

June 24, 2014

VIA RESS AND COURIER

Ms. Kirsten Walli
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Dear Ms. Walli:

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Re: EB-2013-0365 – Union Gas Limited (Union) 2014 Rates Application.

Industrial Gas Users Association (IGUA) Argument.

Pursuant to Procedural Order No. 5 herein, by way of this letter IGUA provides brief comments on the Leamington expansion issues which arose in this proceeding.

IGUA represents large industrial customers, who are generally contract customers of Union. The issue regarding Union's contracting practices in support of expansions to serve contract customers as raised in the context of the Leamington expansion are thus of some interest to IGUA.

IGUA takes no position on the equity of the particular contracting activities engaged in by Union in respect of the Leamington line. The testimony provided by Union's witnesses on this topic does, however, raise a number of concerns for IGUA.

We start by noting the distinction made by Union in its Final Argument¹ between an aid to construct and the revenue and volume commitments sought by Union from the greenhouse customers for whom Union says the Leamington expansion was done. IGUA understands Union's position to be that:

1. An aid to construct is required when the Profitability Index (PI) for an expansion is less than 1 (that is, when the forecast revenues from the services provided by the expansion fall short of the forecast costs of the expansion, all as calculated in accord with EBO-188 guidelines). In this instance, Union will require an upfront contribution from customers for whom the expansion is to be constructed which will bring the PI to 1.0. The forecast

¹ Paragraphs 28 and 29.

revenue from the expansion is then collected, in the normal course, in payment of the services provided by the expansion over time.

2. In the Leamington expansion case, the PI was greater than 1.0. The contracts required by Union from the greenhouse growers for whom Union says the expansion was built were designed to provide assurance that the forecast revenues underpinning the PI calculations were in fact realized.

IGUA agrees with this distinction. The issues engaged in respect of the Leamington expansion, then, relate to Union's contracting practices where an expansion is built to serve an identifiable group of contract customers and in order to secure the revenue the forecast of which underpins, and supports, the expansion.

IGUA sees merit in the principle that, where an expansion is built for provision of service to an identifiable group of contract customers, steps to secure the revenue forecasted in support of that expansion may be appropriate. Contracting to secure such revenue should be designed to protect other ratepayers from subsidizing the expansion.

IGUA submits that, where employed:

1. ***Such practices are part and parcel of Union's conditions of regulated service, and should be approved by, and as required overseen by, the Board.***
2. ***The Board's approval and oversight should extend to the general form of contract used by Union in these circumstances.***

On the record of this proceeding, it remains unclear precisely how such contracting practices work. IGUA understands this to be OGVG's primary concern, and IGUA sympathizes with that concern.

For example, Union's evidence is that, historically, this practice of contracting in support of the revenue forecast underpinning an expansion has been limited to an individual customer. In the case of the Leamington expansion Union extended this practice to a collection of customers.² This fact raises some question about when the application of such practices is appropriate, and underscores the need for better definition of the intent and execution of such practices.

As another example, the calculation underpinning Union's contracting practices for the Leamington expansion are summarized in paragraph 29 of Union's Final Argument. Despite consideration of this summary, it remains unclear:

1. How the costs to serve the subject customer, over and above the costs associated with the expansion, are factored into the calculation (if at all).
2. What adjustments, if any, are made in the event that the customer chooses to make an upfront payment, rather than committing to a "minimum annual volume" for a multi-year contract term, and Union then achieves all or more of the forecast revenue from the

² Transcript, June 5, 2014.,, page 139, lines 7-9.

customer in addition to the upfront payment. (In this event, it seems that subject to a later adjustment, the customer would be over contributing, and subsidizing other Union customers or, during an IRM term, Union's shareholder. It is not evident to IGUA that this would be an appropriate result.)

Further, it is clear from the OGVG correspondence on the record and from the questions asked of Union's witnesses that customers are unclear of the basis for Union's practices in these circumstances.

IGUA submits that the Board should require Union to file for review and approval a set of service terms that define Union's practices in requiring contractual commitments from delivery customers in support of system expansions. A process should be adopted which allows affected customers an opportunity to understand and comment on these service terms prior to Board approval.

IGUA further submits that the service terms ultimately approved should include a requirement for Union to provide an explanation of the approved terms in any future request for interest or like notices or documentation provided to customers or prospective customers.

For the sake of regulatory efficiency, IGUA would be content to have a process for review and approval of such service terms combined with Union's 2015 rate application, but IGUA would also be prepared to participate in such a process earlier if deemed appropriate by the Board.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:



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