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March 25, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0039
Enbridge Gas Distribution Inc. April 1, 2014 QRAM Application

On March 21, 2014, the Board issued a letter regarding the April 1, 2014 QRAM Application (the "Application") made by Enbridge Gas Distribution Inc. (Enbridge). In the March 21st letter, the Board set out a process for submissions to be made in respect of the Application. Specifically, the Board allowed parties the opportunity to file a written submission by March 24, 2014 and the Board indicated that Enbridge may file a written reply submission by March 25, 2014.

Enbridge has received submissions pursuant to the March 21st letter from the following:

(i) Board staff;
(ii) Canadian Manufacturers & Exporters (CME);
(iii) Consumers Council of Canada (CCC);
(iv) Federation of Rental-housing Providers of Ontario (FRPO);
(v) Industrial Gas Users Association (IGUA); and
(vi) Vulnerable Energy Consumers Coalition (VECC).[1]

Enbridge will reply to the submissions of Board Staff and the listed parties under the headings that follow.

[1] Submission dated March 26, 2014 received on March 25, 2014.

Scope of Submissions

In the March 21st letter, the Board established the specific scope of submissions to be made by parties in respect of the Application. The Board stated that parties would be allowed the opportunity to make submissions on,

> …the evidence as it currently exists on the record, and on whether the Board should consider rate mitigation measures to smooth the impact of the increase in the commodity price.

The submissions filed pursuant to the March 21st letter are not confined to the evidence as it existed on the record as of March 21st. Two of the submissions include attachments that are not part of the record of the Application. That being said, Enbridge considers it appropriate to assist parties with issues that extend beyond the scope of the March 21st letter.

This letter, then has a dual purpose: it contains Enbridge's reply in accordance with the March 21st letter and it also includes Enbridge's effort to assist parties with an understanding of other matters that fall outside the submissions contemplated by the Board's letter.

Circumstances of the Application

In its submission, CME refers to its discussions with Enbridge staff and offers a number of points of "context" for these discussions. The larger context of the Application is set out in Enbridge's response to CME Interrogatory #1. As explained in that interrogatory response, Enbridge's approved planning criteria for the winter of 2013/2014 are based on a one in five winter while, in fact, the winter has actually proved to be a one in 25 event.

The response to CME Interrogatory #1 indicates that more conservative gas supply planning assumptions, and other supply planning options, would tend to mitigate the cost impacts that result from the implementation of Enbridge's gas supply plan in conditions such as those of the 2013/2014 winter. Changes such as these would bring Enbridge's gas supply planning parameters closer to those of Union Gas Limited (Union), but of course they would come with their own costs.

The critical point here, though, is that if parties favour an approach to gas supply planning that gives Enbridge a greater ability to mitigate the cost consequences of meeting a winter such as that which has just occurred, this should be addressed on a forward-looking basis, not by applying hindsight to look backwards after Enbridge has met a one in 25 winter with one in five planning criteria. Enbridge indicated in the response to CME Interrogatory #1 that it is willing to investigate more conservative assumptions for its gas supply planning and this is addressed further below, under the heading "Generic Proceeding".

The QRAM Process

In its submission, CME notes that Enbridge has "adhered to the prescribed process pertaining to requests for mechanistic QRAM relief". CME goes on to say that there are no process grounds upon which to justify an order denying the relief Enbridge requests.

The Board and stakeholders have invested considerable time and effort in the development of the QRAM process, including the thorough review that occurred in the EB-2008-0106 proceeding, with a view to establishing a procedure that is mechanistic and that follows a readily understandable, timely and predictable pattern. During this development process, it was undoubtedly known by the Board and stakeholders that, from time to time, exceptional weather conditions will occur. The Board did not, however, establish a QRAM procedure that follows a different path depending on whether weather conditions, or more particularly the cost consequences of weather conditions, deviate beyond a particular threshold in either direction. Enbridge certainly gives due consideration to rate impacts of significant cost increases, but the magnitude of the cost consequences of a QRAM application – either by way of increase or decrease – is not itself a reason to second-guess the firmly-established conclusion that the QRAM process will be a mechanistic one.

The question, then, is whether there is anything other than the magnitude of the cost consequences of approval of the Application, to justify a departure from the established QRAM process. This question is addressed under the next heading.

