



**EB 2017-0129**

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# **Draft Report of the Ontario Energy Board**

**Framework for the Assessment of Distributor  
Gas Supply Plans**



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# 1. Introduction

The Ontario Energy Board (OEB) has developed a new Framework for the assessment of the cost consequences of natural gas distributors gas supply plans. The objectives of the new Framework is to inject greater transparency, accountability and performance measurement into the review of these plans to assure consumers are getting value.

Distributors regulated by the OEB provide gas supply services for the vast majority of their customers. They supply gas to system gas customers who have chosen to buy gas from the distributor rather than enter into a contract with a retailer or producer directly. As well, distributors provide transportation (in some cases) and load balancing services (including storage) to customers who purchase their gas supply directly through a retail contract. These services require the distributors to develop a plan for supply, transportation and storage to meet the forecasted customer demand.

Gas supply costs represent a significant component of the gas bill for all customers, approximately 45 percent for the average residential customer. The decisions made concerning gas supply and the arrangement of associated transportation can have significant multi-year impacts on natural gas customers' costs.

This Report describes the Framework that the OEB will rely on to guide its assessment of the cost consequences of each distributor's Gas Supply Plan. As part of its commitment to protect consumers and hold distributors to account, the OEB has identified three guiding principles that will be used in assessing gas supply plans: cost effectiveness, reliability and security of supply and the achievement of public policy objectives. The Framework identifies a number of criteria that will be applied to determine how the plan addresses the guiding principles and therefore delivers value to consumers. The responsibility for delivering reliable supply to customers in a prudent manner remains with the distributors. Distributors manage and execute their plan and adjust their activities to address changes to demand and supply conditions.

In order to operationalize the Framework, a distributor will submit a comprehensive five year Gas Supply Plan for a detailed review, and an Annual Gas Supply Update that focusses on the changes to the supply and demand conditions and includes a retrospective view of the plan's performance. In this report, the OEB has set out the process and approach it intends to take for the review of the five year Gas Supply Plan and the Annual Gas Supply Update. Through a robust review of the plan including consideration of rate impacts and risks, the OEB will be able to rely on the plans as part

of related applications filed by distributors.

One of the principles established in this Framework for gas supply plans is the achievement of public policy. The government has established the reduction of greenhouse gas emissions as a public policy goal. By way of a letter dated December 16, 2016, the Minister of Energy requested that the OEB consider the role of renewable natural gas (RNG) as a potential fuel source to reduce greenhouse gas emissions. The Framework sets out how RNG may be considered as part of a distributor's gas supply portfolio.

### Approach

The development of the Framework follows a consultation process that started with the winter of 2013/14 and the so-called "polar vortex" which caused significant volatility in gas supply costs. After the event, the OEB held a Natural Gas Market Review in 2014, that identified concerns with the approach to gas supply plan reviews, and subsequently the OEB announced the Distributor Gas Supply Planning Policy Consultation to further investigate the concerns raised by stakeholders and consider how best to address them. That consultation identified the three objectives discussed earlier that are the focus for the development of the Framework: transparency, accountability and performance measurement.

To develop the Framework, a working group was established to seek stakeholder input and advice. The working group was comprised of a wide range of industry experts, distributors, and consumer representatives. Working group meetings initially focused on gaining a greater understanding the regulatory issues associated with RNG and the role RNG may play in distributors' gas supply plans. The working group also provided input on the proposed criteria that would support the OEB's assessment of gas supply plans.

### Report Organization

This Report is organized into six sections including this introduction to the initiative.

Section two provides background on the current review of distributors' gas supply plans and the consultations that lead to the development of the Framework.

Section three sets out the guiding principles and criteria that the OEB will rely on to assess the cost consequences of the distributor's gas supply plans.

Section four explains the process the OEB intends to follow for the review of distributors' gas supply plans.

Section five describes how the results of the OEB's review may be used in other related applications before the OEB.

Section six sets out the OEB's measures that it will use to evaluate whether the Framework is meeting the objectives of transparency, accountability and improved performance measurement.

Finally, as part of operationalizing the Framework, the OEB has identified filing requirements for both the five year Gas Supply Plan filing and the Annual Gas Supply Update.

## **2. Background**

### **2.1. Gas Supply Plan Development**

The goal of a Distributor's Gas Supply Plan is to develop a portfolio of gas supply, transportation and storage assets that provides consumers with gas supply service in a manner that meets customer demand requirements and is consistent with the province's public policy objectives.

