EB-2014-0154

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

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders approving a one-time exemption from Union Gas Limited's approved rate schedules to reduce certain penalty charges applied to direct purchase customers who did not meet their contractual obligations.

WRITTEN INTERROGATORIES

NATIONAL RESOURCE GAS LIMITED FOR UNION GAS LIMITED

Context: Union letter dated April 3, 2014

1. On April 3, 2014, Union wrote to the Board stating that the changes in the penalty provision were "… in recognition of the exceptional weather conditions in 2014 …". What precisely were the details of the exceptional weather conditions referred to? Against what other time periods are the weather conditions referred to compared against? Does Union have any expert or other reports by internal or external persons describing the impact of the weather conditions? Does Union have any other comparison against other utilities in Canada or the United States?

2. In its letter of April 3, 2014, Union also took the position that "… despite the fact that over 95% of Union's customers met their contractual obligations." Please explain the detailed calculation of 95%. Is the 95% calculated by number of customers or by volume of gas delivered? What volume of gas was needed to be supplied by Union for the 5% of customers who did not meet their contractual obligations?

3. When was the last time Union saw four consecutive months of consistently low temperatures in the same manner in which the cold weather impacted Ontario during the months of December 2013 and January and February, 2014?

4. Please produce all internal memoranda, reports and substantive e-mails regarding the exceptional weather conditions.

Context: The requirement of NRG to meet its balancing requirements and/or pay a penalty is premised upon the integrity, security and efficient operation of the Union system. The penalty is meant to avoid placing other customers at risk and avoid additional costs. See: RP-2001-0029 – Decision with Reasons dated September 20, 2002.

5. Was the Union system ever in a position in January, February or March 2014 that its integrity, security and efficient operation was actually compromised? If so, how was it compromised? What correction actions was Union forced to take to correct any problems that actually arose? Was there ever a natural gas shortage that could not be met through Union's own supplies? What was the actual cost of any natural gas purchases that were made to meet any system difficulties in January, February or March 2014?

6. Did Union physically need the gas in its system from customers who could not supply the gas in February or March, 2014 under their contracts to rebalance the system. If so, how did Union actually supply the gas needed? Was the gas supplied from Union's own storage? At what price was the gas in storage actually purchased? Is this an average price, or is this the highest price or is it the lowest price?

Context: Union letters dated April 3, and April 10, 2014

7. Union is proposing to the Board to reduce the penalty charges from $78.78 per GJ to $50.50 per GJ in February and $52.04 per GJ in March. The change appears to result from Union choosing to move from the highest spot cost at the Dawn Hub during the month of either February or March (whichever was relevant to a particular customer) to the second highest spot cost at the Dawn Hub during those months. On what thesis or for what reasons did Union choose the second highest spot cost at Dawn Hub? Why did Union not use some other price, such as the average price during the month of February or March or the price they actually purchased the gas for? Please explain any answers given.

8. On April 10, 2014 Union answered certain questions from the Board. Do the answers contained in the letter of April 10, 2014 remain accurate and true? Attachment #1 to the April 10, 2014 letter summarized the February and March 2014 balancing penalty provisions. Attachment #2 showed the impact of the imposed foregone revenue by rate class. Do the contents of those attachments remain accurate and true?

9. Provide a detailed breakdown of the 11 customers and the shortfall of each. What were the balancing requirements for each customer, and how much did each customer purchase of their balancing requirement? (If any of the information is customer confidential and specific, then Union can identify the customers by number and maintain confidentiality).

Context: Union Letters dated April 23, and April 24, 2014

10. In its various letters to the Board and, in particular, in its letter of April 23, 2014, NRG expressed its understanding, from its review of Union's QRAM submission, that Union's actual average cost of gas purchased for DP balancing was $12.31 per GJ. Is this accurate? If not, explain the answer and what was the actual average cost of gas.

11. On April 24, 2014, Union replied to the Board and answered certain questions. Are the answers accurate at the time given, and do they remain accurate? If they are not accurate, please state the present information.

Context: History of the Application of the Penalty Rate at $78.73 per GJ

12. Has Union previously imposed a penalty charge as high as $78.73 per GJ on T1/T2, Rate 25 or Bundled T customers and, if so, on what circumstances and what was the total amount of each imposition of penalty charge? Has Union ever granted any relief or exception to the imposition of a penalty charge which was otherwise consistent with its rate schedules or contracts? If so, on what grounds? Can Union provide the last 10 years for check point months, the amount of the penalty/GJ as opposed to the commodity price/GJ per the QRAM in place at that time? The amount of GJ's during those years for which a penalty was applied for DP customers on checkpoint? What percentage of total DP customers and volumes were charged this penalty? Penalty related to checkpoint only.

Board Letter of May 8, 2014 – NRG Prudence

13. In its letter of May 8, 2014, the Board has indicated that it will "… review the prudence of NRG's incremental gas purchases made over the past winter …". Is Union intending to take a position on the prudence of NRG in its gas purchases? If so, what is that position and what are the grounds for taking it?

14. What other customers of Union have been asked to pay any penalty charge for February or March for rebalancing? Have they approached Union for relief from these charges? Has Union granted any such relief? State the customers' names (or number assigned for confidentiality reasons), volumes and cost at which these customers purchased gas in the marketplace in order to fulfil any balancing obligations in contracts with Union. Was Union asked to grant relief of any kind, including late purchases and delivery of gas, by any customer.

Context: NRG Evidence Filed May 21, 2014

15. By letter dated May 21, 2014 NRG sought intervenor status in EB-2014-0154. NRG filed evidence in support of its request to intervene and for relief. Does Union object to the contents of any of the evidence filed by NRG? Does Union accept all of the evidence filed by NRG? Please explain your answer in detail.

