

March 30, 2022

## The Rising Market Price of Natural Gas: Helping to Manage Cost Increases for Many Customers Across Ontario

The Ontario Energy Board (OEB) has approved new natural gas prices for Enbridge Gas Inc. (Enbridge) and EPCOR Natural Gas Limited Partnership (EPCOR), including a rate mitigation plan proposed by Enbridge that will continue to help temporarily safeguard Ontario natural gas customers from significant bill increases related to high natural gas market prices.

As noted in Table 1, beginning April 1, 2022, the total annual bill impact\* for residential customers using a typical amount of natural gas will be:

**Table 1**

	Enbridge Gas Distribution Inc.	Union South	Union North East	Union North West	EPCOR Aylmer	EPCOR South Bruce
<b>Annual Usage for a Typical Residential Customer</b>	2,400 m <sup>3</sup>	2,200 m <sup>3</sup>	2,200 m <sup>3</sup>	2,200 m <sup>3</sup>	1,780 m <sup>3</sup>	2,149 m <sup>3</sup>
<b>Total Quarterly Rate Adjustment Mechanism (QRAM) and distribution rate changes (A)</b>	\$70.10	\$46.61	\$69.35	\$64.77	\$33.03	\$107.91
<b>Federal Carbon Charge (B)</b>	\$47.04	\$43.11	\$43.11	\$43.11	\$34.89	\$42.12
<b>Temporary Rate Adjustments (C)</b>	-\$4.57	\$8.27	\$7.63	-\$29.81	-\$43.11	\$0.00
<b>Total Annual Bill Impact (A+B+C)</b>	<b>\$112.56</b>	<b>\$97.99</b>	<b>\$120.09</b>	<b>\$78.07</b>	<b>\$25.08</b>	<b>\$150.03</b>
<b>Percentage Change</b>	<b>9.7%</b>	<b>9.9%</b>	<b>9.9%</b>	<b>7.1%</b>	<b>2.5%</b>	<b>9.6%</b>

\*Bill impacts will vary depending on how much natural gas individual customers use.

### Current QRAM

The OEB has approved a rate mitigation plan proposed by Enbridge that reduces the total annual bill impact for a typical residential customer to a range of between 7.1% to 9.9%, depending on the rate zone. Rate mitigation is a tool used by the OEB to help protect consumers from experiencing large bill increases all at once. Mitigation provides customers with temporary relief by smoothing out cost recovery over a longer period.

This is the third consecutive QRAM in which Enbridge has proposed a rate mitigation plan in response to increased market prices. In its October 2021 QRAM application, to temporarily reduce the impact of increased market prices, Enbridge proposed to defer the recovery of \$173 million by applying credits in that amount to the Purchased Gas Variance Account (PGVA). In its January 2022 QRAM application, Enbridge proposed to defer recovery of an additional \$282 million, for a total PGVA balance of \$455 million.

Typically, PGVA balances are recovered over a 12-month period, which helps to smooth rate impacts. Rather than recovering the total \$455 million outstanding PGVA balance as part of the current QRAM, Enbridge proposed a mitigation plan that would recover the balance over a 24-month period, to enable recovery of as

much of the balance as possible without increasing the total annual bill by more than 10% in any rate zone. This approach will recover approximately \$336 million of the \$455 million deferred amount, leaving approximately \$119 million for recovery in a future QRAM.

EPCOR Aylmer purchases its natural gas from Enbridge’s Union South rate zone and a local producer. As a result, Enbridge’s mitigation plan also affects the total bill impact for a typical residential customer in EPCOR Aylmer’s service area.

As seen in Table 2, without the OEB-approved mitigation plans in place, a typical Enbridge residential customer would have faced a total annual bill impact ranging from 13.3% to 19.2%, depending on their rate zone.

