March 14, 2014

Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli

RE: EB-2014-0050 – Union Gas Limited – April 1, 2014 QRAM Application

Dear Ms. Walli:

On March 6, 2013 Union Gas Limited ("Union") filed its April 1, 2014 QRAM application.

The Canadian Manufacturers & Exporters ("CME") submitted a letter to the Board on Union's April 1, 2014 QRAM application. The Industrial Gas Users Association ("IGUA") submitted clarifying questions to Union on March 10, 2014 to which Union responded to on March 11, 2014.

CME and IGUA had no objections to the approval of the April 1, 2014 QRAM application.

Union also received questions from Board staff on March 11, 2014. The responses to these questions are attached. Natural Resource Gas Limited ("NRG") submitted a request to intervene on March 11, 2014. Union has reviewed NRG's submission as it relates to this application and has replied under separate, confidential cover.

Union requests that the Board approve its April 1, 2014 QRAM application as filed.

If you have any questions on this matter, please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2013-0365/EB-2008-0106 Intervenors
Crawford Smith (Torys)

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, pp. 13-14

Union noted that it plans to bring forward a proposal for the disposition of load balancing costs associated with spot gas purchases made for its South Bundled DP customers and for the disposition of incremental supply costs associated with the management of UFG variances in its 2013 annual deferral account disposition proceeding.

a) Please explain why Union is proposing to dispose of the above noted amounts in the annual deferral account disposition proceeding as opposed to the current QRAM application.

Response:

Union is proposing to dispose of the costs associated with spot gas purchases to load balance Union South bundled direct purchase customers and the price variance associated with spot purchases to manage unaccounted for gas ("UFG") variances in its 2013 deferral account disposition. The recovery of these costs will require rate changes that are not consistent with the Board's EB-2008-0106 (QRAM Standardization) Decision.

Recovery of spot gas purchases costs required to load balance Union South bundled direct purchase customers may require a change to delivery rates. The only delivery rate change approved by the Board in EB-2008-0106 relates to the price change of delivery-related cost of gas items (compressor fuel, UFG and carrying costs on gas in inventory). Similarly, recovery of the price variance associated with spot purchases to manage UFG variances may require a change in delivery rates, as well as fuel rates and/or fuel ratios for both in-franchise and ex-franchise customers. These types of rate changes as part of QRAM were not approved by the Board in EB-2008-0106.

Further, in its RP-2004-0213 Natural Gas Forum Report, the Board stated:

> *"the QRAM price should be a transparent benchmark that reflects market prices, and, therefore, the methodology for calculating this price should be similar for all utilities…. Therefore the Board believes, the method for determining the reference prices should be formulaic and consistent, and, similarly, the methods for determining the PGVA and for disposing of PGVA balances should also be formulaic and consistent." (p. 69).*

This was re-iterated in the Board's Decision in the EB-2008-0106 QRAM Standardization proceeding. By proposing to dispose of the costs associated with spot purchases to load balance

Union South bundled direct purchase customers and the price variance to manage UFG in its 2013 annual deferral account disposition proceeding, Union's current QRAM application is formulaic and consistent with QRAM standard practices

Recovery of the spot gas or incremental gas purchases as proposed by Union in its current QRAM application is consistent with the Board's EB-2008-0106 Decision and the prior recovery of these costs (e.g. EB-2009-0054, Union's April 2009 QRAM).

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, p. 14

Union noted that it manages the costs of serving Rate 25 customers and why Union would not be seeking recovery of costs related to the purchase of spot gas for these customers.

a) Please clarify how Union manages the costs of serving Rate 25 customers and why Union would not be seeking recovery costs related to the purchase of spot gas for these customers.

Response:

Rate 25 is an interruptible service available to Union North contract rate customers, where Union provides the interruptible distribution service. Customers taking service under Rate 25 have the option to provide their own gas supply and transportation (T-service) or contract with Union for the provision of gas supply and transportation services (Utility sales service).

As discussed and approved in RP-1999-0017, Union has been managing the costs and revenues associated with Rate 25 utility sales service separate from the North Purchase Gas and Spot Gas Variance Accounts.

