer to in paragraph 3, that they lose their deposit?	155
	[Elliott,Cowan, Black cr ex (Atkinson) Page: 3512]	155
~	A. Yes. If they are not willing to counter offer the minimum of the range at least, then either something's happened or they weren't sincere in the first place.	
~	Q. But, again, it is within Union's	
	<pre>power to put out the subsequent offer referred to in paragraph 2, and if a customer doesn't accept the customer loses his deposit?</pre>	
~	A. Yes. Now, for us to come out with a second offer it would mean that everybody counter offered our first proposal, and let's say they all sent back the minimum of the range	

Q. Right. ~ A. --and Union decided it couldn't accept that, so we sent out a second proposal at a lower value. Q. Right. A. Then you would go through -- you go through many could cycles. Somewhere you are going to hit the rate that someone in the queue is willing to pay, whereas all the rest have stuck with the minimum of the range. in arriving at that somewhere Q. But can be knocked out of the queue everyone else and lose their \$5,000 deposit. 156 [Elliott,Cowan, Black cr ex (Atkinson) Page: 3513] A. As long as they kept putting in a rate that's at the bottom of the range, they still were willing to enter into a contract. If anyone puts in an acceptance of one of our proposals, then we will serve that customer, but let's assume that uses up all the space so we can't the rest; they have all stayed in the queue, and serve they will get their money buck. they will get to understand how that to understand how that flows from the text Q. I just want mechanism, Mr. Black, flows from the text on page 2, the last paragraph under Item 3, "Contracting Procedures", states: "If a customer does not execute and return this subsequent offer within the stated number of days they lose their the queue."i deposit and position in There is no reference to staying alive so to speak by putting in a counter offer. A. We should make that clear because that's the intent. Q. Certainly as it's drafted it contemplates that you only get, as I see it, one shot at the counter offer and if Union comes back to you with another offer that aqain in your view is too high you either accept what Union puts to you or you lose 157 [Elliott,Cowan, Black cr ex (Atkinson) Page: 3514] your \$5,000 and your position in the queue.

A. No, the intent was to keep it going. Q. So it could go on and on and on? A. Yes. 0. Is that the idea? All right. What information will people in the queue receive, if any information, about the counter bids? they be told what the counter bids were? Would I don't think so. A. No, Q. When Union goes back with a subsequent offer, in the event Union doesn't want to accept any of the counter offers, will the customers be any information on what qiven the counter offers on the round were? first that's not our intent. A. No, Q. So unless the customers chat amongst  $\sim$ themselves, if they can figure out who they are, they're not going to know what the range is here, are they? A. That's correct. Q. And isn't it then really the case, Mr. Black, that all the queue does here is get you around the table for a bidding process? And if you are No. 1, the most that does for you is perhaps give you a contract at a rate that I think you've admitted will --158 [Elliott, Cowan, Black cr ex (Atkinson) Page: 3515] errs, it will be on the if it high side? A. It assures you that if a space comes available and you are willing to pay the maximum of the range, you are in for sure. Q. That's a real bonanza, isn't it. (Laughter) is rare. That's what we A. Well, space have tried do, is come up with a system that recognizes the market forces. Q. In return for being first in line you can count on paying an unreasonably high rate? A. Well... O. All right. Then could you turn to page 5 of these procedures, please? This is the procedure for short-term firm transportation service, and I just have a couple of questions about this, Mr.

Black. First of all, like the procedures we just ~ looked at there is a number 2 dealing with the queue entry procedures, but there is, as I read this, no contracting procedures for this one. A. I think that's an oversight and I have made a note of that. O. All right. So will the contracting procedures be similar to the schedule we just looked at 159 [Elliott, Cowan, Black cr ex (Atkinson) Page: 3516] at page 1 dealing with short-term storage service, same kind of procedure, offer, counter bid, that sort of thing? They will be more like Α. No. the long-term transportation on page 7. All right. Now, under the heading 0. "Other Restrictions", the second paragraph, there is the statement: "Union may modify the dates for queueing by a review of all the requests received within any given calendar month. In the event that two or more service requests are received in that month Union may realign the queue to give priority to those requests that optimize the use of Union's system in terms of total volume and contract term."e ~ Now, I have difficulty understanding that ~ but it seems to me to mean that the queue doesn't really mean anything, that it's going to be up to Union as to how it administers the capacity under this rate -- I'm sorry, under this schedule. A. It applies to requests received within a particular month. O. But if you get two or more within a 160 [Elliott,Cowan, Black cr ex (Atkinson) Page: 3517] month, then what does it mean when it says: "Union may realign the queue to give priority to those requests that optimize the use of Union's system"? A. We have tried to recognize that the two requests may use the system in a different fashion

that within that month we will choose the and recognize one to have a higher priority that's going to use the system in a more total fashion. So it means that the administration 0. becomes discretionary as opposed to attempting to comply with a set list of rules; is that fair? A. Well, I don't see a lot of discretion because you're only working with volume and term. Q. Well, the discretion flows from: "Union may realign the queue to give priority to those requests that optimize the use of Union's system." It's discretionary on Union. A. Given that we couldn't defend why we pick one over the other, I would think we would be able to substantiate our reasoning. Q. Could you then turn to page 9, please, Mr. Black? And again this may just be drafting, but under the heading "Type of Service" at the top of the page you have a reference in the third 161 [Elliott, Cowan, Black cr ex (Atkinson) Page: 3518] and fourth line to "criteria as outlined in Appendix B". Do you see that? A. Um-hmm. Q. Then Appendix B has the customer priority list for service. this the only -- is Schedule, Now, is sorry, Appendix B meant to apply only to this interruptible transportation service? Because it's the only time that Appendix B is referred to, although are references in other schedules to - let me there just look here - "priority of service listings as approved by the Ontario Energy Board in EBRO 412-III, attached", which is page 1. That is Appendix B. Α. Q. So that's Appendix B? ~ A. Yes. Q. So whenever we have a reference in  $\sim$ this schedule to "priority of service listing as approved by the Board", it's intended to refer to Appendix B? A. Yes. Is that it? And if we look Ο. at Appendix B we see that under the heading "Customer

Priority List for Service", that No. 1 is Union Gas requirements for in-franchise customers. Do you see 162 [Elliott, Cowan, Black cr ex (Atkinson) Page: 3519] that? A. Yes, I do. Q. Now, am I correct that this means that in the case of any of the queueing procedures that you have attempted to turn into a policy here that Gas' sales function or in-franchise function will Union always have the right to jump the queue, so to speak; they always have priority? A. That's correct. 163 [Elliott,Cowan Black cr ex (Atkinson) Page: 3520] the rest of the whereas Q. So, customers  $\sim$ have to plan in advance, the distribution side of Union's functions, while it will continue to plan, it will still have a right of first refusal? A. That is correct. O. All right. And then, if you look at Tab 1, and maybe you can start with page 5 or really pages 1 to 5, Mr. Black. Would you also put in front of you the response to Interrogatory No. 2 from Consumers Gas. It is Exhibit R6. This question related to the queue and asked, for example, Question 2(a): How many customers and associate and requested start dates are volumes currently in the queue for transportation capacity from the St. Clair pipeline system... Et cetera. And in looking at the answer to this interrogatory and the various customers in the queue, I have difficulty relating it to the answers at pages, or sorry, the statements made at pages 1 to 5 of Tab 1. Are they intended to be the same, Mr. Black, or am I just missing something here? A. They should be the same. The only difference is timing in that Exhibit N15, Tab 1 is as 164 [Elliott,Cowan Black cr ex (Atkinson) Page: 3521]

of November 30th, and the interrogatory was answered -well, it is November 1st or December 1st. They should be the same. Now, this one, the Section (a) deals strictly with the St. Clair to Dawn. O. Right? A. Whereas Exhibit N15 breaks it out by interruptible and firm, so you would have to look at a couple of the queues to cross-reference everything that is in (a). Q. Yes. For example, if you look at page 5 of Tab 1, under the heading, "St. Clair System," there are only two customers in the queue, as I see it, yet in the answer to Consumers' interrogatory, there's 10 or 12. A. Now that page 5 deals with long-term ~ firm. 0. Yes? A. There would be short-term firm on page 4 and then interruptible on page 1, so... O. All right. Well, we don't need to take the Board's time on this, Mr. Black. We will try to put them together again. If we have problems, we can speak to you--A. Yes. If there is --165 [Elliott, Cowan Black cr ex (Atkinson) Page: 3522] Q. --outside of the hearing? A. We will check it, too. All right. Then I would like to ask Ο. a few questions on this area of assignment, which is referred to in Exhibit N15 at page 3, where you have some text dealing with that. I take it, it is -- the rationale behind the need for assignment is, Union is willing to facilitate customers' desire to avoid unabsorbed demand charges by being able to assign some of their contracts from time to time? A. That is correct. 0. That is the theoretical rationale behind it, isn't it? A. Yes. O. All right. And the rules that Union has drafted on this are set out at Tab 3. There are four pages to that tab. Could you look at page 1,

please? First of all, Mr. Black, is this the ~ of rules, so to complete code speak? Is this the rule book for assignments? A. Yes, it is. Q. All right, thank you. Can you tell me why you have stipulated 166 [Elliott, Cowan Black cr ex (Atkinson) Page: 3523] in paragraph 2 that the assignment must be for a term of one year or less? Inasmuch as the assignor remains on the hook throughout, why does it matter to Union whether it is a year or two years or the balance of the assignor's contract? A. I think just for administration purposes. I cannot recall what the thinking was at the other than that. time, administration purpose; that Q. The even more difficult, though, would it might make it not, Mr. Black, inasmuch as you might have a customer who wants to assign the remaining term of his contract, which could be five years. It doesn't -- unless there is a good reason why Union would be opposed to that, this provision, under every year, you would have to go through the paper again. So, I take it that off the top, you cannot think of a strong reason? A. I cannot recall what we had in mind at that time. O. All right. Thank you. Do you know vis-a-vis TransCanada, have you looked at their rules on this? A. Not recently, no. 167 [Elliott, Cowan Black cr ex (Atkinson) Page: 3524] in paragraph 3, there is a five O. And days' advance acknowledgement requirement. And again, I take that to mean that if Consumers Gas wanted to assign one of its contracts to ICG, for example, there has to be five days' advance notice to Union and acceptance by Union? A. Yes.

~	Q. All right. Again, inasmuch as you
	have the contractual right to go against the assignor
	at any time, why would you need five days?
~	A. That is more from an operating point
	of view. It is strictly to make sure that all the
	parties involved in actually conducting the day-to-day
	business are informed that you have made an assignment
	and we will accept nominations from the assignee and so
	on.
~	Q. Am I correct in my understanding that
	TransCanada PipeLines does it on 24 hours' notice?
~	A. I don't know.
~	Q. This five-day requirement would
	reduce some of the flexibility, would it not, Mr.
	Black? Inasmuch as we are talking about trying to
	avoid unabsorbed demand charges, wouldn't a shorter
	rogpogt?
	[Elliott,Cowan Black cr ex (Atkinson) Page: 3525]
~	A. I think we have accepted that we will
	use reasonable efforts for short periods.
~	Q. So, I assume that faxing information
	would be one way of shortening the time period?
~	A. Yes.
~	Q. Thank you.
~	Then in paragraph 5, Union is to be given
	the right of the first refusal, and why is that?
~	A. It was just to provide for any
	unforeseen situation, where perhaps you didn't need the
	be given the first right to make use of that
	De given the first fight to make use of that.
~	Q. call you see Situations where, once
	contracting with Union inagmuch as they may want to
	encourage regiprocal kinds of assignments and Union
	always having the right of first refusal could impede
	that?
~	A. I cannot see how this would affect
	the assignor because they would be indifferent.
~	0. All right. And I take it that if
	Consumers assigned to Union and Union didn't
honou	r the
	contractual obligations, Consumers would stay on the
	-

hook? A. I cannot see that happening. 169 [Elliott, Cowan Black cr ex (Atkinson) Page: 3526] Thank you. Good answer. Ο. ~ Now, what is the problem with sub-assignments in paragraph 6 of these rules on page 1? Again, why does it matter if you have the contacting party primarily responsible? A. I think you just want to keep it as clean as possible. If someone wants to sub-assign, I it could come back to Consumers and they could think reassign. It gets a little complicated if you are assigning and reassigned again. it gets Q. Does this contemplate the ability to ~ assign portions of a contract? A. "Portions of..."? Q. Of the... You say in paragraph 1: Partial assignments may be accepted by Union for (a) firm transportation under C1 contracts. Could you assign 20 per cent of the volume or is Union contemplating only the assignment of the full contractual entitlements? full contractual entitlements. A. The O. All No portion? right. No. Α. Why, again, is that a problem? Ιf Q. Consumers is facing unabsorbed demand charqes that 170 [Elliott,Cowan Black cr ex (Atkinson) Page: 3527] relate only to a small portion of the volume would contract, why wouldn't you permit the assignment under of a portion of the contractual obligation? A. I think the administration again. You have got multiple users of the same service, if you like. It lends to using the service in a fashion not contemplated. Q. Well, you are really operating as common carrier, are you not, vis-a-vis this transportation function? A. Well, a contract carrier. I don't know if "common" --O. All right. I am sorry. A contract carrier?

