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**Commission de l'énergie
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BY EMAIL

March 24, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
BoardSec@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Enbridge Gas Distribution Inc. ("Enbridge")
Board Staff Submission
Board File No. EB-2014-0039**

In accordance with the Board's letter dated March 21, 2014, please find attached the Board staff submission relating to the above proceeding.

Enbridge's Reply Submission, if it intends to file one, is due by March 25, 2014.

Yours truly,

Original Signed By

Daniel Kim
Case Manager

cc: All parties EB-2012-0459



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Enbridge Gas Distribution Inc.

EB-2014-0039

March 24, 2014

**Board Staff Submission
Enbridge Gas Distribution Inc.
EB-2014-0039**

Introduction

Enbridge Gas Distribution Inc. (“Enbridge”) filed an application with the Ontario Energy Board (the “Board”) on March 12, 2014 under section 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) for an order approving or fixing interim rates for the sale, distribution, storage, and transmission of gas effective April 1, 2014. The application was made pursuant to Enbridge’s approved Quarterly Rate Adjustment Mechanism (“QRAM”).

The Canadian Manufacturers & Exporters (“CME”) requested additional information from Enbridge on March 14, 2014. Board staff and the Industrial Gas Users Association (“IGUA”) requested additional information from Enbridge on March 17, 2014.

The Federation of Rental-housing Providers of Ontario (“FRPO”), the Consumers Council of Canada (“CCC”), and the Vulnerable Energy Consumers Coalition (“VECC”) filed comments on March 18, 2014 seeking an opportunity to review the prudence of Enbridge’s gas purchases, as well as to consider mitigation.

Enbridge filed its responses to the requested additional information by Board staff, CME, and IGUA on March 19, 2014.

Numerous letters of comments from the public have been received by the Board.

The Board in its letter, dated March 21, 2014, stated that it considered letters received from CCC, CME, the FRPO, IGUA, and VECC, and the letters of comment from private citizens received by the Board. The Board also considered Enbridge’s responses to interrogatories from Board staff, CME and IGUA. The Board decided to allow parties the opportunity to file a written submission on the evidence as it currently exists on the record, and whether the Board should consider rate mitigation measures to smooth the impact of the increase in the commodity price.

Board Staff Submission

Board staff submits that the Board should consider rate mitigation measures to smooth the impact of the increase in the commodity price.

In this current QRAM application, Enbridge's proposal results in an increase of approximately \$400, on an annualized basis, for a typical residential customer. This amounts to an annualized increase on the total bill of about 40%. The re-setting of the utility reference price accounts for about \$150 (i.e. the forecast cost going forward), while the disposition of the Purchased Gas Variance Account ("PGVA") balance as of March 31, 2014 explains the remaining \$250 (i.e. the difference between last quarter's forecast cost and the actual cost).

As part of interrogatory #3, Board staff sought Enbridge's view on whether the Board should consider disposing of the PGVA balance as of March 31, 2014 over a period of 2, 3 or 4 years. Board staff also sought the annualized total bill impacts for a typical residential customer arising from these three additional scenarios. In its response, Enbridge stated that the Board should not consider disposing the PGVA balance over a period longer than one year. Enbridge indicated that extending the disposition period in excess of the one year period would "effectively amend the Board's decision" in EB-2008-0106, in which the Board prescribed the QRAM mechanism for gas distributors. Enbridge also stated that "the real carrying costs to Enbridge from recovering a very large PGVA balance over an extended period of time are likely much higher than what results from the Board's prescribed interest rates". Enbridge submitted that were the Board to give any of these alternatives consideration, the carrying costs associated with such balances should be valued at the weighted average cost of capital.

Board staff submits that the Board may exercise its discretion to deviate from the standard methodology established by the Board in the EB-2008-0106 proceeding where the public interest so dictates. The Board demonstrated its willingness to exercise such discretion in the Board's Decision and Order dated March 21, 2014 in the case of Union's April 2014 QRAM (EB-2014-0050), where the Board considered the merits of reducing the immediate rate impact to Union's customers by spreading the effect of the gas price adjustment over a period longer than the standard 12 months. In this present application, the bill impacts are even more significant. As in Union's application, the bill impacts stem from higher gas costs resulting from the effect that much colder than normal weather had on customer demand and on natural gas prices.

Board staff notes that as part of the Renewed Regulatory Framework for Electricity, the Board has reaffirmed a policy of requiring electricity distributors to file mitigation plans when the total bill impact of an application exceeds 10%. While this policy does not specifically apply to natural gas distributors, the bill impact of this application is significantly higher and therefore Board staff is of the view that mitigation is warranted.

Board staff submits that the Board should consider extending the recovery period of the PGVA balance by an additional 12 months. In Board staff's view, this would strike a reasonable balance between market prices and price stability. This would also result in annualized bill impacts for residential customers that are aligned with the bill impacts resulting from the Board's decision and order in Union's April 1, 2014 QRAM proceeding.

On the issue of whether the Board's should consider approving balances valued at the weighted average cost of capital instead of the prescribed interest rates, Board staff submits that the Board should reject this contention. It would not be appropriate in Board staff's view to include the cost of capital, which is meant to finance long term investments, to determine the carrying charges associated with the recovery of the PGVA balance over a 24 month period. The Board's current policy is to apply the prescribed interest rate for approved deferral and variance account balances. Board staff is not aware of any regulatory precedents for changing the methodology to set carrying charges based on the disposition period approved by the Board.

All of which is respectfully submitted