



EB-2014-0039

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

AND IN THE MATTER OF an application by Enbridge Gas Distribution Inc., pursuant to section 36(1) of the Act for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission, and storage of gas as of April 1, 2014;

AND IN THE MATTER OF the Quarterly Rate Adjustment Mechanism approved by the Ontario Energy Board in proceedings: RP-2000-0040, RP-2002-0133, RP-2003-0203 and EB-2008-0106.

Before: Ken Quesnelle
Presiding Member and Vice Chair

Marika Hare
Member

DECISION AND ORDER

May 22, 2014

Enbridge Gas Distribution Inc. ("Enbridge") filed an application with the Ontario Energy Board on March 12, 2014 under section 36 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B) for an order approving or fixing rates for the sale, distribution, storage, and transmission of gas effective April 1, 2014. The application was made pursuant to Enbridge's approved Quarterly Rate Adjustment Mechanism ("QRAM"). This affects predominantly those customers who purchase natural gas directly from Enbridge, rather than a natural gas marketer.

Board staff, the Industrial Gas Users Association (“IGUA”) and the Canadian Manufacturers & Exporters (“CME”) requested and received additional information from Enbridge. The Federation of Rental-housing Providers of Ontario (“FRPO”), the Consumers Council of Canada (“CCC”), and the Vulnerable Energy Consumers Coalition (“VECC”) filed comments on March 18, 2014 seeking an opportunity for further review of Enbridge’s application, including consideration of measures that could be taken to lessen the impact of the proposed rate increase.

The Board, in its letter dated March 21, 2014, made provision for parties to file written submissions as to whether the Board should consider measures to smooth the impact of the increase in the commodity price.

The Board issued its Decision and Interim Order on March 27, 2014. The Board approved the new utility price, which is the forecast price of natural gas to be used for the next quarter (April 1 to June 30, 2014)¹. This price is subject to change according to market expectations of future demand and is usually reset on a quarterly basis.

The Board also approved, on an interim basis, the disposition of the Purchased Gas Variance Account (the “PGVA”) over the standard 12-month disposition period. The 12-month disposition period is the time period used to either collect or refund the difference between the forecast cost of natural gas and the actual cost. The use of this account ensures that Enbridge does not make a profit on the sale of the natural gas commodity, and that the actual cost is passed through to customers without any mark-up. The disposition of the difference between actual and forecast costs over an extended period of time is intended to avoid sudden changes in the price paid by those customers who buy their gas directly from Enbridge. In this case, the actual cost over the last winter was much higher than the forecast cost, and the disposition of the PGVA over 12 months would represent an increase of about \$250 over a 12-month period for an average residential customer whose gas is supplied by Enbridge. Combined with the bill impact from the change in the projected cost of gas going forward, the total bill impact would be approximately \$400 per year. In light of this significant potential impact the Board decided to consider options for additional rate smoothing measures. Rate smoothing measures typically adjust the method and timing for the recovery of costs to lessen bill impacts for customers.

In Procedural Order No. 1 dated April 1, 2014, the Board made provision for further consideration of Enbridge’s ability to take measures to smooth rate impacts, and the consequences of those measures. Board staff, CCC and VECC filed additional

¹ The utility price referred to in the Decision and Interim Order dated March 27, 2014 was \$230.677/10³m³ and should have been \$230.667/10³m³. The Board in this decision is correcting this typographical error.

interrogatories and on April 16, 2014, Enbridge filed responses to all interrogatories. Submissions were received from Board staff, VECC, CCC, FRPO, IGUA, CME and Energy Probe Research Foundation (“Energy Probe”).

Board staff submitted that the public interest would be served by further smoothing out the effect that the past winter weather had on natural gas prices and therefore customer bills. Board staff argued that a 27-month disposition period (April 1, 2014 to June 30, 2016) for the PGVA would facilitate communication with customers and strike a reasonable balance between smoothing bill impacts and clearing the PGVA balance in a timely manner to minimize carrying charges and reduce any cross subsidization between past and future customers. VECC supported the recommendations of Board staff.

CCC submitted that in order to keep unit rates lower over the winter heating season when the bill impact would be greatest, the Board should not implement any mitigation until the November QRAM, at which time the Board should consider what mitigation plan is most appropriate. CCC also encouraged Enbridge to make greater efforts to communicate to customers if significant rate increases are anticipated.

CME, FRPO and IGUA took no position on rate smoothing measures. FRPO requested that the Board order Enbridge to provide evidence in its 2013 deferral accounts proceeding that addresses their gas supply planning and execution with actual numbers from this past winter. FRPO’s view is that the deferral accounts proceeding would be an effective forum to create understanding of Enbridge’s gas supply approach. CME later supported FRPO’s request.