Gas supply planning starts with a demand forecast. The distributor's projected customer requirements, which will differ between distributors and regions is based on customer mix and location. Once the demand forecast is developed, distributors identify how they will provide sufficient supply to meet their demand requirements. Distributors will determine the mix of assets (i.e. transportation and storage) that will enable them to achieve this goal. Once the asset mix is developed, distributors will then determine an approach to procuring the commodity that efficiently utilizes the assets. This could entail various pricing tools such as longer term price commitments and shorter term, or index pricing approaches.

In the EB-2015-0238 consultation distributors explained that they develop a five year planning outlook that underpins their planning activity. Building on the outlook distributors consider transportation, storage, commodity options and market based solutions to meet their demand requirements.

### **2.2. Current Gas Supply Planning Review**

Distributors currently provide gas supply information to the OEB at various times. The gas supply memorandum that distributors include in their annual rate application provides an overview of a distributor's planning activities. It describes the process the distributor has adopted in developing their supply, transportation and storage strategies that they've determined will meet their demand requirements. In the EB-2015-0238 consultation it was identified that the memorandums don't provide critical data that enable the OEB to assess how the plan compared to the distributor's forecast or the customer bill and rate impacts. Under this Framework, it is expected that distributor's Gas Supply Plans will expand on the information in the memorandum to meet the objectives set out here.

Gas supply planning information is also provided in the 'Stakeholder Day' presentations that distributors participate in. The Stakeholder Day provides distributors with an opportunity to present information about their business that they consider important.

Distributors choose the content of the presentations which are typically broad ranging from IT to infrastructure spending and, if they include gas supply planning information they don't provide the depth of information to enable an assessment of their plans.

Gas supply planning information is also filed in a distributor's rate application. It is used to support the distributor's proposed distribution, transportation and storage rates. The primary focus of the rate application is not the pass-through gas supply related charges. This is done as part of the quarterly rate adjustment discussed below. The review of the distributor's rate application covers a broad range of topics and provides little opportunity for the OEB to assess and connect the distributor's gas supply planning process with the cost information in the rate application.

Distributors are reimbursed for supply and transportation on a cost pass-through basis through the Quarterly Rate Adjustment Mechanism (QRAM). The QRAM process is the result of the distributor's implementation of gas supply planning activities and near term actions taken to respond to market conditions. It is a mechanistic approach to adjust the unit price<sup>1</sup>, based on differences between the previously set rate, the actual costs incurred, and the impact of updated future forecasted prices on the gas supply portfolio. As the QRAM process is mechanistic it doesn't provide opportunity for assessment of the inputs and doesn't articulate a link between gas supply planning and the QRAM rates.

### **2.3. Developing the Framework - Prior Policy Initiatives**

The winter of 2013/14 was much colder than forecasted and caused the demand and price for natural gas to increase significantly across a large portion of North America. The two large gas distributors in Ontario, Union Gas Limited and Enbridge Gas Distribution Inc., implemented their respective supply plans but in the end experienced supply costs that were far in excess of what was forecasted. This resulted in significant but different rate impacts in each of the distributor's subsequent applications under the Quarterly Rate Adjustment Mechanism. To better understand the factors that contributed to this price increase and its impact on consumers and the reasons for the distributors' different approaches, the OEB undertook a number of initiatives to review what happened, the adequacy of the existing gas supply planning process and the

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<sup>1</sup> Commodity, transportation and storage costs included in rates for sales service and bundled direct purchase customers



OEB's regulatory oversight of it.

In December 2014, the OEB hosted a Natural Gas Market Review that included a discussion on pricing influencers in the winter of 2013/2014 and their impact on consumers. The resulting OEB [Staff Report to the Board on the 2014 Natural Gas Market Review](#) recommended that the OEB initiate a proceeding to review its policy in relation to gas procurement and the assessment and approval of distributor gas supply plans.

Following the Natural Gas Market Review, the OEB initiated a stakeholder consultation on Distributor Gas Supply Planning ([EB 2015-0238](#)) to focus on gas supply and transportation planning strategies and the approach distributors take to developing their plans. Through the consultation a number of areas were identified where the current regulatory approach to gas supply planning could be improved. Improvements in clarity, and completeness of information, and consistency in the memorandums submitted by the distributors would enable the OEB and stakeholders to more effectively compare and contrast the approaches undertaken between distributors to supplying their franchise areas.

The output of the consultation was an OEB [Staff Report to the Ontario Energy Board](#) issued on August 12, 2016. The Staff Report proposed a structure and content for future gas supply planning memorandums, and recommended that the OEB consider improvements to the current review process for gas supply planning. The recommendations were based on the three foundational objectives of increased accountability, transparency and performance measurement.