Review of Costs

Although a number of submissions touch on the subject of prudence, none of the submissions filed in this proceeding attempt to make the case for a prudence review by the Board. As the Board is aware, a presumption of prudence applies to decisions made by a regulated utility, unless those challenging a decision demonstrate reasonable grounds to question the prudence of the decision.[2] Board Staff's submission addresses only rate mitigation and makes no reference to any review of the gas costs that are the subject of the Application. CME says that there is limited opportunity for interested parties to investigate prudence and it relies on the Board to determine if circumstances warrant further investigation. Similarly, CCC leaves the issue of prudence to the Board without attempting to

[2] See, for example, *Enbridge Gas Distribution Inc. v. Ontario Energy Board*, 2006 CanLII 10734, para. 11 (Ontario Court of Appeal).

make a case that there are reasonable grounds to question decisions made by Enbridge.

A number of parties rely on comparisons between Union's commodity price increases and those of Enbridge. As noted above and explained in Enbridge's interrogatory responses, the comparisons to Union relied upon by some parties are not suggestive of any issue with Enbridge's implementation of its gas supply plan, because Union has a different set of gas supply planning parameters and it is positioned much differently than Enbridge to address an unexpectedly cold winter. Enbridge submits that comparisons with Union's gas costs do not justify a departure from the established QRAM process. As stated above, though, one purpose of this letter is to assist parties with an understanding of issues raised in their submissions, so comments based on Union's commodity price increases are addressed below under the heading "Comparisons With Union".

FRPO relies on an exhibit from Enbridge's EB-2012-0459 proceeding in support of an assertion that there is a need for "additional review". First, as pointed out above, the Board specifically directed that parties were to make submissions in this Application on the evidence as it existed on the record as of March 21st. Second, FRPO contends that Enbridge has not discharged its onus, but Enbridge has filed all the evidence that meets the evidentiary standard of a QRAM filing. Further, to the extent that there is any "prudence" issue at all, it is up to those raising such an issue to demonstrate reasonable grounds to question prudence. Again, though, in an effort to be of assistance to parties, Enbridge will address FRPO's point: this is done under the heading "Targeted Storage Levels", below.

Finally on this subject, IGUA submits that it has reviewed the additional information filed by Enbridge "and continues to be of the view that the record as it currently stands reveals no shortcomings in the manner in which [Enbridge] has managed its gas supply exigencies over this past winter season".

<u>Rate Mitigation or Smoothing</u>

Board staff submits that the Board should consider extending the recovery period of the PGVA balance by an additional 12 months. With the exception of VECC, Board staff's proposal is not supported by the submissions made by intervenors, as can be seen from the following:

> (i) FRPO submits that mitigation is not required; more specifically, FRPO indicated that it is in the public interest to follow the guidance of the EB-2008-0106 decision regarding the purposes of a market sensitive price;
> (ii) CME notes that mitigation could "adversely affect the operation of the competitive gas commodity

> market" and submitted that, on balance, the public interest will be better served if the Board refrains from negatively affecting the operation of the competitive gas commodity market serving Enbridge;
>
> (iii) IGUA takes no position on whether current circumstances justify a departure from the general principle that "prices for system supply should reflect market prices and thus provide gas pricing transparency, and fairness and equity among all customer groups"; and
>
> (iv) CCC did not address mitigation in its March 24th submission, although, in its letter of March 18, 2014, it did make a general comment about options to mitigate the impact of cost increases.

VECC contends that "[s]moothing should be on the table where the triggering events take place once in 25 years". Enbridge submits that arguments about rate mitigation or smoothing should have regard to the principles underlying the QRAM methodology, rather than the frequency of triggering events. As outlined in the Introduction to the Board's EB-2008-0106 decision, one of the underlying principles of the methodology approved by the Board is that the QRAM is intended to be a transparent benchmark that reflects market prices and an appropriate trade-off between market prices and price stability. Another principle is that the methods for determining and disposing of PGVA balances are to be formulaic and consistent across natural gas utilities.

