EB-2008-0106

THE ONTARIO ENERGY BOARD

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors.

ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

I. INTRODUCTION:

1. On May 29th, 2008, the Ontario Energy Board commenced a proceeding on its own motion to determine the methodology to be used by natural gas distributors for (i) gas commodity pricing, (ii) load balancing and (iii) cost allocation between the supply and delivery functions in relation to gas supply. The Board set out an issues list on August 8, 2008, and directed Enbridge Gas Distribution Inc. ("EGD"), Union Gas Limited ("Union") and Natural Resource Gas Limited ("NRG") to file evidence. The Board held a Technical Conference on November 27th and 28th, 2008. The oral hearing commenced on April 6, 2009, and lasted a total of three days.

2. Union, NRG and EGD filed evidence on the set of issues determined by the Board. In addition, Direct Energy Marketing Limited, Ontario Energy Savings L.P. and Superior Management Gas L.P. (collectively, the " Gas Marketer Group" or "GMG") filed evidence setting out a number of proposals for rate-setting. GMG's evidence focused primarily on a monthly rate setting mechanism and proposals to clear all commodity related deferral accounts on a monthly basis.

3. These are the submissions of the Consumers Council of Canada ("Council"). The Council will first provide some general comments before setting out its position on each of the issues.

II. GENERAL COMMENTS:

4. In 2003 the Board held a Natural Gas Forum to review the policies and processes underlying various components of the natural gas industry. In 2005 the Board released its Report entitled, "Natural Gas Regulation in Ontario: A Renewed Policy Framework." ("NGF Report"). In the NGF Report the Board concluded that Ontario local distribution companies ("LDCs") should continue to provide Ontario consumers a regulated gas supply option. With respect to the structure of the regulated gas supply option the Board made the following comments that are relevant to this proceeding:

- In the Board's view, the pricing of the regulated gas supply option should minimize the potential for cross-subsidization between utility supply rates and distribution rates. The Board is not convinced one way or other on the question of whether the current rates and/or rate structures contain cross-subsidies. It is of the view that the issue should be examined in a generic cost allocation hearing to determine the issue conclusively (NGF Report, p. 66).

- In determining the appropriate pricing structure for regulated gas supply, the Board must consider the trade-off between a price signal that accurately reflects market prices and price stability. The current pricing process, whereby the price is set every three months on the basis of a 12-month price forecast, represents a balance between market-price signals and price stability. (NGF Report, p. 68)

- The Board believes that the Quarterly Rate Adjustment Mechanism ("QRAM") price should be a transparent benchmark that reflects market

> prices, and, therefore the methodology for calculating the price should be similar for all utilities. The market needs an accurate and consistent price signal most stakeholders agree. Therefore the Board believes, the method for determining the reference prices should be formulaic and consistent and, similarly, the methods for determining the PGVA and for disposing of PGVA balances should be formulaic and consistent. (NGF Report, p. 69) The Board will develop guidelines for the standardization of the quarterly rate adjustment mechanism, with the above objectives in mind. (NGF Report, p. 70)

5. In addition, the Board indicated that it intended to hold a generic hearing to examine issues related to the cost allocation between supply and delivery functions, load balancing and commodity pricing. That was the genesis of this proceeding.

6. Following the determination of the issues for this proceeding Union and EGD worked together to identify the extent to which they could standardize their methodologies for cost allocation, load balancing and commodity pricing. The result of that collaboration is that, with relatively few exceptions, they have put forward consistent policies. In addition, the LDCs are proposing very few changes to the status quo, particularly with respect to the QRAM methodology.

7. From the Council's perspective the Board should take account of the following key points when considering whether to approve the current proposals of the LDCs:

1. The QRAM, has been the accepted system supply pricing mechanism for the LDCs for many years. The policies in place today have, over the years, been incrementally enhanced and improved in an attempt to balance the trade-off between a price signal that accurately reflects market pricing and rate stability;

2. There is no evidence that the customers of the LDCs are demanding a fundamental change in the QRAM process or the underlying costing methodologies;

3. There is no evidence that the delivery customers of the LDCs would support the proposals put forward by the GMG for monthly price setting based on a monthly forecast with monthly disposition of the PGVA;

4. There is a viable retail commodity market operating in Ontario that has developed in an environment where quarterly, not monthly, system supply pricing has been the norm. The direct purchase segment of the natural gas market provides service to approximately 40% of natural gas customers within the Province and brings in 60% of the load requirement. (Ex. E8, E14 ,E19, p. 1)

5. There is no evidence that a monthly rate adjustment mechanism ("MRAM") would provide a pricing model that is more reflective of market pricing and would substantially enhance the transparency of the market for customers;

6. In order for the Board to approve what is effectively a fundamental change in the underlying pricing mechanism for system supply there should be clear evidence that the current system is flawed and the costs of implementing those changes outweigh the benefits.

8. The Council generally supports the positions advanced by both Union and EGD on the issues. The LDCs have developed policies that, to the extent possible, are standardized and largely mechanical. This is consistent with the recommendations provided by the Board in the NGF Report.

