

June 17, 2014

VIA RESS AND COURIER

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
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Dear Ms. Walli:

Re: EB-2014-0199 - Review of the Quarterly Rate Adjustment Mechanism (QRAM) Process for Natural Gas Distributors.

Industrial Gas Users Association (IGUA) Phase 1 Issues Comments.

Pursuant to the Board's (Amended) Notice of Proceeding and Procedural Order No. 1 herein (Notice), we write to submit IGUA's comments on the Phase 1 issues identified by the Board.

GENERAL OBSERVATIONS

IGUA is one of the two intervenors (the other being CME) which regularly participates in Union and EGD's QRAM applications. In IGUA's view so informed, the current process works well. Even with the tight timeframes for comment in the current process, IGUA is able to complete its review and work directly with the utilities to obtain any additional information or explanation required to provide its comments on time. IGUA has also found both EGD and Union to be helpful, in their responding submissions, by addressing any concerns or questions raised by IGUA or CME in their own submissions.

IGUA submits that a mechanical QRAM process, which ensures that current gas cost experience (for the PGVA component of the application) and expectations (for the rate and gas supply charge components of the application) continue to be reflected in updated rates and variance clearance charges, is important. The QRAM should remain

a process both designed and implemented so as to ensure that gas consumers pay bills that reasonably reflect gas costs on a timely basis, and that are transparently determined as such gas costs change through the year and over time.

SPECIFIC RESPONSE TO BOARD QUESTIONS

Review of Gas Supply Plan Execution

The Board has asked for comment on:

- (i) *whether the QRAM process should be amended to require, in certain cases, a substantive review of the application, including a review of the execution of the gas supply plan; and*
- (ii) *if the QRAM process is amended as described, what circumstances should trigger a substantive review.*

IGUA does not believe that a generic amendment to the QRAM process is required. IGUA submits that the Board can, in exceptional circumstances, manage its own process to ensure a properly informed and considered decision. IGUA does not see value in attempting to pre-define specific circumstances in which a substantive review of gas plan execution should be triggered in a QRAM process.

The questions posed by the Board arise from this past winter, and the extreme gas price and supply issues experienced. It is trite to observe that this past winter was a 1 in 35 anomaly. That experience should not, in and of itself, prompt changes to a QRAM process that was thoughtfully and carefully designed and that has functioned well for some time.

In fact, both EGD's and Union's April 1, 2014 QRAM applications, commencing with the standard QRAM filing protocols and augmented through the Board's authority to control its own processes, received full airing and resulted in decisions that were well informed and reflected the input of all interested parties. That is, even under the unusual stresses of this past winter, the standard QRAM process combined with appropriate flexibility tailored to the immediate circumstances worked well. IGUA commends the Board's willingness to extend the most recent QRAM processes, in the unusual circumstances faced, in order to properly consider and dispose of the applications before it. IGUA has every confidence that should equally unique circumstances so warrant in the future, the Board will be equally responsive.

IGUA has always felt free to raise, through the standard summary QRAM process, issues and concerns that it felt required further consideration, and the utilities have

always been responsive to such issues and concerns. Should the Board identify a need in the context of any particular QRAM application, informed by the initial comments of Board Staff and interested parties, it can, as has been recently demonstrated, appropriately tailor its review process to the circumstances at the time. The vast majority of the time, however, the current standardized QRAM process works well. IGUA does not believe that any generic procedural amendment is required.

