ONTARIO ENERGY BOARD | COMMISSION DE L'ÉNERGIE DE L'ONTARIO

BACKGROUNDER

December 20, 2018

Ontario natural gas prices are changing

Natural gas customers across Ontario will see changes on their bills over the next three months beginning January 1, 2019.

The changes relate in part to the quarterly adjustment for the market price of the natural gas commodity – known as the Quarterly Rate Adjustment Mechanism (QRAM) for customers of Ontario's rate-regulated natural gas utilities: Enbridge Gas Distribution, Union Gas and EPCOR. The Ontario Energy Board (OEB) does not allow utilities in the province to earn a profit on the sale of gas. They must pass through the price they pay to buy natural gas on the open market to their customers with no markup.

For Union Gas customers in the North West and North East zones, the changes also relate to transportation and storage prices. For EPCOR customers, the changes also include an increase in the rates that EPCOR can charge for delivering natural gas to its customers. Those delivery rate changes were approved by the OEB earlier this month and also take effect January 1, 2019.

The adjustments described above result in the following changes for a residential customer using the typical* amount of natural gas each year relative to rates in effect as of December 31, 2018:

- $4.51/month (+6.2%) on average for Enbridge Gas Distribution customers
- $4.55/month (+7.7%) on average for Union Gas-South customers
- $4.43/month (+5.4%) on average for Union Gas-North East customers
- $5.90/month (+8.4%) on average for Union Gas-North West customers
- $3.17/month (+4.6%) on average for EPCOR customers

*** The Typical Residential Customer**
Annual usage for a typical residential customer is 2,400 m^3 for Enbridge, 2,200 m^3 for Union Gas and 2,009 m^3 for EPCOR.

The bill impact for individual customers will vary depending on how much natural gas they use.

About the QRAM
Natural gas is a commodity traded on North American markets. Market prices rise and fall based on current supply and demand. Major weather events can also affect the market price.

Every three months, natural gas utilities ask the OEB to adjust their commodity rates to cover:

• ***Future costs***. Utilities estimate the market price for natural gas over the next 12-month period.

• ***Past costs.*** Utilities also review the difference between what they previously forecast their customers would pay and what their customers actually paid. This "true up" may be called the *Gas Price Adjustment* or *Cost Adjustment* on the 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.

Because forecasting is done in advance of when utilities actually purchase natural gas, it is never exact. Utilities apply to the OEB for adjustments to be made to their commodity rates so that rates track more closely with market prices.

Reasons for Commodity Rate Changes
The increase in commodity rates is due to an increase in the forecast price of natural gas, as well as an increase to account for differences between past forecast gas prices and actual costs. The increase in the forecast price of natural gas is driven by a number of factors, including a capacity bottleneck in Alberta and a colder than normal weather forecast for the coming months resulting in higher demand for natural gas.

Cap and Trade

The increases in the forecast cost of the natural gas commodity is driven by a number of factors including colder than normal weather forecast over the coming months resulting in higher demand for natural gas, along with making up for the differences in past forecast gas prices relative to the actual costs.

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