9. The Council will make some brief submissions on the individual issues set out by the Board.

III. ISSUES:

<u>Quarterly Rate Adjustment Mechanism</u>:

1. Trigger Mechanism

10. EGD currently uses a "trigger" to prompt changes to the reference price and/or the clearing of its Purchased Gas Variance Account ("PGVA"). The intent of a trigger was to preclude changes to the pricing when the underlying changes in costs were small, or, in the alternative to initiate changes when the underlying changes in costs were significant. EGD notes that customers have become conditioned to quarterly changes. The trigger has proven to provide little benefit through the years. In addition, there are no clear advantages or disadvantages to the utility or its customers arising from an elimination of the trigger. (Ex. E1, p. 7) EGD proposes to eliminate the trigger. This is consistent with the mechanism used by Union. The Council supports this change.

2. Price Adjustment Frequency and Forecast Periods

11. Union and EGD are maintaining the processes they currently use to make rate adjustments. The prices are currently based on a 12-month forecast. This is consistent with the way in which these LDCs purchase gas.

12. As noted above customers have been conditioned to quarterly changes and there is no evidence that an alternative approach would enhance the way rates are set or bring further transparency to the market. The QRAM processes of both EGD and Union have been transformed through the years with incremental changes. From the Council's perspective the system appears to be working. We see no reason to move off of the status quo and implement an MRAM along the lines advanced by GMG.

13. The Council has reviewed the Arguments of both EGD and Union, and supports the submissions the LDCs have made with respect to the advantages of maintaining the existing QRAM methodologies. This includes the proposal to maintain pricing based on a 12-month forecast and to continue with the quarterly changes to those prices.

14. As noted above, the GMG has advanced an MRAM approach to pricing. With respect to pricing forecasts the GMG supports an approach whereby the forecast is reflective of the price adjustment period. Under GMG's proposal if rate setting frequency is quarterly, than a three month strip is appropriate. If monthly rates are approved they should be based on a one month index. (Ex. E8, E14, E19, pp.23-24)

15. The Council submits that, based on the evidence in this proceeding, an MRAM approach would not bring greater transparency to the marketplace, would not provide better pricing signals to customers and is not consistent with the way in which the LDCs purchase their gas. It is possible, if not probable, that monthly pricing would only result in increased confusion and costs for customers. The Council urges the Board to reject this approach.

3. Methodology for the Calculation of the Reference Price

16. The GMG is supportive of the development of a single Ontario-wide reference price for system supply. The implementation of such a price would not be possible without further unbundling of storage and transportation. (Ex. E8, E14, E19, p. 24) The Council does not believe an Ontario wide reference price is appropriate given the diversity between how EGD and Union operate their systems. In addition, there would be an added complexity to the operation of existing deferral account balances.

4. Deferral and Variance Accounts and Disposition Methodology

17. Currently Union and EGD differ in the approaches they use to dispose of balances in the gas cost deferral accounts. EGD proposes to adopt Union's method of disposing of deferral account balances over a 12-month rolling period though rate riders. EGD's position is that this would reduce the volatility of rate riders especially in the last two quarters of the year. (Ex. E1, p. 18) The Council supports EGD's position.

5. Effect of a Change in the Reference Price on the Revenue Requirement

18. Union is proposing to eliminate its Intra-Period WACOG deferral account. Currently Union does not update its revenue requirement as a result of changes in the reference prices through the QRAM process. The price variance between the cost of gas included in Board approved rates and the WACOG determined in the QRAM is captured in the Intra-Period account.

19. Union proposes to reset its distribution rates on a quarterly basis with the QRAM reference price. The proposal will, in Union's view, reduce the potential for significant out of period adjustments. (Ex. E2, pp.32-33) The Council supports this approach and notes it aligns with the current practice used by EGD.

6. Implications and Costs of Standardizing Pricing Mechanisms Across All Natural Gas Distributors

20. The Council submits that Union and EGD have made significant progress in terms of standardizing their relative gas supply pricing mechanisms. This will, going forward assist the Board and intervenors in understanding their policies and the implications of those policies on ratepayers. The Council submits that, when greater

symmetry can be achieved, and when that symmetry is of benefit to Ontario consumers, it should continue to be pursued.

Load Balancing:

1. **Mean Daily Volume Re-establishment**

21. EGD is proposing to establish MDV using weather-normalized consumption history and to allow threshold-based re-establishment of MDV. (Ex. E1, p. 36) This proposal is consistent with the approach used by Union. The proposed cost of this change has been estimated to be $3.7 million. (Ex. I.24 Q. 9) The evidence from the GMG is that these changes are critical to their operations and the way they manage their balancing. (Tr. Vol. p. 38) The Council submits that EGD should provide, in its next rate proceeding, a detailed cost break-down of the change and a proposal as to how those costs are allocated to its customers. The Council is concerned about costs and cannot support the proposal in the absence of a more detail cost estimate. Our concern is that the costs could significantly exceed the estimate and potentially outweigh any benefits to EGD's customers. At that time the Board can reassess the reasonableness of the proposal.

22. With respect to the changes proposed by GMG to the Banked Gas Account Checkpoints, the Council relies on the argument advanced by EGD. In effect, EGD has presented, in it Argument in Chief, reasons why the cost of implementing this change will not produce any meaningful benefit for customers. (EGD, AIC, p. 9) At a cost of approximately $5 million EGD does not believe harmonization with Union in this case is sufficiently justified. (Ex. E1, p. 38)

Cost Allocation:

23. Neither Union nor EGD are proposing any changes to the way in which costs are regulated between the administration of the regulated supply option and direct purchase.

IV. COSTS

24. The Council submits that is has acted responsible through all aspects of this proceeding and accordingly, should be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted.

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