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June 24, 2014

**VIA RESS, EMAIL and COURIER**

Ms. Kirsten Walli  
Ontario Energy Board  
2300 Yonge Street  
Suite 2700  
Toronto, Ontario  
M4P 1E4

**Re: Ontario Energy Board EB-2014-0199  
Review of the Quarterly Rate Adjustment Mechanism Process  
Enbridge Gas Distribution Inc. - Reply Submission**

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In accordance with the Ontario Energy Board's Notice of Proceeding and Procedural Order No. 1, enclosed please find the Reply Submission of Enbridge Gas Distribution Inc.

Please contact the undersigned if you have any questions.

Yours truly,

(Original signed)

Bonnie Jean Adams  
Regulatory Coordinator

cc: EB-2014-0199 Interested Parties List (via email)

**IN THE MATTER OF** a proceeding initiated by the Ontario Energy Board to review the Quarterly Rate Adjustment Mechanism process for natural gas distributors.

**REPLY COMMENTS OF  
ENBRIDGE GAS DISTRIBUTION INC.**

On June 17, 2014 Enbridge Gas Distribution Inc. (Enbridge) submitted its comments (Initial Comments) on the four issues set out in the Board's Notice of Proceeding and Procedural Order No. 1 (the Notice) issued on June 3, 2014. Enbridge has also received comments or submissions from the following:

- (1) Board Staff;
- (2) Canadian Manufacturers & Exporters (CME);
- (3) Consumers Council of Canada (CCC);
- (4) Direct Energy Marketing Limited (Direct Energy);
- (5) Energy Probe Research Foundation (Energy Probe);
- (6) Federation of Rental-housing Providers of Ontario and Ontario Greenhouse Vegetable Growers (FRPO/OGVG);
- (7) Industrial Gas Users Association (IGUA);
- (8) Just Energy Ontario L.P. (Just Energy);
- (9) London Property Management Association (LPMA);
- (10) Natural Resource Gas Limited (NRG);
- (11) Planet Energy (Ontario) Corp. (Planet Energy);
- (12) Summitt Energy LP (Summitt Energy);
- (13) Union Gas Limited (Union); and
- (14) Vulnerable Energy Consumers Coalition (VECC).

In Enbridge's view, the comments and submissions filed by others reveal a high level of agreement among the parties on the points that were made in Enbridge's Initial Comments. As well, to the extent that concerns about the current QRAM process are expressed in comments or submissions of others, it appears that the proposed approach explained in Enbridge's Initial Comments would meet most or all of these concerns.

In its Reply Comments, Enbridge will address, under each of the Board's four issues, the level of consensus emerging from the comments submitted to the Board and the manner in which Enbridge's proposed approach would meet concerns raised by others.

Enbridge will also address the concept of a Monthly Rate Adjustment Mechanism that is mentioned in comments or submissions by several parties.

### **Issue (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.*

In its Initial Comments, Enbridge submitted that the Board should endeavor to retain the well-established efficiencies and benefits of the current QRAM process and that, with Enbridge's proposed approach in place, no substantive change to the QRAM process is needed.

A number of parties have responded to the Board's first issue by indicating that the current QRAM process should not be amended: this is the view expressed by Direct Energy, IGUA, Just Energy, NRG, Planet Energy, Summitt Energy and Union.

In addition, two parties cautioned about a change to the current QRAM process for the purpose of allowing a review of gas supply planning and execution. Energy Probe said: "To extend the process to reviews of the implementation of or amendments to the Gas Supply Plans would not add additional value".<sup>1</sup> LPMA said that, while a substantive review may be necessary in certain circumstances, it should not impact on the predictable timing of changes in gas rates for system gas customers on a quarterly basis.<sup>2</sup>

IGUA's comments referred to two opportunities outside of the QRAM process for consideration of gas supply planning and execution – informally in annual stakeholder consultations and formally, as warranted, in annual rate applications – and said that these two opportunities are sufficient.<sup>3</sup> In its comments, Enbridge also said that review of gas supply plans can and should occur during annual stakeholder meetings and general rate proceedings (other than QRAM applications).<sup>4</sup>

On the subject of gas supply planning, FRPO/OGVG submitted that "there ought to be an opportunity for the Board to determine if the utility established a plan and stayed with the plan".<sup>5</sup> This position put forward by FRPO/OGVG is met squarely by Enbridge's proposed approach. Enbridge's proposed approach, as described in its Initial Comments, includes a review of the gas supply plan and decision-making criteria and it includes reporting on the execution of the plan.

