



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

UNION GAS LIMITED

2013 DEFERRAL ACCOUNT DISPOSITION

EB-2014-0145

September 19, 2014

Introduction

Union Gas Limited ("Union") filed an application dated May 2, 2014 with the Ontario Energy Board (the "Board") under section 36 of the *Ontario Energy Board Act, 1998*, S.O. c.15, Schedule B, for an order of the Board approving the final disposition of 2013 year-end deferral account balances (the "Application"). The Board assigned file number EB-2014-0145 to the Application. The Board made provision for the filing of interrogatories on Union's evidence, a settlement conference, an oral hearing and the filing of submissions.

Union filed a Settlement Proposal on August 22, 2014 arising from the Settlement Conference held on August 7, 2014. The Board accepted the Settlement Proposal, with a minor revision¹, at the Oral Hearing held on September 3 and 4, 2014. Settlement between Union and the parties to the agreement was reached on all issues, with the exception of the following four items:

- 1) Union South Bundled Direct Purchase Load Balancing Costs (Spot Gas Variance Account)
- 2) Unaccounted for Gas Price Variance (Spot Gas Variance Account)
- 3) Average Use Per Customer Deferral Account
- 4) Allocation of Checkpoint Balancing Penalties

The following is Board staff's submission on the unsettled issues in the EB-2014-0145 proceeding.

Board Staff Submission

Union South Bundled Direct Purchase – Load Balancing Costs (Spot Gas Variance Account)

Background

Union was required to purchase 0.8 PJs of incremental gas in order to meet its load balancing obligations related to its South bundled direct purchase customers. Union retains load balancing obligations for these customers associated with variances relative to the February 28 checkpoint (for variances that occur after the establishment of the checkpoint) and March weather and consumption variances. The incremental gas purchased by Union and consumed by South bundled direct purchase customers in February and March 2014 is returned to Union by direct purchase customers in the summer (prior to the contractual year-end).

¹ The revision was reflected in the Updated Settlement Proposal filed on September 5, 2014.

The total cost of the 0.8 PJs of spot gas purchased for the South bundled direct purchase customers is \$1.801 million. The load balancing costs associated with the 0.8PJs of incremental gas purchased is \$1.954 million. The load balancing costs were calculated by applying the winter / summer price differential to the 0.8 PJs of gas purchased.

Union proposed to allocate the load balancing costs (\$1.954 million) associated with the 0.8PJs of incremental gas purchased to the South bundled direct purchase customers that were below their planned Banked Gas Account ("BGA") balances as of March 31, 2014. Union is also proposing to allocate the remaining credit balance of \$0.153 million to Union South sales service customers. The \$0.153 million credit arises as a result of the difference between the load balancing costs (which are calculated based on the winter / summer price differential) and the actual cost of the spot gas purchase.²

Submission

There are three sub-issues that the Board needs to make findings on with respect to this issue: (i) permissibility of cost recovery; (ii) timing of cost recovery; and (iii) cost allocation.

Board staff will address these sub-issues in turn.

(i) Permissibility of Cost Recovery

Board staff submits that the \$1.801 million cost related to Union's purchase of 0.8PJs of incremental gas used for load balancing for its South bundled direct purchase customers reflects a real incremental cost incurred by Union (to allow it to meet its load balancing obligations). This cost is clearly recoverable from ratepayers (and the application of the winter / summer differential to arrive at the \$1.954 million load balancing cost is appropriate).

Board staff submits that the Board should reject any argument that the load balancing-related costs should not be recovered from ratepayers based on the premise that Union could have used its system integrity inventory to manage the February (after the winter checkpoint was established) and March weather and consumption variances for its South bundled customers. As discussed by Union at the oral hearing, system integrity inventory is not meant to be used to manage foreseen load balancing requirements. Union's witness stated:

² Union Revised Application, EB-2014-0145, July 23, 2014 at Exhibit A / Tab 1 / pp. 4-7.

