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May 19, 2009

Kirsten Walli, Board Secretary
ONTARIO ENERGY BOARD
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0106: Commodity Pricing, Load Balancing and Cost Allocation Methodologies for Natural Gas Distributors in relation to Regulated Gas Supply.

Industrial Gas Users Association ("IGUA") Submissions.

IGUA has participated in development of the record in the captioned proceeding. In the end, there appears to be general industry and stakeholder consensus on the changes to commodity pricing and load balancing practices that are appropriate for Ontario gas distributors. The one exception is the proposal put forward by the gas marketers participating in this proceeding to change the approach to default pricing of natural gas supply in Ontario.

This letter reflects IGUA's views on, and brief final submissions in respect of, the proposals brought forward herein.

Proposals by Enbridge and Union.

Having considered the record, and the submissions of Enbridge Gas Distribution (EGD), Union Gas Limited (Union) and Ontario Energy Board Staff (Staff), IGUA generally finds the positions and proposals being put forward by EGD and Union to be reasonable and responsible. Each of EGD and Union are proposing relatively minor modifications to their gas supply rate setting and load balancing mechanisms that will better align the two utilities with the best practices of each.

EGD and Union have proactively and responsibly developed the proposals brought forward in this case in consultation with each other, and to IGUA's view are proposing appropriate changes which the Board should endorse.

In particular:

1. IGUA endorses the proposal by EGD to eliminate the "trigger" for quarterly gas cost related rate changes (QRAMs). Elimination of the trigger will render QRAMs more mechanical and certain, and will generally ensure that variances for future recovery remain as low as reasonably possible.

2. IGUA endorses the proposal by EGD to adopt the same 12 month rolling rate rider mechanism as is currently used by Union to clear the variance between OEB approved gas supply charges and actual gas supply costs for each quarter. Use of a 12 month clearance period lowers rate impacts, removes utility discretion in respect of the clearance period for 3rd quarter variances and thus removes a potential source of disagreement, and better facilitates recovery of the variances from all customers (regardless of annual load shape) in an equitable manner.

3. IGUA endorses the proposal by EGD to implement a mechanism to allow its direct purchase customers to adjust their mean daily volume (MDV) of gas delivery both annually and within a contract year in the event of a significant anticipated change in gas consumption, and all on a weather normalized basis. IGUA notes that the details of the mechanism to be employed by EGD to effect such MDV adjustments have yet to be put forward. The Board should direct EGD to file the details of its proposed mechanism for review and approval in EGD's next annual delivery rate case (for January 2010 rates).

4. IGUA endorses the proposal by EGD to retain its annual load balancing cycle, and not move to a multi-point balancing cycle such as that currently employed by Union in its southern delivery area. IGUA agrees with EGD that the in-franchise access to gas trading and storage at Dawn provides Union South customers with more flexibility to balance their own deliveries with consumption. The same is not true in the EGD service territory.

5. IGUA endorses the proposals by each of EGD and Union to adjust their respective QRAM filing schedules to allow their gas forecasts to be finalized closer in time to the effective date of their gas cost related rate changes. IGUA notes that Union's current process requires a procedural order from the Board, while EGD's current process proceeds automatically as a result of a process directed by Board endorsed settlement agreements. IGUA submits that the Board should consider directing that Union's QRAM process proceed as does EGD's, without the requirement for a procedural order, in order to provide regularity and predictability to Union's QRAM process timing.

6. IGUA endorses Union's proposal to eliminate its intra-period gas cost deferral account in favour of quarterly delivery rate adjustments for delivery rate components affected by changes in gas costs (carrying costs of gas in inventory, compressor fuel and unaccounted

for gas). For direct purchase industrial customers in Union's southern franchise territory this change will result in quarterly rate changes where their rates have changed only annually to date. However, the changes should, in the long run, be generally smaller and closer in time to the occurrence of the variances.

In summary, IGUA endorses the proposals for change brought forward by EGD and Union in this proceeding.

Gas Marketer Monthly Pricing Proposal.

A small number of industrial customers use system gas for some of their gas supply service. IGUA thus has only a tangential interest in issues of system gas pricing. To this extent, IGUA opposes the proposals brought forward by the Gas Marketer Group (GMG) in this proceeding for changes in system gas pricing methodology, and offers brief comment in respect of these proposals (deferring further argument on this issue to others with a more material interest).

In IGUA's submission, the essential flaw in the gas marketers' proposal to move to a monthly rate change process with a one month forward forecast period is that, unlike in Alberta (where default gas supply is procured to match demand on a daily basis), gas is delivered to Ontario in equal amounts daily, and storage is used by the regulated distributors as the primary tool to balance these daily deliveries with daily and seasonally varying gas consumption. If storage withdrawals were factored into default gas supply costs set monthly based on one month forward gas cost forecasts, the result should be similar to that of the current QRAM methodology which uses a 12 month forecast period to eliminate seasonality.[1]

The material remaining difference between the current QRAM methodology and the gas marketer proposal adjusted to recognize winter season storage withdrawals is that under the gas marketer proposal gas costs would be reset monthly. It is IGUA's conclusion, based on the record in this proceeding, that changing gas supply and related costs monthly would merely raise administrative costs without providing significantly more gas price transparency than do quarterly adjustments.

