IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998, c. 15 (Schedule B);

AND IN THE MATTER OF a Notice of Proceeding on Natural Gas Storage Allocation Policies issued by the Ontario Energy Board on August 28, 2007.

ARGUMENT OF THE
LONDON PROPERTY MANAGEMENT ASSOCIATION

These are the submissions of the London Property Management Association ("LPMA") in response to Union Gas Limited's ("Union") Argument-in-Chief in the EB-2007-0725 proceeding.

A - IMPACT ON LPMA MEMBERS

LPMA members have received regulated natural gas service from Union primarily under rates M2 and M4. As of January 1, 2008, the existing M2 rate class has been divided between an M1 and a new M2 rate class, with the dividing line between the two rates determined by the annual consumption. The dividing line is 50,000 m^3. As a result, LPMA members will be served under rates M1, M2 and M4.

It does not appear that Union's proposals will impact on the unbundled option for the M1 and M2 customers, which is rate U2. This conclusion is based on the response provided by Union at the November 8, 2007 Technical Conference (pages 188-189) and the response to Mr. Rupert (Tr. Vol. 2, pages 152-154). However, a larger customer that is served under an M4 contract rate could be affected by Union's proposals. This is seen in the response provided by Union to the LPMA at Exhibit HDU2.6. An M4 customer would unbundle using rates U2, U5 or U7, depending on the size of the customer. Service provided by Union under rates U5 and U7 would be impacted by their proposals (Tr. Vol. 2, pages 154-155).

B - THE UNION PROPOSAL

Union's proposal has five main elements, as summarized on pages 1 and 2 of their Argument-in-chief (Exhibit ARG1). The LPMA Argument addresses each of these elements in turn.

B.1 – Changes to Aggregate Excess Method

Union proposes to revise the Aggregate Excess calculation each time a T1/T3 contract is renewed and that it be based in part on forecasted consumption and not exclusively on historical consumption. This methodology would also apply to unbundled customers (Exhibit A1, page 20). Union also proposes that the reduction factor be eliminated.

In particular, Union proposes to use a weighting scheme based on a 25% weight for each of the last two historical years and a 50% weight based on a forecasted amount. Special or transitional rules would be applied to circumstances in which this approach could not or should not be used because of no historical data, or anticipated significant changes in consumption (Exhibit A1, pages 21-22).

LPMA supports this change to the methodology. This change should provide more stability in the amount of storage available to a customer than the current methodology of using only the last historical year as the basis for the determination. This methodology should also provide an amount of storage more in line with what is reasonably expected to be required.

The second part of Union's proposal is that the calculation would be revised at the time of contract renewal. This proposal is in direct response to the Board's NGEIR Decision (pages 88-89) related to the lack of an effective mechanism to adjust contract volumes for changed customer circumstances.

LPMA also supports this component of Union's proposal because it would be more consistent with the treatment of bundled customers. Mr. Rupert raised the concern of whether or not a customer would be willing to contract for a longer term if they cannot change their contract parameters during the term of the contract. LPMA submits that this is a decision that each individual customer has to make on their own. LPMA suspects that for the majority of customers, this is not a significant issue, any more than contracting long term for a firm Contract Demand or upstream transportation.

The third component of the Union's proposal is the elimination of the reduction factor of 2.4% (Exhibit A3.9). LPMA accepts the rational provided by Union (Exhibit A1, pages 17-18).

All of the above submissions are made on the basis that there are no changes to the allocation methodology to the U2 rate class, as shown in Union's Storage Space Allocation – Southern Operations Area Polices & guidelines at Exhibit A3, Appendix B (Revised).

B.2 – New 10 x DCQ Method

Union's proposal is based on the commitment that using the new proposed method (or that approved by the Board) or continuing with the revised aggregate excess method (or that approved by the Board) will be the customer's choice. LPMA believes that this is a mandatory requirement. The customer, not Union, should determine which methodology best fits its operations.

Union has proposed a 10 x DCQ amount of storage, while IGUA has proposed a 38 x DCQ amount. This appears to be a wide spread in the amount of storage space to be allocated to these customers. LPMA does not recommend any specific amount, but does believe that the lower end of the range, the 10 x DCQ proposed by Union, is too low.

