

Union Gas - Customer Review Decision - RP-2001-0029

Qs & As

RETROACTIVE CHARGE

Q.1. Union has told me that the I will be charged retroactive payments to cover additional costs incurred during the past two years. Why is this happening?

A. Union uses natural gas to run their pipeline, storage and distribution system and to balance variations in gas use throughout the year, especially in times of peak demand. When natural gas costs rise, so do Union's operating costs.

Certain of these costs are placed in deferral accounts and Union requires approval of the OEB before recovering these costs from its ratepayers. (See Q.4. *for deferral account explanation*)

In Union's previous rates application (RP1999-0017), Union requested that the 1999 credit balance owing to customers of \$95,324,000 be held as an offset to the debit balance accumulating in 2000 because of rising gas prices. The Board agreed.

A total of \$204,484,000 accumulated in Union's deferral accounts during 2000 and 2001. This total has been partially reduced by the credit balance that accrued in the deferral accounts during 1999 (\$95,324,000). In total, Union will be recovering \$109,160,000 in retroactive payments from its customers.

Q.2. Why is the debit balance of the deferral account so high?

A. Approximately 80% of the retroactive charge is related to incremental commodity costs to operate the system with the other 20% related to rate changes not implemented during 2001 and 2002.

The vast majority of the 80% relates to increased costs to ensure that gas was available at all times, including the coldest winter day. Union forecasts gas demands to ensure that there is enough gas in the system to meet the needs of all customers. The forecast costs are included in Union's rates, however, in times when demand exceeds the forecast, such as the winter of 2000/01, Union may need to purchase gas beyond forecast. The historically high natural gas prices at the time resulted in Union incurring these incremental costs beyond their forecasts and resulted in a larger than normal adjustment.

Q.3. Did Union or the Board take any action prior to this retroactive charge to try to reduce, or mitigate, the debit amount of the deferral account?

A. Yes. Union received approval from the Board for a temporary 'rate rider' of 4.076¢ per cubic meter during their Fall 2001 Quarterly Rate Adjustment Mechanism (QRAM) process which was effective from November 1, 2001 to March 31, 2002.

During the Winter 2002 QRAM process, Union identified that the original 'rate rider' was going to under-recover the amount required and an additional temporary 'rate rider' of 4.416¢ per cubic meter was approved by the Board for the period of January 1 - March 31, 2002 making the total 'rate rider' for that period 8.492¢ per cubic meter. The 'rate riders' offset the debit balance in the gas commodity deferral account by \$117,000,000.

Following the implementation of the rate riders, the outstanding balance of the deferral account was \$204,484,000. This total has been partially reduced by the credit balance that accrued in the deferral accounts during 1999 (\$95,324,000). In total, Union will be recovering \$109,160,000 in retroactive payments from its customers.

Q.4. What are deferral accounts?

- A. Certain of Union's costs are based upon a forecast, such as gas costs for the next 12 months. Union is not permitted to earn any profit on the sale of gas to its system customers, but at the same time it is protected from fluctuations in the price of natural gas and is allowed to fully recover the cost of purchasing system gas. The variance between the forecast price of natural gas, and the day to day prices that Union actually pays to purchase its gas supply are tracked in one of several deferral accounts.

Q.5. Why have charges in the deferral accounts been allowed to accumulate for three years?

- A. They should not have accumulated for that length of time. In Union's previous rates application (RP1999-0017), Union requested that the 1999 credit balance owing to customers be held as an offset to the debit balance accumulating in 2000 because of rising gas prices. The Board agreed. Neither Union nor the Board realized that the balances would not be cleared until the end of 2002. Both the Board and the utilities try to avoid retroactive adjustments, wherever possible.

Q.6. Must I pay the one time adjustment as one payment?

- A. No. For a typical residential customer in Union's southern operations area, consuming 2,900 m(3) per annum, the one time retroactive charge is approximately \$120. For Union's northern and eastern operation areas, for a typical residential customer consuming 2,900 m(3) per annum, the one time retroactive charge is approximately \$105.

Customers will have the option of paying this charge as one payment. Union recently informed its customer that the charge to recover these deferral account balances would be payable in three installments. In the Board's view, under the circumstances, customers should be given an opportunity to spread the payment over at least three instalments. The company may well want to consider extending the period beyond three months.

Q.7. What choices do I have if I cannot afford to pay the retroactive charge?

A. Union is proposing to bill the charge in three installments starting with November or December bill. If further flexibility is required, please contact a sales representative for Union to discuss alternate billing arrangements.

Q.8 I was not a customer of Union in 2000 and 2001. Do I have to pay the retroactive charge?

