

Ontario Energy Board

EB-2012-0451

EB-2012-0433

EB-2012-0074

IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for: an order or orders granting leave to construct a natural gas pipeline and ancillary facilities in the Town of Milton, City of Markham, Town of Richmond Hill, City of Brampton, City of Toronto, City of Vaughan and the Region of Halton, the Region of Peel and the Region of York; and an order or orders approving the methodology to establish a rate for transportation services for TransCanada Pipelines Limited;

AND IN THE MATTER OF an application by Union Gas Limited for: an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Parkway West site; an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Town of Milton; an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Brantford-Kirkwall/Parkway D Compressor Station project; an Order or Orders for pre-approval of the cost consequences of two long term short haul transportation contracts; and an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Cambridge and City of Hamilton.

WRITTEN SUBMISSIONS OF THE CITY OF KITCHENER

Introduction

1. The City of Kitchener ("Kitchener"), an active intervenor in this facilities proceeding and in prior rates proceedings of Union Gas Limited ("Union"), is a large volume contract customer of Union. Kitchener owns and operates an integrated gas and water distribution utility which receives regulated storage and transportation services from Union under Rates T3 and M12. Kitchener is the only embedded gas distribution utility served by Union under Rate T3. Kitchener is served directly from Union's Owen Sound transmission facilities which replacement and relocation was recently approved by the Ontario Energy Board ("Board") in Union's EB-2012-0430 facilities application. Kitchener was an active intervenor in that facilities application.

2. Kitchener will keep its submissions herein brief and limited to the allocation of costs and expected rate impacts of Union's EB-2012-0433 facilities application ("the Parkway West Project"). Kitchener will rely on other parties and Board Staff to speak to the need for these facilities and ultimately for the Board to determine, based on the evidence, if the facilities are in the public interest and whether leave to construct should be granted. If leave to construct or pre-approval to recover the cost consequences in rates is not granted by the Board, then Kitchener's concerns with cost allocation and rate impacts are moot.
3. Kitchener takes no position on Union's EB-2012-0074 facilities application ("the Brantford- Kirkwall / Parkway Compressor D Project") or Enbridge Gas Distribution's ("Enbridge's) EB-2012-0451 facilities application ("the GTA Reinforcement Project"). Kitchener also takes no position on Union's request for pre-approval of the costs consequences of the two long-term short-haul transportation contracts.

Loss of Critical Unit (LCU) Protection – Primary Purpose of Parkway West Project and Which Provides No Benefits to Kitchener

4. The Parkway West Project is designed solely to provide LCU protection at Parkway [Tr Vol 4, page 22, lines 12 – 23]. From an operational and reliability perspective, it provides no benefit to Kitchener whose load is served from the Owen Sound lateral off the Dawn-Parkway transmission system upstream of Parkway. With existing in-service facilities on the Dawn-Parkway system, if there is a compressor failure at Parkway, then Kitchener's ability to receive gas on a peak day is not impacted [Tr Vol 4, page 24, lines 5 – 11]. The impact of LCU at Parkway would be downstream of Parkway, benefiting Enbridge and Union's northern and eastern Ontario customers and GMI [Tr Vol 4, page 24, lines 1 – 4].

Union's Current Cost Allocation Methodology for Parkway Costs

5. The current cost allocation methodology for Dawn-Parkway transmission costs allocates costs associated with Parkway between in-franchise and ex-franchise rate classes using distance weighted Dawn-Parkway design day demands [Exhibit K3.2, page 2]. This methodology has been applied by Union to allocate the LCU costs of the Parkway West Project to rate classes, including Rate T3 [Tr Vol 4, page 68, lines 6 – 23].
6. Under the current cost allocation methodology, and assuming Board approval of the facilities and pre-approval of the cost consequences, the Parkway West Project would add \$ 137,000 of Dawn-Parkway transmission demand-related costs to the annual revenue requirement in

2016 for Rate T3, subject to minor changes resulting from Union's August 23, 2013 update [Tr Vol 4, page 69, lines 11 – 28].

7. Union's current cost allocation methodology essentially treats all "costs associated with Parkway" with the same broad brush (using distance weighted peak day demand), without any distinction amongst the costs incurred and, in our respectful submission, without specific regard to cost causality for some rate classes. Kitchener understands that the cost allocation study is a guide to rate-making that rests on the primary principle of cost causality: those customers or customer classes that cause a cost to be incurred and derive a benefit thereby should bear the cost.
8. LCU installed upstream of the Owen Sound lateral on the Dawn-Parkway system clearly benefits Kitchener. If a compressor fails at Dawn, Lobo or Bright, then the LCU kicks in and Kitchener's firm peak day requirement can still be met from the Owen Sound lateral despite the upstream compressor failure [Tr Vol 4, page 23, lines 13 – 20]. Cost causality dictates that Kitchener be allocated a portion of the costs of upstream LCU that provides this benefit.
9. As noted above, Kitchener receives no operational or reliability benefit from the installation of LCU at Parkway. Under the current cost allocation methodology and assuming the requisite Board approvals, Kitchener's T3 rate will increase in excess of \$ 100,000 in 2016 to recover the costs associated with the Parkway West Project simply because Kitchener uses the Dawn to Parkway system on a peak day. In Kitchener's respectful submission, this expected rate impact from the Parkway West Project is material and an unfair outcome of a flawed "broad brush" allocation methodology for LCU costs.

Allocation Methodology for LCU Costs Should be Reviewed

10. Union agreed with characterizing as an insurance premium for supply reliability that component of Kitchener's T3 rate that includes costs for LCU facilities [Tr Vol 4, page 70, lines 4 – 8]. Kitchener has no objection to paying insurance in its rate to mitigate the risk of a compressor failure that would actually disrupt its supply of gas and ability to serve its distribution customers under peak conditions. Kitchener does object, however, to paying insurance in its rate to mitigate the risk of a compressor failure that would have no impact on its reliability of supply and ability to serve its distribution customers.

11. Kitchener respectfully submits that LCU costs should be distinguished from other costs associated with Parkway in Union's cost allocation study. The allocation of LCU costs to rate classes, including Rate T3, should be based on some factor other than distance weighted peak day demand – one which better respects the foundation principle of cost causality.

12. Kitchener appreciates that the use of an alternative allocation factor would shift LCU costs among rate classes and could result in significant rate impacts for some classes other than Rate T3. Should the Board grant the requested approvals for the Parkway West Project, then Kitchener respectfully submits that the cost allocation methodology for LCU costs should be reviewed and revised, subject to Board approval, in a consultative process informed by independent experts evaluating Union's current and alternative methodologies prior to reflecting the approved LCU costs in rates.

All of which is respectfully submitted.

The Corporation of the City of Kitchener

James A. Gruenbauer, CMA

Manager, Regulatory Affairs and Supply

Per:

A handwritten signature in black ink, appearing to read 'J. Gruenbauer', is written over a faint, circular official stamp.