The notion of an extended recovery period longer than the standard 12 months was addressed in the Board's EB-2014-0050 decision with respect to Union's April 1, 2014 QRAM Application. The Board's decision with respect to extended recovery in that case was as follows:

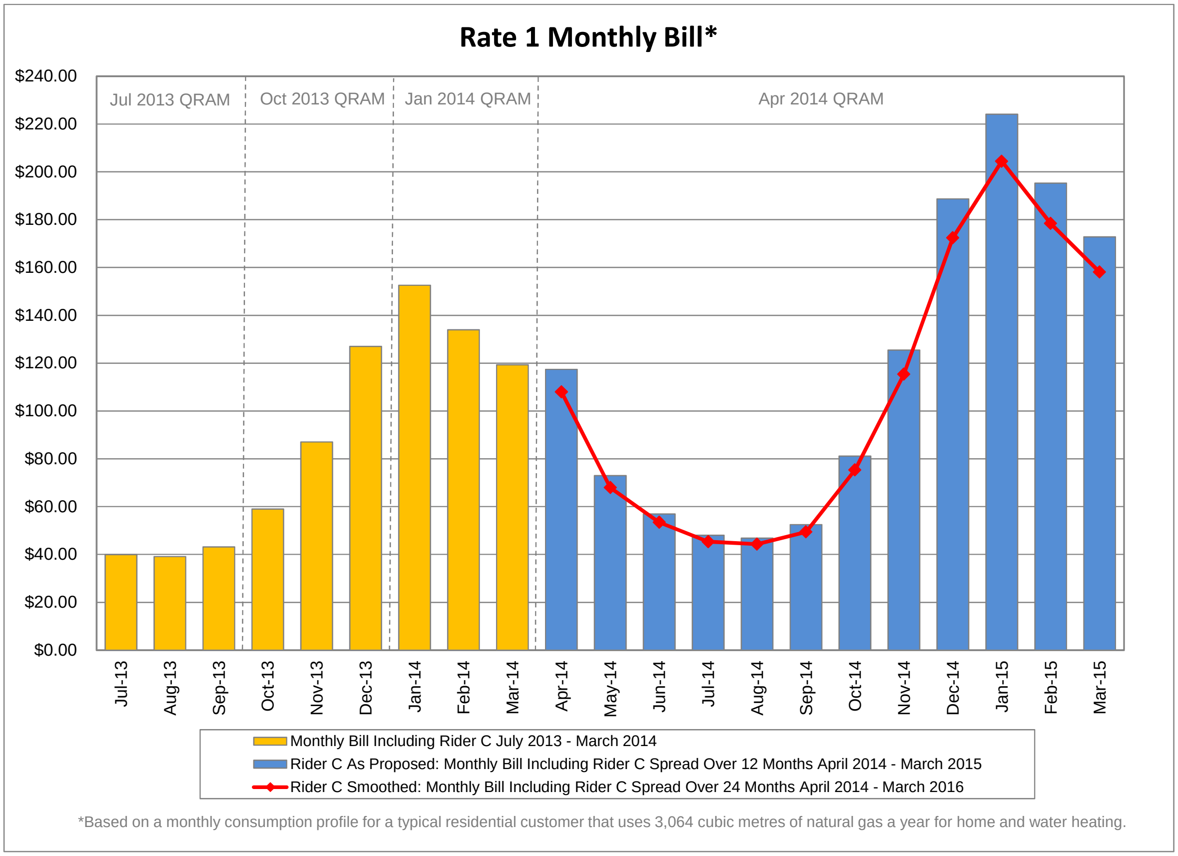
> The Board has considered the merits of reducing the immediate impact of the rate impacts … by spreading the impact of the gas price adjustment over a period longer than the standard 12 months. …the bill impact associated with Union's QRAM is presented on an annualized basis. Therefore, if the forecasted price of natural gas falls in future quarters, the full bill impact may never materialize. In consideration of the above, and the fact that spreading the impact over a period longer than 12 months would increase the carrying charges associated with balances, the Board finds that the standard 12 month disposition period is

> appropriate. The Board is satisfied that the standard 12 month disposition period effectively balances the Board's objective of protecting the interests of consumers with respect to price and the intent of the QRAM to have natural gas price signals which reflect the actual market price. The Board will have the opportunity to review the gas supply costs in the next quarter.

While rate impacts for Enbridge's customers are higher than those for customers of Union, Enbridge submits that the reasoning of the EB-2014-0050 decision holds true in Enbridge's circumstances.

