Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

Union Gas Limited Dawn Reference Price and North T-Service Application
EB-2015-0181

January 15, 2016

Background

Union Gas Limited (Union) filed an application with the Ontario Energy Board (OEB) on July 15, 2015 pursuant to section 36 of the *Ontario Energy Board Act, 1998*, for approval to change the reference price used to set commodity rates through the Quarterly Rate Adjustment Mechanism (QRAM) process. Union also requested a new optional North T-Service Transportation from Dawn service to provide customers with access to Dawn-based supply.

In Procedural Order No. 1 dated September 23, 2015, the OEB scheduled a three-day Settlement Conference starting on November 9, 2015, with the objective of reaching a settlement among the parties on the issues. Union filed a Settlement Proposal on November 30, 2015, reaching a settlement on all issues with the exception of the new optional North T-Service Transportation service. The OEB accepted the Settlement Proposal in a Decision and Procedural Order dated January 7, 2016.

The submissions below reflect observations and concerns of OEB staff on Union's proposed North T-Service Transportation service.

North T-Service Transportation from Dawn Service

The proposed North T-service Transportation from Dawn service is optional and is designed for Union North T-Service customers in the Union North East Zone. The new service would provide firm transportation from Dawn to the customer's delivery area.

Union's North T-Service customers are currently responsible for arranging their own transportation for supply to arrive in their delivery area. In order to arrange supply to arrive at the delivery area, North T-Service customers currently rely on purchasing supply delivered to the customer at the delivery area or purchasing supply at a location upstream to the delivery area and arranging for the transportation of that supply to the required delivery area.

Union has submitted that one of the drivers for the new service is to address the potential changes in the secondary market resulting from TransCanada PipeLines Limited's (TransCanada) Energy East project. This project as currently proposed would reduce capacity in the Eastern Delivery Area (EDA). Although the Energy East project has not yet been approved by the National Energy Board, Union has indicated that some secondary market customers in the EDA have requested firm pipeline capacity on Union and TransCanada to source their gas at Dawn.

Union has noted that to-date about one-third of Union's North T-Service customers have committed to the service.

To provide the service, Union has reserved incremental transportation capacity on the Dawn to Parkway system and also entered the TransCanada open season for long-term firm transportation capacity starting in 2016 and 2017. Firm transporation capacity with TransCanada would be for a 15-year term. All agreements entered into by Union are conditioned on it receiving approval from the OEB.

Benefits

Union has cited several benefits of the new service which include:

1. The service provides an option for Union North East Zone T-Service customers to contract for incremental firm transportation service, with renewal rights, from Dawn to their respective delivery areas at cost of service rates;

2. The service provides an easy to use, seamless transportation service that is independent of Union's sales service and bundled direct purchase transportation portfolio; and,

3. Incorporates a means of managing the contract term risk for both Union and the customers associated with Union contracting for new transportation capacity with TransCanada that requires a 15-year commitment and the customer preference for a shorter term contract.

The North T-Service Transportation from Dawn service has a base service offering and a supplemental service offering. Eligible customers may elect either service offering or both. Union's proposal requires an initial contract term of one-year for the base service, with an obligation to automatically renew annually subject to conditions on how and when the customer's commitment could be reduced throughout the 15-year term.

Union has set a Firm Daily Quantity (FDQ) under the base service up to the greater of:

a) Firm Contract Demand for distribution service; or
b) Peak day in the previous 12 months.

The base service is capped at 3,000 GJ/day. Union has indicated that the limit of 3,000 GJ/day was set as it is sufficient enough to allow a majority of the eligible customers to contract and be able to meet 100% of their Firm Contract Demand and the quantity minimizes the potential impact that any one customer might have on the proposed Union Base Service North T-Service TransCanada Capacity (North T-Service) deferral account.

Union has noted that the quantity limit of 3,000 GJ/day for the base service has customer support and the limit was established through customer consultation.

Excess Capacity

In the event that a customer's need decreases by 5% or greater (both the total distribution contract demand and the maximum hourly flow parameter of the distribution contract), the customer can request that the base service contract quantity be decreased by the same percentage at contract renewal. If such an option is exercised, it would create excess capacity. Union has indicated that it will attempt to re-market any excess capacity in order to mitigate costs.

Union proposed that the North T-Service deferral account capture the differences between the costs of the excess TransCanada transportation capacity and the revenue obtained by re-marketing that excess capacity. Union has proposed that the balances in the deferral account be cleared annually to all firm T-Service customers in the Union North East Zone (eligible customers for the service), using an allocation approach based on the customers' eligible quantity for base service.

Union has capped the allocation of an individual customer to the greater of the firm contract demand or peak day demand and capped to a maximum of 3,000 GJ/day which is the maximum FDQ eligible for base service.

Supplemental Service

Union has also proposed a supplemental service that is available to customers who wish incremental transportation capacity beyond what the base service offers. Customers can purchase the capacity from Union under a separate, standalone, supplemental service contract. The term of the supplemental service contract is 15 years, which is based on the term of the TransCanada transportation contract that Union would acquire on behalf of the customer. The supplemental service has no quantity limitations, no associated deferral account and no impact on the North T-Service deferral account. The customer would be responsible for any excess capacity that is created as a result of the customer not using the entire contracted capacity and would be subject to Union's turn back policy.

Position of OEB Staff

OEB staff supports the new service proposed by Union as the service has customer support and was established through customer consultation. However, OEB staff has some reservation with respect to Union's proposed allocation methodology of unmitigated excess capacity costs.

Union has proposed that any amounts in the deferral account would be recoverable from all eligible customers. In other words, customers who do not use the service would be exposed to pay for any lost revenues from excess capacity that Union is unable to re-market. Union's position is that all customers in the Union North East Zone will benefit from this service as it would help create a more liquid secondary market. Union has submitted that incremental firm transportation to the delivery area would make secondary market options less expensive which could benefit all customers including those that did not subscribe to the service. Union also stated that its proposed allocation methodology is similar to the manner in which un-mitigated capacity for Union North direct purchase (DP) customers is treated. When a bundled DP customer who currently delivers gas to Union at Empress reduces its gas demand and therefore the Daily Contract Quantity, the excess pipeline capacity remains part of the system supply portfolio. The resulting unabsorbed demand charges are shared amongst all bundled customers until Union is able to reduce its position[1]. However, OEB staff is of the opinion that the bundled customers referred above are under a specific rate class and have entered into a contract with Union and therefore it seems appropriate that they are allocated costs.

OEB staff notes that in case of the North T-Service, some customers have not opted or entered into a contract for the new service. Under Union's proposal, these customers would be allocated costs for any unsold capacity. OEB staff submits that it would be unfair to customers who do not wish to contract for the service to be exposed to any excess capacity that was not fully mitigated. It is also not clear whether Union solicited customer feedback about its proposal from eligible customers that did not express interest in contracting for the new service.

OEB staff therefore submits that the costs of any excess unsold capacity should be allocated to only those customers that have contracted for the service. If the OEB accepts staff's position, then Union should be directed to communicate this change to all customers who have expressed interest in the new service.

– All of which is respectfully submitted –

[1] Interrogatory Response, APPrO 3(f)