For Rate 25 utility sales service, the price for the gas sales service is agreed upon between Union and the customer, within the range approved by the Ontario Energy Board. This price reflects market conditions and is intended to recover gas costs incurred to provide service. The difference between the price charged for service and the approved Ontario Landed reference price used to record the revenue is recorded as a debit (credit) in the Rate 25 account.

The cost of gas incurred to serve Rate 25 customers are comprised of an allocation from Union's gas supply portfolio, spot gas purchases and gas purchase contracts specifically arranged for Rate 25 customers. The difference between the actual cost incurred and the appropriate approved reference price(s) used to record the expense is recorded as a debit (credit) in the Rate 25 account.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, p. 15 / Tab 1, Table 1, Line 7

Union noted that it diversified its spot gas purchases by contracting for TCPL STFT capacity from Empress to Dawn to bring additional volumes (3.2 PJs) to Dawn for the period January 28 to March 31, 2014.

i) Please discuss why the large majority of spot gas purchases occurred at Dawn

ii) Please discuss whether Union considered additional Empress (or other non-Dawn) spot gas purchases

iii) Please discuss whether further diversification of spot gas purchases could have reduced Union's cost of procuring gas supplies for its customers and/or enhanced security of supply.

Response:

i) Purchasing gas at Dawn provides the greatest flexibility to meet incremental market demand in both Union North and Union South. Union can move incremental supplies to Union North delivery areas using STS services and provide flexibility to serve markets in Union South. The Dawn purchases were more economical at the times Union was making its purchasing decisions compared to alternatives.

   It can also be difficult to source incremental transportation in the winter that is economic. Union did contract for 50,000 GJ/d of TCPL STFT service from Empress to Dawn for the period January 28, 2014 to March 30, 2014 for a total delivered volume of 3.2 PJ. This is discussed in more detail below.

   Purchasing gas at Dawn also provides Union the most flexibility; Union can purchase gas on the day, the rest of the month (using firm even dailies), or for the next month. Union could not do this from any other supply basin without firm transportation.

ii) Union did purchase volumes at Empress and transport the gas to Dawn using STFT as noted at Lines 2 through 7 on page 15 of Tab 1 and page 5 of Tab 1, Appendix A. This was done to diversify purchases when supply signals were tightening at the end of January.

   Purchasing gas at Empress requires incremental transport to deliver gas to Union North delivery areas or Dawn. Incremental transportation from Empress is limited to STFT or IT. The bid floor for IT from Empress to Dawn is unpredictable and fluctuated from 195% to 2729% in January to March to 5500% of firm tolls on any given day.

STFT was available for the period January 28 to March 31, at a bid floor price of 180% of firm tolls. Prior to this, the bid floor for STFT capacity on TCPL was posted at 435% ($6.18/GJ for transport to Dawn) and was not cost effective relative to purchasing supply at Dawn. On January 27, Union bid on the STFT which was offered, with a bid of 185% to increase likelihood of acceptance and Union was awarded 50,000 GJ/day for the period January 28 to March 31. As noted at Tab 1, Appendix A, page 5 of 7, the weighted average landed price at Dawn was $7.55/GJ. This included the cost of STFT transportation to Dawn, as well as the cost of the gas supply commodity and fuel.

Subsequently, TCPL posted bid floor prices for STFT at 1000% to 1200% ($14.20/GJ to $17.04/GJ for transport to Dawn). Adding the cost of this transport to the cost of the supply at Empress plus fuel to deliver the supply to Dawn would have made this option uneconomic or expensive relative to other options.

iii) Union accessed significant diversity of supply when purchasing supply at Dawn due to the large number of buyers and sellers of natural gas transacting at Dawn.

The Dawn Hub is connected to all major supply basins in North America and a significant amount of underground natural gas storage within the Great Lakes region. Dawn is also one of the most physically traded, liquid hubs in North America. The liquidity of Dawn is the result of the combination of:

a) access to underground storage;
b) interconnections with upstream pipelines;
c) take away capacity to growth markets;
d) a large number of buyers and sellers of natural gas; and
e) price transparency.

