

**GAS MARKETER GROUP (GMG) (DIRECT ENERGY MARKETING LIMITED,
ONTARIO ENERGY SAVINGS L.P., and
SUPERIOR ENERGY MANAGEMENT GAS L.P.)**

**Information Request Responses to Federation of Rental-housing Providers of Ontario (FRPO) re:
Commodity Pricing, Load Balancing, and Cost Allocation Methodologies for Natural Gas Distributors**

FRPO Interrogatory #1

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 19, 23-25

"Intergenerational riders and multi-generational riders."

In several locations, the evidence refers to riders in terms of generations.

- a. Please define the length of time that the evidence is referring to in terms of months or years.
- b. By data available from the respective companies in the Gas Marketer Group on customer mobility, what percentage of Ontario consumers would be affected directly by switching between direct purchase and system gas during the defined term of generation.

Response:

- a. The GMG views multi/ intergenerational riders as those riders that are not cleared within the same pricing period. These multigenerational riders are extended by triggers that delay the clearing of gas variance accounts when the trigger threshold is not pierced.
- b. The information requested by FRPO would require the members of the GMG to share information of a competitive nature, and as such the GMG respectfully declines to respond.

FRPO Interrogatory #2

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 4

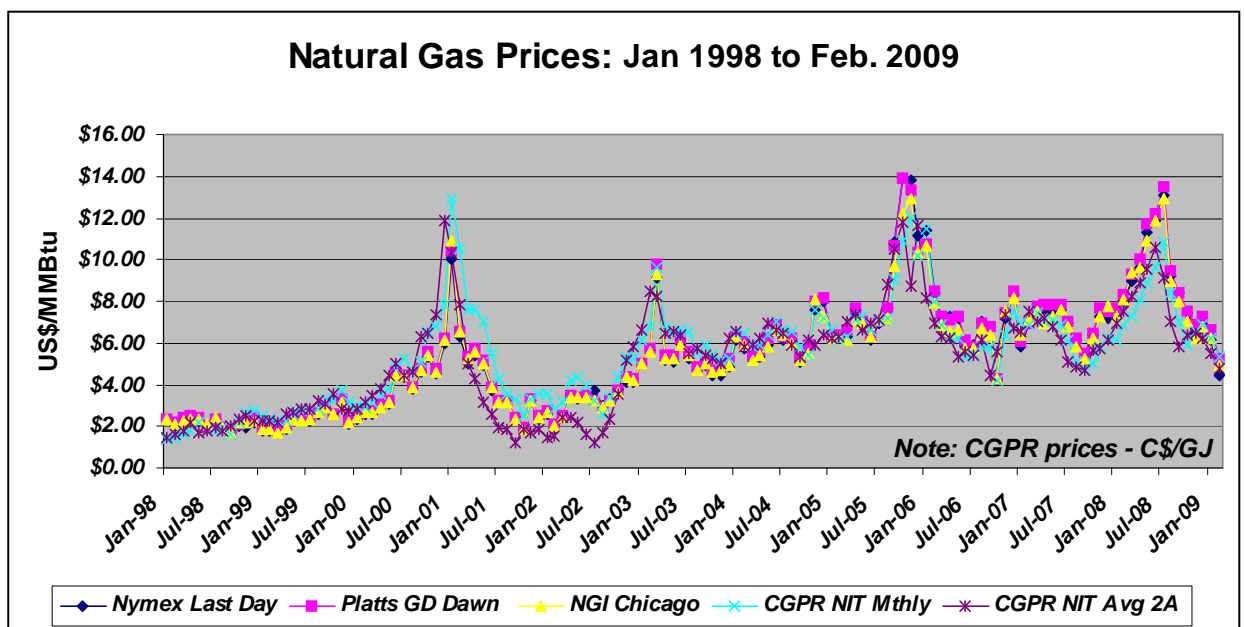
"Furthermore if the long term forecast is for higher prices, but market conditions change such that prices actually decrease, then utilities may have purchased gas for injection and storage at higher prices than prevailing market rates. This can be seen in the difference between the July 2008 twelve month outlook and the December 2008 twelve month outlook. The GMG submits that quarterly rate setting in conjunction with twelve month forecasting leads to the distortion of pricing signals."

The Gas Marketers Group has chosen to analyze the effects of a twelve month outlook with recent history.

- Please provide any other historic summer to winter, 6-month interval that experienced the same level of proportional decrease in outlook pricing as the period referenced above.
- Please provide the number of summer to winter 6-month intervals that experienced at least 50% of the proportional decrease as the referenced period.

Response:

- The following is a graphical example of the settled prices dating back to April 1998. Please note that the prices shown are estimated settlements as industry protocols have evolved over the years and some contractual settlements may vary slightly.



The GMG recognize that the price movements during 2008 were extraordinary with regards the magnitude of the movements. The key element suggested by the GMG in this passage is the distortion of price signals (up or down). The traditional Gas Industry summer (injection) period runs April thru October with the winter (withdrawal) period running November thru March. Therefore the numbers presented reflect the 7 month injection period compared against the subsequent 5 month withdrawal period.

Based on this data:

- There were 3 winter events where the winter price settlements was below the summer price.
- 6 of the 11 years the price settlements difference between summer and winter pricing was had an absolute value of 18 % or higher.
- 7 of the 11 years, the NYMEX marker price summer price was within \$1 of the average of the winter price.

b. Please see the response to a. above.

FRPO Interrogatory #3

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 6

"The summer-winter spread, as shown by NYMEX (or any liquid hub), is the notional premium put on winter supply due to heating demand. This "value" spread is typically a reflection of the notional (or expected) cost of the gas storage service plus an appropriate carrying cost. Another way to look at this is that an end user should only expect to "pay" the winter premium if they do NOT have access to (or have not purchased) gas storage services. The current practice is to include the storage and balancing costs as a distribution charge."

