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BY EMAIL

April 23, 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 Procedural Order no. 1, 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 April 28, 2014.

Yours truly,

Original Signed By

Daniel Kim
Case Manager

cc: All parties EB-2012-0459

Ontario

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Enbridge Gas Distribution Inc.

EB-2014-0039

April 23, 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 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").

Board staff, the Industrial Gas Users Association ("IGUA") and the Canadian Manufacturers & Exporters ("CME") requested and received additional information from Enbridge. 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 for further review of Enbridge's application, including consideration of rate mitigation.

Numerous letters of comment from the public were received by the Board.

The Board in its letter dated March 21, 2014, made provision for parties to file a written submission as to whether the Board should consider rate mitigation measures to smooth the impact of the increase in the commodity price. Written submissions were received from Board staff, CCC, CME, FRPO, IGUA, and VECC.

The Board issued its Decision and Interim Order on March 27, 2014. The Board approved on a final basis, the new utility price of $\$230.677/10^3m^3$. This is the forecast price of natural gas to be used for the next quarter (April to June 2014). The Board also approved, on an interim basis, the disposition of the Purchased Gas Variance Account (the "PGVA") using the standard 12-month disposition period. The PGVA is used to record the difference between the forecast cost of natural gas and the actual cost. The use of this account ensures that Enbridge does not make a profit on the sale of the natural gas commodity, and that the actual cost is passed through to customers without any mark-up. The Board in its decision saw merit in further consideration of the available options for rate impact mitigation and the consequences of those options.

Rate mitigation typically considers the method and timing for the recovery of costs to smooth bill impacts for customers.

In Procedural Order No. 1 dated April 1, 2014, the Board made provision for further discovery on Enbridge's ability to mitigate rates, alternatives available for rate mitigation and the consequences of those alternatives.

Board staff, CCC and VECC filed additional interrogatories and on April 16, 2014, Enbridge filed responses to all interrogatories.

The following is Board staff's submission on rate mitigation.

Board Staff Submission

The Board's Decision and Interim Order, were it to be declared final, would result in an increase of approximately $400 per year based on the current forecast of natural gas prices, for a typical residential customer that purchases natural gas from Enbridge. This would amount to a total bill increase of about 40%, presuming that the PGVA balance is recovered over the standard 12-month period. Of the $400 increase, the forecast cost of natural gas commodity prices going forward accounts for about $150 annually, while the difference between last quarter's forecast natural gas commodity costs and the actual costs accounts for the remaining $250 (also referred to as the PGVA balance). These increases are the result of the effect that much colder than normal weather had on customer demand and on natural gas prices.

At issue here is whether the Board should take additional measures to smooth the bill impact associated with the recovery of the PGVA balance. The Board's standard approach with the QRAM is to dispose of this difference over a 12-month period. Spreading the balance over a 12-month period smooths the bill impacts. However, as previously advocated given the significance of the PGVA balance, Board staff submits that the Board should adopt further measures to smooth bill impacts.

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 (i.e. the standard 12-month disposition period) where the public interest so dictates. Board staff submits that the public interest would be served by further smoothing out the effect that the past winter weather had on natural gas prices and therefore customer bills.

Board staff also notes that as part of the Renewed Regulatory Framework for Electricity, the Board 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 in this proceeding is far more significant and therefore Board staff is of the view that further measures to smooth the bill impact are warranted.

Options

On the record are three options that the Board might consider to further smooth bill impacts. They are:

1. Extend the recovery period of the PGVA balance.
2. Adopt a “hybrid” approach.
3. Recover the PGVA balance over the next two summer periods.

These options are further described below.

1. Extend the recovery period of the PGVA balance

The first alternative is to extend the recovery period of the PGVA balance over a period longer than the standard 12-month period. In response to Board staff supplemental interrogatory #6, Enbridge stated that using a 24-month disposition period would lower the customers’ bills each month and maintain a payment pattern that mimics the load profile of heat sensitive customers where bills are higher in the winter months and lower in the summer months. Enbridge also indicated that this approach is the simplest option from an implementation and customer communication perspective. Enbridge also noted that this alternative would provide for the least amount of distortion of market price signals for natural gas.

2. Adopt a “hybrid” approach

This alternative was proposed by Enbridge in response to Board staff supplemental interrogatory #6. The “hybrid” approach consists of maintaining, from April 1, 2014 to December 31, 2014, the PGVA unit rates approved by the Board on an interim basis. The unit rates would then be adjusted to recover the remaining PGVA balance over the January 1 to December 31, 2015 period.