Energy Probe submitted that the negative consequences of any smoothing proposal, such as intergenerational inequity, seasonal use inequity, discouraging conservation efforts and higher interest costs on PGVA balances are worse than any benefit that would be gained by smoothing the impact of rate increases for customers that purchase their gas from Enbridge. Energy Probe therefore submitted that no smoothing measures should be implemented at this time. However, Energy Probe suggested that the Board monitor gas costs through 2014 and require an early filing of Enbridge’s January 2015 QRAM to implement or adjust any mitigation plan. Energy Probe also recommended that Enbridge promote the benefits of the Budget Billing Plan and focus resources on the Low-Income Energy Assistance Program in anticipation of the expected cost increase this winter.

Over the course of the proceeding numerous letters of comment were received by the Board from consumers that purchase gas from Enbridge. The comments included expressions of outrage over the proposed rate increase, disagreement with Enbridge's purported need for the increase and dismay over the effect the increase will have on their household budgets.

The gas marketers Direct Energy Marketing Limited, Just Energy and Planet Energy Corporation filed letters of comment opposing any deviation from the standard QRAM methodology and argued that the Board should not mask the inherent volatility in natural gas prices by smoothing rates. They argued that rate smoothing measures would have a negative impact on competition in the natural gas commodity market, would provide consumers with inaccurate pricing information, and undermine the ability of consumers to make an informed decision on alternative gas supply options.

Enbridge filed its reply submission on April 28, 2014. Enbridge submitted that its view continues to be that the QRAM process should be mechanistic; it should reflect market prices; it should enhance price transparency; and it should look to achieve fairness and equity amongst all customer groups. Enbridge submitted that for these reasons, rate smoothing is not suitable for impacts stemming from a QRAM application. Enbridge also supported the arguments made by Energy Probe.

Enbridge noted that should the Board decide that rate smoothing is appropriate, it agrees with Board staff's recommendation that the period for the disposition of the PGVA balance should be effective with the July 1, 2014 QRAM, and extend until June 30, 2016. With respect to FRPO's request, Enbridge submitted that the request falls outside the scope of this QRAM proceeding, and Enbridge will respond to the transparency concern in Enbridge's EB-2012-0459 proceeding.

Board Findings

The Board's objectives with regard to the natural gas sector include the following:

- To facilitate competition in the sale of gas to users; and
- To protect the interests of consumers with respect to prices and the reliability and quality of gas service.

The QRAM is designed to adjust the price for regulated gas supply every quarter to reflect current natural gas market prices. Under the QRAM framework, Enbridge makes no profit on the gas commodity. The actual cost of the gas purchased by Enbridge for its customers is passed on to Enbridge's customers.

As the Board noted in its interim decision, there are two main features of the QRAM that the Board considers in establishing the regulated gas supply price that Enbridge can charge its customers.

1. The gas commodity price at the beginning of each quarter which is based on a 12-month forecast of gas commodity prices.
2. A gas price adjustment which is based on the difference between the forecasted and actual gas commodity prices paid over the previous quarter. This difference is generally refunded or collected from customers over a period of 12 months. The QRAM, by design, smooths bill impacts by spreading the difference between the forecast and actual cost over a 12 month period. If the actual cost of gas is lower than forecast, customers that buy their gas from Enbridge get a refund. If the actual cost of gas is higher than forecast, that difference is collected from customers that buy their gas from Enbridge.

The Board, in its interim decision, approved the new gas commodity price as of April 1, 2014. In this final decision the Board considers whether any additional measures should be taken to smooth the bill impact associated with the difference between the forecast and actual cost of gas this past winter.

The Board finds that spreading the impact of the recovery of the difference between the forecast and actual cost over an extended time period is warranted in this case to lessen the bill impact for customers that buy their gas from Enbridge.

As mentioned above, numerous letters were received by the Board from customers that purchase system gas from Enbridge. They contained strongly stated sentiments of dissatisfaction with the proposed rate increase, complaints with respect to fairness of Enbridge being able to collect increased rates and serious concern over the effect the increase will have on their household budgets.

In consideration of the comments received pertaining to Enbridge's purported need for the increase, the Board notes the following.

The market for natural gas is continental in scope and the price for natural gas is affected by changing supply and demand dynamics across North America.

The market for natural gas in Ontario is competitive. Enbridge is a natural gas distributor not a natural gas marketer. As a natural gas distributor, Enbridge purchases gas on behalf of customers in its service area that do not have their gas supplied by a natural gas marketer. This gas is generally known as the regulated gas supply or system gas or the default supply in that it is the default method by which gas is provided to customers that have not chosen to purchase through a commercial offering from a marketer.

As a natural gas distributor, Enbridge is not allowed to profit from the purchase and sale of the natural gas commodity. Enbridge's business is the distribution of the gas. It gets paid to build and maintain the pipes and equipment required to deliver all gas used in its service areas.