The Board, in its NGEIR Decision with Reasons, identified the importance of the Dawn Hub in its NGEIR Decision with Reasons (EB-2005-0551, November 7, 2006, page 7-8):

"The storage facilities are an integral part of what is commonly referred to as the Dawn Hub, is widely recognized as one of the more important market centres in North America for the trading, transfer and storage of natural gas. In its Natural Gas Forum Report, the Board stated "The large amount of nearby storage, combined with the convergence of pipelines linking the U.S. and Ontario gas markets, have made Dawn the most liquid trading location in Ontario. The Federal Energy Regulatory Commission (FERC), in its assessment of energy markets in the United States in 2004, made similar comments about

the significance of Dawn: The Dawn Hub is an increasingly important link that integrates gas produced from multiple basins for delivery to customers in the Midwest and Northeast. …Dawn has many of the attributes that customers seek as they structure gas transactions at the Chicago Hub: access to diverse sources of gas production; interconnection to multiple pipelines; proximity to market area storage; choice of seasonal and daily park and loan services; liquid trade markets; and opportunities to reduce long-haul pipeline capacity ownership by purchasing gas at downstream liquid hubs."

Gas prices were higher in all supply areas and Union continually evaluated the availability and economics of various supply options. Union considered various options to purchase supply and delivery to Dawn relative to purchasing the gas at Dawn, however, purchasing supply at other supply basins, and transporting on interruptible capacity would have required Union to purchase gas in the cash market on the day at a much higher price (given the transportation could have been interrupted at any time).

As indicated at page 7 of 21, line 9, Union was able to avoid the highest price periods due to frequent monitoring and layering in approach to spot gas purchases and by predominantly buying the gas proactively in the forward market. Based on availability of supply at Dawn, Union was able to purchase incremental supply at an average price of $7.12 /GJ which was significantly less than gas prices in the cash / day market.

Purchasing gas at Dawn also provides Union the most flexibility; Union can purchase gas on the day, the rest of the month (using firm even dailies), or for the next month. Union could not do this from any other supply basin without firm transportation.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, Table 1 / Tab 1, Appendix A

The majority of Union's spot gas purchases for the 2013/2014 winter were for volumes ranging between 1.8PJs to 3.2PJs. However, Union made two spot purchases for significantly larger volumes. Union purchased 5.6PJs on January 6, 2014 for delivery in January and purchased 7PJs on January 24, 2014 for delivery in February.

i) Please discuss what prompted Union to make the above noted larger volume purchases in single transactions.

ii) Specifically in regards to the 7PJ purchase made on January 24, 2014, the bids received by Union ranged from $7.00 to $7.73 USD/MMBtu. Union noted that it purchased all the volumes that were offered. Please explain why Union was willing to purchase spot gas at the top end of the bid spread.

Response:

i) The quantity of each purchase was driven by the variances that Union had experienced or was expecting based on actual and forecast consumption and weather related demands. On January 6, 2014 actual consumption to date triggered the need for incremental gas supplies of 5.6 PJ. On January 24, 2014, the updated actual consumption and future weather forecasts triggered the need for additional gas supply of 7.0 PJ. There were significant consumption increases above forecast at these intervals due to significantly colder than normal weather in those periods.

ii) As described above, Union required 7.0 PJ of supply and purchased what was available to meet that requirement.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, Table 1 / Tab 1, Appendix A

Please provide details on curtailment orders (e.g. number of days, duration, estimated volume curtailed) issued over the 2013/2014 winter. Please provide a breakdown of this information by the month in which the curtailment occurred. Please also provide the same information for the past 3 winters for comparative purposes.

Response:

Union understands this question only relates to Rate 25 and will answer accordingly.

Union interrupted the Rate 25 interruptible utility sales service one time this past winter in one delivery area only. The Union SSMDA was interrupted between January 23 and January 30, 2014. It was interrupted because TCPL curtailed the service that Union was relying on to serve this interruptible market. Once the underlying TCPL service was curtailed Union needed to interrupt the Rate 25 utility sales service to ensure it could serve its firm customer demands.

In the winter of 2013, the Union SSMDA was interrupted between March 1 and March 10. As a result of capacity constraints/compressor issues on the Great Lakes system that serves the TCPL system into Union SSMDA, Union's ability to flow interruptible volumes into the Union SSMDA was limited.

Union did not curtail the Rate 25 service in 2011 or 2012.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, Table 1 / Tab 1, Appendix A

Please identify which deferral accounts include amounts related to incremental gas purchases made over the 2013/2014 winter period.