- 1) *Increased Accountability - Gas distributors should apply for pre-approval of their Gas Supply Plan on a stand-alone basis (separate from other applications). The application should be submitted at the same time, in the same format (to ensure that they can be easily compared) and reviewed jointly by the same panel.*
- 2) *Increased Transparency - Gas distributors should submit a gas supply memorandum annually on a stand-alone basis. This new memorandum should be in a common format and submitted at the same time. The content should be consistent with the information already included in gas supply memorandums and include the side-by-side comparison document developed in this consultation.*
- 3) *Performance Measurement – To increase the OEB's ability to measure the performance of the distributors' gas supply plan, the new memoranda should*

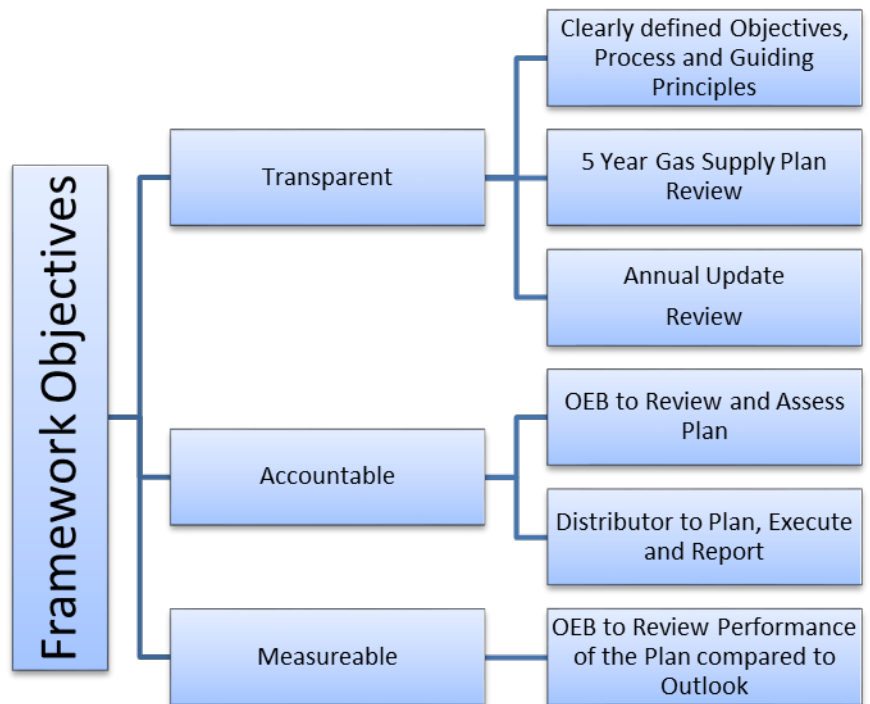
*include a report card on the performance of the plan over the previous 3 years along with a forecast of the foreword looking 3 years. The report card should be in a common format that enables a side-by-side comparison.*

As discussed above the OEB endorsed the recommendations from the Staff Report and initiated the development of this Framework.

### 3. The Framework

The Framework the OEB is establishing through this policy initiative is designed to provide clarity to both distributors and consumers in terms of the OEB’s approach to the assessment of gas supply plans. Establishing guiding principles and a robust set of criteria provide clarity regarding the OEB’s role in the assessment of the plans to protect the interests of consumers. Distributors maintain responsibility to develop and execute their gas supply plans and are accountable for the outcome.

It is important for the distributor’s gas supply planning to be transparent for consumers so that they can participate and provide input to the review and assessment of the plan. Setting out the principles that will underlie the OEB’s assessment provides clarity about the OEB’s evaluation of distributors’ gas supply plans so that consumers and the distributors understand the test that the OEB will apply.



Performance metrics will assist the OEB in assessing whether the Gas Supply Plans are meeting the Framework’s

guiding principles. The Framework places a greater emphasis on the consumer impact of the gas supply decisions that are made on their behalf. This will include an assessment of costs, risks and volatility of the plan.

The Framework for assessment builds on prior consultations and the OEB’s experience in reviewing distributors’ gas supply plans.

### 3.1. Guiding Principles

The OEB is of the view that a principle based approach to gas supply planning is an effective means of guiding the distributors' approach to developing a Gas Supply Plan that is consistent with the outcomes desired by consumers. Guiding principles also help to provide consistency, clarity and predictability in the OEB's assessment of the plans.

The OEB has defined guiding principles that are consistent with its legislated mandate to protect the interests of consumers with respect to prices and the reliability of gas service. The Guiding Principles for a distributors' Gas Supply Plan are to deliver gas supply that is; cost-effective, reliable (secure) and achieves public policy objectives.

