



October 15, 2014

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

Dear Ms. Walli:

**RE: EB-2014-0208 – Union Gas Limited – October 1, 2014 Argument-in-Chief**

Attached, please find Union's Argument-in-Chief 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)

**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, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of October 1, 2014;

**AND IN THE MATTER OF** the Quarterly Rate Adjustment Mechanism approved by the Ontario Energy Board in EB-2008-0106.

**ARGUMENT IN CHIEF OF  
UNION GAS LIMITED**

**A. Overview**

1. By application dated September 11, 2014, Union Gas Limited (“Union”) applied to the Ontario Energy Board (“Board”) pursuant to Section 36(1) of the *Ontario Energy Board Act, 1998* (“the Act”), and the Quarterly Rate Adjustment Mechanism (“QRAM”) approved by the Board, for an order approving rates and other charges for the sale, distribution, transmission and storage of gas as of October 1, 2014.

2. Board Staff, CME and IGUA filed questions with the Board in relation to Union’s use of integrity inventory and the allocation of costs associated with the replacement of the integrity inventory. Union responded to the questions.

3. On September 25, 2014, the Board approved Union’s application, as filed, on an interim basis. At page 3 of its Decision, the Board stated:

“The Board considers the record on the use and allocation of system integrity inventory to be insufficient to support a finding of the Board on this matter. The Board will therefore approve the application as filed, on an interim basis, pending the resolution of

this issue. The Board will allow for further written discovery on this matter, argument-in-chief, and written submissions from intervenors and Board staff. Union will also have a right of reply.”

4. The balance of this Argument-in-Chief is organized to address the use and allocation of system integrity inventory.

## **B. System Integrity Inventory**

5. Union holds 9.5 PJ of system integrity space. This storage space is used to maintain the operational integrity of Union’s integrated storage, transmission and distribution systems. The gas supply plan has 6.0 PJ of this space filled with system integrity inventory while the remaining 3.5 PJ is left empty as contingency space. Union plans to maintain the full 6.0 PJ of integrity inventory year round; use of system integrity inventory is unplanned.<sup>1</sup> To the extent integrity inventory is used, it is to manage unforeseen events including weather variances, UFG variances, system line pack, storage pool hysteresis, OBA/LBA imbalances, and supply backstopping.<sup>2</sup> At March 31 of each year, Union’s targeted inventory position is zero, plus 6.0 PJ of integrity space (supply).<sup>3</sup>

6. As indicated at Tab 1, pages 4-5 of Union’s October 2014 QRAM filing, Union purchased 29.8 PJ of incremental spot gas to meet actual demands above forecast for the period November 1, 2013 to January 31, 2014 and projected demand variances above forecast for February 1, 2014 to March 31, 2014 period. The projected demand variances were based on the best available information at the time of the April QRAM filing. As a result of continued colder than normal weather, Union purchased an incremental amount of spot gas in March (0.4 PJ) to manage projected variances to the March 31 target. The total spot gas purchased was therefore 30.2 PJ.

7. When actual measurement was available in April, actual demand variances were realized at the end of March 31, 2014 which resulted in a final March 31 inventory position that was 0.6 PJ below target.<sup>4</sup> As indicated at Exhibit B.Staff.2, the 0.6 PJ of incremental consumption was due to higher than forecast consumption by Union’s sales service customers. Union utilized 0.6

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<sup>1</sup> EB-2014-0208, Board Staff Questions 1 and 2.

<sup>2</sup> EB-2014-0208, Exhibit B.Staff.1, a).

<sup>3</sup> EB-2014-0208, Exhibit B.Staff.2

<sup>4</sup> EB-2014-0208, Tab 1, page 5.

PJ of system integrity inventory to meet the unplanned higher demand requirements by Union's sales service customers.

8. Included in the 30.2 PJ of spot gas purchases was 1.8 PJ of gas that Union purchased on behalf of Union South bundled direct purchase ("DP") customers. The 1.8 PJ was purchased for Union South bundled DP customers based on forecast incremental consumption after the February checkpoint activity was determined as well as colder than forecast weather in March. However, on an actual basis, Union South bundled DP customers only consumed an incremental 0.8 PJ. Therefore, Union did not need to utilize system integrity inventory for bundled DP customers.<sup>5</sup>

9. Union allocated the unplanned use (0.6 PJ) of integrity inventory to Union South sales service and Union North sales service customers as it was their incremental consumption that drove the use of system integrity inventory.<sup>6</sup>

10. System integrity inventory is (and was) immediately replaced by sales service customers as part of sales service supply purchases. Any purchase cost variance incurred to replace system integrity inventory goes to the account of sales service customers as part of the overall cost of supply procured immediately following the use of the integrity inventory.<sup>7</sup>

11. In the result, 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 system integrity inventory.<sup>8</sup> It was Union South sales service and Union North sales service customers' consumption variances that drove the need to use system integrity inventory, and therefore it is appropriate to allocate the cost variances associated with 0.6 PJ of system integrity inventory to only those sales service customers.<sup>9</sup>

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<sup>5</sup> EB-2014-0208, IGUA Question 3.

<sup>6</sup> EB-2014-0208, Exhibit B.Staff.2 a).

<sup>7</sup> EB-2014-0208, Exhibit B.Staff.1 b).

<sup>8</sup> EB-2014-0208, IGUA Question 3.

<sup>9</sup> EB-2014-0208, Exhibit B.Staff.2 a).

12. For the reasons set out above, Union submits that its QRAM application should be approved as filed.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**

*[original signed by]*

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Crawford Smith  
Lawyers for Union Gas Limited