Union's estimate of 10 x DCQ is built on the premise that the method provides a customer with at least 5 days to make arrangements to mitigate supply in the event of an unexpected shut down. The 5 days is based on the possible scenario where a plant experienced an unexpected shut down on a Thursday or a Friday before a long weekend. The customer would have to make arrangements to mitigate its supply immediately following the long weekend so that supply could be diverted by the next day, Wednesday. The Board may want to consider if 5 days would be sufficient in such a scenario. An extension of at least one day would appear prudent to the LPMA, giving the customer 2 days to arrange a change to their upstream deliveries and/or diversions and receive approval from Union to do so.

More fundamentally, however, is that Union assumes that the customer is managing its storage at a 50% inventory balance when this unexpected shut down occurs. In the view of LPMA, this is not a reasonable assumption. Throughout the year, a high load factor customer is likely to have a higher level of inventory than 50% because their inventory will be filled during a planned shut down and gradually reduced when the plant is operating as expected.

LPMA believes that a more prudent assumption would be to determine the amount of storage allocated to a customer based on the scenario that storage inventory is somewhere between 50% and 100% full when the unexpected shut down occurs. Assuming even a marginal increase to a 60% inventory balance, the minimum 5 days of storage to account for an unexpected shut down would result in a 12.5 x DCQ allocation. IGUA's 38 x DCQ is equivalent to assuming an 86.8% storage inventory level that would accommodate an unexpected 5 day shut down.

By adding the extra day, as suggested above, to the 5 days needed as proposed by Union would change Union's proposal from 10 x DCQ to 12 x DCQ. Similarly, assuming 6 days and a 60% inventory balance, the resulting storage allocation would be 15 x DCQ.

LPMA submits that a reasonable amount of storage based on this allocation methodology lies somewhere between the 38 x DCQ proposed by IGUA and the 15 x DCQ estimated above using these conservative assumptions.

B.3 – Cost Based Deliverability at 1.2%

Union proposes that T1 and T3 customers be allocated cost based storage injection and withdrawal rights (deliverability) equal to 1.2% of the amount of storage space that they have under contract. Any amount over 1.2% would be at market based rates.

LPMA does not support the Union proposal to have deliverability limited to 1.2% at cost based rates for T1 and T3 customers.

B.3.1 – Standard Deliverability

Union's proposal is based on setting the standard deliverability rate at 1.2%. The four main reasons provided by Union for doing this are summarized in its Argument-in-chief at Exhibit ARG1, page 26.

LPMA submits that these reasons are irrelevant in determining what level of deliverability should be available at cost based rates. The first two reasons provided by Union simply indicate that 1.2% represents the average physical design and operation of Union's base storage pools and that this is consistent with the standard rate of deliverability offered by other storage companies operating in the market area. Ms. Chaplin asked the Union witnesses how the customers' reasonable balancing needs are addressed based on these two reasons (Tr. Vol. 2, pages 160-161). The Union witness could not state that 1.2% meets the reasonable balancing needs of its customers. Indeed, Union's evidence is the opposite. As seen in Exhibits A4.2 and A4.3, the levels of deliverability have been above 1.2% for most of the bundled rate classes over last number of years. The M4 rate class, for example, has required deliverability in the 1.9% to 2.8% range. This deliverability requirement, for which customers are charged, is based on the overall rate class and therefore includes some level of diversity. On a contract by contract basis, it is likely that the total deliverability required would exceed this rate class figure because of the loss of diversity. The T1 and T3 customers have also been provided with deliverability in the 1.9% range consistently since 2004.

As part of the NGEIR Decision the Board stated at page 67:

> *"whereas existing customers can meet their needs with the standard deliverability service (daily delivery of 1.2% of storage allocation), dispatchable generators want daily deliverability as high as 10% of their storage space allocation"***.**

With all due respect to the Board, this statement is not true. The evidence clearly shows that of all of Union's southern operating area rate classes, only the interruptible M5 rate class operated with a percentage of aggregate excess space less than 1.2% (Exhibit A4.3). Every other rate class exceeded 1.2%. Customers cannot meet their needs with the standard deliverability service.

