

UNION GAS APPLICATION FOR FINAL
DISPOSITION OF 2007 GAS PURCHASE
DEFERRAL ACCOUNT BALANCES DEALT
WITH THROUGH THE QRAM PROCESS,
OTHER GAS SUPPLY RELATED DEFERRAL
ACCOUNTS AND OTHER DEFERRAL
ACCOUNT BALANCES

EB-2008-0034

May 02, 2008

SUBMISSION OF THE CITY OF TIMMINS

SCOPE OF WHAT IS BEING SOUGHT

The City of Timmins (“the City”) is concerned that, if the Board issues an order approving the **final** disposition of the balances in Union’s gas purchase and sale and related accounts, such order will amount to a de facto ruling that Union’s gas purchase and sale activities were prudent and in the public interest for 2007 and, by default, will be prudent and in the public interest for the next 5 years.

Our concern arises from what we understand Union’s position seems to be, at least with respect to 2007, (they are simply silent on the effect over the next 5 years). We say that seems to be Union’s position because of the tenor of their application evidence and their answers to Timmins’ interrogatory number 1 –The Scope of the Hearing.

In that evidence and in those answers Union, in effect asserts that the Board’s examination of its gas purchase and sale activity in each of the 2007 QRAMs was qualitative and involved determination of the prudence of that activity and its meeting of the public interest standard. This can be seen in their answerer to the “c” part of our interrogatory where we ask where the evidence is, in this EB-2008-0034 proceeding, on prudence and public interests. They say, as we read it: “It was in each of the QRAMs.”

Please see the interrogatory reproduced below:

UNION GAS LIMITED

Answer to Interrogatory from
City of Timmins

Reference: *Scope of the Application*

Question:

This application is for the disposition of the balances in the various gas supply related deferral accounts and the application states that the "balances were examined in each of Union's 4 QRAM applications in 2007" and goes on to say the "balances are subject to the Board's final approval."

- a) Would Union agree that the Board's examination of the balances in each of the QRAMs was mechanical and technical?*
- b) Does Union agree that the Board's examination of the balances in this proceeding is qualitative and involves determination of the prudence of Union's activities that gave rise to the balances?*
- c) If the answer to b) is yes, where is the evidence with regard to the prudence of Union's gas purchasing policies and actions which gave rise to these balances?*

Response:

- a) No.
- b) Yes.
- c) The evidence supporting gas supply-related deferral accounts is included in the quarterly QRAM filings.

Question: April 10, 2008

Answer: April 18, 2008

Docket: EB-2008-0034

In our submission this position of Union's—that there is a sufficient evidentiary record in the 2007 QRAMs for the Board to rule on the prudence and public interest of Union's gas purchase and sale activities—is patently ridiculous.

The one hint of that type of prudence/public interest investigation in the evidence is the enquiry with regard to the replacement contracts with Trunkline and Panhandle. And Union, as we understand it produced evidence on this matter only because it was a requirement in the settlement agreement in EB-2007-0520.

In anticipation of what Union might argue we would suggest that inserting this requirement in the EB-2007-0520 settlement should not, in any way, be taken as an indication that the provision of such evidence would satisfy the burden of establishing the prudence and public interest issue of Union's gas purchase and sale activities.

If there is any question of the sort of evidence that should be brought forward by Union to establish prudence and public interest are satisfied in its gas purchase and sale activities or whether it is present in this application or the 2007 QRAMS, a review of the evidentiary record in RP-2003-0063 demonstrates what, at least in part, needs to be produced. Briefly, and by no means comprehensively, that required evidence would include a detailed recounting of Union's gas purchase activities: what portion of supplies contracted long term, what portion short term, what are long term and short term, what are the pricing provisions: fixed, indexed mixed? This should be measured against a review of prices available in the market when the various contracts were entered into. There should be an examination of what purchase markets and transportation alternatives are and were available to Union and the basis of their choices of the ones they contracted.

Whenever Timmins or FONOM has sought, in past QRAM proceedings, to question the underlying approaches to Union's gas purchase and sale activities (e.g.-what sort of gas contracts are giving rise to the gas costs and is there a different approach, who should bear those gas costs, should there be a North/South split in gas supply and costs) it has successfully been met with the counter that, in a QRAM, these matters cannot be addressed because the format of the QRAM was fixed in RP-2003-0063 and that QRAMs involved only the examination of the compliance with that format. In our submission this confirms our understanding of the QRAM process as being formulistic and mechanical once the basic format has been investigated and set. If it was true that the QRAM process involves prudence and public interest determination questions then some of the areas of evidence we have suggested above would have been part of the process. Taking it to a more simple level if what was involved in the QRAM process was more than determining whether Union has filed the required materials in accordance with the QRAM formula there could be questions about the QRAM process itself as it relates to the question of prudence and public interest. For example: the question on the table is should the Board approve the final disposition of the 2007 purchase gas cost deferral accounts. Should the Board be looking at how those balances came to exist. Is it in the public interest that those balances should in part be the result of Union's use of a 12 month forward NMEX supply quote? Or should Union have been using a projection based on their actual gas purchases and some sort of projection of how those might vary in the next 4 months as the proxy for determining what balances would flow through to the deferral accounts. Certainly over the past while that would probably have led to lower balances in the deferral accounts—Union's actual gas buying activities and a short projection of them would we intuit be closer to their actual cost. It could well be argued that that would be in the public interest. There would not have been large credits to the commodity costs of the

