uniongas
A Spectra Energy Company

May 27, 2009

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Re: EB-2008-0106
Union's Reply Argument

Dear Ms. Walli:

Please find attached Union's Reply Argument for the above noted proceeding.

Should you have any questions please contact me at (519) 436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2008-0106 Intervenors
Crawford Smith (Torys)

EB-2008-0106

ONTARIO ENERGY BOARD

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors;

REPLY ARGUMENT
OF UNION GAS LIMITED

A. Overview

1. This is Union's Reply Argument. It follows the headings used in Union's Argument in Chief. As the Reply endeavours not to repeat arguments already made it should be read in conjunction with Union's Argument in Chief.

B. Quarterly Rate Adjustment Mechanism

2. Union is proposing in this proceeding only the following changes:

   (i) to eliminate the Intra-Period Weighted Average Cost of Gas ("WACOG") deferral account, and

   (ii) to revise its QRAM filing requirements and timeline.

3. Intervenors, almost without exception, have accepted Union's proposals. VECC, CME, IGUA, the City of Kitchener and BOMA/LPMA all specifically argue that Union's proposals are appropriate.[1] Accordingly, Union's proposals should be accepted.

[1] VECC Argument, p. 13; CME Argument, p. 3; IGUA Argument, pp. 1-2; Kitchener Argument, p. 3; BOMA/LPMA Argument, pp. 7-8

4. Union is not proposing any changes to the other aspects of its existing QRAM methodology. Only one intervenor, the Gas Marketer Group ("GMG"), has suggested that it should. GMG argues for a monthly rate adjustment using monthly forecasting and monthly disposition of any PGVA variances.[2] In the alternative, GMG argues for a monthly rate adjustment with twelve (12) month forecasting and disposition periods (Scenario #1 described in Exhibits E2 pp. 16 and 20 and K1.3). GMG refers to this alternative position as an intermediate step to ultimate MRAM implementation.[3]

5. With the possible exception of SEC, none of the other intervenor groups support either of the GMG's alternative proposals. For example, they argue that:

- "The methodology proposed by the [GMG], VECC submits, would harm small-volume residential customers by increasing the volatility of overall utility sales rates and by impairing the ability of such customers to make informed decisions about their gas supply" (VECC).[4]

- "The GMG proposal, however, results in a variance between what the customer paid and the utility acquisition cost. This would require an adjustment to prices going forward to clear this balance in the PGVA. In this example, the GMG proposal would actually lead to the deviation of future prices for market prices even when prices are exactly as forecast. The current methodology would not." (BOMA/LPMA).[5]

- "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).[6]

- "Board staff agrees that the QRAM methodology provides an appropriate balance between a price signal that accurately reflects market prices and price stability" (Board Staff).[7]

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2 GMG Argument, paras 8-13

3 GMG Argument, paras. 33-39

4 VECC Argument, p. 3

5 BOMA/LPMA Argument, p. 3

6 IGUA Argument, p. 3

7 Board Staff Submission, p. 7

6. Neither of the proposals put forward by the GMG are the proposal it advanced at the Hearing. In its pre-filed evidence, the GMG proposed a monthly rate adjustment mechanism modeled on the process followed in Alberta. However, in response to interrogatories from a number of parties which pointed out that the GMG had failed to consider the fact that, unlike Alberta (where storage is not used for the provision of system supply), storage is an important element of the winter gas portfolios of Union and Enbridge, the GMG "refined" its position. In its refined position, the GMG proposed blending the monthly cost of gas in the winter with the average cost of gas taken out of storage. Ultimately, the GMG was unable to clearly explain how the suggested approach would take account of other elements of the utilities cost structure that are affected by a change in the price of gas.[8]

7. This is not to suggest that the GMG is required to argue in support of the proposal it advanced in interrogatories and at the Hearing. Rather, it is to highlight that the GMG's position is a moving target which has changed at least three times. In Union's view, the reason for these changes is obvious: the GMG's positions have been unacceptable and unworkable. There is no reason to believe that the current incarnation of the GMG position should be any different.