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<sup>1</sup> Energy Probe Submissions, page 2.

<sup>2</sup> LPMA Submissions, page 2.

<sup>3</sup> IGUA Comments, page 3.

<sup>4</sup> Initial Comments, page 4.

<sup>5</sup> FRPO/OGVG Responses, page 1.

In this context, FRPO/OGVG repeated assertions made in Enbridge's April 1, 2014 QRAM proceeding (EB-2014-0039) about variances from Enbridge's gas supply plan and about a backward-looking review of information regarding these alleged variances.<sup>6</sup> While the assertions about variances from the gas supply plan are not correct, it is the concept of a backward-looking review that is of relevance to this proceeding in which the Board is carrying out a generic assessment of the current QRAM process.

Simply put, the concept of a backward-looking review of the development and execution of a gas distributor's gas supply plan is highly problematic. As discussed in Enbridge's Initial Comments, the Board has explicitly recognized that, because there is no profit margin on commodity sales by gas distributors, ratepayers effectively bear most of the associated risk.<sup>7</sup> The notion that the Board might undertake a backward-looking or "prudence" review of decisions related to a gas supply plan raises many important issues, such as whether a distributor subject to such a review could be at risk for a financial penalty, how any such financial penalty could be squared with the proposition that gas costs are a pass-through to ratepayers, how the distributor would be compensated for the risk of any such financial penalty, and so on.

Moreover, the QRAM process is simply not the place for after-the-fact consideration of gas supply decisions. The key to the effectiveness of the QRAM process over many years has been that it follows a mechanistic, readily understandable, timely and predictable pattern. There is every reason to expect that important benefits of the QRAM process would be lost or jeopardized if the opportunity for a backward-looking review of gas supply decision-making were to be introduced into the process.

For all of these reasons, Enbridge submits that it is neither constructive nor productive to contemplate or debate how to open up opportunities, particularly in the context of QRAM proceedings, for a backward-looking review of gas supply decision-making. Instead, attention should be shifted to consideration of how to make the review of gas supply plans a forward-looking exercise.

This was the intent of the proposed approach described in Enbridge's Initial Comments. Under that approach, Enbridge's gas supply plan would be subject to review in general rate proceedings, as well as the annual stakeholder meetings proposed by Enbridge. During each annual stakeholder meeting, there would be a forward-looking discussion of the next year's gas supply plan. This forward-looking discussion would include the decision-making criteria that would be applied to execute the plan under different scenarios, such as the timing and type of arrangements to be made in response to weather, demand or supply issues.<sup>8</sup> Thus, stakeholders would be made aware of the steps that would be taken to execute the plan in various circumstances, including

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<sup>6</sup> FRPO/OGVG Responses, page 1.

<sup>7</sup> Initial Comments, page 3 and footnote 4.

<sup>8</sup> Initial Comments, pages 4 and 8.

extreme circumstances such as those that prevailed during the winter of 2013/2014. Stakeholders would gain a general understanding, going into a particular year, of the effect of extreme weather on the execution of the gas supply plan during that year.

In addition, Enbridge has proposed monthly reporting on the execution of the gas supply plan and a filing in each QRAM application similar to that found in the response to Board Staff Interrogatory #1 in EB-2014-0039. Together with the forward-looking information provided to stakeholders about the gas supply plan and its execution, this additional reporting and evidence would provide stakeholders with clear and direct sight-lines through to gas supply decision-making and would be far more meaningful than any attempt to carry out a backward-looking review in a QRAM proceeding.

