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June 17, 2014

VIA RESS, EMAIL and COURIER

Ms. Kirsten Walli
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Re: Ontario Energy Board EB-2014-0199
Review of the Quarterly Rate Adjustment Mechanism Process
Enbridge Gas Distribution Inc. - Comments on Issues

In accordance with the Ontario Energy Board's Notice of Proceeding and Procedural Order No. 1, enclosed please find the submission of Enbridge Gas Distribution Inc.

Please contact the undersigned if you have any questions.

Yours truly,

(Original signed)

Bonnie Jean Adams
Regulatory Coordinator

cc: EB-2014-0199 Interested Parties List (via email)

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

COMMENTS OF ENBRIDGE GAS DISTRIBUTION INC. IN RESPONSE TO PROCEDURAL ORDER NO. 1

On June 3, 2014 the Board issued a Notice of Proceeding and Procedural Order No. 1 (the Notice) in connection with a review by the Board of the Quarterly Rate Adjustment Mechanism (QRAM) for gas distributors. This proceeding is intended to consider alternatives to the current QRAM protocols associated with the dissemination of information, timing and underlying drivers of the QRAM.

The Notice states that, in the first phase of the proceeding, the Board will examine the QRAM review process and it invites interested parties to provide responses to the following four issues:

(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.

According to the Notice, the Board's aim is to complete the first phase of the review and implement any changes to the QRAM process in its review of the next set of QRAM applications.

Enbridge Gas Distribution Inc. (Enbridge) will comment on each of the four issues set out in the Notice. Enbridge's submissions on the four specific issues can best be understood in the context of certain more general observations about the QRAM process and forecast gas costs. Accordingly, Enbridge will put forward its general comments before providing responses to the Board's specific questions.

General Comments

The QRAM process has, of course, been comprehensively considered by the Board over the course of two proceedings, the Natural Gas Forum and the EB-2008-0106 proceeding that addressed Methodologies for Commodity Pricing, Load Balancing and Cost Allocation for Natural Gas Distributors.

The Board issued its Report on the Natural Gas Forum, *Natural Gas Regulation in Ontario: A Renewed Policy Framework*, in March of 2005. The conclusions of the Board set out in the Report include the following points about the QRAM:

> The Board believes that the QRAM price should be a transparent benchmark that reflects market prices, and, therefore, the methodology for calculating this price should be similar for all utilities. The market needs an accurate and consistent price signal, most stakeholders agree. Therefore, the Board believes, the method for determining the reference prices should be formulaic and consistent and, similarly, the methods for determining the PGVA and for disposing of PGVA balances should also be formulaic and consistent.[1]

In its EB-2008-0106 Amended Decision and Order, the Board distilled these conclusions from the Natural Gas Forum into the following propositions or objectives relating to the QRAM:

> (1) the QRAM should be a transparent benchmark that reflects market prices and should reflect an appropriate trade-off between market prices and price stability; and
>
> (2) the method for determining the reference price should be formulaic and consistent across natural gas utilities, as should the methods for determining of Purchased Gas Variance Account (PGVA) balances.[2]

Through the Natural Gas Forum and the EB-2008-0106 proceeding, the Board heard from a very large number of stakeholders,[3] including, in EB-2008-0106, a group of gas marketers that participated together as the Gas Marketer Group. The outcome of the Board's comprehensive review of the QRAM was a decision in EB-2008-0106 that

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[1] *Natural Gas Regulation in Ontario: A Renewed Policy Framework*, Report on the Ontario Energy Board Natural Gas Forum, March 30, 2005, page 69.
[2] EB-2008-0106 Amended Decision and Order, September 21, 2009, page 1.
[3] A two-page list of the participants in the Natural Gas Forum can be seen at Appendix 2 to the Board's Report.

achieved a balance of the view-points of many different stakeholders and that also gave effect to the Board's objectives.

The EB-2008-0106 Amended Decision and Order was issued in September of 2009 and the many QRAM applications dealt with by the Board in the years since then have shown the process to be one that works very effectively. As far as Enbridge is aware, no questions or concerns were raised about the effectiveness of the QRAM process prior to the winter of 2013/2014.

