

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2008;

AND IN THE MATTER OF a combined proceeding Board pursuant to section 21(1) of the *Ontario Energy Board Act, 1998*.

**WRITTEN ARGUMENT OF
ONTARIO ENERGY SAVINGS L.P.
RELATED TO SUBMISSION BY
UNION GAS LIMITED
REGARDING
COMMODITY RISK MANAGEMENT**

This written submission constitutes the views and recommendations of Ontario Energy Savings L.P. ("OES") with respect to outstanding issue #14.1 Union Gas Limited ("Union") - Commodity Risk Management Program.

It is the position of Union that the Board should, again, approve its Risk Management Program because, in Union's view, the program provides value to consumers by reducing, at a modest cost, gas price volatility.

OES submits that the Board should reverse its support for system-gas price-smoothing, as it did with Enbridge in its EB-2006-0034 Decision, and direct Union to discontinue its Commodity Risk Management Program. OES asserts that the benefits of incremental smoothing provided by the Commodity Risk Management Program are negligible and that the Board should make a finding that Union's Risk Management Hedging activities have no material impact on any volatility experienced by its customers.

In fact, it is OES' view that the distortions resulting from Union's Risk Management program are contrary to the objectives of the Board as set out in the *OEB Act* under Schedule B, part 1, Section 2.

- To facilitate competition in the sale of natural gas to users,
- To promote energy conservation and efficiency and;
- To provide for the education of consumers.

To facilitate competition in the sale of natural gas, it is imperative that the Ontario consumer is kept informed of all the elements affecting their commodity price. The natural gas market is, by its nature, dynamic. Changes to the market occur with great frequency and these fluctuations will continue based on current conditions, political factors, storage positions, weather, and other external factors. Union itself states that consumers are already protected from some volatility in the market price through tools such as equal billing, quarterly rate adjustment mechanisms, and the purchased gas variance account. Alternatively, consumers seeking price certainty have the opportunity to purchase competitive supply options offered by Natural Gas Marketers whose products are designed to remove volatility.

It is Union's role to provide a basic supply offering which is neutral and which accurately reflects current market pricing. Union's risk management program serves to blur the division between current market pricing and competitive market pricing and creates a barrier to fair competition. Furthermore, Union's hedging program allows the company to purchase longer term supply to further smooth the price, but long-term gas supply contracts may result in consumer pricing that is neither reflective of the market conditions, nor responsible to sales service customers who would bear responsibility for any potential pricing risks.

Utility movement away from market pricing also runs contrary to the overall spirit of conservation. Without accurate price signal experiences at the time of thinly spread supply or peaking demand, the customer is not given any incentive to reduce its consumption, begging the question of whether the cost of the risk management program supports the desired outcome. If risk management works to smooth volatility and is intended to protect the consumer from price swings occurring in a naturally variable market, than any movement to change consumer consumption behaviour and build on conservation initiatives will go unrealized.

Risk Management decisions are based partially on judgment and these judgments are not decision-making mechanisms that are transparent to the consumer. A consumer that cannot determine when risk management buying will begin, or what portion of the portfolio is to be fixed, cannot make an educated decision about its commodity purchase.

It is for these reasons that OES cannot support the maintenance of Union's Risk Management program. However, if the Board determines that Union should continue with its Risk Management program, OES asserts that the activities surrounding its program should be aligned with the continuation of Union's role as a neutral and reliable default supplier, with pricing that accurately reflects the current market and does not impede customer migration or mobility.

Further, the Board should order Union to limit its hedging activities for its supply mix portfolio to no more than twelve (12) month contracts, with the majority of contracts being for a duration of one month or one day.

OES contends that all activities involving gas supply services, including Risk Management, must be done in accordance with fully allocated costing practices as jointly shared utility resources are consumed under Risk Management services.

In conclusion, OES oppose the continuation of the Risk Management Program given its purpose to merely smooth the impacts of true market pricing. OES believes that there is value in ensuring consumers have knowledge of the actual price of the commodity they consume. Flattened prices are a disincentive to conservation initiatives in that they do not provide an accurate reflection of true market conditions. Finally, OES subm its the smoothing of prices sends inaccurate signals to consumers and blurs price transparency, both of which will always be essential considerations in a competitive market. With that, OES contends that the Board should direct Union to discontinue its Risk Management Program.

Thank You

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