In its submission, Board Staff proposed a two-tier QRAM review process. According to Board Staff's proposal, a QRAM application proposing rate changes that result in an annualized bill impact of less than 10% for a typical residential customer would follow the existing process. A "second tier" QRAM review process would be initiated if the proposed rate changes result in an annualized bill increase exceeding 10% for a typical residential customer.<sup>9</sup>

Enbridge submits that, in assessing Board Staff's proposal, it is important to bear in mind the scope and implications of the proposed "second tier" QRAM review process. According to the Board Staff Submission, the pre-filed evidence for a "second tier" application would contain "comprehensive details on the execution of the gas supply plan".<sup>10</sup> The application would trigger "a more detailed review".<sup>11</sup> Further, the second tier application "should include a mitigation plan".<sup>12</sup> And, additionally, when a QRAM filing is likely to result in a total bill increase greater than 10%, the distributor is expected to begin proactively communicating with customers; Board Staff submits that "each utility should be required to summarize their communications activities related to gas prices in each QRAM application".<sup>13</sup>

It is evident that Board Staff's proposed second tier QRAM application is vastly different in scope than an application under the current process. It would include comprehensive details on the execution of a gas supply plan, it would include a rate mitigation plan and it would include reporting on proactive communications with customers. Each of these areas, presumably, would be open for debate and testing in accordance with Board Staff's suggestion that a second tier application involves "a more detailed review".

It is no exaggeration to say that Board Staff's proposed second tier QRAM application is a far cry from the formulaic and efficient QRAM process that has proved itself over

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<sup>9</sup> Board Staff Submission, page 3.

<sup>10</sup> Board Staff Submission, page 3.

<sup>11</sup> Board Staff Submission, page 3.

<sup>12</sup> Board Staff Submission, page 4.

<sup>13</sup> Board Staff Submission, pages 5-6.

many years to be an effective means of implementing quarterly rate adjustments for Ontario's three gas distributors. With the greatest of respect to Board Staff, Enbridge submits that Board Staff has provided little or no explanation of why such a dramatic departure from the existing, well-established QRAM process is justified.

The Board Staff Submission refers, in this regard, to "extreme weather conditions this past winter" and the April 2014 QRAM applications by Enbridge, Union and NRG that "proposed significant rate increases for system-supply customers".<sup>14</sup> However, as stated by Enbridge in its Reply Submission in EB-2014-0039, the Board and stakeholders have invested considerable time and effort in the development of an efficient and effective QRAM process. During this development process, it was undoubtedly known by the Board and stakeholders that, from time to time, exceptional weather conditions will occur. While Enbridge certainly gives due consideration to rate impacts of significant cost increases, the magnitude of the cost consequences of a QRAM application in a particular winter with extreme weather conditions is not a reason to undo or rethink all of the work that went into establishing an efficient, effective and successful QRAM process.<sup>15</sup>

Furthermore, Enbridge's proposed approach, as set out in its Initial Comments, meets the concerns touched on by Board Staff, without need for any substantive change to the established QRAM process. Enbridge's proposed approach includes opportunities for review of gas supply planning, it includes monthly reporting on execution of the gas supply plan, it includes the filing of additional information in QRAM proceedings and it includes enhanced customer communications.<sup>16</sup> As stated in the Initial Comments, the proposed approach achieves an optimal outcome, in that,

- (a) it puts the review of a distributor's gas supply plan in the appropriate place, namely, a forward-looking review in general rate proceedings;
- (b) it provides the Board and stakeholders with information about the execution of the gas supply plan; and
- (c) it preserves the important efficiencies and benefits of the existing QRAM process.<sup>17</sup>

## **Issue (ii)**

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

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<sup>14</sup> Board Staff Submission, pages 2-3.

<sup>15</sup> EB-2014-0039 Reply Submission by Enbridge dated March 25, 2014, page 3.

