

December 13, 2010

**VIA RESS AND COURIER**

Ms. Kirsten Walli  
Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

**Ian A. Mondrow**  
Direct 416-369-4670  
ian.mondrow@gowlings.com

Assistant: Cathy Galler  
Direct: 416-369-4570  
cathy.galler@gowlings.com

Dear Ms. Walli:

**Re: EB-2010-0359: Union Gas Limited (Union) January 1, 2011 QRAM Application**  
**Industrial Gas Users Association (IGUA) Comments**

---

We write as legal counsel to IGUA.

IGUA accepts the delivery rate changes proposed by Union resulting from changes in gas costs. IGUA has concerns, as articulated below, regarding the other "deferral account adjustments" proposed by Union, but submits that these other adjustments should be accepted by the Board, but not "closed" until full information regarding these other adjustments has been provided on the public record.

### **Delivery Rate Changes Resulting from Changes in Gas Costs**

IGUA's advisors, Aegent Energy Advisors Inc. (Aegent), have reviewed Union's Application for quarterly adjustment of rates (QRAM) to be effective January 1, 2011. Based upon Aegent's advice, IGUA is satisfied that, in respect of delivery rate changes resulting from changes in gas costs, Union has properly followed the QRAM methodology approved by the OEB in its EB-2008-0106 Decision.

### **"Deferral Account Adjustments"**

In addition to delivery rate changes resulting from changes in gas costs, Union has included in this otherwise mechanical QRAM application requests for approval for 3 prior period adjustments to certain gas cost related deferral accounts. These adjustments have been identified and brought forward as a result of a "reconciliation" that Union reports it has recently performed between its QRAM filings and its general

ledger account.<sup>1</sup> The discrepancies thus identified, and the adjustments therefore requested, can be summarized as follows:

1. A clerical error in entry of gas volumes purchased for South sales service customers in the month of April, 2010 resulted in volumes in the SPGVA being overstated (i.e. the entry was too high), leading to understatement of the average cost per unit of volume purchased and consequent under recovery from South sales service customers of \$8.377 million dollars. Union is proposing to recover this shortfall prospectively from South sales service customers. (While Union characterizes this adjustment as a "current period adjustment", in fact it relates to the SPGVA balance already accounted for in rates as of July 1, 2010.)
2. An error occurred in the previous reversals of NPGVA entries for spot gas purchased during 2008 and 2009 to serve North sales service customers. When these volumes were erroneously entered in the NPGVA, the Alberta border reference price was used (as it should be for entries in the NPGVA). The volumes entered, however, were spot gas purchases, and should have been entered in the Spot Gas Purchases Deferral Account, which uses the Ontario landed reference price (equal to the Alberta border reference price plus costs for transportation to Ontario). When the entries were previously reversed, the Ontario landed reference price was used both for the correct entry in the Spot Gas Purchases Deferral Account and to reverse the erroneous entries in the NPGVA. In the result, the NPGVA reversals (using the higher Ontario landed reference price) exceeded the initial erroneous NPGVA entries (using the Alberta border reference price) by \$4.919 million, resulting in over recovery from North system sales customers in that amount. Union is proposing to credit this over collection to North system sales customers prospectively.
3. The third error was in the recording of costs related to transportation to move gas from Dawn to Parkway to serve Union North sales service and bundled-T customers. Effective November, 2008 Union replaced third party transportation capacity previously used to move gas from Dawn to Parkway with existing Union capacity on that route. When the third party capacity was replaced with Union's own capacity transportation costs were recorded as having been reduced. In fact the costs did not change, just the recipient of the transportation payments (with Union replacing the 3<sup>rd</sup> party as the recipient of the transportation payments). In the result, the North TCPL Tolls and Fuel Deferral Account has been understated by \$3.468 million for 2009. Union is proposing to recover these costs from North system sales and bundled-T customers.

In addition to the errors and associated proposed recoveries outlined above, correction of the third of these errors (recovery of previously under recovered Dawn to Parkway transportation costs for 2009) will result in an increase in revenues to Union in the amount of the proposed correction (\$3.468 million), and a resulting increase in 2009

---

<sup>1</sup> Tab 1, p. 4, lines 1 through 6.

earnings to the account of ratepayers of approximately \$1.75 million. Union is proposing to credit ratepayers with these additional earnings as part of its 2010 Earnings Sharing Mechanism (ESM) Application to be brought forward later in 2011.