The third reason provided by Union is that the Board has accepted 1.2% as the standard for other comparable customers (unbundled and large non-obligated T1 customers) and that T1/T3 customers would be given a competitive advantage if they were allocated more cost based deliverability. LPMA submits that this is not the case. First, non-obligated T1 customers are not comparable to the T1 and T3 customers that have an obligated DCQ. These electricity generating customers require storage for intra-day balancing, not for seasonal balancing. They are also not required to deliver gas to Union on an obligated daily basis as do the obligated T1/T3 customers. It should also be noted that Union does not have any unbundled customers served under rates U5, U7 or U9. Second, if T1/T3 customers are allocated more cost based deliverability than 1.2%, they would not be given a competitive advantage. The cost based deliverability to a customer should be limited to the amount reasonably required for the own consumption and balancing purposes. Further, these customers should not be allowed to use their cost-based storage space or deliverability for purposes other than balancing their own use. If a customer, or their marketer, wants to utilize their storage services for other purposes, then they should have the option of purchasing these services from Union at market rates. This customer choice would be tied into the additional flexibility that has been proposed by Union.

The fourth reason provided by Union is that there are other options available to T1/T3 customers. Union acknowledges that these customers have tended to use more than 1.2% deliverability in the past. LPMA submits that the NGEIR Decision (page 61) was clear in that *"effective storage options do not exist for the in-franchise customers of Union"*.

Further, if T1/T3 customers have other options available to them, then surely so the marketers that manage the U2 storage service for those customers. However, Union has been quite clear that the SPS high deliverability service would remain at cost based rates.

Even if any of the reasons provided by Union for setting the standard deliverability rate at 1.2% were valid, Union has not provided any evidence that cost based storage deliverability should be set equal to the standard deliverability rate. As shown in Exhibits A4.2 and A4.3, cost based deliverability that has been allocated to and recovered from the various rate classes significantly exceeds the standard deliverability rate as defined by Union.

B.3.2 – NGEIR Decision

In addition, the Union proposal appears to be premised on their interpretation of the NGEIR Decision that the Board will forbear from regulating high deliverability service (Exhibit A4.11, Updated). LPMA submits that this interpretation of the NGEIR Decision is in error. If Union really believed that the Board had decided to forbear from regulating high deliverability service, one would have to wonder why it is keeping the U2 high deliverability SPS service at cost based rates.

The evidence states that Union has sold additional deliverability to T1/T3 customers above the standard 1.2% level at cost based rates and that all T1/T3 cost based storage space and the associated deliverability has been treated and managed as part of a customer's end use plant/franchise requirements and as part of the no notice T1/T3 service (Exhibit A1, page 23).

Union further states:

> *"Consistent with the NGEIR Decision (p. 69 – 70) Union will provide deliverability equal to 1.2% of a customer's cost-based storage space allocation at cost-based rates. Additional deliverability if wanted by customers in excess of 1.2% would be available at market prices."* (Exhibit A1, pages 23-24)

LPMA submits that Union has selectively interpreted the Board's NGEIR Decision. The pages referenced by Union to support its conclusion are found in Section 5.2.3 of that Decision. That sections is titled "*New Storage Service, including High Deliverability Storage*". This section opens with the following statement at page 66 (emphasis added):

> *"This issue concerns a set of **new storage services** and, in particular, high deliverability storage services. The services include Enbridge's proposed Rate 316 and services related to the Tecumseh storage enhancement project and Union's **proposed high deliverability storage services** and three ex-franchise services: F24-s Upstream Pipeline Balancing Service (UPBS) and Downstream Pipeline Balancing Service (DPBS)."*

The above passage clearly delineates what this section relates to. It relates to new storage services proposed by Union. It clearly does not relate to existing storage services provided to Union's in-franchise customers.

It should be noted at this point that the definition of **storage services**, from Union's point of view, includes storage space and injection and withdrawal rights (deliverability). These items were all identified as components of storage services (Tr. Vol. 2, page 130).

As noted above, the pages referenced by Union to support their interpretation of the NGEIR Decision are pages 69 and 70, which is the Board's Findings on Section 5.2.3 - New Storage Services, including High Deliverability Storage.

In those findings, the Board stated at page 69 (emphasis added):

> *"**These services are not currently offered**, indeed they need to be developed, and investments must be made in order to offer them. Union has been conducting open seasons for its **new offerings** and is committed to providing these services if the Board refrains from regulating them.*

> ***The Board concludes that these services are substantially different from the bundled, unbundled and semi-unbundled distribution services offered by Enbridge and Union."***

Again, clearly, the storage services that the Board decided to refrain from regulating were services that were not yet offered and that were different from the services currently offered to bundled, unbundled and semi-unbundled customers. The T1/T3 customers were already receiving storage services from Union that included deliverability in excess of 1.2%.