"Integrity is intended for those unforecasted or unexpected variances. So things like in-the-day weather changes, weather changes over the last weekend, especially in this case. When we went into the end of March we found out that actually the weather became much colder over the last weekend. We need that 6 PJs of integrity space to manage all of that. We also need to have it available to manage supply disruptions... [T]he incremental consumption of the direct purchase customers was not unforecasted or unforeseen. We knew that was happening. And therefore, we made proactive decisions to cover that off. The integrity is not intended for that..."³

Board staff agrees with Union's characterization of the purpose of the system integrity space. It is not appropriate to use system integrity inventory for the purposes of managing the expected consumption variances for South bundled direct purchase customers. As such, Board staff submits Union should be allowed to recover the costs associated with meeting its load balancing obligations.

(ii) Timing of Cost Recovery

Board staff supports Union's proposal to dispose of the amounts associated with load balancing for its South bundled customers as part of this proceeding. Board staff notes that the load balancing costs at issue here are commodity-related costs that would typically be dealt with through the QRAM process. Board staff notes that Union originally advised the Board of these costs in its April QRAM application. However, Union determined that, due to the mechanistic nature of the QRAM process, that it was best to have the Board decide on the issue in this proceeding. Board staff notes that this proceeding represents the first opportunity for the Board to hear this issue since the filing of the April 2014 QRAM application. In addition, the vast majority of the costs associated with spot purchases for customers in the North and system gas customers in the South were filed and approved for recovery in Union's April 2014 QRAM proceeding. For the above reasons, Board staff submits that these load balancing costs are properly before the Board as part of this proceeding (as opposed to the 2014 deferral account disposition proceeding) and should be approved for recovery (and related credit) in the manner set out by Board staff below. However, Board staff submits that going forward, if a similar issue arises, it should be dealt with in the relevant QRAM application. The Board can decide, at that time, whether additional procedural steps will be needed to review the application.

(iii) Cost Allocation

Board staff submits that the load balancing cost of \$1.954 million should be recovered from all South bundled direct purchase customers (not just those that were below their

³ Oral Hearing Transcripts, EB-2014-0145, Vol. 1 at p. 36.

planned BGA balances as of March 31, 2014) and the associated \$0.153 million credit should be allocated to Union South sales service customers as part of this proceeding. The rationale for Board staff's position is set out below.

Board staff submits that, as agreed to by Union multiple times at the oral hearing, South bundled customers do not have a contractual obligation to balance at March 31. In addition, these customers were not provided notice prior to March 31 that Union was planning on allocating costs, associated with incremental gas purchased for load balancing purposes, to those customers that were below their planned BGA balance as of March 31, 2014. Therefore, it would be unfair to allocate these costs to only those customers that were below their BGA balance at March 31, 2014.

In addition, Board staff notes that Union has load balancing obligations related to its Northern bundled direct purchase customers. For these Northern direct purchase customers, Union allocates the load balancing costs to all customers based on overall volume. Union stated that it allocates load balancing costs in this manner because Union does not have balancing checkpoints for its Northern direct purchase customers.⁴ As noted above, Union does not have a balancing checkpoint for its Southern bundled customers at the end of March either. As such, Board staff submits that the same methodology used for allocating load balancing costs to Northern bundled customers should also be utilized for Southern bundled customers.

Unaccounted for Gas ("UFG") – Price Variance (Spot Gas Variance Account)

Background

Union purchased 2.1 PJs of incremental gas for delivery in March based on actual UFG variances experienced for the 2014 winter. Union noted that if it had not purchased the incremental supply there would not have been adequate gas in storage to meet customer demands in March and April, 2014.

Union proposed to allocate the \$4.729 million debit associated with price variances related to UFG to Union South sales service customers consistent with historical practice. Union noted that the variance between the actual cost of gas purchased for company use (compressor fuel and UFG) and the Ontario Landed Reference price used to set rates for planned purchases is recorded in the South Purchased Gas Variance Account. This has resulted in a benefit to Union South sales service customers over the past six years (averaging \$5.5 million per year).⁵

Submission

⁴ Oral Hearing Transcripts, EB-2014-0145, Vol. 2 at pp. 8-9.

⁵ Union Revised Application, EB-2014-0145, July 23, 2014 at Exhibit A / Tab 1 / p. 9.

