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.

Submission of the Federation of Rental-housing Providers of Ontario

EB-2008-0106

May 15, 2009

REVIEW OF QUARTERLY RATE ADJUSTMENT MECHANISM ("QRAM")

A good part of the impetus of this proceeding was the examination of ratemaking methodologies for the opportunities of improvement and potential harmonization.[1] The Board and interested parties are well acquainted with the evolution of rate adjustment mechanisms precluding the need to elaborate here. At issue in this proceeding is further evolution warranted. An examination of the efficacy of QRAM has been undertaken and the submission of alternate methodologies collectively grouped under MRAM has been propositioned by the Gas Marketers's Group.

Recognizing that there will be significant submissions on this issue, FRPO would state for the record that it believes that QRAM provides a balance of statutory objectives[2] and those of NGF[3]. While not perfect, it is our submission that QRAM strikes a balance. On the other hand, the GMG has not made a case that MRAM would improve that balance, just change it and, in our submission, not in the public interest. As an example, one of the fundamental benefits of MRAM would be propositioned by GMG was price signal. However, GMG has not demonstrated that the economic price signal advocated would either be delivered by MRAM or have any effect on customer response for economic efficiency. As evidenced by GMG, they have not performed studies that conclude that[4] and they agree that their evolved proposition would mute price signals[5].

Therefore, FRPO supports QRAM as an effective balance for commodity ratemaking.

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[1] Notice of Proceeding on Commodity Pricing, Load Balancing and Cost Allocation Methodologies for Natural Gas Distributors in Relation to Regulated Gas Supply, May 29, 2008, page 2.
[2] Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B
[3] Natural Gas Regulation in Ontario: A Renewed Policy Framework, Report on the Ontario Energy Board Natural Gas Forum, March 30, 2005 (NGF Report).
[4] Exhibit IR24.1
[5] Vol 3, page 30

REVIEW OF LOAD BALANCING OBLIGATIONS

Distinction between Peak Day and Seasonal Load Balancing

The issue of load balancing has been unduly clouded by the lack of separation of two different planning requirements by a utility – daily load balancing and seasonal load balancing. In simple terms, daily load balancing is the LDC's responsibility to ensure everybody gets gas on coldest days of winter. In Enbridge's case, the LDC must have sufficient contractual rights between pipeline capacity, storage withdrawal capability and other peaking services to meet its forecasted peak day. Enbridge illustrated these components well in their evidence[6]. The amount of these rights is planned for by the utility and the demand costs of these services are part of the forecasted load balancing costs. What can vary is the number of occurrences and the severity of cold that requires a reliance on peaking services. The utility must be completely responsible for the forecasting of the need and contracting for services to ensure system integrity. To the extent that the peaking service needs are in excess of what was planned, the additional, and reasonably incurred costs for the services should properly be borne by all customers, as this is a utility function that benefits all customers.

The other category of load balancing is seasonal load balancing. Seasonal load balancing is the buying or selling of gas to meet contractual commitments for the amount of gas that is planned for to meet storage levels while minimizing penalties. This monitoring of storage levels relative to plan and adjusting the volume of gas purchased is particularly important in the shoulder seasons of fall storage fill and late winter storage depletion. In the fall, storage levels must remain below the maximum storage capacity of the utility. Gas may have to be shed to stay below the threshold to avoid penalties. Similarly, in late winter sufficient gas must be maintained in storage to ensure withdrawal capability to meet a late winter design day and avoid

[6] Exhibit E1, page 34, Figure 2

penalties. These activities are required to manage cost of service delivery. There is a greater time horizon as the transactions are primarily to manage the cost of maintaining storage levels. These storage levels are significantly impacted by weather and the utility must make compensating adjustments to its plan to reflect actual weather and resulting consumption experienced.

Benefits of Checkpoint Balancing for Seasonal Load Balancing

The activities of direct purchase customers significantly affect the storage levels. If the direct purchase customer is not required to make its own compensating adjustment for variances in consumption in the contract year, the customer could avoid costs that are more significant by allowing the utility to bear the cost and spread the costs through its distribution rates in a subsequent period. FRPO would submit that this is not the most economically efficient approach. Further, Union Gas implemented its Checkpoint balancing system[7] to address this situation following a Board directive to improve the incurrence and allocation of load balancing costs.

