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

**Information Request Responses to Vulnerable Energy Consumers' Coalition (VECC) re: Commodity Pricing, Load Balancing, and Cost Allocation Methodologies for Natural Gas Distributors**

## VECC Interrogatory #1

**Interrogatory:**

Reference: GMG Evidence page 24, responses to Board questions 3.1 and 3.2.

Preamble: In the response to Board question 3.1 GMG says that a single Ontario-wide reference price should be implemented. However, in the response to Board question 3.2 GMG indicates that "it is unable to propose implementation of a single Ontario-wide reference price in the absence of unbundling of storage and transportation, which had been removed from the scope of this hearing".

Requests:

a. Is GMG suggesting that while a single Ontario-wide reference price would be desirable, it is not recommending the implementation of such a reference price in this proceeding? Please explain the apparent inconsistency between the responses to Board questions 3.1 and 3.2. and indicate clearly what steps GMG believes the Board should take in this proceeding in relation to establishing a single Ontario-wide reference price.

b. Under GMG's proposal for the calculation of a reference price would each of the utilities have a different reference price? Why would they be different?

c. In the response to Board question 3.1. GMG indicates that a single Ontario-wide reference price "could better reflect the increasingly diverse sources of diverse supply sources such as LNG and Arctic Gas." Please explain how a single reference price would "better reflect" diverse supply sources, as opposed to utility-specific reference prices that would reflect the actual mix of supply sources that each utility utilizes.

d. Please explain (i) what "unbundling of storage and transportation", beyond the level of unbundling that is already available to customers under the Utilities' tariffs, is contemplated in this reference, and (ii) how that unbundling is relevant to the issue of whether a single Ontario-wide reference price is adopted.

**Response:**

a. No. GMG is recommending the implementation of a single Ontario-wide reference price. The principal of the Ontario-wide reference price would be to create a price that reflects local supply and demand conditions in Ontario. The reference price could be used by Ontario customers as a tool to compare the prices they are being offered in the marketplace and could also be used to drive consumption behaviour. This would be useful because an index price located in another province or state has less relevance to end-use customers in Ontario. For this reference price to be a meaningful and accurate depiction of the market, it would be calculated for the prompt month, and include estimates of all the cost elements of transportation and storage for the upcoming month.

For a reference price to be as accurate as possible, it should be based as much as possible on market prices, rather than arbitrary forecasts. A market can only exist where there is open trading of a commodity. In the case of transportation, a well-traded and liquid market for interprovincial pipeline capacity exists. However, the market for intraprovincial capacity is limited. Union Gas allocates intraprovincial capacity through its vertical slice methodology, which provides market participants with some intraprovincial assets, but Enbridge does not. This creates an inconsistency in the availability of the intraprovincial capacity that is necessary to manage deliveries and load balancing within the province. It inhibits the operation of an open market that could determine accurate pricing for intraprovincial capacity and hinders the calculation of an Ontario-wide reference price.

Another necessary constituent element of what would be an Ontario-wide reference price is storage. Storage is not freely traded within the province, and is not generally allocated to marketers, (with the exception of the Union storage which is vertically sliced to Direct Energy), so remains largely inscrutable in terms of how it is managed and priced. It is not traded freely or openly. This is another impediment to calculating a meaningful Ontario-wide reference price.

In Section 3.2, GMG notes that this proceeding has been limited in scope to exclude the unbundling of storage and transportation. In the absence of that unbundling, while GMG supports the notion of an Ontario-wide reference price, the limitations inherent in creating a truly market price reflective reference price without storage and transportation unbundling are noted.

b. GMG is proposing a single reference price for Ontario. The concept of an Ontario-wide reference price is aimed at trying to give customers a price which allows them to compare various offers in the marketplace, calculated as described in (a) above. It would be more "Ontario specific" than an index price located in another province or state.

c. An Ontario-wide reference price would be more reflective of the supply mix, including the choice of pipelines, the production zones, and storage options that Ontario distributors face than any currently available index price.

d. Please see the response to a. above.

**VECC Interrogatory #2**

**Interrogatory:**

Reference: GMG Evidence, pages 9-10 and following.

Preamble: In the referenced section of its evidence, GMG appears to propose that the "effective rate" charged to sales customers for gas supply be set on a monthly basis at a level equal to bid week or published indices for monthly supply at some upstream point or points, adjusted for transportation costs to the utility city-gate, plus minor adjustments like the system supply fee. VECC requires clarification of the GMG proposal.

