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BY EMAIL

June 5, 2020

Mr. Mark Kitchen
Director Regulatory Affairs
50 Keil Drive N.
Chatham ON N7M 5M1
EGIRegulatoryProceedings@enbridge.com

Dear Mr. Kitchen:

**Re: Enbridge Gas Inc. July 1, 2020 QRAM:
Notice of Commodity Cost Increase and Request to Forego QRAM
Application (EB-2020-0144)**

In accordance with the Ontario Energy Board's (OEB) decision in the EB-2014-0199 proceeding, rate regulated natural gas distributors (distributors) are required, one month in advance of filing a Quarterly Rate Adjustment Mechanism (QRAM) application, to complete a preliminary estimate of the change in the commodity portion of the bill for a typical residential customer that purchases its gas from the distributor. If the preliminary estimate shows a 25% increase (or decrease) on the commodity portion of the bill, distributors must file a letter with the OEB as soon as possible (and no later than 14 days before the filing date of the QRAM application) notifying the OEB of the anticipated change and the cost drivers underpinning that change.

In a letter dated May 25, 2020, Enbridge Gas Inc. (Enbridge Gas) informed the OEB that based on preliminary estimates, it anticipates that the change in the commodity portion of the bill will be an increase in excess of 25% for a typical residential customer in one of its rate zones¹.

¹ Based on preliminary estimates completed in May, Enbridge Gas anticipates an increase of 27% to the commodity portion of residential system gas customers' bills in the EGD rate zone. In the Union rate zones, Enbridge Gas estimates commodity portion increases for residential system gas customers of 22%, 18% and 20% in the Union South, Union North West and Union North East rate zones, respectively. With respect to total annual bill impacts, Enbridge Gas estimates an increase of approximately \$53 (7%) in the EGD rate zone, \$52 (7%) in Union South, \$35 (4%) in Union North West and \$51 (5%) in Union North East.

Enbridge Gas explained that the drivers for the increase in natural gas commodity costs include several factors. First, gas prices in the last quarter hit historic lows in some supply basins as a result of record levels of gas production in North America, a warmer-than-normal winter and higher than normal storage inventory levels. Despite natural gas prices remaining low relative to historical averages, the increase in commodity prices from April 1, 2020 to July 1, 2020 is significant when presented on a percentage basis. Second, as a result of the COVID-19 pandemic and associated reductions in economic activity, the U.S. Energy Information Administration forecasts significant declines in North American natural gas production as low prices discourage producers from engaging in drilling activity, particularly in the Appalachian region in the U.S. Northeast. In the Permian basin, where natural gas production is often a by-product of oil production, low oil prices have driven decreased oil production, leading to commensurate reductions in natural gas production. In aggregate, these reductions in natural gas production have led to higher forecast prices, particularly in late 2020 and early 2021.

As a result of the ongoing COVID-19 pandemic, Enbridge Gas proposes foregoing its July 1, 2020 QRAM application in accordance with the OEB's requirement that natural gas distributors bring forward a rate mitigation plan in the face of significant forecast commodity cost increases. Enbridge Gas proposes to hold rates normally changed through the QRAM constant until its October 1, 2020 QRAM application. Enbridge Gas notes that discontinuing the July 1, 2020 QRAM will not ultimately absolve customers of gas costs incurred, as Enbridge Gas expects these increased gas costs to persist through its October 1, 2020 QRAM application when recovery will be sought. Enbridge Gas is hopeful that Ontario will have entered a state of economic recovery by October 1, 2020 and will be better equipped to manage the increased gas costs the company incurs on behalf of its customers.

CME, SEC and IGUA submitted that the OEB requires a full QRAM application and proceeding in order to have sufficient evidence to assess Enbridge Gas's proposal.

In its response letter, Enbridge Gas stated that a full QRAM application provides the evidence necessary for the OEB to approve new rates which are just and reasonable, which is not what Enbridge Gas is explicitly asking the OEB to approve. Detailed information regarding rate changes that Enbridge Gas is not applying for would not assist the OEB in assessing this matter. Enbridge Gas further explained that the relatively small difference between the OEB-approved April 2020 QRAM Purchase Gas Variance Account (PGVA) reference price and forecast prices would not result in a material PGVA balance accumulating in Q3 of 2020. The forecast gas price increases that drive a material increase in the commodity portion of typical residential system gas customers bills are not forecast until late 2020 and early 2021.

The OEB agrees with Enbridge Gas that the issue before the OEB is whether or not customers, in the midst of the COVID-19 emergency, can accommodate bill increases in the order of \$35 to \$53 annually. A full and extensive evidentiary base that would otherwise be included in a QRAM application will not aid the OEB in this assessment.

While the OEB agrees with IGUA and other parties that the quarterly QRAM decision is in the normal course an evidence-based examination of relevant commodity costs (both actual and forecast), it acknowledges that special circumstances exist in this instance that require a different approach. The use of the annualized commodity forecast required for the July 1 Enbridge Gas' QRAM application, without mitigation, will result in significant increased rates based upon forecast commodity costs.

In light of the severe economic pressures caused by the COVID-19 pandemic, the OEB finds that it would be prudent to dispense with Enbridge's July 1, QRAM application. Enbridge's current commodity rates and references prices will stay in place until that time. The next QRAM application will be for rates effective October 1, 2020. Enbridge Gas's proposal is consistent with measures adopted by many electricity distributors in Ontario to postpone distribution rate increases in light of the COVID-19 pandemic. The OEB expects Enbridge Gas to provide a mitigation plan with its October 2020 QRAM filing if commodity prices once again trigger the commodity threshold, and/or if total bill impacts are material enough to require mitigation².

Cost eligible intervenors are instructed to file any claims associated with this matter for consideration by the OEB as part of Enbridge Gas' October 2020 QRAM.

Yours truly,

Original Signed By

Christine E. Long
Registrar and Board Secretary

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All Interested Parties EB-2008-0106, EB-2018-0305 & EB-2019-0194

² EB-2014-0199