



October 29, 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 Reply Argument**

Attached, please find Union's Reply Argument 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.

**REPLY ARGUMENT OF  
UNION GAS LIMITED**

**A. Overview**

1. This is Union Gas Limited's ("Union") Reply Argument in EB-2014-0208. 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. Board Staff and IGUA filed submissions in response to Union's Argument-in-Chief. Board Staff supports Union's proposed allocation to sales service customers of the costs associated with the use of system integrity inventory. As Board Staff argues, "Union purchased sufficient spot gas to meet the consumption variances of its direct purchase customers. It was the unplanned incremental demand requirements of Union's South sales service and North sales service customers that required Union to use its system integrity inventory."<sup>1</sup> Union agrees.

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<sup>1</sup> Board Staff Argument, page 3.

**B. Response to IGUA**

3. IGUA argues that it was not Union's sales service customers that "drove" the need to use system integrity inventory; rather, IGUA states it was Union's under-forecasting for these customers which "drove" that need.<sup>2</sup> Union disagrees.

4. At paragraph 7, IGUA concedes that it is almost always true that forecasts are wrong to some extent. Union agrees and notes that the challenges of forecasting gas consumption and managing balancing Union's system to perfection this past winter were considerable. The flaw in IGUA's argument is that despite this concession it then attempts to ascribe the use of integrity space to forecasting error. In effect, it argues that if Union had been able to forecast with perfection at the front end, it would not have had to use system integrity space at all, or at least not to meet Union South sales service customers' consumption. This is unrealistic. Union is required to base its gas purchases on forecasts of future consumption and those forecasts (as IGUA has conceded) will often be wrong – at least after the fact.

5. The proper questions are, accepting the accuracy of forecasts made at the front end (and there is no evidence that Union's forecasting methodology was in any way deficient), how much gas was actually consumed by customers (direct purchase ("DP") and sales service) and how was this consumption met, through the use of spot gas alone, or spot gas together with system integrity inventory.

6. In this case, and as described in Union's Argument-in-Chief, 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. Further, 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.<sup>3</sup>

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<sup>2</sup> IGUA Argument, paragraph 12.

<sup>3</sup> Argument-in-Chief, paragraph 6.

7. 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 DP customers. Also included were 23.0 PJ and 3.4 PJ of spot gas purchases for Union South sales service customers and Union North sales service and bundled DP customers, respectively.

8. In the result, when actual measurement was available in April, actual demand variances were realized: Union South sales service customers and North sales service customers and bundled DP customers consumed 26.8 PJ of gas compared to an allocation of 26.2 PJ of gas. This resulted in a final March 31 inventory position that was 0.6 PJ below target.<sup>4</sup> This incremental consumption was due to higher than forecast consumption by Union's sales service customers. Union utilized 0.6 PJ of system integrity inventory to meet the unplanned higher demand requirements by Union's sales service customers.

9. Union appropriately 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.

10. In any event, to the extent that DP customers did drive a need to utilize system integrity inventory, bundled DP customers have no obligation to replace the system integrity inventory until the next February checkpoint or contract expiry (whichever comes first). 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. By November 1, Union would reduce gas purchases for sales service customers (in essence, the sales service customers loan the supply to the bundled DP customers).<sup>5</sup>

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

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

<sup>5</sup> Exhibit B.Staff.1.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**

*[original signed by]*

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Crawford Smith  
Lawyers for Union Gas Limited