Currently, Enbridge requires balancing of contracts on the anniversary by the practices outlined in evidence[8]. Enbridge believes that there is no benefit to moving to Checkpoint balancing and has put forth a ballpark estimate of an incremental $4.7 million[9] to implement Check-point balancing in addition to weather normalization.

> ***"While Union Gas' two Check point model requires direct purchase customers to manage their BGAs and associated costs at specific times of the year, the Enbridge approach is to load balance the system as a whole, and then recover all costs from***

[7] Exhibit E2, pages 39-45
[8] Exhibit E1 pages 31-32
[9] Vol 2, page 171, lines 27-28 and page 172, lines 1-7

customers through the PGVA. Therefore, there wouldn't be an appreciable benefit to ratepayers of one approach over the other" [10].

However, that statement contradicts the view expressed by the Board in RP2003-0063 as captured in Union Gas's prefiled evidence:

"… The notable virtue of the Applicant's proposal is that it places the responsibility for balancing costs with the direct purchase customers. The proposal is also consistent with the Direct Purchase customers acting as managers of their respective gas supply requirements. It is appropriate and equitable for them to have an enhanced and better informed opportunity to track and manage their position at the two critical periods in the year. To date they have been dependent on the Utility for the management of divergences from forecast. Having chosen Direct Purchase gas supply, it is predictable that direct purchasers would prefer an informed opportunity to manage any divergences from forecast that have arisen at February and September. Finally the Board considers the proposal to be an enhancement of security of supply for the system as a whole …" [11]

While the above quote was the informed decision of the Board in that rate case, Union Gas' has continued to support its benefits inside of the public interest principles that founded the mechanisms initiation[12]. Further, Union's experience has demonstrated the value of Checkpoint balancing in response to FRPO interrogatory #7 [13]. Since the initiation of Checkpoint balancing, the aggregated storage position of the direct purchases customers was in excess of forecasted

[10] Exhibit E1, page 37, para. 122
[11] Exhibit E2, page 43, lines 3-11
[12] Exhibit E2, page 42, lines 12-22
[13] Exhibit IR10.7

position for the last 4 years. It must be emphasized that this surplus position occurred in winters with significantly different degrees of cold as noted by the variability in degree days.

On the other hand, over the last 2 years, Enbridge has incurred a substantial level of additional discretionary purchases as evidenced in their Undertaking #2.4 [14]. This summary quantifies the discretionary purchases made over the last 3 years highlighting hundreds of millions of additional cubic metres that were purchased in addition to forecast in last two years. While a monetary figure was not provided for the additional cost, using the monthly prices "Imbedded in the PGVA" represented in column 1 of Exhibit J2.3, a minimum price available for the periods of 2007 and 2008 was in the order of $0.25 per cubic metre. Therefore, a conservative estimate of the cost of unforecasted purchases for load balancing would be $50 to $60 million each year.

It is FRPO's view that the order of magnitude of unforecasted annual costs that may be avoided in part should warrant significant consideration of an approximate $5 million investment that could pay dividends over years.

During cross-examination on this issue, the Enbridge panel expressed reservation about putting customers in a difficult position given the tools the panel was considering that would allow customers to manage the Checkpoint system.

> ***The other point we made is that, again, accommodating Checkpoint balancing also means making available to them tools to a different extent than they are physically possible, given the location of our franchise. The fact that pipeline capacity is constrained during peak times, our ability to actually accommodate suspensions and makeups is different, and we do not wish to interrupt suspensions and makeups, because we know that puts our customers in a difficult position.***

[14] Exhibit J2.4

As noted at the start of this Load Balancing section, confusion has resulted from a lack of distinction between Peak Daily and Seasonal Load Balancing. The pipeline constraint above refers to challenges getting gas on Peak Days limiting suspensions or makeups. However, for Seasonal Load Balancing, Enbridge is looking to increase or decrease the storage position as described earlier. On a customer level, the individual customer's BGA contributes to this position. Therefore, the gas in the customer BGA is physically at Dawn, not in the Enbridge franchise. If a Checkpoint Balancing system were implemented, customers could use the Enhanced Title Transfer[15] now available from Enbridge on a firm basis to have access to the Dawn hub eliminating the issue of tools necessary.

