Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2007-0724
EB-2007-0725

Enbridge Gas Distribution Inc.
Union Gas Limited

NATURAL GAS STORAGE ALLOCATION POLICIES

DECISION WITH REASONS

April 29, 2008

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

AND IN THE MATTER OF a Notice of Proceeding on Natural Gas Storage Allocation Policies issued by the Ontario Energy Board on August 28, 2007.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Cynthia Chaplin
Member

Bill Rupert
Member

DECISION WITH REASONS

April 29, 2008

A. BACKGROUND AND DESCRIPTION OF THE PROCEEDING

THE NGEIR DECISION

In late 2006, the Ontario Energy Board issued its decision on the Natural Gas Electricity Interface Review proceeding ("NGEIR Decision"). The key issues in that proceeding were natural gas storage regulation, and rates and services for gas-fired generators.

One of the storage regulation issues addressed in the NGEIR Decision concerned the methodologies used by Union Gas Limited ("Union") and Enbridge Gas Distribution Inc. ("Enbridge") to allocate natural gas storage to distribution customers at cost-based rates. The Board concluded that "it is essential that there be clear, standardized, and consistently applied rules for allocating cost-based storage to unbundled and semi-unbundled in-franchise customers" but found that such rules were not in effect. [NGEIR Decision, page 88] The NGEIR Decision noted several significant differences between the storage actually allocated to Union's T1 (semi-unbundled) in-franchise customers and the amount of storage calculated by Union's official allocation policy, the aggregate excess method.

The Board did not order any changes to Union's or Enbridge's methods of allocating cost-based storage as part of the NGEIR Decision but did conclude that better allocation rules should to be developed in the near future. To that end, the Board ordered Union:

- To review the use of storage by its existing T1 customers to determine the extent to which their storage needs are not driven by traditional seasonal load balancing,

- To develop one or more storage allocation methods that would result in better estimates of certain customers' needs than the aggregate excess method, and

- To submit within 90 days a proposed storage allocation policy for Board review that details the aggregate excess method and the proposed new method(s), including the circumstances in which each allocation model would be applicable.

At the time of the NGEIR Decision, Enbridge had only one customer taking unbundled service although it appeared likely that more customers would opt for that service in the future. The Board directed Enbridge to file, within 90 days, the methodology or methodologies it proposed to use to allocate cost-based storage to its unbundled customers.

THE CURRENT PROCEEDING

Union and Enbridge filed the storage allocation methodology information and proposals required by the NGEIR Decision on February 2 and February 6, 2007, respectively. On August 28, 2007, the Board issued a notice of proceeding on the Enbridge storage allocation policy (assigned file number EB-2007-0724) and Union's proposed methodologies (file number EB-2007-0725).[1] The notice stated that the Board would conduct the two proceedings together.

In addition to Union and Enbridge, active participants in the proceeding included Aegent Energy Advisors ("Aegent"), Association of Power Producers of Ontario ("APPrO"), Industrial Gas Users Association ("IGUA"), Innophos Canada, Inc., the City of Kitchener ("Kitchener"), and London Property Management Association ("LPMA"). A complete list of the parties is attached as Appendix A.

[1] The Board delayed its consideration of the February 2007 filings because it was in the process of considering motions to review the NGEIR Decision made by certain parties to the NGEIR proceeding. On July 30, 2007, the Board issued its decision not to vary any aspect of the original NGEIR Decision.

An issues list was approved by the Board at an oral hearing on October 22, 2007.

Union subsequently modified its February 2007 proposals and filed supplementary evidence on November 2, 2007. A technical conference was held on November 7 and 8, 2007. In early December, APPrO, IGUA, and Kitchener filed written evidence and Union filed reply evidence.

An oral hearing took place December 17 to 20, 2007. Witnesses representing Union, Enbridge, APPrO, IGUA, and Kitchener appeared at the hearing.

A half-day hearing was held on February 22, 2008 to permit the panel members to ask questions about the final written submissions made by Union, Enbridge, and the intervenors.

A considerable amount of the written and oral evidence concerning Union's proposals was filed and given on a confidential basis in accordance with the procedures set out in the Board's *Practice Direction on Confidential Filings*. That evidence included customer-specific contract information that is commercially sensitive. This Decision includes confidential appendices that make reference to some of that data. Those appendices are being provided only to those parties that executed the appropriate non-disclosure agreements. The public version of this Decision does not include confidential information.

Redacted transcripts of the issues day, technical conference, oral hearing, and questions day are available on the Board's website and form part of the record of the proceeding.

The Board acknowledges the significant contribution of the IGUA witnesses and thanks them for their participation in the hearing. They provided clear and cogent evidence regarding their companies' use of storage and assisted the Board in its understanding of individual customer circumstances. The Board recognizes that deciding to appear as a customer witness is a significant undertaking. However, the direct participation of

customers is helpful in reaching decisions in the public interest and the Board appreciates the contribution made by these individuals in this proceeding.

B. ENBRIDGE'S PROPOSAL

Allocating cost-based storage to Enbridge's unbundled customers is a relatively new process. Enbridge customers have only recently begun to migrate to unbundled service and today the company has only nine unbundled customers, all in the Rate 300 class. In contrast, Union and its numerous semi-unbundled customers have negotiated contracts for cost-based storage space and deliverability for many years.

Given the different histories of the two companies with respect to providing cost-based storage services to individual distribution customers, and the fact that Union has not adopted a consistent approach to allocations, it was not surprising that most of this proceeding was devoted to issues related to Union's allocation methods. Enbridge's proposed allocation methods were not contentious.

Enbridge submitted two allocation methods for approval by the Board. The cost-based space and deliverability allocations under each method are presented in the Table 1 below.

Table 1: Enbridge's proposed storage allocation methods

Method	Space	Deliverability (m^3/day)
1. Aggregate excess	(Av. winter demand – av. annual demand) x 151	1.2% of space
2. Power generation	[(17 x maximum hourly demand) / 0.1] x 0.57	1.2% of space

The aggregate excess method of allocating space is identical to the method Enbridge uses to allocate storage for its bundled customers as a group. The second method was originally designed for allocating storage to in-franchise gas-fired power generators. It

is described in detail in a June 13, 2006 settlement proposal that was accepted by the Board in the NGEIR proceeding.[2]

Enbridge stated that it believes, based on customer feedback, that the aggregate excess methodology reflects the balancing needs of most of its commercial and industrial customers. Enbridge has proposed, however, that each of its large volume unbundled customers should be free to choose an allocation of cost-based storage based on either the aggregate excess method or the method that was designed for gas-fired generators. That choice would also be available in the future to large volume customers that decide to move from bundled to unbundled service.

In terms of deliverability, Enbridge's proposal is that the applicable deliverability available at cost-based rates would be 1.2% for both methodologies. The June 13, 2006 settlement proposal specifically includes 1.2% "ratcheted" deliverability for Enbridge's power generation customers. Enbridge also pointed out that the existing Board-approved orders for Rate 315, Gas Storage Service, and Rate 316, Gas Storage Service at Dawn, specify that the "maximum deliverability shall be 1.2% of contracted storage space."

None of the intervenors opposed Enbridge's proposals and none put forward any alternative methodologies for the Board to consider.

The Board approves Enbridge's proposal that its unbundled customers be given the option to choose an allocation of cost-based storage space based on either the aggregate excess method or the methodology approved in the NGEIR proceeding for gas-fired power generation customers.

The Board notes that Enbridge's proposed method of allocating cost-based deliverability (1.2% of space) is different from the method the Board approves later in this decision for Union. Given the very different histories of the two utilities with respect to unbundled/semi-unbundled services, the Board's decisions in the NGEIR proceeding on

[2] See the NGEIR Decision, Appendix D, Issue 1.5 at pages 23 to 25.

Enbridge's Rates 315 and 316, and the fact that no party opposed Enbridge's proposal, the Board approves the cost-based deliverability methodology as proposed.

C. UNION'S PROPOSAL

CURRENT ALLOCATIONS OF COST-BASED STORAGE

Union customers that take unbundled distribution service or semi-unbundled service (under either a T1 or T3 Gas Storage and Distribution Contract) are permitted to contract for storage space and deliverability at regulated, cost-based rates. As at November 2006, Union had 51 customers taking semi-unbundled service – 50 T1 customers and one T3 customer. There are 98,572 customers served under the Union's unbundled U2 rate class. Union is not proposing to change the basis on which cost-based storage is allocated to these customers.[3] There are no customers served under any other of Union's unbundled rate classes (U5, U7, and U9).

Table 2 shows the contracted amounts of cost-based storage space (column A) and firm deliverability (column D) for those 51 customers at November 2006. Most of the contracts are one-year renewable arrangements. There were five long-term T1 contracts at that date, with original terms ranging from seven to 20 years. Space and deliverability for 22 customers with renewable one-year T1 contracts have been set at amounts that were "grandfathered" under a June 7, 2000 settlement agreement that was approved by the Board in 2001.[4]

[3] Rate U2 is applicable to a marketer that sells gas to M1 and M2 distribution customers and that wishes to manage the storage that would otherwise be used by Union to provide bundled service to those customers.
[4] The June 7, 2000 settlement agreement is contained in Appendix D of *Decision with Reasons*, RP-1999-0017, July 21, 2001.

Table 2: Storage space and deliverability in Union's T1 and T3 contracts, November 2006

Contract type	Customers	Space (GJs)			Firm Deliverability (GJs/day)	
		Contracted	A/E Allocation	Difference	Contracted	% of Contr. Space
		A	B	C=B-A	D	E=D/A
One-year contracts:						
T1 Grandfathered	22	4,801,190	1,276,210	(3,524,980)	109,034	2.3%
T1 Non-grandfathered	23	2,042,535	1,216,657	(825,878)	40,591	2.0%
T3	1	3,370,182	2,865,072	(505,110)	62,931	1.9%
One-year contracts	**46**	**10,213,907**	**5,357,939**	**(4,855,968)**	**212,556**	**2.1%**
Long-term contracts	**5**	**5,190,538**	**2,087,582**	**(3,102,956)**	**84,066**	**1.6%**

Column B of Table 2 presents the amount of cost-based space that would be allocated to the customers as at November 1, 2006 had the allocations been based on Union's official allocation policy, the Aggregate Excess Method ("A/E Method").5 The contracted amounts of space are far larger for each customer group than the A/E Method allocations. Nine of the 51 customers had contracted for less than their A/E Method space; the other 42 customers had contracted for more than their A/E Method space.

Union's current A/E Method, which was agreed to in the June 7, 2000 settlement agreement, determines an amount of storage space based on the difference between a customer's gas consumption in the 151-day winter period and consumption during the balance of the year.

A/E space = [Total Winter Consumption – (151/365)*Total Annual Consumption] x .976

[5] The detailed information filed in this proceeding on the distribution and storage parameters in the contracts of individual Union customers was as at November 1, 2006. That was the most recent renewal date for contracts prior to Union's initial filing in February 2007.

