October 10, 2014

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

Dear Ms. Walli:

RE: EB-2014-0208 – Union Gas Limited – October 1, 2014 QRAM Interrogatory Responses

Attached, please find Union's Interrogatory responses for the above-noted proceeding.

If you have any questions on this matter, please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2013-0365/EB-2008-0106 Intervenors
Crawford Smith (Torys)

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

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.

Response:

a) No, Union does not allocate system integrity space costs solely on the basis of storage space requirements. Union uses a blended allocation methodology to allocate system integrity costs to rate classes based on the operational components of the system integrity space.

Union combines the 6.0 PJ of filled space and 3.5 PJ of empty space to allocate the total costs associated with 9.5 PJ of system integrity space. The total cost of system integrity includes carrying costs associated with 6.0 PJ of system integrity inventory. A summary of the 2013 Board-approved cost allocation by operational component is provided at Table 1 below.

In Union's 2013 Board-approved cost allocation study, system integrity costs associated with weather variances are allocated to all Union South general service rate classes (Rate M1 and Rate M2) in proportion to winter volumes. The Board-approved system integrity costs do not include costs to replace system integrity inventory. Union does not plan to utilize system integrity inventory.

Table 1
2013 Board-approved Cost Allocation of System Integrity Space

Line No.	Operational Component	Space (PJ)	Cost Allocation
1	Forecast Weather Variances	1.9	Union South general service winter volumes.
2	Unaccounted-for-Gas Forecast Variances	2.2	Storage and transmission UFG volumes.
3	Line Pack Variances	1.1	Dawn-Parkway distance weighted design day demands.
4	Storage Pool Hysteresis	2.0	Storage space requirements.
5	OBA/LBA Imbalances	0.9	Storage and transmission volumes.
6	Supply Backstopping	0.7	Union South in-franchise storage space requirements.
7	Hagar LNG	0.6	Union North in-franchise excess of peak day over average day demands.
8	Total	9.5	

b) Any purchase cost variance incurred to replace system integrity inventory have been to the account of sales service customers as part of the overall cost of supply procured immediately following the use of the integrity inventory.

As discussed in the interrogatory response at EB-2014-0145, Exhibit B.FRPO_OGVG.22, for the winter 2012/13, when actual measurement was available in April, the final March 31 inventory position was 2.1 PJ below target. Union utilized 2.1 PJ of integrity inventory to meet actual demand requirements at March 31. System integrity inventory was immediately replaced by sales service customers as part of sales service supply purchases. To the extent that bundled direct purchase customers drove the need to utilize system integrity inventory at March 31, 2013, the bundled direct purchase customer had no obligation to replace that system integrity supply until the next February checkpoint or contract expiry (whichever comes first). By November 1, Union would reduce gas purchases for sales service customers (in essence, the system sales customers are loaning the supply to the bundled direct purchase customers).

Any gas purchase cost variance related to sales service customers replacing the utilized system integrity inventory immediately in April, including any gas cost timing differences (April vs. later in the summer) were included within the respective PGVA deferral accounts (North and South) during 2013 and were recovered from sales service customers.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

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

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)?

Response:

a) As discussed in evidence (EB-2014-0145, Exhibit A, Tab 1, pp. 3-7) Union South bundled direct purchase ("DP") customers are accountable for meeting balancing requirements on February 28 of each year. Union is responsible for managing Union South bundled DP variances after the February 28 checkpoint has been established, as well as variances for sales service customers. Union uses best available information in February and early March, and when required, will make a spot purchase to ensure Union South bundled DP and sales service customers do not use system integrity inventory. System integrity inventory is only used if actual activity is different than the best available information in early March would indicate. Therefore, Union allocated the spot gas purchases to all groups of customers based on the actual variance at March 31. Union allocated the unplanned use of integrity inventory to Union South sales service and Union North sales service customers (as indicated on lines 1 and 2) as it was their needs that drove the use. As discussed at Exhibit B.Staff.1 b), sales service customers bear the cost variances of the replacement of any system integrity inventory used, regardless of what customer group drove the need.

b) Yes, as discussed above, Union South bundled DP customers consumption variances were met with the incremental spot gas purchases Union made up to the end of March and not with integrity inventory. Union does not plan on utilizing system integrity inventory. The need to use the integrity inventory was driven by unforeseen weather variances over the last remaining days of March which impacted the sales service customer consumption.