Board staff submits that the price variance (\$4.729 million) associated with the 2.1 PJs of incremental gas purchased related to UFG should be allocated to system supply customers and direct purchase customers that take the Union supply option (i.e. Union-supplied fuel).

Board staff notes that Union stated the following with regard to UFG in its Application:

“UFG represents the difference between the total gas available from all sources, and the total gas accounted for as delivery, net interchange, and company use. This difference could include leakage or other actual unmeasured losses, discrepancies due to meter inaccuracies, variations of temperature and/or pressure, and other variants, particularly due to measurements being made at different times and at different points on the system.”⁶

Board staff submits that UFG is caused by all customers on Union’s system not only system supply customers. This position is supported by Union’s allocation of the underlying UFG costs. Union noted, in cross-examination, that the costs associated with UFG are recovered in delivery rates from both system supply customers and direct purchase customers (that do not provide their own customer-supplied fuel).⁷ Given that the underlying UFG costs are allocated to both system supply customers and certain direct purchase customers, Board staff submits that it also appropriate, on the basis of cost causality, to allocate the price variances associated with UFG to the same set of customers.

Union, in its argument-in-chief, stated:

“...relying strictly on principles of cost causality, there is an argument that Union South direct-purchase customers who take the Union supply option -- but not those who deliver their own supply, but those who take the Union supply option should receive some of these [UFG price variance] costs.”

Union went onto argue that:

“The point to be made there is, historically, those [South direct purchase] customers have not received any of the benefit. So to the extent they should be bearing some of the costs now, they have a good argument that they should have received some of the benefit in the past and they received none of that benefit.”⁸

⁶ Ibid at Exhibit A / Tab 1 / Page 8.

⁷ Oral Hearing Transcripts, EB-2014-0145, Vol. 1 at p. 44.

⁸ Oral Hearing Transcripts, EB-2014-0145, Vol. 2 at p. 90.

Board staff is of the view that the benefit that accrued to South system gas customers in the past based on the historical treatment of price variances associated with UFG is not a strong rationale to ignore the principle of cost causality going forward. It is clear that UFG is caused by both system gas and direct purchase customers. Therefore, the price variances associated with UFG should also be allocated to both system gas and direct purchase customers (excluding those direct purchase customers that provide their own fuel). Board staff submits that its proposed allocation methodology adheres with the principle of cost causality while Union's proposal does not.

Board staff submits that its proposed allocation of the price variances related to UFG should be approved by the Board in relation to the \$4.729 debit at issue in this proceeding and Union should be directed to maintain this allocation methodology in the future. In this way, if the price variances related to UFG revert to the historical credit position that Union noted was present over the 2008 to 2013 period, direct purchase customers will be allocated their fair share of that benefit in the future.

Average Use Per Customer Deferral Account

Background

The total balance in the Average Use Per Customer Deferral Account for all four general service rate classes (M1, M2, Rate 01 and Rate 10) for 2013 is a credit to customers of \$11.475 million.⁹

As proposed by Union, the credit in the Average Use Deferral Account only relates to the variance resulting from the difference between actual average use and forecast average use included in delivery rates. The issue before the Board, in this proceeding, is whether storage revenues and costs should also be included when calculating the balance in the Average Use Deferral Account.

Submission

Board staff submits that the balance in the Average Use Deferral Account has been calculated appropriately in accordance with the Board-approved Accounting Order. Therefore, the Board should approve the disposition of the balance in the Average Use Deferral Account as filed.

The Accounting Order sets out the following with regard to what is allowed to be recorded in the Average Use Deferral Account:

⁹ Union Revised Application, EB-2014-0145, July 23, 2014 at Exhibit A / Tab 1 / p. 36.