This is the same method that Union uses to allocate storage space to its various bundled service customer classes. The 2.4% reduction factor has been used by Union to calculate total storage space allocated to various bundled customer classes to recognize customer diversity. Most bundled customers have predominantly winter consumption although many use most of their gas in the summer or on a more or less constant basis. The reduction factor was carried forward in the June 7, 2000 settlement agreement.

Other key elements of the A/E Method that were contained in the June 7, 2000 settlement agreement are:

- A customer's most recent actual annual consumption is used to determine total winter consumption and total annual consumption.

- The amount of space calculated by the A/E Method will change from year to year as a customer's consumption profile changes. Once a one-year T1 contract is signed, however, the amount of cost-based space under contract generally has been revised at a contract renewal date only if the customer's Contract Demand (or CD, which is the maximum amount of gas that Union is obliged to deliver to a customer in any day) has changed by more than five per cent over the year.

There are three reasons for the differences between the contracted amounts of cost-based space and A/E Method space:

- The June 7, 2000 settlement agreement grandfathered space entitlements that exceeded the amounts calculated under the A/E Method.

- The "five per cent change in CD trigger" has rarely required Union to reset contracted quantities of storage. The trigger is a ± five percent change in CD since the contract was last renewed. Thus, for a customer with a one-year renewable contract, its CD could change cumulatively by more than five per cent over a period of years but the storage space in its contract

would remain the same as long as the change in its CD in each year was less than five per cent.

- It appears that Union has not used the A/E Method to limit the amount of storage space that it provides to customers that have signed long-term contracts.

Table 2, column D shows the contracted amounts of firm deliverability (that is, firm injection and withdrawal rights), in GJ per day, provided by Union at cost-based rates. Union's T1 rate schedule states: "Storage and withdrawal rights are for the exclusive purpose of meeting the requirements of the specific locations included in each contract." [Union T1 rate schedule, January 1, 2008, page 2]

The June 7, 2000 settlement agreement stipulated that the deliverability levels of the grandfathered contracts would be preserved at the levels that existed at that date. For non-grandfathered contracts, Union and the customer have negotiated deliverability levels; Union has not had a standardized method for how much deliverability would be provided at cost-based rates. As shown in column E, deliverability as a percent of contracted space is not consistent across the four contract groups. In addition to firm deliverability, Union also provides cost-based interruptible deliverability to eight T1 customers aggregating 50,329 GJ per day.

ISSUES

The final Issues List for this proceeding, which was approved at an October 22, 2007 oral hearing, contained the following four issues:

i. In situations where an unbundled or semi-unbundled customer determines that the aggregate excess method is not appropriate for that customer, what is the appropriate alternative method or methods to be available to such customers for the allocation of storage space at cost-based rates for reasonable load balancing purposes?

ii. For each of the space allocation alternatives or methodologies considered in issue one, what is the appropriate level of storage deliverability available at cost-based rates to in-franchise unbundled and semi-unbundled customers?

iii. Once a storage space allocation and storage deliverability level is set for an unbundled and semi-unbundled in-franchise customer, how and when would those amounts change in the event the customer's circumstances changed?

iv. What is an appropriate transition process for existing unbundled and semi-unbundled customers, upon expiry of existing contracts, to adopt any new storage allocation method or methods that may be approved by the Board in the context of customer impacts and other relevant factors?

For purposes of summarizing the evidence in the Union portion of the proceeding, addressing the issues raised in argument, and explaining the bases for the Board's findings, the Board concluded that this decision would be clearer if it were structured under six topic areas rather than the four identified issues set out above. Those six topics, which are referred to as Issues in the balance of this decision, are:

1. **"Reasonable needs"** – What is the definition of a customer's "reasonable needs" in relation to storage service provided at cost-based rates?

2. **Deliverability** – What level of storage deliverability meets a customer's "reasonable needs"?

3. **Space** – What storage space allocation meets a customer's reasonable needs?

4. **Flexibility** – What flexibility, if any, should customers have to manage their use of cost-based storage?

5. **Transition** – What is the appropriate transition for current T1 and T3 customers?

6. **Long-term contracts** – What is the appropriate treatment for new long-term T1 contracts? What is the appropriate treatment for existing long-term contracts upon renewal?

We address each issue in turn.

ISSUE 1: WHAT IS THE DEFINITION OF "REASONABLE NEEDS" IN RELATION TO STORAGE SERVICE PROVIDED AT COST-BASED RATES?

In its NGEIR decision, the Board noted that the aggregate excess method:

> … is clearly designed for customers with the traditional seasonal load balancing need and fits well with the storage needs of many unbundled or semi-unbundled customers. But it appears that the storage requirements of at least some of the larger industrial and commercial customers may have little or nothing to do with seasonal load balancing. [NGEIR Decision, page 89]

The Board also concluded that it did not support a unique allocation for each customer. The NGEIR decision states:

> [The] Board does not, however, support a unique allocation approach for each customer. In the Board's view, the objective of allocation of cost-based storage space is to assign an amount that is reasonably in line with what a customer is likely to require. The objective is not to allocate precisely the amount a particular customer claims it might need. [NGEIR Decision, page 89]

What is at issue in the current proceeding is what constitutes the "reasonable needs" of unbundled and semi-unbundled customers for storage space and deliverability.

Union's principle is that an allocation of cost-based storage space and deliverability should allow a customer to balance its constant daily delivery of natural gas to Union's system with varying end-use consumption at the customer's facilities. T1 and T3 contracts generally require customers to arrange for equal daily deliveries of natural gas to Union's system over a year (the daily obligation is referred to as Obligated Daily Contract Quantity, or Obligated DCQ).

IGUA submitted that by mandating Obligated DCQs for its customers, Union has required those customers to support the integrity of the distribution system, which provides a system benefit. In IGUA's view, this makes an Obligated DCQ T1 customer analogous to a bundled customer. Within the constraints of the Banked Gas Account applicable to Union's bundled customers, those bundled customers are able to shed load or acquire incremental gas supply as required. It was IGUA's position that under this approach, cost-based storage space and deliverability allocations for unbundled and semi-unbundled customers should be comparable to the space and deliverability that underpin Union's service for bundled customers.

ISSUE 1: BOARD FINDINGS

In considering this issue, the Board is initially guided by the findings in the NGEIR decision.

In the NGEIR decision, the Board clearly concluded that current storage services for in-franchise customers would remain regulated. The NGEIR Decision states: "The Board concludes that it should continue to regulate and set cost-based rates for existing storage services provided to in-franchise customers up to their allocated amounts." [NGEIR Decision, page 56]

The Board also clearly identified the principle of equivalency between bundled and unbundled/semi-unbundled customers in terms of the entitlement to storage services:

> The parties recognized that bundled customers, in particular, do not acquire storage services separately from distribution services, do not control their use of storage, and do not have effective access to alternatives in either the primary or secondary markets. Competition has not extended to the retail end of the market, and therefore is not sufficient to protect the public interest. However, the Board finds that customers taking unbundled or semi-unbundled service should have equivalent access to regulated cost-based storage for their reasonable needs. [NGEIR Decision, pages 56 and 57]

The Board sees no reason to depart from this approach, and notes that Union and intervenors were agreed that this was an appropriate equivalency.

The Board finds that storage space and deliverability should be allocated to T1 and T3 customers in a manner that is consistent with the storage that underpins Union's services to bundled customers.

For bundled service, Union is the primary supply manager and uses the diversity of its customers, storage, and its access to the market to manage storage balances and deliveries. Union establishes a Banked Gas Account (BGA) for each bundled customer, which is used to accumulate the daily differences between the gas received by Union from the customer and the gas delivered each day to the customer at its facilities. A bundled customer is required to plan and to operate in a manner that will result in a zero BGA balance at the end of each contract year.

The BGA balances of bundled customers also must respect minimum and maximum amounts at two BGA checkpoints each year. At the fall checkpoint date, the BGA balance must be no greater than a specified amount; at the winter checkpoint date, the BGA balance must be no less than a specified amount. Union's contract for bundled customers that operate with a BGA notes that:

> Customer is expected to take balancing actions early in the summer to ensure that the BGA balance does not exceed the Fall Checkpoint Quantity as of the Fall Checkpoint Date. Customer is also expected to take balancing actions early in the winter to ensure that the BGA balance is not less than the Winter Checkpoint

> Quantity as of the Winter Checkpoint Date. [Union Southern Bundled T Terms and Conditions, Schedule 2]

Customers that choose to move from bundled to an unbundled or semi-unbundled service do so in order to benefit from the savings that are possible from taking a more active role in gas supply, including their use of storage. It would, therefore, be inappropriate to allocate cost-based storage to unbundled and semi-unbundled customers on the assumption that they are totally passive customers that do not take steps to manage their storage balances. That is not a "reasonable need," nor is it consistent with the expectations of the balancing actions required by Union's bundled customers.

Customers have the ability to actively manage their supply and storage, either directly or through the services of a marketer or agent. The evidence shows that T1 customers have been active in this area:

- 29 million GJs of gas delivery were mitigated in 2006 through assignments, diversions, inventory transfers and suspensions;
- 22 million GJs of gas supply incremental to Obligated DCQ was acquired; and
- T1 customers used their existing operational flexibility to bring in or shed gas equivalent to 30% of the T1 class' obligated deliveries. [Union reply evidence, page 18]

The Board concludes that an expectation that T1 and T3 customers will actively manage their storage positions is an appropriate component of the determination of "reasonable needs."

The Board finds that the determination of T1 and T3 customers' "reasonable needs" for storage services available at cost-based rates is governed by two principles:

- The requirement to balance Obligated DCQ with varying customer consumption, and

- An equivalency between the storage services that underpin Union's bundled services and the storage services allocated to individual unbundled and semi-unbundled customers.

These two principles guide the Board's findings in subsequent sections of this decision. However, it is not the Board's intention that these principles be articulated as a limitation or constraint in the T1 and T3 rate schedules.

ISSUE 2: WHAT LEVEL OF STORAGE DELIVERABILITY MEETS A CUSTOMER'S REASONABLE NEEDS?

Deliverability is the contract parameter that specifies the maximum amount of gas a customer may inject into or withdraw from its contracted storage space. The level of deliverability governs the extent to which a customer can balance its load on a daily basis by injecting gas into, or withdrawing gas from, storage. In Union's T1 and T3 contracts, it is expressed in GJ per day.

In its February 2007 submission, Union proposed that deliverability for all cost-based storage services should be set at 1.2% of contracted storage space. Union provided the following justifications for this proposal:

- 1.2% represents the average design and operation of Union's base storage pools;

- 1.2% is consistent with standard rate deliverability offered by other storage companies in the market area;

- the Board has accepted 1.2% as the standard for other comparable customers (e.g., unbundled and large non-obligated customers) and allocating higher deliverability to T1 and T3 customers at cost-base rates would give them a competitive advantage; and

- Although T1 and T3 customers have historically had higher deliverability levels specified in their contracts, there are now options other than just storage available to these customers to manage their balancing needs.

