



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION ON UNION GAS LIMITED SETTLEMENT AGREEMENT FILED ON JULY 27, 2015**

**Union Gas Limited Disposition and Recovery of 2014  
Deferral Account Balances and Approval of  
Earnings Sharing Amount  
EB-2015-0010**

**July 30, 2015**

**Background**

Union Gas Limited (Union) filed an application on April 15, 2015 with the Ontario Energy Board (OEB) seeking approval to dispose of and recover certain 2014 deferral account balances. The application also sought approval to share earnings with ratepayers according to the framework agreed to under the Incentive Regulation Mechanism (IRM) approved by the OEB in EB-2013-0202 (Union's 2014-18 IRM Framework).

In Procedural Order No. 1 dated May 27, 2015, the OEB scheduled a three-day Settlement Conference starting on July 8, 2015, with the objective of reaching a settlement among the parties on the issues. Union filed a Settlement Agreement on July 27, 2015, reaching a settlement on all monetary issues in the proceeding. Union filed its 2014-2015 Gas Supply Plan as part of the evidence in the proceeding. Although Union is not seeking specific relief regarding the Gas Supply Plan, the parties were not able to reach a settlement on this issue.

**Union Settlement Agreement**

OEB staff has reviewed the Settlement Agreement filed by Union in the context of Union's 2014-18 IRM Framework, other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is of the view that the application and Settlement Agreement appropriately reflects Union's 2014-18 IRM Framework and adequately protects the public interest.

The parties agreed on all deferral account balances and the balances have been agreed to as filed or updated by Union. There are no proposed changes to the account balances as part of the Settlement Agreement.

OEB staff supports the proposed Settlement Agreement on the following basis:

- The bill impacts are moderate
- The rate adjustments including the deferral and variance accounts were all contemplated as part of Union's 2014-2018 IRM Framework
- The deferral and variance accounts conform to accounting orders
- Earnings were calculated in the same manner as in previous years

## Deferral Accounts

The parties have noted two specific accounts: Short-term Storage and Other Balancing Services (179-70) and the Normalized Average Consumption Account (179-133). In the case of these two accounts, the parties did not agree on all aspects of the calculation. However, since the impact of the calculation differences were lower than the materiality threshold, the parties agreed to settle on these two accounts.

OEB staff notes that the Spot Gas Variance Account (179-107) seeks clearance of spot gas purchases made in February and March of 2015. Although these amounts are out-of-period, Union's approach is similar to its 2013 deferral account proceeding (EB-2014-0145) which approved clearance of spot gas purchases in 2013 and 2014.

The total deferral account balance is provided in Union's Application in Corrected Exhibit A, Tab 1, Appendix A, Schedule 1. There is a net debit balance of \$9.1 million that is to be recovered from ratepayers. The amount is higher than historical cumulative balances because of the high debit balance (\$9.883 million) in the Upstream Transportation Optimization (179-131) Account.

The Upstream Transportation Optimization Account captures revenues associated with excess transportation capacity sales and base-exchange activities. In EB-2011-0210 (Union 2013 Cost of Service Application) the OEB directed Union to credit 90% of forecasted optimization revenue to ratepayers in OEB approved rates. As per the OEB directed methodology, Union credited \$17 million in rates to ratepayers during 2014. However, Union earned only \$7.919 million in net revenues during 2014. Consequently, there is a debit balance, which is the difference between the amount in rates (\$17 million) and 90% of 2014 net revenues (\$7.127 million).

The decrease in optimization revenues is mainly as a result of the elimination of TransCanada's FT-RAM (Firm Transportation – Risk Alleviation Mechanism) program effective July 1, 2013 and the colder than normal winter during 2013 and 2014. The FT-RAM program provided firm transportation shippers credit if they did not use their full firm transportation entitlement.

OEB staff also supports Union's proposal to dispose of balances prospectively over six months starting October 1, 2015 for general service customer rate classes. For in-franchise contract and ex-franchise rate classes, parties agreed to dispose of the net balances as a one-time adjustment in October 2015 bills. This approach is consistent with previous OEB decisions.

**Unsettled Issue**

As noted earlier, Union submitted its 2014-15 Gas Supply Memorandum in this application. The memorandum provides an overview of Union's 2014/15 gas supply plan including demand forecasts, changes in transportation portfolio and upcoming projects.

Although Union has not sought any specific relief with respect to the Gas Supply Memorandum, parties were unable to settle this issue and have sought further direction from the OEB on how or even whether the OEB should deal with that evidence in this proceeding.

OEB staff notes that some of the projects noted in the Gas Supply Plan (Dawn to Parkway expansion, Burlington-Oakville Project, Nexus Pipeline Project and implementation of a Dawn-based Reference Price) are currently before the OEB. OEB staff submits that reviewing the gas supply plan in the current proceeding would lead to duplication of regulatory review as many of the gas supply issues will be addressed in OEB proceedings noted above. To the extent that parties wish to raise any concerns regarding the gas supply plan, these can be brought forward in the respective proceedings that are before the OEB. If parties believe that the issues are inter-dependent or related, the OEB can address them adequately by combining or amending the scope of the proceedings. Consequently, OEB staff submits that Union's Gas Supply Plan Memorandum should not be dealt with in this proceeding.

– All of which is respectfully submitted –