<sup>16</sup> The elements of Enbridge's proposed approach are summarized in the Initial Comments, at pages 8-9.

<sup>17</sup> Initial Comments, page 5.

In its Initial Comments, Enbridge submitted that it is neither necessary nor appropriate to identify particular circumstances that will trigger a “substantive review” of a QRAM application. Further, Enbridge identified three critical issues that arise from any attempt to pre-establish the trigger for a “substantive review”.<sup>18</sup>

Other parties have also questioned the merit of attempting to pre-establish a trigger for substantive review of a QRAM application. IGUA said that it does not see value in attempting to pre-define specific circumstances in which a substantive review of gas plan execution should be triggered.<sup>19</sup> Summitt Energy submitted that the number of variables that can lead to price changes, either up or down, are too vast to establish clearly parameters outlining instances that would trigger an automatic and substantive review.<sup>20</sup>

The comments and submissions filed in response to the Board’s questions include specific suggestions regarding a potential trigger for a “substantive review” of a QRAM application but it is evident that there is no consensus on any such suggestions.

As alluded to above, Board Staff’s proposed trigger is an annualized bill increase exceeding 10% for the average residential customer.<sup>21</sup> Similarly, FRPO/OGVG submitted that the need for an expanded QRAM process can be handled on an “exception basis” which could apply in different circumstances, one of which could be a request for a significant rate increase (e.g., 10% increase in total bill consistent with electricity LDCs). And VECC referred to “a screening metric based on either commodity and/or bill impact”.<sup>22</sup>

Other parties, though, explicitly disagreed with the notion of a numeric trigger for a substantive review. LPMA submitted that a review should not be triggered by an increase based on a percentage of the total bill. LPMA’s reasoning is that the composition of the total bill can vary significantly between customers in the same rate class and there are likely to be circumstances in which the increase in the total bill will not exceed the predetermined threshold on an aggregate basis, but will exceed the threshold for a significant number of customers.<sup>23</sup>

CCC also submitted that there should not be a numeric trigger, or a set of specific conditions, that gives rise to a substantive review. CCC said that the Board must determine on a case-by-case basis whether conditions warrant a more substantive

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<sup>18</sup> Initial Comments, page 6.

<sup>19</sup> IGUA Comments, page 3.

<sup>20</sup> Summitt Energy Comments, page 2.

<sup>21</sup> Board Staff Submission, page 4.

<sup>22</sup> VECC Comments, page 1. Note, though, that VECC proposed a trigger for a “threshold question”, meaning that parties would make submissions on the threshold question and then the Board would make a decision about whether to proceed with a substantive review: VECC Comments, page 2.

<sup>23</sup> LPMA Submissions, page 2.

review.<sup>24</sup> CME also proposed a case-by-case determination of whether further review is warranted. Specifically, CME expressed its support for the concept that the QRAM process “should remain a largely mechanical and expedient exercise”, but said that exceptional circumstances can occur which should prompt the Board, on a case-by-case basis, to convert the process into one which allows a more substantive review.<sup>25</sup> According to CME, a scenario which should prompt such a review is a material disparity in the gas price increases requested by two or more Ontario gas distributors.

In short, there is explicit disagreement with regard to the nature of the trigger that could be applied to determine whether the Board will engage in a “substantive review” of a QRAM application. Under Enbridge’s proposed approach, this disagreement does not matter. Enbridge’s proposed approach would not require any substantive change to the current QRAM process and thus would not require the Board to pre-establish a trigger for “substantive review” of a QRAM application.

### **Issue (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.*

Enbridge’s submission in its Initial Comments was that rate mitigation can be addressed on a case-by-case basis and that any further consideration of rate mitigation should await the outcome of the second phase of the QRAM review.

A considerable number of other parties have indicated that the Board should not establish a policy on rate mitigation. Those who disagree with the establishment of a rate mitigation policy are CCC, Direct Energy, Energy Probe, FRPO/OGVG, IGUA, Just Energy, LPMA, Planet Energy, Summitt Energy and Union.