IGUA has also considered the GMG position that monthly gas cost changes would enhance gas consumers ability to compare default supply options with competitive supply options. In IGUA's view, comparing multi-year fixed price competitive supply offers such as those provided by Ontario's gas marketers against a one month forward gas price forecast as initially advocated by the gas marketers would be comparing "apples to oranges". To be truly comparable, default supply prices must be based on at least one 12 month gas cost forecast cycle, to remove seasonality effects. Otherwise, multi-year fixed price offerings, which necessarily remove seasonality effects, would appear more expensive (relative to system gas price) in the summer and less expensive in the winter. Once a 12 month cycle is adopted, IGUA submits that monthly

[1] The GMG witnesses could not offer comment on how factoring storage volumes in to their proposed model would differ from the current QRAM methodology. See Transcript volume 3, pages 83 and 84.

changes would not significantly enhance price signals as compared to quarterly changes, relative to the increased administrative costs of monthly versus quarterly changes.

In any event, IGUA notes in particular that the GMG is not advocating monthly delivery rate changes for delivery rate components affected by changes in gas costs.[2] Union's position is that if monthly gas cost changes were required it would prefer to stay with annual delivery rate changes for delivery rate components affected by changes in gas costs.[3] IGUA has noted above its support for Union's proposal to move to quarterly delivery rate changes from annual intra-period WACOG clearances as minimizing variances and facilitating timely variance recovery. EGD's position is that if gas supply charges are to be changed monthly, it would prefer to change delivery rates monthly[4], which could increase costs associated with delivery rate changes[5]. IGUA submits that delivery rate changes to reflect revenue requirement impacts of changes in gas costs should be quarterly, as advocated by the distributors, in any event of the outcome of the Board's deliberations on the GMG default gas supply pricing proposals. Monthly delivery rate changes are unnecessary and potentially costly.

In summary, IGUA submits that quarterly changes in both gas supply charges and delivery rates to reflect changes in gas cost forecasts reflects an appropriate balance market price reflectivity and rate stability.

Finally, IGUA notes the clarification provided of the GMG's positions in oral testimony[6] that while the adoption by EGD of three point banked gas account balancing should only be approved in conjunction with reestablishment, on a weather normalized basis, of daily delivery requirements (MDV), the reestablishment of MDV need not be predicated on adoption by EGD of more frequent gas balancing requirements. As commented above, IGUA endorses the adoption by EGD of more flexible MDV re-establishment policies, but agrees with EGD that adoption of a multi-point annual gas delivery balancing cycle would not assist (and could be of detriment) to EGD's direct purchase customers.

Comments on Implementation.

IGUA takes no position on the gas marketers proposal that EGD and Union adopt common billing terminology. IGUA does note the evidence, however, that changes to common billing terminology would be of little value to industrial customers.[7] Industrial customers should not bear any of the costs of such changes.

IGUA has endorsed EGD's proposal to adopt more flexible MDV re-establishment policies, and has noted that the details for such proposal have yet to be developed by EGD. IGUA has submitted that the Board should direct EGD to file the details of its proposed mechanism for review and approval in EGD's next annual delivery rate case (for January 2010 rates). While

[2] Transcript volume 3, page 76, lines 4 to 12.
[3] Transcript volume 1, page 46, line 22 to page 47, line 13.
[4] Transcript volume 2, page 68, line 18 to page 69, line 4.
[5] Transcript volume 2, pages 69 *et seq.*
[6] Transcript Volume 3, pages 76, line 13, *et seq.*
[7] Transcript volume 3, page 195, lines 13 through 24.

IGUA endorses the development and implementation of such a policy, IGUA reserves its position, based on the details of the policy as ultimately developed, to comment on the quantum of costs prudently incurred to implement the proposal and the appropriate mechanism for recovery of those costs.

Finally, IGUA notes that the Federation of Rental Housing Providers of Ontario (FRPO) has raised an issue regarding the allocation of the proceeds from gas balancing incentive payments required by EGD.[8] It appears to IGUA from the evidence provided by EGD's witnesses that revenues resulting from direct purchase customer balancing payments (effected through discounted gas purchases by the utility from, or premiums on gas sold by the utility to, an out of balance DP customer) are allocated only to system gas customers (through PGVA disposition) rather than to all delivery customers. IGUA endorses FRPO's concerns regarding this treatment of revenues associated with utility policies on BGA imbalances, and commends the evidence in this respect for the Board's further consideration.

Conclusion.

IGUA is of the view that the record in this case is generally clear, and that the merits of the utilities' proposals, and the problems with the gas marketers' proposals, are readily apparent. Having reviewed the clear and comprehensive submissions of EGD, Union and Staff, IGUA has thus adopted a relatively summary approach to its final submissions in this case.

IGUA submits that in so doing, and in its measured participation in this proceeding, it has acted reasonably and responsibly, in furtherance of both the interests of its constituents and the efficiency and efficacy of the Board's process. IGUA requests that it be awarded 100% of its costs reasonably incurred for this participation.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Macleod Dixon LLP

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[8] Transcript volume 2, page 133 *et seq*.

c. Murray Newton (IGUA)
Patrick Hoey (EGD)
Chuck Hindley (NRG)
Mark Kitchen (Union Gas)
All Intervenors

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