Of course, the fact that the Board has carried out a comprehensive review of the QRAM process does not in any way suggest that the process should not be reviewed again, should circumstances warrant fresh consideration of any aspect of the QRAM. The point here is that, in the current review of the QRAM, it is important to bear in mind that the QRAM process has shown itself to be a very effective means of dealing with changes in gas costs. Enbridge submits that, in the current QRAM review, the Board should seek to ensure that the benefits of its previous efforts to develop an effective process are not lost or jeopardized.

Enbridge submits that the QRAM process is not the place for a review of gas supply decisions. The QRAM process has worked effectively for a number of years because it has proved to be a methodology that meets Board objectives, and balances competing interests, and does so in an efficient and streamlined manner. Moreover, the existing process follows a readily understandable, timely and predictable pattern. Any attempt to turn the QRAM process into a forum for a review of gas supply decisions would put at risk these important, and indeed fundamental, benefits of the current methodology.

Further, any such review of gas supply decisions during QRAM applications would necessarily be backward-looking. In Enbridge's submission, the interests of ratepayers would not be well-served by an attempt to turn QRAM proceedings into a forum for after-the-fact consideration of gas supply decisions.

Gas distributors do not profit from the supply of gas to system gas customers and, as the Board has recognized, the corollary of this proposition is that ratepayers bear most of the risks associated with gas supply arrangements.[4] In these circumstances, it is not a productive exercise to address gas supply issues by way of an after-the-fact review of the execution of a distributor's gas supply plan. The interests of ratepayers, and indeed the interests of all parties, are best served if, to the greatest extent possible, any review and consideration of a distributor's gas supply arrangements occurs on a forward-looking basis.

The execution of the gas supply plan is invariably a function of the plan itself. In Enbridge's case, as the gas supply plan is executed, the available options to

[4] In the Natural Gas Forum report (at page 62), the Board said that "…because there is no profit margin on the utility's commodity, the ratepayer effectively bears most of the risk."

accommodate variances between forecast and actual demand are limited (notably, seasonal or discretionary supplies at Dawn and peaking supplies). The prime opportunity for a review of gas supply arrangements arises at the time when the gas supply plan is established and, at that time, it is possible to include a review of decision-making criteria that will be applied in the execution of the plan.

For these reasons, Enbridge submits that, to the extent that additional review of a gas distributor's gas supply arrangements is seen to be necessary or appropriate, the review should be forward-looking and it should occur in a context other than a QRAM application, such as a general rate proceeding. Enbridge's submission in this regard is consistent with the proposals that it put forward in its Customized Incentive Regulation Application (EB-2014-0459). The proposals made by Enbridge in EB-2014-0459 include the introduction of an annual stakeholder meeting at which a forward-looking discussion of the next year's gas supply plan would occur.

With these general comments providing important background and context, Enbridge will now respond to the specific questions set out in the Notice.

Issue (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.

The existing formulaic QRAM process has enabled the Board to efficiently handle four QRAM applications each year by each of the Province's three gas distributors. Introduction of an opportunity for a review of gas supply decisions into the QRAM process would put at risk the benefits that have resulted from the efficiencies of the current process. Perhaps it is thought that the benefits of the current process would not necessarily be jeopardized if gas supply decisions can or will be reviewed only in certain specified circumstances. However, the threshold test for such a review would need to be established - as discussed under Issue (ii), below – and the efficiencies of the current process would be put at risk not only in cases where the threshold test is met, but in any QRAM application, because of the potential for debate or disagreement about whether the test has been met in the circumstances of a particular application.

As explained above, substantive forward-looking review of a distributor's gas supply plan should occur in the context of rate proceedings, and related activities, where the plan for the future year, and the manner in which it will be executed, are presented and explained. Again, this forward-looking review can include a review of decision-making criteria to be applied in the execution of the plan, such as the timing and type of purchases in response to weather, demand or supply issues.