In Section 5.2.1 – Regulated Storage Services of the NGEIR Decision, the Board concluded at page 56 that (emphasis added):

> *"It should continue to regulate and **set cost-based rates** for **existing storage services** provided to **in-franchise customers** up to **their allocated amounts**."*

Not only did the Board conclude that existing storage services for in-franchise customers (such as T1 and T3 customers) be at cost-based rates, the Board also concluded that the amount would be up to their allocated amounts. These allocated amounts used in the 2007 cost allocation study are 1.9% for both the T1 and T3 rate classes (Exhibit A4.3).

The Board recognized that bundled customers, in particular, do not have effective access to alternatives in either the primary or secondary markets and that competition has not extended to the retail end of the market. And while concluding that customers taking unbundled and semi-unbundled services have greater control over their acquisition and use of storage than do bundled customers and that these customers would have access to and use services from the secondary market, the Board stated that it:

> *"finds that customers taking unbundled or semi-unbundled service should have equivalent access to regulated cost-based storage for their reasonable needs."* (pages 56-57)

Equivalent access, LPMA submits, can be interpreted to mean a level of deliverability available to the bundled rate classes. Again, in 2007, the 1.9% shown in Exhibit A4.3 for rates T1 and T3 are within the range shown for the bundled contract classes of M4, M7 and M9, which range from 1.7% to 3.4%.

It should be noted that bundled customers do not acquire or manage storage. This is part of the bundled service provided by the utility. Further comment is also required to clarify the potential use of services in the secondary market by T1/T3 customers. T1/T3 customers that are obligated to deliver their gas to Union every day of year will typically fill their storage space in the summer and drawdown the balance throughout the winter. The obligated deliveries to Union is equal to the annual volume divided by 365. As a result, a T1/T3 customer expects to use gas in the winter that it purchased and stored in the summer. However, Union's proposal to limit cost based deliverability to 1.2% means that the customer would have to pay market rates to withdraw gas that they are required to purchase and deliver to Union in the summer period. There is no secondary market to withdraw your own gas out of the allocated storage space that a customer is using. There may be a secondary market for other services to replace the gas in storage and to augment the gas needed on a cold day but the impact on the customer is that they will then have an excess of gas in storage at contract renewal, not because they could not use the gas, but because they could not get access to it at cost based rates. In short, the customer is required to deliver the gas to Union and put it in storage, but then may have to pay market prices to withdraw this same gas. Mr. Gruenbauer described this in his testimony (Tr. Vol. 4, page 174) and Union accepted that it is the only party that can physically withdraw gas from the storage space it owns and operates.

Finally, on page 61 of the NGEIR Decision, the Board re-iterated its findings with respect to this issue when it found that:

> *"The Board agrees that effective competition storage options do not exist for the in-franchise customers of Union and Enbridge. The Board has already determined that these customers will continue to receive regulated cost-based storage rates."*

LPMA submits that the Board's NGEIR Decision is clear. In-franchise customers, including T1 and T3 customers, are to continue to receive cost-based storage services at levels consistent with their allocated amounts. Storage services include deliverability. LPMA further submits that in terms of deliverability, this means 1.9%.

B3.3 – A Solution

LPMA submits that T1/T3 customers should be given the option of taking cost based deliverability (1.9%) that is necessary to reasonably meet their needs but with the restriction of using that deliverability only in relation to their own consumption, or to accept Union's proposal of market based pricing for deliverability above 1.2% along with the additional flexibility that Union is offering and being able to use that deliverability for purposes other than balancing their own consumption. This option, like the option of taking storage spaced based on the aggregate excess methodology or the 10 x DCQ methodology (or whatever is ultimately approved by the Board), should be the customers choice.

B.4 – Additional Flexibility

Union proposes to provide customers with additional flexibility as to how they can use their storage. This additional flexibility is conditional on cost based deliverability being allocated at 1.2% and space allocated as proposed by Union.

The additional flexibility is supposed to provide customers the opportunity to take advantage of market opportunities through the enhanced ability to inject incremental supply or withdraw incremental supply from storage and allow these customers to use their contracted storage for purposes other than serving their own plant needs.

Under the current rules, storage space and deliverability are only available to serve the customer's consumption at the contracted meter points. This means that customers do not have a contractual right to use cost based services (i.e. space and deliverability) on a firm basis for any purpose other than that related to their end use consumption.
LPMA supports the basis of Union's proposal. If a customer has cost based storage (space and/or deliverability) that is based on their own consumption needs, they should

not expect nor be allowed to use this allocation for any other purpose. On the other hand, if these customers have space and/or deliverability that has been purchased at market based rates, then these customers should be allowed to use their contracted storage for purposes other than serving their own plant needs.

