UNION GAS LIMITED

OCTOBER 1, 2014 QRAM APPLICATION

EB-2014-0208

BOARD STAFF INTERROGATORIES

Interrogatory #1

Questions:

a) Please discuss how the underlying system integrity space costs (for the 6 PJs of filled space) are allocated to customers. Are these costs allocated on the basis of storage space requirements?

b) Please confirm whether Union has ever recovered the costs associated with replenishing system integrity inventory. If Union has recovered these costs in the past, please discuss how the costs were allocated.

Interrogatory #2

Reference:

Union Response to IGUA IR (EB-2014-0208) – September 19, 2014
Union Response to IGUA IR (EB-2014-0208) – September 22, 2014

Preamble:

Union stated that a proportionate allocation of integrity inventory between Union South sales service and bundled direct purchase customers is inappropriate because Union South bundled direct purchase customers' consumption variances were not met with integrity inventory.

Union provided the following table in its September 22, 2014 response to a question from IGUA:

Table 1

Line No.	Spot Gas Purchase Breakdown by Customer Group	Forecast Variances as of April, 2014 QRAM (a)	Actual Demand or Consumption Variances (b)	Variance in Demand or Consumption Variances (c)	Allocated Spot Gas (d)	Use of System Integrity Molecule (e)
1	Union South Sales Service Customers	23	23.3	0.3	22.8	-0.5
2	Union North Sales Service and Bundled DP Customers (net of planned UDC filled)	2.9	3.5	0.6	3.4	-0.1
3	Union South Bundled DP Customers	1.8	0.8	-1.0	0.8	0.0
4	Unaccounted For Gas Variances	1.5	2.1	0.6	2.1	0.0
5	Union North Rate 25 Variance	0.6	1.1	0.5	1.1	0.0
6	**TOTAL**	29.8	30.8	1.0	30.2	-0.6

Questions:

a) Please explain how Union determined the amount of spot gas that was allocated to each customer group (column d).

b) Please discuss the reason South bundled direct purchase customers' consumption variances were not met with integrity inventory. Is it because Union had already allocated these customers sufficient spot gas to cover their consumption variances?

c) Is it fair to describe the allocation of system integrity inventory as a function of Union's allocation of the spot gas purchases? For example, if Union had allocated more spot gas to its South system gas customers (i.e. 23.3 PJs) and allocated less to its South direct purchase customers (i.e. 0.3 PJs), would 0.5 PJs of integrity inventory been used (and allocated) to cover South direct purchase customers' consumption variances (as opposed to South system gas customers)?

Interrogatory #3

Reference:

IGUA Comment Letter (EB-2014-0208) – September 22, 2014
Union Response to Board Staff IR#1 (EB-2014-0208) – September 17, 2014

Preamble:

IGUA is asserting that if Union had allocated the costs associated with the use of system integrity inventory proportionately to all groups of customers, the result would be reduced gas costs allocated to South bundled direct purchase customers and increased gas costs allocated to system gas customers.

Union, in response to a Board staff question related to its October 2014 QRAM, stated that it cannot specifically identify the actual or forecast cost of the gas used to replace the utilized integrity inventory.

For illustrative purposes, Board staff has attempted to quantify the impact of IGUA's suggested approach below. Board staff has allocated both the spot gas quantities and the integrity inventory quantities proportionally to the customer groups on the basis of the actual consumption variances experienced (column B of Table 1 above). Board staff has used $7.12 / GJ as an estimate of the spot gas purchase price and $4.676 / GJ (Union's forecasted summer price) as an estimate of the cost to replenish the system inventory that was utilized. Board staff notes that the analysis undertaken was done on a total cost basis. As such, the difference between the actual costs and the amounts collected by Union in accordance with the relevant Board-approved reference prices are not considered in the amounts set out below. However, Board staff does not believe that the estimated variance (column G of the table below) would change if the reference prices were included in the calculations.

Customer Group	Spot Gas - Filed (PJs)	Spot Gas – Proportional Allocation (PJs)	Integrity Inventory – Filed (PJs)	Integrity Inventory – Proportional Allocation (PJs)	Estimated Total Cost (Spot + Inventory) – Filed ($)	Estimated Total Cost (Spot + Inventory) – Proportional Allocation ($)	Estimated Variance ($) (F-E)
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
South Sales	22.8	22.8461	0.5	0.4539	$164,674,000	$164,786,677	**$112,677**
North Sales and Bundled DP	3.4	3.4318	0.1	0.0682	$24,675,600	$24,753,363	**$77,763**
South Bundled DP	0.8	0.7844	0.0	0.0156	$5,696,000	$5,657,911	**$(38,088)**
UFG Variances	2.1	2.0591	0.0	0.0409	$14,952,000	$14,852,018	**$(99,981)**
North Rate 25	1.1	1.0786	0.0	0.0214	$7,832,000	$7,779,628	**$(52,371)**

| Total | 30.2 | 30.2 | 0.6 | 0.6 | $217,829,600 | $217,829,600 | |

The table above highlights that an allocation of spot gas and integrity inventory based on a proportional approach (using the actual consumption variances) would result in South sales service customers and North sales and bundled direct purchase customers paying slightly more and the remaining customer groups paying slightly less.

Questions:

a) Please discuss whether Board's staff estimate of the outcome of IGUA's suggested approach is reasonable. If not, please update the table to provide a more accurate estimate.

b) Please provide Union's views on using a proportional approach (based on actual consumption variances) to allocate both spot gas and integrity inventory to customer groups.