Requests:

a. Is GMG suggesting that the monthly gas commodity rate be determined for both Enbridge and Union on the basis of the methodology that is used by Direct Energy Regulated Services to determine a monthly Alberta price, as described in point 2 at page 15, plus transportation to Ontario city-gates?

b. Please confirm that (i) the Alberta price generated by DERS for the purpose of providing regulated sales service to customers on the ATCO Gas system in Alberta is for delivery at AECO/NIT, rather than Empress, and (ii) the Alberta price generated by DERS is calculated by DERS itself on the basis of daily pricing data from NGX, and that no published monthly AECO/NIT index is relied upon.

c. Alternatively to the mechanism described in (a), would the proposed monthly gas commodity charge be derived on the basis of the average delivered cost of each utility's actual supply portfolio, including Alberta volumes purchased at AECO/NIT or Empress and transported on the TransCanada Mainline system, volumes transported from gas plants in Alberta via Alliance/Vector, gas purchased in Chicago and transported via Vector, volumes purchased at Dawn, etc.?

d. Alternatively, would the proposed monthly gas commodity charge be derived on the basis of monthly index prices for deliveries at Dawn, or some combination of Dawn and other utility city-gates?

e. Please discuss in detail the rationale for the choice of whichever of the mechanisms described in (a), (c), and (d) is being proposed by GMG. If GMG's actual proposal differs from all of those, please describe the actual proposal in detail and explain the rationale for it.

f. If the proposal is that the gas commodity charge to sales customers be based on an Alberta monthly price plus transportation via NGTL and TCPL, how would variances between that delivered cost and the delivered cost of the utilities' actual supply portfolios be treated? Please discuss, with reference to the choice between allocating all of that variance to sales customers (so that ultimately sales customers pay the portfolio price anyway) versus allocating that variance to a broader base of customers as a "balancing" cost, as is done by Enbridge. (For background, see VECC/Union-1, VECC-EGD-1, the evidentiary passages referred to therein, and the responses of Union and EGD to those questions.)

**Response:**

a. The GMG offers the GCFR calculation method adjusted for transportation and storage, as one option for consideration in this proceeding. The Alberta example is cited to illustrate some of the mechanics that could be used with regards to establishing the price based on timely market data. Given the "market area" nature of the Ontario gas market (little in-province production), the pricing impacts of transportation and storage requirements must be taken into account.

b.

(i) Not confirmed. The price generated is for delivery at the ATCO Gas (distributor) city gate.

(ii) The AECO/NIT pricing data reported for the prompt month, as reported by NGX, is used as the best estimate of gas costs for the pending flow month.

c. All of the options listed would be an acceptable means of determining the monthly gas commodity charge. The actual option derived should be determined by this proceeding and used as the publicly available starting point for the calculation of the utility commodity rates.

d. Please see response to c. above.

e. As noted in c. above, any of the approaches described above would be reasonable and workable. The goal is to have a consistent and transparent method that can be easily understood by all parties.

f. Please see the response in c. above. The GMG is not suggesting an Alberta monthly price plus transportation via NGTL and TCPL as a preferred proposal.

**VECC Interrogatory #3**

**Interrogatory:**

Reference: GMG Evidence page 15 – description of DERS methodology for determining regulated default supply prices in Alberta.

Preamble: GMG describes the rate-making approach used by DERS in Alberta for the purpose of providing sales service, and appears to suggest that a similar approach would be appropriate for the Ontario utilities.

Requests:

a. Please confirm that DERS does not utilize storage for the purpose of providing regulated sales service to customers in Alberta. If not confirmed, please indicate how much storage capacity DERS utilizes, DERS's total annual load, and how the costs of that storage are recovered from sales customers.

b. Please confirm that all of the gas delivered by DERS to sales customers in Alberta in any month is acquired by DERS in that month. If not confirmed, please explain, and indicated the approximate percentage of DERS's annual load that is acquired in a month other than the month it is delivered to customers.

**Response:**

a. Confirmed.

b. Confirmed. Note DERS does have some term Monthly Index baseload supply deals in place but the physical delivery is daily.

**VECC Interrogatory #4**

**Interrogatory:**

Reference: GMG Evidence, page 9 and following – monthly pricing proposal.