A. Yes. Q. And what is the big deal in terms of administration in assigning a portion as opposed to all? Well, it is one more set of Α.  $\sim$ nominations, one more set of figures to keep track of in how the system is being used. Ο. Is that an insurmountable problem? in itself, but you do open up to A. Not the system being used under that single contract by two in a different fashion than may users have been 171 [Elliott, Cowan Black cr ex (Atkinson) Page: 3528] contemplated. Q. Could you turn to Consumers Interrogatory No. 1, please, Mr. Black? It is R6 -and I am sorry, this is Ms. Elliott. And, Ms. Elliott, this may reflect a lack of understanding on my part, but we asked you a number of questions here about the cost allocation study for the C1 customer class, and maybe if I can just very briefly try to understand this conceptually. prefiled evidence indicates, when As your you are doing your cost allocation study, you do do a separate study for the storage and transportation service. I think you indicate that on page 3 of Exhibit K1, or at least that is how I read it. MS. ELLIOTT: A. That is correct. Q. Is that fair? ~ Α. Yes. Q. Now, does that include the C1 service? A. Yes, it does. Q. I see. So, C1 is considered to be part of the storage and transportation service? Well, there are actually four Α. customers classes that make up the storage and transportation service. One of them is the M12 class--172 [Elliott, Cowan Black cr ex (Atkinson) Page: 3529] Q. Yes? A. --where we calculate the unit rates and allocate the costs. The other is M13, which is the Consumers Gas local production. The other is Rate M14,

which is our Bickford-Sombra transportation agreements, and the fourth is the C1 customer class, and we allocate the costs to all of those classes of customers to allocating costs to our in-franchise prior customers. Q. I am sorry then. Are the C1 customers treated in -- is the methodology similar vis-a-vis the C1 customers as it is for storage and transportation customers at large? The M12 storage and transportation Α. customers are allocated a share of the Dawn-Trafalgar system. Q. Yes? A. The C1 storage and transportation customers are allocated a share of the facilities that they are using. Those facilities are the Ojibway to Dawn line and the St. Clair to Dawn line. The costs and the rates calculated for those facilities are found in Exhibit L7. 173 [Elliott, Cowan Black cr ex (Atkinson) Page: 3530] Q. All right, thank you. That helps me. I appreciate that. Could you turn to Exhibit N13, page 13? These are the blue pages. I just have a brief question I think it is your first addendum. on that page. A. Yes. ~ Q. Now under C1 rates, 8(a) refers to the transportation commodity rate for Ojibway to Dawn? Do you see that on page 13? A. Yes, that's right. expert on the YCRR Now I am no Ο. ~ formula, but this is different than the YCRR formula, isn't it? A. That's correct. ~ Q. And why is it not possible to use a YCRR kind of formula for these costs? The famous yacht club formula? MR. BLACK: A. Yes, the YCRR was introduced originally to accommodate two variables on the Trafalgar system. One was because of dramatic the

nature in which the Trafalgar system can be used and the result and impact on fuel, that a formula was developed to determine after the fact how the fuel should be shared, because it was very difficult to forecast ahead of time how that would occur, given that 174 [Elliott, Cowan Black cr ex (Atkinson) Page: 3531] it is very weather dependent. Q. Right. A. Also, the price of gas at the time was changing dramatically year to year, and everyone felt more comfortable tracking that. In this case, I think the fuel is more easily forecast identified, and there isn't the same need. right, thank you. O. All Mr. Black, this you answered a morning few questions that Mr. Leslie asked you loss of about the critical unit, and I just wanted to ask you a few questions about that. The need for loss of critical unit is understandable. What I was attempting to explore was the ways in which you could obtain coverage for that loss, in the event that it should happen. And one of the questions that I asked related to whether or not there have been studies or analyses of rate design methods of attempting to deal with that. indicated this morning that in Now you to achieve the benefit that I was looking for, order that you would have to identify about 103 customers, and enter into contracts with them. Is that fair? A. That was the conclusion, yes. Q. And is that number, 103, is that 175 [Elliott,Cowan Black cr ex (Atkinson) Page: 3532] something that was calculated over the last few days by looking into this, or does that flow from any analysis undertaken at the time you were studying this problem, to come up with a remedy for it? in attempting A. That was derived just in the last few Just based on the judgment, we knew that you days. couldn't entertain that approach, because you would be involving a tremendous number of accounts.

~ Q. Are most of your really large

customers located at the west end of your system? We talked this morning -- we talked a few minutes ago CIL. I take it about it is a very large customer. Α. Yes. ~ it is located to the west of ~ Q. And is it not? Dawn, A. That is correct, yes. Q. So it couldn't provide any assistance in this question, could it? No, Α. no accounts west of Dawn would help. are most of your large customers, Q. And or are many of your large customers located west of Dawn? A. I would think most of the large ones are. 176 [Elliott, Cowan Black cr ex (Atkinson) Page: 3533] Q. Then finally, after the questions ~ yesterday about the compressor fuel option, I hesitate to even get into that area. But I just have one relatively minor area to cover. As I understand it, in Board approved the compressor fuel option EBRO 456, the that customers, and drop customers in particular, could provide their own compressor fuel and lost and unaccounted for volumes. Is that generally your understanding of the situation? A. That they could provide their own if they so wished, yes. it is clear that there O. And I think haven't been any takers of that so far. A. No. we have had two Q. Have you had two? A. -- indicate they wish to provide their own; TransCanada and Consumers. no one is actually doing it now, Q. But are they? A. TransCanada are nominating, and Union is refusing to accept the nomination. Q. That's the spirit. (laughter) I can see the case is going to work very well. A. The reason being that Union has said that for it to accept a customer nominating its own

[Elliott,Cowan Black cr ex (Atkinson) Page: 3534]

compressor fuel, that we require the displacement of our FSG service, transportation service. Q. Well, you are right on the issue that I wanted to ask you about, because without getting into a whole lot of detail on this, you have had some discussions with Consumers about Consumers providing own compressor fuel, right? their A. Yes, we have. O. And am I correct in stating, and I don't want to get into filing letters and things like but you have indicated to Consumers that, the same essentially that you have indicated to thing TransCanada, that is, you want a reduction in Union's FST commitment to TransCanada before you will enter into this service. A. That's correct. Ο. Now that was no part -- that added stipulation was no part of the Board's order approving the supply of compressor fuel by M12 customers, was it? It wasn't, and we wouldn't have Α. thought it needed to be, because we view the provision fuel as just another normal direct of compressor purchase arrangement, where we would normally displace. Q. Don't you have more operating flexibility than that, though? I mean you are worried 178 [Elliott, Cowan Black cr ex (Atkinson) Page: 3535] about unabsorbed demand charges, aren't you? Is that why --A. I guess it could lead to that. Union has already contracted for supplies, and we can't back out of those. So we would be left with some FST capacity we can't use, or we would been backing out SPA. Q. Can't you adjust a good deal of that by altering your storage drawdowns, for example? A. Well, it goes further than that. If you adjust your firm service, you are going to impact our design and operating plans. Q. So you considered it to be a given,

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did you? Is that it? A. Yes. ~ you don't feel that there are Ο. And mechanisms available to you to cover yourself against that potential problem? mechanisms that A. Anv we have would have other impacts negative to Union. O. And that's been looked at, has it? A. Yes, yes. Have you discussed this with your M12 Q. customers, in an attempt to come up with any resolution to this problem? Or is this something upon which Union 179 [Elliott, Cowan Black cr ex (Atkinson) Page: 3536] cannot provide any flexibility? have had some discussions with Α. We Consumers and TransCanada. There is no resolution at the moment. MR. ATKINSON: All right, thank you very much. Thank you, Mr. Chairman. THE PRESIDING MEMBER: Thank you, Mr. Atkinson. Mr. Thompson? MR. BLACK: Maybe I should add, if I go back to one of Mr. Atkinson's questions. He asked assigning portions of the service, and I think I about will have to go back to my evidence and say that we had contemplated assignment of part of the service. So I we would entertain assigning part of a contract think service. MR. ATKINSON: That's great, thank you. THE PRESIDING MEMBER: Now Mr. Thompson?  $\sim$ MR. THOMPSON: Mr. Peterson indicates he ~ has a short cross-examination. I think alphabetically he probably comes before me, Mr. Chairman. THE PRESIDING MEMBER: All right, Mr. Peterson, would you proceed now, please? MR. PETERSON: Thank you, Mr. Chairman. I just might note, Mr. Chairman, that my friend Mr. 180 [Elliott, Cowan Black Page: 3537] Atkinson told me he would be one hour. He was within a minute of that. If Union's forecasts were as about good as Mr. Atkinson's, these hearings would be a lot
MR. ATKINSON: The only problem with Mr. Chairman, is that I think I that, told you before the break 45 minutes. THE PRESIDING MEMBER: That's true. MR. ATKINSON: I modified it when I saw Mr. Peterson. THE PRESIDING MEMBER: Your first forecast was more accurate. MR. LESLIE: If he hadn't pointed that out, I would have. (laughter) CROSS-EXAMINATION BY MR. PETERSON: Black, can I refer you, first of 0. Mr. all, to your answer to TransCanada's interrogatory Exhibit R7, question 3? And these are the blue pages, I think are Phase II interrogatories. which MS. ELLIOTT: I believe that was my answer. Q. Are your pages blue as well? My name is at the bottom of Α. that page. Q. But these haven't been updated, the 181 [Elliott,Cowan Black cr ex (Peterson) Page: 3538] yellow sheets, yet? A. No, these haven't been updated to yellow. Q. Mr. Black, can you tell me first of the Union sales all, what are figures telling us on page 2 of 3, specifically columns B and C? A. Column B is the load that's traveling alonq the Dawn/Trafalgar system and being dropped off at the various points. Under the "particulars" column when it says Forest, 10.09, that indicates that 89 10(3)M(3) is being dropped off the Dawn/Trafalgar system at Forest. 0. On a design day? A. On a design day. So these are not actual figures, Ο. these are design figures? Α. These are design figures. Q. Then if we go to page 3 of 3, and we look at the storage and transmission contracts, am I correct that your equivalent figures in columns B and С

are contracted numbers as opposed to design numbers? A. They are forecasted to be contracted ~ on the design date, yes. Q. So they are either contracted or what you anticipate being contracted? 182 [Elliott, Cowan Black cr ex (Peterson) Page: 3539] A. That's correct.  $\sim$ 0. And the grand total of 115.914 is therefore a combination of contracted numbers for the storage and transmission customers, and design numbers for your Union customers; is that correct? Α. The design numbers for our Union customers, a portion of that load is also contracted for. All of our contract sales demands are in those numbers. The only numbers that are not, per se, contracted for is our general service numbers that is included. So the numbers are all based on the design-day forecast. Some are contracted, and the Union general service load is the only load that is not contracted for. Q. Okay, now we hear a lot in your facilities applications, and I think probably earlier in this hearing as well, about the lumpiness of facilities construction. Is your system actually designed to deliver that 115.914, or is there something more or less than that that the system actually is designed for? A. The system is designed to provide at that load. least Q. And given the lumpiness of construction, it may provide more than that? 183 [Elliott, Cowan Black cr ex (Peterson) Page: 3540] A. It may provide more than that, yes. Q. Now if I can then refer you to Exhibit N13, tab 2, schedules 1 and 2, and I had originally prepared these on blue sheets, but you have since updated them to the yellow. I hope we won't have any problem.

[Elliott,Cowan, Black cr ex (Peterson) Page: 3541] Let's start with Schedule 1 and your previous allocation procedure for the rate M12 and let me see if I can take you through the steps. which is reflected in line 1, is Step 1, to start off with the total cost of the Dawn/Trafalgar system - storage, transmission, and compression? Α. That's correct. Ο. You then in lines 2 and 3 put in allocation units for the whole Dawn/Trafalgar system? Α. That's correct. Then you use those allocation units Ο. to derive unit costs which again would be applicable to the whole of the Dawn/Trafalgar system? unit cost there is a monthly unit A. The cost. Q. Okay. And you then in lines 5 and 6 multiply that by the demand numbers or maybe you multiply or divide it; you can tell me which - anyway, 5 and 6 are the demand numbers for the M12 customers; first what they're already contracted for of all, throughout the test year and then line 6 the increment for the remaining five months or the last five months of the test year. That's right. We take the cost per Α. thousand cubic metres a day per month in line 4 and 185 [Elliott,Cowan, Black cr ex (Peterson) Page: 3542] multiply it by -- well, line 5, and then because that demand is contracted for 12 months of the year it's Line 6, that demand is only multiplied by 12. contracted for for five months out of the test year. That's multiplied by six, times the rate, times the demand. And that total will give you the total on line 7. Q. Okay. Let me go then to Schedule 2 and if I could just make one observation. In line 4 "Transmission Demand" the 16,360.1 number is the under the 18,673.9 number on the blue equivalent of sheets in Exhibit R7, Question 3, line 14. A. Yes.

0. So if those blue sheets had been ~ updated to yellow, that 18,673 number would be the 16,360 here on Tab 2, Schedule 2? A. Yes. am I correct that that number Q. And represents the forecasted demand at the end of the test year? That number Α. represents the demand on the design day. I think the design day is March 1st. Q. But it is the demand after adding in the contracts that you expect to come on after November 1st? 186 [Elliott,Cowan, Black cr ex (Peterson) Page: 3543] A. Yes, it is. Q. Okay. So what we are doing, again we start off with the total costs in line 1, we have the system allocation in lines 2 and 3, and then if total I'm not mistaken what you are doing in lines 4 and 5 is deriving the allocation units for the M12 customers? A. I wouldn't say we are deriving them, but we have identified the --Q. Identified them. And then what you are doing is using a fraction, the numerator of which is the M12 allocation units; the denominator is the system allocation units; you multiply that by the total costs and you come out in line 6 with a pool of total that are specifically M12 costs. costs A. That's correct. you then allocate those in lines Q. And 7 through -- 7 and 8 to the M12 customers, but you've 6? already got the pool of costs at line pool of costs is identified at A. The line 6, and basically what we are doing from lines 7 through 10 is to come the up with rate to bill those customers at for the demand that's forecast for the year. Q. Now, is it not correct, Ms. Elliott, if you are using this allocation metric, to use Ms. 187 [Elliott, Cowan, Black cr ex (Peterson) Page: 3544] Chown's term, that you are allocating costs to the M12 customers as if the peak contracted volumes at the end

of the year are the applicable volumes for the whole year?

