

FRPO INTERROGATORY #16

INTERROGATORY

REF: Exhibit D1, Tab 2, Schedule 11, Page 11

Preamble: Paragraph 36 includes the sentence: "The Company is in the process of investigating whether or not there needs to be a change to the heat value conversion factor used in the budgeting process and will indicate its plans in due course."

We would like to understand more about the status of this investigation not only on the impact to the budgeting process, but also, the impact on direct purchase customers and system gas customers.

Please provide a simple summary of the issue being investigated.

RESPONSE

For the purposes of preparing its Gas Supply Plan and for calculating the daily delivery obligations of its Direct Purchase customers, Enbridge has used a standard conversion factor of 37.69 MJ/m³ for a number of years. While this standard conversion factor has been generally satisfactory over the period of its use, the heat value has begun to rise recently bringing into question whether or not there should be a change in use of an estimated heat value.

As Table 1 attached shows, the average annual heat values for the years 2001 to 2011 have ranged from 37.36 MJ/m³ in 2006 to 37.73 MJ/m³ in 2011; however, in 2015 the average was 38.37 MJ/m³.

While the average annual heat value for the years 2001 to 2015 is 37.71 MJ/m³, the Company, as well as others, is concerned given the increases of late and the continuation thereof and of the potential costing impacts with respect to gas supply planning should a methodology not be put in place to make a change going forward not only for gas supply planning purposes but also for the establishment of daily deliveries for Direct Purchase customers.

Enbridge has reviewed the high level impacts of making a change to the heat value used for the purposes of gas cost budgeting and for determining deliveries for Direct Purchase customers using the volumetric forecast for the 2014, 2015, and 2016 budget volume forecasts.

Witnesses: R. DiMaria
D. Small

As set out in the attached Table 2, Enbridge has compared the impact on the budget years in question of using the standard conversion of 37.69 MJ/m³ versus the actual annual average heat value for a particular year. For the purpose of this exercise, Enbridge used the annual budget volumes as filed less Company Use, UUF, LUF and unbilled volumes. The annualized impact assumed no storage fluctuation and for costing purposes used the October 2016 QRAM Reference Price. Also, for this exercise, no attempt was made to monetize the impact of any changes in Peak Day Design Demand because of a change in heat value.

Table 2 shows that if the 2015 Gas Cost Budget was prepared assuming the average heat content for 2015 of 38.37 MJ/m³, the overall supply requirement would have increased by 7.5 TJ's (Column 4, Item #8). This increase would have been satisfied by incremental purchases by the Utility of 4.9 TJ's at a cost of \$23.9 million and additional deliveries by the Direct Purchase customer of 2.6 TJ's at a cost to them of \$12.5 million.

Assuming no change to the budgeted requirements (forecast volumes), the increase in purchases by the Company (i.e., the 4.9 TJ's) would translate into \$23.9 million being recovered through the PGVA account in accordance with the Board-approved cost allocation and rate design methodology.

Further, assuming no changes were made to the Direct Purchase deliveries (MDV), the Company would have had to acquire the incremental 2.6 TJ's resulting in another \$12.5 million being booked to the PGVA for disposition. The disposition of the PGVA would be in accordance with the Board approved cost allocation and rate design methodology.

In order to assess whether looking at one year in isolation is instructive, Enbridge also looked at other years.

As seen in Table 2, if the same calculations were done for 2014 as detailed above for 2015, the impact of the Utility to acquire the additional volume in lieu of deliveries from Direct Purchase customers would be lower - i.e., \$8.2 million (Column 5, at Items 10 and 11) - because the average heat value in 2014 was lower than that for 2015 at an average of 38.14 MJ/m³. Similarly, the amount of additional supply to meet the Utility's requirements would also be lower than in 2015.

Taking all of this into account, the Company believes it is appropriate to change the heat value going forward.

The Company intends to make a number of changes.

First, for purposes of the development of its gas supply plan, the Company intends to use an updated heat value in the derivation of its volume forecast effective with the 2018 forecast year.

Witnesses: R. DiMaria
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When the budget is to be prepared i.e., summer of 2017, the Company will calculate the average of the previous 12 months actual heat values and use that as the conversion factor replacing 37.69 MJ/m³.

The updated heat value will be communicated to Direct Purchase customers and effective November 1, 2017, as Direct Purchase agreements renew, individual “pool deliveries” will be based upon that posted heat value.

The same process would apply with respect to the 2019 forecast year – a new heat value is calculated in the summer of 2018 to be used in gas supply planning and Direct Purchase contracting effective November 1, 2018.

There will also be a change with respect to Banked Gas Account (“BGA”) reporting. Currently, monthly Direct Purchase deliveries are converted from GJ’s to m³ using the standard conversion factor of 37.69 MJ/m³. Effective November 1, 2017, monthly Direct Purchase deliveries will be converted from GJ’s to m³ based upon the actual average heat value for the month which will be a better representation of the actual consumption of the customers in that particular “pool”.

The initiative with respect to the establishment of daily Direct Purchase deliveries based on a new heat value and changes to BGA reporting will be implemented effective November 1, 2017. There are two reasons for this timing.

First, each of these initiatives require changes to be made to EnTRAC and the Company believes these changes can be accommodated with system enhancements currently underway for the Dawn Access initiative that will become effective November 1, 2017.

Second, as shown by Table 2, a change in heat value will require incremental deliveries by Direct Purchase customers. Appropriate time must be given to notify Direct Purchase customers of any changes in heat value which may impact their delivery volume upon contract renewal in order to allow them sufficient time to contract potentially incremental supply.

Witnesses: R. DiMaria
D. Small