Preamble: GMG appears to suggest that the gas commodity rates charged to sales customers should reflect monthly prices for gas in one or more supply areas remote from Ontario. VECC requires clarification of how such a mechanism would operate where, as in Ontario, the utility makes extensive use of market-area storage.

Requests:

a. Does GMG agree (i) that both Union and Enbridge utilize storage in the course of their operations, (ii) that because of their extensive use of storage both Union and Enbridge utilize their upstream pipeline transportation entitlements on the TransCanada Mainline, Alliance, Vector, and other pipelines at essentially a 100% load factor, and (iii) that gas volumes delivered by both utilities to their sales customers during the winter period consist of a mixture of volumes purchased at monthly prices in Alberta and other producing areas during that winter period and volumes withdrawn from storage, where the volumes withdrawn from storage were purchased at monthly prices during the preceding summer injection period? If GMG disputes any of these propositions, please explain in what way the proposition is wrong and GMG's basis for reaching that conclusion.

b. Please confirm that the long run market expectation, as shown by the illustrative forward curve shown in Figure 2 at page 6 of the GMG evidence, is that monthly prices during the winter period in supply areas will be higher than monthly prices in the preceding summer period, so that the market's general expectation is that the purchase cost of gas withdrawn from storage during any winter period will be lower than the prevailing monthly market price during that winter period. If not confirmed, please explain.

c. Please provide a narrative description of how, under GMG's proposal, the cost of gas purchased during the summer period and stored by the utilities will be reflected in the gas commodity rates charged to sales customers.

**Response:**

a. Agreed.

b. As discussed on page 6 of the GMG evidence, the normal "shape" of the natural gas forward curve suggests a winter premium, notionally to identify the value of storage. These are examples of time periods where the WACOG of storage gas is above the Cash market alternative and other time periods, such as the winter of 08-09, where it is below the Cash market alternative.

c. Please see the GMG response to BOMA/ LPMA Interrogatory # 4b, Exhibits IR4, IR13, page 6.

**VECC Interrogatory #5**

**Interrogatory:**

Reference: GMG Evidence, page 9 and following – monthly pricing proposal.

Preamble: Please consider the following simplified hypothetical example:

Suppose that the Board accepts GMG's proposal that the utilities be required to utilize monthly index prices in setting gas commodity rates for sales customers. Suppose as well that the utilities wish to calculate a gas commodity rate for January, where the facts are as follows:

- Forecast volumes purchased ex-Ontario in January are 50 units
- Forecast volumes withdrawn from storage in January are 50 units
- Total forecast sales volumes therefore equal 100 units
- Delivered monthly index price of ex-Ontario supply is $10/unit
- Historical average cost of gas withdrawn from storage is $8/unit
- The utilities forecast actual cost of gas delivered to customers in January is therefore (50 units x $10/unit) + (50 units x $8/unit) = $900
- Forecast actual unit cost of gas sold is therefore $900/100 units = $9/unit.

Assume that there is no PGVA balance from December to be cleared, and that in the actual result volumes and prices for January are exactly as forecast.

Requests:

a. Under the commodity pricing model that GMG is proposing, would the rate charged to sales customers for gas commodity be $10/unit, i.e. the index price for the month as described in the GMG evidence, or $9/unit, i.e. the actual cost to the utility of the gas sold to sales customers in the month? Please explain.

b. If the response is that the gas commodity rate would be $10/unit, so that the utility would over-recover its actual cost of gas by $100, would the utility retain that $100 as incremental shareholder return? If so, please explain why that would be a reasonable outcome.

c. Alternatively, would the $100 over-recovery be allocated as a credit to all customers through a distribution or load balancing charge? If so, please explain the rationale for that approach, and in particular explain why it would be fair or reasonable to confer a financial benefit on marketers and/or their customers from amounts paid by sales customers in excess of the utility's actual cost of providing sales service.

d. Alternatively, would the $100 over-recovery be refunded to sales customers only in the February period through a PGVA adjustment? If so, please explain the rationale for that approach.

e. If the proposed approach is (d), i.e. refunding the over-collection to sales customers in a subsequent period, why would the utility not simply reflect that forecasted over-recovery in the rate set for sales customers for January, i.e. by setting the gas commodity rate at the $9/unit forecast average cost?

If the rate were set at $10/unit, and none of the options identified in (b), (c), or (d) for dealing with the over-collection of gas costs by the utility were utilized, what approach would GMG propose for dealing with the over-recovery, and why?