Union proposed to complement its proposed 1.2% level of cost-based deliverability with additional flexibility to allow customers to use their contracted storage space for purposes other than load balancing.

It was apparent during the proceeding, and in the arguments of intervenors, that this package of 1.2% deliverability and additional operating flexibility had very limited support from customers. This opposition was focussed on three themes: a) the 1.2% deliverability did not reflect reasonable customer needs, b) the proposed additional flexibility was an imperfect means by which to complement the insufficient deliverability, and c) at least some customers had limited desire or intention to engage in transactional or trading activity.

It also became apparent that customers were more concerned with the level of deliverability available at cost-based rates than the level of cost-based space.

LPMA submitted that Union's reasons for the 1.2% proposal are irrelevant to determining what level of deliverability should be available at cost-based rates and stated that the level of deliverability supporting services to Union's bundled rates classes has been above 1.2%. For example, it noted that Union's M4 rate class has required deliverability in the 1.9% to 2.8% range. LPMA also submitted that large volume customers not subject to an Obligated DCQ are not comparable to those with an Obligated DCQ.

Kitchener expressed similar objections. In its view, none of Union's reasons for the 1.2% deliverability proposal address the fundamental purpose of providing access to storage to meet reasonable load balancing needs.

APPrO made submissions from the perspective of current and future gas-fired power generators that use less than 1.2 million m^3 of gas per day, the threshold contained in

the June 2006 Union settlement agreement that sets out new services for gas-fired generators. APPrO noted that many existing gas-fired generators in Ontario have long-term non-utility generation contracts ("NUG contracts") that support fairly high load factor operation. As those agreements expire, it is expected that those generators will become more dispatchable and will operate at lower load factors. APPrO also noted that gas-fired generators coming on stream in the future will be subject to agreements that require them to operate in response to hourly prices in the IESO-administered electricity market.

APPrO disagreed with Union that the process to determine the deliverability parameter of a contract should start with the space allocation. In APPrO's view, Union's 1.2% deliverability proposal fails to recognize that smaller gas-fired generators operate in the same market as large generators and need similar flexibility to manage their gas supply. However, unlike large generators that are not subject to Obligated DCQ, smaller generators on T1 service have an Obligated DCQ. APPrO recognizes the system requirement for obligated supply, and concluded that the storage allocation method for generators should start with deliverability, not space. The level of deliverability available at cost-based rates should, in APPrO's view, be an amount expressed in GJ per day equal to

(a) a customer's Contract Demand (or CD, which is the maximum amount of gas that Union is obliged to deliver to the customer in any day), less

(b) the customer's Obligated DCQ.

In the balance of this decision, this level of deliverability is referred to as CD-DCQ.

Kitchener is a T3 customer that operates a gas distribution system that serves the City of Kitchener. Kitchener acknowledged that in the NGEIR Decision the Board found that Kitchener should be allocated cost-based storage space in accordance with the Union's A/E methodology. In this proceeding, it said that its concerns were expressly related to Union's deliverability proposal. Kitchener uses gas delivered from storage to meet heat-

sensitive consumption requirements over and above its Obligated DCQ, and the deliverability in its current contract with Union equals CD-DCQ. In Kitchener's view, deliverability is currently determined by the requirement to balance daily demand over and above the customer's DCQ and not as a percentage of space. Kitchener argued that the Board should approve CD-DCQ as the cost-based deliverability provision.

IGUA was also of the view that deliverability should be expressed as a volume amount, but that customers should be able to select from within a range. IGUA concluded that this range should have as its maximum the greater of DCQ and CD-DCQ.[6]

Innophos Canada, Inc., a T1 customer that manufactures phosphate, also objected to Union's 1.2% deliverability proposal.

Union acknowledged in its reply argument that, as a result of the hearing and intervenor submissions, it is clear that customers would prefer to have more cost- based deliverability without the proposed additional flexibility. In Union's view, a maximum deliverability of CD-DCQ would be essentially the same level of service that is provided to a bundled customer. Union also observed that deliverability equal to CD-DCQ would accommodate smaller generators with low load factors. After their NUG contracts expire and they become fully subject to dispatch by the IESO, their CDs will remain unchanged but their DCQs will likely decrease, the result being a higher differential and higher level of deliverability. Union revised its deliverability proposal to be a maximum level of CD-DCQ, with the caveat that deliverability is to be used only for consumption, not for market activities. In line with this, Union stated that the additional flexibility originally proposed should not be provided under the revised level of deliverability.

ISSUE 2: BOARD FINDINGS

The Board notes that Union has revised its initial proposal of 1.2% deliverability in favour of a level established by CD-DCQ. The Board supports this shift to a delivery

[6] IGUA argued that this range could be bounded at the upper end by CD (which would be applicable if DCQ is suspended on a peak day). However, IGUA noted that of the current customers, all but two have deliverability levels that are below the greater of CD-DCQ and DCQ.

volume based approach because it meets the principles that have been established for "reasonable needs," namely the:

- Requirement to balance flat daily obligated deliveries with varying customer consumption; and,
- Equivalency to bundled service.

For this reason, the Board also agrees that deliverability for DCQ-obligated customers is better expressed as a function of DCQ and CD than as a function of contracted storage space. A customer is obligated to deliver DCQ each day and it is permitted by contract to consume as much as CD in any day. It therefore follows that the injection and withdrawal rights must be sufficient to accommodate any level in between.

The unresolved issue is whether any additional deliverability above CD-DCQ should be permitted.

IGUA observed that whereas CD-DCQ is the deliverability level likely needed by customers with low load factors, a maximum deliverability level of DCQ would be needed for high load factor customers that experience plant shut downs from time to time. In other words, for these customers deliverability equal to CD-DCQ would be lower than deliverability equal to DCQ. IGUA argued that when a plant is shut down, the customer must be able to inject its obligated DCQ into storage.

In Union's view, there is no need to set deliverability at the greater of DCQ and CD-DCQ because it believes that CD-DCQ is the maximum a customer would need. Union argued that planned shut downs can be mitigated in advance through active storage management. In the event of an unplanned shut down, Union maintained that it would either authorize suspension or authorize an overrun injection at cost-based rates, depending upon system needs on the day. Union noted that based on its analysis of the calculated injection and withdrawal activity, deliverability as high as DCQ would only be needed for 2% of the time, which in Union's view is a strong indication it is not needed.

APPrO also argued for mechanisms to allow injection up to the level of DCQ. APPrO submitted that there could be instances in which deliverability of CD-DCQ would be insufficient. When a customer has "excess gas" on any day (defined by APPrO to occur when DCQ minus consumption minus cost-based deliverability is greater than zero), APPrO submitted that the customer should have two options: a) pre-authorized overrun priced at the commodity injection fee up to the total space entitlement (authorized when available in October and November), and b) pre-authorized suspension, or if Union needed the gas, it could purchase it at an index price.

The Board concludes that the maximum level of deliverability available to a T1 or T3 customer at cost-based rates should equal the greater of DCQ and CD-DCQ. The reasons for this conclusion are the following:

- This level would provide all customers with the ability to inject their full DCQ on days of plant shut down. This is consistent with the principle that a customer should be able to balance flat daily obligated deliveries with varying customer consumption.

- The need to store gas in the event of an unplanned plant shut down is a "reasonable need" in Union's analysis of space requirement, as it is the underlying assumption for the proposed space allocation for process loads, which is discussed under Issue 3 below.

- This level would address the concern expressed by Aegent that for its high load factor clients CD-DCQ can result in a very low level of deliverability, in some cases less than even the 1.2% deliverability originally proposed by Union. Low load factor customers are able to inject their full DCQ already because for them CD-DCQ is greater than DCQ. There is no reason high load factor customers should not have comparable service.

- Union's analysis of "calculated" injection and withdrawals suggests that there are limited instances where this level of deliverability would be

required. However, that analysis is based on a calculated DCQ, not an actual DCQ, and the calculated DCQ is based on perfect load forecast. The actual DCQ will be different and, therefore, there may be more instances where deliverability at the DCQ level will be required.

- Intervenors have indicated that it is not their intention to use their storage allocations for trading purposes. APPrO pointed out that generators cannot do so because they must stand ready to generate if called upon.

- Union acknowledged that there was not a lot of evidence that T1 customers have used cost-based storage for trading purposes. It submitted that such activity would be more likely to occur if customers are entitled to much more cost-based space (as opposed to deliverability) than what Union considers reasonable. Union took the position that its concerns about customers using cost-based storage for trading purposes would be largely addressed if the space allocation is appropriately set. Space allocations are addressed in the next section of the decision.

The Board notes that the greater of DCQ and CD-DCQ establishes the maximum entitlement to deliverability at cost-based rates. Customers may contract for less than full entitlement. For example, this approach provides customers with a choice between taking a) a lower level of contracted deliverability combined with relying on authorized suspension or overrun in the event of unplanned shutdowns, and b) taking a higher contracted deliverability (at higher cost) without having to rely on Union's authorization process to manage storage position in the event of unplanned shutdowns.

IGUA also argued that the maximum allocation of cost-based deliverability should be based on a customer's firm and interruptible CD and DCQ. The Board finds that this is neither necessary nor appropriate. The establishment of a maximum entitlement to cost-based deliverability refers to firm deliverability.

In its reply, Union expressed that it is looking for a signal from the Board that deliverability is only to be used for plant consumption. LPMA also took the position that there should be limits placed on the ability of customers to use cost-based deliverability for other purposes. The Board addresses this issue under Issue 4 below on flexibility.

ISSUE 3: WHAT LEVEL OF STORAGE SPACE ALLOCATION MEETS A CUSTOMER'S REASONABLE NEEDS?

Union's policy for allocating cost-based storage space to T1 and T3 customers is its aggregate excess method ("A/E Method"). The current version of the A/E method is described earlier in this decision under "Union's Proposals – Current Allocations of Cost-based Storage." As noted in that section, the contracted quantities of storage space currently are quite different from amounts determined by the A/E Method because the grandfathering and roll-over provisions currently in place lead to inconsistencies between current load and current allocation.

