Direct Energy

June 17, 2014

**Via RESS and Canada Post**

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

**Re: REVIEW OF THE QUARTERLY RATE ADJUSTMENT MECHANISM PROCESS FOR NATURAL GAS DISTRIBUTORS**

**Board File No.: EB-2014-0199**

Dear Ms. Walli,

In Procedural Order No. 1 issued June 3, 2014 and subsequently amended on June 5, 2014 the Ontario Energy Board (the Board) invited interested parties to comment on the four following issues in relation to the first phase of the Review of the Quarterly Rate Adjustment Mechanism Process for Natural Gas Distributors (the QRAM Review).

> (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;
>
> (ii) If the QRAM process is amended as described, what circumstances should trigger a substantive review;
>
> (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; and
>
> (iv) Whether the Board should establish protocols for communications to distribution customers.

Direct Energy Marketing Limited (Direct Energy) would like to thank the Board for the opportunity to participate in the above noted proceeding, and provides the following comments.

## (i) <u>Should the QRAM process be amended:</u>

The current QRAM process is the result of substantive reviews in two proceedings, being the Natural Gas Forum which began in the fall of 2003 and resulted in the issuance of the Board Report "Natural Gas Regulation in Ontario: A Renewed Policy Framework" (the NGF Report) released on March 30$^{th}$, 2005; and the Methodologies for Commodity Pricing , Load Balancing and Cost Allocations for Natural Gas Distributors which led to a Decision by the Board in proceeding EB-2008-106.

As noted in Procedural Order No.1 in EB-2008-0106:

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> In the NGF Report, the Board indicated that that there is merit in moving towards establishing policies that are consistent between natural gas utilities in relation to regulated gas supply. In particular, the Board stated that *the QRAM should be a transparent benchmark that reflects market prices, and that the methodology for determining the reference prices should therefore be formulaic and consistent. Similarly, the Board indicated that methods for determining the PGVA and for disposing of PGVA balances should also be formulaic and consistent.* [Emphasis added]

This notion was further enhanced by the findings of the Board in its Decision in the EB-2008-106 proceeding where the Board determined:

1. No trigger mechanism for changing the reference price or the clearing of the PGVA should occur;

   > "In the Board's view there is no requirement for a trigger mechanism either to clear PGVA balances or to prompt a change in the reference price. The elimination of the trigger mechanism will ensure that the reference price is periodically updated to reflect market prices, and will achieve further standardization of the rate adjustment methodologies across distributors."[1]

2. The price adjustment frequency and forecasting periods were appropriate;

   > "…the Board agrees with the conclusion of the NGF Report which states that the current pricing process, whereby the price is set every three months on the basis of a 12-month price forecast, represents a balance between market-price signals and price stability."[2]

3. PGVA balances should be cleared on a rolling 12 month basis;

   > "The Board also finds that disposing of the account balances on a rolling 12-month basis is an appropriate methodology. The Board agrees with EGD and other parties that the 12-month rolling approach will reduce the volatility of the rate riders…"[3]

4. The QRAM review process should be consistent and better reflect price signals

   > "The Board directs EGD and Union to move the close of the 21-day strip to 31 calendar days before the effective date of the rate change. The Board directs NRG to move the close of 10 day strip to 31 calendar days before the effective date of the rate change. This change would provide a better price signal by virtue of shortening the time between the forecast end date and the QRAM effective date. Further, this could reduce variances in the PGVA.

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[1] EB-2008-0106 Amended Decision and Order, Page 5
[2] Ibid, Page 12

[3] Ibid, Page 16

> The Board also concludes that there are merits to establishing a consistent regulatory review process for Union, EGD and NRG."[4]

As can be seen by the above noted proceedings, the Board has consistently resolved that the QRAM process should be transparent, formulaic, and consistent in order to properly reflect market prices while balancing rate stability. Any attempt by the Board to introduce measures on an ad hoc, speculative, or arbitrary basis that detracts from a consistent, pre-determined, formulaic approach to the rate adjustment process is in Direct Energy's opinion a step backward in the evolution of the process to date; and ultimately should be avoided. Rather, further price transparency should be encouraged.

With respect to the retrospective review of the execution of the distributor's gas supply plan, Direct Energy supports the arguments of Enbridge in their reply argument in EB-2014-0039 dated March 25, 2014 that gas supply planning should be addressed on a forward looking basis.

### (ii) Triggers for substantive review:

As noted above it is Direct Energy's position that the current QRAM process should not be amended in any manner that would detract from increasing price transparency, and reducing the consistent mechanistic process in place. As such, there should be no triggers established on a case by case basis to review any defined rate adjustment process established by the Board. As further noted in Enbridge's reply argument in EB-2014-0039 dated March 25, 2014, "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."

Should the board wish to change the methodology of the rate adjustment process, then it should do so as part of a generic proceeding and not on an ad hoc or arbitrary basis.

### (iii) Rate Smoothing:

Direct Energy does not support rate smoothing and in reviewing the record in EB-2014-0039, it is clear that rate mitigation was not supported by Enbridge and most intervenors. Given that most of the arguments surrounding rate mitigation have already been presented to the Board in this recent proceeding, it is not necessary to restate each parties' position but rather point out that many intervenors articulated the negative consequences of the arbitrary rate smoothing proposed by Board Staff, including:

- Increased carrying costs – ultimately increasing costs to consumers;
- Intergenerational inequities;
- Discouraging conservation;
- Creating seasonal use inequities;
- Rate mitigation measures not being available to direct purchase transactions;
- Reducing price transparency;

[4] EB-2008-0106 Amended Decision and Order, Page 22

- Discouraging competition; and
- Effectively undermining the first objective of the Board in relation to gas – to facilitate competition in the sale of gas to users.

Given that the current QRAM methodology is already designed to inherently smooth rates for consumers and as such fulfills the Board's second objective related to natural gas (to protect the interest of consumers with respect to prices), additional rate smoothing would be inappropriate and lead to the negative consequences listed above. Furthermore, distribution customers are able to proactively avoid quarterly price fluctuations by availing themselves of a competitive contract, and furthermore have the ability to stabilize their month to month consumption impacts by utilizing the Budget Billing plans offered by distributors.

**(iv) <u>Communications Protocols:</u>**

Direct Energy supports appropriate communications to distribution customers with respect to anticipated price increases as well as customer education materials that describe how natural gas rates are derived and that articulate the supply and billing choices available to consumers.

We thank the Board for this opportunity to comment.

Sincerely,

Ric Forster
Director
Government & Regulatory Affairs
Direct Energy Marketing Limited