Ontario

ONTARIO ENERGY BOARD

BOARD STAFF COMMENTS ON DRAFT RATE ORDER

Union Gas Limited

2013 Rates Application

Board File No. EB-2011-0210

December 31, 2012

Introduction

Union Gas Limited ("Union" or the "Applicant") filed an application on November 10, 2011 with the Ontario Energy Board (the "Board") under section 36 of the Ontario Energy Board Act, 1998 for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2013 (the "Application"). The Board assigned file number EB-2011-0210 to the Application and issued a Notice of Application on December 1, 2011.

The Board issued a Decision on Union's 2013 rates on October 25, 2012. In the Decision, the Board ordered Union to file a Draft Rate Order within 42 days of the date of the Decision.

In Procedural Order No. 8 and Interim Rate Order ("Procedural Order No. 8") issued on November 26, 2012, the Board noted that Union filed a letter on November 21, 2012 requesting a one week extension to file the Draft Rate Order in order to incorporate changes related to the January 1, 2013 Quarterly Rate Adjustment Mechanism ("QRAM") application into its Draft Rate Order. The Board accepted Union's request and granted the requested extension. The Board also set out the revised timeline for the filing of comments on the Draft Rate Order by intervenors and Board staff.

In Procedural Order No. 8, the Board also ordered that Union's current rates be made interim until the Board issues a Rate Order determining 2013 rates.

Board staff wishes to make the following comments on Union's Draft Rate Order.

Board Staff Submission on Draft Rate Order

Storage and Transportation ("S&T") Allocation Methodologies

In its EB-2011-0210 Decision and Order, the Board found that Union's use of Storage and Transportation ("S&T") margin as a rate design tool to manage rate impacts, rate continuity and revenue-to-cost ratios is not appropriate, and that S&T margin should be allocated to rate classes on the basis of sound regulatory principles. The Board noted that there are three sub-categories of S&T margins:

Long-Term Transportation-related S&T margin, Short-Term Transportation-related S&T margin and Storage and Other Balancing Services-related S&T margin. The Board directed Union to file allocation methodologies for the above noted sub-categories, which reflect regulatory principles.

Long-Term and Short-Term Transportation-related S&T Margin

Union noted that the long-term and short-term transportation-related S&T margin to be allocated to in-franchise ratepayers is $3.314 million and $6.291 million respectively (a total of $9.605 million).

Union proposed to allocate long-term and short-term transportation-related S&T margin between Union North and Union South operating areas in proportion to forecasted 2013 distance weighted available capacity on the Dawn-Parkway and Ojibway / St. Clair transmission systems.

Union proposed to allocate the long-term and short-term transportation-related S&T margin to Union North rate classes in proportion to the 2013 Board-approved excess of peak day demand over average day demand (XSPK&AVG allocator). Union proposed to allocate the long-term and short-term transportation-related S&T margin to Union South rate classes in proportion to EB-2011-0210 design (peak) day demand.

Union stated that its proposal is consistent with the methodology approved by the Board in EB-2008-0034 (Union’s 2007 Deferral Account disposition proceeding) to allocate the Transportation and Exchange Services deferral account (No. 179-69) to rate classes.

Board staff supports Union’s proposed allocation methodologies for allocating the long-term and short-term transportation-related S&T margins as they reflect established regulatory principles.

Storage and Other Balancing Services-related S&T Margin

Union noted that the storage and other balancing services-related S&T margin to be allocated to in-franchise ratepayers is $4.551 million.

Union proposed to allocate storage and other balancing services-related S&T margin between the Union North and Union South operating areas in proportion to the allocation of storage space-related costs per the 2013 Board-approved STORAGEXCESS allocator.

Union proposed to allocate the storage and other balancing services-related S&T margin to Union North rate classes in proportion to the 2013 Board-approved excess of peak day demand over average day demand (XSPK&AVG allocator). Union proposed to allocate the storage and other balancing services-related S&T margin to Union South rate classes in proportion to EB-2011-0210 design (peak) day demand.

Union stated that its proposal is consistent with the methodology approved by the Board in EB-2011-0038 (Union's 2010 Deferral Account disposition proceeding) and proposed by Union in EB-2012-0087 (Union's 2011 Deferral Account disposition proceeding) to allocate the balance in the Short-Term Storage and Other Balancing Services deferral account (No. 179-70) to rate classes.