consumers bills, less confusion might follow, there would be better indications to the consuming public what market prices actually are and the market might operate more effectively from the consumer's point of view. We are not arguing that these assertions are true or definitive. We are simply arguing that they are legitimately areas of discussion that should or might be investigated if the public interest and prudence were being determined.

All that having been said we are cognizant of the desire to determine the appropriateness of the deferral account balances and see them passed on to customers and the need to have some sort of resolution of the numbers involved.

The dilemma is, as we see it, that any final determination of the balances inevitably involves Union being able to argue that, since the dollar amounts involved were approved, all of its gas buying and sale activities for 2007 and for the next 5 years of their IR are and were in the public interest and are and were prudent.

We anticipate that the Board will embark, as they have promised, on an examination of the QRAM process. It seems to us, however, that such an examination will not solve the problems of prudence and public interest not being addressed when it comes to Union's actual rates and charges. The QRAM review, when it comes, may well allow all of these issues to be raised. But they will be raised only in connection with what will be done by Union and Enbridge in the future. We see no likelihood of their being any retroactive review of Union's practices and their results in dollar terms to their customers for any period prior to such a review and the date of its effective ruling.

It should also be noted that the EB-2007-0606/615 cases contained no examination of the gas costs as such. They were only touched on to the extent that they flowed through to the base year cost of service exclusive of gas costs.

To put our concerns in broad context--- better than 70% of Union total charges to its customers under the Board's stewardship consist of gas costs. There has been no Board review of whether Union's approach in that area was prudent and in the public interest since the EB-2003-0063 case. Any decision of the Board in this application should not foreclose a proper examination of the prudence of Union's actions in this area during 2007 (and perhaps 2004/5) and certainly should not close off the examination of Union's activities during the next 5 Incentive Regulation years.

From Timmins point of view, and in this respect as the sole representative of Union's Northern/Eastern region, Union's approach of having a different gas cost for the North versus the South (which it insists is just and reasonable, prudent and in the public interest) results in a very substantial financial burden. For the residential class alone, based on the most recent rates, it means that the residential customers in the North pay more than 50 million dollars annually than they would if they had the same commodity rates as residential customers in the South. This is for a **commodity** (transportation costs are not included in this comparison.) Direct marketers, who sell to the North and South have a single commodity price.

We have no advice for the Board as to just how it should protect the opportunity to conduct a thorough and fair examination of the prudence Union's gas purchase and sale activities. We only urge that it be done and that, in making whatever decision it eventually does in this application it in no way forecloses such an examination.

UDC

With the press of time in this case we remain somewhat confused as to Union's actual situation in this area.

Here is our understanding of what Union are saying: Union collected more in rates for planned UDC because those rates were set using Union's projections of what levels of pipeline capacity would be required to meet the peak demands across Union's system and to meet the targeted storage levels for Oct. 31. As it turned out the weather was warmer than projected in the rates so Union was left with excess pipeline capacity that they would have had to pay for (it is contracted in advance on a firm basis). We are left to presume that Union achieved reduction of its UDC to \$1.185 million from the projected \$3,186 million by the sale of this excess capacity to others. (Did they do that at cost or did they make a markup?) This presumption is based on Union's position that, to the extent they buy and sell gas, they do so at cost.

Their Table 1 on page 4, however mixes in volumes which suggests they may have moved some additional volumes – perhaps for the ex franchise customers—by utilizing this contracted for but not needed transportation space. We are left confused and suggest that this point needs clarification.

Interest paid on deferral account balances

In our interrogatory 8 (Ex. B4.8) we raised the question of possible inequity. Union is earning its overall rate of return (8+%) on that portion of its rate base made up by inventory. It is paying 4.59% or 5.14% in connection with that same inventory. Union simply says they are not related. It seems clear to us that they are and we leave that matter to the Board.

Tax Changes

We have had the benefit of reading the argument of LPMA on this matter and agree with and support their recommendations.

Disposition of Balances

Our only comment is that it may be somewhat difficult or unnecessarily cumbersome to spread an increase of 47 cents over 6 months.

Costs

Timmins requests that it be awarded 100% of its reasonably incurred cost of participating in this proceeding.

All of which is respectfully submitted this 2nd day of May, 2008

The City of Timmins
By its consultant

Peter F. Scully