Union explained the A/E Method in the following way:

> Storage space allocated under the Aggregate Excess approach is intended to enable a customer to reasonably balance a constant supply, which is the obligated Daily Contract Quantity ("DCQ") that the customer is obligated to deliver to Union each day, with varying consumption at the customer's end use location that is dependent on seasonal factors. Given that a customer's DCQ reflects its daily average use, the Aggregate Excess space allows a customer to net inject all summer and then net withdraw all winter to meet its seasonal load difference. [Union Argument in Chief, page 3]

In its NGEIR Decision, the Board indicated that the A/E method would remain in place, but that other methods for allocating space might be appropriate for some customers:

> The Board supports the continued use of the aggregate excess method as the default method for allocating cost-based space. That method is clearly designed for customers with the traditional seasonal load balancing need and fits well with the storage needs of many unbundled and semi-unbundled customers. But it appears that the storage requirements of at least some of the larger industrial and commercial customers may have little or nothing to do with seasonal load balancing. Allocating cost-based storage

> using a method that is based on assumptions that are materially at odds with a customer's circumstances, in the Board's view, would be unfair and unsupportable. Therefore, the Board concludes it is necessary to consider whether one or more additional allocation methodologies should be developed for cases where the aggregate excess method is clearly inappropriate. [NGEIR Decision, page 89]

Union identified that in addition to seasonal load customers, there are process load customers, which typically would not be allocated much storage space under the A/E Method because their consumption does not vary significantly between summer and winter. For this reason, Union proposed an additional allocation method, under which customers would be allocated storage space equivalent to ten times their Obligated DCQ (the "10 x DCQ Method").

Union also proposed modifications to the A/E Method.

Union proposed that customers be allowed to choose an allocation of space based on either the A/E Method or the 10 x DCQ Method.

Whereas Union's evidence was that there are two distinct customer types, seasonal loads and process loads, APPrO filed evidence that the small gas-fired power generators were yet another type of customer with distinct storage needs.

IGUA objected to the application of the proposed modifications to the A/E Method to existing T1 customers, including grandfathered customers. In its view, current allocations should continue to be rolled over unless they are found to be materially excessive. IGUA presented three witnesses from three T1 customers who testified as to their needs for storage. IGUA also objected to the 10 x DCQ Method and proposed an alternative approach based on the spread between a customer's highest and lowest usage of space.

We will address the following sub-issues in this section:

3.1 What is the appropriate treatment of existing and grandfathered T1 customers?

3.2 Are the proposed modifications to the A/E method appropriate?

3.3 Is Union's proposed 10 x DCQ Method appropriate for determining an allocation of storage for process load customers?

3.4 Is a different methodology appropriate for small gas-fired power generators (in particular, dispatchable generators served under T1)?

3.5 Should specific allocations be approved for the customers that testified in this proceeding? This issue is addressed generally, but the Board has also prepared a confidential appendix which addresses the specifics of these customers.

ISSUE 3.1: WHAT IS THE APPROPRIATE TREATMENT OF EXISTING AND GRANDFATHERED T1 CUSTOMERS?

Customers on T1 before June 7, 2000 were grandfathered in the settlement agreement approved by the Board in RP-1999-0017. Under this settlement, new customers would have their storage allocation set using the A/E method (as it was then applied), and grandfathered customers would retain their then current storage allocation entitlements. Since that time, all T1 customers have had the option to renew their contracts at the existing level, with a change of the quantity only being triggered if the customer's CD changed by five per cent or more for the year.

Under Union's proposal, the determination of the space allocation would be done annually when a T1 or T3 contract is renewed. Union proposed to adopt this approach for all its customers, future and current, including grandfathered customers. This would have the effect of reducing the cost-based space allocated to many current T1 customers, and in some cases these reductions would be substantial.

IGUA submitted that the space allocations for each existing T1 customer (and the arrangements governing when those allocations could be changed) should continue to roll over unless an audit reveals that the allocation is materially in excess of the customer's needs. IGUA submitted that only seven customers appear to have space

allocations which are materially in excess of their needs. IGUA further proposed that customers found to have excess space allocations should be given the opportunity to justify a non-standard allocation as contemplated in the NGEIR Decision. (IGUA proposed specific allocations for the IGUA witness companies: CGC Inc., Dofasco Inc., and Gerdau Ameristeel Corporation. Allocations for these three customers are dealt under Issue 3.5 below.)

In IGUA's view, this approach is consistent with the NGEIR Decision and directives and customers' reasonable needs. IGUA argued that Union's proposals are inconsistent with the NGEIR Decision for the following reasons:

- The NGEIR Decision and storage directives arose from concern with respect to "excessive" space allocations.
- Nothing in the NGEIR directives calls for wholesale revision of the A/E Method which prevailed when the NGEIR Decision was released. The NGEIR directives were to "review" and propose changes only where the allocation is "materially" at odds with a customer's circumstances.
- The NGEIR Decision clearly said there was to be no immediate change to contracts and suggested there should be reductions only if allocations are "materially excessive" to reasonable needs and any reduction is to be in a "controlled and deliberate" manner.

IGUA also argued that the current allocations should remain in place because:

- Union is bound by the provisions of the settlement agreement in RP-1999-0017 which grandfathered the storage allocations of the then existing T1 customers.
- The "roll over" provision has been in place since the inception of direct purchase and the Board should not disrupt these arrangements.

- Union is bound to honour the wording of the T1 contract: "Subject to the provisions hereof, this Contract shall continue in full force and effect for each Contract Year until notice to terminate is provided by either Union or Customer. Such notice must be delivered at least three (3) months prior to the end of the Contract Year."

- Union is bound by its commitment in the June 2006 NGEIR settlement agreement that there would be no claw-back from existing T1 customers.

In its reply argument, Union maintained that it had not breached the terms of any settlement agreement or the terms of its T1 contracts. It submitted:

- Union has honoured the grandfathering provisions of the settlement in RP-1999-0017, and is proposing new arrangements in response to the Board's NGEIR directive to develop consistent and standardized allocations. The June 7, 2000 settlement agreement also contained a "without prejudice" clause.

- The end of grandfathering is consistent with the spirit of the RP-1999-0017 proceeding because the Board expressly stated that the settlement agreement was intended to be a transitional arrangement and should not be considered "set in stone".

- The June 2006 NGEIR settlement related to the impact of *new* storage services on existing customers and, therefore, was not applicable. Even if it were applicable, that settlement agreement contained a "without prejudice clause" permitting parties to take different positions in other proceedings.[7]

[7] Page 4 of the June 13, 2006 settlement agreement states: "It is acknowledged that this Agreement is without prejudice to parties re-examining these issues in any other proceeding, except where a party's rights to re-examine an issue have been specifically limited in this Agreement."

- Union's proposals were made in response to the Board's NGEIR directive for standardized and consistently applied rules. The continued roll over of historic allocations would be unfair to other T1 customers with lower allocations.

- All settlements are subject to the overriding authority of the Board under section 36(1) of the Ontario Energy Board Act, 1998.

- The annual T1 contracts are routinely adjusted for other factors, including changes in CD and DCQ related to changes in a customer's operations and its facilities.

IGUA proposed that current allocations should continue to roll over unless the allocations are found to be materially in excess of customer needs. IGUA proposed that the analysis to determine whether the allocation is materially in excess of a customer's needs should be based on storage use – what IGUA called a "use it and you don't lose it" principle.

In IGUA's view, an audit of excessiveness must be broader in its approach than just the application of the allocation methods to be applied prospectively: It argued that: "Considerations of contract sanctity, regulatory certainty and stability, and the rules that prevailed when the contractual allocations were agreed upon, including the automatic renewal rule, must be brought into account." [IGUA Argument, page 5]

IGUA initially proposed that the level of use should be measured using the spread between the highest peak and lowest valley in the two-year "calculated" storage balance curves filed in confidence by Union as Exhibit HDU2.9. Subsequent submissions by both Union and IGUA provided modified analyses based on the average of the annual spreads and the higher of the two years' spreads. In IGUA's proposal, there should be no reduction if the allocation matched the spread analysis combined with a 5% safety margin and a 15% materiality factor. IGUA took the position this was comparable to bundled service.

Union argued that IGUA's "spread" analysis was flawed in the following respects:

- That analysis is based on "calculated" storage balances, not a customer's actual use of storage during the two-year period. Union's graphs for each customer are based on the customer's actual consumption and a "calculated" DCQ that is determined after the fact. That is, Union's "calculated" DCQ is not the same as the actual DCQ in a customer's contract. The "calculated" DCQ is what a customer's T1 contract might have contained had the customer had perfect foresight about its future gas consumption. Union used that technique to show the impact of the various space allocation proposals; those graphs were not intended to present a customer's actual use of storage.

- Using a spread determined over a two-year period distorts the results. The spread should be the average annual spread as this reflects that load balancing is done over one year, not two years.

- The analysis should not use a 5% safety margin or a 15% materiality tolerance. Such adjustments are not included in the A/E Method and inflate the allocation artificially by 20%.

Union filed alternative schedules which revised IGUA's analysis to reflect some of these criticisms and concluded that at least 15 customers (14 grandfathered, one non-grandfathered) would have excess allocations under IGUA's approach.

Beyond the technical criticisms of the analysis, however, Union argued that IGUA's proposal was inappropriate in any event. By using the "calculated" storage balance curves to derive an allocation of space, IGUA has in effect assumed that customers undertake no balancing activity, that is, customers adopt a completely passive approach to managing storage and gas supply. In Union's view, there should be an expectation that customers will undertake balancing activity. The shift from bundled to semi-unbundled service to save costs involves a shift in responsibility for managing supply

from Union to the customer. Union also pointed out that even bundled customers have obligations to balance their Banked Gas Accounts and undertake market activities to do so.

Union also argued that a storage allocation method based on a customer's actual use of storage in past periods would also be inappropriate. Actual use does not necessarily provide information on what amount of space was really needed for load balancing purposes. The more space customers have had under contract, the more likely they are to use the space, potentially to exploit market opportunities, rather than simply load balancing. Innophos acknowledged this in its submission: "…Union's longer standing unbundled and semi-unbundled customers have, in the past, often relied on their historical cost priced storage and deliverability allocations for other gas supply management needs as well." [Innophos Argument, page 5]

ISSUE 3.1: BOARD FINDINGS

The NGEIR Decision

The Board has already referenced two findings from the NGEIR decision that are relevant to IGUA's position.

- The first concerns the regulation of storage services for T1 and T3 customers: "The Board concludes that it should continue to regulate and set cost-based rates for existing storage services provided to in-franchise customers *up to their allocated amounts*." [NGEIR Decision page 56, emphasis added]

- The second concerns the comparability of bundled and semi-unbundled storage entitlements: "…the Board finds that customers taking unbundled or semi-unbundled service should have equivalent access to regulated cost-based storage for their *reasonable needs*". [NGEIR Decision pages 56 and 57, emphasis added]

Those findings do not support a conclusion that the Board intended that cost-based rates would necessarily continue to apply to the existing levels of allocated space in T1 and T3 contracts. This is clear from the following passage in the NGEIR Decision:

> However, customers taking unbundled and semi-unbundled services do have greater control over their acquisition and use of storage than do bundled customers. It is also the Board's expectation that these customers will have access to and use services from the secondary market. Therefore, the Board concludes *it is particularly important to ensure that the allocation of cost-based regulated storage to these customers is appropriate*. [NGEIR Decision, page 57, emphasis added]

This is further confirmed in the Board's decision regarding storage allocations:

"The Board concludes it is essential that there be *clear, standardized, and consistently applied rules* for allocating cost-based storage to unbundled and semi-unbundled in-franchise customers." [NGEIR Decision, page 88, emphasis added]

The Board concludes that IGUA's interpretation of the NGEIR Decision is incorrect. There is no support in that decision for the conclusion that historic or grandfathered allocations are necessarily representative of a customer's "reasonable needs."