Enbridge indicated that this approach would result in lower unit rates over the winter months of 2015 and smooth the transition for customers in moving from December 2014 to January 2015 bills (as January bills are typically the highest due to higher consumption). Enbridge however noted that this approach would be more difficult to communicate to customers especially because the smoothing effect would not take place prior to the winter of 2015. Enbridge also noted that this alternative would provide for the least amount of distortion of market price signals for natural gas.

3. Recover PGVA balance over the next two summer periods

A third alternative would be to recover the PGVA balances over the 2014 and 2015 summer periods where residential consumption is generally lower. In response to Board staff supplemental interrogatory #6, Enbridge’s provided its view that this approach would significantly distort natural gas market price signals over the summer period and significant customer communications would be required to explain this approach to consumers, including why their summer bills are higher than their May and June bills while their consumption is lower. Enbridge also noted that the increase in the gas supply charge for the July to September periods would distort price comparisons between natural gas and alternative fuels, such as electricity and oil.

Recommendation

Board staff submits that the Board should extend the recovery period of the PGVA balance by an additional 12 months starting July 1, 2014 (i.e. a 27 month recovery period from April 1, 2014 to June 30, 2016). In Board staff’s view, this is the simplest option and therefore it would facilitate communications with customers. Furthermore, this option would strike a reasonable balance between smoothing bill impacts to customers and clearing the PGVA balance in a timely manner to reduce carrying charges and any cross subsidization between past and future customers.

While the “hybrid” approach has some merits as described by Enbridge, Board staff is of the view that this will not provide sufficient smoothing for bills and will result in a large part of the PGVA (Enbridge estimated this to be 50%) being cleared in 2014 when natural gas prices are reasonably expected to be somewhat higher as natural gas distributors replenish their storage inventory levels.

With respect to the recovery of the PGVA balance over the next two summer periods, Board staff agrees with Enbridge that this option would require significant communications with customers. The change in rates between summer and winter months could create confusion for customers.

In its March 19, 2014 response to Board staff interrogatory #3, Enbridge provided the following annualized total bill impacts for a typical residential customer using a 12, 24, 36 and 48-month recovery period to dispose of the PGVA balance, while keeping all other aspects of the bill constant:

Heating & Water Heating
12-Month Clearance

		A	B	Change	%
Volume	m^3	3,064	3,064	-	0%
Customer Charge	$	240.00	240.00	-	0%
Distribution Charge	$	201.68	200.32	1.36	1%
Load Balancing	$	181.59	181.66	- 0.07	0%
Sales Commodity	$	539.37	388.47	150.90	39%
Annual Bill	$	1,162.64	1,010.45	152.19	15%
Rider C	$	219.53	- 26.96	246.49	
Annual Bill Including Rider C	$	1,382.17	983.49	398.68	40.5%

Heating & Water Heating
24-Month Clearance

		A	B	Change	%
Volume	m^3	3,064	3,064	-	0%
Customer Charge	$	240.00	240.00	-	0%
Distribution Charge	$	201.68	200.32	1.36	1%
Load Balancing	$	181.59	181.66	- 0.07	0%
Sales Commodity	$	539.37	388.47	150.90	39%
Annual Bill	$	1,162.64	1,010.45	152.19	15%
Rider C	$	109.77	- 26.96	136.73	
Annual Bill Including Rider C	$	1,272.41	983.49	288.92	29.4%

Heating & Water Heating
36-Month Clearance

		A	B	Change	%
Volume	m^3	3,064	3,064	-	0%
Customer Charge	$	240.00	240.00	-	0%
Distribution Charge	$	201.68	200.32	1.36	1%
Load Balancing	$	181.59	181.66	- 0.07	0%
Sales Commodity	$	539.37	388.47	150.90	39%
Annual Bill	$	1,162.64	1,010.45	152.19	15%
Rider C	$	73.18	- 26.96	100.14	
Annual Bill Including Rider C	$	1,235.82	983.49	252.33	25.7%

Heating & Water Heating
48-Month Clearance

		A	B	Change	%
Volume	m^3	3,064	3,064	-	0%
Customer Charge	$	240.00	240.00	-	0%
Distribution Charge	$	201.68	200.32	1.36	1%
Load Balancing	$	181.59	181.66	- 0.07	0%
Sales Commodity	$	539.37	388.47	150.90	39%
Annual Bill	$	1,162.64	1,010.45	152.19	15%
Rider C	$	54.88	- 26.96	81.84	
Annual Bill Including Rider C	$	1,217.52	983.49	234.03	23.8%

As can be seen in the tables above, extending the recovery period to three years does not materially affect the total bill impacts.

