

October 6, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0145 - Union Gas Limited – 2013 Deferrals – Reply Argument

Please find attached Union's Reply Argument in the above noted proceeding.

Should you have any questions, please contact me at 519-436-5473.

Yours truly,

[Original Signed by]

Karen Hockin
Manager, Regulatory Initiatives

cc: Crawford Smith (Torys)
EB-2014-0145 Intervenors

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.

REPLY ARGUMENT OF UNION GAS LIMITED

A. Overview

1. This is Union Gas Limited's Reply Argument in EB-2014-0145. This Argument should be read in conjunction with Union's Argument-in-Chief. For the reasons set out in that argument and below, Union remains of the view that the relief requested in the application should be granted by the Board.

2. To varying degrees, the matters identified in Union's Argument-in-Chief as being in dispute remain contested. The balance of this Reply Argument is organized to address each of these matters:

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

B. Union South Bundled Direct Purchase Load Balancing Costs

3. The specific issues pertaining to the Union South bundled direct purchase ("DP") load balancing costs are: (1) whether Union is permitted to recover the \$1.801 million debit in the Spot Gas Variance Account; (2) if recovery is permitted, the appropriateness of the allocation of

the balance in the account; and (3) whether the deferral account should be disposed of in this proceeding or in Union's 2014 non-commodity deferral account proceeding.

4. **Permissibility.** With the exception of FRPO/OGVG, all parties agree that Union should be entitled to recover the cost associated with the 0.8 PJ of gas purchased by Union to meet its load balancing obligations in relation to Union South bundled DP customers. As system operator, Union retains load balancing obligations for weather variances after the February checkpoint is established and through to the end of March. Union is required to ensure that there is sufficient gas in storage at March 31 to maintain system integrity.¹

5. As Board Staff correctly observes in its submission², the cost related to Union's purchase of 0.8 PJ of incremental gas used for load balancing for its Union South bundled DP customers reflects a real incremental cost incurred by Union to allow it to meet its load balancing obligations.³

6. Some parties assert that Union should have provided notice when it bought the gas on February 21. This assertion is central to FRPO/OGVG's argument. With respect, it misses the point. The essential point is that customers had no obligation to load balance on Union's behalf. Indeed, the unstated premise of FRPO/OGVG's argument is that Union should have effectively outsourced its load balancing obligations to Union South bundled DP customers – including to those that missed the contractual obligation they did have in relation to the February Winter Checkpoint. This would have been imprudent. The customers had no contractual obligation to balance on Union's behalf and Union could not reasonably have expected them to do so.⁴

7. For the same reason, FRPO/OGVG's comments in relation to the 0.34 PJ of gas purchased by Union in February after the February 10 date on which the Winter Checkpoint was established are also without merit.⁵ The intention of checkpoint balancing is to reduce the

¹ Transcript, Volume 2, page 83; Exhibit B.FRPO_OGVG.5.

² Board Staff Submission, page 2.

³ At paragraphs 18 and 19 of its argument, CME wrongly asserts that the cost associated with the purchase of the 0.8 PJ of gas is \$1.801 million. This is incorrect. As set out at Exhibit A, Tab 1, Table 1 Corrected, the cost is \$1.954 million. .

⁴ Transcript, Volume 2, page 88.

⁵ FRPO/OGVG Submission, page 6.

probability that Union will have to load balance on behalf of DP customers. As Union discussed in its Argument-in-Chief at Volume 1, pages 83-86, it has been very successful in this respect. However, it is not a guarantee by Union that it will not have to do so, nor that customers will not be responsible for load balancing costs in the event Union, as system operator, is required to purchase incremental gas as it was this past winter.

8. Further, even if notice had been provided, and the customers acted on Union's behalf, there is no reason to expect that the costs would be lower because the cost that Union proposes to recover is based on a cost of gas that is less than the average March spot gas price.⁶

9. **Allocation.** LPMA and VECC support Union's proposal to allocate the full cost of \$1.954 million to Union South bundled DP customers who were below their planned Banked Gas Account ("BGA") balance and to credit \$0.153 million to Union South sales service customers. Board Staff, BOMA, CME and IGUA propose that Union should allocate the load balancing costs to all Union South DP customers and not only to those below their BGA balance.

10. Union agrees with LPMA's submission:

"... 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."⁷

11. As Mr. Tetreault stated at Volume 1, page 61:

"...But our proposal here to recover the load balancing costs from a select group of direct purchase customers is based on a cost causality principle that is embedded in our cost-allocation methodologies. These 325 customers are the ones that caused us to buy the spot gas we have purchased. So it would seem appropriate, in my mind, to have them bear the cost associated with the purchase on their behalf."

⁶ Transcript, Volume 1, page 77; Exhibit J2.4.

⁷ LPMA Submission, page 4.

12. Board Staff, in its submission, notes that Union has load balancing obligations in relation to its Union North bundled DP customers, and that for Union's Northern DP customers, Union allocates the load balancing costs to all customers based on overall volume. Board Staff submits that the methodology used in Union North for load balancing costs should also be utilized in Union South.⁸

13. Respectfully, Union disagrees. In Union North, load balancing on behalf of sales service and bundled DP customers is managed in aggregate.⁹ Union agrees with LPMA's submission that there is a difference between Union North and Union South. In Union North, DP customers do not have balancing checkpoints, so it is not possible to determine which DP customers contribute to the increase in load balancing costs. In Union South, DP customers do have balancing checkpoints, so it is possible to determine which customers caused the load balancing costs incurred by Union.¹⁰

14. **Timing.** All parties agree with Union's proposal to deal with Union South bundled DP load balancing costs in this proceeding.