As noted in Innophos Canada's submission, Union's longer standing unbundled and semi-unbundled customers have, in the past, often relied on their historical cost priced storage and deliverability allocations for other gas supply management purposes.

The Board would also note that IGUA's view is fundamentally at odds with IGUA's stated understanding of the underlying principle of storage allocation to semi-unbundled customers:

> The purpose of the allocations is to provide these DCQ Obligated Customers with approximately the same amount of space and deliverability the utility would use to balance daily and annual variances between constant delivery and consumption at the burner tip by large volume customers served under the auspices of bundled delivery services rates. [IGUA Argument, page 8]

Contract Sanctity and Settlement Agreements

The Board also does not agree with IGUA that Union's June 2006 NGEIR settlement agreement in some way bound Union to propose retaining existing allocations to T1 customers. The NGEIR settlement related solely to new storage services (to gas-fired power generators and other similar customers) and the impact of those specific proposals on Union's other customers. The Board concludes that Union's position in this proceeding is not inconsistent with its commitment in the NGEIR settlement agreement.

Similarly, the Board does not agree that there are restrictions arising from its RP-1999-0017 decision and settlement agreement. In the RP-1999-0017 decision, the Board was quite explicit about the transitional nature of the arrangements in the settlement agreement:

> This Decision should be regarded as a component of an overall, longer term transition to increased competition. It is hoped that when a more robust fluid market exists, many features in the Settlement Agreement and in this Decision will have evolved and been replaced with improved features. [RP-1999-0017, paragraph 6.3.2]
>
> The Board agrees with the many parties who indicated that Union's proposal should be viewed as a continued evolution of new services in support of a competitive market in natural gas commodity and other non-monopoly services should not be considered. [RP-1999-0017, paragraph 6.3.3]

The Board would remind parties about the fundamental nature of settlement agreements and what the Board intends when it approves such agreements. The appropriate interpretation of the Board's approval was succinctly summarized in a recent oral decision on a settlement proposal in an electricity distribution rates case:

> Settlement proposals are a result of a complex relationship of issues. One should not look for precedential value with respect to specific elements of the settlement agreement in this case.
>
> It is the overall cost consequences or rate outcome that the Board accepts, not necessarily the results of specific methodologies or proposals that may or may not deviate from the Board regulatory

> instruments that may otherwise apply. [EB-2007-0713, Transcript, January 24, 2008, page 42]

If the Board concludes that the terms and conditions of Union's contracts for cost-base storage must evolve to respond to changing circumstances, it will order such changes regardless of the rollover provision in current T1 contracts or the provisions of the June 2000 settlement agreement. The rollover provision might be an important consideration when assessing how customers could be affected by any new allocation rules, and when determining appropriate transition mechanisms. Such considerations, however, do not change the Board's overriding obligation to ensure rates and contract terms are just and reasonable.

IGUA's Proposed Excessiveness Audit

Under its excessiveness audit approach, IGUA is effectively arguing that the allocation methods should be governed by a "use it and you don't lose it" principle. For IGUA's approach to be correct, it must be true that use of the current storage allocation is good evidence of a customer's "reasonable needs." While this might appear to be a sensible conclusion at first, further consideration makes it clear that such a conclusion is incorrect:

- IGUA's analysis shows the impact of the allocation methods on customers, assuming no active storage management is undertaken. This is not an appropriate assumption. The semi-unbundled service is designed with the expectation that customers will be more active managers of their storage than they would be under bundled service. Therefore, it is inappropriate to assume a totally passive approach to storage management.

- The proposed additions of a 5% safety margin and a 15% materiality threshold have no corollary in the A/E Method, nor are they equivalent to any provisions in the bundled service.

- The evidence shows that some customers have used part of their storage allocations for market activities, unrelated to "reasonable customer needs" as defined by the Board. There is nothing inappropriate about these activities, but they are not related to "reasonable customer needs" for purposes of cost-based storage allocation.

The Board concludes that the "use it and you don't lose it" principle is not appropriate. The Board finds that a customer's past use of storage, either actual or theoretical, is not necessarily determinative of that customer's "reasonable needs". The Board will be governed by the principles underpinning the definition of "reasonable customer needs" as articulated earlier in this decision.

The Board notes that not all T1 customers object to the loss of their grandfathered position. While acknowledging that the implementation of the proposed A/E Method would reduce its storage space allocation by 60%, Innophos Canada argued for transition mechanisms which would assist all T1 customers to adapt to a reduction in storage space allocation.

Conclusion

The Board finds that it would be inappropriate to retain the roll over provisions in the current T1 and T3 contracts because that would preserve storage allocations which are not necessarily related to a customer's "reasonable needs," and would be contrary to the objective of "standardized, and consistently applied rules" set out in the NGEIR Decision.

The Board concludes that the allocation methods approved in this decision shall be applicable to all T1 and T3 customers – existing, including grandfathered customers, and future. There is no longer a compelling reason to treat similar customers differently. Indeed, now that the Board has embarked on a comprehensive examination of storage allocation methodologies, the Board concludes that there are compelling reasons to implement standardized and consistently applied rules, as contemplated in the NGEIR Decision. These rules, and the reasons for them, will be transparent and arise from an

adjudicated process, not the approval of a settlement agreement. All customers have had notice of the proceeding and have had the opportunity to take part. The Board has had the benefit of evidence from a variety of different customers.

The Board will consider whether particular transition mechanisms are appropriate for certain groups of customers, and also will consider whether non-standard allocations are appropriate in some circumstances. These issues are addressed later in the decision under Issue 5.

ISSUE 3.2: ARE THE PROPOSED MODIFICATIONS TO THE A/E METHOD APPROPRIATE?

Union proposed the following modifications to its A/E Method:

- The calculation would be done using two years of historical data (with 25% weighting for each year) and one year of forecast data (with 50% weighting). Currently, the consumption data used in the calculation is taken from the customer's actual consumption for the most recent year.

- If the customer is new, or an existing customer is undergoing a significant change in operations, Union proposes that the allocation would be based on forecast consumption only, and this forecast would be the subject of a negotiation between Union and the customer. Once sufficient historical information is available for the customer, the standard A/E Method calculation would be done.

- The A/E Method calculation would be performed at each contract renewal date and the space allocation for the new agreement would be set equal to the A/E Method result.

- The 2.4% reduction factor would be eliminated.

Union concluded that using just one year of historical consumption could skew the result due to changes in plant equipment, operations or business conditions. The proposed

method, in Union's view, continues to match the allocation to current needs. LPMA supported this method and submitted that it would provide more stability and would be more in line with what is reasonably expected to be required.

In Union's view, it would be inconsistent to continue to apply the 2.4% reduction factor to customers under the A/E Method while at the same time allocating space to process load customers that might be greater than their entitlement under the A/E Method. No parties opposed this proposal.

IGUA argued that an annual review would prompt volatility and instability and that such an approach would be incompatible with the policy goals of introducing measures which stimulate regulatory certainty and predictability.

Union submitted that revising the space allocation annually is consistent with its approach to allocating space to bundled customers under the A/E Method. LPMA supported this approach and noted that it was consistent with treatment of bundled customers.

ISSUE 3.2: BOARD FINDINGS

The Board finds that the proposed revisions to Union's A/E Method are appropriate and should be implemented.

With respect to the timing of the determinations of cost-based space allocations, the Board agrees with Union and LPMA and finds that it is appropriate to determine storage allocations when contracts are renewed, which is annually for most of the existing contracts. This is consistent with the treatment of bundled customers and allows for storage allocation determination based on current circumstances. The Board finds that in this way, the storage allocation will meet a customer's "reasonable needs".

IGUA argued that implementation of Union's proposals would require customers to become more involved in trading, would have a materially disruptive effect on longer term planning and budgeting activities, and would require revisions to the framework of

interconnecting agreements. The Board finds that these concerns are best addressed through an appropriate transition mechanism. The issue of transition is addressed later in this decision.

ISSUE 3.3: IS UNION'S PROPOSED 10 X DCQ METHOD APPROPRIATE FOR DETERMINING AN APPROPRIATE ALLOCATION TO PROCESS LOAD CUSTOMERS?

Union explained that customers with a seasonal load have a seasonal storage pattern – net injections all summer, and net withdrawals all winter. In contrast, process loads generally have no seasonal pattern. Net injections are followed by net withdrawals as customers manage variances in deliveries and consumption over shorter periods. As a result, process loads have a lower overall requirement for storage space than customers with a seasonal pattern. However, process loads would be allocated very little storage space under the A/E Method.

Union proposed an alternative storage allocation method for process load customers. Under the Union proposal, cost-based storage space available to these customers would be equivalent to ten days of firm Obligated DCQ (or "10 x DCQ"). Union explained the factors which went into this proposal:

- The customer is assumed to be an active supply manager.
- The customer is able to participate in the transactional market, so its does not need to rely solely on storage for an unplanned plant shut down.
- At 10 x DCQ, a customer would able to store five days' supply, assuming a 50% storage inventory level. This would provide coverage beginning on the Thursday of a long weekend.

Union indicated that about 16 of the 46 T1/T3 customers would choose this allocation method over the A/E method as it would provide a higher allocation.

LPMA submitted that the 10 x DCQ Method would provide too little storage space. Union's five-day scenario assumes that a customer will be able to fully manage its supply situation on the first available day after a long weekend, which LPMA does not believe is an appropriate assumption. Also, LPMA questioned Union's 50% inventory position assumption. It said that a high load factor customer is likely to maintain a higher inventory position as storage will be filled during planned shut downs and gradually reduced when the plant is operating.

LPMA proposed an alternative scenario as the basis for the minimum allocation, namely six days (to allow an extra day to arrange deliveries or diversions and receive Union approvals) and a 60% inventory position. Together, these two assumptions would support an allocation of space equal to 15 x DCQ. LPMA concluded that a reasonable storage allocation would be somewhere between 15 x DCQ and IGUA's proposal of 38 x DCQ.

Union replied that there was no reasonable basis for designing the system on LPMA's assumptions. Union maintained that the allocation should be based on what is likely to happen, not what is unlikely to happen. Union noted that it is very unusual to have the gas market closed for four days. NYMEX is never closed for more than three days and there is 24-hour electronic trading except on three days of the year. In Union's view, customers should be able to mitigate the consequences of a planned shut down to keep inventory at 50%. Otherwise, storage needs for these customers are relatively flat because they do not have to store gas in the summer for winter consumption.

