Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

RP-2003-0063 1

EB-2003-0087

EB-2003-0097

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O.1998, c.15, Schedule B; 2

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, storage, and transmission of gas for the period commencing January 1, 2004. 3

BEFORE: 4

Paul B. Sommerville 5
Presiding Member

Art Birchenough 6
Member

DECISION WITH REASONS 7

March 18, 2004 8

Union argued that its approach to contract class forecasting was appropriate and not in need of adjustment. 369

Union stated that it had not weather normalized Kitchener's load because Kitchener manages weather variances under its T3 contract. In addition, Union does not have the required data to weather normalize Kitchener's load. Union cautioned the Board with respect to deviating from "Union's proven method" noting that Kitchener's true heat sensitive component was not in evidence. 370

Union asserted that the design of the T3 rate ensured that consumption variances had no material impacts on other classes and using Kitchener's forecast would increase Kitchener's rates. 371

Union submitted that OPG's criticism of the forecast contract demand methodology used by Union ignored Union's evidence with respect to the relationship between the M7 class and T1 semi-bundled service. Union asserted that its evidence showed that M7 customers had advised Union that they intended to switch to T1 semi-unbundled service. Union argued that any variances should be assessed by looking at the sum of both classes, an exercise that would show no significant variance. As Union has now signed T1 contracts with the large customers which caused the historical variances between M7 and T1 customers, Union argued that these historical variances were unlikely to occur in 2004. 372

Union stated that OPG's position with respect to Rate 25 was tantamount to a request that the Board disregard the IMO's forecast of when nuclear plants would be in service. Further, Union argued that the technical factors that OPG stated Union should have considered in its forecast, were explicitly considered by the IMO in its forecast. 373

Board Findings 374

The Board believes that the contract class forecast should incorporate the input of the customers, in the belief that the contract customers possess some relevant information that Union may not have access to. As such, the Board believes that Union should work cooperatively with these individual customers to develop forecasts that both parties can agree on. The Board recognizes that there may be cases in which agreement can not be achieved at this stage; should this be the case, the Board expects the parties to communicate with Board staff, informing staff of the impasse in negotiations and requesting any staff assistance that may bring the parties to agreement. If this second stage should not be successful, the Board expects both parties to inform the Board to seek Board resolution of the dispute. The Board expects that any outstanding differences in this regard will be brought to the Board's attention well in advance of the associated rates proceeding. 375

With respect to the T3 forecast, the Board urges Kitchener and Union to work together, again in a timely fashion, to resolve such specific issues as normalization of load and asset allocations. 376

With respect to OPG's concerns, that Union historically had significantly underestimated R25 interruptible and M7 firm volumes and had ignored what OPG considered to be key elements in deriving its forecasts, the Board reiterates its views on these matters as expressed above. Regarding 377

OPG's proposal to adjust Union's R25 interruptible and M7 firm revenue and volume forecasts, the Board finds that it is unable, on the evidence before it, to accept OPG's forecast, notwithstanding the Board's view that the OPG's views may have some merit.

Notwithstanding the Board's reservations, for the 2004 test year the Board accepts Union's contract 378 customer forecast. The Board expects that Union's 2005 contract customer forecast will address the Board's concerns as expressed above.

4.3 S&T Revenue Issues 379

Union's Request 380

Union is requesting the Board's approval for both the level of its S&T revenues and its proposals 381 for allocating deferred margins between the shareholder and the customer.

Background 382

As part of its EBRO 499 Decision, the Board determined that S&T revenues would be deferred and 383 forecast revenue levels would be shared between the ratepayer and the shareholder. In EBRO 499, Union had forecast approximately $5.6 million in S&T revenues for 1999, 90% of which was included in rates, effectively splitting forecasted S&T revenues 90:10 in favour of the ratepayer, with any net revenues above this amount to be shared 75:25 in favour of the ratepayer.

Union estimated S&T revenue for 2004 at $20.8 million which it proposed to share 75:25 in favour 384 of the ratepayer. The corresponding amounts for 2003 and 2002 were $8.8 million and $22.6 million respectively.

In the oral proceeding, Union attributed the significant decrease in 2003 S&T revenue to market 385 changes. Union suggested that some of its major S&T customers may have left the market and that some services such as Authorized Overrun Service, Hub2HubTM service, and FT makeup service will not be available in the future. Union added that 6 petajoules ("PJs") of storage have been removed from S&T services. 3 of these PJs were assigned to in-franchise T-service customers, and the other 3 PJs to long-term storage contracts unlikely to be renewed.

Union's forecast was based on the following assumptions: 386

1 EGDI would take an additional 170,000 GJ/d of Dawn-Parkway service beginning November 1, 2004, due to increased Dawn deliveries; 387

2 TCPL would take an additional 128,200 GJ/d of Dawn-Parkway service beginning November 1, 2003; 388