IGUA has a number of concerns with the these proposed deferral account adjustments:

1. First, IGUA notes that neither Union's covering transmittal letter nor its Application contain any reference to these adjustments which, as noted above, are atypical for QRAM applications. Even the evidence that addresses, among other things, these adjustments, does not flag this atypical component of the application in its statement of purpose.<sup>2</sup> IGUA respectfully submits that in the context of a QRAM application, generally assumed to be a purely mechanical exercise and always subject to a summary Application process, Union should have been more express in its Application and its transmittal about these very non-mechanical proposed rate adjustments. (IGUA does acknowledge that Union's staff have been forthcoming in response to informal inquiries related to these matters made subsequent to QRAM filing.)
2. Union's evidence refers to the discovery of these prior period errors through a "reconciliation" between Union's QRAM filings and its general ledger. IGUA would like information on the record on why this reconciliation was undertaken, and how far back it went. IGUA notes that Union's current proposals are for adjustments related to amounts recorded for the years 2008, 2009 and 2010. Union should indicate whether there are further, earlier adjustments warranted, and if not why not.
3. With respect to the first error, the data entry related to the South sales service volumes purchased in April, 2010, IGUA would like information on the record on what the correct and the erroneous volumes were (i.e. what precisely was the error).
4. With respect to the reversal of spot gas purchase entries erroneously recorded, and then erroneously reversed from, the NPGVA, IGUA would like more detail on when these entries were made and reversed, and how and when such reversals have been credited/debited to ratepayers.
5. IGUA would like to know whether there are other, non-gas cost related corrections to previously filed costs that Union's "reconciliation" exercise has revealed and which are to be brought forward in another application.
6. With respect to the statement made by Union that it will rely only on its general ledger for the purposes of future QRAM filings, IGUA would like a more detailed explanation on the record from Union as to what it proposes to change for the

---

<sup>2</sup> Tab 1, p. 1, lines 3 through 6.

purposes of tracking gas cost related deferral and variance going forward, and how this change will provide greater accuracy in QRAM filings in the future.

7. IGUA would also like a complete explanation on the record from Union justifying its proposal to defer the credit to ratepayers of additional earnings sharing until later in 2011, while recovering as of January 1<sup>st</sup> previously understated costs associated with transportation from Dawn to Parkway (the third error outlined above). Why should the ESM credit not be processed to immediately offset the recovery?

### **IGUA's Position on Union's Proposals for Prior Period Adjustments**

IGUA has requested, above, more complete and on the record explanation from Union in regards to various aspects of the prior period errors that this Application seeks to correct. IGUA requests that Union provide such explanation in its responding submissions herein.

At the same time, IGUA generally advocates that costs be reflected in rates in as timely a manner relative to incurrence as possible.

In this instance, subject to the Board being initially satisfied with Union's further explanations, and with the caveat that follows, IGUA accepts Union's proposal for clearing in this application of the account balances related to the proposed prior period corrections. IGUA submits, however, that the Board could clear, but should not "close", the correcting entries, and that the Board should direct Union to respond to reasonable further inquiries on these matters as part of its next ESM application. IGUA is cognizant that while it and the Canadian Manufacturers and Exporters (CME) habitually review QRAM applications, other parties whose constituents are affected by these non-routine adjustments generally do not review QRAM applications to the same detail, and thus may not be fully aware of these aspects of Union's requests herein. IGUA submits that the Board and interested parties should have the benefit of discovery in a less cursory process than this QRAM application in finally considering the multi-million dollar prior period corrections that Union has brought forward.

### **Costs**

Pursuant to the Board's *Practice Direction on Cost Awards*, IGUA is eligible to apply for a cost award as a party primarily representing the direct interests of ratepayers in relation to regulated gas services. IGUA requests that the Board award it costs reasonably incurred in review of Union's QRAM.

IGUA has, in the past, been consistently awarded modest costs for review of QRAM applications. IGUA respectfully submits that the Board, in making such awards, has recognized some value (commensurate with modest costs) in the independent and informed review of such applications.

In the instant application, Union has brought forward issues not traditionally associated with mechanical and summary QRAM applications. IGUA has spent more time understanding and considering these issues than it would normally spend in considering a standard QRAM application.

IGUA continues to be mindful of the need for efficiency in its regulatory interventions, in particular in respect of relatively non-contentious matters such as is normally the case with QRAM applications. For QRAM reviews, IGUA has retained Aegent, whose professionals are expert in Ontario gas commercial and regulatory matters, including rate matters in particular. Aegent conducts a review of the QRAM application as filed, and provides a report to IGUA. Provided that Aegent's report does not indicate any concerns with either the application of the QRAM protocols or the rate outcome, IGUA is in a position to advise the Board that it has no cause for objection. This is the case in respect of the delivery rate changes proposed by Union in this application and resulting from changes in gas costs.

IGUA submits that it has acted responsibly with a view to informing the Board's review and decision on this application, while maintaining due attention to cost efficiency. On this basis, IGUA is requesting recovery of its costs for participation in this process.

Yours truly,



Ian A. Mondrow

cc. Murray Newton (IGUA)  
Chris Ripley (Union)  
Crawford Smith (Torys)  
Hima Desai (OEB)  
Intervenors of Record (EB-2010-0148)

TOR\_LAW\7540087\2