~	A. No, we are allocating the costs to
	the M12 customers based on costs they have caused Union
	to incur. The system is designed based on the design
	day demand, and as such, costs are allocated to the
	various rate classes based on their contribution to the
	design day demand.
~	Q. But would you not agree with me that
	in fact they're not causing those costs to occur for 12
	months; they're only causing them to occur for five
	months, and that for the first seven months of the year
	that 16,360 number in fact would be much lower?
~	A. I wouldn't agree with you that
	they're not causing the costs to be incurred.
~	We are looking at an annual cost of
	service of the facilities that Union has in place, and
	the M12 customers by virtue of their increasing their
	contract demand has caused us to increase our annual
	cost of service, and it's the annual cost of service
	that's being allocated based on the design demand of
	the or the design of the facilities.
~	Q. Okay. I'm not certain whether I've
	[Elliott,Cowan, Black cr ex (Peterson) Page: 3545]
	got the right numbers for your new yellow
sheets	, but I
	thought that TransCanada's seven-month figure at
	Kirkwall was 2,040 and the five month figure was up
	around 5,000 10(3)m(3) a day? Those are just
ballpa	rk.
~	A. That sounds right.
~	Q. Now, for the first seven months when
	TransCanada has that 2,000 figure for their
	transmission demand, if they use over 2,000 they are
	going to pay you an overrun revenue, are they not?
~	A. If they use over their contracted
	demand they will pay us overrun, yes.
~	Q. So that in fact if they use the 5,000
	which you say is the demand day number for the first
	seven months of the year, they will pay you an overrun
	revenue?
~	A. Yes.
~	Q. So they will pay more than the amount
	that you have got allocated to them here, you pay

They will pay the amount indicated on Schedule 2 plus overrun revenues? A. That's right. Q. If Union Gas -- or, for instance, if ~ my client, GMi, is using less than their contracted level and Union Gas takes advantage of that to use more gas within its franchise, does it pay an overrun 189 [Elliott,Cowan, Black cr ex (Peterson) Page: 3546] revenue? A. Union's customers do pay for overrun, yes. Q. Does that money go to the M12 customers? No. Α. Q. It goes into system revenues? A. It goes into income. Q. Okay. And am I not correct that the usage of the system regardless of demand day is Union in fact a residual? After you subtract what the M12 customers are using, the remainder of the SNT system is yours to use as you will? A. Yes. Q. Okay. If M12 customers were reducing their contracts during the year rather than increasing am I correct that your Tab 2, Schedule 2 them, methodology would result in an over recovery of costs? A. If the M12 customers were reducing their demands, that should show up in their allocation units on design day. If they, for some reason, terminated contract demand levels at November, we will have no load to carry for them on design day so our system -- there would be no units, no -- to allocate costs to. 190 [Elliott, Cowan, Black cr ex (Peterson) Page: 3547] me put it this way. This perhaps O. Let is not as well posed as it might have been. If we compare Tab 2, Schedule 1 and Tab 2, Schedule 2, in the situation where you have the M12 customers reducing rather than increasing contract demands, am I not correct that the value of the revenue for the M12 customers will in fact be

less on Tab 2, Schedule 2, than it would be using the Tab 2, Schedule 1 methodology? I don't think it would be because Α. No, our total system allocation units would be less. Ι to the extent that the proportion -- no, it would quess be the same. 0. Tab 2, Schedule 1, and Tab 2, ~ Schedule 2 would be the same? If you want think to about that, Ms. Elliott... I'm sorry. You're right. On Tab 2, Α.  $\sim$ Schedule 2, we would be billing the customer for this initial period of the year, so we would be recovering from them for that period. costs Q. On an amount higher than you would be under the original methodology? Α. Yes. Q. Would you still therefore be espousing that methodology if the M12 customers were 191 [Elliott, Cowan, Black cr ex (Peterson) Page: 3548] rather than contracting decontracting up? methodology on Schedule 2 Α. The reflects the proportion of the system that's allocated to the M12 customer classes based on their design day demand. If that class of customers had reduced their demand through the year, yes, this methodology would still apply. the magic number in that case is Q. And the -- it's design day demand, notwithstanding that it may be only applicable for five months of the year, or for some number less than 12 months? A. That's right. Finally, Ms. Elliott, two questions 0. ~ of a general nature. Does Union Gas consider the M12 customers to be deep pockets who should be able to absorb any rate increases, regardless of the rationale? Α. No, sir, we don't. do you think that deep pockets is 0. And a valid method of rate-setting? A. No, sir. MR. PETERSON: Those are my questions, Mr. Chairman. Thank you. THE PRESIDING MEMBER: That's a good note

~	to finish on, Mr. Peterson. Now, Mr. Thompson? MR. THOMPSON: Thank you.	
	[Elliott,Cowan, Black Page: 3549]	192
	CROSS-EXAMINATION BY MR. THOMPSON:	
~	Q. I WIII Just start with a general	
	the blue shoets some to the total costs allocated in	
	in the vellow sheets	
~	We can find this probably in many places	
	but I'm looking at L1. Schedule 2. And at line 25 of	
	the blue and the vellow we see that total costs, blue.	
	were 1,276,000,000 ballpark; total costs, vellow,	
	1-million-200 sorry, 1,269,000,000, a reduction, I	
	make it, subject to check, of about \$6,414,000? Would	
	you take that subject to check?	
~	MS. ELLIOTT: A. I have checked it. I	
	agree.	
~	Q. Okay. And the changes in the	
	company's forecast that gave rise to the filing of the	
	yellow sheets, as I recall it, were in essence backing	
	out about \$43-million of rate base linked to	
	TransCanada's transportation service demand. Would you	
	agree with that? That was the impact, as I understood	
	it, of the bunch of yellow sheets that were filed when	
	Mr. Black and that gang was back here last week. Would	
	you take that subject to check?	
~	A. I WIII Lake that subject to check.	
	Q. And Incultively that suggests to me	193
	[Elliott,Cowan, Black cr ex (Thompson) Page: 3550]	
	that if you assume, which I think is reasonable to	
	assume, that \$43-million of rate base will attract a	
	pre-tax revenue requirement of about double that - 20	
	per cent, sorry, 8.6-million - I have some difficulty	
	in just understanding why the total costs of service	
	haven't gone down something more in the order of	
	8.6-million rather than \$6.4-million. Can you help me	
	with that?	
~	A. Well, your calculation of the return	
	on rate base assumes the rate base was in service for	
	the entire fiscal year, and that's not the case.	
~	Q. No, the 43	
~	A. The 43 was the average impact.	
~	Q. That's the average impact.	

~	A. I'm afraid I don't have the numbers.	
~	Q. I was sort of comforted in that	
	8-million number because if you look at the costs of	
	service that are allocated to M12, comparing the blue	
	to the yellow - it's at line 20 - you will see they	
	have dropped from 103-million rounded down	
to	about the	
of	94-and-a-half million, something between \$8- and \$9-million, which would intuitively is what one would expect when you back out that amount	
OL	attributable to that customer class.	
	[Elliott,Cowan Black cr ex (Thompson) Page: 3551]	194
~	Yet the overall decrease in the cost of	
	service is less than that, and we see that it is the residential class or the M2 class, where total costs	
	increase at line 1 from I think it is 369-million	
	rounded, to 372-million rounded. And this phenomenon	
	appears to be reflected in Exhibit N13, Tab 8, Schedule	
	1.	
~	Is there anyone on the panel that can	
	identify the causes for this phonemenon, where you back	
	out 43-million of transmission-related rate base and	
	the costs of service to the M2 class go up?	
~	A. In fact, I agree with your 8-million	
	number as far as that is the reduction in costs to the	
	M12 class.	
~	The additional impact we had on the M12	
_	class is to reduce the revenue and to reduce	
the de	emand	
	on design day.	
~	By reducing that also reduces the	
	proportion of costs that the MI2 class pick up, so that	
	reduction has to be picked up as an increase in our	
	In-Iranchise customers.	
~	In Exhibit N13, Tab 8, Schedule I, you	
ofo	see the net change in revenue deliciency	
ora	MITITON dellang 2.7 million of that wont to the M12g	
	2.7 million of that ingroaded all of the in franchige	
	2., million of that increased all of the in-fidicilise	195
	[Elliott,Cowan Black cr ex (Thompson) Page: 3552]	
	customers, and it has to do with the fact that the M12 customers are not picking up the same proportion of	

total costs in the yellow as they were in the blue. As a result, all of our in-franchise ~ customers are paying more because the M12 demand is not as high as it was originally forecast. Q. Is the flipside of that, that you weren't getting enough revenue from the M12s under the rate design as originally proffered? Actually, the flipside A. No. of that is, when we were planning to build the facilities and the demand was there, it was benefiting our in-franchise customers. this is, I guess, the product of 0. So, the integrated system philosophy? A. That is correct. Q. All right, thank you. And you are comfortable, are you, that using the methods that you are using, you are recovering enough? First of all, you are allocating enough costs to the M12, and secondly, you are recovering enough from them to cover costs? A. I am comfortable that I am allocating costs appropriately to the M12s and I am recovering all of the costs allocated to them. 196 [Elliott,Cowan Black cr ex (Thompson) Page: 3553] Q. Just with respect to this, again, the integrated system philosophy that we have heard an awful lot about, can you tell me how the costs of service related to the Lobo unit - which as I understand is the critical unit back-up - are recovered from the various customer classes? Could that be done by way of an undertaking; see who pays what of the costs of service related to that piece of equipment? A. I think Mr. Blue asked for that by way of undertaking just prior to lunch. Q. So, we will see that, will we? Now, the total deficiency in the yellow sheets is 26,935,000 as of today. A. As of January the 17th. Q. Okay, all right. And that includes, I believe - and correct me if I'm wrong - first of all,

the SNG premium costs expected for the test year? A. No, it doesn't. There was an Α. ~ addendum to the evidence of Mr. Gabel that indicated was an increase in the SNG premium costs of there \$800,000. That is not included in that number. Q. Everything but eight hundred is in there; is that right? I think there has been some Α. further evidence in this rate case that indicates a change in 197 [Elliott, Cowan Black cr ex (Thompson) Page: 3554] our rate of return. Q. Well, I realize it is a moving target, but I am just trying to nail it down as best I can. the so-called "final A. This is not number." This number reflects only the changes with respect to the facilities and the M12 demand. Well, what is to come? O. All right. There is 800,000 of SNG. A. Actually, the 800,000 of SNG is included in the rate proposals in front of you, but it way of a rate change that that is picked up. is by Q. It is in the rates, but not in --A. It is in the rate proposal, but not the 26-million deficiency. Q. It is not in the yellow sheets? A. That is correct. there some -- there aren't yellow O. Are rates, are there? A. No. There are not yellow rates. Q. Okay. So, it's in the blue rates?  $\sim$ A. There are not yellow rate schedules. There are yellow rates throughout the exhibits, but the actual rate schedules, we didn't do. THE PRESIDING MEMBER: Excuse me, Mr. 198 [Elliott,Cowan Black cr ex (Thompson) Page: 3555] Thompson. The CIL matter dealt with the same matter; is that correct? MS. ELLIOTT: The CIL matter is in 1990. THE PRESIDING MEMBER: And therefore, it is reflected not in the deficiency claim, but in the

rate adjustments? MS. ELLIOTT: It is reflected in neither. ~ reflected in the rebate It is proposal for 1990. It doesn't impact the '91 rates. THE PRESIDING MEMBER: So, it is a rebate  $\sim$ rather than a rate adjustment--MS. ELLIOTT: That is correct. THE PRESIDING MEMBER: In 1991. MS. ELLIOTT: That's right. THE PRESIDING MEMBER: Thank you. MR. THOMPSON: Q. I was coming to that. I didn't expect to get snagged on SNG. In any event, you were telling us, Ms. Elliott, what is coming. MS. ELLIOTT: A. It is my opinion, as I understand it, that all of the various numbers that have come out through Phase I as far as impacting the revenue deficiency will be summarized and schedules will be prepared. 199 [Elliott, Cowan Black cr ex (Thompson) Page: 3556] you qive us any idea when it is O. Can coming? Will we all be back in Ottawa, waiting for argument or...? MR. LESLIE: Well, Mr. Thompson, I may be with the able to expand on this after the break, but my understanding is that all the numbers are currently in evidence. It is a question of bringing them together. Obviously, the final rate schedules would be rate schedules that would be prepared to reflect whatever Order the Board makes and the bringing together isn't going to change the evidence; it is just summarizing... a question of MR. THOMPSON: Q. All right. Well, I was just trying to get a handle on the ballpark revenue deficiency that we are dealing with. It was in the of 27-million. Is it staying in or about that order or are we looking at a...? range I don't think we are MS. ELLIOTT: A. looking at significant changes. I don't know what the impact of the... MR. LESLIE: Mr. Thompson, I am advised that the revenue deficiency will be as stated in the

yellow sheets with the exception of a recalculation based on a change in the requested rate of return on common equity, which again, is a calculation. 200 [Elliott,Cowan Black cr ex (Thompson) Page: 3557] MR. THOMPSON: My curiosity piques. Up  $\sim$ or down? MR. LESLIE: Oh. I think that is down, sir. MR. THOMPSON: "Down"? (laughter) Mr. Atkinson says, "Keep up the good work." 0. All right. In the yellow deficiency, though, there is the CIL deficiency in the test year? MS. ELLIOTT: A. That is right. There is the CIL deficiency in the test year. O. And the yellow numbers include the impact of WACOG changes for the test year? A. They include the WAGOC of 106.469. as the CIL deficiency for insofar O. And ~ 1990 is concerned, that is a separate item that you are proposing to deal with in the context of the Kirkwall rebate and the PGVA rebate? A. That is correct. is that O. And going to be handled by way of -- assuming it is a net benefit to customer classes, first of all, is it reasonable to assume there will be a cheque going out or there will be another invoice going out with these three items rolled together? A. There will be a reduction from the 201 [Elliott,Cowan Black cr ex (Thompson) Page: 3558] bills. Q. So, it is going to be a credit? A. Credit. Q. A one-time credit--To the bill, yes. Α. Q. --to the bill. All right. And with respect to the the PGVA rebate, I just want to make sure I understand why that is only applicable to Ontario buy/sell volumes. I take it, it is because with TCPL toll reductions in 1989, the Ontario July of buy/sell price dropped, but because the TCPL toll dropped, the Western

