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By Electronic Filing and E-mail

May 15, 2009

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms Walli,

Ontario Energy Board ("OEB")
Commodity Pricing, Load Balancing and Cost Allocation Methodologies for Natural Gas Distributors in Relation to Regulated Gas Supply
Board File No.: EB-2008-0106
Our File No.: 339583-000009

On May 29, 2008, the Ontario Energy Board ("Board") issued a Notice commencing this proceeding to determine the methodology to be used by natural gas distributors for gas commodity pricing, load balancing and cost allocation between the supply and delivery functions in relation to regulated gas supply. Please consider this correspondence as the written argument of Canadian Manufacturers & Exporters ("CME") on these issues.

As the Board is aware, CME members represent approximately 75% of manufactured output in the Province of Ontario, and approximately 90% of all exports. Manufacturing is the single largest sector of the economy (17.5% of gross domestic product or about $300 billion) employing, directly, over one million people in the Province. Natural gas, along with electricity, is a primary source of energy for the manufacturing sector. As a result, the members of CME are affected by the issues raised in this proceeding. Within this context, CME's comments will address the following general issues:

(a) Review and standardization of Quarterly Rate Adjustment Mechanism ("QRAM") for natural gas distributors;

(b) The methodology for calculation of the reference price

(c) Review of load balancing obligations for natural gas distributors;

(d) Cost allocation; and

(e) Billing terminology;

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REVIEW OF STANDARDIZATION OF QRAM FOR NATURAL GAS DISTRIBUTORS

The Board is being asked by the Gas Marketers Group ("GMG") to direct Union and EGD to implement a Monthly Rate Adjustment Mechanism ("MRAM") instead of a QRAM. Union and EGD, on the other hand, are proposing to continue using their respective QRAMs subject to some minor improvements. In CME's view, the evidence in this case does not support moving from a QRAM to a MRAM.

As set out at paragraph 6 of Union's Argument-in-Chief, in the Natural Gas Forum Report, the Board confirmed that the appropriate pricing structure for the regulated gas supply options should reflect the following objectives:

(a) A balance between an accurate price signal and price stability for customers;

(b) Transparency from QRAM prices that reflect market prices; and

(c) Reference prices and Purchase Gas Variance Account ("PGVA") calculations and disposition methodologies that are formulaic and consistent.

CME submits that, subject to the improvements proposed by EGD and Union, which are addressed below, the utilities' QRAM methodologies meet these broad objectives. It is noteworthy that, with the exception of the GMG, all other intervenors appear to share this view.

After this proceeding was initiated, Union and EGD reviewed their respective QRAMs, and then worked together to assess whether any changes were warranted. Where there were differences between their respective QRAMs, they considered whether one approach was better than the other. The result is that EGD and Union have recommended improvements. These improvements are, for the most part, achieved by either EGD adopting a Union methodology, or vice versa. In other words, the two utilities have assessed how their respective QRAMs have historically operated, and where there are differences, they assessed which methodology has historically worked the best.

The proposed changes are set out at Appendix A of Union's evidence and Exhibit E-1 of EGD's evidence. Specifically, CME supports the following proposed changes:

(a) EGD will no longer apply a trigger mechanism for changing the reference price and clearing the PGVA. Union's current QRAM methodology does not have a trigger mechanism. As confirmed by EGD at Exhibit E-1, page 8 of 60, eliminating the trigger mechanism would increase QRAM harmonization between EGD and Union;

(b) EGD will adopt a 12-month rolling rider methodology to recover PGVA balances. This is the methodology that has historically been used by Union, and in CME's view, has worked well. Again, the adoption of a 12-month rolling rider methodology by EGD will increase QRAM harmonization between EGD and Union;

(c) Union will eliminate the intra-period WACOG Deferral Account and adjust delivery rates quarterly as part of the QRAM. This will align the way in which Union changes the revenue requirement to reflect changes in the cost of gas with EGD's current practice. EGD's current QRAM automatically adjusts ongoing rates to reflect the change in the reference price on the revenue requirement. This will allow for changes in cost elements associated with natural gas prices to be recovered on an ongoing basis, rather than Union's current methodology that collects it on an annual basis. Again, this will increase QRAM harmonization between EGD and Union; and

(d) Both utilities have proposed that the timeline associated with the current Board approved QRAM process be streamlined. CME does not oppose the streamlined timeframe presented by EGD and Union on the explicit understanding that the shorter process will continue to accommodate all current existing process components. The existing process includes an opportunity for intervenors such as CME to seek clarification from either utility. In this regard, at Exhibit E-2, pages 36 to 37 of 72, Union acknowledged that it holds informal discussions with IGUA and CME about its QRAM applications, and that Union has found these discussions to be "helpful and efficient". CME believes that its review of the QRAM applications, and the informal clarifications it seeks from EGD or Union, when necessary, should continue within the proposed timeline. So long as CME continues to have the opportunity to seek clarification through informal discussions within the proposed timeline, it does not oppose the shortened timeframe.

CME does not support the MRAM with monthly forecasting proposed by GMG. In CME's view, GMG has failed to demonstrate that 1) any customer groups support a MRAM with monthly forecasting instead of a QRAM, or 2) that any material benefit will flow to customers from a MRAM with monthly forecasting instead of a QRAM. To the contrary, the evidence supports a conclusion that the proposed MRAM with monthly forecasting would increase rate volatility, increase administrative and regulatory burdens and cause customer confusion.