It is unfortunate that Enbridge's Argument In Chief further confuses the Seasonal Balancing requirement of Checkpoint Balancing with risks to customers or system integrity on a peak day.[16] As evidenced by Union in their initial evidence, the winter Checkpoint requires a customer to keep storage at or above a prescribed level.[17] Therefore, customers could use Enbridge's Enhanced Title Transfer at Dawn to increase storage levels on a firm basis prior to the Checkpoint. This addition of gas would only serve to enhance system integrity and it would not be reasonable to Enbridge to suspend that service as was postulated in Enbridge's argument.[18]

It is FRPO's view that the benefits of Checkpoint Balancing could outweigh the costs possibly in the first year. FRPO would submit that Checkpoint balancing would be in the interest of customers and utilities, as it would place responsibility for costs of balancing more properly with those who are causing the cost. For the above reasons, FRPO would respectfully request the Board consider ordering the implementation of the Checkpoint system in the Enbridge territory.

[15] Exhibit E1, Attachment, page 1
[16] EGD Argument In Chief, para. 26-30
[17] Exhibit E2, page 44, lines 1-3
[18]

If, in the alternative, the Board does not believe that there is sufficient evidence on the record to do so, FRPO would request that the Board orders Enbridge to perform a more rigorous cost estimate in conjunction with the Weather Normalization/MDV re-establishment scoping that Enbridge has agreed to implement. When asked for more detail on the cost[19], FRPO was directed to the answer to Board Staff interrogatory #9 [20]. A quick review of that interrogatory response leaves the reader with a sense that the estimate is little more than an educated guess. It is FRPO's respectful opinion that an enhanced scoping exercise done in conjunction with other agreed to work would provide improved estimating and possibly reduced incremental costs. Further, with the improved information from the requested estimate and this proceeding, the Board could include the consideration of Checkpoint Balancing in a future Enbridge specific rate proceeding.

While FRPO does not agree with Enbridge's position in the matter of Checkpoint Balancing, FRPO would like to commend Enbridge in its unilateral move to Weather Normalization and MDV Re-establishment. Both of these initiatives will aid in developing the tools beneficial to effective management of a BGA by direct purchase customers while ensuring the utility maintains the control necessary to support cost effective Load Balancing on behalf of all customers. Therefore, FRPO supports these initiatives as effective harmonization.

COST ALLOCATION

Practices to Support Market Development

The process of functionalizing and analyzing utility costs has met with its share of scrutiny over the decades of cost-based regulation. Even in today's environment, the foundation for incentive

[19] Vol 2, page 173, lines 1-9
[20] Exhibit IR24, Schedule 9

regulation is a Board-approved rate of return on investment based upon the cost of providing natural gas services in a monopoly environment. However, over time, as the market and utility services and practices to meet market demands have evolved, some aspects of ratemaking may have had less consideration. The result can be that some services or practices have inadvertently evolved in ways that inhibit the market. FRPO would like to present just such a concern for the Board's consideration to ensure economically rational market development.

Issue 9.2 in this proceeding states: "What asset-related costs should be allocated to load balancing and delivery and how should the costs of these services be allocated between system/regulated supply and direct purchase customers?". Further, the Board's statutory objectives include "To facilitate competition in the sale of gas to users"[21]. Practices that advantage system gas over the direct purchase choice certainly would work against that objective.

As accepted by FRPO above, Enbridge is working to increase its ability to assist direct purchase customers in managing their contractual obligations while protecting all customers from undue cost. While these tools will enable greater opportunities for the direct purchase customer to balance, if experience is any teacher, then some customers are still going to have BGA balances outside of prescribed tolerances. Periodically in the past, customers have not been sufficiently informed, monitoring actively or aware of circumstances which result in the BGA balance being greater than the maximum level of 20 times the MDV. As per Enbridge's policy and evidence, the incremental gas over the maximum 20 days MDV is being purchased from the customer's BGA at a discounted price or being sold to the customer at a premium.[22]

[21] Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B
[22] Exhibit E1, page 31, para. 101

This forced transaction is designed to incent direct purchase customers to manage their BGA actively so that the utility can count on customers' balances within tolerance. As stated by the Enbridge Panel:

