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Backgrounder on Natural Gas Prices, the Ontario Energy Board & the Quarterly Rate Adjustment Mechanism

The cost of gas that residential consumers buy from distributors such as Enbridge Gas Distribution Inc., Union Gas Ltd. and Natural Resource Gas Ltd. is ultimately set by the marketplace, as it is for other commodities. But in order to reduce the impact of price fluctuations, the Ontario Energy Board, which regulates the natural gas sector in the province, sets and resets the rates based on independent forecasts every three months. When there is a gap between the forecast and actual price for natural gas, the rate gets an additional adjustment - up or down, accordingly.

Those two components (actual market prices and forecasts) determine the rate that is adjusted every January 1, April 1, July 1 and October 1, after the Board reviews the utility's application:

- First in order to reset the rates every three months the Board uses a 21-day average of the 12-month New York Mercantile Exchange ("NYMEX") future Prices.
- Then the Board considers the difference between the forecast and actual cost of gas over the previous three months. If the rates were either too high or too low in comparison to the actual cost of gas purchased by distributors for consumers during the time in which those rates were set, the difference is refunded to or collected from customers.

For the April 1st adjustment involving Enbridge, the increase was based on two factors:

- *the forecast cost of natural gas commodity prices going forward accounts for about $150 annually;*
- *and the difference between last quarter's forecast natural gas commodity costs and the actual costs accounts for the remaining $250.*

The "Quarterly Rate Adjustment Mechanism" used by the Board allows the utility to recoup its supply costs (without any mark-up) while also protecting consumers from the volatility of constantly fluctuating market prices:

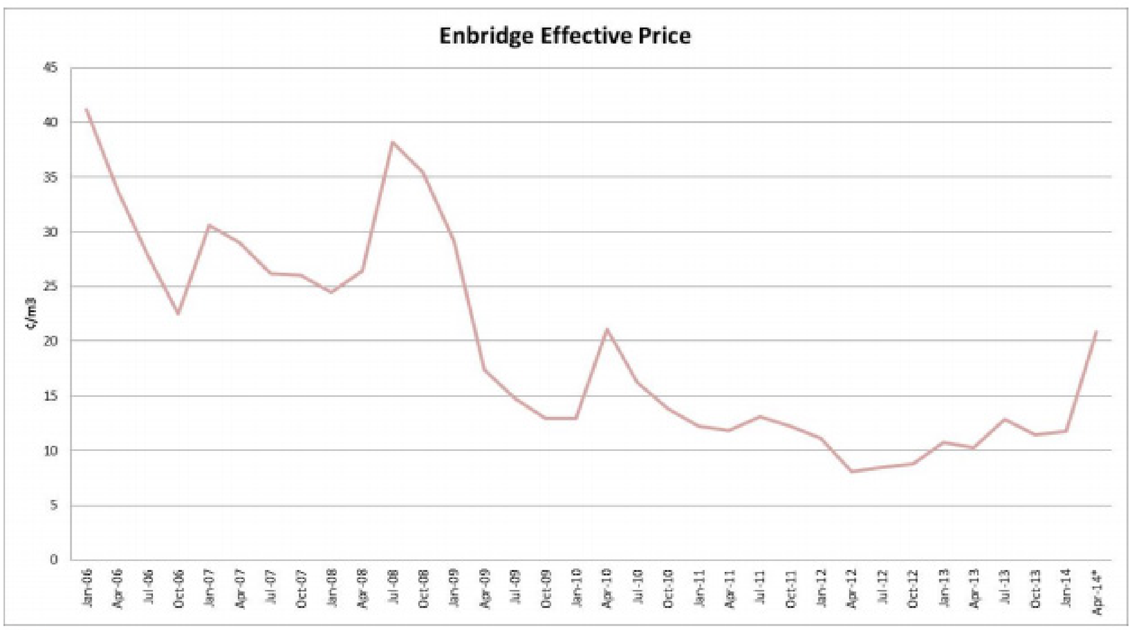
1) This mechanism helps to reduce large adjustments on customers' bills. If the actual cost turns out to be higher than forecast and additional costs need to be collected from customers that buy their gas from the distributor, the Board ensures that the difference is not collected from the consumer

all at once in the next quarter or bill, but spread out over a period of 12 months.

2) At the same time, distributors have a responsibility to prudently manage gas purchases on behalf of their customers. This approach includes buying gas in the summer when prices are usually lower and using these reserves from storage when colder months when demand (and market prices) is usually higher.

Over the past eight years, and particularly since 2009, many consumers who bought natural gas from their utility have benefitted from decreases in natural gas commodity prices. Reductions in the market price of natural gas have been passed on to consumers through the Board's regular adjustments of the price to be charged by gas distributors.

The natural gas commodity rates approved by the Board for Enbridge since January 2006 are illustrated in the graph below. Rates have declined from over 40 cents per cubic metre to less than 10 cents before rising based on the last rate adjustment decision. As prices fell, the difference between forecasts and actual prices resulted in a credit to consumer bills for most adjustments during this period.



*Interim

More Information

- Questions and Answers about the Enbridge Decision – File EB-2014-0039