Board staff supports Union's proposed allocation methodologies for allocating the storage and other balancing services-related S&T margin as they reflect established regulatory principles.

Optimization Margin

In its EB-2011-0210 Decision, the Board directed that 90% of Union's 2013 forecast of base exchanges should be reflected in the 2013 revenue requirement. The Board also directed that 90% of half of Union's FT-RAM forecast for 2013 should be reflected in the 2013 revenue requirement. The Board also ordered the establishment of a new gas supply variance account in which 90% of all optimization margins not otherwise reflected in the revenue requirement are to be captured for the benefit of the ratepayers.Union proposed the following methodologies for allocating the optimization margin to rate classes.

Union proposed to allocate Firm Transportation-Risk Alleviation Mechanism ("FT-RAM") net revenues between Union North and Union South based on the upstream transportation contracts used to serve each delivery area. FT-RAM net revenues generated using upstream transportation long-haul contracts and STS contracts designed to serve Union North (with delivery points of SSMDA, WDA, NDA, NCDA and EDA) will be allocated to Union North. FT-RAM net revenues generated using upstream transportation long-haul contracts designed to serve Union South (the CDA delivery point) will be allocated to Union South. Specifically, with respect to capacity assignments, the revenue from each capacity assignment was attributed to either the Union North or Union South based on the delivery point. With respect to FT-RAM optimization, the total revenue earned from all optimization will be allocated based on the quantity of transportation capacity optimized, either North or South.

Union proposed that the portion of optimization margin related to Union North be allocated to rate classes in proportion to the allocation of 2013 Board-approved TCPL FT transportation demand costs.

Union noted that the portion of optimization margin related to Union South is applicable to sales service customers only. Accordingly, Union proposed to allocate the portion of the balance related to Union South to sales service customers based on sales service volumes.

Union stated that its proposal is consistent with the methodology proposed in EB-2012-0087 (Union's 2011 Deferral Account disposition hearing).

Board staff supports Union's proposed allocation methodologies for allocating the optimization margin as they reflect established regulatory principles. Board staff is of the view that Union's proposed allocation methodologies, discussed above, should be used to allocate the forecast optimization margin to rate classes for 2013 and should also be used to allocate the optimization margin that accrues in the new gas supply variance account to rate classes going forward. If the Board agrees with Board staff's proposition that the same methodology should be used for allocating both the forecast 2013 margin and the margin that accrues in the variance account, then Directive #12[1] in Appendix F of the Draft Rate Order can be deleted.

As the methodologies proposed by Union for allocating long-term and short-term transportation-related S&T margins, storage and other balancing services-related S&T margin, and the optimization margin are new proposals (and a direct outcome of the Board's October 25, 2012 Decision and Order), Board staff is of the view that the

[1] Directive #12 states: File a proposal to allocate the balance of the new gas supply variance account to in-franchise customers, at the time an application is filed with the Board to clear this account.

Board should make an explicit finding on these proposals in its Decision on the Draft Rate Order. Board staff submits that the Board should accept Union's proposed methodologies and direct that the same methodologies be used for allocating the noted margins in future rebasing proceedings. Board staff also submits that Union should not make any changes to these allocation methodologies in the future without Board approval.

Board staff has had an opportunity to briefly review CME's comments on the Draft Rate Order. On the issue of optimization margins and the allocation of such margins, CME argued that margins related to base exchanges should be treated differently from other gas supply-related optimization margins. CME submitted that Union's base exchange activities fall outside the ambit of Union's gas supply portfolio and therefore the proposal to allocate these margins only to those rate classes who pay for the gas supply portfolio is not appropriate.

Board staff notes that on page 117 of its October 25, 2012 Decision, the Board stated:

> As ordered previously, the amount built into rates related to gas supply optimization is 90% of Union's 2013 forecast of base exchanges and 90% of half of Union's FT-RAM 2013 forecast.

Board staff is of the view that the Board's intent, in its October 25, 2012 Decision, was that margins related to base exchanges and other upstream transportation optimization activities (i.e. FT-RAM activities) be treated in the same manner (i.e. as gas supply cost reductions). As such, Board staff believes that Union has appropriately interpreted the Board's findings on this issue.

