



**EB-2014-0208**

**IN THE MATTER OF** the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15 (Sched. B);

**AND IN THE MATTER OF** an application by Union Gas Limited, pursuant to section 36(1) of the Act 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 ("QRAM") approved by the Ontario Energy Board in RP-2003-0063 and EB-2008-0106.

**Before:** Ken Quesnelle  
Presiding Member and Vice Chair

Marika Hare  
Member

**FINAL DECISION AND ORDER**  
**November 20, 2014**

On September 11, 2014, Union Gas Limited ("Union") applied to the Ontario Energy Board for an order effective October 1, 2014 to change its rates and other charges for the sale, distribution and storage of natural gas.

The application was made pursuant to section 36(1) of the *Ontario Energy Board Act*, 1998 and in accordance with the Quarterly Rate Adjustment Mechanism available to Union for dealing with changes in gas costs, as established by the Board in a proceeding involving all rate regulated gas distributors (EB-2008-0106).

Union provided a copy of the application to all intervenors of record in EB-2008-0106 and EB-2013-0365.

As part of the review of the application, Board staff, the Canadian Manufacturers and Exporters (“CME”), and the Industrial Gas Users Association (“IGUA”) questioned Union’s use of integrity inventory and the allocation of costs associated with the replenishment of the integrity inventory.

CME filed comments noting that the application is consistent with the Board-approved Quarterly Rate Adjustment Mechanism process and did not oppose the application as filed.

IGUA also filed comments on the application. IGUA objected to Union’s allocation of the costs associated with replenishing integrity inventory to sales service customers only.

On September 25, 2014, the Board issued a Decision and Interim Order on the application. In that Decision and Interim Order, the Board stated that the record on the use and allocation of system integrity inventory was insufficient to support a Board finding. As such, the Board approved the application as filed, on an interim basis, and established a process for further discovery and argument on the system integrity inventory issue.

Board staff and IGUA filed further interrogatories on the system integrity issue on October 1, 2014 and October 6, 2014 respectively. Union responded to those interrogatories on October 10, 2014. Union filed its argument-in-chief on October 15. Board staff and IGUA filed their submissions on October 21, 2014 and October 22, 2014 respectively. Union filed its reply argument on October 29, 2014.

CME and IGUA also applied for the recovery of costs associated with their examination of the application.

## **Board Findings**

The Board approves the application as filed on a final basis. The Board finds that Union has appropriately allocated the costs related to the use of system integrity inventory for the following reasons.

Union argued that it is appropriate to allocate the costs associated with the use of integrity inventory to sales service customers as it was those customers’ incremental consumption that drove Union’s need to use its system integrity inventory. Board staff agreed with Union’s position.

The Board notes that Union holds 9.5 PJ of system integrity space. This storage space is used to maintain the operational integrity of Union's system. 6 PJ of the system integrity space is filled while the remaining 3.5 PJ is left empty as contingency space. Union plans to maintain the full 6 PJ of integrity inventory year round. At March 31 of each year, Union's targeted inventory position is zero, plus 6 PJ of filled system integrity space.

Over the 2014 winter, Union made incremental spot gas purchases, which totaled 30.2 PJ, to meet the actual and projected demand variances of its customers. In April, after actual measurements were available, Union realized actual demand variances, which resulted in a final March 31 inventory position that was 0.6 PJ below target.

The Board notes that Union forecasted and made incremental gas purchases for its sales service and direct purchase customers separately. The Board notes that included in the 30.2 PJ of spot gas purchases made by Union was 1.8 PJ of gas that Union purchased on behalf of its South bundled direct purchase customers. The 1.8 PJ purchased for the South bundled direct purchase customers was based on a forecast of incremental consumption after the February checkpoint activity was determined as well as colder than forecast weather in March. On an actual basis, Union's South bundled direct purchase customers only consumed an incremental 0.8 PJ.

Due to the fact that Union forecasts consumption variances and purchases gas to meet the expected variances separately (by customer group), it is possible to attribute the cause of the utilization of system integrity inventory to a specific set of customers. In this instance, Union purchased sufficient incremental gas to meet the demands of its direct purchase customers. In contrast, Union did not purchase enough incremental spot gas to meet the consumption requirements of its sales service customers (it was short 0.6 PJ). Therefore, it was the incremental consumption of Union's South and North sales service customers, over the amount of spot gas that was purchased for this group of customers, which necessitated the use of system integrity inventory.

On the basis of cost causality, the Board finds that Union's proposal to allocate the costs associated with the use of system integrity inventory (0.6 PJ) to Union's sales service customers is appropriate as it was those customers' unforecasted incremental demand requirements that required Union to use its integrity inventory.

IGUA argued that the costs of less expensive system integrity inventory should be allocated on a proportional basis, based on actual consumption variances (as illustrated in Board staff interrogatory No. 3).

IGUA submitted that it was not Union's sales service customers' consumption that drove the need to use system integrity inventory. Instead, it was Union's inaccurate forecasting and related under-purchasing of spot gas for its sales service customers that required Union to utilize system integrity inventory. IGUA argued that the fact that Union made forecasting errors related to March 31 consumption variances is not a sufficient reason to allocate all of the costs associated with the use of system integrity inventory only to sales service customers.

IGUA stated that system integrity inventory is held by Union to protect the integrity of the entire system when demand outstrips supply and therefore benefits all of Union's customers. IGUA submitted that no group of customers should benefit from the allocation of system integrity inventory costs as a result of the relative magnitude of Union's forecasting error as between sales service customers and direct purchase customers.

The Board acknowledges the necessity for Union to make gas purchasing decisions on the basis of its demand forecasts for its specific customer groups. The Board also finds that there is no evidence in this proceeding that Union's forecasting methodology was deficient. Therefore, any analysis performed related to the allocation of costs associated with the use of integrity inventory must be predicated on the understanding that Union's forecasts were reasonable at the time they were made. As such, the Board finds that the difference between actual consumption variances and the amount of incremental spot gas allocated to each group of customers, based on Union's forecasts, is the appropriate basis for allocating the costs associated with the use of system integrity inventory. As noted previously, Union purchased sufficient spot gas to meet its direct purchase customers' needs based on Union's forecast of direct purchase customers' incremental demand requirements. Union did not, however, purchase sufficient spot gas to meet the needs of its sales service customers. The utilization of system integrity inventory was required due to the incremental consumption of Union's sales service customers that was not met with incremental spot gas purchased for that group of customers. It is therefore appropriate to allocate the costs associated with the use of system integrity inventory to sales service customers.

The Board notes that its findings here require no changes to the rates established by the Board's September 25, 2014 Decision and Interim Order. Therefore, the rates established in the above noted Decision and Interim Order are now declared final.

**THE BOARD ORDERS THAT:**

1. The rates established in the Board's September 25, 2014 Decision and Interim Order are now declared to be final.
2. A decision regarding cost awards will be issued at a later date. Intervenors shall file with the Board and forward to Union their respective cost claims within 7 days from this Decision and Order. Cost claims must be prepared in accordance with the Board's *Practice Direction on Cost Awards*.
3. Union shall file with the Board and forward to intervenors any objections to the claimed costs within 17 days from the date of this Decision and Order.
4. Intervenors shall file with the Board and forward to Union any responses to any objections for cost claims within 24 days of the date of this Decision and Order.

All filings with the Board must quote the file number **EB-2014-0208**, and be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca). If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at [BoardSec@ontarioenergyboard.ca](mailto:BoardSec@ontarioenergyboard.ca).

**DATED** at Toronto, November 20, 2014

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary