EB-2007-0606
EB-2007-0615

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

AND THE 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 a 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.*

REPLY ARGUMENT OF UNION GAS LIMITED COMMODITY RISK MANAGEMENT

1. This is Union's reply to the arguments of Energy Probe Research Foundation ("Energy Probe"), Ontario Energy Savings LP ("OES") and the City of Timmins.

2. Union remains of the view, as outlined in its argument in chief, that its commodity risk management program is consistent with industry best practices, and provides value to consumers by reducing, at a modest cost, gas price volatility. Unlike the arguments of the intervenors above, Union's position is supported by the evidence. It is also supported by the Consumers Council of Canada and the Vulnerable Energy Coalition; intervenor groups representing customers who pay for, and benefit from, risk management.

Union's Motives

3. In its argument, Energy Probe makes two comments about Union's motives in supporting risk management. Neither comment is supported by the evidence; both are objectionable.

4. First, Energy Probe implies, at page 3 of its argument, that Union has failed to disclose the true, fully loaded costs of its risk management program and that it intends to realize on these costs by discontinuing risk management during the multi-year rate making period. There is no evidence to support this assertion. Energy Probe did not file any evidence in this proceeding, and failed to ask a single interrogatory addressed to this issue. Further, Energy Probe fails to point out that this very argument was considered and rejected by the Board in EB-2005-0520. In that case, the Board, with the benefit of a full record accepted Union's evidence regarding the very modest O&M costs associated with the program. The Board attributed no hidden motive to Union, nor should it in this case.

5. Second, Energy Probe suggests, at pages 4 and 6 of its argument, that the "actual objective" of Union's risk management program is to provide it with a "costly fig leaf" for use when responding to customer complaints about rising commodity costs. This is utter nonsense which, again, is not supported by any evidence.

The Value of Risk Management

6. At pages 6 to 8 of its argument, Energy Probe criticizes the value of Union's risk management program. There is nothing new in Energy Probe's argument. The argument relies entirely on evidence from the EB-2005-0520 proceeding to the effect that the overall bill impact of risk management is small. Union did not dispute this fact then, nor does it do so now. In fact, the very evidence relied on by Energy Probe was cited by the Board in a passage quoted *by Union* in its argument in chief at paragraph 8. To repeat:

> 2.2.17 To be sure, the effect is modest. Over the period from January 2003 to January 2006, Union was able to demonstrate a 16% reduction in volatility as it related to the PGVA, which resulted in a reduction in the consumer's experience in terms of overall bill impact of less than 1%. **While this result is modest, the Board notes that over that same period, risk management activity resulted in a reduction in the range of PGVA rate riders by about 30%.** This is to say that the range of adjustments required for disposition of the PGVA was reduced from 6.0 to 4.2 cents per cubic meter. It is noteworthy that the reduction in volatility is best measured on a quarter by quarter basis, rather than over an extended period. **In the period described, there were quarters where gas price increases were substantially mitigated through**

> **risk management. The mitigating effects were not necessarily a trivial outcome for consumers of gas in that quarter.** (Emphasis added.)

7. The purpose of risk management is to shave off the peaks and valleys experienced by customers. It is not intended to decrease the overall, long run cost of gas. As the Board noted in its decision, there is value to customers in mitigating against significant swings in the cost of gas. Here, the evidence shows that risk management has had a significant, positive impact on the size and volatility of PGVA rate riders.

The Benefits of Risk Management

8. At page 4 of its argument, Energy Probe refers to the risk management mark to market loss incurred by Union through to the end of August, 2007. As set out in Union's argument-in-chief, the purpose of risk management is not to beat the market. At any point in time there will be a gain or a loss as a result of risk management. Over time these gains and losses will net out. It is inappropriate to rely on any single period as justification for, or as an argument against, risk management. The loss suffered by Union in 2007 is no more relevant than the $30 million and $10 million gains experienced by Union in 2003 and 2005, respectively, or its projected 2008 results.

9. Energy Probe also misses the mark in asserting, at page 5 of its argument, that the EBP has a greater smoothing effect than does risk management. The point is that the two programs are complementary. As illustrated by comparing Attachment #1 and # 2 of Exhibit JTA.25, in those months (for example February 2004, 2006 and 2007) in which EBP customers experienced the greatest swings in their bills, risk management was able to reduce the size of those swings by up to 20%. In other words, there is a quantifiable, incremental benefit to risk management even for EBP customers.

No Impact on Competition/Conservation

10. OES' argument is internally inconsistent. The argument begins by asserting that the impact of risk management is negligible. It then proceeds to suggest that the Board should order Union to discontinue risk management *because of its impact* on competition and conservation.

11. Like the arguments made by Energy Probe, there is no evidence in support of OES's position that risk management has a negative effect on competition and conservation. Further, both assertions were soundly rejected by the Board in EB-2005-0520. As the Board observed when addressing the issue of competition:

> 2.2.10 It is not reasonable for marketers to expect the Board, charged as it is with a consumer protection mandate, to expose system gas customers to avoidable volatility, purchased at modest cost, and where the market price of gas will be paid within a reasonable horizon. That is the case in Ontario today.
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> 2.2.11 It is also noteworthy that no offeror, system gas supplier or marketer, is in a position to offer a real time experience of the spot price to consumers. It is technically unachievable, and in the case of marketers, precluded by regulation.

12. And, as it stated with respect to conservation, "there is no evidence to suggest that conservation decisions are impacted where the price charged for the commodity is an abstraction, one month, five months or one year removed from the time of use" (para. 2.2.13).

No Change to Contract Length/Type

13. OES advances the fall back argument that Union should be limited to one year contracts. No support is offered for this argument and it should be rejected. The Board approved the use of contracts up to five years in length in EB-2005-0520 in order to provide Union with sufficient market flexibility. There is no reason to depart from this determination.

Conclusion

14. For the reasons set out above and in its argument in chief, Union submits that the Board should approve the continuation of Union's commodity risk management. The evidence shows that Union's risk management program has met its principle objectives, and has reduced, at a modest cost, natural gas price volatility.

15. The arguments made by intervenors opposed to risk management, by comparison, are not supported by the record. In substance, they amount to nothing more than a request that the Board follow its decision in the Enbridge proceeding. However, as the Board stated in that case, the issue of risk management should be decided "on the basis of the evidence". The evidence in

this case shows that Union's risk management program fills an important role in reducing commodity price volatility at modest cost.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

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