Winter Premiums in Gas Costs and Rates

- a. Is it the experience of the representative companies that the multi-year gas contracts purchased by their organizations contain a blended price of the months included which has an embedded supply-demand seasonal variation with a premium price for winter months?
- b. In the Ontario market, since customers pay for their storage needed to balance increased winter demand relative to the constant daily deliveries of a bundled contract as part of their distribution charge, is it the practice of these organizations to remove the winter premium embedded in long-term contracts? Who pays for that premium?

Response:

- a. Yes. However the ratable delivery profile of Western and Ontario T Service offsets the summer winter premium. Should the required purchased volumes be shaped to normalized consumption the winter premium would be reflected in the price. Clearly given the market area nature of the Ontario marketplace, storage services are necessary to shape the load.
- b. The GMG acknowledges that under the current system rules, customers pay for their seasonal storage under the distribution portion of their rates, as this is typically a bundled service. Should the service offerings change, (i.e. Unbundled) then one could consider it as part of the Ontario delivered commodity portion, or as a separate line item on customer bills.

FRPO Interrogatory #4

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 10

"Once the reference price is set using the approved index source, these index estimates would then have to be adjusted by the appropriate transportation costs estimates to get a fair approximation of the delivered commodity cost for the utility customers. Following this, any intra-month PGVA balances along with any pre-approved costs and deferral account balances would be added to the reference price to determine the Effective Rate for customers by rate class."

Effective Rate by Rate Class

- a. In this proposition, what rate classes would see a variation in their Effective Rate from the Effective Rate available to an end-use residential customer?
- b. Does this proposition essentially recommend that the utility provides a different system gas rate to different rate classes? If so, how would that affect the regulatory burden associated with a periodic rate establishment process?

Response:

- a. While rate classes would have an identical effective rate or an identical adjustment to the existing rate in the above noted scenario, slight variances can occur as a result of the rate class subscribed to. For example, in Enbridge's 2008 Q4, QRAM Application (EB-2008-0263), the "Gas Supply Commodity – System" rate change in cents per m³ was (5.2570) for Rates 1 through 115, but was (5.2569) for Rates 135 (Seasonal Firm) and 145 (Interruptible Service).
- b. No, the above noted passage does not recommend utilities provide different system gas rates to different system rate classes.

FRPO Interrogatory #5

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 10, 15-20

Comparison with the Gas Cost Flow-Through Rate (GCFR) for Ontario consideration

- a. Please provide the number of North American supply basins that Direct Energy Regulated Services (DERS) accesses to provide gas to the Alberta default supply program.
- b. Please provide the number of North American supply basins that feed Ontario in the experience of the Gas Marketer Group companies.
- c. Please provide the number of pipeline systems that Direct Energy Regulated Services (DERS) accesses to provide gas to the Alberta default supply program.
- d. Please provide the number of pipeline systems that feed Ontario in the experience of the Gas Marketer Group companies.
- e. From the answers to the above questions, in the opinion of the Gas Marketer Group, is work effort in Table 9 easily extrapolated to the Ontario gas market?
- f. Given the Gas Marketers' Group proposed Effective Rate methodology, how would Table 9 be revised to account for the additional points of supply and pipelines to the Ontario market?

Response:

- a. DERS gas is procured from one North American supply basin.
- b. It appears from Union Gas' response to VECC in Exhibit IR23.1 (c) that Ontario is supplied by three supply basins. The vast majority remains sourced in Western Canada and delivered via TCPL, Great Lakes, Alliance, and Vector. Additional supply source could also be the US midcontinent production for Chicago/Vector, and the U.S. Gulf Coast.
- c. DERS accesses three pipeline systems to provide gas to the Alberta default supply program.
- d. GMG understands that six pipeline systems feed the Ontario gas market.
- e. Yes, the work effort in Table 9 can be extrapolated to the Ontario gas market.
- f. The GMG believes that there would be a small amount of incremental resource required for rate filing given the increased number of supply basins and pipelines. This should not be an onerous amount of incremental effort, given that distributors are actively evaluating these markets during daily operations. The incremental effort would be narrowed to increased reporting requirements.

FRPO Interrogatory #6

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 26

Carrying costs of gas in inventory, and related costs should be recovered through a distribution (or storage) rate rider on legacy assets. This rider should be applied to all consumers, regardless of supplier or supply type.

Carrying Cost of Inventory

- a. For clarity, is the Gas Marketers' Group proposing that the carrying cost of system gas inventory be recovered from all consumers? If so, would that not create an inherent issue of cross-subsidization?

Response:

No. The carrying costs of system gas inventory should be recovered from system customers. For clarity, gas required for load balancing should be recovered from all consumers.

FRPO Interrogatory #7

Interrogatory:

Ref: Gas Marketer Group Evidence Submission (Exhibit E8, E14, E19) pg. 26

"To allow for the further development of the retail market in Ontario, and to align regulated gas prices more accurately with market rates, transparent regulated rates that are set on a monthly rather than quarterly basis would help to prevent the significant swings that can occur from quarter to quarter. Customers would also be equipped with the proper price signals that would allow them to manage their consumption and conservation efforts accordingly."

Customer Behaviour Relative to more Frequent Price Changes

- a. Please provide the studies or research on natural gas consumers that demonstrates customers will use the more frequent price signals yielded from monthly rate changes to adjust their consumption pattern and/or conservation efforts.

Response:

- a. Please see the response to Board Staff Interrogatory #1, Exhibit IR24, page 1.