As noted above, in Section B.3, LPMA submits that customers should have the option to take a cost based deliverability service that reasonably serves their requirements, or a market based deliverability service over a cost based threshold. As part of this option, the customer would only be allowed to use their contracted storage for purposes other than serving their own consumption requirements if they choose the market based option.

In its Argument-in-chief (Exhibit ARG1, page 42), Union states that it would not be practical for Union to offer two different systems, such that customers with 1.2% deliverability receive the additional flexibility and customers that have higher deliverability do not receive the additional flexibility. The reason provided by Union for this lack of practicality is the administrative complexity involved in managing such a system. LPMA submits that Union has not provided any evidence to support this conclusion.

It is difficult to understand how a system that would allow a well defined subset (i.e. those that have contracted for market based services) of all T1/T3 customers the ability to use their market based storage for purposes other than serving their own plant needs would be more administratively complex than providing the same service to all T1/T3 customers. Why would it be more difficult to offer this service to 10 customers, for example, that want it, than to 50 customers, some of whom may want it and others that do not?

LPMA submits that the Board should direct Union to offer the additional flexibility to those customers who want it and elect the market based option for deliverability above the cost-based threshold and/or space above that provided by the chosen cost based allocation methodology. This would allow those customers who want the flexibility to use it.

This proposal also protects those customers who do not want this additional flexibility from paying higher rates for an unwanted service. If at some point in time one of these T1/T3 customers determines that it needs some additional storage space or deliverability it could still purchase the service from Union, a third party, or one of the T1/T3 customers that elected the market based option. Competition would be enhanced.

B.5 – Transition

Certainty should be a key component of regulation. When that certainty is altered in any way, a transition period should be used to mitigate any impact on customers. Thus, LPMA supports a transition process to whatever new methodology is approved by the Board for the grandfathered T1 customers. If the Board or other intervenors believe that the other T1/T3 customers should also have a transition period, LPMA would not disagree.

The Union proposal of a transition mechanism to provided grandfathered T1 customers with a contract expiry prior to March 31, 2009 the option of buying off-peak storage for the quantity of gas that they physically have in storage going into the winter of 2008/2009 in excess of the customer's new cost-based storage allocation is inadequate in the view of the LPMA. Based on their expectation that the amount of storage space they would be able to use, many of these customers may have made other long term commitments that may impact on their storage requirements and use.

LPMA submits that a fair transition process would be to gradually phase out the grandfathered amount of storage to the new storage allocation amount over several years. The Board has used a four year phase out of sharing in the long-term storage margins in NGEIR. The Board also used a five year phase out of the Delivery Commitment Credit in RP-2002-0130).

LPMA believes that a four or five year phase-in change to the new allocated amount of storage is appropriate to let the affected customers change other long term commitments and operations to adjust to the new reality. In addition, Union should offer these customers the option of buying off-peak storage for the quantity of gas physically in storage that is in excess of the phased-in amount of storage on an annual basis until the phase-in has been completed. The Board may also want to offer these customers the option of how long they want the phase-in to be, up to the maximum of five years. Some customers may be in a better position than others to re-align their operations and commitments to a lower level of storage. They should be allowed to do so.

C - COSTS

LPMA is a non-profit organization whose overall goal is to help property managers and those who own/operate residential income properties in the City of London and surrounding communities. LPMA has approximately 370 members ranging from single unit owners to managers and owners of in excess of 2,000 units. In total, LPMA members own or manage more than 35,000 rental units in the London area. The LPMA offers information and assistance to its members to help them deal with the legislation, rules and regulations that affect their business.

LPMA has attempted to address all of the issues relevant to its members raised in this proceeding. LPMA participated in the interrogatory process and the oral hearing.

LPMA participated responsibly in this proceeding, as is evidenced by the following:

- LPMA participated without the benefit of Counsel;
- LPMA only attended the hearing on days where its attendance was necessary, using the transcripts to review the proceedings on the other days; and
- LPMA worked with other intervenors in order to minimize duplication of time and effort.

For these reasons, LPMA respectfully requests the Board to award it 100% of its reasonably incurred costs in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 30th day of January, 2008.

LONDON PROPERTY MANAGEMENT ASSOCIATION

By their Consultant

AIKEN & ASSOCIATES

Randall E. Aiken

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Randall E. Aiken