**Response:**

a. In the scenario provided above, the unit rate charged to sales customers would be $9/ unit as it aligns with the GMG's proposal to ensure that the rates charged to customers are as reflective of market prices as possible for the consumption period, and reflective of the costs incurred by the utilities in that same period.

Responses to the remaining questions in VECC IR#5 above are not applicable, based on the response in 5(a). above.

**VECC Interrogatory #6**

**Interrogatory:**

Reference: GMG Evidence, page 9 and following – monthly pricing proposal.

Preamble: As discussed in the previous question, one possible definition or specification of the GMG proposal appears to involve setting a monthly gas commodity rate based on the weighted average (i.e. weighted by forecast purchase and storage volumes) of monthly index prices and historical costs for gas withdrawn from storage. Under such a mechanism the monthly gas commodity rate would be adjusted (typically downward, i.e. when winter prices exceed prices in the previous summer injection period) on a backward-looking basis to account for the benefit of storage.

Requests:

a. If such an approach were adopted, and average market prices were expected to increase over time (i.e. if the pink line in Figure 2 at page 15 were upward sloping) does GMG agree that the sales commodity rate would on average understate the expected actual cost of gas in future periods? If not, why not? If so, does GMG consider that such a mechanism would provide an appropriate price signal to sales customers? Why or why not?

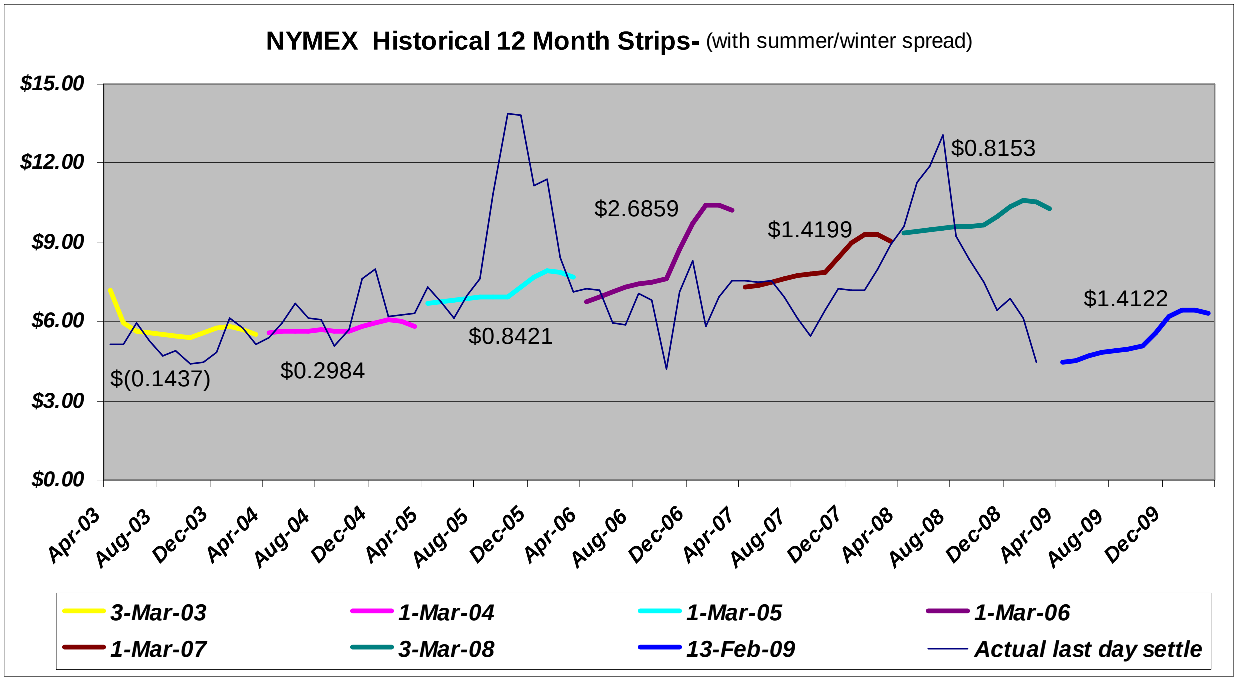
b. If such an approach were adopted, and average market prices were expected to decrease over time (i.e. if the pink line in Figure 2 at page 15 were downward sloping) does GMG agree that the sales commodity rate would on average overstate the expected actual cost of gas in future periods? If not, why not? If so, does GMG consider that such a mechanism would provide an appropriate price signal to sales customers? Why or why not?