IGUA does believe that regular consideration of the utilities' execution of their gas supply plans is appropriate, with review of such plan execution proceeding should cause be shown. IGUA submits that such consideration is appropriately conducted in conjunction with review of the supply plan itself, during annual rate applications. IGUA notes that Union recently agreed to holding an annual stakeholder consultation in advance of its annual rate filing, at which gas supply plan issues, both planning and execution, can be raised and explored. In EGD's recent multi-year rate plan application proceeding [EB-2012-0459] IGUA and others have recommended that EGD similarly engage in such an annual consultation with interested parties. Generally speaking IGUA believes that these two opportunities (informally in annual stakeholder consultation sessions and formally, as warranted, in annual rate applications) for consideration of gas supply planning and execution are sufficient. Again, this view recognizes that the Board can and will require a more complete review of the status of gas supply plan execution in a QRAM application if the Board is of the view that such is warranted in the particular circumstances before it (as was the case this past winter). The parties regularly engaged in QRAM applications and the Board and its staff can identify when a more comprehensive review is warranted, and the Board can then react appropriately. IGUA does not see value in attempting to pre-define specific circumstances in which a substantive review of gas plan execution should be triggered in a QRAM process.

Rate Mitigation

The Board has also asked for comment on:

- (iii) *whether the Board should establish a policy on rate mitigation to protect system-supply customers from rate volatility, for example by further smoothing rate impacts over time.*

As has recently been noted by a number of parties, and the Board itself¹, the current QRAM process already entails a rate smoothing mechanism in spreading PGVA recovery over the ensuing 12 months, and in basing gas cost and gas cost associated delivery rate changes on a 12 month price forecast.

As IGUA has commented above, a mechanical QRAM process, which ensures that current gas cost experience (for the PGVA component of the application) and

¹ EB-2014-0050, Decision and Order on Union's April, 2014 QRAM, page 3.

expectations (for the rate and gas supply charge components of the application) are reflected in rates and variance clearance charges on an ongoing basis, remains important. The QRAM should remain a process designed to ensure that gas consumers pay bills that reasonably reflect gas costs, as such gas costs change through the year and over time. These principles facilitate both efficient gas consumption decision making and competitive market gas supply offerings.

As recently demonstrated in response to EGD's April 1, 2014 QRAM application, the Board retains authority to direct rate mitigation in appropriate circumstances. Generally, the current QRAM process results in manageable and transparent gas cost and delivery rate changes that are appropriately reflective of changing market dynamics and should not be further engineered by the Board.

In respect of the large delivery and system supply customers which IGUA represents, IGUA does not believe that any further rate mitigation policy is warranted.

Communications Protocols

IGUA defers to the representatives of low-volume consumers on views regarding communications protocols appropriate to their constituents.

IGUA does not see any need for proscriptive communications protocols in respect of gas cost changes for larger volume customers.

PRELIMINARY COMMENTS ON PHASE 2 ISSUES

The Board's Notice invites comments on the potential scope for the second phase of this review. The Notice indicates that this second phase will include examination of the cost and risk trade-offs of different gas supply planning parameters.

Given the rapid changes in the gas supply and transportation market in North America, and in particular as they impact eastern Canada, IGUA supports a review of gas supply planning parameters as timely.

IGUA also recognizes that the different system and gas supply circumstances of Ontario's gas distributors, EGD and Union in particular, might well continue to dictate different approaches to gas supply planning and execution.

IGUA respectfully suggests that the process adopted by the Board for the second phase of this review should allow for full information from each of the utilities on their own gas supply planning circumstances, and how their respective planning and plan execution approaches are thus determined and appropriate. With a better understanding of these

respective circumstances and approaches, the Board and parties will be better placed to consider whether additional direction to the utilities is warranted.

IGUA also suggests that the Board include in Phase 2 of this process consideration of replacement of the current Empress reference price with a Dawn reference price. As the shift by Ontario gas consumers, including EGD and Union on behalf of Ontario gas consumers, to short haul from long-haul continues, Empress pricing will become less directly relevant to Ontario landed gas prices. Review of the implications of adopting a Dawn reference price for QRAM purposes would be timely.

CONTACT INFORMATION

We request that the Board and interested parties include the writer, along with Dr. Shahrzad Rahbar, as representatives for IGUA on the circulation list for this matter going forward. For convenience, here is the contact information that we request be used:


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Yours truly,



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