Accounting Orders

Transportation Tolls and Fuel – Northern and Eastern Operations Area Deferral Account (No. 179-100) and Unabsorbed Demand Cost ("UDC") Variance Account (No. 179-108)

In its Draft Rate Order, Union noted that it proposed, during the oral hearing, that some updates be made to certain accounting orders to be consistent with Union's actual accounting treatment for these accounts. Union noted that its Draft Rate Order includes revisions to the Transportation Tolls and Fuel – Northern and Eastern

Operations Area Deferral Account (No. 179-100) and Unabsorbed Demand Cost ("UDC") Variance Account (No. 179-108).

In regards to these accounts, at the oral hearing, a witness for Union noted that the following description (and related entry) in Account No. 179-100 should actually be included in Account No. 179-108:

Debit	-	Account No. 623 Cost of Gas
Credit	-	Account No.179-100 Other Deferred Charges - Transportation Tolls and Fuel – Northern and Eastern
Operations Area		

To record, as a credit (debit) in Deferral Account No. 179-100, the benefit from the temporary assignment of unutilized capacity under Union's transportation contracts to the Northern and Eastern Operations Area. The benefit will be equal to the recovery of pipeline demand charges and other charges resulting from the temporary assignment of unutilized capacity that have been included in gas sales rates.

In the Draft Rate Order, Union removed that description (and related entry) from Account 179-100 and included it in Account No. 179-108 as follows:

Debit	-	Account No. 663 Transportation of Gas by Others
Credit	-	Account No.179-108 Other Deferred Charges – Unabsorbed Demand Cost Variance Account

To record, as a credit (debit) in Deferral Account No. 179-108, the benefit from the temporary assignment of unutilized capacity under Union's transportation contracts to the Northern and Eastern Operations Area. The benefit will be equal to the recovery of pipeline demand charges and other charges resulting from the temporary assignment of unutilized capacity that have been included in gas sales rates.

Board staff supports Union's updates to the above noted accounts as Union has stated that the revised accounting orders better reflects Union's actual accounting treatment. Board staff notes that the Board did not make findings on this issue in its October 25, 2012 Decision and Order. Board staff is of the view that the Board should make an explicit finding on this issue in its Decision on the Draft Rate Order.

Short-Term Storage and Other Balancing Services Deferral Account (No. 179-70)

In the Draft Rate Order, Union proposed the following description for the Short-Term Storage and Other Balancing Services Deferral Account (No. 179-70) ("Short-Term Storage Account"):

> To record, as a debit (credit) in Deferral Account No. 179-70 the utility portion of actual net revenues for Short-term Storage and Other Balancing Services, less the 10% shareholder incentive to provide these services and less the net revenue forecast for these services as approved by the Board for ratemaking purposes. The utility portion of actual revenues for Short-term Storage and Other Balancing Services is determined by allocating total margins received from the sale of these services based on the utility share of the total quantity of the services sold each calendar year.

> To record, as a credit in Deferral Account No. 179-70 the payment by Union Gas for the market value of utility space that was subject to encroachment.

Board staff is of the view that the accounting order description adequately reflects the Board's findings as it relates to storage encroachment. However, Board staff submits that the language regarding the "utility share" could be better defined.

In its October 25, 2012 Decision and Order, the Board stated:

> …all revenues generated through the use of the regulated utility storage space up to the 100 PJ cap, both planned and the excess over planned, should be recorded in the account for sharing with ratepayers.

Board staff submits that the following update should be made to Union's proposed description for the Short-Term Storage Account (updates are underlined):

> To record, as a debit (credit) in Deferral Account No. 179-70 the utility portion of actual net revenues for Short-term Storage and Other Balancing Services, less the 10% shareholder incentive to provide these services and less the net revenue forecast for these services as approved by the Board for ratemaking purposes. The utility portion of actual <u>net</u> revenues for Short-term Storage and Other Balancing Services is determined by allocating total margins received from the sale of these services based on the utility share of the total quantity of the services sold each calendar year. <u>The utility share reflects the transactions supported by utility storage space (up to the 100 PJ cap – both planned and excess over planned).</u>

Board staff suggests that Union comment on this update in its reply submission.