**Response:**

a. No. The price would reflect market conditions for the prompt month only with no over or understatement for any future periods (i.e. beyond one month.) Customers will still receive price signals, but GMG acknowledges that the price signals may be muted by the use of storage. Ideally a separate cost rider for the allocation of storage would explicitly show the costs of the storage service (reservation, commodity, fuel and carrying costs) that would be added to the storage WACOG in place. Alternatively, the storage balances could be re-priced monthly at prevailing prices, and customers charged or credited with the difference, as described in the response to EGD 14, Exhibit IR1, page 15. It is the GMG's view that the potential exists for competitive retailers to provide customer choices based on not only the commodity price but transportation and storage services as well.

   The GMG has compiled indicative historical future NYMEX prices to illustrate the divergent price "views" that the market can offer. (To be clear, the numbers shown represent the forward 12 month view as reported on NYMEX for the prompt 12 months as of March 1 for each respective year). This is contrasted to actual NYMEX settled prices. The summer/ winter spread were derived by taking the difference between the average summer injection period (April - Oct.) vs. the average winter withdrawal period for each 12 month period in question.

Historical NYMEX 12 Month Forecasts Vs. Actual Settles with Summer/ Winter Spread




b. Please see response to a. above.

**VECC Interrogatory #7**

**Interrogatory:**

Reference: GMG Evidence at page 6 and following.

Preamble: In the referenced section of its evidence and elsewhere GMG criticizes the use by the utilities of a 12-month forecast of monthly prices and a 12-month recovery period for PGVA balances. At page 6, first full paragraph, GMG says "...the notion that the use of the 12 month strip aids gas consumers in understanding competitive retail fixed price offerings in relation to the default supply offering is fundamentally flawed". VECC requires further clarification of GMG's position.

Requests:

a. Does GMG agree that it would be reasonable for a sales customer who is considering whether to remain a sales customer or to enter into a long term fixed price contract with a retail marketer to be interested in the expected average cost of the sales service over as long a period as possible? If not, why not?

b. Please assume for the purposes of this question that the Board accepts GMG's suggestion that the utilities base their pricing forecasts on bid-week indices or forward prices immediately before the period for which gas commodity rates are set, but that the utilities otherwise maintain the QRAM mechanism as it exists today. In that case, does GMG agree that, given the use of a 12 month forward strip and a 12 month recovery period for expected PGVA balances, the QRAM mechanism provides the best available estimate of the expected average cost of utility sales gas over the following 12 month period at the time the QRAM rates are put into effect? If not, why not?

c. Does GMG agree that the price of one-year gas at AECO/NIT is essentially the same (i.e. ignoring any bid/offer spread) as the 12-month strip of forward monthly prices for the same period? If not, why not?

d. Does GMG agree that for a customer who is interested in the expected average cost of monthly gas purchased at 100% load factor at AECO/NIT over a forward 12 month period, the best estimate of that average cost is the then-prevailing 12 month strip of AECO monthly prices? Why or why not?

e. Does GMG agree that for a customer who is interested in the expected average cost of gas purchased at 100% load factor at AECO/NIT over a forward 12 month period, the then-prevailing 12 month strip of AECO monthly prices is a better indicator than the forward price for any individual month? Why or why not?

f. Please confirm that information regarding expected or forward monthly prices at AECO/NIT and other liquid supply points (other than Henry Hub) is not readily available to members of the public, i.e. to persons not involved in the gas industry or who do not subscribe to the services or publications that report that data. If not confirmed, please indicate where that information can be readily obtained at no cost.

g. Does GMG agree that, if GMG's proposal that gas commodity rates be set monthly on the basis of index prices for the relevant month were implemented, the individual monthly utility rates would be useless as an indicator of the expected average cost of utility sales gas over any extended forward period? Why or why not?

h. Does GMG believe that, in order to facilitate the proper functioning of the competitive market, it is necessary to withhold from customers information concerning the expected average cost of utility sales gas over future periods? If so, please explain why withholding that information is necessary and how withholding it would facilitate the proper functioning of the market.

i. Does GMG believe that, when customers are considering entering into a long term fixed price contract with a retail marketer, they will compare the long term fixed price offered by the marketer with the then-prevailing price of utility sales gas? If not, does GMG agree that the then-prevailing price of utility sales gas is irrelevant to the decisions made by customers and therefore to the functioning of the competitive market? If not, what other market indicators will customers reasonable use to evaluate the value of fixed-price offerings?

j. With respect to the passage from GMG's evidence quoted in the preamble, is it GMG's position that (i) it is inappropriate for the utility gas commodity sales rate to function as a "comparator" for, or to provide information that will assist consumers in evaluating, retail marketer fixed-price offerings, or (ii) that, while it is appropriate for the utility gas commodity sales rate to provide information that will assist consumers in evaluating fixed-price offerings, the existing QRAM mechanism fails to do so? Please explain fully the rationale for whichever position GMG supports. If the response is "neither", please explain what was meant by the quoted passage.