Enbridge acknowledges that more information can be provided, on an ongoing basis, about the execution of the gas supply plan. Enbridge believes that, rather than detracting from the efficiencies of the QRAM process, information can be provided by way of monthly reporting, which would be aligned with the gas supply plan presented and explained in a general rate proceeding. Such monthly reporting on the execution of the gas supply plan could include information about differences between circumstances (such as weather, demand and supply) assumed in the plan and actual circumstances. Monthly reporting could also include high-level estimates of forecast bill impacts resulting from PGVA balances (or associated riders) based on then-current circumstances.

Further consideration of the specific content of monthly reports can and should await the second phase of the Board's QRAM review, so that any changes to planning parameters or decision-making criteria emerging from the second phase can be taken into account in the development of the content of the monthly reports.

Additionally, in its QRAM filings, Enbridge could provide information similar to that contained in the response to Board Staff Interrogatory #1 in Enbridge's April 1, 2004 QRAM proceeding (EB-2014-0039).[5] A copy of the response to this interrogatory is attached at Appendix A to these submissions. The interrogatory response provided a breakdown of the effect of actual gas prices (in this instance, higher prices) for Enbridge's planned or budgeted purchases, as well as the effect of actual prices (again, in this instance, higher prices) on purchases needed to meet actual demand (in this instance, increased demand), for the months of January and February of 2014, as well as estimates for March of 2014. As a result of Enbridge's proposed approach, stakeholders would be in a position to understand such information in the context of the decision-making criteria applied in the execution of the gas supply plan.

Enbridge submits that its proposed approach addresses the issue raised by the Board about execution of a distributor's gas supply plan in a manner that achieves an optimal outcome. It puts the review of the gas supply plan in the appropriate place, namely a forward-looking review in a general rates proceeding, it provides the Board and stakeholders with information about the execution of the gas supply plan, and it preserves the important benefits of the existing QRAM process. With this approach in place, no substantive change to the QRAM process is needed and the efficiencies of the existing process can be retained.

Issue (ii)

If the QRAM process is amended as described, what circumstances should trigger a substantive review?

The Board has been very successful in establishing a formulaic and mechanistic process for consideration of QRAM applications that meets the Board's objectives and balances competing interests. There is no good reason to suppose that equal success

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[5] EB-2014-0039, Ex. I-1-1, plus attachment.

can be achieved in pre-establishing a test for "substantive review" during a QRAM proceeding. Among the critical issues that arise from any attempt to pre-establish the trigger for a "substantive review" are the following:

> (1) A pre-established trigger for a "substantive review" effectively amounts to a pre-judgment as to circumstances in which such a review is merited and those in which it is not. This is problematic not only because it means that the Board would be making a pre-judgment before having actual circumstances on its evidentiary record to consider, but also because a pre-established trigger suffers from the obvious shortcoming that it is not possible to foresee all future circumstances that could have some bearing on the operation of the trigger.
>
> (2) As discussed under Issue (i), above, the efficiencies of the current process would be put at risk not only in cases where a "substantive review" is triggered, but in any QRAM application, because of the potential for debate or disagreement about whether the triggering circumstances have been met in the particular case.
>
> (3) If the notion is that a "substantive review" would allow backwards-looking scrutiny of a distributor's gas supply decisions, then this brings into play the concept of a prudence review. There are very well-established legal principles that address squarely how a prudence review is triggered. Among other things, these legal principles make clear that a presumption of prudence applies unless those challenging a decision demonstrate reasonable grounds to question the prudence of the decision.[6] A pre-established trigger for a "substantive review" cannot displace the presumption of prudence or the legal principles that govern any prudence review.

In Enbridge's view, it is neither necessary nor appropriate to identify particular circumstances that will trigger a "substantive review" of a QRAM application. To the extent that issues arise about a distributor's gas supply planning, those issues are appropriately dealt with in the context of proceedings that address the gas supply plan, not in a QRAM proceeding. On this point, please see Enbridge's submissions under Issue (i), above.

[6] See, for example, *Enbridge Gas Distribution Inc. v. Ontario Energy Board*, 2006 Can LII 10734, para. 11 (Ontario Court of Appeal).

Issue (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.

In any consideration of QRAM rate smoothing, it is important to bear in mind that rate volatility can result from either or both of a build-up of PGVA balances or changes in the forward-looking price of natural gas. In its recent decision with regard to rate smoothing for Enbridge,[7] the Board chose to address the impact of the first of these two factors affecting rate volatility, but not the second factor. Gas supply planning parameters influence the timing of purchases and the PGVA balance, but do not have the same implications in relation to the setting of the forward price.

The Notice says that the second phase of the QRAM review, to be conducted in the context of the 2014 Natural Gas Market Review (2014 NGMR), will include an examination of underlying drivers of the QRAM, including the cost and risk trade-offs of different gas supply planning parameters. As Enbridge stated in its reply submissions in its April 1, 2014 QRAM proceeding, Enbridge believes that such issues are best examined in a generic proceeding.[8] Accordingly, Enbridge agrees that the 2014 NGMR is the appropriate forum for consideration of cost and risk trade-offs.

The Board's conclusions in the 2014 NGMR about gas supply planning principles, and the extent to which less risk should be traded off for additional costs, will have a bearing on any perceived need for a rate mitigation policy in QRAM proceedings. Enbridge therefore submits that further consideration of rate mitigation should await the outcome of the second phase of the QRAM review. A rate mitigation policy set without adequate consideration of the tools for mitigation could effectively become a medium-term financing plan for customers, with attendant consequences for a gas distributor's ability to raise capital.

Further, the concept of rate mitigation goes to the fundamental underpinnings of the QRAM process as it now exists. The Board made clear in both the Natural Gas Forum report and the EB-2008-0106 decision that the QRAM should set a transparent benchmark to reflect market prices and to balance market prices and price stability. Consideration of a policy on rate mitigation to protect system-supply customers from rate volatility means that the Board will be opening up for a fresh look the underpinnings of the QRAM process that were established in comprehensive proceedings previously undertaken by the Board. Enbridge submits that the appropriate forum for a reconsideration of such matters is the 2014 NGMR.

Rate mitigation became an issue in Enbridge's April 1, 2014 QRAM proceeding as a result of the weather during the past winter, which was the coldest in 37 years. One

[7] EB-2014-0039 Decision and Order issued on May 22, 2014.
[8] Enbridge EB-2014-0039 Reply Submissions, March 25, 2014, page 8.

lesson learned from this previous QRAM proceeding is that rate mitigation can be dealt with on a case-by-case basis where necessary or appropriate due to extraordinary circumstances. Thus, Enbridge submits there is no need to establish a policy on rate mitigation at this time. Rate mitigation can be addressed on a case-by-case basis and, in any event, a case-by-case approach should be suitable at least until the completion of the second phase of the QRAM review.

Issue (iv)

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

Enbridge agrees that more can be done to provide ongoing information to stakeholders and customers about the execution of the gas supply plan and anticipated changes to gas prices and PGVA balances. The benefits of additional communication efforts would include more information for customers and, potentially, a reduced likelihood of surprises. The difficulty, of course, is that even updated forecasts are uncertain and subject to change. If new information is communicated to customers as forecasts change, the effect of sending messages that reflect changing circumstances may be to increase uncertainty rather than to improve communication.

In order to assist customers, Enbridge is open to posting on its website a monthly forecast of approximate bill impacts resulting from accumulated monthly PGVA balances. Should the Board see fit, such information could be posted on the Board's website instead of, or in addition to, Enbridge's website. Enbridge's website could offer links to other publicly available information for interested customers. And customers could be informed about the availability of the information on Enbridge's website through bill inserts.

Conclusion

The foregoing submissions have set out suggestions by Enbridge with regard to the following:

(i) as proposed in Enbridge's Customized IR proceeding, an annual stakeholder meeting at which a forward-looking discussion of the next year's gas supply plan, and decision-making criteria for execution under certain scenarios, would occur;

(ii) monthly reporting on the execution of the gas supply plan;

(iii) filing, in future QRAM proceedings, of information similar to that contained in the response to Board Staff Interrogatory #1 in EB-2014-0039; and

(iv) website posting of monthly information about approximate bill impacts resulting from accumulated monthly PGVA balances, together with bill inserts to make customers aware of, and help them find, such information.