More specifically, CCC said that there should not be a formal policy regarding rate volatility: in CCC’s view, the QRAM process has been working for many years, rate smoothing should be the exception rather than the norm and the Board should determine smoothing on a case-by-case basis.<sup>26</sup> Much like CCC’s view that smoothing should be the exception rather than the norm, VECC said that “rate mitigation should be used sparingly”.<sup>27</sup>

LPMA provided a detailed explanation of the reasons why it does not support the establishment of a rate mitigation policy.<sup>28</sup> One of the points made by LPMA is that the smoothing of rate impacts over time results in increased costs for system gas

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<sup>24</sup> CCC Submissions, page 2.

<sup>25</sup> CME Comments, page 1.

<sup>26</sup> CCC Submissions, page 2.

<sup>27</sup> VECC Comments, page 2.

<sup>28</sup> LPMA Submissions, page 3.



customers due to interest costs on PGVA balances. Enbridge agrees that the Board should take into account the consequences of extending the period during which balances must be carried in PGVAs. In addition to LPMA's concern about additional interest costs paid by customers, Enbridge notes that gas distributors should not be at risk for any costs associated with carrying PGVA balances - particularly because the distributors earn no profit or margin on gas sales - and, further, that it is not within the purpose of the PGVAs that these accounts be used as a form of financing plan for system gas customers.

Board Staff submitted that, under its proposed two-tier QRAM approach, an application that triggers the second tier process should include a mitigation plan. According to Board Staff's approach, the Board would evaluate such mitigation plans on a case-by-case basis.<sup>29</sup>

It is clear, though, that, apart from the submissions of Board Staff, there is very little support for a rate mitigation policy in the comments and submissions filed in response to the Board's questions. Enbridge submits that, given this decided lack of support for a policy, rate mitigation should be left as an issue to be addressed, as and when necessary, on a case-by-case basis. In the event that the Board nevertheless wishes to give further consideration to a rate mitigation policy, Enbridge reiterates its submission that any such consideration should await the outcome of the second phase of the QRAM review.

#### **Issue (iv)**

*Whether the Board should establish protocols for communications to distribution customers.*

Enbridge's Initial Submissions put forward its suggestions for enhanced communications to customers about approximate bill impacts resulting from accumulated monthly PGVA balances.

Just Energy submitted that it does not see a need to change the current communication process,<sup>30</sup> Union expressed its view that the current process for notifying distribution customers is appropriate<sup>31</sup> and IGUA said that it does not see any need for prescriptive communications protocols in respect of gas cost changes for larger volume customers.<sup>32</sup>

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<sup>29</sup> Board Staff Submission, page 4.

<sup>30</sup> Just Energy Comments, page 2.

<sup>31</sup> Union Submission, page 2.

<sup>32</sup> IGUA Comments, page 4

NRG supported protocols for communications to distribution customers<sup>33</sup> and Direct Energy supported appropriate communications to distribution customers with respect to anticipated price increases as well as customer education materials.<sup>34</sup> On the customer education point, LPMA submitted that the issue is more properly framed as one of customer education rather than customer communication.<sup>35</sup> Board Staff said that it does not believe the Board needs to be prescriptive about the precise nature of customer communications if the utilities each make a commitment to enhancing their communications.<sup>36</sup>

Submissions in support of prescribing customer communications were made by VECC and CCC. VECC said that, absent the distributors voluntarily adopting “sufficient protocols”, the Board should establish these protocols on a non-voluntary basis.<sup>37</sup> CCC submitted that the Board should require the distributors to undertake better customer communication, that Union and Enbridge should be required to better inform customers of impending gas cost increases and that enhanced communication protocols should be embedded in the QRAM process.<sup>38</sup>

Enbridge submits that, in its Initial Comments, it made reasonable suggestions for enhanced communications to customers and that these suggestions can be accommodated under either the more prescriptive approach to protocols referred to by some parties, or the less prescriptive approach referred to by Board Staff and other parties.