The response to Board staff Interrogatory #3 outlines the impact on customer bills of implementing a rate smoothing period of two, three or four years. The impacts on a typical residential customer's bills are displayed on an annual basis which is consistent with how Enbridge displays rate impacts in all rate applications. The proposed QRAM rates and Rider C, however, will only be in effect for three months from April to June 2014. Enbridge will apply for its third quarter QRAM price changes effective July 1, 2014 and the rates and Rider C will be adjusted at that time based on the prescribed methodologies of the QRAM process.

The rates for which Enbridge seeks approval in this Application are being implemented and are effective from April to June 2014, when the gas consumption of heat sensitive customers is lower than in the winter months and hence monthly gas bills are much lower. Enbridge submits that the full impact on customers' actual bills will not be experienced until the fall/winter of 2014/2015 when gas consumption is much higher. At that time, Enbridge would have already changed its rates in the July and October 2014 and January 2015 QRAM proceedings. The chart below depicts the monthly bill of a typical residential customer, inclusive of the proposed Rider C, for the period July 2013 to March 2015. Also shown in this chart is the impact of the smoothing of Rider C for the April 1, 2014 to March 31, 2015 period. As can be seen, the impact of the smoothing does not become significantly effective until the fall/winter season when customers' consumption increases.



In short, while Enbridge does not agree that it is appropriate to extend the recovery period beyond the standard 12 months, should the Board decide that smoothing is appropriate, Enbridge submits that the smoothing should be applied in a subsequent QRAM application by Enbridge in 2014 and not in this Application.

IGUA submits that Enbridge has not made out a case for compensation for any deferred recoveries at the weighted average cost of capital. If the Board decides in favour of a substantive change to the QRAM clearing methodology, such as extended smoothing of PGVA amounts, Enbridge submits that the Board should, in conjunction with making such a substantive change, give recognition to the cost impacts of doing so, especially given the quantum of amounts to be cleared. Board staff's suggestion that the recovery period be extended by 12 months would mean that Enbridge would have to carry an amount in the order of $300 million beyond the standard one-year period. Enbridge submits that an extended smoothing treatment requires a different treatment in terms of carrying costs, and that the appropriate treatment is to apply the weighted average cost of capital.

Generic Proceeding

CCC submits that it is incumbent on the Board to initiate a broader generic review to ensure that, going forward, factors that have contributed to recent gas cost increases are fully understood and appropriately addressed in the future. CCC says that the review would be timely in view of gas supply planning procedures currently in place that have resulted in notable cost variances between Union and Enbridge.

Enbridge agrees that, given the outcome of the 2013/2014 winter, it is timely for stakeholders to gain a better understanding of the cost and risk trade-offs of different gas supply planning parameters. Further, the comparisons that parties have attempted to make in this case between Union and Enbridge, suggest that it would be valuable for stakeholders to explore the cost and risk trade-offs in the context of a generic proceeding. Enbridge therefore accepts that there is merit in CCC's submissions regarding a generic proceeding.

Comparisons With Union

(a) Gas Cost Comparisons

Enbridge's response to CME Interrogatory #1, elaborates on the differences between the gas supply plans for Union and Enbridge that gave rise to different cost consequences in the 2013/2014 winter. Notably, in comparison to Union, Enbridge relies to a greater extent on curtailment, peaking services and delivered supplies, as opposed to storage deliverability.

The following comparison of Enbridge's gas supply plan with that of Union highlights similarities and differences that are important to an understanding of cost consequences during the past winter:

- Both plans are aligned in the month of January, as the focus of delivered supply procurement is to manage storage balances to maintain peak deliverability. As such, under both plans gas can be purchased ratably in January to manage balances.

- Union's plan calls for it to maintain maximum deliverability until March 1st. In contrast, Enbridge uses a multi-peak planning assumption where maximum deliverability is only maintained until January 31st, after which it is assumed that deliverability will fall off over time as weather becomes less severe through February and March. This difference leads to a different approach to gas procurement. As is seen in the attachment to CME's submission, Union can plan more in advance and use a longer time horizon "layering" approach to maintaining storage balances. Enbridge, though, must follow a more short-term purchasing strategy to maintain targeted storage deliverability within the month. The past month of February shows how, in a severe-weather year, Enbridge's gas supply plan leaves its customers significantly more exposed to market pricing as a result of declining storage deliverability.

