FRPO INTERROGATORY #12

INTERROGATORY

REF: Exhibit C, Tab 1, Schedule 5 incl. Appendix A and
EB-2016-0142 Exhibit C, Tab 1, Schedule 5 incl. Appendix A and
EB-2016-0142 Exhibit.I.B.EGDI.FRPO.7

Preamble: We are interested in understanding better the derivation of the Actual Average Use True Up Variance Account and the process that developed the balance applied for disposition.

Supplemental to Exhibit B, Energy Probe 7.
Please provide a detailed calculation which shows the derivation of the "Unit Rates for the Revenue Impact, exclusive of gas costs" found in column 10 of Table 1.

a) Please provide the unit rates for the years 2012 to 2016 to three significant figures.
b) Please provide the drivers for any material changes in components that contribute to the significant change in unit rates.
c) Please reconcile those unit rates to those used in Table 1 of EB-2016-0142 Exhibit C, Tab 1, Schedule 5, Appendix A.

RESPONSE

As explained at Exhibit C, Tab 1, Schedule 5, page 2, paragraph 8, the purpose of the AUTUVA is to record the revenue impact, exclusive of gas costs, of the difference between the forecast average use per customer, for general service rates classes (Rate 1 and Rate 6) embedded in the volume forecast that underpins Rates 1 and Rate 6, and the actual weather normalized average use experienced during the year.

Impacts due to changes in the cost of gas are accounted for through the Company's gas cost related variance / deferral accounts (such as PGVA, UAF). Therefore, gas costs are removed from this derivation, so the ratepayers and the Company are kept whole with respect to forecast versus actual weather normalized average uses when determining the AUTVA balance. And, no double counting of gas costs occurs.

The unit rates depicted in column 10 of Exhibit C, Tab 1, Schedule 5, Appendix A, Table 1 represent the variable delivery unit rate (exclusive of gas costs). As noted above, the use of these rates is necessary to determine the revenue impact, exclusive of gas costs.

Witnesses: R. Cheung
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These unit rates when applied to the volume variance derive the AUTVA balance to be either collected or refunded to ratepayers.

To develop the variable delivery unit rate, adjustments must be made to the Rate 1 and Rate 6 Board approved delivery rates in order to remove the impact of gas costs. As explained in the rate design evidence in EB-2016-0215, Exhibit H1, Tab 1, Schedule 1, page 5, paragraphs 12 and 13, storage and unaccounted for gas costs are recovered through the Company's delivery rates. The distribution costs are recovered primarily through the Company's delivery rates, however, some distribution related costs are recovered from the commodity and load balancing rates.

The Rate 1 and Rate 6 blocked delivery rates have some gas costs related expenses such as Lost and Unaccounted for Gas and Union Storage costs. Conversely, some of the Company's operating expenses such as Bad Debt commodity, system gas administration and return on gas in inventory are recovered through the gas supply and load balancing charges.

To determine the variable delivery unit rate, the Company takes the Total delivery revenues (fixed and variable) for the rate class and subtracts the gas costs recovered in the delivery charge and then adds back the rate classes' allocated cost of operating expenses recovered in the gas supply and load balancing charges. This derivation produces a total delivery revenue exclusive of gas costs.

To determine the variable delivery unit rate, the amount of fixed customer charge revenue is subtracted, which results in the remaining delivery revenue to be recovered from the variable delivery unit rate. The variable delivery unit rate is determined by taking the variable delivery revenues divided by the forecast delivery volumes. The derivation of the Rate 1 and 6 unit rates (based on the EB-2015-0114 Rate Order) are depicted below.

	Rate 1	Rate 6
	($ million)	($ million)
Total Delivery Revenues	834.482	379.689
Less: allocated gas cost related expenses	-90.317	-72.4235
Add: allocated EGD expenses recover in other charges	27.4	21.8
Total Rate Class Margin Revenues	771.598	329.095
Less: Revenue recovered from fixed customer charges	-471.408	-139.318
Total Variable Revenue	300.19	189.777
Divide: Delivery Volumes 106m3	4869.333	4794.977
Variable Delivery Unit Rates ($/m3)	0.0616	0.0396

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a) Please see the 2012 to 2016 Unit Rates for the Revenue Impact, exclusive of gas costs for Rate 1 and 6.

Rate Class		2012	2013	2014	2015	2016
		($/m3)	($/m3)	($/m3)	($/m3)	($/m3)
Rate 1		0.0525	0.0521	0.0463	0.0513	0.0616
Rate 6		0.0328	0.0329	0.0312	0.0332	0.0396

b) and c)

The unit rates from above change directionally in the same manner in which the Company's Board approved rates change from one year to the next. The level of Board approved revenue requirement and deficiency / sufficiency contribute towards the level of change to the unit rates from one year to the next.

For example, the 2016 unit rates are higher than 2015 unit rates (note, the 2015 unit rates shown in the Table above are the same as shown in Table 1 of EB-2016-0142 Exhibit C, Tab 1, Schedule 5, Appendix A). The GTA project (the largest project in the Company's history) and a significant year-over-year increase in the Board approved DSM budget contributed to the change in 2016 unit rates versus 2015 that was higher than year-over-year changes in prior years.

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