**Response:**

a. The GMG believes that customers should use all available information at their disposal from utilities, marketers or publicly available sources to determine whether they should choose what should be a default supply that is reflective of current market prices offered by the utilities, or long term fixed rate contract offered by Marketers.

b. The GMG agrees that pricing forecasts on bid-week indices or forward prices immediately before the period for which gas commodity rates are set, are the best available estimates of costs for the given period that is forecasted. The GMG does not agree that also including a 12 month disposition of past PGVA balances along with a QRAM frequency are "most reflective" of commodity rates over that period, as both the rate, and the PGVA balance to be disposed of will change three months hence. In the manner of disposition described, the "original" PGVA balance at the first rate setting will only be recovered for a 3 month period, and not a 12 month period, and therefore does not reflect the 12 month forward commodity rate.

c. Agreed, assuming ratable deliveries.

d. Agreed, assuming the customer wants to purchase a one year fixed price contract.

e. Please see response to d. above.

f. The GMG believes that consumers can look to NYMEX to provide a forward market view. Should consumers wish to conduct further research they can do so free of charge on the NGX website.

   http://www.ngx.com/settlementprices.html

g. The GMG believes that should the Board decide to adopt monthly rate setting for utilities based on the monthly forward curve that such a rate would be the best reflection of current market prices, which should also be reflective of the default gas supply option offered by the utilities. Customers can then track this rate on a monthly basis either on their bill or through the media to understand the direction in which the default rate is heading, similar to those that track variable interest rates to determine if they should lock in to a fixed rate mortgage or continue to select a variable option.

h. The GMG does not believe that withholding information from consumers is appropriate under any circumstances.

i. Yes.

j. The existing QRAM mechanism (including 12 month forecasting) fails to function as a "comparator" for consumers in evaluating retail marketer fixed-price offerings. As noted on page 6 of the GMG evidence, by using a 12 month strip, the utilities are reporting prices for gas that they will not be exposed to for months 4 through 12 (if using a QRAM example). The natural shape of the forward gas market in North America includes a premium for winter delivery. As such, under the current QRAM protocol, in the fall, the utilities typically underestimate the cost of the winter supply by including the lower summer cost. This distorts the actual winter price down during periods of peak demand. Likewise, the summer reported price is distorted up by including winter prices that will not be incurred by the utility.

**VECC Interrogatory #8**

**Interrogatory:**

Reference: GMG Evidence, page 9 and following – monthly pricing proposal.

Preamble: VECC is interested in GMG's views on how its monthly pricing proposal would benefit market participants.

Requests:

a. Please confirm that under GMG's proposal the utilities would continue to recover, over the long run, exactly their actual purchased gas costs. If not confirmed, please explain why not.

b. Please confirm that one effect of implementing GMG's approach would be to increase the volatility or variability of the utilities' gas commodity sales rates. If not confirmed, please explain why not.

c. Does GMG agree that, for most small-volume customers, rate volatility is a "dis-benefit" or cost, so that in relation to that factor implementing the GMG proposal would make sales customers worse off than they are under the existing QRAM mechanism? If not, why not?

d. Please explain what benefits implementing the GMG proposal would create for sales customers that would offset the cost to them of any increased rate volatility, so that the utility sales service would become a more attractive service for small-volume customers than it is under the QRAM mechanism.

e. Do GMG members, or other retail marketers that GMG members are familiar with, offer sales services priced on the monthly index basis that GMG suggests that utility sales services should be priced? If so, please indicate approximately how many small volume customers have contracted for that option over the past year. If not, why is such a service not offered?