- The two plans are conceptually aligned in March, since both companies are faced with declining deliverability, although Enbridge has a greater deliverability deficit than Union.

- Union has been approved to plan for a peak of 44 heating degree days (HDD) in its southern region, whereas Enbridge has been approved for only a 41 HDD peak. Planning to a lower HDD peak in a region that experiences more overall HDD makes it more difficult for Enbridge to respond to unusually cold and prolonged weather events, because, in its gas supply plan, Enbridge carries less transportation and storage deliverability to meet its lower peak.

- Union's gas supply plan does not rely on peaking services in order to meet peak and severe winter weather conditions. The use of peaking services is part of Enbridge's approved gas supply plan - this means that Enbridge plans for lower storage deliverability requirements and transportation capacity. During the unusually cold and prolonged winter of 2013/2014, Enbridge had to use all of its budgeted peaking services, as well as procuring additional peaking service, in order to meet demand during multiple periods of severe cold. This resulted in an unusual amount of cost build-up related to peaking services
.

- EGD procures gas for its system gas and direct purchase customers throughout the winter and, unlike Union, does not require direct purchase customers to replace excess gas in kind by the February 28th checkpoint, as mentioned by Union in its evidence at EB-2014-0050, Tab 1, page 13 of 21.

In its submission CME states that, based on comparing an average price of $10.01/GJ to an average price of $7.12/GJ, Enbridge's procurement of additional supplies cost 140% more than Union's procurement for system gas customers. The table below addresses the difference in average unit costs between the two companies by accounting for the differences in peaking and storage deliverability targets, while ignoring the differences between Union and Enbridge in terms of load balancing for direct purchase customers. The table shows that Enbridge's average unit procurement cost for the two months of January and March combined was 7.24 $/GJ, which is aligned with Union's average unit cost of $7.09/GJ for the same two months. As discussed above, it is the month of February that is the "outlier". The difference for the month of February is explained by the fact that

Enbridge was required to purchase in the daily market to meet daily demand while Union could purchase more ratably over the month to meet month end targets.

1	2	3	4	5	6
(Amounts in $000)	EGD	EGD	EGD	Union	EGD Volume
Month	Vol. (TJ)[1]	Cost[2]	Ave Price[3]	Ave Price[4]	@ Union Price[5]
January	17,005.6	$ 104,725	$ 6.16	$ 5.34	$ 90,810
February	17,191.6	$ 279,333	$ 16.25	$ 7.34	$ 126,187
March	15,239.0	$ 128,606	$ 8.44	$ 9.60	$ 146,294
	49,436.2	$ 512,664	$ 10.37	$ 7.12	$ 363,291
January	17,005.6	$ 104,725	$ 6.16	$ 5.34	$ 90,810
March	15,239.0	$ 128,606	$ 8.44	$ 9.60	$ 146,294
	32,244.6	**$ 233,331**	**$ 7.24**	**$ 7.09**	**$ 237,104**
February	17,191.6	$ 279,333	$ 16.25	$ 7.34	$ 126,187
	49,436.2	$ 512,664	$ 10.37	$ 7.12	$ 363,291

[1] From Exhibit I, Tab 1, Schedule 1, Attachment, Column 5

[2] Exhibit I, Tab 1, Schedule 1, Attachment, Attachment Column 5 times Attachment Column 7

[3] Column 2 divided by Column 1

[4] Calculated from information provided in EB-2014-0050 at Tab 1, Page 6 of 21, Table 1

[5] Column 2 times Column 5

If Enbridge's gas supply plan allowed it to purchase gas in a manner similar to Union during the month of February, Enbridge's incremental procurement costs would have been lower by approximately $150 million (*i.e.*, the difference between $512 million and $363 million in the table above).

The following table aggregates the price and volume variance shown in Enbridge's response to Board Staff Interrogatory #1 by three categories – peaking services, planned purchases and incremental purchases. The table shows that variances for peaking services and incremental purchases explain two-thirds of the PGVA accrual.