Context: NRG / Union Contract and Requests of Union for Assistance

16. NRG filed its Southern Bundled T Gas Contract made as of October 1, 2004 between itself and Union, as amended, together with General Terms and Conditions dated January 2009. Does Union accept this to be the contract between Union and NRG? If a different contract or General Terms and Conditions are binding between the parties, produce them.

17. In February, 2014 NRG sought assistance from Union regarding its obligations to provide natural gas for balancing purposes. In its rate and services conditions, Union speaks of

an In-Franchise Transfer contract. An In-Franchise Transfer contract moves gas from an in-franchise contract that is "long" (over delivered) to an in-franchise contract that is "short" (over consumed). Union permits IFTs between customers in any delivery area according to its rates and services conditions. Union suggested a customer to speak with that might be long or have gas for purchase, but that contact did not return NRG's call. Union otherwise said it had no assistance to offer NRG. Are the above facts as stated correct? Was any other assistance available, but refused by Union? Was Union able to supply the natural gas itself from the amount it had already purchased or contracted to purchase? If so, why did Union refuse to assist NRG? In this regard, is there a difference between assistance rendered to a utility as opposed to any assistance rendered to a strictly commercial customer? Please explain.

18. NRG asked Union for assistance in February 2014 as the price of gas had spiked, and again asked for assistance from Union later in February when gas was not available for purchase and delivery at all for NRG. Union's rates and services terms describes a loan which is a transaction that allows a direct purchase customer to obtain gas from Union for a period of time, subject to availability and with price and terms to be negotiated. Union did not offer this service to NRG. Why not?

19. What markers are given to Union customers when pipeline capacity is in jeopardy of being maxed out? How does "zeroing out" of inventories affect the availability of natural gas? Did the zeroing out of inventories for new February or March contracts reduce storage and large volume trades being offered on the trading floor at the end of each month? Please explain.

Context: System Information Relevant to Cold Weather Event

20. Power consumption in Ontario this past winter was unusually high. Is it Union's understanding that this resulted in more natural gas power generation during the cold weather period in December 2013 and January, February and March 2014. To what extent did the need for natural gas to produce electric power either drive up the price of natural gas or make it unavailable at the end of February 2014?

21. Union has described in its literature "Dawn Storage Hub". It is described as one of the top three hubs in North America. Union has publicly stated that natural gas was less available in February 2014 for points in the United States and that this drove up prices in Ontario. Is this accurate?

22. Did Union's delivery of 6.2 PJ natural gas on February 14, 19 and February 21 reduce capacity of its pipeline or the capacity of Trans Canada's pipeline and cause market price for natural gas to increase?

23. Did Union offer any other customers any flexibility on pricing or availability of gas in February and March 2014? Is the Union evidence outlined in lines 12 to 22 of page 5, Tab 1 filed in EB-2014-0050 on March 6, 2014 accurate? If not, explain. Did the delivery of the gas mentioned in that evidence add to the pipeline capacity issue? Did the delivery of that gas drive up prices for natural gas? Did Union's action increase price volatility and diminish supply that affected its other customers by these actions?

24. On February 21, 2014 Union purchased 1.8 PJ for direct purchase forecast variances. Was this normal practice for Union to purchase load balancing requirements for their South Bundled DP customers? If not, why did Union choose to buy it this year? If the answer is 'yes', at what percentage of the forecasted variance does Union normally purchase (compared to average over the last five years) and what was the percentage in 2014.

25. Was NRG's volume requirement to deliver natural gas for load balancing purposes at the end of February 2014 included in the 1.8 PJ purchase of natural gas by Union?

26. Is there a difference between the operation of Union's system dealing with north DPs as opposed to south DPs? Explain. Refer to pages 7-20, Tab 1 of evidence filed on March 6, 2014 in EB-2014-0050.

Context: Penalty Provision – Generally

27. The penalty provision contained in the Bundled T contract provides that a customer who does not supply gas at the appropriate time must pay a penalty based on the highest spot rate in the month in which volumes of gas were not delivered. What is Union's understanding of the intent of the penalty provision? Is the choice of a penalty rate based on a floating "highest spot rate in the month" an arbitrary and unpredictable amount upon which to base a penalty provision? Can an arbitrary and unpredictable amount ever be a fair and reasonable basis for a penalty provision?

28. On the facts of the NRG contractual obligation to supply volumes of gas during the month of February 2014, $78.73 per GJ was the amount of the penalty assessed against NRG. Was the amount of $78.73 per GJ predicted by Union as the likely penalty rate and, if so, when was that prediction made for the first time? Is this $78.73 per GJ penalty rate in any way connected to Union's actual costs? If not connected to Union's actual costs, should any new penalty rate fixed by the Board for the purposes of this case and based on the exceptional winter conditions which did occur be based upon Union's costs plus some mark-up as a true assessment of the penalty rate and Union's costs for providing the service?

29. What other criteria and objectives does Union seek to accomplish by the penalty rate? What is meant by "appropriate financial incentive to customers"? Has there been any actual empirical testing to determine if the size of the penalty rate was an appropriate incentive to Union's customers? Is there a difference between commercial customers and NRG (a downstream utility) in this regard?

30. Is it correct that Enbridge applies a very different mechanism for a shortfall of supply penalty from that supplied by Union? Does Enbridge merely add a modest mark-up on the twelve-month average of gas pricing? Was that mark-up 20% of the cost of the market average? If Enbridge applies a penalty in this matter, does that system eliminate market anomalies and minimize risk for its customers? If this is Enbridge's method of proceeding, why is it different from Union, and has Union considered adopting that system versus the highest price mechanism presently in use?