Board staff notes that the winter of 2013-2014 was extremely cold. According to the actual heating degree days observed by Enbridge, this past winter was the coldest in 37 years[1]. As the winter of 2013-2014 was abnormally cold, Board staff submits that this weather pattern is unlikely to be experienced again in the near future. Board staff expects that once storage inventory levels have been replenished, natural gas commodity prices should decline, as there is abundant natural gas supply, especially in light of increasing shale production in the US Northeast region. Board staff submits that it would be reasonable to expect natural gas prices to fall, within the next 24 months, to a level between market price expectations that existed at the time of the January and April 2014 QRAMs, or about 15 ¢/m^3 (i.e. based on the average price of 12.6789 ¢/m^3 and 17.6031 ¢/m^3 respectively). This is an important consideration because the forecast price of natural gas will be updated every three months, and therefore if Board staff's assumption is correct and natural gas prices fall in future quarters, the bill impacts presented as part of the April 2014 QRAM would not materialize.

Based on Board staff's assumption, and using a 27-month disposition period for the disposition of the PGVA balance, the annualized total bill impact for a typical residential customer would be an increase of about 20% over the January 2014 level, as depicted in the table below, roughly half of the estimate using the 12-month standard disposition period.

Heating & Water Heating
27-Month Clearance & Change in Sales Commodity

		A	B	Change	%
Volume	m^3	3,064	3,064	-	0%
Customer Charge	$	240.00	240.00	-	0%
Distribution Charge	$	201.68	200.32	1.36	1%
Load Balancing	$	181.59	181.66	-0.07	0%
Sales Commodity @ 0.15	$	459.60	388.47	71.13	18%
Annual Bill	$	1,082.87	1,010.45	72.42	7%
Rider C	$	97.57	-26.96	124.53	
Annual Bill Including Rider C	$	1,180.44	983.49	196.95	20.0%

[1] Interrogatory Responses VECC #1, April 16, 2014, Exhibit 1, Tab 6, Schedule 1, p. 2 of 2.

While Board staff has assumed that natural gas prices will decrease over the 24-month period between July 1, 2014 and June 30, 2016, and calculated the bill impact above based on this assumption, Board staff felt it prudent to test this assumption through a third party. For this reason, Board staff asked Navigant Consulting Inc. to provide an indication of expected natural gas prices at Empress (Alberta) over the next five years. A copy of the Navigant forecast is appended to this submission as Appendix A. While Board staff did not use the Navigant forecast in its calculations above, the forecast is directionally similar to Board staff's assumption.

Board staff therefore submits that a 27-month disposition period would facilitate communications with customers and strike a reasonable balance between smoothing bill impacts to customers and clearing the PGVA balance in a timely manner to minimize carrying charges and reduce any cross subsidization between past and future customers.

Board staff reiterates its previous position that the Board's prescribed interest rates for deferral and variance accounts continues to be the appropriate rate for the PGVA balance. Board staff notes that in its response to Board staff supplemental interrogatory #5, Enbridge noted that its existing short term credit facility and short term funding are approximately equivalent to the Board's prescribed interest rates, and that if clearance of the current PGVA balance is required to be spread over two years, Enbridge would not seek a different interest rate.

Board staff also notes Enbridge's commitment, set out in responses to various interrogatories, to assist low and fixed income customers with the management of their bills in recognition of the severity of the impact from the gas cost increase. Demand-side management programs are also available to assist customers in reducing their natural gas use.

All of which is respectfully submitted

Appendix A: Navigant Forecast

NAVIGANT

Gas Price Forecast: *Empress, AB Delivery Receipt Point into the TCPL Mainline Pipeline System*

Navigant has provided a natural gas price forecast at the Empress, AB delivery point into the TCPL mainline pipeline system on Exhibit 1. The forecasted price comes from Navigant's North American Natural Gas Market Outlook, Fall 2013 and is adjusted in the near-term using the NGX AB-NIT futures price along with the NGX AB-NIT /Empress spread.

For the near-term of the forecast Navigant uses the futures price. Starting in October of 2015, as trading volumes start to decline, the prices are based upon our fundamentals based market model.