1	2	3	4
Description	Volume (TJ)[1]	Amount ($000)[2]	Percent of Total[3]
Pricing Variance on peaking supplies	1,672.8	71,272	12%
Price variance on planned purchases	59,285.6	201,431	34%
Price variance on incremental purchases	49,436.2	318,028	54%
	110,394.6	590,730	100%

[1,2] Exhibit I, Tab 1, Schedule 1, Attachment

[3] Percentage of Column 3 Total

Eliminating peaking services and maintaining storage deliverability until the end of February in Enbridge's gas supply plan, as is the case in Union's plan, potentially could have resulted in reductions of $71 million and $150 million, respectively, relative to the costs that were incurred by Enbridge.

(b) Union's Layering Approach

Parties including IGUA refer to Union's "layering" approach to incremental gas purchases and Union's ability to acquire gas supplies at a lower cost. As discussed above, the main difference between average unit costs incurred by Enbridge and Union occurred in the month of February. In order for Enbridge to have "layered" on its purchases, Enbridge would have been required to purchase additional volumes in January in order to maintain higher-than-target deliverability in February. Such an action would have been a significant deviation from the gas supply plan developed by Enbridge and approved by the Board and any such deviation would have meant attendant risks for Enbridge.

It appears that parties are suggesting, with the benefit of hindsight, that Enbridge should have deviated from its supply plan and acquired incremental supplies in January in order to have more gas in storage. Given the unreliability of longer term weather forecasts, the question is how the consequences of high storage balances procured through a deviation from the gas supply plan would have been treated if colder weather had not materialized in February. In this circumstance, Enbridge would have had more gas in storage at the end of the withdrawal cycle, which would result in lower summer purchases. An issue could then have arisen about the prudence of acquiring higher than planned winter purchases at higher prices and creating a greater level of unutilized transportation costs later in the year, given the higher amount of long haul transport in the 2014 budget.

Targeted Storage Levels

FRPO's submission questions whether Enbridge managed its storage to the levels forecasted in the supply plan. The attachment to FRPO's submission from the

EB-2012-0459 proceeding identifies a difference between the January month-end actual and target storage balances. FRPO suggests that, by not keeping to the targeted storage levels according to the supply plan, Enbridge did not purchase gas in the month of January and instead those purchases were “deferred and likely purchased in February when the cost of gas was highest”.

As discussed in Enbridge’s evidence in this Application (Exhibit Q2-2, Tab 1, Schedule 3, page 3 of 10, paragraph 9) gas supply personnel meet on a weekly basis to discuss how to satisfy demand for the upcoming seven days. During the latter part of January, demand exceeded budget by approximately 8.5 Bcf. Enbridge was able to meet this demand through maximum withdrawals from storage, combined with long haul transportation and incremental delivered supplies.

In light of the fact that weather was significantly colder than budget, in order for Enbridge to achieve the specific end of January storage target and also to meet demand, Enbridge would have been required to reduce its storage withdrawals and purchase an even greater level of delivered supplies. Instead, Enbridge acted according to its gas supply plan by maximizing use of storage deliverability. In order to replenish storage balances, Enbridge had made the decision to eliminate budgeted underutilization of long haul capacity for the month of February. Compliance with the gas supply plan to maximize deliverability first and plan for replenishing storage subsequently was achieved at no greater cost than the course of action referred to by FRPO. As shown in the response to Board Staff Interrogatory #1, the average cost of procuring these incremental supplies in Alberta in February was $7.24/GJ, which was in line with the cost of procuring delivered Dawn supply in January of $ 7.27/GJ.

Conclusion

In accordance with the two purposes of this letter described above, Enbridge has provided its reply to submissions made by others and it has also endeavoured to assist parties with an understanding of matters referred to in their submissions. In the context of this QRAM proceeding, and the very short time-line allowed for a reply submission, Enbridge has not, however, attempted to respond exhaustively to all comments made by other parties. The absence of an explicit response by Enbridge to a comment made by another party should not be taken as agreement with any such comment.

Enbridge submits that the Application has been filed in accordance with the Board-approved methodology and that it meets all Board requirements. Enbridge submits that rate smoothing is not appropriate, but that if the Board decides in favour of smoothing, it should be implemented in a subsequent 2014 QRAM application by Enbridge. For the reasons set out above, Enbridge respectfully requests that the Board approve the Application as filed, effective April 1, 2014.

All of which is respectfully submitted.

Yours truly,

AIRD & BERLIS LLP

[original signed]

Fred D. Cass

FDC/

c.c. Enbridge Gas Distribution Inc.
All EB-2012-0459 Parties