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September 24, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

RE: EB-2014-0145 – Submissions of London Property Management Association

Please find attached the submissions of the London Property Management Association in the above noted proceeding.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

cc: Karen Hockin, Union Gas Limited (e-mail)

Ontario Energy Board

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 clearing certain non-commodity related deferral accounts;

AND IN THE MATTER OF an Application by Union Gas Limited for an order approving a deferral account to capture variances between balances approved for disposition and amounts actually refunded/recovered.

**SUBMISSIONS OF THE
LONDON PROPERTY MANAGEMENT ASSOCIATION**

I. INTRODUCTION

These are the submissions of the London Property Management Association ("LPMA") related to the Union Gas ("Union") related to a number of non-commodity related deferral accounts.

A Settlement Conference was held on August 7, 2014 and Union filed a Settlement Proposal on August 22, 2014 that deal with all issues with the exception of the following items:

- a) Union South Bundled Direct Purchase Load Balancing Costs (Spot Gas Variance Account)
- b) Unaccounted for Gas Price Variance (Spot Gas Variance Account)
- c) Average Use Per Customer Deferral Account, and
- d) Allocation of Checkpoint Balancing Penalties.

A number of the issues deal with the allocation of costs or revenues between system gas customers and direct purchase customers. LPMA has members that are both direct purchase customers and system gas customers on the Union system. In order to appropriately balance the views of LPMA members, LPMA submits that a principled approach, including cost causation, to the allocation of balances is warranted.

The following are the submissions of the LPMA on each of the unsettled issues and the related sub-issues associated with each issue, where applicable. LPMA has had the opportunity to review the submissions of Board Staff on each of the issues. LPMA finds that Staff has summarized the background for each of the issues appropriately and will not repeat those submissions here.

II. SUBMISSIONS

a) Union South Bundled Direct Purchase - Load Balancing Costs (Spot Gas Variance Account - Account 179-107)

i) Permissibility of Cost Recovery

Union incurred an additional costs to load balance the bundled direct purchase customers in the South that were below their planned Bank Gas Account ("BGA") as of March 31, 2014. LPMA submits that these costs should be recoverable by Union.

LPMA believes that the only argument against Union recovering these costs from ratepayers would be based on the premise that Union could and should have used its system integrity inventory to manage the February and March weather and consumption variances for its South bundled customers.

LPMA submits that the Board should reject this argument. System integrity inventory is needed and is used to deal with unforecasted or unexpected variances, whereas the incremental consumption by the direct purchase customers was neither unforecasted nor unforeseen, as it was a situation that Union knew was happening (Tr. Vol. 1, page 36). The system integrity space of 6 PJ was still required for colder than expected weather and supply disruptions. LPMA submits that if Union had used some of the system integrity space to manage the load balancing costs associated with the South bundled direct purchase customers it may have been exposing the distribution system to unnecessary risk in the event of an unforeseen or unexpected event, such as a supply disruption on upstream transportation.

ii) Timing of Cost Recovery

LPMA supports Union's proposal to dispose of the amounts associated with load balancing for its South unbundled customers as part of this proceeding for two reasons.

First, the costs associated with spot purchases for system gas customers and customers in the North were dealt with through the April QRAM process, so it appears reasonable to LPMA that the same costs for the South direct purchase customers should be dealt with now and not a year from now as part of the disposition of 2014 account balances.

Second, by delaying the disposition of the requested amounts to the 2014 account balances disposition, additional carrying costs would be added to the amount to be recovered from customers. LPMA submits that this increase in cost benefits no one.

iii) Cost Allocation

LPMA submits that Union should recover these costs from the customers who created the need for Union to incur the costs.

Union has indicated that if the costs are not recovered from direct purchase customers, then the costs would be allocated to system gas customers. LPMA submits that this is obviously not a permissible outcome.

The question then becomes whether the costs should be recovered from all South direct purchase customers or only from those that were below their planned BGA balance as of March 31, 2014.

Board Staff has argued that the costs should be recovered from all South direct purchase customers because there is no contractual requirement for these customers to meet their planned BGA balances as of March 31, and Union did not provide notice to them prior to March 31 of the potential for incremental load balancing costs.

Staff also note that Union has load balancing obligations related to its bundled direct purchase customers in the North and that Union allocates the load balancing costs to all customers based on overall volume.

LPMA believes that there is a difference between the North and South. In the North, direct purchase customers do not have balancing checkpoints, so it is not possible to determine which direct purchase customers contribute to the increase in load balancing costs. Thus, allocating the costs across all direct purchase customers in the North is appropriate.

However, in the South, direct purchase customers do have balancing checkpoints, so it is possible to determine the causality of the load balancing costs incurred by Union.

It is submitted that because of this difference, Union's proposal to recover the costs from the direct purchase customers that caused them is appropriate. It would be as inappropriate to allocate the costs to direct purchase customers that were in balance (and perhaps bought additional gas in March to ensure they were in balance) as it would be to allocate any of this cost to system gas customers.

iv) Customer Notification

LPMA submits that the Board should require Union to ensure that it provides direct purchase customers with notification of potential costs associated with failing to meet their projected balances at the end of March well before the end of March.

This past winter, Union did not notify the customers of the additional charge for being below the projected March 31 balance until the customer meetings in May (Tr. Vol. 1, page 39). LPMA submits that this is not acceptable, even though as Union indicated (Tr. Vol. 1, pages 39-40), these customers may not have been able to purchase the additional gas themselves at or below the cost that Union is now proposing to recover from them.