	Canada buy/sell price remained the same?
~	A. That is correct.
~	Q. So that the spread as far as Western
	Canada buy/sell customers was concerned, remained the
	same under the old regime and the new regime?
~	A. That is correct.
~	Q. Whereas it went up for the Ontario?
	The spread increased for the Ontario buy/sell and that
	is what is being rebated?
~	A. Their margin actually decreased. The
	difference between the buy price and the sales price
	dropped.
~	Q. All right. So the effective delivery
	[Elliott,Cowan Black cr ex (Thompson) Page: 3559]
	cost went up?
~	A. Yes.
~	Q. Thank you.
~	Now, just on the buy/sell rate design
	option, I discussed briefly yesterday with Mr. Hockin
	what he was calling the, I guess, the province-wide
	buy/sell. That might be stretching it a little, but is
	there any reason why we couldn't have a cross-franchise
	delivery option for customers who have plants in
	Union's system and also in Consumers' system?
In	other
	words, they would bring gas down to Union with a
	direction to Union to deliver 50 to my plant
in	Union's
	franchise area and a direction to deliver 50 to the
	Consumers' system for redelivery to my plant in the
	Consumers' system?
~	Conceptually, is there any difficulty
	getting our heads around that?
~	A. I don't know.
~	Q. Well, that is more positive than Mr.
	Hockin. (laughter) All right. Well, the reason that
	this has been raised by
~	MR. LESLIE: That is because he does
	know, Mr. Thompson. (laughter)
~	MR. THOMPSON: There you go. Just when I
	had my foot in the door.
	[Elliott,Cowan Black cr ex (Thompson) Page: 3560]
~	Q. This kind of drop-off in various

franchise areas is available to industrial users who purchase from WGML. Are you aware of that? MS. ELLIOTT: A. I am sorry. I am not any of the buy/sell purchasing familiar with arrangements. Q. Okay. With respect to the CIL revenue deficiency, and this again relates to how it is proposed to be handled with respect to the 1990 year, of all, and before I get into it, insofar as that first deficiency is concerned in the test year, has any of it been allocated to the the deep pockets, again? sir, it A. No, has not. so that the allocation method you O. And used for 1990 and the one you are using in the test year is the same? A. Yes. Both methods are consistent. Q. All right. Are they the same? A. They are the same. Q. Now, this brings me back, then, to integrated system, no one gets a free ride, and all of that. told that the CIL bypass case by We were Union, as I recall it, and amongst others, that retaining CIL as a customer was a benefit to the entire 204 [Elliott, Cowan Black cr ex (Thompson) Page: 3561] system. Would you take that subject to check? Α. I will take that subject to check. And given that that integrated system Ο. philosophy that seems to be part of Union's thesis here, is it not the flipside of that philosophy that a special rate for a customer like CIL the burden of should be distributed on an integrated system basis? A. Again, subject to checking the comment made in the CIL hearing, I would think that if it was commented that CIL was a benefit to Union's customers, that we were to referring to Union's in-franchise customers and not our out-of-franchise customers. it was a dis-integrated 0. So, system that that principle was directed to? A. Well, to a certain extent, the M12

cost allocation methodologiessegregate the costs ofthe Dawn-Trafalgar system outof the -- into Union's integrated system, and they do not bear costs of our transmission facilities. other Well, I suppose we will see that when Q. we see how Lobo gets -- costs of service with respect to Lobo get allocated, but perhaps I could put it this If Union were directed to allocate a CIL way: 205 [Elliott,Cowan Black cr ex (Thompson) Page: 3562] deficiency to all customer classes, including M12s and the others that you have excluded, what allocation method would Union select? A. I don't know. I suppose we would ~ have to consider our alternatives, if so directed. Q. Would you consider the allocation method that is used for SNG premium, which as Т understand it is based on the costs of service excluding costs of gas; is that right? A. That is the method we have used for the SNG premium. Q. Would that be appropriate for this kind of a cost or would another method be more appropriate in your view? A. I guess it's an alternative methodology to allocating costs. The current methodology we have used takes the deficiency as capacity-related costs--Q. Right. A. --and allocates them on that basis. Q. Could I ask you to provide by way of open transcript, the impact that allocating the CIL deficiency in the test year on the basis that the SNG premium is allocated would have on the overs and unders? 206 [Elliott,Cowan Black cr ex (Thompson) Page: 3563] A. I can do that. And if, in the interim, you believe Ο. that there is another method that Union prefer to would allocate the CIL deficiency, if it were directed to recover it from all classes, you could add that to that schedule?

~	A. Okay.	
~	Q. Okay.	
~	THE PRESIDING MEMBER: That will be	
	Undertaking No. U.20.9.	
	UNDERTAKING NO. U.20.9:	
~	Union undertakes to provide	
~	the impact that allocating the CIL	
~	deficiency in the test year on the basis	
~	that the SNG premium is allocated would	
~	have on the overs and unders and advise	
~	of any other method by which they would	
~	prefer to allocate the CIL deficiency, if	
~	they were directed to recover it from all	
~	classes.	
~	THE PRESIDING MEMBER: Mr. Thompson, I	
	hate to interrupt you in full flight here, but we do	
	need to take a mid-afternoon break.	
~	Would this be convenient?	
~	MR. THOMPSON: Yes, sir.	
~	THE PRESIDING MEMBER: We will take a	
	15-minute break.	
~	MR. LESLIE: Sir, before we do	
~	THE PRESIDING MEMBER: Yes?	
	[Elliott,Cowan Black cr ex (Thompson) Page: 3564]	'
~	MR. LESLIE:and against the possibility that some may leave during the break, I have some interrogatory responses which we would like to file.	
~	These deal with capacity on the	
	Dawn-Trafalgar system and the question of loss of critical unit. They were matters Mr. James was asked to deal with and I thought people should have those as soon as possible. They are U.16.1, -16.2, -16.3 and -16.4.	
~	I can pass them up to the Board after the	
	break, sir, but I thought I should indicate that those	
	are available.	
~	THE PRESIDING MEMBER: Yes. That is an	
	appropriate thing to do. Thanks for bringing it up.	
~	We will take a 15-minute break.	
	Kecess at 3:40 p.m.	2
	[Elliott,Cowan Black cr ex (Thompson) Page: 3565]	,
	On resuming at 4:00 p.m.	

~	THE PRESIDING MEMBER: Please be seated.
~	MRS. BIELSKI: Go ahead and ask the
	questions.
	(Discussion off the record)
~	THE PRESIDING MEMBER: Mr. Thompson, I
	think we are all here now, if you would like to
	proceed.
~	MR. THOMPSON: Thank you, sir.
~	Q. Just a brief touch on rate levels,
	revenue-to-cost ratios. You were discussing that with
	Mr. Blue.
~	If you take a look at L1, Schedule 4,
	page 1 of 2, the yellow sheets here, the focus of my
	question is the M4 class, which is at nine three, and
	we see that after costs have been allocated and before
	deficiency has been recovered, this class is
	over-contributing by slightly more than \$1.9-million;
	am I correct? This is column F.
~	MS. ELLIOTT: A. That is correct.
~	Q. And then you are proposing to recover
	some element of the deficiency from that class to bring
	them up to an over-contribution of about \$2.5-million,
	which we see in column G.
~	A. That is correct.
	[Elliott,Cowan Black cr ex (Thompson) Page: 3566]
~	Q. And the overs and unders, as of EBRO
	456 and as of this case, if your proposals are adopted,
	we can find on L1, Schedule 3, the previous page?
~	A. That's right.
~	Q. Okay. And it appears that the
	company is married to this proposition that the M2
	class residential subsector must always
	under-contribute by about \$4-million, and my question
	is why? Why can't we eliminate that and not have this
	offsetting over-contribution from M4s, particularly?
~	A. It is not that we are married to the
	level as being \$4-million. Our rate design proposals
	this year and last have been designed to reflect the
	revenue-to-cost relationships that have been approved
	by the Board in the past, and we haven't proposed to
	make any changes, significant changes to
those	ratios.
~	Q. I appreciate that, but somewhere in
	the material, the history goes back even further than

these two cases and there is this commitment, it seems, to always having a level of under-contribution from the M2 residential class. And in the era of cost-based rates, it seems to me the direction should be to eliminate that. A. Well, the rates for our in-franchise sales service are cost-related. They are not 210 [Elliott,Cowan Black cr ex (Thompson) Page: 3567] cost-based. The rates for our transportation services, customers have the option to pick and choose where services are cost-based. Customers can minimize their with those rates. costs are only related to cost. Our sales rates Q. I appreciate that and I guess the point that I am suggesting that the company has not considered is making all rates cost-based, not just some rates cost-based. What is the reason why that approach has not been adopted? A. Again, I mentioned with Mr. Blue the other considerations in designing rates and what the market will bear and the stability of the rate levels, is what we aim for when which we maintain existing revenue-to-cost ratios. Q. In terms of a tilt within the rate, Ι don't think you need to turn this up, but you can if the company's answers to IGUA you wish. In Interrogatories R2, Question 2.2, we asked you to segregate the revenue-to-cost ratios for each of the rate components; the commodity charge, the demand charge, and the customer charge. We did it for, I think, or you did it for two fiscal years, 1990 and 1991, for the sales rates. Do you recall that? 211 [Elliott, Cowan Black cr ex (Thompson) Page: 3568] I recall that, yes. Α. the trend, again - I will just Q. And in generalities - the trend there appears to be speak to increase the recovery of fixed costs in the commodity charge as opposed to customer demand charges.

Is there such a trend, and if so, could

you explain why? A. Well, that is correct. And again, it ~ stems back to history and the relationship between the commodity and the demand rates in the past, and the fact that in the last few years, the rate that we have been decreasing as a result of decreases in costs of gas has been the commodity rate. And for marketing reasons, marketing people tell me that they don't want any increases in the demand charges, that they prefer to see the increases in the commodity rates. Q. Again, in a cost-based rate-making era, do you not agree the trend should be in the other direction? A. Based on the fact that our cost of service and it's our capacity costs that are increasing, if all of our rates were based on the cost of service and we had demand rates to recover our fixed costs, then those demand rates would be the costs that 212 [Elliott,Cowan Black cr ex (Thompson) Page: 3569] are increasing. if you look at the schedule I think provided in response to Question 2.3 of IGUA, the M4 class, which is a firm customer class, on page 3 of 5 of that response, the revenue-to-cost relationship for the M4 customer class indicates that I am recovering 98 per cent of my fixed costs through a demand rate and per cent of my commodity costs in the just over 100 commodity rate. Q. Sorry. R2, Question...? A. R2, Question 2.3, page 3 of 5. ~ Three of 5. 0. ~ A. On line 11, the firm industrial/commercial class. Under columns J, the revenue-to-cost ratio for the delivery service, I am looking at a number that tells me that it's 98 per cent. The commodity revenue-to-cost ratio was 106 per cent. O. All right. A. If you split the M5 and M7 into firm ~

and interruptible, you would see the same sort of relationship. Well, I O. All right. guess I have difficulty reconciling that with what we see in R2, 213 [Elliott,Cowan Black cr ex (Thompson) Page: 3570] Ouestion 2.2, page 3 of 3 under the revenue-to-cost ratio under the gas commodity recovering 8.9 times the cost. A. In R2, Question 2.2, we were specifically asked to exclude the cost of from that gas analysis. Q. All Well... right. A. Well, what you are --Q. Okay. So, that explains it. With cost of gas excluded, you get more of a reading on the recovery of fixed costs in these various components than you do with cost of gas included. A. Because the customer-related costs are not recovered. They are recovered in the commodity if you look at that. rate, Q. Okay. With respect to seasonal costs and rates, the question was asked yesterday of the about the Consumers' Gas Company rate design panel model for seasonal rates, where, as I recall it, they have in effect two sets of rates for two separate seasons. Was that considered by Union, and if so, with what result? A. I am not familiar with Consumers's 214 [Elliott,Cowan Black cr ex (Thompson) Page: 3571] rate design. I am not familiar enough to speak to it, anyway. We have performed a seasonal cost study and the results of the seasonal cost study indicated that the costs allocated to our customer classes in that study were much similar to the costs allocated to our customer classes in our traditional study, and that for our firm customers that have a winter demand, we commodity rate structure that reflects have a demand that cost.

the second data adapted	
wash't considered for adopti	lon in this case or any
future case by Union?	
~ A. No. No, it	wasn't.
~ Q. With respect to bundled T	rates and
the bundled T option, is	s it safe to assume that Union
will permit a customer currer	htly on a buy/sell or on a
i-service rate to transfer to	bundled I immediately,
contract?	id of cheft i of bdy/self
	215
[Elliott,Cowan Black cr	c ex (Thompson) Page: 3572]
~ A. I am not sure on that.	
~ Q. Would you consider it and	d respond by
way of a transcript?	
~ A. I'LL ASK MI. HOCKIII. ~ THE DEESIDING MEMBER: Undert	aking
U. 20. 10.	Carting
UNDERTAKING NO. U.20.10:	To provide whether Union
~ will permit a customer currer	ntly on a
~ buy/sell or on a T-service ra	ate to
~ transfer to bundled T immedia	ately,
~ without waiting	until the end of their T
~ or buy/sell contract.	
~ MR. THOMPSON: Q. Now with r	respect to
the bundled T rate, as I up	nderstand it, in terms of its
elements, the delivery char derived by backing out the	ge of the sales rate was
addetermined in I think	jas cost for each rate class
~ A That is correct	it is his, iab 5, schedule i:
~ 0. And so in terms of	the delivery
service component of the bur	ndled T rate, the avoided
cost methodology is what is	reduced?
~ A. Yes. We have backed out	the cost to
our delivery service rate th	nat the customer would incur
on his own.	
~ Q. Or you backed out the cos	st he avoids
by bringing down his own gas	5.
~ A. He doesn't avoid those co	osts, because
[Elliott,Cowan Black cr	c ex (Thompson) Page: 3573]
he would have to buy the gas h	imself. and he would have
to carry the gas himself. So	he will incur those costs
on his own behalf. We will not	incur those costs for
him, so we back them out, ye	es.

