September 19, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: EB-2018-0253 – Union Gas Limited ("Union") – October 1, 2018 QRAM Application – Reply Submission

Dear Ms. Walli:

On September 11, 2018, Union filed its October 1, 2018 QRAM application. Union received submissions from the Association of Power Producers of Ontario ("APPrO"), Canadian Manufacturers & Exporters ("CME") and the Industrial Gas Users Association ("IGUA").

IGUA states it reviewed the application and is satisfied that Union has properly followed the QRAM methodology. However, IGUA has questions with respect to spot gas costs related to unaccounted for gas ("UFG"). APPrO states its comments focus on the interim allocation and disposition methodologies proposed, and asks Union to clarify details of its disposition. CME takes no issue with Union's application.

IGUA Submission

Responses to IGUA's questions are enclosed. In addition, clarification is required with respect to the following statement in IGUA's submission:

> *"It is our understanding that the UFG variance account is subject to a $5 million symmetrical dead band within which account balances are to Union's account."*

In the Board's October 30, 2014 Decision in Union's EB-2014-0145 proceeding, at page 7, the Board found that *"cost causality requires that the price variances associated with UFG be allocated in the same way as the underlying costs, both in the current proceeding and going forward. Therefore, the Board finds that the UFG price variance should be allocated to sales service customers and the direct purchase customers for which Union provides fuel."*

The price variance to be allocated to sales service customers and direct purchase customers is captured in the UFG Price Variance Account (Deferral Account No. 179-141) established pursuant to EB-2015-0010. The UFG Price Variance Account is a separate variance account from the UFG Volume Variance Account (Deferral Account No. 179-135). It is the UFG Volume Variance Account that has a $5 million threshold. The balances for both the UFG Price Variance Account and the UFG Volume Variance Account are included in the annual non-commodity deferral account disposition proceeding.

APPrO Submission

APPrO asks Union to clarify the basis on which the unit rates set out in Schedule 7 are determined.

Union confirms the volumes are the ones applicable (either actual or forecast) to the period for which the unit rates are being calculated. Any difference created between forecasted volumes and actual volumes will be included in the final balance of the deferral and variance accounts subject to the prudence review.

Union requests the Board's Decision on the application by Monday, September 25, 2018. If you have any questions on this matter, please contact me at (519) 436-5334.

Yours truly,

[*Original Signed by*]

Vanessa Innis
Manager, Regulatory Applications

cc: EB-2017-0087/EB-2008-0106 Intervenors
Crawford Smith (Torys)

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Why would the cost of the entire 2.6 PJ purchase on account of UFG not be disposed of through the UFG variance account?

Response:

Consistent with prior spot gas dispositions in 2014 and 2015, Union is recording spot gas price variance based on actual variances at the end of the winter, not projected or forecast variances[1].

[1] EB-2014-0208 Application, September 11, 2014, Tab 1, pp. 9-10; and EB-2014-0145 Application, July 23, 2014, Tab 1, pp. 8-9.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

If a portion of the costs of this 2.6 PJ purchased on account of UFG is disposed of through the PGVA as proposed rather than the UFG variance account, does Union recover more than if the entire cost of these volumes if disposed of through the UFG variance account?

Response:

No, the amount to be recovered from customers is the difference between the actual cost of spot gas relative to the reference price approved in rates. There is no difference in the amount Union will collect from customers regardless of the deferral account in which the costs are included. There is a difference in the allocation of costs to customer groups depending on where the costs are included.

As noted in the Board's decision Union's EB-2014-0145 proceeding, *"cost causality requires that the price variances associated with UFG be allocated in the same way as the underlying costs, both in the current proceeding and going forward."* The costs in the UFG Price Variance Account are allocated to sales service customers and the direct purchase customers for which Union provides fuel consistent with the Board's decision. Costs recorded in the PGVA deferral account are allocated only to sales service customers. As indicated in the response to Question 1, the costs included in the UFG Price Variance Account reflect the actual costs incurred and should be allocated to sales service customers and the direct purchase customers for which Union provides fuel, consistent with the Board's decision.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Could Union please confirm what we understand to be Union's evidence in the July 2018 QRAM filing that what ends up in the South PGVA is the $2.346 million (Tab 1, p. 7 of the July 2018 QRAM) less the $1.338 million for the cost variance on the 1.3 PJ going to the UFG price variance account (Tab 1, p. 8 of the July 2018 QRAM).

Response:

As indicated in Union's July QRAM, on an actual basis, Union purchased 4.0 PJ of spot gas to meet higher consumption levels for south sales service customers. The costs of the 4.0 PJ of spot gas (relative to the reference price) purchased for Union south sales service customers are included in the South PGVA. This cost is equal to $4.116 million[1]. In addition, the excess spot gas costs of $2.346 million allocated to Union South, as noted at page 7, are included in the South PGVA.

The price variance of $1.338 million for the 1.3 PJ of spot gas purchased for UFG variances is captured in the UFG Price Variance Account (Deferral Account No. 179-141). Balances in the UFG Price Variance Account will be included at the time of the 2018 annual non-commodity deferral account disposition application.

[1] 4.0 PJ x ($4.551/GJ - $3.522/GJ) = $4.116 million.