



June 24, 2014

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

Re: EB-2014-0199- Review of the Quarterly Rate Adjustment Mechanism Process for Natural Gas Distributors – Union’s Reply Submission

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 by June 17, 2014. Further, the Board directed that reply submissions be filed by June 24, 2014.

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

Trigger Mechanism

Board Staff, CCC, CME, FRPO, LPMA, VECC, and OGVG proposed that the Board complete a more substantive review of a utility’s QRAM evidence should the total annual bill increase exceed a trigger threshold for a typical residential customer. A trigger of 10% was proposed by Board Staff, citing that 3 out of Union’s past 17 QRAM applications exceeded a 10% trigger.

Union reviewed its prior 17 QRAM Applications. Only Union’s April 2014 QRAM would meet the total annual bill increase trigger of 10% if gas supply commodity rates alone were considered. The two other instances where total annual bill increases exceeded 10% were related to a combination of increases in gas supply commodity rates and expiring credits in rate riders. Gas supply commodity rate increases alone would not have exceeded the 10% trigger in these two instances. If the Board adopts a trigger mechanism, the threshold should be based on increases in gas supply commodity rates only and not expiring or new rate riders.

The existing QRAM process provides customers with the proper market pricing signals, while at the same time, reducing rate volatility. If the Board implemented a trigger mechanism and a more substantive QRAM review was required, the implementation of the QRAM would not reflect current market prices. If a more substantive review was required, Union would need to either file its evidence earlier, as suggested by Board Staff, or, the Board would need to delay the implementation of the QRAM to conduct the review. In either scenario, Union would be implementing a QRAM price that could be 60 - 90 days behind the applicable market price for which Union used in its QRAM evidence. In that time period, the price could have changed dramatically resulting in Union’s QRAM price not being reflective of the current market

conditions. Implementing a QRAM price that is out of date with the current market could cause mixed signals for customers. Accordingly, in Union's view, the Board should not implement a trigger mechanism.

As the Board stated in its EB-2008-0106 at p.12:

"In the Board's view there is no requirement for a trigger mechanism either to clear PGVA balances or to prompt a change in the reference price. The elimination of the trigger mechanism will ensure that the reference price is periodically updated to reflect market prices, and will achieve further standardization of the rate adjustment methodologies across distributors."

Moreover, a trigger mechanism is not required to conduct a more extensive review of a utility's QRAM filing. The Board has the jurisdiction to review any application, including QRAM, should they feel circumstances warrant a more substantive review of the evidence.

Gas Supply Review

FRPO, LPMA and OGVG proposed that the utilities' gas supply plans should be reviewed given the changing gas supply dynamics. Certainly as it relates to Union, there is no need for such a review. Union's gas supply planning process and methodologies was the subject of a thorough, third party independent review last year. The review was filed with the Board, as directed, in EB-2013-0109.

In addition, as part of its Board-approved incentive regulation framework, Union has already committed to present annually its gas supply plan as part of its more general stakeholder meeting. The presentation has and will include the impacts of changing gas supply dynamics.

Monthly Rate Adjustment Mechanism

Energy Probe and LPMA proposed that the utilities update prices monthly ("MRAM") should commodity prices exceed a certain threshold.

In Union's view, an MRAM is administratively burdensome and the benefits to customers are outweighed by the increased regulatory and communication costs and potential customer confusion of monthly rate changes.

As noted by the Board in its EB-2008-0106 Decision at p. 12:

"the benefits to customers do not appear to be commensurate with the incremental costs of implementing an MRAM. With respect to the price adjustment frequency, 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"

In Union's view, the current QRAM mechanism provides a balance of price stability with market signals and implementing an MRAM based on a trigger threshold is not required.

Dawn Reference Price

Energy Probe, FRPO, IGUA and OGVG proposed that the utilities should consider using a Dawn reference price rather than an Empress reference price.

Transitioning to a Dawn reference price would not have impacted the amount that Union paid for gas or sheltered ratepayers from the impacts of this past winter.

Communication

In their submissions, all parties supported more communication to end users, with some parties noting that the communications are the responsibility of the utility and should not be prescribed by the Board.

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.

However, to provide greater transparency to customers, Union would be willing to, if required, post on monthly on its website, information regarding gas prices so customers can adjust their usage based on expected rate increases or decreases.

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 Intervenors
Crawford Smith (Torys)