Upstream Transportation Optimization Deferral Account (No. 179-131)

In its Draft Rate Order, Union proposed the following descriptions (and entries) for the Upstream Transportation Optimization Deferral Account (No. 179-131) ("Optimization Account"):

Debit	-	Account No. 179-131 Other Deferred Charges – Upstream Transportation Optimization
Credit	-	Account No. 626 Exchange Gas

To record as a debit in Deferral Account No. 179-131 a receivable from customers and a reduction in cost of gas for the unit rate of optimization revenues refunded to in-franchise customers multiplied by the actual distribution transportation volumes.

Debit	-	Account No. 579 Miscellaneous Operating Revenue
Credit	-	Account No. 179-131 Other Deferred Charges – Upstream Transportation Optimization

To record as a credit in Deferral Account No. 179-131 a payable to customers and a reduction in transportation revenue equal to the ratepayer portion (90%) of the actual net revenue from gas supply optimization activities.

Board staff's understanding is that the second entry operates to record a credit in the Optimization Account equal to the ratepayer portion of the actual net revenue generated from gas supply-related optimization and to reduce transportation revenue by the same amount. Board staff asks that Union confirm that its understanding is correct.

Board staff does not understand the first entry (and related description). Board staff asks that Union explain what the first entry does and provide rationale for that entry.

Rate Design

Closure of Rate Class and Service Offerings

In its Draft Rate Order, Union noted that its rate design evidence included proposals to eliminate the wholesale transportation service Rate 77, the contract unbundled service offerings (U5, U7, and U9) and the unbundled storage service offerings on the Rate 20 and Rate 100 rate schedules in Union North effective January 1, 2013. Union proposed to eliminate the above noted rate class and service offerings as there are no customers forecast to utilize these services in 2013. Union noted that no concerns were raised during the interrogatory and hearing processes. As such, Union noted that its Draft Rate Order includes the elimination of the above noted rate class and service offerings.

Board staff supports Union’s proposal to eliminate the above noted rate class and services offerings as there are no customers forecast to make use of these services in 2013. Board staff notes that the Board did not make findings on this issue in its October 25, 2012 Decision and Order. Board staff is of the view that the Board should make an explicit finding on this issue in its Decision on the Draft Rate Order.

Rate Mitigation

In the working papers attached to the Draft Rate Order, Union provided the bill impacts of the Draft Rate Order on the total bill from Union’s January 2013 QRAM for each rate class.

In its August 17, 2012 submission, Board staff stated:

> Board staff is of the view that rate mitigation should only be applied when rate impacts are greater than 10% on the total bill. Board staff notes that 10% rate impacts on the total bill has been used, in the past, by the Board as an informal benchmark for what magnitude of rate impacts should trigger rate mitigation. Board staff submits that the same 10% benchmark is appropriate in this case.
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> If the Board’s findings in this proceeding, when taken as a whole, result in rate impacts greater than 10% on the total bill, Board staff submits that the Board should consider any and all rate mitigation measures it deems appropriate.

Board staff notes that there are no rate classes where the bill impact is greater than 10% on the total bill. As such, Board staff submits that no rate mitigation is required. However, Board staff would like to note, for the Board’s consideration, that there are number of rate classes where the rate impact on the delivery component of the bill far exceeds 10%.

Rate Implementation

In its Draft Rate Order, Union proposed to implement new rates on February 1, 2013, and to dispose of any rate adjustments for the period January 1 to January 31, 2013 to rate classes 01, 10, M1 and M2 through a temporary charge or credit in rates between February 1, 2013 and December 31, 2013. Union noted that all other rate classes will be billed effective January 1, 2013 and therefore no rate adjustment is required. Board staff supports Union's rate implementation proposal. Board staff submits that the temporary rate riders and disposition period are appropriate.

Board Directives

In Appendix F of the Draft Rate Order, Union provided a number of Board directives from the October 25, 2012 Decision and Order with which it will comply.

Board staff notes that Directive #11 is the same as Directive #8. Board staff submits that one of the directives should be deleted from Appendix F.

All of which is respectfully submitted.