- 1) Cost-effectiveness - Cost effectiveness is achieved by setting appropriate reliability, security of supply and government policy requirements and in executing the supply plan in order to achieve those requirements in the most economically efficient manner.
- 2) Reliability and security of supply - Reliability and security of supply is achieved by ensuring secure and reliable gas supply to various receipt points to meet planned peak day and seasonal gas delivery requirements.
- 3) Public Policy - The gas supply plan will be developed to ensure that it supports and is aligned with public policy in relation to climate change and expansion of natural gas service where appropriate.

For clarity, cost effectiveness does not mean the 'lowest cost', reliability does not mean 'reliable at any cost' and support for government policy does not mean 'support at any cost' or 'any level of reliability'. Rather the intent is to strike a balanced approach to the benefit of consumers. Distributors are required to demonstrate that their Gas Supply Plan balances the principles in a way that is prudent and appropriate for consumers.

It is expected that distributors will employ strategies that clearly describe their approach, consumer impacts and risks associated with both the options considered and chosen to deliver value to consumers, including in terms of the following measures:

- 1) Rate Predictability: The OEB has determined that rate predictability is an important outcome for consumers and distributors are expected to consider the importance of rate predictability when developing their plans
- 1) Diversity: Distributors will minimize risk by diversifying contract terms, supply

basins and upstream pipelines, and encouraging new sources of supply and infrastructure to Ontario to maintain a viable gas industry.

- 2) Flexibility: Gas supply planning strategies should be flexible so that they can adapt to changing market conditions and consumer demand in both the short-term and long-term.
- 3) Continuous Improvement: Distributors continuously evaluate and act on opportunities to improve the processes and practices they use to meet their gas supply obligations.

### **3.2. Gas Supply Plan Criteria**

The criteria set out below will be used by the OEB to evaluate a distributor's plan to assess whether it meets the principles and delivers value to consumers.

#### **3.2.1. Demand Forecast Analysis**

As mentioned above, developing demand forecasts is the starting point for gas supply planning. Distributors prepare demand forecasts so that they can determine the appropriate portfolio of transportation and storage assets required to meet consumer demand. Distributors will use these forecasts to inform the development of their plans and also for the purposes of cost allocation and rate-setting. Distributors already prepare volume forecasts and the OEB expects the distributors to use its OEB-approved methodology when preparing a Gas Supply Plan.

As part of the review of a Gas Supply plan, the OEB will assess whether the distributor has demonstrated they have considered the appropriate factors that could impact the demand forecasts. In presenting their demand forecast distributors should describe the process they undertake to develop the forecast and describe the associated risks with their approach. For example distributors should describe factors such as historical demand, consumer demographic trends and changing weather patterns and how they impact the forecast. In its assessment of the Gas Supply Plan the OEB will consider whether the distributors have appropriately supported their decision and incorporated an understanding of current and future trends to choose one approach over another and whether they have demonstrated the impacts associated with the selected approach on the various types of consumers. A detailed description of this along with a rationale that supports their approach will assist the OEB in understanding how distributors undertake this task and the potential consumer impact.

### **3.2.2. Supply Option Analysis**

The OEB will assess whether the distributor has demonstrated that their gas supply plan will result in the cost effective supply of gas to consumers in a manner that balances cost with the other outcomes desired by consumers (i.e. reliability and achievement of public policy) described in the Guiding Principles.

The Gas Supply Plan will describe the options that were considered and how the selected option was determined. The description will need to include an analysis of the landed cost and bill impact(s) of the options examined, the risk associated with each option and how the options align with the guiding principles. This approach will be applied to the development of the distributor's transportation, storage, and supply (including RNG) strategies within the Gas Supply Plan.

To effectively demonstrate that the plans have considered a variety of options, best and worst case scenarios and their impact on consumers, distributors will provide information that supports their planning decisions. This will include, but not be limited to, the following:

- A description of the costs associated with the various options considered and how the final option(s) was selected.
- Analysis of the bill impact of options considered and how these compare to the selected option, including a description of the considerations used to determine the final plan.
- A description of how the options considered the impact of price volatility and predictability and how the distributor determined what level of volatility was deemed acceptable for consumers.
- A description of the various options considered to deliver reliable supply to consumers and why the final option(s) was chosen.
- Analysis of the cost and bill impact of options considered and how these reliability options compare to the selected option including a description of the considerations used to determine the final plan.
- A description of the distributor's approach to balancing reliability and flexibility within its plan and the cost and risk trade-offs associated with their approach.
- A description of how the distributor built supply and transportation route diversity into the plan and the cost implications and risks are associated with their approach.

