
AIRD & BERLIS LLP

Barristers and Solicitors

Fred D. Cass
Direct: 416-865-7742
E-mail: fcass@airdberlis.com

April 28, 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

This letter contains the reply submissions of Enbridge Gas Distribution Inc. ("Enbridge") delivered pursuant to Procedural Order No. 1 issued by the Ontario Energy Board (the "Board") in EB-2014-0039 on April 1, 2014.

The issuance of Procedural Order No. 1 followed from the Board's Decision and Interim Order dated March 27, 2014 (the "Decision"). In the Decision, the Board addressed Enbridge's QRAM application for the approval of interim rates effective April 1, 2014 and decided as follows:

- 1) the disposition of the Purchased Gas Variance Account ("PGVA") balance (contained in Rider C) was approved, on an interim basis, using the standard 12-month period, pending the result of the Board's further consideration of mitigation; and
- 2) the new utility price for natural gas of \$230.77 per 10/3m/3 (or \$6.120 per GJ) was approved, on a final basis, effective April 1, 2014.

The Board established its process for the further consideration of rate mitigation in Procedural Order No. 1, where the Board indicated its intention to,

...[make] provision to allow for further discovery on Enbridge's ability to mitigate rates, alternatives available for rate mitigation and the consequences of those alternatives.

Procedural Order No. 1 provided for interrogatories and interrogatory responses “related to rate impact mitigation” and it set a schedule for written submissions.

Enbridge has received submissions from Board staff and from a number of parties that also made submissions during the process leading up to the Decision, namely, Canadian Manufacturers & Exporters (“CME”); the Consumers Council of Canada (“CCC”); the Federation of Rental-housing Providers of Ontario (“FRPO”); the Industrial Gas Users Association (“IGUA”); and the Vulnerable Energy Consumers Coalition (“VECC”).

Enbridge has also received submissions from Energy Probe Research Foundation (“Energy Probe”), Direct Energy, Just Energy and Planet Energy.

Board staff submits that the Board should adopt “further measures” to smooth bill impacts and it offers three options for the Board’s consideration. Board Staff recommends that the Board should extend the recovery period of the PGVA balance by an additional 12 months starting July 1, 2014 (which would result in a 27 month recovery period from April 1, 2014 to June 30, 2016). VECC supports the recommendation made by Board staff.

CCC submits that it is important that the Board address mitigation issues, but that the Board should not implement any mitigation until the “November QRAM”, at which time the Board should consider the mitigation plan that is most appropriate.

CME, FRPO and IGUA take no position on mitigation.

Energy Probe discusses the consequences of rate mitigation, such as intergenerational inequity, seasonal use inequity, effects on energy conservation and interest/carrying costs. Energy Probe submits that these consequences are worse than any benefit that would be gained by system gas customers and, as a result, it submits that no implementation measures should be implemented at this time.

Direct Energy, Just Energy and Planet Energy all oppose any deviation from the standard QRAM methodology and submit that the Board should not approve any additional measures to smooth rates. The reasons for this position include concerns about a negative impact on competition in the gas commodity market, sending the wrong message to consumers of gas, rate confusion, providing consumers with inaccurate current pricing information and undermining the ability of consumers to make an informed and educated decision.

Enbridge’s comments on the rate mitigation issue follow under the heading immediately below.

Rate Mitigation

Enbridge has discussed its views on the issue of rate smoothing within a QRAM application in a number of filings made during the course of this proceeding. These include Enbridge's reply submission filed on March 25, 2014, its responses to Board Staff interrogatories found at Exhibit I, Tab 1, Schedules 3 and 6 (which included Enbridge's proposals for rate smoothing options) and its responses to CCC interrogatories found at Exhibit I, Tab 5, Schedules 2 and 3.

The Board-approved process for QRAM applications, which resulted from an extensive review in the EB-2008-0106 proceeding, does not contemplate that consideration of rate mitigation measures will occur as part of the process. Enbridge's view continues to be that the QRAM process should be mechanistic; it should reflect market prices; it should enhance price transparency; and it should look to achieve fairness and equity amongst all customers groups. For these reasons, rate smoothing is not suitable for impacts stemming from a QRAM application.

Enbridge supports many of the arguments made by Energy Probe regarding intergenerational inequity, seasonal use inequity, conservation and higher interest costs. Enbridge has no further comments to add regarding the appropriateness of rate mitigation within the QRAM process.

Should the Board decide that rate mitigation is appropriate, Enbridge agrees with Board Staff's recommendation that the period for disposition of the PGVA balance should be 24 months effective with the July 1, 2014 QRAM.

As discussed in the response to the Board Staff interrogatory found at Exhibit I, Tab 1, Schedule 6, the 24 month smoothing mechanism is the administratively preferable option from an implementation and customer communication prospective.

To implement this approach, Enbridge would generate PGVA clearing unit rates to give effect to smoothing as part of its July 1, 2014 QRAM application. The April 1, 2014 projected PGVA balance would be reduced by the amount that is expected to be recovered from April 1, 2014 to June 30, 2014 based on the interim April 1, 2014 PGVA unit rates. The smoothing unit rates would then be developed based on the remaining balance divided by 24 months of volume (as opposed to the standard 12 months of forecast volume). This component of the Rider C unit rates would continue in effect for 24 months from July 1, 2014 to June 30, 2016.

