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September 24, 2014

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0145 – Union Gas Limited
Argument of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the Argument of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant as well as all Intervenors via e-mail.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Union Gas – Karen Hockin – khockin@uniongas.com
All Intervenors

EB-2014-0145

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.

ARGUMENT OF THE VULNERABLE ENERGY CONSUMERS COALITION ("VECC")

September 24, 2014

Introduction

Union Gas Limited (Union) filed an application May 2, 2014, under section 36 of the *Ontario Energy Board Act, 1998,* for an order or orders approving the final disposition of certain 2013 year-end deferral account balances.

Subsequent to a Settlement Conference convened on August 7, 2014, Union filed a Settlement Proposal with the Ontario Energy Board (the Board) which was accepted in substance by the Board at the Oral Hearing held on September 3 and 4, 2014.[1]

Following acceptance of the Settlement Proposal by the Board, four issues remained unresolved and these four issues were the subject of the remainder of the Oral Hearing.

The four unresolved issues that were the subject of the Oral Hearing were:

(i) Spot Gas Variance Account: Recovery of $1.945M in load balancing costs from Union South bundled direct purchase customers;

(ii) Spot Gas Variance Account: Allocation of the price variance component of the Unaccounted for Gas Variance (UFG) in the amount of $4.729M, to Union South system sales customers;

[1] A minor revision to the wording was accepted by all parties to the agreement and by the Board.

(iii) Average Use per Customer Deferral Account: Whether storage related costs and revenues should be included in calculating the appropriate balance for 2013 year-end; and

(iv) The allocation of checkpoint balancing penalties from bundled transportation customers who failed to meet their February 28 checkpoint.[2]

VECC`s submissions on each of these four issues is provided below.

Spot Gas Variance Account: Recovery of $1.945M in load balancing costs from Union South bundled direct purchase customers

The evidence indicates that to ensure that it had sufficient gas in the ground to meet its March 31 end date, Union had to purchase 0.8 PJ of spot gas on February 21 for March consumption because bundled direct purchase customers were consuming more than their forecast.

While these customers are required to meet a February 28 check-point (i.e., have a minimum amount in their BGAs at February 28), the check-point is set earlier in the month. It does not obviate the need for Union to load balance for weather

[2] The aggregate amount of the penalties is the subject of a separate proceeding: what is at issue in this proceeding is the allocation of the collected penalties to customer classes.

variations after the check-point has been set and continuing through the rest of February and through March: the check-point balancing is undertaken to reduce Union`s load balancing spot gas purchases that would otherwise be required.
As the record indicates, Union has never before had to buy spot gas for March variances.[3]

As system operator, Union is responsible for load balancing for weather variances, and VECC does not believe it is appropriate for Union to rely on any subset of customers to perform this system integrity function. VECC does not believe that any customer or group of customers should be absolved from any load balancing costs under any circumstances regardless of any of its other contractual obligations it may or may not have satisfied. Thus, in VECC`s view, the net cost of this 0.8 PJ, $1.801M, is recoverable from customers.

Union proposes to recover $1.954M from South bundled direct purchase customers who were below their planned banked gas account (BGA) balance in March, and to refund a credit of $0.153M Union South sales service customers. In VECC`s view, this proposal respects cost causality as those customers who were below their planned BGA drove the costs of purchasing the 0.8 PJ.[4] Further, if Union did not recover the costs of these spot gas purchases from the DP customer who caused them (by being below their end of March planned BGA balances), the evidence is that these costs would be recovered from system sales customers through the

[3] FRPO IR 5.
[4] Per Transcript Vol.1, page 30, Union also purchased 0.4 PJ on behalf of sales system customers.

PGVA,[5] i.e., from customers not responsible for the causation.

Finally, VECC supports Union`s proposal to recover the related balance in this proceeding as VECC does not see any advantage in delaying the disposal of this balance.

Spot Gas Variance Account: Allocation of the price variance component of the Unaccounted for Gas Variance (UFG) in the amount of $4.729M, to Union South system sales customers

Union proposes to recover $4.729M associated with the price variance only,[6] in respect of UFG costs from Union South system sales customers. VECC interprets Union's evidence and testimony as indicating that it has applied this method this year because that's the way it has always been done.[7] While it is clear that from a perspective of cost causality, UFG price variances are not driven solely by the demands of Union South system sales customers, Union`s evidence is that these costs have traditionally been cleared to these customers through the PGVA account and that this has traditionally benefitted these customers significantly.[8]

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[5] Transcript Vol. 1 page 30
[6] That is, Union is not seeking recovery of volume variances of UFG.
[7] For example, Transcript Vol. 1 pp 43-44.
[8] VECC IR 3 cites Union's evidence that on average, over the past 6 years, system sales customers have benefitted on average by $5.5M per year due to this treatment. Further, in each of the past 6 years these customers have always received a credit, per Vol. 1 page 42.

In VECC's view, it is only appropriate that if South system sales customers are bearing all of the UFG price risk, there should be an expected reward (in the form of a credit) for these same customers. In this regard, VECC notes that testimony at the oral hearing indicates that Union's witnesses expect that over the long run there will be a credit for these customers.[9] Based on the evidence, VECC supports Union's proposal on this issue in this proceeding.[10]

Average Use per Customer Deferral Account: Whether storage related costs and revenues should be included in calculating the appropriate balance for 2013 year-end

VECC notes that Union's proposal – to calculate the balance in the Average Use per Customer Deferral Account without considering storage related costs and revenues – is consistent with the was that Union has calculated the balances in this account since its inception. [11] While VECC believes there may be merit in considering whether or not storage related revenues and costs should be included in calculating the balance in this account, VECC submits that the evidentiary record is by no means sufficient to support a change in this calculation in this proceeding. Therefore, VECC supports Union's proposal on this issue.

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[9] Transcript Vol. 1 page 43.

[10] VECC has a concern that the experience of the past winter may not be an anomaly going forward but may become "the new normal." However, there is no evidence with which to test this concern and VECC therefore accepts the evidence provided in this proceeding.

[11] Transcript Volume 2, page 91

The allocation of checkpoint balancing penalties from bundled transportation customers who failed to meet their February 28 checkpoint

The checkpoint balancing penalties are levied on bundled-T customers who had a balance at February 28 below their required checkpoint balance. VECC notes that the subject penalty quantum is an issue to be decided in a parallel proceeding, EB-2014-0154. VECC notes that in that proceeding, Union has proposed that the penalties be reduced below what would be required under the rate schedule. In this proceeding, the only issue is to which customers to allocate the penalties collected. Union proposes that these penalty revenues be cleared to Union South system sales customers by flowing them through the SPGVA.

VECC notes that Union offset the below-checkpoint bundled-T customers gas balances by effecting an inventory transfer from the system sales gas account to the below-checkpoint bundled-T customers BGAs.[12] In VECC's view, since the system sales account provided the corrective to the deficits in the BGAs, it is appropriate that system sales customers receive the penalty revenues.
Therefore, VECC supports Union's proposal on this issue.

[12] Transcript Vol. 1 pp 22-23.

Costs

VECC submits that its intervention has been responsible, focused and should be of assistance to the Board in determining the issues herein. As a consequence, VECC requests 100% of its costs for participation in the within hearing.

All of which is respectfully submitted this 24th day of September 2014.