LPMA submits that Union should have advised customers that there was at least the potential for a charge for those customers that ended up below their projected March 31 balance. With this information those customers could have then decided if they wanted to purchase additional gas to avoid or minimize the additional charges from Union.

In summary, LPMA submits that the Board should direct Union to be proactive in communicating with its direct purchase customers about the potential for additional charges to allow customers to make an informed decision.

b) Unaccounted for Gas Price Variance Account (Spot Gas Variance Account - Account 179-107)

LPMA submits that the price variance associated with unaccounted for gas ("UFG") should be allocated to both system gas customers and to direct purchase customers that utilize Union supplied fuel.

LPMA notes that UFG is caused by all customers on Union's system and not only by system gas customers. Union allocates the cost of UFG through delivery rates, which apply to both system gas customers and direct purchase customers (except for those that supply their own customer-supplied fuel) (Tr. Vol. 1, pages 43-45). LPMA submits that

from a cost causation perspective, all customers that contribute to UFG should pay their portion of the UFG price variance.

LPMA further notes that Union's main argument for maintaining the status quo and allocating the balance only to system gas customers is that this was their past practice and that historically system gas customers had benefited from this approach. Union also indicated that it expected the balance in this account in the long run would be a credit that would be payable to customers. Maintaining the status quo would, therefore, not be fair to direct purchase customers as they would be denied their share of the benefits.

LPMA notes that the status quo has benefited system gas customers in the past, at the expense of direct purchase customers that utilized Union supplied fuel. In 2013, this has reversed and system gas customers are being allocated the entire cost. LPMA submits that past practice, if not appropriate, is not a reason to continue with a methodology that does not appropriately reflect cost causality.

c) Average Use per Customer Deferral Account (Account 179-118)

i) 2013 Balance

LPMA submits that Union has calculated the balance in the Average Use Deferral Account appropriately and in accordance with the Board-approved Accounting Order.

The accounting order specifically states that the margin variance that results from the difference between the actual rate of decline in use per customer and the forecast rate of decline in the use per customer included **in gas delivery rates** as approved by the Board in 2013 would be recorded in this account.

As Union explained, gas delivery rates for the four general service classes that are included in the average use per customer deferral account is the Board approved volumetric delivery rate and does not include the storage rate, which is a separate charge for these accounts (Tr. Vol. 1, pages 45-46 & Tr. Vol. 1 pages 17-18).

LPMA further notes that this account was in place over the 2008 through 2012 period as a result of the EB-2007-0606 settlement agreement and the calculations, which were clearly demonstrated through an example. Storage rates were not included in the calculation of the margins in this account.

LPMA submits that the Accounting Order clearly demonstrates that the only margin variance in the account is related to gas delivery rates for the four rate classes (M1, M2, 01 and 10) and does not include storage rates. It would, therefore, be inappropriate to

include storage related revenues and costs in the calculation of the margins in this account.

ii) 2014 Account

LPMA notes that Board Staff has submitted 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. LPMA believes there is merit in the Staff submission that the storage related revenues and costs should be included in the balance of the Average Use Deferral Account on a going forward basis, beginning with the 2014 deferral account disposition proceeding and that this would continue in the future.

As indicated in the response to Exhibit B, FRPO-OGVG-11, if storage rates has been included in the calculation of the margin variance in the account, an addition \$3.1 million would have been included. Ms. Elliott explained that in addition to the revenue, there would be additional costs associated using more storage for these accounts than included in the forecast (Tr. Vol. 1, pages 46-47). Union estimated that the increase in costs associated with the higher average use for the general service customers was approximately \$1.0 million (Undertaking J2.1). Clearly the impact of the storage revenue and costs can be material in the context of the margin variance due to changes in the average use of the general service classes.

Given the intent of the account, LPMA submits that the Accounting Order for the Average Use Deferral Account should be updated to include storage costs and revenues associated with variances in the average use for the general service classes.

d) Allocation of Checkpoint Balancing Penalties

LPMA submits that the penalty charges arising from the EB-2014-0154 proceeding should be allocated to system gas customers only.

It is clear that it was system gas customers' gas that was used to balance for the direct purchase customers that failed to meet their contractual obligations. AS a result, Union proposes that system gas customers should receive the credit amount associated with the penalty charges. LPMA agrees that on a principled basis, system gas customers should receive the benefit.

Some parties may argue that the some of the penalty charges should be allocated to direct purchase customers. LPMA does not agree.

First, it is clear to LPMA that none of the penalty charges should be allocated to the direct purchase customers that did not meet their contractual obligations. Allocating any of this amount to the customers effectively reduces the price of the penalty charge that the Board will approve in the EB-2014-0154 proceeding. Since the Board approved penalty in EB-2014-0154 will be considered to be just and reasonable, any reduction in this proceeding would not be appropriate.

LPMA also submits that direct purchase customers that did meet their contractual obligations should not receive any of the penalty charges. These customers had a duty to balance as per their contractual obligations. This does not, in the view of LPMA, warrant a reward. Further, these customers did not contribute to the to the gas that was used to balance the system for the gas that other direct purchase customers failed to provide. As noted earlier, this was done entirely through the use of system gas customer gas.

III. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs for participating in this proceeding.

All of which is respectfully submitted this 24th day of September, 2014.

Randall E. Aiken

Randall E. Aiken
Consultant to
London Property Management Association