September 24, 2014

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File No. T1001486

VIA RESS AND COURIER

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0145 - Union Gas Limited (Union) 2013 Deferral Account Disposition

Final Submissions of Industrial Gas Users Association (IGUA).

This letter provides submissions on behalf of IGUA in respect of the captioned application.

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

There are three sub-issues with respect to this issue: (i) cost recovery; (ii) cost allocation; and (iii) timing of cost recovery, each of which are discussed below.

(i) Cost Recovery

IGUA supports Union's proposal that it be entitled to recover the costs associated with the incremental spot gas it purchased for load balancing, for the benefit of south bundled direct purchase customers.

IGUA accepts Union's proposal to apply the winter/summer differential to arrive at the $1.945 million load balancing cost, with respect to the purchase of 0.8 PJs that occurred on February 21, 2014 (which formed part of the incremental spot gas purchased by Union on this date).

(ii) Cost Allocation

IGUA opposes Union's proposal to allocate the load balancing costs ($1.954 million) associated with the 0.8 PJs to those south bundled direct purchase customers who were below their planned Bank Gas Account (BGA) balances as of March 31, 2014. Union has stated that there were 325 customers who were below their planned BGA balances as of March 31, 2014.[1]

IGUA submits that these load balancing costs should be recovered from all south bundled direct purchase customers.

In its final submissions, Union stated, in part, that:

> *It is those customers* [south bundled direct purchase customers who were below their planned BGA balances as of March 31, 2014] *that drive the need for the purchase and, in Union's submission, it is appropriate that they bear the costs*.[2]

While IGUA supports the principle that those customers that drive the need to purchase incremental spot gas should pay for same, IGUA submits that these load balancing costs are for the benefit of all customers "*to ensure there is sufficient gas in storage at March 31 to maintain system integrity*".[3]

Union's load balancing requirements to its control point of March 31, 2014, are distinct from those contractual requirements that south bundled direct purchase customers have with Union. Indeed, as was acknowledged by Union throughout the hearing, there is no contractual obligation for south bundled direct purchase customers to be in balance as of March 31, 2014.[4] In fact, these customers were contractually permitted to be in a negative balance at the end of March.[5]

Furthermore, no advance notice was provided to south bundled direct purchase customers that Union would be seeking to allocate costs associated with Union meeting its load balancing obligations to its control point of March 31, 2014. In fact, the first written notice to customers about Union's intentions occurred on June 19, 2014, almost four months after Union's purchase of the 0.8 PJs.[6]

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[1] Oral Hearing Transcript, Volume 1, at pg. 40
[2] Oral Hearing Transcript, Volume 2, at pg. 86
[3] Exhibit A, Tab 1, pg. 4
[4] Oral Hearing Transcript, Volume. 1, pg. 74; Oral Hearing Transcript, Volume 2, at pg. 9
[5] Oral Hearing Transcript, Volume 1, at pg. 52
[6] Exhibit B.CME.1, Attachment 1

For its part, Union has stated that providing any notice to customers prior to the end of March would have resulted in "*mixed messaging*".[7] According to Union, it would not have known until the end of March precisely what, if any, spot gas charges would be allocated to south bundled direct purchase customers, in order for Union to meet its load balancing obligations at the end of March.[8] However, Union agreed that if advance notice had been given to customers of the risks associated with any over consumption prior to the end of March, these customers could have either "*ratchet back on their consumption or they can bring in additional gas to make sure they have met that minimum balance*".[9] Such an approach would have been consistent with Union's guiding principle to not make purchase decisions that impact direct purchase customers supply costs (or at least not without due notice).[10]

IGUA submits the lack of any contractual obligation and the lack of advance notice to customers are two compelling reasons why the costs (of the 0.8 PJs) do not possess the characteristics of an expense that should be allocated to 325 unsuspecting, individual customers. Rather, Union's on-going load balancing obligations, after the February 28 Checkpoint, were in place to "*maintain system integrity*"[11] during an unprecedented winter. This was for the benefit of the overall system and in particular to avoid "*operational risk and integrity and reliability of the system risk".*[12] IGUA submits these load balancing costs were for the benefit of all customers. As such, these costs should be allocated to an entire class of customers, being all south bundled direct purchase customers.

Finally, IGUA supports the final submissions of Board Staff as it relates to their argument that the methodology used for allocating load balancing costs to northern bundled customers should also be utilized for southern bundled customers.

(iii) Timing of Cost Recovery

IGUA supports Union's proposal to dispose of the amounts associated with load balancing for its south bundled direct purchase customers as part of this proceeding. Furthermore, IGUA appreciates that Union brought forward this issue in the manner it did. Such an approach has allowed a more detailed consideration than the mechanistic QRAM process can easily accommodate.

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[7] Oral Hearing Transcript, Volume 2, at pg. 45
[8] Oral Hearing Transcript, Volume 2, at pg. 44 - 45
[9] Oral Hearing Transcript, Volume 2, at pg. 23; Oral Hearing Transcript, Volume 2, at pg. 45 - 46
[10] Exhibit K1.3, pg. 1; Oral Hearing Transcript, Volume 1, at pg. 72.
[11] Exhibit A, Tab 1, pg. 4
[12] Oral Hearing Transcript, Volume 1, at pg. 26

Unaccounted for Gas (UFG) (Spot Gas Variance Account)

IGUA supports Union's proposal to allocate the cost of $4.729 million associated with price variances related to UFG variances to Union south sales service customers, which is consistent with historical practice.

Between 2008-2013, Union south system supply customers received credits in excess of $33 million relating to UFG variances (averaging in excess of $5.5 million annually).[13] During this same time period, Union south bundled direct purchase customers did not receive any debits or credits with respect to UFG variances. This is despite the evidence that UFG is caused by all customers on Union's system, and not only system supply customers, as was confirmed by Union during the oral hearing:

> *… as it relates to UFG volumes, they are driven by volumetric activity on the system, which is - - which is the result of all customer activity.*[14]

During its final submissions, Union stated the following with respect to the principle of cost causality and UFG price variances:

> *… 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 costs.*
>
> *…*
>
> *The point to be made is, historically, those 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.*[15]

IGUA agrees with Union's above referenced submissions.

Given the unusual 2013-2014 winter that occurred, IGUA submits that now is not the appropriate time to be amending the historical practice as to how the spot gas price

[13] Exhibit A, Tab 1, at pg. 10, Table 2
[14] Oral Hearing Transcripts, Volume 2, at pg. 6
[15] Oral Hearing Transcript, Volume 2, at pg. 90

variances on account of UFG be allocated. To do so would compound an apparent inequity to south bundled direct purchase customers that has been on-going since at least 2008.

Going forward, IGUA has no objection to a principled reconsideration as to how the price variances on account of UFG should be allocated. IGUA submits that any such reconsideration should address the cumulative allocations that have been made to system supply customers to date.

Finally, IGUA recognizes that the unusual 2013-2014 winter led to the $4.729 million charge as a result of price variances on account of UFG, in additional to very high penalties arising from the February 28 Checkpoint Balancing requirement. IGUA submits that the windfall arising from these penalty charges (the quantum of which is the subject of EB-2014-0154) could be used to off-set this UFG charge to system supply customers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Gowling Lafleur Henderson LLP, per:

Mark Crane
Counsel to IGUA

MC:ev

c: K. Hockin (Union)
C. Smith (Torys)
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Intervenors of Record

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