

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c.15 (Schedule B);

**AND IN THE MATTER OF** an application by Enbridge  
Gas Distribution Inc., pursuant to section 36(1) of the Act  
for an order or orders approving or fixing just and  
reasonable rates and other charges for the sale, distribution,  
transmission, and storage of gas as of April 1, 2014;

**AND IN THE MATTER OF** the Quarterly Rate  
Adjustment Mechanism approved by the Ontario Energy  
Board in proceedings: RP-2000-0040, RP-2002-0133,  
RP\_2003-0203 and EB-2008-0106.

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**SUBMISSIONS OF  
ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")**

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**April 23, 2014**

## **I. INTRODUCTION**

The Board issued its Decision and Interim order on March 27, 2014 with respect to the Quarterly Rate Adjustment Mechanism ("QRAM") setting rates for the sale, distribution, storage and transmission of gas by Enbridge Gas Distribution Inc. ("EGD") effective April 1, 2014.

The Board approved on an interim basis the disposition of the Purchased Gas Variance Account ("PGVA") balance contained in Rider "C" using the standard 12 month period, pending the results of the Board's further consideration of rate mitigation. The Board approved, on a final basis, a new utility price effective April 1, 2014.

The Board accepted that there are potential cost consequences in any departure from the QRAM process, but saw merit in further consideration of the available options for rate impact mitigation and the consequences of those options.

The Board made provision for further discovery on EGD's ability to mitigate rates, alternatives available for rate mitigation and the consequences of those alternatives.

These are the submissions of the Energy Probe Research Foundation ("Energy Probe") with respect to the need for rate mitigation, alternatives available and the associated consequences of these alternatives.

## **II. SUBMISSIONS**

### **a) Impact**

Energy Probe acknowledges that the impact of the increase in gas costs, at about \$400 on an annualized basis for a typical residential system gas customer is significant. About \$250 of this increase is due to colder than normal weather over the winter period, while the remaining increase of about \$150 due to higher natural gas prices forecast for the April 1, 2014 through March, 2015 period (Exhibit I, Tab 2, Schedule 3).

### **b) Rate Mitigation**

Energy Probe submits that any rate mitigation considered by the Board should distinguish between the two components of the cost increase.

#### **i) Market Price Forecast Increase**

Energy Probe submits that there should not be any rate mitigation measures associated with the second component noted above, the \$150 increase due to higher natural gas prices forecast for the April, 2014 through March, 2015 period.

As the Board and others are aware, the QRAM is designed to adjust the regulated gas supply every three months to reflect natural gas market prices. Any mitigation of this component of the rate increase would distort the natural gas market between direct purchase options and costs and the system gas commodity option and costs.

Gas customers may believe that the system gas supply price is lower than it actually is and this would distort the market. The interest costs incurred by EGD and ultimately paid for by system gas customers would be a hidden cost that would need to be paid in the future. If forecast costs increase in the future, more and more costs would get pushed further into the future, further distorting the market prices, pushing the inevitable payment further into the future and adding more and more hidden costs to customers.

The current 12 month approach for the forecasted future gas cost prices provides transparency to customers and lets them base their direct purchase/system gas purchase decisions on rates that are comparable. Any attempt at mitigation related to this component of the rate increase could easily distort market pricing and price transparency between system gas and direct purchase gas, leading to added customer confusion in the market.

#### **ii) Colder Winter**

As noted above, the colder than normal winter has the biggest impact on the annualized increase in the costs for ratepayers. Energy Probe submits that if the Board were to determine that rate mitigation is required, then it is only this component of the increase that should be mitigated.

#### **c) Mitigation Measures**

Board Staff suggested through an interrogatory (Exhibit I, Tab 4, Schedule 6) that recovery of the PGVA balances over the summer months, when bills are typically lower than in the winter months, as a way to smooth the impact over the course of a year.

Energy Probe does not support this potential rate mitigation as it creates a cross subsidization between ratepayers. As noted, the cost increase was driven by the cold winter and increased volumes needed for heating.

Energy Probe notes that EGD has provided two mitigation proposals in Exhibit I, Tab 4, Schedule 6.

Energy Probe does not support the first proposal of creating a PGVA unit rate based on a 24 month clearing methodology. As noted below, this option would involve higher costs to customers (through higher carrying costs) and result in intergenerational inequity.