A. If you joined the system on or after January 1, 2002, you will only be required to pay the retroactive increase for 2002 delivery rates. (*See question Q.12 for information on what the rate increases will be*).

Q.9. I became a customer of Union part way during 2000 or 2001. Do I have to pay the same retroactive charge as other customers.

A. No. Customers on the system for a portion of 2000 or 2001 will have their retroactive charges pro-rated according to their gas consumption during that period.

DELIVERY RATE INCREASES

Q.10. Why are the delivery rates increasing?

A. As a regulated utility, Union is permitted to recover reasonably incurred capital and operating costs. Union's cost of business is impacted by inflation, government regulation, safety considerations and financial market conditions. Changes in these costs impact on Union's delivery rates. The utility operating costs are recovered from the Board approved rates.

Q.11. Do we know what rate increases will be?

Not yet. The decision approves the costs that Union can recover in its 2001 and 2002 rates. Union has four week from the issuance of the decision to submit a draft rate order to the Board for review and approval.

Q.12. Why don't delivery rates decrease occasionally?

A. In theory such rates could decrease. For example, under Union's present Performance Based Regulatory (PBR) regime, if the Board mandated productivity factor is larger than the annual change in inflation measured through the Gross Domestic Product Price Index or GDPPI, then rates could decrease.

DECISION RELEASE DELAY - BOARD PROCESSES

Q.13. What is "regulatory lag" as referred to by Union?

A. The term "regulatory lag" generally refers to the time delay that occurs when a regulatory board, such as the Ontario Energy Board, receives an application and issues a decision resulting in new rates being approved after the applicable date

for the new rates to be implemented. The total period required to review the application and evidence, conduct a public hearing, undertake a detailed examination and write a decision and approve a rate order for a major gas utility is approximately nine months. Knowing this, utilities such as Union gas should plan to file such rates applications, including completed evidence, approximately nine months before the new rate is expected to be implemented. This is not always possible.

Q.14. Why is this decision so late?

- A. Union applied to the Board in September 1999 for its 2000 delivery rates as part of its performance based regulation (PBR) application. The PBR application constituted a new process and due to complexities involved in that application, the resulting decision was not issued by the Board until July 2001. Union was not able to file its application for 2001 rates until they received the Board's decision for the 2000 rates which contributed to the delay.

Union filed its application for its 2001 delivery rates, including the request for disbursement of the deferral account, on July 30, 2001. Pre-filed evidence was completed and filed on December 3, 2001. The review of Union's evidence, and the subsequent filing of interrogatories and answers, and the alternative dispute resolution process (or Settlement Conference) occurred during January to March, 2002. An oral hearing was held at the Board for eight days in April, 2002. Final written argument was received from Union on May 21, 2002. Drafting of the Board's decision required four months.

Q.15. What is to blame for the delays in issuing this decision?

- A. The complexities and regulatory lag in issuing the 2000 rate decision contributed the delay in issuing the present decision. *(See Q.3. for actions taken by the Board/Union in the meantime on the deferral account)*

Q.16. Who represented the interests of small customers such as residential customers at the hearing?

- A. The Consumers Association of Canada ("CAC") and the Vulnerable Energy Consumers Coalition ("VECC") both participated in the hearing. Also Board Staff, who act as technical advisors to the Board, are required to ensure that the broad public interest is covered in the proceeding.

Q.17. How can I most effectively register my complaint to the rate increase or retroactive charge?

- A. If you feel that the retroactive charges are unfair or unreasonable, you may wish to review the Board's decision posted on its website at www.oeb.gov.on.ca. If you still wish to comment, you may write a letter of comment to the Board Secretary, Ontario Energy Board, Suite 2601, 2300 Yonge Street, Toronto, Ont., M4P 1E4, and provide a copy of your comments to Union Gas. The Board will include your letter of comment as a part of the file for the next Union Gas rate hearing.

Q.18. How can I most effectively persuade the OEB not to allow such retroactive rate adjustments and/or rate increases?

- A. Register as an intervenor and participate in the Board's public hearing process. However, you should be aware that the Board is required to weigh the evidence presented under oath. Much of the evidence is technical and complex. The Board cannot disallow rate increases on the basis of customer impact opinions or statements alone.

Q.19. When is Union's next rate setting proceeding?

- A. Union has applied for its 2003 Customer Review Application, which will result in the setting of rates for 2003. Newspaper notices were published in early July in all major newspapers in Union's service area. A two day stakeholder conference was held at the board on September 18 and 19, 2002.

Q.20. Has Union's shareholder been required to assume responsibility for any portion of the costs Union sought to recover?

- A. Not in this proceeding. Certain costs have been placed in a new deferral account, pending the Board's decision as to how they should be recovered.