“To record as a debit (credit) in Deferral Account No. 179-118 the margin variance resulting from the difference between the actual rate of decline in use-per-customer and forecast rate of decline in use-per-customer included in gas delivery rates as approved by the Board in 2013. Actual and forecast rate of declines in use-per-customer will be calculated on a percentage and rate class specific basis for rate classes M1, M2, 01 and 10, be normalized for weather and exclude the impacts attributed to DSM which are captured in the Lost Revenue Adjustment Mechanism Deferral Account No. 179-75.”¹⁰ (Emphasis added)

Board staff submits that the Accounting Order is clear that only the variance in delivery-related revenues caused by the difference between forecasted and actual average use (in the general service rate classes) is to be recorded in the Average Use Deferral Account. The inclusion of storage-related revenues (and costs) in the 2013 Average Use Deferral Account would not be in accordance with the Board-approved Accounting Order. As such, it would be inappropriate to include the 2013 storage-related revenues (and costs) associated with changes in average use in the 2013 Average Use Deferral Account.

However, Board staff submits that the fundamental purpose of the Average Use Deferral Account is to ensure that neither ratepayers nor Union's shareholder are harmed by differences between forecasted and actual average use (in the general service rate classes). In the same way that average use variances impact the amount of revenue collected through delivery rates, the variances also impact the revenues collected through storage rates. Board staff understands that differences between forecasted and actual average use may also cause material changes in storage-related costs. Therefore, given the purpose of the account (as set out above), Board staff submits that, going forward, storage-related revenues and costs associated with changes in average use should be included in the balance of the Average Use Deferral Account. The proposed inclusion of storage-related revenues (and costs) in the balance of the Average Use Deferral Account should be implemented for the 2014 deferral account disposition proceeding (and continue in the future).

Board staff submits that the Board should require Union to update the Accounting Order for the Average Use Per Customer Deferral Account to reflect the inclusion of storage revenues and costs in the calculation of the balance when it submits its draft Rate Order. This revised Accounting Order will be effective for the 2014 deferral account disposition proceeding.

Allocation of Checkpoint Balancing Penalties

¹⁰ Decision and Rate Order, EB-2011-0210, January 17, 2013, at Appendix G.

Background

Union proposed to allocate the amount arising from the penalty charges (the quantum of which is the subject of the EB-2014-0154 proceeding) to sales service customers only.

In its argument-in-chief, Union stated that it was system sales customers' gas that was used to balance for the direct purchase customer's that failed to meet their contractual obligations. Accordingly, Union argued that system supply customers should receive the credit amount associated with the penalty charges.¹¹

Submission

Board staff supports Union's proposal to allocate the amount arising from the penalty charges to system gas customers only. Board staff agrees with Union's rationale as set out in its argument-in-chief (and summarized above). Board staff recognizes that the margin (i.e. penalty amounts net of the actual cost of gas) created by the application of the penalty charges will likely be significant.¹² Board staff submits that the quantum of the margin does not change the fact that it was system supply customers' gas that was used to balance for non-compliant direct purchase customers. Therefore, on a principled basis, system gas customers should receive the entirety of the benefit arising from the application of the penalty charges.

Board staff submits that none of the amount arising from the penalty charges should be allocated to the direct purchase customers that did not meet their contractual obligations in February and March, 2014. Allocating any of the credit amount associated with the penalty charges to non-compliant direct purchase customers would effectively reduce the price of the penalty charge applied to these customers. Board staff submits that the price for the penalty charge that the Board will eventually approve in the EB-2014-0154 proceeding will be considered just and reasonable by the Board. Therefore, any reductions to the Board-approved penalty charge, through the allocation of offsetting credits generated from those same penalty charges, would not be appropriate.

Some parties may argue that direct purchase customers that did meet their contractual obligations should also be allocated some portion of the credit arising from the application of the penalty charges. Board staff disagrees with this argument. Board staff

¹¹ Oral Hearing Transcripts, EB-2014-0145, Vol. 2 at pp. 91 and 92.

¹² The margin generated will be dependent on the Board's decision in EB-2014-0154. Based on Union's proposal, as filed in the EB-2014-0154 proceeding, there will be amounts collected from non-compliant customers that are \$5.1 million in excess of the actual average cost of gas used to balance for these customers (Undertaking J2.6, EB-2014-0145).

is of the view that meeting contractual obligations is a duty of the customer and meeting a contractual obligation does not warrant a reward.

All of which is respectfully submitted.