Response:

The costs associated with incremental gas purchases during the winter 2013/14 are captured in:

1. South Purchase Gas Variance Account (SPGVA 179-106) for costs related to supply purchases of 26 PJ ($51.8 million) for Union South sales service customers;

2. North Purchase Gas Variance Account (NPGVA 179-105) for costs related to supply purchases of 4.2 PJ filling planned UDC for Union North sales service customers; and,

3. Spot Gas Variance Account (179-107) for costs related to supply purchases of 2.9 PJ ($6.5 million) for Union North sales service and bundled direct purchase customers. This includes both load balancing and other spot gas costs as described at pages 9-13 of Tab 1.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, Table 1 / Tab 1, Appendix A

Given the timelines for issuing a decision in this proceeding and the "non-mechanistic" nature of this application, please provide Union's view were the Board to consider the following:

i) Approve the establishment of the Alberta Border Reference Price, Ontario Landed Reference Price, and South Portfolio Cost Differential effective April 1, 2014 and the disposition of the deferral account balances as of April 1, 2014 that do not include amounts related to incremental gas purchases made over the 2013/2014 winter period on a final basis. Approve the disposition of the deferral account balances as of April 1, 2014 that do include amounts related to incremental gas purchases made over the 2013/2014 winter period on an interim basis pending a more comprehensive review.

ii) Approve the establishment of the Alberta Border Reference Price, Ontario Landed Reference Price, and South Portfolio Cost Differential elective April 1, 2014 and the disposition of the deferral account balances as of April 1, 2014 that do not include amounts related to incremental gas purchases made over the 2013/2014 winter period on a final basis. Defer the disposition of the deferral account balances as of April 1, 2014 that do include amounts related to incremental gas purchases made over the 2013/2014 winter period until a more comprehensive review takes place.

Response:

Union does not support either approach noted above. Contrary to the premise of the question, Union's current QRAM application, as filed, is formulaic and consistent with the Board's EB-2008-0106 Decision and past QRAM Decisions where Union purchased spot gas (EB-2009-0054). A more comprehensive review of Union's spot gas purchases is not required. Further, should the Board not approve the application as filed, per (ii) above; Union will not be able to implement rates on April 1, 2014. There will be insufficient time between the Board's Decision and April 1 for Union to re-file the application and receive Board approval of the revised rates.

As stated in the response to question 1, Union is not seeking recovery of the cost consequences of spot purchases made to load balance for Union South bundled direct purchase customers or to manage UFG variances in order to maintain the mechanistic nature of the QRAM as approved by the Board in EB-2008-0106. The remainder of the spot gas purchases made in this application are aligned with the QRAM standardization and do not alter the QRAM process.

Union's QRAM evidence is complete and provides a detailed description of the spot purchases, including the reasons for purchasing and the alternatives considered. In Union's view, there is no further information that Union could provide that would assist the Board in making a final determination on in the incremental purchases.

The spot purchases that Union has made in this application are aligned with the Board's direction in its EBRO 486-04 Decision. An excerpt of this Decision is provided at Attachment 1. Union was disallowed gas costs associated with spot gas purchases as the Board stated:

> *"The Board would have expected Union to have undertaken a plan to spread its spot gas purchases more evenly over the winter period. The Board is of the view that once Union had identified the 12 Bcf shortfall, it should have taken immediate steps to purchase at least 3 Bcf of spot gas in December to accomplish a more even spreading of spot gas purchases."* (p. 16).

As described in Union's Tab 1 evidence on page 14 and in Appendix 1, Union's spot gas purchases were made in a prudent manner based on forecast and actual weather and consumption variances. The drivers for these purchases were variances seen to the purchase date and forecast variances for upcoming weather and consumption. Union acted in a proactive manner based on forecast market costs leading to a weighted average spot gas price $7.12/GJ, compared to the approved January 1, 2014 QRAM WACOG of $4.87/GJ. These proactive purchases avoided paying spot gas prices when the market peaked at $78.728/GJ at Dawn. Union ensured full transparency of the purchases by filing robust evidence.

Union requests that the Board approve its April 1, 2014 QRAM application as filed.