The second EGD proposal has merit in that it would smooth the rate impact beginning in January 2015, while recovering about 50% of the PGVA balance by the end of 2014. However, this proposal appears to assume no further increase in the PGVA balance by the end of 2014. If the amount to be recovered from system gas customers goes up, any benefit of this proposal would be eliminated and the increase in 2015 could be more. Of course, if the PGVA balance goes down, the impact would be further mitigated automatically.

#### **d) Consequences of Mitigation**

Energy Probe submits that the consequences of using some form of mitigation outweigh the benefits of continuing with the standard QRAM approach. Some of these potential consequences are listed below, accompanied by a brief description of the potential impacts.

##### **i) Intergenerational Inequity**

By pushing part of the costs off to the future, future customers subsidize current customers. This also impacts customers that move between system gas and direct purchase. Direct purchase customers returning to system gas end up paying for past system gas customers, while system gas customers that move to direct purchase avoid paying for the costs that were incurred on their behalf while they were system gas customers.

##### **ii) Seasonal Use Inequity**

As noted above, Energy Probe does not support the potential rate mitigation proposal from Board Staff as it creates a cross subsidization between ratepayers.

Increasing the costs in the summer months would result in two negative consequences. First, heating only customers, which contributed to the need for the additional gas, would not pay their share of the costs because they have little, if any load in the summer. Second, those customers that have a high load relative to others in the summer (water heaters, pool heaters, etc.) would pay a disproportionately high of the costs.

##### **iii) Conservation**

The high costs associated with the winter heating season should encourage customers to upgrade to more energy efficient equipment and to take additional measures to reduce gas use such as added insulation in walls and attics.

Any mitigation effort will reduce rates, at least in the short run. High rates are one of the most significant drivers that encourages conservation. By approving any mitigation effort, the Board would effectively be reducing the incentive to reduce gas use.

In the longer term, if prices continue to rise, the mitigation efforts to reduce costs in the short run could actually end up costing customers more over the longer term by influencing them to delay the adoption of conservation measures.

#### **iv) Higher Interest Costs**

As shown in the response to Exhibit I, Tab 4, Schedule 5, the increase in the interest costs associated with clearing the PGVA balance over 24 months instead of 12 months is nearly \$5 million. This incremental cost is recovered from system gas customers. Energy Probe submits that any rate mitigation plan that ends up costing more should not be approved by the Board as it only makes the costs paid by customers higher.

#### **e) Submissions on Mitigation**

Energy Probe submits that the consequences of any mitigation proposal at this time are worse than any benefit that would be gained by the system gas customers. As a result, Energy Probe submits that no mitigation measures should be implemented at this time.

However, Energy Probe submits that there are steps that EGD, and the Board, could take to assist ratepayers.

EGD currently has about 965,000 customers on Budget Billing Plan (“BBP”), representing about 48% of the residential mass market customers (Exhibit I, Tab 4, Schedule 1). Energy Probe submits that there should be an advertising campaign to promote the benefits of the BBP. This could be done in conjunction with Union Gas. Energy Probe submits that the Board should also consider a customer outreach program to promote the benefits of BBP.

Energy Probe submits that EGD should also focus additional resources on the Low-Income Energy Assistance Program throughout the spring, summer and fall in order to better prepare individuals in need of assistance for the significant cost increases expected next winter (or beginning in September on BBP). This could include a refocusing of demand side management efforts for low income ratepayers.

Energy Probe recommends that Board monitor gas costs through the remainder of 2014. QRAM applications for July 1, 2014, October 1, 2014 and January 1, 2015 could have significant impacts on the total cost to system gas customers.

If rates trend down, the impact on customers, which will be felt the most beginning in January of 2015, may be automatically reduced through the QRAM mechanism. On the other hand, if prices continue to rise, any rate mitigation put in place now may need to be further adjusted to reflect conditions at that time.

Energy Probe submits that the Board should direct EGD to file its January 1, 2015 QRAM earlier than normal so the Board and parties have an opportunity to explore the need for rate mitigation starting in January, 2015 if rate impacts are expected to be worse than those that resulted from the most recent QRAM filing.

### **III. COSTS**

Energy Probe requests that it be awarded 100% of its reasonably incurred costs associated with its participation in this proceeding.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**

**April 23, 2014**

**Randy Aiken**

**Consultant to Energy Probe Research Foundation**