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VIA RESS AND COURIER

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File No. T986737

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2011-0210 – Union Gas Limited 2013 Rebasing Application

Industrial Gas Users Association (IGUA) Argument

Pursuant to the accommodation offered by the Hearing Panel in this proceeding (Transcript Volume 11, page 1), IGUA requests that the Board accept this brief letter as its Argument herein.

IGUA's particular interest in this proceeding has focussed primarily on 3 issues; 1) the Parkway delivery obligation for large volume customers; 2) the proposed separation of the current T1 rate class in to T1 (smaller volume) and T2 (larger volume) rate classes; and 3) the magnitude of proposed increases to delivery rates for large volume delivery customers in Union's Northern franchise area (Rates 20, 25 and 100). On other matters of interest to IGUA in this application, but not uniquely so, IGUA has deferred to a number of intervenors active on all issues in this proceeding.

During the settlement discussions the Parkway delivery issue was resolved, and parties have agreed to a working group *"to review Union's Parkway delivery obligation and whether or not any changes should be made in whole or in part to that obligation after 2013"*. (Settlement Agreement Issues 3.17 at page 16.) IGUA looks forward to active involvement in discussions and hopes that the concerns of its Parkway delivery obligated members will be addressed through that process.

Having reviewed the evidence on Union's proposed split of the current T1 rate class in to a T1 class for the smaller volume constituents of the current T1 class and a new T2 class for the larger volume constituents of current T1 class, IGUA endorses that proposal. Based on Union's evidence on this topic IGUA is satisfied that the proposal will create a more homogeneous class for the largest volume southern franchise area customers, which in turn will allow rates and services for these customers to more closely address their unique characteristics.

On the remaining issue of particular interest to IGUA – the magnitude of proposed increases to delivery rates for large volume delivery customers in Union's Northern franchise area:

- Union has proposed rates that increase in 2013 relative to 2012 by 32.4%, 27.9% and 28.9% respectively for rates 20 (large customers), 25 and 100 (large customers). [Exhibit J11.10, Attachment 1, page 1]

- Despite these large proposed delivery rate increases, Union asserts that rate mitigation is not required, since on a total bill basis the impacts of these delivery rate increases would be much lower (about 8% for rate 25, and less than 1% for large customers in rates 20 and 100).

- IGUA acknowledges, as has been pointed out by Board Staff, that the Board's guidance to electricity distributors in respect of the need for a rate increase mitigation plan has been applied on a "total bill" basis.

- While IGUA accepts that total bill impacts may be an appropriate guideline, particularly for smaller volume customers, we submit that it should not be determinative of the issue, and particularly so in respect of large volume customers. Even at a relatively low total bill impact, the proposed rate 100 increase would have a quarter of a million dollar annual cost impact on Union's largest delivery customers.

If a large business saw a 30%/$0.25 million increase in any other major input cost, it would certainly shop around for a substitute. With a monopoly service like gas delivery, that is not possible. That is why services like this are regulated.

IGUA has deferred to others the need to critically evaluate the details driving the cost increases, including in particular those in the Northern franchise area. To the extent that the Board is satisfied that the rate increases proposed by Union are appropriate and necessary ("just and reasonable"), IGUA submits that the Board should nonetheless require mitigation such that delivery rate increases, year over year, be no more than 10%.

In response to transcript undertaking J11.10 Union has provided a sequencing of the mitigation options that would be available to it, which it has suggested (though not proposed), should the Board be inclined to direct mitigation. In the event that costs ultimately accepted by the Board as appropriate result in delivery rate increases in excess of 10%, IGUA submits that the Board should direct adoption by Union of one or more of such mechanisms to mitigate year or year increases.

In respect of mitigation options:

- IGUA does not believe that FT RAM revenue inclusion in rates should be used as a mitigation option, given the risk that FT RAM revenues will no longer be available in 2013 and beyond. [Transcript Volume 12, pages 55 and 56] In this event, this mitigation measure would have to be reversed [Transcript Volume 12, page 56]. A simple deferral of revenues, perhaps offset by any available FT RAM revenues realized, would achieve the same result. (IGUA is not arguing a position on other aspects of the FT RAM issue, but merely on the use of such revenues as a rate mitigation mechanism.)

- IGUA submits that the following mitigation options suggested, as required, by Union should be engaged first, and in this order; i) reduction in ROE; ii) common equity thickness phase in; and iii) 20 year declining trend in weather phase in. (Again, IGUA is not taking any position on these issues as standalone issues, and includes these in its position on rate mitigation only to the extent that the Board otherwise accepts Union's proposals in these areas as appropriate.)

- To the extent that these measures are insufficient, the remaining balance of the rate increase to be mitigated should be phased in over time. IGUA acknowledges that in this instance there will be carrying costs, and accepts that such carrying costs should be recoverable from ratepayers as part of the mitigation mechanism.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:

Cathy Gaaller

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