Enbridge purchases this default supply gas through a combination of fixed contracts and spot market purchases in accordance with an approved gas supply plan. The plan is based on the amount of gas that would be expected to be needed to address the normal range of demand. The extremely cold temperatures experienced this past winter had a dramatic impact on the North American demand for natural gas and the market price for gas rose accordingly. Enbridge purchased more of its gas at spot market prices than would be expected in more typical winter periods.

In response to the comments received with respect to the effect the increase will have on their household budgets the Board has determined, as stated above, that spreading the impact of the rate increase over an extended time period is warranted to lessen the bill impact for customers that buy their gas from Enbridge.

As noted above, Direct Energy Marketing Limited, Just Energy and Planet Energy Corporation argued that any measures taken to lessen bill impacts would have a negative impact on competition in the natural gas commodity market, would provide consumers with inaccurate pricing information, and undermine the ability of consumers to make an informed decision on alternative gas supply options.

The QRAM process is designed to strike an appropriate balance between providing consumers with market pricing signals and protecting those same consumers from rate volatility by smoothing rate impacts over time. The standard 12-month smoothing period used in the QRAM already has the effect of dampening market price signals. The QRAM inherently has an effect on competition and reduces the accuracy of pricing information by spreading the impacts of price changes over a 12-month period. These are considered to be acceptable negative consequences in light of the equally important desire to provide a level of protection to system supply consumers by smoothing rate change impacts over time.

The balancing of these two competing QRAM features in this case requires a consideration of the effectiveness of the standard 12-month smoothing period. Given the magnitude of the current increase, the Board considers the standard 12-month smoothing period inadequate to provide the appropriate balance between the competing objectives that the QRAM is designed to achieve.

The Board will provide the appropriate level of consumer protection from the impacts of the sharp increase in price by lengthening the normal 12-month smoothing period by an additional 15 months. The Board is of the view that the magnitude of the increase that will be incurred by customers over a 27-month smoothing period strikes the appropriate balance between transparency of market prices and consumer protection from rate shock.

The Board considers this option to be the best of those considered due to its relative ease of implementation and the fact that it provides some certainty by determining the manner and time frame of the smoothing measure now rather than at a later date. The projected and estimated total bill impact of \$400 per year (based on current market forecasts) is reduced to approximately \$275 per year (based on the same assumptions) as a result of this additional smoothing measure.

The Board acknowledges CCC and Energy Probe's submissions urging ongoing monitoring and earlier communication to customers should there be a material difference in prices increasing or decreasing. The Board has determined that it will commence a process to consider alternatives to the current QRAM protocols associated with the dissemination of information, timing and underlying drivers of the QRAM. Further direction on this matter will be issued prior to the commencement of the next QRAM process.

The Board acknowledges FRPO's request for Enbridge to provide evidence in its 2013 deferral accounts proceeding that addresses their gas supply planning and execution with actual numbers from this past winter and notes that FRPO has the option of making that request in that proceeding.

Implementation

The Board directs Enbridge to recalculate the PGVA unit rates (contained in Rider C) to give effect to further smoothing as part of its July 1, 2014 QRAM application. The March 31, 2014 PGVA balance should be reduced by the amount expected to be collected from customers from April 1, 2014 to June 30, 2014 based on the interim April 1, 2014 PGVA unit rates. The resulting amounts shall be recovered over the next 24-month period (i.e. from July 1, 2014 to June 30, 2016).

THE BOARD ORDERS THAT:

1. Enbridge shall recalculate the PGVA unit rates approved on an interim basis effective April 1, 2014 to give effect to further smoothing approved in this Decision and Order. Enbridge shall file the recalculated unit rates contained in Rider C as part of its July 1, 2014 QRAM application. The Board confirms that the correct utility price to be used in determining amounts to be recorded in the second quarter of the Test Year 2014 PGVA shall be \$230.667/10³m³.
2. A decision regarding cost awards will be issued at a later date. Parties eligible for a cost award shall submit their cost claims by June 4, 2014. A copy of the cost claim must be filed with the Board and a copy is to be served on Enbridge. Cost claims must be prepared in accordance with the Board's *Practice Direction on Cost Awards*.
3. Enbridge will have until June 11, 2014 to object to any aspect of the cost claims. A copy of the objection must be filed with the Board and one copy must be served on the party against whose claim the objection is being made.
4. Any party whose cost claim was objected to will have until June 18, 2014 to make a reply submission as to why their cost claim should be allowed. One copy

of the submission must be filed with the Board and one copy is to be served on Enbridge.

All filings with the Board must quote the file number EB-2014-0039, and be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca.

DATED at Toronto, May 22, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary