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BY EMAIL

June 17, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
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BoardSec@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Review of the QRAM Process for Natural Gas Distributors
Board Staff Submission
Board File No. EB-2014-0199

In accordance with the Notice of Proceeding and Procedural Order No. 1, please find attached the Board staff submission relating to the above proceeding.

Yours truly,

Original Signed By

Daniel Kim
Case Manager

cc: All parties EB-2014-0199

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

EB-2014-0199

June 17, 2014

Board Staff Submission
EB-2014-0199

Introduction

On June 3, 2014, the Ontario Energy Board commenced a proceeding on its own motion to review the Quarterly Rate Adjustment Mechanism ("QRAM") for natural gas distributors. It was determined, in the EB-2014-0039 decision and order, that the Board 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 determined that the review would proceed in two phases.

The intent of the 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 circumstacnes 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 imapcts over time; and
iv. Whether the Board should establish protocols for communications to customers.

The second phase is to be conducted in the context of the 2014 Natural Gas Market Review, which is scheduled for the fall of 2014. The Board invited comments from interested parties on the potential scope of the second phase by no later than July 25, 2014.

Board staff's submission will address the four issues included as part of phase 1 of the QRAM review.

Should the QRAM process 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 QRAM is designed to adjust the price for the natural gas commodity at the beginning of each quarter based on a 12-month forecast of natural gas market prices. The forecast is based on a 21-day average of the 12-month New York Mercantile Exchange ("NYMEX") future prices. A gas price adjustment is also required to true-up the difference between the forecast and actual commodity prices over the previous quarter.

In accordance with the Board's Amended Decision and Order in the EB-2008-0106 proceeding (the "Generic QRAM Proceeding"), dated September 21, 2009, the current regulatory process, or QRAM process, for each rate-regulated gas distributor is as follows:

Each gas distributor: Enbridge Gas Distribution Inc. ("Enbridge"), Union Gas Limited ("Union") and Natural Resource Gas Limited ("NRG") files its QRAM application with the Board within a certain number of days from the close of the 21-day strip. The close of the 21-day strip is 31 calendar days before the effective date of the rate change. The distributors serve the application and evidence on all intervenors in the EB-2008-0106 case and in their most recent rates proceeding, for review and comment. Intervenors and Board staff have 5 calendar days to file comments. The distributor has 2 (3 in the case of NRG) calendar days to respond to any comments. The Board then issues its decision and order in time to allow each distributor sufficient time to implement the rate changes.

Board staff notes that the QRAM process has been in place for over a decade. While the QRAM framework has evolved since it was first implemented, the process has remained largely the same, with the exception of shorter time frames for parties to comment and distributors to reply. Board staff also notes that the current QRAM framework has been designed to strike an appropriate balance between providing to customers price signals that reflect the actual market price of natural gas, and protecting the interests of consumers with respect to price stability. Board staff is of the view that the current QRAM framework has generally achieved the expected objectives.

However, extreme weather conditions this past winter caused large balances to accumulate in the natural gas distributors' respective Purchased Gas Variance Accounts ("PGVA"). In addition, the forecasted price for the natural gas commodity over the next year also increased. As a result, Enbridge, Union and NRG's April 2014

QRAM applications proposed significant rate increases for system-supply customers. In the Enbridge April 2014 QRAM proceeding, some intervenors suggested that given the magnitude of the proposed rate changes, the process should be modified to allow for a discovery process followed by submissions prior to the Board's final determination of the rates with respect to these applications. The Board, in the case of Enbridge and NRG, modified the existing process to allow for further discovery and submissions.

Board staff submits that a two-tier QRAM review process should be established. Board staff submits that a QRAM application which proposes rate changes that result in an annualized bill impact of less than 10% for a typical residential customer should follow the existing QRAM review process. The second tier QRAM review process would be initiated if the proposed rate changes result in an annualized bill increase which exceeds 10% for a typical residential customer. In order words, Board staff proposes that the review process be commensurate with the relief being sought. Board staff has reviewed the past 17 QRAM applications and the detailed review would have been triggered three times for both Enbridge and Union, including the recent April QRAM.

Board staff believes that natural gas distributors are able to estimate the expected rate changes arising from the forecasted reference price and the disposition of the PGVA balance in advance of the current QRAM application filing date. As a result, they should be in a position to establish whether their application would trigger a more detailed review under tier two of this proposed approach. Board staff submits that under tier two, parties and the Board should be allowed more time to review the application. Board staff proposes that if a distributor anticipates an annualized increase for the average residential customer of greater than 10%, a distributor should file its QRAM application 20 days earlier. The pre-filed evidence should also contain comprehensive details on the execution of the gas supply plan.

Board staff proposes that under the tier two process review, intervenors and Board staff be allowed 4 days for interrogatories and distributors 4 days to respond to these interrogatories. Parties would have 3 days to file submissions and distributors 3 days to reply. This proposed timing would also give more time for the Board to consider and issue its decision. Board staff understands that directing a distributor to file its QRAM application earlier would increase the time between the close of the 21-day strip and the effective date of the rate change. However, Board staff is of the view that the second tier QRAM would be the exception to the usual QRAM review process and would not likely occur frequently. Board staff also submits that expanding the current QRAM process allows the Board additional flexibility to consider the impact the QRAM applications have on ratepayers.

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

As discussed above, Board staff submits that a QRAM application which proposes an annualized bill increase exceeding 10% for the average residential customer should trigger a more detailed review under the second tier.

Should the Board establish a policy on rate mitigation to protect system-supply customers from rate volatility; for example, by further smoothing rate impacts over time?

The current QRAM framework, by design, smooths bill impacts by virtue of spreading the difference between actual and forecast cost of gas over a 12-month period. No further rate mitigation measures are contemplated under the existing QRAM framework. In the Enbridge April 2014 QRAM proceeding (EB-2014-0039), the Board decided to extend the normal 12-month smoothing period by an additional 15 months in order to provide the appropriate consumer protection from the impacts of a sharp rate increase.

However, as referenced in Board staff’s submission in the EB-2014-0039 proceeding, as part of the Renewed Regulatory Framework for electricity, the Board reaffirmed a policy requiring electricity distributors to file rate mitigation plans when the total bill impact of an application exceeds 10%. Although this policy does not specifically apply to natural gas distributors, this approach could be used for QRAM purposes.

Board staff submits that under the two-tier QRAM approach proposed above, a QRAM application that proposes an increase that would trigger the second tier QRAM process should include a mitigation plan. The plan should provide alternatives for the Board to consider in determining the optimal resolution. The nature of this mitigation plan would likely be affected by whether the increase was largely due to increased gas forecast prices or the disposition of a large PGVA balance, or both.

Board staff submits that the Board should evaluate the proposed mitigation plans on a case-by-case basis.

Should the Board establish protocols for communications to customers?

The current QRAM process does not provide any protocols or guidance as to how a gas distributor communicates with its distribution customers. In order to streamline the regulatory review process for QRAM applications, gas distributors are not required to issue a Notice of Application. Customers are typically informed of the rate changes after the QRAM process has ended and the Board has issued its decision on the QRAM application. This information is usually communicated to customers through a bill insert included with their first bill subsequent to the Board's decision. Enbridge and Union also provide an update to customers regarding the rate change on their respective websites.

Letters of comment received by the Board from the general public in the most recent QRAM proceedings[1] indicate customers' concerns about not being aware of the application and not being able to submit written comments. Also, the letters of comment indicated a misconception that gas distributors profit from the sale of the natural gas commodity.

Under the Board's Renewed Regulatory Framework for electricity, one of the four outcomes under a performance-based approach to regulation refers to customer focus. Although this policy does not apply to natural gas distributors, the intention of monitoring and tracking customers' experiences is equally important for the natural gas sector.

In the context of the communicating the rate changes arising from the QRAM applications after the decision has been released by the Board, Board staff believes that Enbridge and Union have communicated reasonably well with their customers, through their press releases and their respective websites. Board staff notes that Enbridge has also developed a short clip on its YouTube channel to help educate and inform its customers on natural gas rates.[2] Board staff is of the view that Union's frequently asked questions regarding its latest (i.e. June 1, 2014[3]) distribution rate change is accessible, user friendly and informative.

However, Board staff submits that the distributors could provide better communication to their customers prior to the filing of their respective QRAM applications. Board staff submits that in instances where a distributor is aware that its QRAM filing is likely to

[1] EB-2014-0039, EB-2014-0050 and EB-2014-0053.
[2] http://youtu.be/TQQDo63UBKc.
[3] EB-2013-0365 Decision, Rate Order and Procedural Order No. 3, May 12, 2014.

result in a total bill increase greater than 10%, the distributor should proactively begin communicating with customers as soon as anticipated material rate changes become known or when the utility is required to purchase natural gas at a materially higher market rate. This communication could be handled through the distributors' own websites and through press releases. Board staff believes that by providing information to customers regarding expected material rate changes prior to the decision being released, customers would be better positioned to react and would have an opportunity to manage their consumption accordingly.

Board staff does not believe that the Board needs to be prescriptive about the precise nature of the customer communications if the utilities each make a commitment to enhancing their communications; however, each utility should be required to summarize their communications activities related to gas prices in each QRAM application.

All of which is respectfully submitted