Q. Well, what you are charging him are your costs under the sales rate, less the cost Union ~ I guess, is the has a voided, better word? A. Yes. Q. That historically was called avoided cost methodology for determining the bundled T service I recall it, the Board, And as rate. in some earlier decision, directed companies in deriving bundled T to derive them on a bottoms-up approach rather rates than a tops-down approach. First of all, do you recall that direction? A. I don't, sir. ~ Q. In any event, the delivery service charges in this case have not been derived on a bottoms-up approach. No. Α. Q. Now in looking at the rate schedules, it doesn't appear that the M-2 class has the bundled T option, am I correct? The M-2 class has the bundled T Α. It is just filed as a T2 rate schedule. option. 217 [Elliott,Cowan Black cr ex (Thompson) Page: 3574] if you separated M2, as you have Q. So separated M4 and M7 family rates, what you would end up in the delivery services category would be the equivalent of T2, is that what you are saying? A. That is correct. Q. Does that suggest that M2 should be reconfigured in that fashion, and T2 eliminated? Or is that just cosmetic? Α. No, sir, we actually considered that, but our position was that rather than impacting 500,000 gas bills by separating the delivery charge from the gas supply charge - which in our opinion has no benefit, in fact adds confusion to the gas bills - that a general service customer wishing to be a bundled T service customer would do so under a T2 rate schedule, and those customers wishing to remain Union sales customers would remain on an M2 rate schedule, and the bill would remain unchanged from the form it is today. Q. If you could just look at M7 as an illustration, I just wanted to get on the record the derivation of the charges for bundled

T service. And this is under L4, M7F, page 1 of 2. And we see there in item 1, sub A, that there is a monthly demand charge of 18.6846 cents per cubic metre, and then a monthly delivery commodity charge for all volumes in the month 218 [Elliott, Cowan Black cr ex (Thompson) Page: 3575] of .2871 cents per cubic metre. And then we have the gas supply commodity charge in item C; am I correct? A. That's correct. ~ for bundled T service, the And 0. customer would pay the A and B charges; am I correct? Α. That's correct. O. And goes according to clause then he F on the next rate R1; is that right? page to The rate schedule R1 applies to the Α. receipt of gas by Union. Those are the charges on the receipt side of the contract. Q. Right, but every bundled T service gets impacted with rate R1, correct? necessarily individually. Α. Not Those bundled T customers that have grouped together to buy gas, there would be one receipt contract and multiple sales or delivery contracts. But whether it is as a O. All right. single customer or a member of a group, anybody who's bundled T service, there will be an R1 contract using associated with that service? A. That's correct. since the charges that they are Ο. And paying under the M7F rate for delivery services are in effect everything but the gas supply cost, could you 219 [Elliott,Cowan Black cr ex (Thompson) Page: 3576] just take us through rate R1, explaining the rationale for and the derivation of the additional charges that the bundled T service customer must pay. rate R1 And is found at -- I have taken it out of the testimony, but it was--There is actually two of them. Α. is one in -- should be two. I take that back. There N13, tab 6. Q. Tab 6, okay. So we have got the M7F bundled T paying the monthly demand charge in 1 sub A of M7F, and the monthly delivery commodity charge in 1

sub B, and then there are these additional charges on R1, am I correct? That is correct. Α. first one is sub B, a credit. 0. The A. Well, actually the first one is sub A. There is no amount there. Q. Yes. Mr. Hockins said that would be if it was a Western Canadian bundled T. A. That's correct. Q. And sub B, the credit is derived and relates to what, if you could just -delivery commitment credit is for The Α. deliveries to Union, and it is the all obligated difference between our WACOG, weighted average cost of 220 [Elliott,Cowan Black cr ex (Thompson) Page: 3577] gas, and our obligated to-buy price under the buy/sell contract. O. The FST downstream differential is derived from TransCanada's tariff, I believe --A. That's correct. Q. -- Mr. Hockin indicated. And then other items, D, these E, F? they do not apply. The A. And firm back-stop gas can be contracted for. And if that was contracted for, the rate would be a demand rate and a commodity rate. Q. So that these charges then in D, E and F are applicable in a situation where the direct purchaser's gas doesn't show up; is that right? us to back stop Α. If he wants him, yes. Q. And they are comparable to what buy/sell relationship, I think. prevails in a A. there are also the T1 supplemental charges. We will supplement a T1 contract carriage customer at the same rate. Q. So is that the source of those numbers, the T1? A. That's right. Ο. So it is the T1 rate that tracks through to R1 and also to buy/sell relationships? 221 [Elliott,Cowan Black cr ex (Thompson) Page: 3578] A. That is right.

	Q. I'd just lił	te now to look at some	
	changes in spec	cific rates. First of all the M4, and to	
	tell you where I	am coming from Well, let me come	
	at it th	nis way.	
~	Originally you h	nad not proposed the	
	separation of	these rate schedules between delivery and	
		rrect?	
~	$\Delta$ On the white	pages that's correct	
~	$\cap$ And $\frac{1}{2}$	in the vellow cheets T think it	
	is where you show th	e rate ingreases for each dustomer	
	alaga and T th	vink that a 11 Schedule E Tam looking	
	at page 1 of 6 when	we goo the terms of the govering	
	the deficiency	from the warious alogges	
	Vie deliciency	from the various classes.	
~	You show for M4	at lines 16 and 17 an	
	increase in the	IIrst Commodity DLOCK and	
the	second		
	commodity block	t of a certain level, and the cents per	
	cubic met	re producing the 599,000 that you	
propos	sed to		
	recover from that	class. Then that commodity charge is	
	somehow transpo	osed from the existing rates, which are	
	at L3, unseparated	d between gas supply and delivery, to	
	the proposed rate	s found at L4, which are separated as	
	between commodity	charge for gas supply and a commodity	
	charge for deliverv	$\Lambda$ Nnd in 25 words or less gap you	
		. And in 25 words or ress, can you	
	tell us how you	a got there?	2
	tell us how you	222 20 got there? 20 cowan Black cr ex (Thompson) Page: 3579	2
	tell us how you [Elliott,(	222 Cowan Black cr ex (Thompson) Page: 3579]	2
~	tell us how you [Elliott,C A. Can	222 20wan Black cr ex (Thompson) Page: 3579]	2
~	tell us how you [Elliott,0 A. Can y schedule 1?	222 20wan Black cr ex (Thompson) Page: 3579]	.2
~	tell us how you [Elliott,0 A. Can schedule 1? O. Yes.	222 20wan Black cr ex (Thompson) Page: 3579]	!2
~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And	222 20wan Black cr ex (Thompson) Page: 3579] 200 turn up to Exhibit L2, 200 that shows the existing cates as	2
~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t	222 Cowan Black cr ex (Thompson) Page: 3579] You turn up to Exhibit L2, Chat shows the existing rates as	:2
~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And approved. O Right	222 Cowan Black cr ex (Thompson) Page: 3579] You turn up to Exhibit L2, Chat shows the existing rates as	!2
~ ~ ~ ~ ~ ~ ~	tell us how you [Elliott,( A. Can schedule 1? Q. Yes. A. And approved. Q. Right. A Plus the ch	222 20wan Black cr ex (Thompson) Page: 3579] 200 turn up to Exhibit L2, 210 that shows the existing rates as	2
~ ~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t approved. Q. Right. A. Plus the ch	222 2000 Second	22
~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t approved. Q. Right. A. Plus the ch revenue deficie	222 223 224 225 225 226 227 227 227 227 227 227 227	22
~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t approved. Q. Right. A. Plus the ch revenue deficie Q. Oh,	222 2000 Second	22
~ ~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t approved. Q. Right. A. Plus the ch revenue deficie Q. Oh, A of the .0	222 2000 Second	22
~ ~ ~ ~ ~ ~	tell us how you [Elliott,0 A. Can schedule 1? Q. Yes. A. And t approved. Q. Right. A. Plus the ch revenue deficie Q. Oh, A of the .0 at yellow it's	222 200 200 200 200 200 200 200 200 200 200	22
~ ~ ~ ~ ~ ~	<pre>tell us how you    [Elliott,() A. Can    schedule 1?    Q. Yes.    A. And    t    approved.    Q. Right.    A. Plus the ch    revenue deficite    Q. Oh,    A of the .()    at yellow it's    Account 5, to</pre>	221 222 223 224 224 225 200 An Black cr ex (Thompson) Page: 3579] 225 225 200 turn up to Exhibit L2, 226 227 227 227 227 228 200 turn up to Exhibit L2, 228 200 turn up to Exhibit L2, 201 the existing rates as 228 200 turn up to Exhibit L2, 201 the existing rates as 229 221 201 turn up to Exhibit L2, 201 turn up to Exhibit L2, 202 turn up to Exhibit L2, 203 turn up	22
~ ~ ~ ~ ~ ~	<pre>tell us how you    [Elliott,() A. Can    schedule 1?    Q. Yes.    A. And    t    approved.    Q. Right.    A. Plus the ch    revenue deficie    Q. Oh,    A of the .()    at yellow it's    Account 5, to       test year in th </pre>	222 20wan Black cr ex (Thompson) Page: 3579] 20wan up to Exhibit L2, 20wan black cr ex (Thompson) Page: 3579] 222 20wan up to Exhibit L2, 24 25 26 27 27 27 27 27 27 27 27 27 27	22
~ ~ ~ ~ ~ ~ ~ ~	<pre>tell us how you     [Elliott,() A. Can     schedule 1?     Q. Yes. A. And     t     approved.     Q. Right. A. Plus the ch     revenue deficie     Q. Oh,     S. A of the .()     at yellow it's Account 5, to     test year in th     You can     th </pre>	222 200 an Black cr ex (Thompson) Page: 3579] 200 an Black cr ex (Thompson) Page: 3579] 200 turn up to Exhibit L2, 201 that shows the existing rates as 202 recover the 203 the ency in column B 203 recover the 203 recover the 204 recover the 204 recover the 204 recover the 204 recover the 204 recover the 204 recover the 205 rec	22
~ ~ ~ ~ ~ ~ ~ ~	<pre>tell us how you     [Elliott,() A. Can     schedule 1?     Q. Yes. A. And     t     approved.     Q. Right. A. Plus the ch     revenue deficite     Q. Oh,     S.     A of the .()     at yellow it's Account 5, to     test year in th     You can     th     schedule 1 to     </pre>	222 2000 200 200 200 200 200 200 200 200 20	22
~ ~ ~ ~ ~ ~ ~ ~	<pre>tell us how you     [Elliott,() A. Can     schedule 1?     Q. Yes. A. And     t     approved.     Q. Right. A. Plus the ch     revenue deficie     Q. Oh,     S.     A of the .()     at yellow it's Account 5, to     test year in th     You can     th     schedule 1 to     is.</pre>	222 26 a got there? 27 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	22

Subtract that from the 11.5273 here Α. ~ on Exhibit L2, schedule 1. O. Right. A. That would give you your delivery charge. Q. So the quantity cost of gas is also in the rate schedule in sub C, correct? shown Α. That's correct. 223 [Elliott, Cowan Black cr ex (Thompson) Page: 3580] Q. So it is just subtracting that from the 11.5273 that you show in lines 11 and 12 of L2, Schedule 1? Yes. Α. Is that how I get the delivery Ο. commodity charge? It is the numbers in sub B that I was puzzled as to where they came from on the rate schedule. Would it be convenient to suggest that in an open transcript you just show us the series of numbers from which those were derived? A. I can do that. THE PRESIDING MEMBER: That will be U.20.11. ---UNDERTAKING NO. U.20.11: Union undertakes to show the series of numbers from which the numbers in Sub B were derived MR. THOMPSON: O. M6A, you made some ~ changes in that this morning in paragraph F and C, sub 2. I wonder if you could just read in its entirety how is supposed to now read that sentence as amended? A. "A minimum monthly bill will apply equal to a daily delivery charge of  $\sim$ \$33.35, and a minimum daily gas supply ~ charge of \$45.88, if applicable, times the number of days in which gas is  $\sim$ taken."b  $\sim$ 224 [Elliott,Cowan Black cr ex (Thompson) Page: 3581] 0. Thank you. M7, please, M7F. You were having some discussion with Mr. Blue this morning about minimum bills, and this rate schedule prescribes that the minimum bill that's in item 2 will be as specified in the contract between the parties. So it is not a great schedule defined minimum bill. In the