**Table 2**

Utility	Commodity Portion of Bill Only		Total Annual Bill	
	Change Before Mitigation (\$)	Change Before Mitigation (%)	Change Before Mitigation (\$)	Change Before Mitigation (%)
Enbridge Gas Distribution Inc.	\$117.99	33.9%	\$154.01	13.3%
Union South	\$139.31	35.1%	\$191.10	19.2%
Union North West	\$144.67	52.5%	\$161.13	14.6%
Union North East	\$148.46	41.0%	\$199.75	16.5%
EPCOR Aylmer <sup>+</sup>	N/A	N/A	N/A	N/A

<sup>+</sup>Rate mitigation was not proposed by EPCOR Aylmer as its natural gas prices are based largely on Union South natural gas commodity prices. As a result, the mitigation plan approved for Enbridge for the Union South rate zone also affects EPCOR Aylmer’s customers.

EPCOR South Bruce had also deferred the recovery of past costs in prior QRAMs and proposed a 24-month rate mitigation plan for this QRAM. The OEB determined that additional mitigation beyond the typical 12-month smoothing period is not required. Accordingly, the OEB approved the option of using a typical 12-month smoothing period to recover a Purchased Gas Commodity Variance Account balance of \$368,000, noting that it strikes the appropriate balance between reflecting the forecast of natural gas market prices while shielding customers from excessive bill increases.

### Other Reasons for Bill Impacts

Natural gas prices remain high because of colder than normal weather, sustained global demand for North American liquefied natural gas, and uncertainty in the global energy landscape. Also, production in North America has generally decreased and storage levels across North America have been below the 5-year average.

For all Enbridge rate zones, the total annual bill is also affected by temporary rate adjustments previously approved by the OEB relating to the disposition of balances in Enbridge’s 2020 utility earnings and deferral and variance accounts and its 2020 federal carbon deferral and variance accounts.<sup>1</sup>

The total bill for all customers is also affected by an increase in the federal carbon charge. Among other things, under the federal *Greenhouse Gas Pollution Pricing Act* Enbridge and EPCOR are required to pay a carbon charge to the federal government for the volume of natural gas that they deliver to their customers. The federal carbon

<sup>1</sup> Deferral accounts track the cost of a project or program which the utility could not forecast when the rates were set. When the costs are known, the utility can then request OEB approval to recover the costs in rates. Variance accounts track the difference between the forecast cost of a project or program, which has been included in rates, and the actual cost. If the actual cost is lower or higher, then the utility can request OEB approval to return the difference to customers as a credit or to recover the difference through rates.



charge increases annually each April. All of the money collected by the utilities through this charge goes to the federal government.

### **About the QRAM**

Natural gas is a commodity that is bought and sold on North American energy markets. At any given time, its price fluctuates based on a variety of factors including supply and demand, seasonal changes, levels of stored natural gas, and major weather events. Enbridge and EPCOR update their forecast of market prices every three months and use that forecast to seek the OEB's approval of their proposed changes to natural gas commodity prices. These proposed changes cover:

- **Future costs:** This is based on a forecast of market prices for natural gas over the next 12-month period.
- **Past costs:** This is based on the difference between what the utility previously forecast that their customers would pay and what their customers actually paid. This kind of adjustment is needed because the gas prices charged to customers are based on forecasts, which are never exact. This may be called the Gas Price Adjustment or Cost Adjustment on your bill. It can increase or lower the rate accordingly. For example, if a utility collected more from customers than it paid for gas in the past, the difference is credited back to customers through a lower rate. Likewise, if not enough was collected by the utility, the rate will be higher.

The OEB does not allow utilities to earn a profit on the sale of gas, regardless of market fluctuations in price.

### **About the OEB**

The OEB is committed to delivering public value through careful regulation and independent adjudicative decision-making, which contributes to Ontario's economic, social and environmental development. With respect to natural gas prices and the reliability and quality of gas service, we set rates for the natural gas that customers of Enbridge and EPCOR use in their homes and businesses, and we also set the rates that those utilities charge for the delivery of natural gas to their customers.

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*This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decisions and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the three Decision and Orders issued today, which are the official OEB documents.*

*Ce document est aussi disponible en français.*