> ***MS. GIRIDHAR: I guess if I might just add. I think you characterized it well, Mr. Quinn.***
>
> ***The issue here is one of incenting appropriate behaviour. So when you do that, generally penalties don't lend themselves easily to cross-subsidization type of comparisons, because if you set a penalty well, the occurrence would not happen and there would be no revenues that you get from it.***
>
> ***So in this instance, when we have a purchase price that is 80 percent or a sale price that's 120 percent, what we're trying to do is not actually have to go to that extent. They're just there as incentives for the direct purchase customer to manage their BGA.***[23]

FRPO fundamentally agrees with the use of properly applied incentives to ensure the balancing of interests between the choices of the direct purchase market and the costs of managing the load balancing obligations of the utility on behalf of all customers. A properly designed system could include allowing the utility to extract penalties from those who have not met their obligations as an incentive. FRPO also believes that cost causality would dictate that to the extent that the penalties are collected they should rightfully accrue to the Load Balancing costs to offset the cost of mitigating actions the utility may have had to make to adjust its plans to ensure system integrity and economically prudent system operation.

However, in FRPO's respectful submission, the economic benefits of the penalties are not mitigating the cost of Load Balancing but are accruing to the System Gas program through

[23] Vol 2, page 141, lines 23-28 and page 142, lines 1-7

PGVA commodity disposition. In an exchange with the Enbridge panel before the above-quoted statement, the financial impact of the forced transaction was discussed:

> ***MR. QUINN: If you could walk us through, then, how the cost consequences of the molecule of gas arrives in, notionally purchased at a discount -- how those cost consequences are distributed between the system gas program and the delivery company's obligations for load balancing?***
>
> ***MR. SMALL: The balance of the PGVA account, what we would do is we would, at the end of the year -- currently, under our current methodology, when we do the one time true-up, what we would do is we would do an analysis of the PGVA balance, and we would try to identify the elements that represent commodity price changes, transportation cost changes or load balancing charges.***
>
> ***Those amounts would be allocated in the same manner that our cost allocation and rate design methodology was set up on.***
>
> ***So if you are looking at the fact that we were able to buy gas at a price that is less than the reference price, that would find its way through the commodity -- more than likely through the commodity element of the variance.***
>
> ***MS. GIRIDHAR: As a notional credit.***
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> ***MR. SMALL: As a notional credit.***
>
> ***MR. QUINN: A credit to --***
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> ***MS. GIRIDHAR: To system gas.***
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> ***MR. QUINN: So the system gas program would benefit from the discounted gas purchased?***
>
> ***MR. SMALL: That's correct.***
>
> ***MS. GIRIDHAR: Yes.*** [24]

[24] Vol 2, page 136, lines 16-28 and page 137, lines 1-14

In FRPO's view, subsequent cross-examination in this area did not achieve the clarity desired; however, the resulting undertaking provided by Enbridge did. In the provided analysis of the cost consequences of BGA purchases[25] over the last three full years, Deemed Commodity Impact on PGVA totalled approximately $14,000,000 while Deemed Load Balancing Impact on PGVA totalled $58,000. In that same undertaking (J2.3), the last line of verbiage states "the methodology for disposition of amounts to commodity and load balancing functions is consistent with rate setting methodology". While the practice may be consistent with rate setting methodology, the practical effect is a wealth transfer from direct purchase customers to system gas customers.

Therefore, FRPO would respectfully request that the Board consider ordering Enbridge to change its rate setting methodology to eliminate this cross-subsidization. In our view, a simple remedy would be for Enbridge to move the commodity cost to the system gas pool at the AECO price Imbedded in the PGVA and to allow the remaining economic value, after paying for UDC incurred, to accrue to the Load Balancing account to mitigate load balancing costs for all customers.

BILLING TERMINOLOGY

LDC's have represented that they have researched and incorporated customer feedback into respective billing presentment and measured satisfaction with its customers[26] [27]. GMG's has proposed that harmonizing the terms used would be advantageous to the customer[28]. FRPO would submit that the GMG's have not established sufficient need, in the public interest, to warrant potentially costly changes for the purposes of harmonization.

[25] Exhibit J2.3
[26] Ex. E1, page 54, para. 190 and Ex. E2, page 70
[27] Ex. E1, page 54, para. 190 and Ex. E2, page 69
[28] GMG Pre-filed evidence, Ex. E8, E14, E19, page 30