Enbridge submits that the Board should direct that the October 1st QRAM application be Enbridge's next QRAM filing, rather than attempting to accommodate the July 1, 2014 QRAM sometime in July or August, which would necessitate an additional rate change on either August 1st or September 1st. Should the Board proceed in this manner, Enbridge's October 1st QRAM filing would include relevant information for the subject period (of up to six months).

All of which is respectfully submitted this 17th day of June, 2014

[original signed]

Fred D. Cass
Counsel for Enbridge Gas Distribution Inc.

Appendix A

BOARD STAFF INTERROGATORY #1

INTERROGATORY

Board staff understands colder than normal weather had an impact on customer demand and on natural gas prices. Can you please provide a breakdown of the effect of higher prices for Enbridge's planned purchases and higher prices for purchases made to meet higher customer consumption levels (referred in question 2 below as incremental purchases) as of March 31, 2014.

RESPONSE

Monthly and Daily index prices are reported in Market publications such as Canadian Gas Price Reporter ("CGPR")

The monthly index represents the markets' view of the value for gas in a future month. Purchasing gas from a supplier at that index means that the fixed daily volume will be priced at that unit rate each day. In contrast, the daily index represents the markets value or price of gas for each day throughout the month.

The attached table provides a breakdown of the effect of higher prices for Enbridge's planned or budgeted purchases as well as the effect higher prices had on the incremental purchases required to meet the increased demand.

Column 1 of the attached table represents the monthly purchases and projected acquisition costs as per the Company's 2014 gas supply plan. (For a detailed description of the development of the supply plan please see the response to CME Interrogatory #1 found at Exhibit I, Tab 2, Schedule 1).

Column 2 and Column 6 represent the monthly prices used for the purposes of developing the January 2014 QRAM. The QRAM is based upon a 21-day average of forward monthly index pricing applied to the budgeted monthly volumes.

Column 3 represents the effective price payable to acquire the planned or budgeted volume. As described in response to Board Staff Interrogatory # 4 found at Exhibit I, Tab 1, Schedule 4, the Company sends out monthly RFP's for purposes of acquiring that supply. As described in Board Staff Interrogatory #4 it may not always be possible to totally acquire that supply and the price payable for that supply is contingent upon the

Witness: D. Small

prices identified within the RFP i.e., the monthly or daily supply is acquired through a combination of monthly and daily pricing dependent on the RFP responses.

Column 4 represents the variance between the budgeted cost and the actual cost of the budgeted volume.

Column 5 represents the incremental volume acquired in the month due to the change in demand because of the colder than budgeted weather.

Column 7 represents the average price payable for those incremental supplies and reflects the cost of acquiring those supplies on a daily basis as required.

Column 8 represents the variance between the budgeted unit rate applied to the incremental volume compared to the actual cost of those incremental supplies at the market prices.

Column 9 represents the actual monthly index price and Column 10 represents the weighted average of the reported daily index prices. The average cost payable by EGD is weighted volumetrically and is therefore, unlikely to equal the simple monthly average.

A review of the contributing variance can be broken down as follows:

January:
Responses received to the monthly RFP for Western Canadian supplies were primarily tied to the daily index price which is reflected in the average price of $4.11/GJ being higher than the monthly index for Western Canadian supply.

Peaking Services are acquired through an RFP process conducted in the fall and responses include a Demand Charge and a Commodity component. The commodity component is typically tied to the Iroquois index and since these supplies are required on the coldest days of the year, the prices will reflect market conditions on such days.

As part of the supply plan a level of Delivered Supply is identified and costed for budgeting purposes at the forward monthly index at Dawn. Similar to Western Canadian supplies the Company was able to meet its budgeted volume through a combination of monthly and daily priced contracts. The incremental volume however, was acquired at the daily index which, as was described in Q2-2, Tab 1, Schedule 1, page 6, paragraph 14, increased throughout the month of January.

