

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

June 17, 2014

**Re: EB-2014-0199- Review of the Quarterly Rate Adjustment Mechanism
Process for Natural Gas Distributors**

Dear Ms. Walli:

On June 3, 2014, the Board commenced a proceeding on its own motion to review the Quarterly Rate Adjustment Mechanism (“QRAM”) for natural gas distributors. In Procedural Order No. 1, the Board noted it would conduct the review in two phases. In Phase I, the Board requested submissions on 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.*

This following is Union Gas Limited’s (“Union”) submission.

In Union’s view, the QRAM process does not need to be amended to require a substantive review of the QRAM application, in certain circumstances, including a review of the execution of the gas supply plan. The QRAM process determines the gas commodity rate for the next quarter and trues up for any variances between the actual cost of gas and the gas commodity rate. The primary purpose of the QRAM is to pass on to sales service customers the actual cost of the gas they consume. The current QRAM process has been doing that efficiently and effectively since 2004. The 2013/2014 winter was exceptionally cold and natural gas prices increased as a result of significantly higher North American demands. The QRAM process appropriately captured the gas price increases and passed these costs on to customers. Union does not believe that QRAM process should be amended because of one exceptionally cold year.

With respect to the review of the gas supply plan, it is Union's view that parties already have sufficient opportunity to review the gas supply plan and the QRAM should not trigger any additional review. Union's Gas Supply Planning Process was reviewed as part of Union's 2012 Non-Commodity Deferral Account Proceeding (EB-2013-0109). Further, Union has committed to preparing and presenting its Gas Supply Plan annually at a stakeholder meeting per Union's incentive regulation mechanism ("IRM") Settlement Agreement. Any substantive changes to Union's gas supply plan that impact delivery rates will be included in Union's annual IRM filing.

The Board does not need to establish a policy on rate mitigation to protect sales service customers from rate volatility; for example, by further smoothing rate impacts over time. This is the case for two reasons. First, the use of 12 month forecasts for gas prices and for gas supply volumes in the QRAM process provides a smoothing effect for rate payers. Although gas prices spiked in the winter of 2013/2014, the QRAM impacts to ratepayers were limited due to the use of the 12 month forward forecast of gas prices. Second, any variance between actual gas costs and the approved gas commodity rate are recovered or refunded over a 12 month period. The current QRAM process provides customers with market pricing signals, while at the same time, reducing rate volatility.

In Union's view, the current process for notifying distribution customers is appropriate and does not require the establishment of communication protocols. The use of Board-approved customer notices provides customers with information regarding price changes on their natural gas bills.

If you have any questions or concerns on this matter, please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2014-0199 Intervenor
Crawford Smith (Torys)