Board's Reasons last year, I think it is at page 284, the Board said, let me turn this up: "The Board is of the opinion that the bills will recover no more than minimum ~ the costs incurred by Union, and therefore accepts Union's minimum bill proposals as set out in its proposed rate schedules as updated and revised."e contractual minimum bill Are the provisions standard, and do they recover no more than the cost incurred by you? would have had to have asked Mr. A. You Adie that. Q. Well, could that be answered by way of open transcript? We have got so many things passed thought that was one of on, I them. THE PRESIDING MEMBER: U.20.12. ---Undertaking NO. U.20.12: To provide whether the contractual minimum bill provisions are standard, and whether they recover no 225 [Elliott, Cowan Black cr ex (Thompson) Page: 3582] more than the costs incurred by Union. MR. THOMPSON: Q. Another item in the rate design, M7 item 3, was this business of providing a discount in a buildup period. I suppose you are me I should have asked Mr. to tell qoinq Adie this, too. My question is: Has Union provided or exercised its power under that section of the rate? what circumstances? Can anyone And if so, in on the panel help me with that? MR. COWAN: A. I believe I have seen one I can't recall what it was for now, but I application. do know there has been at least one that I have seen in the last six months, where there was a buildup period allowed for. Normally it is for the commissioning of new equipment in an industrial operation, to allow them time to bring the equipment on stream, get the bugs out, et cetera. I believe that was the application I saw. Q. And do you have any idea of the basis upon which the discount was calculated? Is it

basically a value of service exercise? A. I believe it is the conversion of the demand rate, and it expresses the commodity rate. 226 [Elliott,Cowan Black cr ex (Thompson) Page: 3583] MS. ELLIOTT: A. I think that's true. a 75 per cent load factor. It is So it is basically a fixed charge, a Ο. fixed discount? Α. Yes. 0. And the deficiency that is produced by that discount, is that absorbed by the shareholders or the customers? Don't tell me, I can guess. The customers, right? A. Depends whether it is forecasted or not. Q. I see. Well, in the test year, can you tell me how it is handled? I am not sure whether we have Α. anything forecasted in the test year at this level. Q. For the buildup period? For the buildup period. Α. M7I rate, if you wouldn't mind Ο. The just for a moment, the existing rate provided for a of, I think it was 100 under ML3. I like to range express it, it is 12.234 cents per cubic metre. That's the upper limit, an annual average of that. And a of 10.5994 cents per cubic metre. lower And then that has been changed, and 227 [Elliott,Cowan Black cr ex (Thompson) Page: 3584] presumably the floor and the ceiling have moved up with the amount of the increase proposed to be passed on in that class? A. Actually the amount of the floor has been moved up to recover more than -in our approved rates, the floor of this rate recovers our cost of gas plus SNG. Q. Right. Α. In the proposed rates, the floor of the rate will recover our cost of gas, plus our inventory carrying costs on gas and underground

	storage, if the customer is a sales rate or sales customer, plus our compressor fuel, plus SNG.	228
	[Elliott,Cowan, Black cr ex (Thompson) Page: 3585]	228
~	Q. Right. I did my little IGUA desktop computer analysis and thought that the floored arrangement bumped up by about \$3 per 10(3)m(3), and I wonder if that had any impact on customers served in	
	the range.	
~	A. No, it didn't.	
~	Q. All right. So they're not being	
	moved up because the floor's being raised?	
~	A. No.	
~	Q. And the width of that range in the	
	proposed appears to be between $\{1.58 \text{ per } 10(3)\text{ m}(3)\}$ and	
	\$17.92 per 10(3)m(3). It's all in the delivery charge?	
~	A. Inat's the minimum and the maximum of	
	Che fange, yes.	
	vesterday I thought from Mr Hockin to the effect	
	that the ceiling of the range is derived from a 35 per	
	cent load factor calculation	
~	A. That's not true for the M7 rates.	
	That is true for the T1 rates.	
~	Q. Okay. Is there any rationale for the	
	width of the M7I range other than history?	
~	A. Not that I know of.	
~	Q. Just turning to T1, if I might for a	
	moment, again we have page at page	
3	of 7 the ranges	
	[Elliott,Cowan, Black cr ex (Thompson) Page: 3586]	229
~	for the interruptible transportation service that you were just mentioning? And what is the minimum? Is that 84 or 64 or? 4 cents? A. What page are you looking at?	
~	Q. I'm sorry, T1, page 3, interruptible	
	transportation, the delivery range.	
~	A. The minimum is .162 cents per cubic	
	metre. The maximum is 1.8285 cents per cubic metre.	
~	Q. I guess I've got blue sheets. What	
	colour are yours?	
~	A. Blue.	
~	Q. Okay.	
~	A. Are you	

Q. Mine say -- I don't know what the ~ number -- I can't read it. Anyway, you can tell first me what the numbers are. Sorry? are looking at the T1 rate A. You schedule, effective April 1, 1990? Q. Sorry, I have got wrong one. I've got wrong one, sorry. I have it somewhere. THE PRESIDING MEMBER: It was after M10, I think. MR. THOMPSON: I believe I must have taken it out and --Q. That range, does that reconcile with 230 [Elliott,Cowan, Black cr ex (Thompson) Page: 3587] the interruptible service range? The reason I ask is that somebody now can take bundled T-service at an interruptible rate, M7. MS. ELLIOTT: A. Yes, a customer can take Bundled T-service under M7I. one of the questions that my O. And clients will no doubt ask is: Well, how does that compare to interruptible service on T1? Maybe what I would ask you to do to compare these two delivery service options now is to take an M7F customer of the type that Mr. Hockin addressed in his testimony, assume two load factor - 75 per cent and let's say 90 per cent - and cases assume that they each buy their gas in the west at the same price as he has done, and then show what the net landed costs would be for that -- those customers under the Bundled T, the western buy/sell, and the T1 scenario. want this -- an M7F customer? A. You Q. Yes. And could you also do it for an interruptible M7I and the interruptible Tcustomer? A. Assuming at the midpoint of the range? Q. Yes. THE PRESIDING MEMBER: That will be given 231 [Elliott,Cowan, Black cr ex (Thompson) Page: 3588] Undertaking No. U.20.13. ---UNDERTAKING NO. U.20.13: Union to compare delivery options for interruptible customers.

MR. THOMPSON: Q. Another item with that, this relates to tilt. respect to T1 Tl rate In the existing schedule as of -approved - they before the October rates were are found in the white sheets I believe under L3, correct? - and then the October rates are found under the white -under L3 in the blue, and then the proposed rates are under L4, blue. found And if you will take this subject to check, moving from Tl rates prior to October to the October T1 rates one concludes that the overall fixed costs 60 per cent and are up by about the total costs, fixed and commodity, were up by an average of 25 per cent. What I'd like you to do, if you could, is to take a typical T1 customer, say at a 85 per cent load factor, and show what that customer would pay the rates in existence before October, the under October rates, and under the current rates -current proposed rates. Okay? MS. ELLIOTT: A. Okay. O. And just to illustrate one point of 232 [Elliott, Cowan, Black cr ex (Thompson) Page: 3589] concern, in the existing -- the T1 rate schedule that existed before the October rates were approved, the customer charges - and this appears on "Other Service and Charges" section of the rate schedule - were to range from \$50 to \$5,000, and in the last case the company proposed to increase that to \$7,000, and it's referred to in the Board's finding with respect to and it's referred to at page 281 of the Reasons that. for Decision. The rates approved in October had a customer charge up to \$9,400, \$2,400 more than what was debated in the rate case. have to remember that the rates A. You in October reflected an annual cost of service recovered over six months. Q. So that's the explanation for that bump-up? A. If you are -- the rates under L3 --

the existing rate schedules were from April to September. The blue rate schedules were from October to March. So the sum of the two will give you your annual cost, compared to --Okay. Well, that may be the simple Q. And then the proposed rates, it's back explanation. down to I think 7,200 or something is the upper limit 233 [Elliott, Cowan, Black cr ex (Thompson) Page: 3590] for the customer charge. And is that cost-derived? A. Yes, it is. THE PRESIDING MEMBER: That last undertaking number will be U.20.14. ---UNDERTAKING NO. U.20.14: Union to use a typical T1 customer, at a 85 per cent load factor, to show what that customer would pay under the rates in existence before October, the October rates, and under the current proposed rates. MR. THOMPSON: Q. Two brief areas to conclude with. Queueing. Could you tell me, Mr. Black, how many queues are there? Is there a queue for storage, a queue for transportation, a queue for transportation and storage? MR. BLACK: A. There is a queue for each queue depending on whether it's component, and then a long-term, short-term. It's all in Exhibit N15. Q. Okay. And do I understand that whether it's long-term, short-term, or medium term that the company's proposal is that it will allocate the space on a value-of-service basis? A. You mean --In other words, the highest bidder Q. will get it? A. Yes, we are went through the process 234 [Elliott,Cowan, Black cr ex (Thompson) Page: 3591] earlier. Q. Could you just explain to me as a matter of principle, why these services -- which are monopoly services provided by Union, are they not: the storage service and transportation service?

A. Well, they are alternatives to the --to Union's storage. It's not something that is the ~ only service a customer can use. They have choices. Q. Well, do you regard your storage service as regulated by this Board or unregulated? A. Regulated. Q. All right. And if it is regulated are you then seeking authority from the Board to price that service really on a range with no ceiling? A. No, we have a range rate that has a ceiling. Q. Even for this queue allocation? A. Yes, it's all subject to the approved rates. O. All So there is a regulated right. as to what you can offer this space for? limit A. Definitely. Yes. Q. And you are proposing that that continue? A. Yes. 235 [Elliott, Cowan, Black cr ex (Thompson) Page: 3592] Q. Now, how do we determine where the ceiling on it is? A. That has been based on the analysis that Ms. Elliott proposed, or it's based on the 80 per cent load factor for transportation and --MS. ELLIOTT: A. The rate schedule reflecting all of those ranges is the C1 rate schedule. Q. All right. Now, are there industrial customers that are in the queue? MR. BLACK: A. Mr. Adie looks after that ~ queue and we work with him to make sure they work together. 0. So there are? A. I don't know if there are or not. the customers that you listed in Q. But your interrogatories and in your discussions with Mr. Blue were not the industrial customers? A. No, they were out-of-franchise.  $\sim$ Q. Finally with respect to the rate design and loss of critical unit problems, there was reference made yesterday to TransCanada's limited interruptible firm service proposal and some questions

were asked about Union's comments on that. Can you help us there, Mr. Black? know, they are -- they A. As far as I 236 [Elliott, Cowan, Black cr ex (Thompson) Page: 3593] have worked with the industry to come up with an LIF proposal. I have not seen that, but I understand they are going to make a rate available to those who would be able to use it. They are looking at other alternatives such as storage and I have talked to consultants that they have had working on that to see if there wasn't a storage proposal that could be put together. I don't know where that is right at the moment, but I know they are working on that alternative, too. Q. If that service is taken up by any significant amount, does that impact on Union's need for loss of critical unit protection? A. I don't believe so, no. That is to deal with their own system's loss of critical unit. Q. Thank you very much, Mr. Chairman. Those are my questions. THE PRESIDING MEMBER: Thank you, Mr. Thompson. Mr. Ryder? MR. RYDER: Yes. Thank you, Mr. Chairman. CROSS-EXAMINATION BY MR. RYDER: Q. Ms. Elliott, would I be causing too much trouble if I ask for a yellow-paged version of 237 [Elliott, Cowan, Black cr ex (Ryder) Page: 3594] Exhibit K7, Schedule 4, and K8, Schedule 2? MS. ELLIOTT: A. I guess if you wanted them before the week's out, yes. Q. Well, I can wait until the week's Can you do that for me? over. wanted K7, Schedule 4? Α. You O. Yes. A. Which is the revenue-to-cost ratios before and after recovery? Q. Yes. And K8, Schedule 2. A. K8, Schedule 2?

THE PRESIDING MEMBER: That can be done, Ms. Elliott? MS. ELLIOTT: It can be done. It will be next week. THE PRESIDING MEMBER: In any event, we will give it Undertaking No. U.20.15. ---UNDERTAKING NO. U.20.15: Union to provide a yellow-paged version of Exhibit K7, Schedule 4, and K8, Schedule 2. MR. RYDER: Q. And is the blue version of K7, Schedule 4, the best document to compare the revenues to allocated costs over a period of time? MS. ELLIOTT: A. Yes, it is. Q. And can you agree with me that it doesn't show any trend towards cost-based rates? At 238 [Elliott,Cowan, Black cr ex (Ryder) Page: 3595] best it shows that there is no movement one way or another? A. Most of those numbers are fairly close to each other year after year, yes. Q. So there is no movement towards costbased rates? A. No. O. And is it also fair for me to conclude that a movement towards cost-based rates is not one of Union's objectives? at this time it A. Not isn't. it ever one of your objectives in Q. Was the Rate Design Department? my objectives. A. It was never one of Q. Was it ever an objective of the Rate Design Department? that I am aware A. Not of. O. Can I ask you to -are you familiar with some of the earlier decisions of the Board? A. Vaguely. I am referring to -- I think I have 0. the number right when I say it was EBRO 267, Phase II, a decision of the Board some time ago, where they made a directive that Union -- that the Board expects Union to move towards cost-based rates. 239 [Elliott,Cowan, Black cr ex (Ryder) Page: 3596] And I was wondering if you could tell me
when you abandoned that philosophy, and why? THE PRESIDING MEMBER: Excuse me, Mr. Ryder, can you remember which decade that was? MR. RYDER: It was in the one just completed. THE PRESIDING MEMBER: Thank you. You can't be more specific? MR. RYDER: Or perhaps in the one just before that. But it certainly was one since I have been here. MR. SADVARI: You're older than you look. would think it would be MR. ELLIOTT: I in the 70s, and I'm not familiar with it. MR. RYDER: All right. MR. THOMPSON: Mr. Ryder is because he won. MR. RYDER: Yes, I keep referring to that decision as a precedent, as a precedent value. Q. Well, can you tell me whether the movement should not be recontinued, particularly having regard to the introduction of contract carriage, which is a cost-based rate structure? MS. ELLIOTT: A. I guess I can't speak to the revenue-to-cost ratios prior to '84 listed on 240 [Elliott,Cowan, Black cr ex (Ryder) Page: 3597] here, but I'm looking at numbers that are 100.4 per cent in '84. That's -- if the movement to cost-based rates was prior to '84 I suspect that we may have moved in that direction, but since '84 we have been maintaining the revenue-to-cost relationships that have existed in the past. Q. And we have seen from Mr. Thompson's ~ cross-examination that that results in a chronic under-contribution by the residential service of roughly \$4-million? A. Which is only 2 per cent of their cost. Q. But it is a chronic undercontribution of \$4-million. And my question is: Is that what we can to the see in perpetuity now or for the indefinite future? A. I can't answer to the indefinite

