

June 19, 2014

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
P.O. Box 2319  
Toronto, Ontario  
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Dear Ms. Walli:

**RE: EB-2014-0199 – Review of the Quarterly Rate Adjustment Mechanism**

On June 3, 2014, the Ontario Energy Board (“Board”) commenced a proceeding on its motion to review the Quarterly Rate Adjustment Mechanism (“QRAM”) for natural gas distributors. In the EB-2014-0039 Decision regarding Enbridge Gas Distribution’s (“EGD”) April 1, 2014 QRAM process the Board indicated 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 is proceeding with its review in two phases. 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 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.

The second phase will take place in the context of the 2014 Natural Gas Market Review. That review is expected to include an examination of the underlying drivers of the QRAM including the cost and risk trade-offs of different gas supply planning parameters.

These are the submissions of the Consumers Council of Canada (“Council”) regarding phase one of this current QRAM review. The Council will provide comments on each of the areas identified above.

**1. Should the QRAM process be amended to require, in certain cases, a substantive review of the application?**

The Council of the view that the QRAM process, developed following a comprehensive Board proceeding, is in large measure, an effective way to implement gas cost changes for customers of the natural gas local distribution companies (“LDCS”). It has been in place for since 2004 and has been relatively mechanistic. It has also been a relatively expedited process with minimal regulatory cost.

At the end of the day, however, the Board must determine prudence, which at times may require a more substantive review. That review may well include a detailed assessment as to whether the LDCs are adhering to previously approved gas supply planning parameters or other considerations. As was

evidenced in recent months the current mechanistic QRAM process was not sufficient for the Board to consider whether EGD's rate changes were justified, or whether an alternative clearing mechanism was required.

**2. What circumstances should trigger a substantive review?**

The Council submits there should not be some numeric trigger, or a set of specific conditions that trigger a "substantive review". The Board must determine on a case-by-case basis whether conditions warrant a more substantive review. That review might be limited to a consideration of smoothing mechanisms or might be more comprehensive. It should be up to the Board to determine when it requires more information in order to determine prudence, initiate alternative recovery mechanisms, or undertake any other measures to ensure the interests of natural gas consumers are sufficiently protected.

**3. Should the Board establish a policy on rate mitigation to protect system supply customers from rate volatility?**

The Council submits that there should not be a formal policy established regarding rate volatility. As noted above, the QRAM process has been working for many years. There are times when rate smoothing might be justified, but this should be the exception and not the norm. The Board should determine this on a case-by-case basis. Having said that the Council is not necessarily opposed to setting a bill impact trigger, but that trigger should not necessarily mean that rate smoothing is required. It would be more appropriate to have a trigger to determine whether rate mitigation should be considered, and if so on what basis.

It is important to note that the current QRAM process has been put in place to facilitate the quarterly implementation of market-based prices. Constant smoothing could provide distortions in the market. Currently customers evaluate whether or not to purchase market based pricing through the LDC's system supply offering (which potentially varies each quarter), or to obtain fixed prices through a marketer. Smoothing could adversely impact the competitive retail market.

An additional point that should be made is that customers, in most cases, have the ability to sign up for an equal billing plan with their LDC. This program smooths bill impacts throughout the year, which does protect customers from rate volatility.

**4. Should the Board establish protocols for communications to distribution customers?**

The Council is of the view the communication protocols regarding distribution rates should be enhanced. The QRAM applications for April 1, 2014, triggered a great deal of adverse reaction by customers. Customers were concerned about the lack of notice given regarding the significant bill impacts arising out of the Applications of Union Gas Limited ("Union") and EGD. In addition, it became apparent that many customers were unaware that the LDCs do not earn a margin on the cost of gas. There was a great deal of misunderstanding about how system supply is provided, the pricing of that supply and the role of the Board in reviewing gas cost pricing through the QRAM process.

Of particular concern to the Council was the fact that EGD and Union did not give customers enough notice that rates would be increasing significantly because of higher winter prices and the forward price forecast. It was only when the Applications were filed that ratepayer groups were alerted to the fact that the bill increases were going to be 40% for EGD customers (less so for Union's). This has to be remedied going forward.

The Council submits that the Board should require the LDCs to undertake better customer communication regarding distribution rates and gas cost changes prior to the winter heating period. Union and EGD should be required to better inform customers of impending gas cost increases. More notice should be required and enhanced communication protocols should be embedded in the QRAM process.

Upon our review of the submissions by other parties the Council may have further comments to make on June 24, 2014

Yours truly,

*Julie E. Girvan*

Julie E. Girvan

CC: Union Regulatory  
EGD Regulatory  
All intervenors