C. Unaccounted for Gas Price Variances

15. The two issues with respect to Unaccounted for Gas ("UFG") price variances are the allocation methodology and the timing of disposition.

16. **Allocation.** IGUA and VECC support Union's proposal to allocate UFG price variances to Union South sales service customers. Union's proposal is consistent with past practice which has resulted in these customers receiving credits of \$33 million (or \$5.5 million annually) since 2008.¹¹

17. Board Staff, BOMA, CME, LPMA and FRPO/OGVG submit that the UFG price variance should be allocated to all customers to which Union allocates the cost of UFG through

⁸ Board Staff Submission, page 4.

⁹ Transcript, Volume 2, page 9.

¹⁰ LPMA Submission, pages 3-4.

¹¹ Exhibit A, Tab 1, pages 9-10.

delivery rates. This includes both sales service and bundled DP customers for which Union provides fuel.

18. As set out at Volume 1, page 43, it would be very difficult for Union to isolate the purchase gas variances for UFG and charge them to DP customers as well as sales service customers. All gas purchase variances flow through to sales service customers.

MR. AIKEN: Okay. Now, why does Union believe that it is appropriate to credit or debit this amount only to system gas customers?

MS. ELLIOTT: I think we go back to past practice, and certainly it has been included in the purchase gas variance account in the past and, as you indicated, it would be our proposal to include it in the future.

We did look, I guess, at changing that methodology, as we were reviewing this. The reality is, on a planned basis, it would be very difficult to isolate the purchase gas variances for UFG and charge them to direct purchase customers as well as system gas customers.

The current processes really don't provide for that. And as I say, given our past practice, given the fact that it has been historically credits, taking it out at this point and changing the methodology -- which would mean changing the methodology on a go-forward basis, because it wouldn't be appropriate to isolate it as a single unique adjustment -- that we felt it would be practical to leave it where it was.

19. **Timing.** Most parties support Union's proposal to dispose of the UFG price variances in this proceeding. FRPO argues that the issue should be part of the 2014 Deferral Disposition proceeding.¹²

20. Union disagrees with FRPO. Generally, the Board favours timely disposition of deferral accounts. This is particularly true where, as here, what is at issue is gas commodity purchases. Typically, commodity costs are dealt with on a quarterly basis through the QRAM.¹³

¹² FRPO Submission, pages 6-7.

¹³ Transcript, Volume 2, page 89.

D. Average Use Deferral Account

21. There is no issue in relation to this account as it relates to 2013 amounts. All parties that made submissions on the point (Board Staff, BOMA, CME, FRPO/OGVG, LPMA and VECC) agree that the Average Use (“AU”) deferral account has been calculated appropriately and in accordance with the Accounting Order and should be disposed of accordingly.

22. Some parties submit that, going forward, storage-related revenues and costs associated with changes in average use should be included in the deferral account balance. Parties propose that Union should be required to update the Accounting Order beginning in 2014.¹⁴

23. In fact, as part of Union’s Board approved Incentive Rate Mechanism in place for the period 2014-2018, parties agreed to establish a Normalized Average Consumption (“NAC”) deferral account to replace the Average Use Deferral Account and to capture the variance resulting from the difference between forecast NAC included in rates and actual NAC for general service customers. The NAC deferral account already contemplates the inclusion of storage related revenues and costs for the general service rate classes.¹⁵

E. Allocation of Checkpoint Balancing Penalties

24. Board Staff, LPMA and VECC support Union’s proposal to allocate checkpoint balancing penalties to Union South sales service customers. Union agrees with Board Staff’s 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. 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.

¹⁴ Board Staff, BOMA, CME, LPMA submit that the AU Accounting Order should be updated in 2014 and beyond. FRPO/OGVG submit that the issue be brought forward in the next rebasing proceeding.

¹⁵ See EB-2013-0202, Settlement Agreement, Tab 1, pages 22-25 and Tab 2, Appendix I, (Working Papers, Schedule 12)

25. BOMA and CME submit that the portion that should be allocated to sales service customers is limited to the actual cost of gas and the excess penalty amounts should be allocated to all Union South bundled DP customers. FRPO/OGVG submits that the penalty proceeds could be used to offset Union South DP load balancing costs, and the remainder put into the Spot Gas Variance Account to be cleared against load balancing costs for all bundled customers. IGUA submits that the penalty proceeds could be used to offset the UFG price variance to sales service customers. Union disagrees with all of these submissions.

26. As set out in Union's Argument-in-Chief, given that it was the sales service customers' gas that was used to balance for the DP customers that failed to meet their contractual obligations, it is the sales service customers that should benefit from the penalty revenues. No other customers contributed balancing gas. Union submits that this is the principled approach. Contrary to CME's argument at paragraph 10, there is no regulatory principle or decision which would preclude system gas customers from being allocated the penalty revenues. This is not a situation of Union gaining or losing from the sale of system gas; Union is financially indifferent to the result.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[original signed by]

Crawford Smith
Lawyers for Union Gas Limited