EB-2014-0199

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to review the Quarterly Rate Adjustment Mechanism process for natural gas distributors.

REVIEW OF THE QUARTERLY RATE ADJUSTMENT MECHANISM ("QRAM") PROCESS FOR NATURAL GAS DISTRIBUTORS: PHASE I

WRITTEN COMMENTS of
NATIONAL RESOURCE GAS LIMITED ("NRG")

INTRODUCTION:

The Board has directed that it wishes to examine the QRAM review process, including the filing of the application and supporting evidence, triggers for a substantive review and the timeline for review and comment in Phase I. The Board has indicated that in Phase I, it wishes to review the Board's policy with respect to rate examination and consumer communications. The Board has directed the parties to make their comments based upon certain questions as set out below.

Answer to Questions:

Question 1: 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.

NRG submits that the QRAM process should not be amended.

As a matter of principle, NRG and the other gas distributors should recover all gas costs incurred for their customers. This is part of the theory of monopoly regulation and limited market forces which have been in place since 1985. The cost of gas should also include any penalty costs that may be imposed by Union because NRG has not delivered natural gas for balancing purposes at some particular point in time. The penalty costs are fixed by the Board and entirely in its control. As a result, the general principle that a gas distributor should recover all of its costs of gas purchases including penalties ought to remain unchanged.

There is a limitation on the general principle that all gas costs incurred for customers be paid by the customers for whom they have been incurred, namely a Board-ordered prudence review that the Board has a discretion to undertake. This is the sole limiting factor on the general principle that all gas costs should be recovered by the distributor from its customers.

When considering the necessity of any QRAM process change (or any prudence review), NRG asks that the Board take into account the different position that NRG has from the position of Union Gas Limited ("Union") or Enbridge Gas Distribution Inc. ("Enbridge"). NRG is a much smaller utility than the other two distributors and has no storage capacity. It has 8,000 customers, approximately 7,500 of which are residential. The remaining 500 are commercial and industrial customers. By reason of its size, resulting revenues and returns, NRG does not have a substantial internal gas purchasing group. NRG is a Bundled-T customer of Union which itself does have storage facilities and a substantial gas purchasing group.

The essential market conditions that NRG operates under (as set out above) limits its ability to respond to extreme weather conditions and thereby moderate the cost of gas purchasing and delivery necessary to meet its contractual obligations to Union and its obligations to NRG's customers. To the extent that NRG's exposure to gas price volatility is greater than that of Union or Enbridge, NRG should be allotted more flexibility in gas cost variations than the larger utilities which through size and greater revenues can protect themselves and their customers more effectively.

During any prudence review of NRG's conduct in the winter period of 2013/2014, the Board should take into account NRG's unique size and characteristics. Put differently, there are no universal principles that apply equally to all natural gas distributors in the QRAM process without regard to identified unique characteristics.

NRG asks that the Board consider the QRAM process using ten-year statistics and not relying solely upon the extreme winter conditions which were extant in the winter of 2013/2014. This was a "black swan event" during last winter that did not occur in prior years and is unlikely to occur in the future. It is respectfully submitted that the Board QRAM process and policy should not be guided by the exceptional winter conditions of this past winter.

NRG concludes this section as it began, there is no need to alter the QRAM process to require a substantive review of an application for any natural gas distributor in the province of Ontario. In any event, there is no need to review the QRAM process as it applies to NRG.

Question 2: If the QRAM process is amended as described, what circumstances should trigger a substantive review.

NRG takes the position that only a prudence review should trigger any substantive review of the QRAM process. The prudence review itself should only be invoked in extreme circumstances. Part of the QRAM review process will be affected by the Board's decision in EB-2014-0154.

One of the significant factors which the Board should consider in this review is that the penalty rate imposed by Union on NRG at the end of February 2014 was unrelated to any market cost and did not take into account the fact that Union's own storage system permitted it to ameliorate any day-to-day physical requirement for natural gas system balancing. If the penalty rate was fixed according to Union's cost (plus some reasonable mark-up), then the public interest would be better served. Union would then continue to make some reasonable return on any natural gas drawn from storage and used for the benefit of NRG to balance its system.

Question 3: 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.

NRG respectfully submits that the Board should not establish a policy on rate mitigation to protect system supply customers from rate volatility. Beginning in 1985, the entire regulatory scheme in Canada sought to impose market conditions on utilities and the gas purchasing public. The notion of protecting customers from rate volatility runs counter to the imposition of market forces into the system. While rate volatility should properly be limited in the public interest, market forces remain a significant guide to consumer choice and the efficient use of energy.

There is a cost to smoothing rate impacts over time. The smoothing of rate impacts may be a desirable social goal but, the real question is who is to pay the cost of smoothing rate impacts over time.

The answer to the question "who should pay?" involves a philosophical debate which takes the Board back to its decision which imposed market forces into the regulatory system. It is respectfully submitted that any decision to make a change the QRAM process and limit market forces should not be made without a full review of the present regulatory system of natural gas pricing and monopoly regulation.

Question 4: Whether the Board should establish protocols for communications to distribution customers.

NRG supports the idea that the Board establish protocols for communications to distribution customers. While NRG operates in support of the public interest, it will be assisted if the Board establishes general protocols regarding natural gas pricing and rate volatility if that volatility occurs in the future. The public can then know that the Board is alive to rate volatility issues and using its regulatory oversight powers to ensure the fair cost for natural gas.

CONCLUSION:

NRG therefore submits that, subject to its comments regarding protocols for communications to distribution customers during periods of high rate volatility, the Board ought not to change its existing policies regarding the QRAM process.

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