**Response:**

a. Confirmed.

b. The GMG cannot predict the movement of the markets and therefore cannot answer a future volatility question. However, the GMG would point out that the wholesale market price of gas is the primary determinant of utility commodity rate "variability".

c. GMG believes that every consumer of energy has different priorities and a unique risk profile. If the consumer values rate stability over market rates, then a competitive, fixed rate offering is available to fulfill this need. If a variable cost solution is sought, then arguably the system rate option is best. The GMG does not believe there is any "disbenefit" in sales customers paying the true cost of gas reflective of market pricing and actual utility costs, as this is the supply service choice sales customers have made.

d. As can be seen in Table 2 of the GMG evidence, the current utility forecasting methodology and QRAM process has resulted in, at times, significant over recovery from customers (to as much as 11.5 cents/ $m^3$) in 11 of the last 12 quarters. Arguably, consumers would have benefited by retaining their money to use at their discretion, as opposed to overpaying utilities on the actual costs incurred during the period. The forecasting methodology and MRAM proposals put forth by the GMG are an attempt to better match rates with costs incurred in the period to reduce over and under collection by the utilities and allow customers to make supplier and consumption choices based on market reflective prices.

e. Please see the GMG response to Union IR #3, Exhibit IR2, page 3. The number of small volumes customers contracted under this offering is competitively sensitive information.

**VECC Interrogatory #9**

**Interrogatory:**

Reference: GMG Evidence, page 3, last paragraph

Preamble: GMG attempts to draw an analogy between the mortgage market and the retail natural gas market.

Requests:

a. Is GMG suggesting that a mortgagor can renew a mortgage without actively choosing a fixed rate or a variable rate? Is the alleged "default" status of a variable rate mortgage established by statute or regulation, or by the terms of the original mortgage?

b. Please confirm that one or more of the GMG witnesses at the hearing will be an expert in Canadian mortgage agreements and practice.

c. Does GMG agree that the rates for fixed-rate mortgages, i.e. with the interest rate fixed for one or more years, are market rates for those financial products?

**Response:**

a. Confirmed; a mortgagor can renew a mortgage without actively choosing a fixed or variable rate. If a selection is not made prior to the expiry date, an unpaid mortgage typically auto renews based on the terms of the existing mortgage.

b. Not confirmed.

c. GMG agrees that rates for fixed-rate mortgage are based on market rates for fixed term products which include a return margin for the financial institution. Similarly, variable rate mortgages are based on market rates for variable term products, plus a return margin for the financial institution.

**VECC Interrogatory #10**

**<u>Interrogatory:</u>**

Reference: GMG Evidence, page 3, third full paragraph.

Preamble: In the referenced paragraph GMG says that "all costs incurred by the DSP should be included in the default rate and the supporting supply, transportation, and storage transactions should be reported in a transparent and understandable fashion."

Requests:

a. What are "all costs incurred by the DSP" in this context, and what "default rate" is being referred to?

b. Does GMG take issue with the way either Enbridge or Union has allocated "supply, transportation and storage" costs between sales and direct purchase customers? If so, please explain.

c. With respect to the "reporting" of supply, transportation and storage transactions, does GMG believe that the bill presentation used by Union and Enbridge "report" those transactions in a transparent and understandable fashion? If not, please explain.

**<u>Response:</u>**

a. "All costs incurred by the DSP" refers to the commodity costs, procurement costs, credit costs, and transportation and storage costs. The "default rate" is the rate charged by the utility.
b. As is evidenced by GMG's submission with respect to the issues list in this proceeding, the GMG has issue with not having the option to unbundle storage and transportation from distribution delivery in the Enbridge franchise territory, so that Marketers may manage these services and costs on behalf of their customers.

c. The type of reporting being referred to in the above noted section was the clear and easily found reporting of the individual wholesale commodity, transportation, and storage related purchases and agreements entered into by the utilities. With respect to bill representation, Union displays transportation and storage charges as individual line items on the customer's bill, while Enbridge bundles these components with the distribution charges. As such, the GMG does not believe that Enbridge provides the same level of transparent and understandable transportation and storage transactions at a customer bill level as does Union.

**VECC Interrogatory #11**

**Interrogatory:**

Reference: GMG Evidence at page 4, first full paragraph.

Preamble: In the referenced paragraph GMG says that the current pricing protocols lead to a mismatch between the costs incurred for a specific set of customers and the customers that receive sales service in a given period. GMG goes on to say that "this is due to the fact that rates are set at 3 month intervals, in which many customers can change gas suppliers."

