



# Rates and Regulatory Update

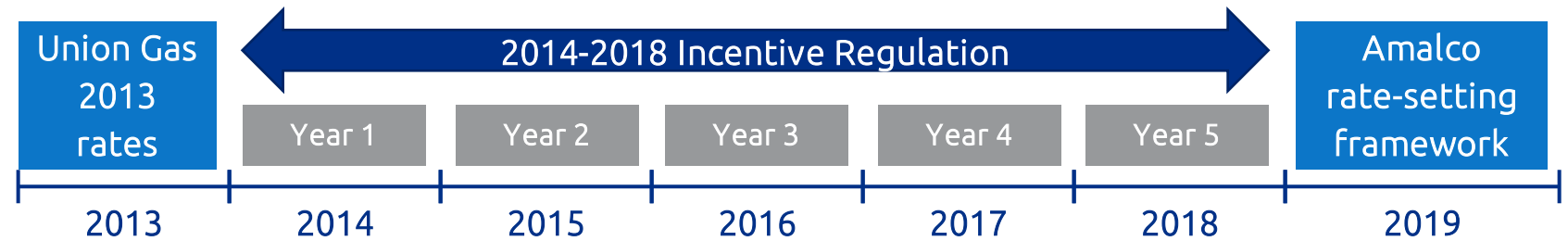
A look ahead

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## Incentive Regulation Mechanism

### Incentive regulation timeline



- **Union Gas 2014-2018 Incentive Regulation Mechanism.**
  - Pricing formula used each year during the five-year term to determine change in prices for that year.
  - 2018 Rates application is the final application to be filed under the current framework.
- **2019 Rates application will be filed under the MAAD Rate Setting Mechanism assuming approval of the amalgamation.**
  - Union North and Union South will be new rate zones of Amalco.

## Union Gas 2014 – 2018 Price Adjustment Formula

$$\text{Annual price change} = (\text{inflation} - X) + Y + Z$$

| IRM factor       | Description   |
|------------------|---|
| Inflation/factor | <p>Inflation</p> <ul style="list-style-type: none"> <li>• Percentage change in inflation (GDP IPI FDD updated annually).</li> <li>• 2018 inflation factor is 1.27%.</li> </ul>  |
| “X” factor       | <p>Productivity offset</p> <ul style="list-style-type: none"> <li>• Fixed at 60% of inflation factor for each year of the 2014-2018 term.</li> <li>• 2018 “X” Factor is 0.76% (1.27% x 60% = 0.76%).</li> <li>• When combined (Inflation – X) = Price Cap Index (PCI) = 1.27% - 0.76% = 0.51%.</li> </ul>                                 |
| “Y” factor       | <p>Items subject to deferral account treatment</p> <ul style="list-style-type: none"> <li>• Cost of gas and upstream transportation costs.</li> <li>• Changes in DSM budget and DSM volume reductions.</li> <li>• Unaccounted for gas volume variances (subject to \$5 million dead-band).</li> <li>• Major capital additions.</li> </ul> |
| “Z” Factor       | <p>Non-routine adjustments</p> <ul style="list-style-type: none"> <li>• Due to unusual/unforeseen costs outside of the formula.</li> <li>• Threshold of \$4.0 million.</li> </ul>   |

## Incentive Regulation Mechanism

### 2018 Average rate change—Union South

| Rate class             | 2017<br>Average rate<br>(cents/m <sup>3</sup> ) | 2018<br>Average rate<br>(cents/m <sup>3</sup> ) | Unit change<br>in rate (cents/m <sup>3</sup> ) |
|------------------------|---|---|--|
| Union South – delivery |   |   |  |
| M4                     | 4.2862  | 4.8388  | 0.5526   |
| M5                     | 2.9246  | 3.0089  | 0.0843   |
| M7                     | 3.9176  | 4.5152  | 0.5976   |
| M9                     | 1.6764  | 1.7197  | 0.0433   |
| T1                     | 2.2686  | 2.4800  | 0.2114   |
| T2                     | 1.1287  | 1.2924  | 0.1637   |
| T3                     | 2.4755  | 2.5662  | 0.0907   |

# 2018 Regulatory outlook

## Applications

2017 deferrals application  
(excluding DSM)

QRAM

2019/20 cap-and-trade  
compliance plan application

QRAM

**Q4**  
2016 DSM deferrals  
application

2019 rates application

QRAM

## Decisions/ account clearing

Account clearing:  
2015 DSM deferrals

**Q3**  
2018 cap-and-trade  
compliance plan decision

MAAD and rate setting  
mechanism decision

Account clearing:  
2017 deferrals  
2016 cap-and-trade

## Other

2017 DSM deferrals

Kingsville Transmission  
Reinforcement



# Q&A