8. Union agrees with intervenors and Board Staff that the existing QRAM methodology provides customers with the appropriate balance between market price sensitivity and price stability. The Board's conclusion in the NGF report that, "the current pricing process whereby the price is set every three months the basis of a twelve month price

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[8] Transcript, April 16, pp. 32-37

forecast, represents a balance between market price signals and price stability", remains true today.[9] In this respect, Union agrees with the decisions of the Manitoba PUB and the British Columbia Utilities Commission in comparable circumstances.[10]

9. In its evidence Union tested both of the proposals put forward by the GMG. These alternatives do not offer improvements in both price stability and market price sensitivity. In the scenario relied upon by the GMG (Scenario #1) where somewhat less stable, but more price sensitive rates would result, these could only be achieved through increased costs, increased administrative burden, and customer confusion associated with moving to monthly filing.[11] While the GMG disputes the magnitude of these costs, two conclusions are indisputable: (1) costs at some level will be incurred; and (2) distribution customers are not prepared to pay these costs (and it would be manifestly unfair to make them).[12]

10. In its argument, SEC argues that the Board will have to determine the level of volatility appropriate for system gas customers. Union agrees with this submission. SEC, however, proceeds to suggest that a monthly adjustment system may be appropriate. With respect, this position is contrary to the arguments put forward by all other intervenors with the exception of GMG. As their arguments reflect, intervenors are not prepared to trade any decrease in price stability for improved market price sensitivity.

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[9] NGF Report, p. 68

[10] Exhibit K3.2, Manitoba PUB Order No. 160/07

[11] Exhibit E2, pp. 13-21, Transcript, April 16, pp. 25-27

[12] As reflected in Exhibit J1.1, Union has estimated the incremental costs of moving from a QRAM to an MRAM to be $2.45 million (O&M) and $0.4 million (Capital)

Reference Price

11. In its argument, the GMG suggests a single, Ontario wide reference price based on the month ahead index at a designated trading point.[13] No party supports this proposal and it should be rejected by the Board.

12. Union agrees with the submissions of BOMA/LPMA, CME and others, that, given the operational differences between Union and Enbridge, adopting a province wide reference price would achieve little other than to increase deferral account balances and increase rate volatility.[14]

C. Cost Allocation

13. Under the headings "Impact on Revenue Requirement" and "Cost Allocation", SEC argues that there should be no pass through of commodity price charges to distribution charges and load balancing rates.

14. With respect, SEC's argument is beyond the scope of this proceeding and should be rejected by the Board. The argument is not engaged by any of the specific issues on the Board approved Issues List. Union did not file any evidence which addresses the argument, nor did the SEC ask any relevant interrogatories, or at all. SEC also did not cross-examine on the point.

15. In any event, the Board has previously determined the issue. In RP-1999-0017, the Board considered the argument advanced by the SEC. In the result, the Board

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[13] GMG Argument, para. 14

[14] BOMA/LPMA Argument, p. 5, CME Argument, p. 4

determined that Union should not be at risk for commodity price changes. The Board held that:

> "2.355 The Board is prepared to accept adjustments to reflect changes to gas prices and thereby reduce this risk to which the Company would otherwise be exposed. The Board deals with the methodology for the treatment of unaccounted-for gas volumes separately below in Section 2.5.7. With respect to inventory carrying costs and compressor fuel the Board accepts Union's proposal that these be dealt with annually through the customer review process on a forecast basis. The Board believes that it is appropriate for Union to be at risk for volume variances in these items, at least a year at a time as they have proposed. **However, since the Board believes that gas prices are largely beyond management's control it directs that price variances be tracked and dealt with annually through the customer review process.**" [Emphasis added.]

16. Since the Board's decision in RP-1999-0017, Union has consistently treated gas cost price variances in Union's distribution rates as a pass through. This treatment has been approved by the Board in each of Union's subsequent cost of service and deferral account disposition proceedings.

D. Billing Terminology

17. GMG argues that Union and Enbridge should harmonize their billing terminology. No intervenor supports this proposal and it should be rejected by the Board. There is simply no evidence that consumers compare the bills of one distributor to the other, let alone that they are confused when doing so.

E. Implementation

18. As stated in Union's Argument in Chief, Union does not anticipate any material cost impact as a result of its two proposals and that, in the event such costs are incurred, these

will be allocated in a manner consistent with the existing Board approval cost allocation methodology. Union submits that the Board should allow, in this proceeding, recovery in rates of implementing Union's proposals. Further, should the Board accede to any of the GMG's submissions (which the Board should not), Union submits that the associated implementation costs should also be approved.

F. Conclusion

19. In conclusion, Union asks that the Board approve the changes Union is proposing to its QRAM methodology. Union further asks that in all other respects the Board confirm Union's existing QRAM, Load Balancing and Cost Allocation methodologies. There should be no billing terminology changes.

May 27, 2009

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AND TO: All Intervenors