Requests:

a. Is GMG suggesting the utilities do not adjust their purchases of monthly-priced gas as required over time in order to meet their actual requirements? Please explain in more detail, with an example, what "mismatch" is being alleged, how it arises, and what the magnitude of the potential mismatch is.

b. Please provide any studies, memoranda, notes, calculations, or other materials the GMG or any of its members have prepared that analyze the extent of any mismatch of the type alleged for either Union or Enbridge over the past five years.

**Response:**

a. GMG is not suggesting that the utilities do not adjust their volumetric purchases to meet actual requirements. The mismatch referred to in the GMG evidence is a customer base mismatch. The system supply customers who are on system supply when the 12 month average price is built into the rate may not be the same system supply customers who are on system supply when the PGVA debit or credit is applied months later.

b. This observation was made based on the fact that the customer base is fluctuating between the utilities and the Retailers on a monthly basis, yet the credits or debits for price mismatches are passed on at best quarterly and at times longer if a trigger mechanism is in place. An analysis of the extent and impact of the customer mismatch would require access to information that GMG is not privy to.

**VECC Interrogatory #12**

**Interrogatory:**

Reference: GMG Evidence, page 4, last paragraph

Preamble: In the referenced paragraph GMG says that "[f]orecasting methodologies used by the distributors do not provide a view of current market price and therefore do not facilitate provider choice and influence informed energy consumption."

Requests:

a. Please confirm that the reference to "current market price" is a reference to monthly prices, as discussed throughout GMG's Evidence.

b. Does GMG acknowledge that the products typically offered by GMG members, i.e. gas sales with prices fixed for one year or a number of years, do not provide "a view of current market price" and therefore "do not facilitate provider choice and influence informed energy consumption"? If not, why not?

**Response:**

a. Confirmed.

b. GMG acknowledges that the products typically offered by GMG members are long term contracts. These contracts are intended to provide customer choice as they are an alternative to what should be a utility default rate reflective of market price. The GMG view is that the distributors should ideally offer a price that reflects the current, monthly market price, so that the differences between default supply and competitive offerings become clearer to consumers.

**VECC Interrogatory #13**

**Interrogatory:**

Reference: GMG Evidence, page 5, second paragraph.

Preamble: In the referenced paragraph GMG discusses a graph involving various NYMEX forward curves and says that "[t]his demonstrates how large PGVAs should be expected from this pricing method."

Requests:

a. Is the point of the graph on page 5 to show that forward curves can shift up and down within reasonably short periods?

b. Does GMG believe that Enbridge or Union, or both, have in fact experienced "large PGVAs", i.e. large PGVA balances, in recent years? If the response is "yes", please provide whatever studies, analyses, workpapers, or other materials GMG relies upon in making that claim, indicate GMG's understanding of the PGVA balances that have been experienced, and explain GMG's basis for saying that those balances are "large", i.e. please define "large" in this context and explain why the definition is reasonable.

**Response:**

a. No, the point of the graph is to show that a 12 month view for one month procurement does not allow for an optimal alignment of rates with procurement costs.

b. Yes. Please see Table 2 in the evidence submitted by GMG indicating the PGVA balances and the magnitude of such experienced in recent years. Please note that PGVA balances must also be considered in conjunction with the forecasted volumes in the periods in which they will be disposed in, as this will effect the size of the resultant rider. While the definition of "large" may be subjective, it is the opinion of the GMG that the following riders are "large", and significantly impact consumers perception of current costs for gas, and impede the competitive market.

"Large" PGVA Balances/ Rate Riders in Recent Years

| Period | Forecasted YTD PGVA Balance at End of Period per January QRAM Filing of Each Year | Estimated Year End PGVA Balance per QRAM Application for the Period | Sales Service Rider for Rate 1 Customers as per QRAM Application. |
|---|---|---|---|
| 2006 Q3 | $242.484M CR | $98.784M CR | 6.2430 cents/ $m^3$ CR |
| 2006 Q4 | $349.038M CR | $140.701M CR | 11.5645 cents/ $m^3$ CR |
| 2007 Q2 | $94.034 M CR | $97.212M CR | 3.8645 cents/ $m^3$ CR |
| 2007 Q3 | $223.119M CR | $101.982M CR | 6.6333 cents/ $m^3$ CR |
| 2007 Q4 | $289.360M CR | $109.168M CR | 3.0868 cents/ $m^3$ CR |
| 2008 Q2 | $116.395M | $96.673M CR | 3.9604 cents/$m^3$ CR |