

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

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.

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

ARGUMENT (Allocation of System Integrity Inventory)

1. The Board's September 25, 2014 *Decision and Interim Order* herein indicates the Hearing Panel's view that the record on the use and allocation of system integrity inventory was insufficient to support a final determination regarding allocation among customer groups of system integrity inventory replacement costs.
2. Union has proposed to allocate all such costs to its sales service customers, on the premise that the entire 0.6 PJ of system integrity inventory actually used through the end of March was used to meet system sales customers' consumption variances, while all DP customer consumption variances were met with spot gas purchases.
3. The cost impact of Union's proposal (relative to an allocation of system integrity inventory among customer groups based on actual consumption variances from the April, 2014 QRAM forecast) is to the benefit of system sales customers (by approximately \$200,000) and to the dis-benefit of South Bundled DP and North

Rate 25 customers (\$90,459), all prior to accounting for allocation of UFG variances.¹

4. This is because pre-March 31st spot gas purchases are more expensive than post-March 31st system sales gas purchases (which system sales gas purchases replace system integrity inventory allocated by Union to consumption variances by system sales customers²).
5. Union's rationale for its proposal to allocate all system integrity inventory actually used to meet consumption variances in the winter of 2014 to system sales customers is that *"it was [sales service] customers' consumption that drove the need to use system integrity inventory"*.
6. Union's analysis is circular.
7. Union forecasted consumption variances to March 31st for all of its distribution customers. As it turned out, Union was wrong on its forecasts for both system sales and DP customer consumption variances. (IGUA does not fault Union for this. It is almost always true that forecasts are wrong to some extent, and the challenges of forecasting gas consumption and managing balancing and the system this past winter were considerable.)
8. Union forecasted that Union South bundled DP customers would consume 1.8 PJs more gas to March 31st, and these customers actually consumed only 0.8 PJs more gas.³
9. Union also forecasted that Union South sales service customers would consume 23.0 PJs more gas to March 31st, and these customers actually consumed 23.3 PJs more gas.
10. Based on its forecasts, Union purchased spot gas to cover the expected consumption variances.

¹ Ex. B.Staff.3.

² Ex. B.Staff.2, page 2, first full paragraph; Union October 15, 2014 Argument-in-Chief, paragraph 10.

³ Ex. T1/page 6, table 1.

11. When the dust settled, Union's reconciliations of actual consumption to forecast variances revealed that Union had in the result of its consumption variance (mis)forecasting, overpurchased for its South DP customers and underpurchased for its sales service customers. The overpurchased DP gas was allocated to system sales customer actual consumption, leaving 0.6 PJ of actual consumption not met by spot purchases.
12. It was not Union's sales service customers' consumption that "drove" the need to use system integrity inventory. It was Union's underforecasting (and thus underpurchasing of spot gas) for these customers which "drove" that need.
13. Union's proposed allocation is keyed off of its inaccurate forecast components, and has nothing to do with the actual consumption variances relative to the April 2014 QRAM approved consumption. That Union made (not to be impugned) errors in its forecast of March 31st consumption variances is insufficient reason to allocate all less expensive system integrity supply to system sales customers when both system sales and DP customers consumed more gas than initially forecast.
14. System integrity supply is held by Union to protect the integrity of the system when demand outstrips supply. As such, system integrity supply benefits all of Union's customers. No group of customers should benefit on this allocation merely as a result of the relative magnitude of Union's forecasting error for one group of customers (system sales) versus another (DP).
15. ***The use of less expensive system integrity inventory to meet actual consumption variances relative to forecast should be allocated, as Board Staff has illustrated⁴, by actual consumption variances relative to Board approved (April, 2014 QRAM) consumption.***

⁴ Ex. B.Staff.3.

16. In its response to Board Staff Interrogatory 3⁵, Union asserts that:

"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..."

17. Union's assertion is both inaccurate and unhelpful. There is no issue of "financial gain" at play. The issue is the appropriate allocation of less expensive system integrity supply that was in fact used to bridge the gap between Union's aggregate forecast of consumption variance and aggregate actual consumption variance.

18. Board Staff accepts Union's flawed analytical starting point in its own analysis. However, IGUA does acknowledge Staff's point that, as the now more complete record on this issue indicates, the dollar amounts in issue are small.⁶ This fact does not make Union's proposed allocation right, but it may go to the costs versus benefits of implementation of the right result. IGUA invites Union to comment on this balance in any reply submission.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:



GOWLING LAFLEUR HENDERSON LLP, per:

Ian A. Mondrow

Counsel to Industrial Gas Users Association

October 22, 2014

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⁵ Ex. B.Staff.3, response to part a).

⁶ Board Staff Submission, October 21, 2014, page 2, last paragraph.