February:
Similar to the January responses, the monthly RFP responses for Western Canadian supplies were primarily tied to the daily index price. In February the daily index was over 1.5 times higher than the monthly index causing costs for Western Canadian supplies to increase.

Delivered supplies in the month of February continued to climb throughout the month due to the combination of colder weather and reduced storage deliverability (in line with the multi peak methodology used by the Company) thereby necessitating short term purchases to meet demand. At the same time the daily index rose in excess of 2 times the monthly index.

March:
March is based upon a forecast of monthly prices that are higher than those forecast as part of the January QRAM. The Company also included within its forecast for March prices for incremental Delivered supply at prices 1.5 times the forecast monthly price due to continued colder weather and declining deliverability that necessitates short term purchases to meet demand.

Item #		Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10
	January										
		Budget Volume - TJ's	Budget Price $/GJ	Actual Price $/GJ	Variance $(000's)	Incremental Volume - TJ's	Budget Price $/GJ	Actual Price $/GJ	Variance $(000's)	Monthly Index $/GJ	Average Daily Index $/GJ
1.1	Western Canadian Supplies	12,411.3	3.38	4.11	9,053.4	6,568.7	3.38	4.29	5,977.0	3.66	4.24
1.2	Peaking Supply (1)	1,051.8	5.09	42.43	39,282.1	517.2	5.09	59.73	28,261.7	N/A	45.27 (2)
1.3	Chicago Supply	5,854.8	3.81	5.26	8,526.0	(343.8)	3.81	5.26	(500.7)	5.02	8.27
1.4	Delivered Supply	4,650.0	4.38	5.42	4,855.3	10,780.7	4.38	7.27	31,154.1	4.88	7.11
1.4					61,716.8				64,892.1		
1.5									126,608.90		
	February										
		Budget Volume - TJ's	Budget Price $/GJ	Actual Price $/GJ	Variance $(000's)	Incremental Volume - TJ's	Budget Price $/GJ	Actual Price $/GJ	Variance $(000's)	Monthly Index $/GJ	Average Daily Index $/GJ
2.1	Western Canadian Supplies	11,407.7	3.34	6.49	35,987.5	5,733.2	3.34	7.24	22,403.0	4.40	7.15
2.2	Peaking Supply	307.6	5.45	42.74	11,468.6	(203.8)	5.45	43.43	(7,740.9)	N/A	27.51
2.3	Chicago Supply	5,288.2	3.81	8.77	26,224.7	(246.1)	3.81	8.77	(1,220.2)	8.77	12.45
2.4	Delivered Supply	4,200.0	4.40	18.90	60,932.0	11,704.5	4.40	20.50	188,516.9	7.93	17.15
2.5					134,612.8				201,958.8		
2.6									336,571.52		
	March										
		Budget Volume - TJ's	Budget Price $/GJ	Estimated Price $/GJ	Variance $(000's)	Incremental Volume - TJ's	Budget Price $/GJ	Estimated Price $/GJ	Variance $(000's)	Monthly Index $/GJ	Average Daily Index $/GJ
3.1	Western Canadian Supplies	9,949.3	3.30	5.27	19,526.9	9,239.0	3.30	5.27	18,132.7	5.27	N/A
3.2	Peaking Supply	-	-	-	-	-	-	-	-	N/A	N/A
3.3	Chicago Supply	5,854.8	3.79	6.97	18,589.3	-	3.79	6.97	-	6.89	N/A
3.4	Delivered Supply	4,650.0	4.40	8.21	17,735.9	6,000.0	4.40	13.33	53,565.0	8.21	N/A
3.5					55,852.0				71,697.7		
3.6									127,549.72		

note - 1 - the cost for peaking supplies includes a demand charge component
note - 2 - an arithmatic average of Daily Iroquois prices in a particular month is not representative of the cost payable for peaking service.
- the commodity cost payable for peaking service is tied to the daily price when the service is called