future. That's what we have proposed in this rate case. Q. But why is it that you find perpetual under-contribution by one class acceptable? A. I think I would have to go to the Marketing people to determine whether an increase above what we have been recovering from that class in the 241 [Elliott,Cowan, Black cr ex (Ryder) Page: 3598] past is acceptable and is marketable. And if I was to propose an increase to recover 100 per cent of the costs I would have to canvass the marketing people and get their opinions as well as the competition and the impact on our residential customers of that increase. Q. I take it this is your rate design? You are responsible for this --A. I am responsible for this proposal, yes. Q. And you've made no inquiry as to the continuation and the advisability of continuing the under-contribution of the residential class? Α. In this rate case and in the last rate case we have been experiencing a number of changes in the form of the rates and in the new rates and have not proposed additional changes to our other rate schedules to maintain some sort of a consistency, and not to throw everything up in the air at the same time. Q. So is consistency the justification for the --A. Consistency and historic approval of this Board is the justification behind this proposal. Q. Is there a decision of this Board that you are referring to which said at one time or 242 [Elliott,Cowan, Black cr ex (Ryder) Page: 3599] another that the Board is now satisfied with the relative under- and over-contributions of the classes? Board in its last A. I think the decision indicated that it was satisfied with the ratio revenue-to-cost, with the exception of the M5 and M7 ratios. Q. So you've taken that to mean that if you continue to produce a rate design that comes within

	that range that it will obtain Board acceptance? Is that your approach?	
	[Elliott,Cowan Black cr ex (Ryder) Page: 3600]	243
~	A. It's been acceptable on a historic basis and it is consistent with our past rate proposals, yes.	
~	Q. Can I turn now to the allocation of the CIL revenue deficiency, and as a matter of general principle, I understand - and perhaps I am	
	you can	
	fairness, which underlines your rates is, or that pins your rates is the fact that they impose revenue responsibilities that approximate cost of service?	
~	A. That is true, yes.	
~	Q. And in terms of your cost allocation study, it is based generally on the principle of cost causation?	
~	A. Yes. Our costs are allocated to our	
	customer class based on cost causality; that is true.	
-	distribution system costs are not allocated to the M9 or the M12 customers because they are not served off of your distribution system?	
~	A. The reason they are not allocated distribution costs is they have those costs of their own to incur.	
~	Q. All right. And that is shown on Exhibit K5, Schedule 1, pages 1 and 2? Is that	244
	[Elliott,Cowan Black cr ex (Ryder) Page: 3601]	
~	A. That is where that can be found, yes.	
~	Q. All right. Now, if you impose a distribution cost on the M9 or the M12, that would amount to a fundamental departure in your cost allocation methods?	
~	A. If I allocated part of Union's	
	distribution cost of service to those utilities, yes, that would be a deviation from cost causality.	
~	Q. Yes. A deviation from a method that pre-dates yourself. It was there when you arrived?	
~	A. Well, that is true.	
~	Q. Now, if you, on the other hand, or to	
	carry on in this line, imposed revenue responsibilities	

on M9 to cover costs not caused by that class, that would be a further aberration of your current methodology? A. Well, the revenue responsibilities don't have anything to do with the -- well, costs are allocated based on cost causality and the revenue is proposed based on those allocated costs as well as other factors that we consider, like consistency and like the historic approval of the Board and the ability for the market to pay. It all comes into play in our calculation of our revenue recovery amount. Q. Yes. But the principle that makes 245 [Elliott, Cowan Black cr ex (Ryder) Page: 3602] your cost, I am sorry, your rate design fair is that it did does approximate costs? A. It represents costs, yes. any departure from that O. And not justified by costs or by marketing or by any of the other factors would be, I suggest, an aberration? A. Well, yes. A departure from the objectives of rate design would be not something we look to do. would Q. Yes. And if you allocated Kitchener or the M12's any of the revenue deficiency from or M9 CIL, you would be recovering from them revenues without being able to justify doing so on a cost basis or on a marketing basis or on any other basis that you have referred to? A. Well, the revenue deficiency allocated to all of our customers for CIL is not their cost of -- well, it is CIL's cost of service and is -we have chosen in this case to allocate it based on our distribution demand. It represents how costs were allocated to the decision in 412-III, that said CIL would prior be allocated distribution costs. We chose to use that as a basis for allocating the deficiency for CIL and because of that allocation method, the M9 and M10 rate 246 [Elliott,Cowan Black cr ex (Ryder) Page: 3603] classes did not pick up a portion of the CIL deficiency.

~	Q. And I take it the reason for that is	
	because M9 and M12 do not traditionally incur or are	
	allocated distribution system costs?	
~	A. That is the reason that the M9's, the	
	M10's and the M12's do not bear a portion of Union's	
	distribution system costs; that is true.	
~	Q. Now, one last question. It relates	
	to Mr. Thompson's suggestion that you could apply the	
	SNG method of allocating costs to the allocation	
of	the	
	CIL deficiency.	
~	Isn't it fair to say that the Board's	
	decision to impose SNG costs on the M12 customer class	
	was based on the evidence of Ms. Chown? That was the	
	testamentary basis for that decision? It wasn't?	
~	A. I am not sure of the order of the	
	events. I think the decision was made and was	
	supported by the Board staff by evidence of Ms. Chown	
	in a subsequent rate hearing.	
~	Q. All right. So, there was the	
	evidence of Ms. Chown, and did Union also support that	
	proposal with evidence?	
~	A. I don't think we did, no.	
~	Q. All right. But there was an	47
	[Elliott,Cowan Black cr ex (Ryder) Page: 3604]	+/
	evidentiary basis for the decision?	
~	A. It was part of a rate case and it was	
	tested.	
~	MR. RYDER: Yes, thank you. Those are	
	all my questions.	
~	THE PRESIDING MEMBER: Thank you, Mr.	
	Ryder.	
~	Mr. Sadvari?	
~	MR. SADVARI: Thank you, Mr. Chairman.	
	CROSS-EXAMINATION BY MR. SADVARI:	
~	Q. With respect to the M12 interruptible	
	and overrun transportation service, I have a couple of	
	questions.	
~	When, in a test year you forecast volumes	
	tor those two services, M12 interruptible, M12 overrun,	
	are there any Dawn-Tratalgar transmission demand costs	
	actually allocated for those volumes?	
~	MS. ELLIOTT: A. There are no costs	
	allocated to those volumes.	

~	Q. It is only for the firm M12 service
~	A That is correct
~	Q. And the firm transportation rates are based, obviously, upon the allocation of these costs to
	[Elliott,Cowan Black cr ex (Sadvari) Page: 3605]
~	A. That is correct.
~	Q. I think we discussed earlier with Mr.
	Blue the rates for the interruptible and overrun
	services fall out of the rate, which results from these
	calculations for the firm M12 service?
~	A. That is the basis for the overrun
	rates and the interruptible rates is the
firm	rate,
	yes.
~	Q. And so, the demand portion of an M12
	interruptible or Mi2 overrun service represents demand
	allocated to firm M12
~	A Veg
~	0. And when you are doing your cost
	allocation study, in focusing on Dawn-Trafalgar transmission demand costs, do I understand the methodology used to be looking at the total cost and
	customers, as forecast, and what is left is what flows into the demand costs for the other customers?
~	A. That is correct.
~	Q. So that the more M12 interruptible
	<pre>and M12 overrun service you forecast, the less there will be in the way of costs to then be allocated to the other customers?</pre>
	[Elliott,Cowan Black cr ex (Sadvari) Page: 3606]
~	A. No. That is not true. Because we don't allocate costs to our interruptible, M12 interruptible or the M12 overrun, the cost
	allocation the level of forecast doesn't affect the sharing of costs.
~	Where the interruptible and the overrun forecast come into play is in the recovery
of	revenue.
~	The fact that we are recovering that

revenue from the M12 customers over and above their cost of service means that the revenue recovered from our in-franchise customers can be reduced by the amount of revenue from the M12's. Q. Sorry. Is that revenue from the M12 ~ interruptible and overrun service over forecast or within the forecast? within the forecast. A. No, Q. Within the forecast. So, there is, to that extent, a benefit derived by the other customers because M12 customers are using those services? A. That is true, yes. That is correct. Q. And if the forecast is low, and I I touched upon this with the previous panel in think Phase I, so that the actual use of those services produces by volumes, in excess of forecast plus 250 [Elliott,Cowan Black cr ex (Sadvari) Page: 3607] revenues in excess of forecast, those excess revenues go to the bottom line and are shared by Union's shareholders? A. Yes. ~ Q. So, is it fair, then, to suggest that there is, other than the fact that the services are available, there is no benefit to the M12 customers who use interruptible and overrun service in that if you underforecast, the other customers benefit by lowering their rates and if you overforecast, Union's shareholders benefit? A. No. It's the other way. If we overforecast revenues from the M12 customers, Union's rates from our in-franchise customers are lower. Q. I am sorry. You are right. If you underforecast \_ \_ A. Our rates from our in-franchise lower and we have -- and if we have customers are overforecast, we have not recovered our revenue that we And the reverse is true if we had forecast. underforecast. O. Would it seem to make sense, considering - and I refer just in passing to Exhibit

U.5.4, which dealt with a previous test year forecast for overrun by example. I don't know that you need to 251 [Elliott,Cowan Black cr ex (Sadvari) Page: 3608] turn it up, but -- and you can take this subject to check - but would it seem to make sense, since Union has traditionally not accurately forecast the volumes for these services, to establish a deferral account with respect to under- and overforecast revenues flowing from M12 interruptible and overrun services? Does that have any appeal to you at this late hour, in order to get off? I would MR. BLACK: A. have to go back and look at the numbers. I have forgotten what picture they present. Q. Well, I am just looking at U.5.4 covering the forecast volumes for the last three test years, and this only deals with overrun. It appears that there was an extra million dollars in total in revenue going to Union's shareholders. I guess that includes storage, too. It's overrun services generally. Am I reading those numbers correctly? A. Yes. They show that the actuals exceed forecast in general. Q. Well, by quite a bit in every year; in fact, the forecasts seem to hover around zero and is always some use of these services. there Wouldn't it have been appropriate then 252 [Elliott,Cowan Black cr ex (Sadvari) Page: 3609] and isn't it appropriate now to establish a deferral account, so that instead of simply automatically profiting Union's shareholders, or conversely, if you do the reverse, benefiting non-M12 customers, that the Board can then deal with the deferral account revenue as it sees fit? That is an alternative, but it is not Α. one the Union has proposed. Q. Well, you are not advancing it, but you don't have any criticism of it at the moment? It is a good thing it is ten after five, or you probably would.

A. I think all we can say is, it is an alternative. It is not one that we have proposed. We have attempted to forecast overrun where we can, interruptible service where we can after discussing the services with our customers. In the end, that is where the forecast lies. Q. Okay. I will leave that line for Argument. Can you turn for a moment to Exhibit L4, blue pages, the rates, proposed rate schedule for M12, page 3 of 6. Do you have that? MS. ELLIOTT: A. I have that. Q. I believe that at the beginning of 253 [Elliott,Cowan Black cr ex (Sadvari) Page: 3610] the day, you made some corrections to this and hopefully I caught them all, but my question is: With respect to the summer fuel ratio, transportation commodity with Dawn compression, you have got 0.4 and then 0.7, and if you turn to the previous page, why are they so high? A. I guess the fact that I missed two corrections. Q. Well, I would appreciate if you would make them now. Thank you. A. Yes. There is no reason for the difference. They should be the same as the numbers on the previous page. on page 3, those two numbers I 0. So, read out should now read what? A. 0.1 and 0.1. Q. Thank you. Could we turn to Exhibit N15, Tab 2, page 6 of 11? Mr. Atkinson dealt with this quite thoroughly. I only have one question on this sentence, dealing with the realigning of the queue. I wasn't clear on what the criteria were that Union would employ to be exactly in realigning the queue in this circumstance. MR. BLACK: A. It would be based on the volume and term. 254 [Elliott,Cowan Black cr ex (Sadvari) Page: 3611] Q. You mean, the higher the volume and

	the longer the term?
~	A. Yes.
~	Q. How do you set one off from the
	other? If two customers are there and one has higher
	units and shorter term than the other, do you
just	flip
	a coin or is there some guideline?
~	A. I would think we would look at the
	total volume that could be hauled or
~	Q. You just multiply one by the other,
	then?
~	A. Yes.
~	Q. Okay. Nothing else?
~	A. We may bring the load factor into it
	from their perspective.
~	Q. Once again, you just keep on
	multiplying until you get an end figure?
~	A. Yes.
~	Q. Okay. On page 7, the first sentence
	of the second paragraph in Section 2:
	Union may send to the customer an
~	offer to contract for such service.
~	I am just puzzled about the "may."
~	A. Where is that, again?
~	Q. Under No. 2, "Queue Entry
	[Elliott,Cowan Black cr ex (Sadvari) Page: 3612]
	Procedures, " second paragraph:
	Upon entrance into the queue and
~	upon Union's examination of the required
~	facilities, Union may send to the
~	customer an offer to contract for such
~	service.
~	Does that mean that it is utterly up to
~	Union within its discretion to determine
	whether it will sent a contract or not, or there are
	guidelines that can help us?
~	A. I think it would depend on the level
	of the request, Union's ability to put the facilities
	in place and provide the service.
~	We have noted in the first clause under,
	"Type of Service," that we do need 24 months' lead
	time. If we were given less lead time, we may decide
	that we just cannot get the facilities in; therefore, a
	contract would not be sent out.