E.B.R.O. 486-04

IN THE MATTER OF the Ontario Energy Board Act, R.S.O. 1990, c. O.13;

AND IN THE MATTER OF a Notice from the Ontario Energy Board to Union Gas Limited that the Ontario Energy Board will inquire into and determine just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas for Union Gas Limited's 1995 fiscal year;

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of April 1, 1995.

BEFORE: J.C. Allan
Presiding Member

G.A. Dominy
Vice Chair and Member

E.J. Robertson
Member

DECISION WITH REASONS

April 12, 1996

of the circumstances that existed at the time the decisions relating to the spot gas purchases were made, and not on the basis of subsequent events unknown to Union's managers at the time they were required to make the judgments in question.

3.2.13 Union submitted that if circumstances were such that gas purchased this winter had been available at prices below WACOG, clearly none of the parties participating in this case would be advocating that Union's shareholders should retain the amount of the credit in the PGVA resulting from such purchases.

Board Findings

3.2.14 The Board has previously found that Union's gas supply planning process was adequate. However, the Board considers that Union's implementation of the gas supply plan was deficient. Only 183 10^3m^3 (0.006 Bcf) was purchased for delivery in December. The Board notes Union's evidence that to retain flexibility to react to changes in price and weather and to avoid disturbing the gas supply market, it planned to make the purchases over time as needed. The metaphor Union used was that it would take slices off the salami as winter progressed. While the Board understands Union's need to maintain a degree of flexibility in its gas purchasing, the Board is of the view that maintaining maximum flexibility in the circumstances that faced Union in December does not justify a decision to purchase virtually no spot gas in December. Union's implementation of its gas supply plan appears to the Board to have been designed to minimize the risk to Union's shareholders resulting from the possibility of excess gas supplies in storage at the end of the winter season in the event of warmer than normal weather in the remainder of the winter. The Board would have expected Union to have undertaken a plan to spread its spot gas purchases more evenly over the winter period. The Board is of the view that once Union had identified the 12 Bcf shortfall, it should have taken immediate steps to purchase at least 3 Bcf of spot gas in December to accomplish a more even spreading of spot gas purchases. Union's failure to acquire this gas in December resulted, in the Board's view, in additional costs of at least \$5.140 million when this gas was acquired in January (based on the difference between December and January prices for purchases of 2.994 Bcf). The Board notes that Union's gas supply plans and their implementation were subject to review and approval at the executive level. The Board finds that the amount of $5.140 million is most appropriately borne by the shareholder and directs that this amount be removed from the PGVA debit.

3.3 STORAGE

3.3.1 The gas supply plan filed in E.B.R.O. 486 showed the need to shed 372 10^6m^3 of gas (approximately 13 Bcf) in order to allow Union's March 31, 1996 inventory targets to be realized. A reduction in Ontario production was incorporated in the Zero Quarter supply plan to shed this volume. Union explained that, because this supply reduction occurred in the summer rather than the winter as originally planned, peak storage space became available last summer, which Union then sold in order to utilize the assets as efficiently as possible.

3.3.2 Union noted that there was a storage space shift of 92 10^6m^3 to bundled-T customers and a further 21 10^6m^3 to T1 customers. This left 251 10^6m^3 of storage available for release to Storage and Transportation customers. The first sale of 85 10^6m^3 of storage space was made on June 12, 1995, the next sale was 113 10^6m^3 on September 21, and a further 10 10^6m^3 was released a week later. The final release of 42 10^6m^3 took place on October 20, 1995.

Positions of the Parties

3.3.3 Board Staff submitted that Union's decision to sell storage in late October rather than to inject gas for the winter season was a senior management decision that weighed the risk to customers with the potential benefit to the shareholder of lower carrying costs and storage sales.

3.3.4 Board Staff stated that it was "implausible" that Union could hold 54 10^6m^3 in unused contingency storage and sell an additional 42 10^6m^3 of storage on October 20 and subsequently find itself short 334 10^6m^3 (approximately 12 Bcf) of winter gas on November 24. Board Staff submitted that, when Union took upon itself to release 42 10^6m^3 of storage in October without the benefit of demand estimates more recent than the June 1995 Zero Quarter forecast, "it crossed the line between protecting its ratepayers against risk and entered the realm of seeking potential