



June 16, 2014

**Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@ontarioenergyboard.ca**

VIA EMAIL

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

Dear Ms. Walli:

Summitt Energy LP. ("Summitt Energy") respectfully submits the following with respect to the above noted proceeding.

Summitt Energy recommends that the QRAM process should not be amended to require, in certain cases, a substantive review of the application, including a review of the execution of the gas supply plan. Summitt Energy is of the view that it is not necessary based on the Boards previously established QRAM protocols. Summitt Energy further submits that the Board should not establish a policy on rate mitigation to protect system-supply customers from rate volatility as the current process is adequate.

The Ontario Energy Board (the "Board") is considering whether a review is required based on its recent Decision and Order in the EB-2014-0039 proceeding where the Board determined that it would commence a process to consider alternatives to the current QRAM protocols associated with the dissemination of information, timing and underlying drivers of the QRAM.

The Board has indicated that the intent of this first phase is to determine:

- (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.

“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”

Summitt Energy is of the opinion that the current QRAM process does not need to be amended.

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

Per the above, Summitt Energy maintains that the current QRAM process need not be amended and furthermore Summitt Energy is of the opinion that the number of variables that can lead to price changes, either up or down, are too vast to clearly establish parameters outlining instances that would trigger an automatic and substantive review of the process.

“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”

Summitt Energy submits that the Board should not establish a policy on rate mitigation to protect system-supply customers from rate volatility by further smoothing rate impacts over time. System supply rates are variable and market based, which reflect current market conditions and move in step with the market, using an established and fair mechanism. The deregulation of the gas market (Along with the introduction and licensing of gas marketers) in Ontario has already provided system-supply customers with the necessary options to mitigate their exposure to rate volatility.

In the Board report, released on March 30, 2005, entitled *Natural Gas Regulation in Ontario: A Renewed Policy Framework* (the “NGF Report”) the board stated the following:

“The Board concluded that gas utilities should continue to provide a regulated gas supply option and that proper costing and pricing of the services within the regulated gas supply option were essential. The Board stated that the QRAM should be a transparent benchmark that reflects market prices and should reflect an appropriate trade-off between market prices and price stability.”

Establishing a policy on rate mitigation to protect system-supply customers from rate volatility by further smoothing rate impacts over time would be in direct contravention of the Boards previous decision. It would inhibit the ability for the QRAM to be transparent benchmark and would not reflect market prices accurately.

In its Decision and Order in the EB-2008-0106 proceeding the Board determined that;;

“The utilities provided adequate evidence that gas purchases in any month are not necessarily made to be consumed in that same month and disposing of PGVA balances over a 12 month period is consistent with that approach. Further, the clearance of account balances over a shorter time period creates the potential for cross subsidization across customers. Union’s evidence at pages 30 and 31 of Exhibit E2 provides examples of such potential cross subsidization. The Board approves EGD’s proposal to adopt the rolling 12-month disposition methodology for clearing the

PGVA balance and orders that EGD shall implement this change starting with its January 2010 QRAM application.”¹

The Board further concluded that;

“The Board believes that the rolling 12-month forecast period removes the effects of seasonality and is a suitable benchmark for customers to use in evaluating the reasonableness of multi-year fixed-price offerings (which necessarily remove seasonality effects)..... 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.”

Establishing such a policy would directly affect competition and significantly reduce the accuracy of pricing information. It will put utilities in the position of forecasting prices and create a sense of false market stability for the consumer.

The Board, by mandating equal billing options has already provided the necessary tool to protect consumers from month over month volatility within their gas bills. This is true whether said volatility is driven by large consumption changes or by market price changes.

In its recent Decision and Order in the EB-2014-0039 Proceeding the Board concluded that;

“ The Board will provide the appropriate level of consumer protection from the impacts of the sharp increase in market would be to lengthen the normal 12-month smoothing period by an additional 15 months. The Board determined that the magnitude of the increase that will be incurred by customers over a 27-month smoothing period strikes the appropriate balance between transparency of market prices and consumer protection from rate shock.”²

This appears to be inconsistent with the Board’s previous decision. Summitt Energy submits that the Board’s opinion to increase the smoothing period does not coincide with its previous EB-2008-0106 Decision and appears to be a reaction to QRAM prices reflecting current market prices that have rebounded from multi-year low prices to reflect more realistic market prices.

This isn’t the first time that the Ontario market has experienced an increase in gas market prices. Markets spiked in 2005 through 2008 to levels that are nearly 100% higher than the current market levels. At that time the Board determined that there was no need for intervention or enhanced rate smoothing. Furthermore post 2008 when market prices were dropping precipitously, the Board at that time also determined that there was no need for smoothing or intervention.

Masking the inherent volatility of natural gas prices by further smoothing rates when there is a sharp increase in market rates does not provide the consumer with accurate and transparent pricing information. Increased rate smoothing measures will have a negative impact on competition in the natural gas commodity market. Further rate smoothing measures would reduce consumers’ abilities to properly and accurately compare marketer prices with system supply rates.

In the event that the Board maintains their view on enhanced rate smoothing, Summitt Energy submits that the methodology used in this case for the smoothing of rates should also be applied when market rates decline. This would ensure that the Board’s approach on market stability is fairly applied to all

¹ http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2008-0106/amended_dec_order_qram_20090921.pdf

² http://www.ontarioenergyboard.ca/oeb/_Documents/Decisions/dec_order_Enbridge_QRAM_20140522.pdf

market conditions and as such does not force the Board to consider a specific market price forecast when evaluating QRAM submissions and their associated PGVA clearing requirements.

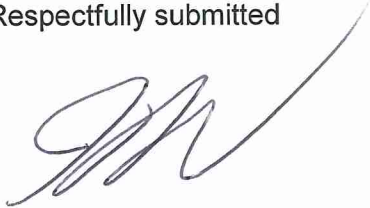
“Whether the Board should establish protocols for communications to distribution customers”

Notwithstanding Summitt Energy’s position on whether the Board should establish a policy on rate mitigation, Summitt Energy is of the view that the Board should establish protocols for communication to distribution customers when determining if the current 12 month smoothing period should be extended for any extreme circumstance.

If the Board makes a determination, such as in its Decision and Order in the EB-2014-0039 proceeding, protocols should be in place to ensure that full accountability and transparency is given to system supply customers so that they can make an educated decision as to whether they want to seek out gas supply from a marketer or remain on system supply. This would help to mitigate the effects that an imposed extended smoothing period would have on competition.

This communication could easily be achieved through Board notifications provided via utility bill inserts and changes to the marketer price comparisons so that they fully disclose to the customer how system supply rates have been set and calculated, including disclosure of the “True” current market rate and the Board approved smoothing rate.

Respectfully submitted



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