IGUA argued that Union's 10 x DCQ Method would result in storage allocations that would be materially insufficient to provide Obligated DCQ customers with the space they need to balance load and maintain a positive inventory balance. In its December 2007 submission, IGUA stated that it could accept a methodology that is based on a multiple of a customer's DCQ, as long as that multiple is "reasonably compatible with the DCQ multiple that applies to a customer having a load factor approximately equivalent to the load factor of the T1 customer class as a whole." [IGUA submission,

December 4, 2007, paragraph 67] IGUA's analysis led it to conclude that a 38 x DCQ approach would meet this test.

Union argued that a derivation based on determining a DCQ-equivalency between a seasonal customer and a process customer was inappropriate. Union maintained there was no evidence that there are T1 customers who experience, as IGUA suggested, "their DCQ excesses over consumption" in the winter. Union pointed out that a customer using more of its gas in the summer would likely negotiate with Union for additional seasonal DCQ to access lower summer gas prices and off-peak storage rather than purchase higher priced winter gas.

Union also argued that IGUA's 38 x DCQ approach would have two inappropriate results: a) it would allow a customer to adopt a totally "hands-off" approach to space management; and b) it provides a large amount of space that would allow customers to undertake transactions unrelated to balancing obligated supply against varying plant consumption.

In its argument, IGUA proposed that allocations for all new customers should be based on historical usage as evidenced by a "spread analysis," that is, an analysis of the difference between a customer's highest and lowest use of storage over a period of time. IGUA submitted that if a single DCQ multiple is to be used, then it must be high enough to accommodate the customer with the widest spread. IGUA estimated a range of DCQ multiples between 7 and 87 and suggested the average is between 23 and 24. Although Union disagreed with the approach in principle, it also disagreed with IGUA's analysis on technical grounds. A number of schedules were filed by both parties attempting to correct for claimed errors and to demonstrate the results of varying assumptions. The average DCQ multiple for customers under annual T1 contracts ranged from 17.5 to 22.3 depending upon the assumptions and the method for weighting the average.

ISSUE 3.3: BOARD FINDINGS

Earlier in this decision, the Board found that past use of storage, either actual or theoretical, is not necessarily determinative of a customer's "reasonable needs". As it is based upon the past use of storage, the Board is not persuaded that IGUA's spread-based DCQ multiple analysis is a reliable determinant of reasonable customer needs.

A process load customer does not need as much storage space as a seasonal customer – but it does need access to greater deliverability to accommodate plant shut downs, planned and unplanned. The Board has already addressed this deliverability question under Issue 2, where it found that maximum deliverability available at cost-based rates should be the greater of CD-DCQ and DCQ. Therefore, the Board concludes that the largest determinant of a process load customer's reasonable needs is met with that allocation.

The Board finds that a DCQ multiple approach is appropriate as the Board agrees it is reasonable for process load customers to have access to storage space sufficient to accommodate unplanned shut downs. The Board finds that Union's approach of deriving the multiple based on an assumed storage balance and a maximum numbers of days is appropriate; however, the Board concludes that Union's assumptions (namely 50% storage balance and 5 days' unplanned shut down) are unnecessarily limiting. Our objective is not to define the *minimum* appropriate allocation; it is to establish an *appropriate* allocation. The Board agrees with LPMA that a more appropriate approach would be to assume a somewhat higher storage inventory of 60% and a longer period to mitigate an unplanned shut down, namely six days. The result is a DCQ multiple of 15.

The Board recognizes that this approach might provide a somewhat greater level of storage available for marketing activities (that is, activities beyond a customer's storage management for balancing purposes). However, the Board notes the aversion most customer groups expressed to using storage allocations for marketing or trading opportunities, and notes that a customer would be taking a considerable risk if it marketed storage capacity and that capacity was no longer available in the event of an

unplanned shut down. On balance, the Board concludes that customers are better protected through a somewhat more generous storage space allocation method than by an approach which seeks to minimize storage allocations in order to eliminate market or trading opportunities.

ISSUE 3.4: IS A DIFFERENT METHODOLOGY APPROPRIATE FOR SMALL GAS-FIRED POWER GENERATORS (IN PARTICULAR, DISPATCHABLE GENERATORS SERVED UNDER T1)?

APPrO distinguished small gas-fired power generator customers from other T1 process and seasonal load customers on the basis that these customers are (or will be) subject to dispatch by the IESO and have Obligated DCQs. APPrO explained that whereas many manufacturing and other process load customers have regular weekend shut downs and planned shut downs for maintenance, small gas-fired power generators are more akin to the large generators in the variability of their load. Small generators, however, do not have the considerable supply flexibility and non-obligated gas deliveries of large generators. APPrO concluded that a different allocation method would be appropriate and suggested that Union should negotiate the space allocation with these customers individually based on forecast and historical consumption. APPrO argued that this approach was appropriate given that this approach involves only three generation customers currently – two in 2008; and one in 2009.

APPrO estimated that a multiple of between 15 x DCQ and 20 x DCQ would probably be appropriate. It noted that for many generators DCQ is likely to drop over time as NUG contracts expire, resulting in lower load and capacity factors. APPrO submitted that 10 x DCQ is not a reasonable allocation for small generators, although it acknowledged that setting deliverability at CD-DCQ would go a considerable way to alleviating APPrO's concerns with Union's original proposals.

Union responded that there was no reason to treat generation customers differently from other process loads and maintained that the 10 x DCQ Method was applicable to

generators as well. In Union's view, deliverability was the key consideration for generators.

ISSUE 3.4: BOARD FINDINGS

The Board acknowledges that both APPrO and Union recognize deliverability as being the key consideration for generators. The Board has already found that maximum deliverability should be set as the greater of DCQ and CD-DCQ. The Board concludes that this level of deliverability sufficiently satisfies the reasonable needs of generator customers.

On that basis, the Board concludes that there is no reason to establish a different space allocation methodology for these customers than the already approved 15 x DCQ method. The Board notes that 15 x DCQ is the bottom of the range that APPrO estimated would be appropriate for generators. The Board also notes that this level is appropriate in comparison to the large generators, because although their allocation is set at 10 x DCQ, their deliveries are not obligated.

ISSUE 3.5: SHOULD THE BOARD APPROVE SPECIFIC ALLOCATIONS FOR THE IGUA CUSTOMERS WHICH TESTIFIED AT THE PROCEEDING?

IGUA presented a witness panel which included representatives from three T1 customers: CGC Inc., Dofasco Inc., and Gerdau Ameristeel Corporation. These witnesses testified as to their use of storage and the potential impacts of Union's proposals. IGUA argued that the storage allocations for these specific customers should remain unchanged (subject to a downward adjustment to Dofasco's allocation).

All of this testimony was held *in camera* and all the related material was filed in confidence. The Board is not at liberty to include the details of this testimony on the public record through this decision. However, the Board does believe it is important to explain its decision on the public record regarding these customers.

ISSUE 3.5: BOARD FINDINGS

The Board quite explicitly indicated in the NGEIR decision that it was not inclined to adopt customer-specific allocations:

> [The] Board does not, however, support a unique allocation approach for each customer. In the Board's view, the objective of allocation of cost-based storage space is to assign an amount that is reasonably in line with what a customer is likely to require. The objective is not to allocate precisely the amount a particular customer claims it might need. That would require in-depth knowledge of each customer's expected consumption, its gas supply portfolio, and the non-storage options (such as spot gas purchases) the customer might use to manage its needs. That would be impractical for the utilities to implement, both administratively and because it would never be possible to determine that one, and only one, allocation of storage is the "right" amount for any particular customer. [NGEIR Decision, page 89]

However, the Board did contemplate that there might be non-standard allocations in exceptional circumstances and stated: "If there are to be non-standard allocations, it is important that the Board understand the circumstances and be satisfied that any such exceptions are justified." [NGEIR Decision, page 93]

The Board has determined that these customers do not meet the criteria for a non-standard allocation. The detailed reasons, based on specific testimony, are included in confidential Appendix B to this decision.

The Board considered the following criteria, which have been articulated throughout this decision, when it assessed the cost-based storage allocations of these three customers:

- Storage allocations are designed to accommodate a customer's "reasonable needs," which are governed by:
    - The requirement to balance flat daily obligated deliveries with varying customer consumption, and

- An equivalency between storage services that underpin bundled and semi-unbundled service.

- The Board intends for there to be standardized and consistently applied rules for all T1 and T3 customers.

- Storage allocations are not intended to accommodate customers that choose to adopt a passive approach to storage management.

- Historical use of storage (either actual or theoretical) is not necessarily determinative of a customer's "reasonable needs".

The Board established the test to be met when it considered Kitchener's space allocation in the NGEIR proceeding. In the NGEIR decision, the Board stated:

> The issue is whether Kitchener has made a compelling case that its use of storage is so different from the assumed use underlying the aggregate excess method that Union should be required to develop an allocation method just for Kitchener. The Board finds Kitchener has not successfully made that argument. [NGEIR Decision, page 96]

The same test is appropriate in the case of CGC, Dofasco, and Gerdau Ameristeel, and the Board's conclusion is the same. These customers have not made a compelling case that their use of storage is so different from the assumed use underlying the A/E Method or the 15 x DCQ Method that an alternative method should be used.

The Board would like to reiterate that it found the contributions of these company witnesses to be of significant value. Each one spoke candidly and effectively about their company's use of storage. The Board has concluded that those uses fall outside the parameters related to reasonable needs as defined by the Board. Nevertheless, the Board was greatly assisted by the participation of these witnesses.

ISSUE 4: WHAT ADDITIONAL FLEXIBILITY IF ANY SHOULD BE PROVIDED?

Union originally proposed that deliverability available at cost-based rates be limited to 1.2% of contracted storage space. If any customer wanted additional deliverability, it

could purchase it at unregulated market prices. Given the proposed limit on cost-based deliverability, Union proposed that customers be given greater flexibility to manage their storage.

This "additional flexibility" would give customers access to their firm storage parameters in a manner which would be delinked from plant consumption. Consistent with how Union treats "ex-franchise" customers that acquire storage from Union at market prices, Union proposed that nominations of incremental injections and withdrawals (unrelated to end use plant consumption) by T1 and T3 customers would be firm for injections in all months except October and November, and firm for withdrawals in all months except March and April. The requirement for prior authorization from Union would be removed.

Union argued that under its revised proposal to provide cost-based deliverability up to CD-DCQ, the additional flexibility provisions would be inappropriate as they would provide customers with additional opportunities to undertake transactions not related to balancing consumption at the plant with daily obligated deliveries. Union indicated that additional flexibility would be available to customers contracting for market-priced services.