CCC's mitigation suggestion, if considered and adopted by the Board as part of Enbridge's January 1, 2015 QRAM application would produce a similar rate mitigation profile to Enbridge's Option 2 Hybrid approach, which is discussed in Exhibit I, Tab 1, Schedule 6. As outlined in this exhibit, the Hybrid approach

maintains the existing April 1, 2014 PGVA unit rates in effect until December 31, 2014. This approach recovers approximately one-half of the April 1, 2014 PGVA balance by December 31, 2014. The remaining balance is recovered during the period from January 1, 2015 to December 31, 2015.

As in the case of the 24 month clearing proposal, the implementation of this approach is administratively straightforward. However, there are additional customer communication challenges associated with this approach, because customers will not see the impact of the smoothing until January 1, 2015. For these reasons, Enbridge prefers the Board Staff recommendation, as outlined above.

The submissions filed by some parties include argument on subjects other than rate mitigation. Under the next two headings below, Enbridge will address submissions by FRPO that do not relate to rate mitigation and comments by CCC about notice to customers.

FRPO Submissions

After stating that it takes no position on the issue of mitigation, FRPO goes on to address matters that have nothing to do with rate mitigation. FRPO asks the Board to order Enbridge to provide evidence in another proceeding and says that its submission in this regard is aligned with a request made by it in EB-2012-0459 (Enbridge's Customized Incentive Regulation case). FRPO's argument is beyond the scope of a QRAM proceeding, in general, and, more particularly, it is beyond the scope of the rate mitigation issue that the Board has asked parties to address in this QRAM proceeding.

After filing its comments regarding rate mitigation on April 23rd, CME wrote a letter to the Board on April 24, 2014, apparently in support of FRPO's submissions. CME explicitly recognizes in the April 24th letter, however, that "submissions in this QRAM proceeding [are] confined to matters relating to the appropriateness of providing some mitigation relief".

CME's letter of April 24th urges the Board to give an indication that "all matters related to the prudence of EGD's gas procurement actions during the winter of 2012/2013 have yet to be finally determined". While CME apparently wrote its letter in support of FRPO's submission, CME's proposition that prudence should be identified by the Board as an open issue is not consistent with the contents of FRPO's submissions. FRPO says that,

...we accepted that we had not made our case for a review of the issue of prudence ... our goal was not to punish Enbridge for its actions, which may have been

discovered to be completely above reproach, but to create transparency in this important area.

As stated in Enbridge's March 25th submission, there is a presumption of prudence that applies to decisions made by a regulated utility, unless those challenging a decision demonstrate reasonable grounds to question the prudence of a decision. The law could not be more clear on this point.¹

In the Decision, the Board made an explicit finding that there is "nothing on the record to trigger a more extensive review of the prudence of the actions taken by Enbridge to purchase gas for its customers".² In other words, no "reasonable grounds" have been raised to cause the Board to question the prudence of any decision by Enbridge. It was, and it continues to be, the case that the presumption of prudence applies because no party has even attempted to make the case that there are reasonable grounds to question prudence.

The thrust of FRPO's submissions seems to be a concern that a "lack of transparency" has "precluded [an] ability to learn from this past winter". Consistent with FRPO's statement that its submission on "transparency" is aligned with FRPO's request made to the Board in EB-2012-0459, Enbridge will be responding to the "transparency" concern in its reply argument in EB-2012-0459. Given that FRPO's concern will be addressed in another proceeding, and given that, as recognized even by CME, it falls outside the scope of the submissions to be made in this case on rate mitigation, Enbridge will not respond further to FRPO's submissions in this proceeding.

CCC Comments

CCC recommends that Enbridge communicate to customers any significant bill impacts stemming from a QRAM rate change or PGVA clearing in advance of its QRAM application or publication of its customer rate notices. As stated in the response to CCC Interrogatory #7 (Exhibit I, Tab 5, Schedule 7), Enbridge is committed to continually improving its communication practices based on customer feedback and Enbridge recognizes that there is a continued need to educate customers about how natural gas rates are set. Enbridge is considering how to balance giving an early signal to customers of a potential price increase or decrease (that is, a price signal between QRAM applications) while also respecting the regulatory approval process and the rules of that process around communications about rate/bill impacts.

¹ Again, see, for example, *Enbridge Gas Distribution Inc. v. Ontario Energy Board*, 2006 Can LII 10734, para. 11 (Ontario Court of Appeal).

² EB-2014-0039 Decision and Interim Order, March 27, 2014, page 8.

All of which is respectfully submitted.

Yours truly,

AIRD & BERLIS LLP

(Original Signed)

Fred D. Cass

FDC/

c.c. Enbridge Gas Distribution Inc.
Parties Listed in Appendix A to Procedural Order No. 1
Direct Energy, Just Energy and Planet Energy