As Board Staff correctly observes in its submission in EB-2014-0145:

> *"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. 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)."*

Union South bundled DP customers therefore pay for the summer winter differential so that sales service customers are not impacted by the higher cost of the supply purchased in the winter period to meet the needs of the Union South bundled DP customers. Union South sales service customers should not be negatively impacted by having to purchase inventory for bundled DP customers that sales service customer would not have otherwise purchased until

the following summer. With the purchase of 0.8 PJ of gas for bundled DP customers, no further supply (including no use of system integrity) was required.

The first sales service supply purchased in the period following any use of integrity inventory is the gas that replaces system integrity inventory. Any cost variances related to the replacement of the integrity inventory would then be recovered from sales service customers as part of the cost of the overall purchases as discussed at Exhibit B.Staff.1 b).

c) No. Given Union had initially purchased 1.8 PJ of supply to balance Union South bundled DP customers, it was adjusted to 0.8 PJ to reflect actual use, it would not make sense to allocate only 0.3 PJ to Union South bundled DP customers. Regardless of the allocation of the integrity inventory, the sales service customers bear any cost variances of the replacement of the integrity inventory used. Please refer to part a) and b) above.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

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) (A)**	**Spot Gas – Proportional Allocation (PJs) (B)**	**Integrity Inventory – Filed (PJs) (C)**	**Integrity Inventory – Proportional Allocation (PJs) (D)**	**Estimated Total Cost (Spot + Inventory) – Filed ($) (E)**	**Estimated Total Cost (Spot + Inventory) – Proportional Allocation ($) (F)**	**Estimated Variance ($) (F-E) (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.

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

Response:

a) Board Staff's estimate of the outcome of IGUA's suggested approach is a reasonable proxy; however, IGUA's premise is incorrect. As discussed at Exhibit B.Staff.1 b), gas purchases are made in February and March using best available information to ensure system integrity is not used on a planned basis for any class of customer. For March 31, 2014, Union was successful in managing zero use of system integrity for Union South bundled DP customers. IGUA is suggesting that system integrity space should be used for financial gains ($38K) for Union South bundled DP customers. Union disagrees as system integrity inventory was not used for Union South bundled DP customers as noted above.

b) As noted in the response at Exhibit B.Staff.1 b), sales service customers bear any cost variances of replacing system integrity inventory when utilized. Union does not support a proportionate allocation of the costs of the utilization and replacement of the integrity inventory as suggested by IGUA, as noted in part a) above.

Filed: 2014-10-10
EB-2014-0208
Exhibit B.IGUA.1

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

The evidence on this topic filed to date indicates that Union allocates the (summer price) replacement costs of integrity inventory to customer groups only to the extent that Union's forecasts, and associated spot purchases, are insufficient relative to consumption variances actually experienced as determined after the fact.

Please confirm that this is correct.

Response:

Not confirmed. Please see the responses at Exhibit B.Staff.1 and B.Staff.2.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

In the current instance, Union's position seems to be that because it over forecast consumption variances from and after February 28h through March 31st by South DP customers, and thus purchased more spot gas than was required to balance delivery and consumption by these customers, but under forecast consumption variances for the same period for Union system supply customers, and thus purchased less spot gas than was required to balance delivery on behalf of, and consumption by, these customers, it is appropriate to allocate the cost consequences of having had (in fact) to use storage integrity supplies to the system customers.

Please correct this synopsis if it has been misstated.

Response:

Please see the responses at Exhibit B.Staff.1 and B.Staff.2.

Filed: 2014-10-10
EB-2014-0208
Exhibit B.IGUA.3

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Please confirm that if Union had under forecast consumption variances from and after February 28h through March 31st by South DP customers, and thus had purchased less spot gas than was required to balance delivery and consumption by these customers, then Union would have allocated some portion of the cost consequences of actual utilization of integrity supply to South DP customers.

Response:

Not confirmed. Please see the responses at Exhibit B.Staff.1 and B.Staff.2.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

In the scenario outlined in question 3, above, and assuming that Union had also under forecast consumption variances in the same period for Union system sales customers as it did this past March, please describe the mechanism that would have been used to allocate the costs of the integrity supply that each customer group had used.

Response:

Please see the responses at Exhibit B.Staff.1 and B.Staff.2.