Intervenors took the position that the additional flexibility would be necessary to help mitigate the adverse impacts of the 1.2% deliverability proposal, but that a better approach would be to allow higher deliverability. Some intervenors expressed a reluctance to use storage for market or trading purposes and in some cases opposed the additional flexibility provisions for cost-based allocations. Union's responding proposal was intended to address these intervenor concerns.

ISSUE 4: BOARD FINDINGS

The Board finds that additional flexibility, as originally proposed by Union, will not be provided for cost-based storage. The Board's findings on deliverability provide adequate flexibility for customers to accommodate their reasonable needs. T1 and T3 customers can choose to contract with Union for additional storage or deliverability at

market prices. In that case, they would enjoy the same flexibility with respect to that storage as would any of Union's ex-franchise customers. However, no additional flexibility would attach to the customer's allocation of cost-based storage.

The Board also confirms that Union will continue to offer the flexibility that is currently available to storage customers under cost-based rates, namely access to transfers, diversions, suspensions and overruns.

For example, Union will authorize suspension of delivery of DCQ whenever delivery is not needed to maintain Union's system integrity. And if delivery is needed to maintain Union's system integrity, then Union will authorize overrun injection. Likewise, Union allows overrun injection, and while this is not firm during peak injection periods, in those situations Union would authorize suspensions.

Most intervenors expressed some level of dissatisfaction with the process for receiving authorizations from Union for overruns and suspensions. They noted that the time lag did not facilitate timely transactions. APPrO suggested that Union could use web postings to indicate periods in which it would accept suspensions or overrun injections, rather than relying on telephone communication each day. Union responded that it was prepared to consider such improvements, and the Board will direct Union to do so.

Given that some customers will experience reductions in their storage allocations, and given the Board's expectation that storage services available at cost-based rates will be sufficient to satisfy a customer's reasonable needs, the Board finds that there is a significant onus on Union to facilitate these types of transactions.

The Board directs Union to consider, in consultation with its customers and their representatives, methods for improving the efficiency and timeliness of the authorization of suspensions and overruns. Union shall report back to the Board in 90 days, either with specific proposals or a definite plan for the development of specific proposals.

LPMA took the position that there should be limits placed on the ability of customers to use cost-based deliverability for other purposes:

> The cost based deliverability to a customer should be limited to the amount reasonably required for their own consumption and balancing purposes. Further, these customers should not be allowed to use their cost-based storage space or deliverability for purposes other than balancing their own use. If a customer, or their marketer, wants to utilize their storage services for other purposes, then they should have the option of purchasing these services from Union at market rates. This customer choice would be tied into the additional flexibility that has been proposed by Union. [LPMA submission, page 6]

Union agreed with this position but indicated that it had limited ability to monitor the use of current flexibility.

The Board concludes that there is limited scope for market opportunities, because most space allocations will be revisited on an annual basis and there will be no additional flexibility as originally proposed by Union. APPrO pointed out, for example, that generators will have limited ability to use their storage other than for balancing purposes as they must be prepared to generate if called upon to do so. The Board also notes that Union concluded that it would be more supportive of allowing deliverability to the greater of DCQ and CD-DCQ without the additional flexibility, than it would be to set deliverability at CD-DCQ and retain the additional flexibility provisions.

Although cost-based storage allocations are not established for purposes of facilitating marketing or trading activities, or for broader gas supply management, the Board finds that it is not necessary to establish explicit restrictions on how that entitlement is subsequently used. Under the new Board-approved allocation methodologies, the Board does not expect there will be any significant amount of cost-based space or deliverability that exceeds the amounts a customer needs to meet its reasonable needs. So there should be less need to monitor how the allocations are being used. Further, based on Union's testimony, it appears that Union is not able to effectively "police" the use of storage allocations. Accordingly, the Board finds that the restriction in the current T1 rate schedule on a customer's use of storage and withdrawal rights should not apply to storage that is allocated using the methodologies approved by the Board in this decision.

ISSUE 5: WHAT IS THE APPROPRIATE TRANSITION FOR CURRENT T1 AND T3 CUSTOMERS?

The new Board-approved allocation methods will be applicable immediately to new T1 and T3 customers signing contracts after the date of this decision. The issue addressed in this section is how contracts of existing customers should be transitioned to the new methods.

Union observed that under its proposed space allocation method (greater of A/E Method, as revised, and 10 x DCQ), the storage balance graphs show customers would have exceeded their cost-based allocations 10% of the time (had no steps been taken to manage storage balances). Union noted that, in comparison, under the existing allocations customers would have exceeded their cost-based allocations 12% of the time. Under Union's proposals, 16 customers would get more space allocated to them than under their current contract entitlement.

Union proposed that the new storage allocation methods be implemented upon the renewal of annual T1 and T3 contracts, which generally is November 1 each year. Union would accommodate those customers with excess storage inventory by providing one year of off-peak storage.

Innophos argued that a transition period is necessary not just to address the customer's immediate gas position but also to provide an opportunity to adjust business operations and financing. Innophos proposed a three-year transition, during which current cost-based deliverability would be maintained at the customer's option.

LPMA argued that a fair transition would be to phase-out the grandfathered amount of storage to the new storage allocation amount over several years. LPMA proposed that customers be given the option to choose a transition period of as long as five years. This time would be appropriate to let customers change other long-term commitments and to adjust operations. Customers should also have access to Union's proposed off-peak storage for gas in excess of the phased-in amount.

IGUA argued that before there are any reductions to current storage allocations Union should be directed to develop a bundled T1 option and Obligated DCQ T1 customers should have a one-time opportunity to roll over their storage allocations into a long-term contract.

Union responded that there was no reason to develop a bundled T1 rate class, because each T1 customer would be eligible to take bundled service under one of the existing rates.

Apart from its bundled T1 and long-term conversions options, IGUA submitted that there should be a five-year transition given the significant financial impact on customers from switching from cost-based to market-based prices for their current storage allocations.

Union responded that the proper analysis is not to determine what it would cost to maintain current, excess space allocations. In Union's view, that impact should not be a material consideration to the determination of the transition. Union noted that the market price of storage is an indicator of the benefit the customer has been receiving for having space in excess of needs. Union maintained that the additional cost of maintaining additional deliverability (above CD-DCQ) would be small and, therefore, there was no reason for a multi-year transition.

ISSUE 5: BOARD FINDINGS

The Board stated in its NGEIR decision: "The Board is not ordering any change in the contract quantities of T1 customers at this time…..any changes to contracts should be done in a controlled and deliberate manner." [NGEIR Decision, page 90]

The Board agrees with intervenors that a transition period is necessary not just for dealing with excess gas in inventory but also to allow customers to re-align upstream supply and transportation arrangements. These arrangements could take some time to implement.

In determining the appropriate transition process, the Board first considered the impacts of the approved storage allocation methods. To assess the impact, the Board used the customer data filed by Union in this proceeding, which was as at November 1, 2006. The amount of firm deliverability that would be allocated under the method approved by the Board in this decision can be calculated precisely because it depends on two known contract parameters – firm CD and Obligated DCQ. The amount of space that would be allocated under the method approved by the Board (greater of amounts determined under the A/E Method, as revised, and 15 x firm DCQ) can only be crudely estimated because the revised A/E Method requires a customer's forecast consumption and no forecast information is available.

Confidential Appendix C compares, for each T1 and T3 customer, actual amounts of space and firm deliverability contracted as at November 2006 with the estimated amounts that would be allocated under the methodologies approved by the Board in this decision. To avoid disclosure of confidential customer information, customer information is grouped and summarized in Tables 3 and 4 and Chart 1 below.

Table 3: Estimated Allocations of Space and Deliverability under Board-Approved Methods Compared to Contracted Amounts (November 2006)

Contract type	Customers	Space (GJs)			Firm Deliverability (GJs/day)		
		Contracted	Allocation	Difference	Contracted	Allocation	Difference
		A	B	C=B-A	D	E	F=E-D
One-year contracts							
T1 Grandfathered	22	4,801,190	2,561,041	(2,240,149)	109,034	132,403	23,369
T1 Non-grandfathered	23	2,042,535	2,139,462	96,927	40,591	116,676	76,085
T3	1	3,370,182	2,900,104	(470,078)	62,931	62,010	(921)
One-year contracts	**46**	**10,213,907**	**7,600,607**	**(2,613,300)**	**212,556**	**311,089**	**98,533**
Long-term contracts *	**5**	**5,190,538**	**2,934,039**	**(2,256,499)**	**84,066**	**171,471**	**87,405**

* The Board decided at the issues day for this proceeding that it would not require Union to re-open existing long-term contracts. That is, the methodologies approved in this proceeding will not be applicable to those contracts.

The allocations of cost-based storage space for the 46 customers with one-year contracts would have been approximately 2.6 million GJs lower than contracted amounts at November 2006 had the Board-approved method been used. Most of that reduction would relate to the grandfathered T1 contracts. Allocations of space to the non-grandfathered contracts would be higher than currently contracted amounts. Deliverability determined under the Board-approved method would be higher for all contract groups, except for a small decline for the T3 contract.

The differences between amounts under contract and amounts determined by the Board-approved methods vary significantly within the contract groups. Table 4 shows the number of customers that would have been allocated more, less, or the same amount of cost-based space and deliverability had the Board-approved methods been in effect as at November 2006. While 16 of the grandfathered T1 customers would receive less space under the Board-approved method, only three of those customers would receive lower deliverability. The rest would either be eligible for more cost-based deliverability or would receive the same amount they had under contract.