About Navigant's North American Natural Gas Market Outlook

Navigant's bi-annual natural gas forecast provides a long-term outlook for the North American natural gas market—including supply, demand, imports and exports, and prices at key market points. The Outlook represents Navigant's view of the market direction and serves as a reference point for market analysis and scenario development, and other commercial and planning purposes for our clients.

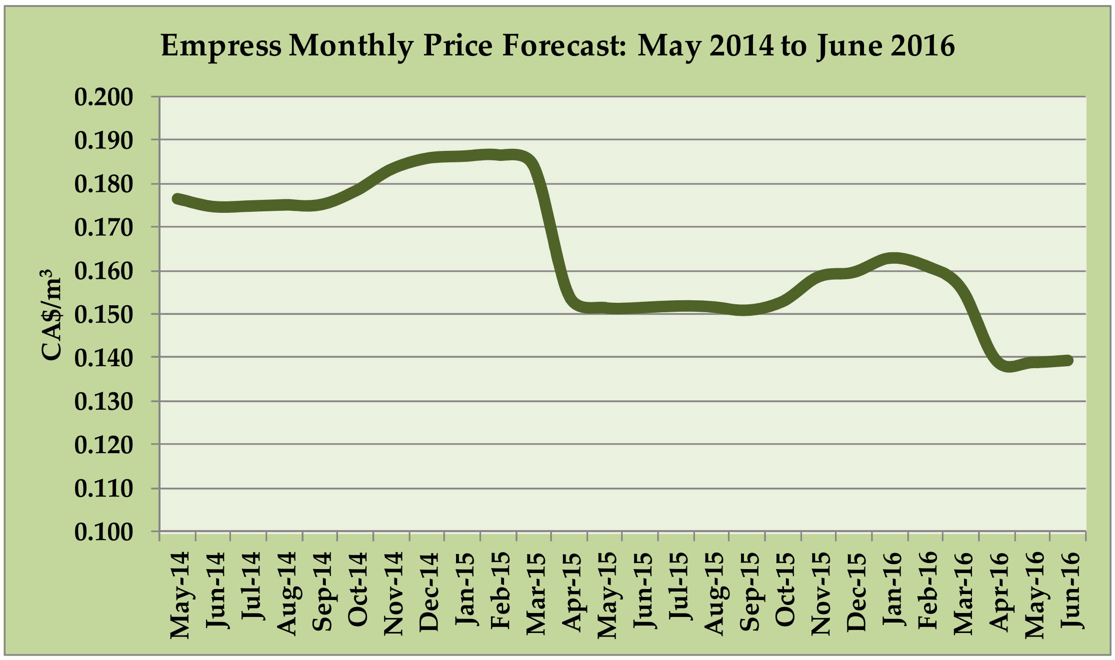
On December 1, 2013, Navigant released *North American Natural Gas Market Outlook, Fall 2013.* This is the forecast that Navigant used to forecast prices at Empress. Key conclusions highlighted in *North American Natural Gas Market Outlook, Fall 2013* include:

- Continued expansion of natural gas use in the power generation sector
- Modest revival of the U.S. industrial sector and consequent growth of demand for natural gas
- Healthy increase in U.S. natural gas vehicle fuel demand
- Sustained development of onshore natural gas resources
- A more optimistic view on future North American LNG exports

Forecasted Prices and Key Market Drivers

For the winter of 2013-2014, extremely cold weather coupled with the still to be completed build-out of pipeline infrastructure to connect the prolific Marcellus gas shale to markets in the Northeast and into Eastern Canada was the primary driver for the seasonal run-up of natural gas prices in the region. The historically cold weather, primarily in the Northeast and Midwest, increased seasonal natural gas demand for residential heating and was primarily responsible for extremely high 'spot' prices experienced this past winter. Lower than average storage levels starting in January of 2014 on some early season withdrawals also contributed to the high 'spot' prices in the US Northeast and in Ontario this past winter. In fact, current storage levels remain at their lowest levels in 11 years.

As shown in our forecast going forward, monthly prices at the Alberta border at Empress are forecast to decline over the forecast period. This is primarily driven by an abundance of natural gas – even surplus gas supply– due to gas shale production in the US and emerging shale production in BC. Increased shale gas production has driven up overall total gas supply to such an extent that prices for natural gas in the US have declined substantially over the last six years. Increasing gas shale production in the US Northeast region, in particular with the prolific Marcellus and emerging Utica shale basin, have in turn reduced US demand for Canadian gas supply from Alberta that has become generally uncompetitive in the US Northeast market. This has resulted in decreasing volumes on the TransCanada Canadian Mainline, the largest pipeline in Canada delivering to Eastern Canadian and US Northeast markets.[1] The decreased mainline volumes have contributed to supply backing up into Alberta and exerting pressure and lowering prices at Empress and in Alberta. This situation is expected to continue over the forecast period through mid-year 2016 with only marginally increasing prices thereafter.