Furthermore, moving to a MRAM will increase regulatory costs. Union estimates that the annual incremental costs associated with moving to a MRAM is $2.45 million (Undertaking J1.1). EGD estimates that the annual incremental costs associated with moving to a MRAM is $1.5-2.0 million (IR 24, Schedule 1, page 1). In CME's view, there is no evidence before the Board that justifies these increased costs. It would be manifestly unfair to impose these increased costs on customers who do not want a MRAM, and who will not receive any appreciable benefits from a MRAM.

In addition to the positions set out above, CME has reviewed the arguments of BOMA & LPMA and VECC. CME adopts the rationale in their arguments as additional grounds for the Board to conclude that moving from a QRAM to a MRAM is not warranted. The QRAM achieves an appropriate balance between price signals and price stability. The utilities are satisfied with the QRAM, and so are the ratepayer intervenors. Under such circumstances, CME urges the Board to reject GMG's proposal to move from a QRAM to a MRAM.

CME has also reviewed GMG's written argument. As set out above, GMG's proposal advanced during the hearing was for a MRAM with monthly forecasting (Exhibit K3.1). At paragraph 35 of its written argument, GMG now advances a "compromise" whereby there would be monthly rate setting with 12 month forecasting and 12 month disposition of PGVA balances. CME is interested to receive the response of Union and EGD to this compromise. For its part, CME can see no good reason to move to GMG's compromise position, particularly in light of the incremental costs associated with monthly adjustments.

THE METHODOLOGY FOR CALCULATION OF THE REFERENCE PRICE

The reference price for each utility should, to the greatest extent possible, reflect the utility's actual gas supply commodity charge. EGD and Union operate their distribution systems independently of one another, and use different purchasing strategies that are dependent upon geographic location (Exhibit E1, pp. 12-13 of 60). The average price of gas varies between EGD and Union(Exhibit E2, p.26 of 72). Because of the differences between EGD and Union, a single province wide reference price could not adequately reflect the operating practices and geographic uniqueness of both EGD and Union, and as such, would create dollar variances that would have to be subsequently trued up (Exhibit E1, p.13 of 60). As pointed out by BOMA and LPMA, this would lead to a higher variance account balances and greater rate volatility. For these reasons, CME urges the Board to reject a single Ontario-wide reference price.

REVIEW OF LOAD BALANCING OBLIGATIONS FOR NATURAL GAS DISTRIBUTORS

CME agrees that Union's load balancing mechanisms for the South and North appropriately reflect the unique operational characteristics of these two area. As such, CME supports Union's position that no changes are required to its current load balancing methodologies at this time.

With respect to EGD, there is a proposal that it establish Mean Daily Volume ("MDV") by using weather normalized consumption history and that it permit weather normalized MDV re-establishment. Currently, EGD establishes the MDV for direct purchase pools on an annual basis. Under this current practice, if the composition of the pool changes appreciably, EGD does not permit that change to be reflected in the amount of gas that must be delivered every day. The result is that some pools deliver more gas than their members consume and other pools consume more than they deliver (Transcript, Vol. 2, pp.115-116).

CME supports EGD's proposal to permit MDV re-establishment because it will permit each pool's MDV to be more reflective of the pool's actual requirements. Union already permits re-establishment of the Daily Contract Quantity ("DCQ") on a weather normalized basis, so this would further harmonize EGD's load balancing mechanisms with those of Union.

CME expects that the GMG will urge the Board to also direct EGD to establish a "check point" Banked Gas Account ("BGA") balancing function. EGD has estimated that the incremental cost of establishing this function would be $4.8 million (Transcript Vol. 2, pp.113-112). EGD's evidence is that there is no "appreciable benefit to ratepayers" from moving to the "check point" model. Until there is evidence that ratepayers would receive an appreciable benefit from "check point" BGA balancing that justifies an expenditure of $4.8 million, EGD should continue to operate under its existing model.

COST ALLOCATION

CME has had the opportunity to review the draft argument of FRPO, and is concerned that load balancing penalties imposed upon direct purchase customers are not being properly allocated. It would appear to CME that such penalties should be credited to direct purchase customers through the Load Balancing deferral account instead of the PGVA. If the Board is satisfied that the evidence in this case establishes that the load balancing penalties are inappropriately being credited to the PGVA, then EGD should be directed to credit these revenues to the load balancing deferral account. Alternatively, in light of the fact that this is an issue unique to EGD, it would be appropriate for the Board to direct EGD to file evidence on this issue in its next rates application.

BILLING TERMINOLOGY

CME supports Union and EGD's position that their bills are "very consistent", and as such, there is no reason for either utility to incur the costs associated with harmonizing their bills. Such costs, which would presumably be passed to ratepayers are simply unnecessary.

We respectfully request that CME be awarded 100% its reasonably incurred costs.

If the Board has further questions or concerns about issues raised in this argument, please feel free to contact me directly.

Yours very truly,

Vincent J. DeRose
VJD/kt

c. All Interested Parties
Paul Clipsham (CME)

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