O. And so, will customers who are considering entering into this queue have any idea how long it would take Union to decide whether it is going to send a contract? Are there any guidelines other 'You will have to see'? than, A. We would respond in a proper time, the circumstances at the time. I don't think I given 256 [Elliott,Cowan Black cr ex (Sadvari) Page: 3613] can put a time on it. I think you have to trust that we will get back to the party with what the situation is. There will be dialogue back and forth. We don't ignore the request. We try to respond to them and I am sure there would be a response, giving you some idea of what the situation was. Black, looking at the bottom of O. Mr. that page under heading 3, the last sentence: Union will require that this contract be executed prior to... And then looking at (b), which goes over to the next page: ...prior to the incurrence of any significant costs associated with this contemplated service. Once again, are there any guidelines as to what Union considers significant and what it doesn't consider significant? 257 [Elliott,Cowan Black cr ex (Sadvari) Page: 3614] A. Nothing specifically, other than it would be at least the pipeline materials costs, compressor costs, perhaps right-of-way costs. Q. Is that as exhaustive a list as you can give me? A. No, there are probably other components, but --Q. If you think of anything significant, let me know. On page 8, the next paragraph: "Further, it will be necessary that the shipper has met or waived all conditions precedent, prior to any regulatory proceedings for any necessary facilities ~ or Union incurring any costs to provide the necessary facilities."t

	If, for instance, the customer involved	
	were someone like TransCanada, would that imply or	
	require TransCanada to obtain all FERC approvals, prior	
	to any OEB facilities proceeding being brought by	
	Union?	
~	A. We would like it to. But I think we	
	would have to then rely on the next clause.	
which	talks	
WIIICII	about special circumstances Ideally all the	
	conditions precedent would be met But I think as Mr	
		8
	[Elliott,Cowan Black cr ex (Sadvari) Page: 3615]	
	Bellringer testified, often that is not the case, and	
	you have to bend a bit to make sure that all the	
	parties involved can proceed as best under the	
	circumstances.	
~	Q. So what constitutes special	
	circumstances would be negotiable between the two	
	parties, or at Union's absolute discretion?	
~	A. We would work as best we can, I think	
	as demonstrated by the situation we are in now with	
	TransCanada	
~	0. The last paragraph on that page. If	
	there is a delay in the inservice data facilities, will	
	there is a delay in the inservice data facilities, will the start up be by the date of the request of service.	
	there is a delay in the inservice data facilities, will the start up be by the date of the request of service, or will it relate to the appendix B list of priority of	
	<pre>there is a delay in the inservice data facilities, will the start up be by the date of the request of service, or will it relate to the appendix B list of priority of customer class? How do those factors interrelate?</pre>	
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A. This is with a shipper. Q. Yes. Are there any criteria for how the interruptable capacity is allocated? A. It is based on the rate -- well, firm is first. Interruptable capacity is based on rate, prior use and volume, and then the original date. Q. Does Union give itself any of that capacity? Α. Yes. As we discussed earlier, if Union needs the capacity for its in-franchise needs, it uses what it needs. 0. It uses what it needs first, and then what's left over is available for interruptable customers? A. Interruptable, yes. there any other locations on O. Are Union's system where it works that way, that Union takes priority for its in-franchise customers over the availability of interruptable capacity for others? 260 [Elliott,Cowan Black cr ex (Sadvari) Page: 3617] A. Well, once the St. Clair line is up for use by all parties besides Union, we have freed contracted for the capacity with St. Clair, and as we mentioned in the St. Clair hearing, we would assign unused capacity to those who needed it. So, if you we have first call in that situation, too. like, 0. Anywhere else? A. No, I don't think so. Union doesn't enter into any Q. And queue for that right. It is simply a pre-emptive right to that capacity? A. As owner of the system, yes. MR. SADVARI: Thank you, very much. Thank you, Mr. Chairman, those are my questions. THE PRESIDING MEMBER: Thank you, Mr. Sadvari. Mr. Budd? MR. BUDD: Thank you, Mr. Chairman. I should be able to make it by 5:30. CROSS-EXAMINATION BY MR. BUDD:

~	Q. With respect to the M12 demand rates,
	does the M12 rate allow for similar delivery and
	redelivery points, as utilized in C1 near the
Ojibway	1
	St. Clair, Dawn and Oakville?
	[Elliott,Cowan Black cr ex (Budd) Page: 3618]
~	MS. ELLIOTT: A. No. the M12 service is
	strictly Dawn, Oakville. And Kirkwall, I am sorry;
	Dawn, Oakville and Kirkwall.
~	Q. That would of course preclude any
	deliveries within the Union system?
~	A. That's right. Gas under the M12 rate
	structure is to be destined outside our franchise area.
~	Q. Under the M12 interruptable, can this
	service be used at all for importing U.S. gas then?
~	MR. BLACK: A. Yes, it could.
~	Q. And through which delivery points?
~	A. U.S. gas could be brought in to Dawn
	through the Great Lakes TransCanada System, or through
	Ojibway, and hauled under a C1 contract to Dawn, or
	eventually through St. Clair.
~	Q. And it can be then transported
	through the franchise?
~	A. Yes.
~	Q. But not redelivered within the
	franchise?
~	A. That's correct.
~	Q. With respect to provision of
	customer-owned fuel, yesterday this question was
	directed to the other panel, you probably heard about
	it.
	[Elliott,Cowan Black cr ex (Budd) Page: 3619]
~	But for the record, IGUA have posed an
	interrogatory in R22.6, that's the \$96,000 example of
t	the amount of compressor fuel and unaccounted
for gas	
	attributable to its in-franchise customers.
~	My question is, what would the amount be
	of fuel gas and unaccounted for gas for
	out-of-franchise customers in dollar terms? And if you
	can, as a percentage of the total Union fuel gas and
	unaccounted for gas?
~	A. I think if you look at Exhibit K6,

schedule 5, page 2 of 2.

Q. Yes, go on.

A. That's a schedule by customer. And column J, transportation service commodity, those under for each of the M12 customers totaling, are the costs if you are looking at the yellow pages for M12, \$4,576,000. Those are the costs of fuel and unaccounted for gas for those customers. And finally, with respect 0. Thank you. to storage, what models for queueing did Union study in developing its queueing procedures? I can't say as we used any in Α. particular. It was just our knowledge of queues, information we have obtained over time, but indeed was no particular model. there [Elliott,Cowan Black cr ex (Budd) Page: 3620] Q. I see. Much has been said about this today, and I was thinking of a hypothetical, topic where Union say had ten in the queue, and Union sent out ten offers, and the first nine in the queue returned these signed offers with prices lower than the in the queue. Would the tenth customer tenth with the within the range get the service? highest offer A. It met our offer, and the other nine of it came back with a lower counteroffer, yes, ahead the tenth one would get the service. Q. Thank you. This may involve some history, but I noticed that, looking at the customer priority list for, I should say in appendix B here, Exhibit M15, tab 2, we filed this, and I am curious as the history behind it might help. Why are the to -in-franchise T service customers not priortised equally with Union's in-franchise customers in column No. 2? I am not sure, but the history, I Α. imagine it is a case that they have chosen to go on their own, and therefore have to make their own plans. Q. And it isn't enough consequence that they also have an obligation to deliver, I understand? Α. I really can't comment on that. Q. Can you look into that and come back with a response? [Elliott,Cowan Black cr ex (Budd) Page: 3621]

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MR. LESLIE: If it is of any assistance, ~ Mr. Budd, I think that list reflects a decision of the 412.2, and it is probably a slightly Board in EBRO different context but similarly directed. THE PRESIDING MEMBER: Mr. Budd, do you  $\sim$ still undertaking number for that? want an MR. BUDD: Yes, if Union has any comment on that. THE PRESIDING MEMBER: All right, U.20.15. MR. DICK: I believe it's 20.16. THE PRESIDING MEMBER: I stand corrected. It is late in the day. ---UNDERTAKING NO. U.20.16: Union will undertake to determine why the in-franchise T service customers are not priortised equally with ~ Union's in-franchise customers, and if it isn't enough consequence that they also have an obligation to deliver. ~ MR. BUDD: O. And I understand today that TransCanada publishes the names that are on its queue. Are you aware of that? MR. LESLIE: That question has already been asked and answered. I think the witnesses indicated that they weren't aware. MR. BUDD: Q. And I also understand that ~ case, MH288, that Foothills Pipelines was in the recent 265 [Elliott,Cowan Black cr ex (Budd) Page: 3622] asked to produce the queue and the names of the parties in the queue. Are you aware of that? MR. BLACK: A. No, I am not. ~ if this O. And Board asks you to publish ~ the names, so that one might know who is in the queue, I take it you will do that? A. Oh, would. yes, we MR. BUDD: Thank you, no further questions. Thank you, Mr. Chairman. THE PRESIDING MEMBER: Thank you, Mr. Budd. Mr. Arndt is not here, and therefore I believe we are ready for any Board questions. EXAMINATION BY THE PRESIDING MEMBER: Q. Could I refer you first of all to

Exhibit L1, schedule 2 in the yellow pages, and page 2 of that? MS. ELLIOTT: I have it. Q. Maybe this has been dealt with earlier, but at line 16 with the special large volume under Contract Carriage Service? A. Yes. 0. I note the allocated costs for that service is \$5,664,000, and the revenue recovery is 266 [Elliott, Cowan Black ex (Presiding Member) Page: 3623] proposed to be 2,091,000? Α. Yes. deficiency being 3,573,000, or 0. The about 63 per cent. What is the general explanation of the high deficiency recovery? That is CIL. That Α. is CIL, and their by-pass rates was the proposed revenue. And we have in the cost study allocated costs to them, in the same fashion we allocate costs to all of our other customers. will that deficiency continue for O. And year, let's say? the next test continue to allocate A. Provided we to them costs without changing the methodology for CIL, yes, that deficiency will continue. O. All right, thank you. A couple of general questions on the matter of queueing. The reason that you wish to keep the names confidential is, as I understand it, to protect the customers? Mr. Black, is that right? Basically, yes. Union MR. BLACK: A. itself does not have a problem with publishing the strictly our impression It is names. of the customers'r wishes. Now any customers let it be known they don't mind having their names published, we would publish 267 [Elliott,Cowan Black ex (Presiding Member) Page: 3624] them. Q. When you say it is your impression, have customers actually approached you and sought that kind of protection?

~	A. We have really had no comments one
	way or the other.
~	Q. With regard to the whole queueing
	process, now rong have you been in this queueing
	arrangement?
~	A. We are not fully into this
2.1	arrangement as yet. We would not get into
1t	untii muchable presil 1 mbous is still the form to propose
	probably April 1. There is still the form to prepare
	and arrangements to be made with those who have sent in
	their requests already. So we are just in the
	transition stages now.
~	Q. And so until you get more experience,
	you won't be able to really assess now well it is
	Working, is that correct?
~	A. Inat's correct.
~	THE PRESIDING MEMBER: All right, thank
	you, panel. You have been here for a long time, as the
	rest of us have. I appreciate your being on the stand
	that long, and you may now be excused, subject to Mr.
	Leslie having any redirect.
~	MR. LESLIE: I JUST have one matter, sir,
	[Elliott,Cowan Black re dr (Leslie) Page: 3625]
	for clarification.
~	THE PRESIDING MEMBER: Okay.
	RE-DIRECT EXAMINATION BY MR. LESLIE:
~	Q. Ms. Elliott, Mr. Peterson I think
	asked you some questions about M12 customers, and the
	possibility of them reducing their load during the
	course of the year. And he put it to you that on your
	existing methodology you would recover more than you
	would under your proposed methodology. Notwithstanding
	that result, is it still your view that the proposed
	methodology is the appropriate way of going about it?
~	MS. ELLIOTT: A. Yes, it is. The
	proposed methodology represents the share of the cost
	of the system that should be allocated to the M12
	customers.
~	MR. LESLIE: All right, thank you.
~	That's all I have, sir.
~	THE PRESIDING MEMBER: Thank you, Mr.
	Leslie. The panel is now excused, again with our
	thanks.
~	Tomorrow we will have Mr. Feingold is it

from Price, Waterhouse? MR. LESLIE: Yes. I should say, Mr. Cook, that at the request of board staff, Mrs. Elliott and Mr. Cowan will both be here as well. The thought 269 [ Page: 3626] is that that may avoid the necessity to take undertakings, things of that kind. THE PRESIDING MEMBER: All right, that's probably wise. We will adjourn now until 9:00 o'clock tomorrow morning. MR. ATKINSON: Mr. Chairman, could I just ask one short question relating to scheduleing? THE PRESIDING MEMBER: Certainly MR. ATKINSON: We received a number of answers to interrogatories. The one that interests me the most is this U.16.1, Mr. James' answer with respect to the various peak day scenarios, with and without the peak day unit, with and without certain facilities, et cetera. Is it contemplated that witnesses will be coming back to deal with these answers? Or could I get some sense of what is going to happen when the regular schedule is finished? In short, is there a clean-up day or hour or anything like that? THE PRESIDING MEMBER: To my knowledge no one has requested that sort of an arrangement, although I am not surprised. Mr. Leslie, do you have any comments to make on it? MR. LESLIE: I am not particularly 270 [ Page: 3627] surprised either, sir. some inquiries. We made Mr. James is available on Thursday, and if people did want to go over those undertaking responses with him, that could be arranged on Thursday. MR. ATKINSON: I'd like to. THE PRESIDING MEMBER: Mr. Dick, there is no problem from your standpoint? MR. DICK: No problem, Mr. Chairman. THE PRESIDING MEMBER: All right, let's plan --

~	MR. LESLIE: Mr. Chairman, I should say
	that our understanding is that is for the purpose of
	clarifying, going over those undertakings, and that we
	wouldn't be here to revisit subjects that Mr. James has
	already spoken to twice now.
~	MR. ATKINSON: No, that's quite right. I
	think I indicated when I was cross-examining Mr. James
	that I didn't want the opportunity to review his
	materials, and that's what I am confining it to.
~	MR. LESLIE: I think that is fair, too.
~	THE PRESIDING MEMBER: We understand.
	Mr. Leslie, will you have anything on Thursday by way
	of an update to the deficiency calculation? You had
	mentioned earlier today that there was some change in
	[ Page: 3628]
	that rate of return on the common equity.
~	MR. LESLIE: Yes, I am advised that the
	rate of return change, and it would make a change in
	the deficiency number, and I don't know whether it is
	possible to have it for Thursday, but if it is possible
	possible, we will have it here, sir. And if not, I
	will let you know tomorrow what the status is.
~	THE PRESIDING MEMBER: All right, thank
	you. We are now adjourned until 9:00 o'clock tomorrow
	morning.
	Whereupon the hearing was adjourned at 5:35 p.m, to
	be reconvened on Wednesday, January 24, 1990, at
	9:00 a.m.
	[RR/BvdM/RT]