Table 4: Illustrative Impact of Board Decisions – Number of Customers with More, Less or Unchanged Allocations of Space and Deliverability (November 2006)

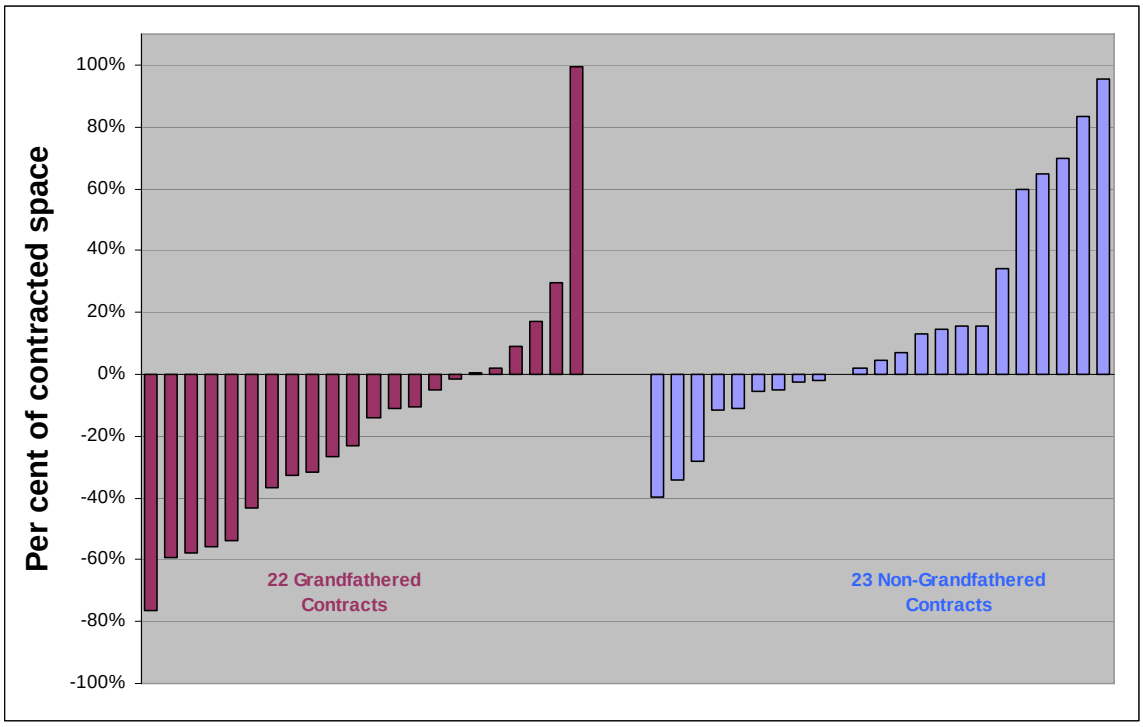
Contract type	Space		Firm Deliverability		
	More	Less	More	Less	Same
One-year contracts:					
T1 Grandfathered	6	16	13	3	6
T1 Non-grandfathered	14	9	15	4	4
T3	-	1	-	1	-
One-year contracts	20	26	28	8	10
Long-term contracts	-	5	4	1	-

Chart 1 shows the percentage change in allocations of cost-based space for the T1 customers (excluding the five long-term contracts). Six of the grandfathered customers

would have reductions in cost-based space of 40% or more. Although those six customers will have considerably less cost-based space allocated to them, their entitlements to cost-based firm deliverability will generally be the same or higher than today. Five of those six customers will be entitled to more firm deliverability than they have under contract today, and one customer will be entitled to the same amount of firm deliverability.

As for the non-grandfathered customers, a few would have significant reductions but most would have small decreases or significant increases in space.

Chart 1: Percentage change in allocation of cost-based space under Board-approved method (November 2006)



The Board considered the information on the possible impact of its decision solely in connection with its determination of the appropriate transition from existing contracted amounts to amounts determined using the new allocation methods. For the reasons set out in detail earlier in this decision, the Board has concluded that a customer's past use of storage, or the amount it contracted for in some earlier period, is not a reliable indicator of its reasonable needs. It is, therefore, not a sound basis for establishing a standardized allocation methodology. The Board notes, similarly, that it has not used the impact analysis to determine whether the new methodology is appropriate. The new methodology has been established from first principles; the comparison between existing and new allocations, as set out in these tables, has been used by the Board to determine the appropriate transition mechanism.

Based on this analysis, the Board concludes that existing customers should be allowed to retain, at their option, the amounts of cost-based space and deliverability currently under contract for approximately three years. Cost-based storage in T1 and T3 contracts that are renewed on or after November 1, 2011 shall be calculated using the allocation methodologies approved in this decision.

Customers need not delay contracting under the new rules. Some customers may wish to contract as soon as possible for amounts of cost-based space and deliverability calculated using the new methods. As noted in Table 4, it appears that 20 customers with one-year contracts may be entitled to contract for more space under the new rules, and 28 customers may be entitled to more deliverability. The Board will permit customers to contract under the new rules at any contract renewal date prior to November 1, 2011 provided that both space and deliverability are calculated in accordance with the new rules.

In the event that a customer opts for application of new rules in a contract renewal on or before November 1, 2010 (that is, one year before the end of the transition period) and that customer is allocated less storage space than it currently has under contract, Union will be required to offer the customer off-peak storage service for one year for any excess storage inventory.

The Board will not provide T1 and T3 customers with the automatic right to roll over their current allocations into a long-term contract. The Board has already determined that these methodologies are appropriately applied to all T1 and T3 customers. If a customer wants to roll over its current entitlement into a long term contract, it must apply to the Board to substantiate a claim of exceptional circumstances which warrant a deviation from the standard allocation methodologies. Similarly, the Board will not order Union to develop a bundled T1 rate. T1 customers that wish to return to bundled service will already meet the eligibility criteria of one of the bundled classes.

ISSUE 6: WHAT IS THE APPROPRIATE APPROACH FOR NEW LONG-TERM T1 CONTRACTS AND EXISTING LONG-TERM CONTRACTS ON RENEWAL?

As indicated earlier in this decision, under "Union's Proposal – Current Allocations of Cost-based Storage," at November 2006 Union had five long-term T1 contracts with customers. The original terms of those agreements ranged from seven to 20 years. Because the terms of those contracts exceed two years, the contracts were required to be approved by the Board.[8]

As shown in Table 2, those five customers have contracted for significantly more storage space than would be allocated using Union's existing A/E Method.

The draft issues list that was originally proposed for this proceeding included an issue related to existing long-term contracts, which was interpreted by some parties to mean that the Board would contemplate, as part of this proceeding, re-opening those long-term contracts. The Board considered adding an issue on long-term contracts because of the potential that the amounts of cost-based space and deliverability in a long-term T1 contract, which would have been set a contract inception, could over time become greater than a customer's "reasonable needs."

None of the parties supported re-opening existing long-term contracts to require the cost-based storage parameters be revised to conform to the Board's decisions in this proceeding. Union noted that customers are very careful when considering long-term T1 contracts because they must commit themselves to demand charges over a long period of time at rates which will change over the life of the contract.

The Board agreed with the position of the parties expressed at the issues day and deleted the issue related to long-term contracts.

[8] On December 12, 2007, the Board approved two new long-term T1 contracts, one for LANXESS Inc. (EB-2007-0717) and the other for St. Clair Power LP (EB-2007-0718).

ISSUE 6: BOARD FINDINGS

The Board finds that as long-term contracts expire, service to these customers will be governed by the new approved storage allocation methodologies.

These methodologies will also apply to new long-term cost-based contracts.

D. IMPLEMENTATION

Union and Enbridge shall each file draft rate orders that reflect the Board's findings in this Decision. The draft rate orders shall be accompanied by Proposed Rate Schedules and Tariff Sheets, and by the form of notice that the companies intend to send affected customers to inform them of the changes to the allocation methodologies and the transition mechanism.

The Draft Rate Orders shall be filed within 30 days of the date of this Decision. Parties will have 14 days after that date to file any comments on the Draft Rate Order.

E. COSTS

The Board received cost claims from IGUA, VECC, LPMA and APPrO. These parties were deemed eligible to apply for an award of costs at the time of acceptance as intervenors in the proceeding. Copies of the claims were sent to Union and Enbridge and neither party objected to the claims.

The claim amounts have been reviewed and adjusted to reflect the Board's guidelines for allowable claims. The total adjusted amount is $198,383, made up of: IGUA - $160,539; VECC - $3,832; LPMA - $9,504; and APPrO - $24,507.

The Board has reviewed the cost claims and finds that all parties are eligible for 100% of each of their reasonably incurred costs of participating in these proceedings. The Board finds that each party's claims, as adjusted, are reasonable and should be reimbursed by Union and Enbridge.

In determining how much of the total costs each utility should pay, the Board has recognized that the bulk of the proceeding was focussed on Union's storage policies; little time was spent on Enbridge's policies. Based on the materials filed, the amount of time and effort in pre-hearing matters, such as the technical conference and interrogatory responses, and the time spent in the hearing, the Board's view is that the costs should be split 90:10 with Union paying 90% of the total costs and Enbridge 10%.

THE BOARD THEREFORE ORDERS THAT:

1. Pursuant to section 30 of the *Ontario Energy Board Act, 1998*, Union Gas Limited and Enbridge Gas Distribution Inc. shall immediately pay the following intervenors the amounts shown in Table 5:

Table 5: Cost Claims Payable by Union and Enbridge

	Union	Enbridge
IGUA	$ 144,485	$ 16,053
VECC	3,449	383
LPMA	8,554	950
APPrO	22,057	2,450
Total	$ 178,545	$ 19,836

2. Pursuant to section 30 of the Ontario Energy Board Act, 1998, Union and Enbridge shall immediately pay the Board's costs of, and incidental to, this proceeding immediately upon receipt of the Board's invoice. The costs shall be split as follows: 90% payable by Union and 10% payable by Enbridge.

DATED at Toronto April 29, 2008
ONTARIO ENERGY BOARD

Original signed by

Gordon Kaiser
Vice Chair and Presiding Member

Original signed by

Cynthia Chaplin
Member

Original signed by

Bill Rupert
Member

APPENDIX A

NATURAL GAS STORAGE ALLOCATION POLICIES
DECISION WITH REASONS

EB-2007-0724 (Enbridge Gas Distribution Inc.)
EB-2007-0725 (Union Gas Limited)

April 29, 2008

PARTIES TO THE PROCEEDING

PARTIES TO THE PROCEEDING

PARTY	REPRESENTATIVE
Union Gas Limited	Sharon Wong
Enbridge Gas Distribution Inc.	Fred D. Cass
Aegent Energy Advisors Inc.	Valerie Young
Association of Power Producers of Ontario (APPrO)	Patrick Moran
City of Kitchener	J. Alick Ryder
Consumers Council of Canada	Robert Warren
Shell Energy North America (Canada) Inc.	James Harbell
ECNG Energy L.P.	Bill Killeen
Industrial Gas Users Association (IGUA)	Peter Thompson
Innophos Canada Inc.	Lisa DeMarco
London Property Management Association	Randy Aiken
Ontario Power Generation	Greg Olsen
TransAlta Cogeneration L.P. and TransAlta Energy Corp.	Lisa DeMarco
TransCanada Energy Ltd.	Margaret Duzy
Vulnerable Energy Consumers Coalition	Michael Buonaguro

APPENDIX B

NATURAL GAS STORAGE ALLOCATION POLICIES
DECISION WITH REASONS

EB-2007-0724 (Enbridge Gas Distribution Inc.)
EB-2007-0725 (Union Gas Limited)

April 29, 2008

BOARD FINDINGS ON REQUEST FOR NON-STANDARD STORAGE ALLOCATIONS FOR:

CGC Inc.
Dofasco Inc.
Gerdau Ameristeel Corporation

CONFIDENTIAL

APPENDIX C

NATURAL GAS STORAGE ALLOCATION POLICIES
DECISION WITH REASONS

EB-2007-0724 (Enbridge Gas Distribution Inc.)
EB-2007-0725 (Union Gas Limited)

April 29, 2008

IMPACT OF BOARD DECISIONS ON ALLOCATION METHODS

CONFIDENTIAL