### **Monthly Rate Adjustment Mechanism**

Planet Energy submitted that the QRAM process should not be amended, but, if a review were to take place, then the circumstances of such review should be to lessen the period of time in which the rate is calculated from quarterly to monthly.<sup>39</sup> The notion of a Monthly Rate Adjustment Mechanism (MRAM) was also discussed by LPMA and Energy Probe.

LPMA submitted that, while the normal QRAM process and timing should remain the “default”, the Board should consider the option of changing the QRAM to an MRAM when the potential of significant changes in gas costs exist.<sup>40</sup> Energy Probe also referred to the option of changing forecast reference prices more frequently; Energy Probe noted, though, that this would require the gas distributors to have Customer Information Systems capable of processing monthly changes. Energy Probe also said

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<sup>33</sup> NRG Comments, page 3 and

<sup>34</sup> Direct Energy Comments, page 4.

<sup>35</sup> LPMA Submissions, page 4.

<sup>36</sup> Board Staff Submission, page 6.

<sup>37</sup> VECC Comments, page 2.

<sup>38</sup> CCC Submissions, page 3.

<sup>39</sup> Planet Energy Submissions, page 3.

<sup>40</sup> LPMA Submissions, page 5.

that “clearly” a monthly update process would need to be “under the Company’s control, rather than a public process”, subject to periodic review by Board Staff and stakeholders.<sup>41</sup>

The idea of an MRAM has been extensively reviewed by the Board in previous proceedings, and, in particular, the generic QRAM proceeding, EB-2008-0106. In EB-2008-0106, the Gas Marketer Group proposed an MRAM modelled on the approach followed by regulated utilities in Alberta.<sup>42</sup> The gas distributors explained to the Board that the approach proposed by the Gas Marketer Group did not take into consideration the manner in which distributors in Ontario procure gas supplies and use storage.<sup>43</sup> After much debate and consideration,<sup>44</sup> the Board concluded that a quarterly rate adjustment frequency remains appropriate for a number of reasons, including the manner in which Ontario gas distributors incur their gas supply costs.<sup>45</sup>

There are many issues that arise from the notion of an MRAM for Ontario gas distributors. These include an increased risk of rate volatility; the timing problems arising from the need for each Ontario gas distributor to file a rate application with the Board every month; the cost implications of implementing and managing a monthly rate adjustment process; and the customer communications issues associated with a number of aspects of the monthly process, including the likelihood of more instability and greater price volatility.

While the concept of an MRAM has been mentioned in some of the comments and submissions that have been filed in this proceeding, there is by no means anything like a groundswell of support for the MRAM. Enbridge submits that no justification has been put forward for reopening the extensive consideration of the MRAM undertaken by the Board in the EB-2008-0106 proceeding.

## **Conclusion**

For the reasons set out above, Enbridge submits that the proposed approach explained in its Initial Comments stands out as a reasonable and efficacious approach when considered in the light of the comments and submissions made by others. There is a high level of support in the other comments and submissions for different aspects of Enbridge’s proposed approach and the proposed approach meets concerns expressed by others in a way that maintains the efficiencies and benefits of the current QRAM process.

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<sup>41</sup> Energy Probe Submissions, page 3.

<sup>42</sup> EB-2008-0106 Amended Decision and Order, page 6.

<sup>43</sup> EB-2008-0106 Amended Decision and Order, pages 6-7.

<sup>44</sup> The many arguments put forward by the EB-2008-0106 parties and considered by the Board are set out on pages 5 to 10 of the Amended Decision and Order.

<sup>45</sup> EB-2008-0106 Amended Decision and Order, page 10.

All of which is respectfully submitted this 24<sup>th</sup> day of June, 2014

*(Original Signed)*

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Fred D. Cass  
Counsel for Enbridge Gas Distribution Inc.