In 2017, prices at Empress are expected start to rise again. This is driven by overall price increases in the US market on increased demand from the U.S. industrial sector, North America electric generation demand and, later, by increased demand from LNG exports out of B.C.

[1] The recent TransCanada rate case, where the NEB lowered Firm Transportation toll from Empress, Alberta to Dawn, Ontario to $1.42/GJ, has lowered transportation costs for gas coming out of AB, but it is likely to have little impact on Mainline volumes.

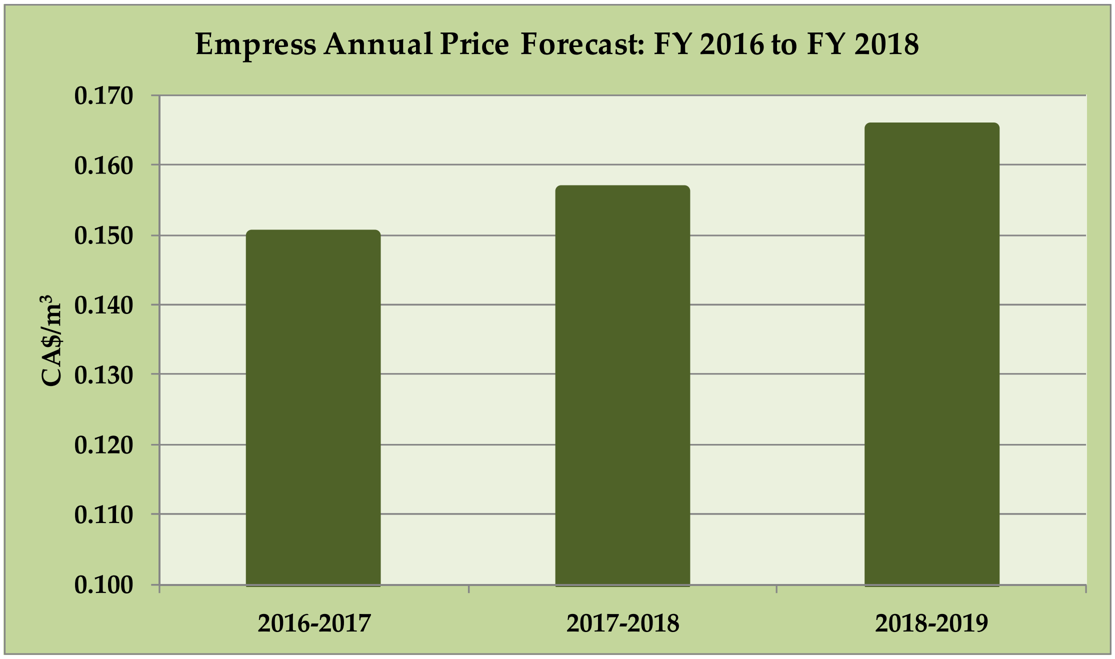

Empress Annual Price Forecast: FY 2016 to FY 2018
0.170
0.160
0.150
0.140
0.130
0.120
0.110
0.100
CA$/m3
2016-2017
2017-2018
2018-2019

Exhibit 1

Price Forecast: Empress, AB Delivery Receipt Point into the TCPL Mainline Pipeline System

Date	Empress CA$/m3
May-14	0.1766
Jun-14	0.1748
Jul-14	0.1749
Aug-14	0.1752
Sep-14	0.1752
Oct-14	0.1784
Nov-14	0.1834
Dec-14	0.1859
Jan-15	0.1864
Feb-15	0.1867
Mar-15	0.1842
Apr-15	0.1541
May-15	0.1515
Jun-15	0.1515
Jul-15	0.1519
Aug-15	0.1517
Sep-15	0.1509
Oct-15	0.1529
Nov-15	0.1586
Dec-15	0.1597
Jan-16	0.1629
Feb-16	0.1612
Mar-16	0.1560
Apr-16	0.1392
May-16	0.1388
Jun-16	0.1393

FY	Empress CA$/m3
2016-2017	0.1500
2017-2018	0.1562
2018-2019	0.1653