An expected outcome for the Gas Supply Plan is that it provide the flexibility to respond to changing market conditions while balancing cost effectiveness and maintaining reliability of supply. One of the ways distributors have historically done this is to procure less supply than they have contracted pipeline capacity to ship. This provides the distributor with an opportunity to sell capacity or procure supply to meet demand and changes in requirements. The Gas Supply Plan must describe how the distributor has determined these quantities and identify the risks associated with their approach along with the impact on consumers, including the costs associated with unutilized assets.

### **3.2.3. Performance Metrics**

It is expected that a distributor will develop performance metrics that reflect the principles and criteria the OEB has established, in order to demonstrate how the principles have been achieved. The metrics should demonstrate the value proposition for customers such as rate predictability, supply diversity, flexibility and continuous improvement and/or public policy goals. Effective metrics will allow the OEB to focus its assessment on results that drive value for customers and not a line-by-line review of expenditures.

Distributor performance metrics should link directly to one or more of the gas supply plan criteria and be chosen to illustrate the benefits expected from the gas supply planning decisions the distributor has made. Performance metrics are generally quantitative measures which will be used to assess whether the principles have been achieved; however qualitative measures may also be considered such as increased reliability. Performance metrics ensure that the outcomes are measurable in keeping with one of the objectives for the Framework.

In reviewing distributor's performance metrics, the OEB's considerations are:

- A focus on strategy and results, not activities.
- The need to demonstrate continuous improvement in their planning.
- Demonstration of value to customers in regards to four measures identified in section 3.1.
- Performance metrics which will accurately measure whether the principles are being achieved.

The performance metrics of the Gas Supply Plans should reflect the outlook and the critical elements of the plan that the distributor intends to use to meet its demand requirements. At a minimum, distributors should use the outlook section of their gas supply plans as the basis for developing performance metrics. The Framework's filing

requirements provide more information about what is to be included in the outlook.

#### **3.2.4. Risk Mitigation Strategy**

Distributors develop a Gas Supply Plan that supports the needs of its customers as identified through the demand forecast, and in doing so also manages both the cost and reliability related risks on behalf of their customers. Increased reliability typically costs more and distributors are expected to determine the appropriate balance. Distributors will articulate their approach by including a suite of scenarios that describe the envelop of plan forecasts based on worst and best cases, in addition to their selected option(s). This, accompanied by commensurate price forecasts for customers can describe the range of realistic outcomes. Through describing the potential causal events that would lead to those outcomes, the OEB will be in a better position to understand the implications of the plan and its flexibility, and impacts.

One of the underlying themes of the consultation on Distributor Gas Supply Planning was the topic of risk and the cost to mitigate it. Currently in Ontario, distributors manage the gas supply portfolio by balancing cost and reliability. During prior consultations stakeholders had difficulty understanding how the distributor's objectives for the plan were linked to some of the decisions that distributors make. For example, distributors assess the risk/cost trade-off between procuring landed supply or procuring closer to the production source but the inputs to the final decision and a description of the alternative options were not articulated in a meaningful way in the gas supply memorandums.

Under the Framework, the Gas Supply Plans will have to provide a clear description of the risk management process (identification and mitigation) and an assessment of the risk/cost trade-off implications for consumers that are associated with options examined. This information will assist the OEB in assessing the differences in risk profiles for the various options but also for the respective distributors. The OEB will assess the distributor's approach to managing risk to determine if the approach is reasonable and in line with customer expectations.

#### **3.2.5. Achieving Public Policy Objectives**

A key public policy goal that distributors are required to comply with is the reduction of GHG emissions. Distributors are required to comply with the provinces *Climate Change Mitigation and Low-carbon Economy Act, 2016*. To achieve their goals related to GHG reduction it is anticipated that distributors may implement various strategies including



procuring renewable natural gas. According to the advice from the working group, RNG offers many benefits to the consumer; it is carbon neutral (balancing a measured amount of carbon released with an equivalent amount offset), it can be locally sourced to support local businesses and avoid long-haul transportation, adds to the diversity of the supply mix and supports the public policy goals related to GHG emissions reduction.

Distributors will be required to demonstrate that RNG supplies that they intend to include in their Gas Supply Plans are procured in a manner consistent with the guiding principles. The OEB recognizes that RNG can be an important strategy to achieving public policy goals and that it may take some time to build both experience and market knowledge. The OEB is well equipped to assess RNG as a fuel source in a manner that is consistent with the Framework principles. Based on the information from the working group, the OEB understands that RNG is likely to cost more than conventionally sourced gas supply, but recognizes that this direct comparison may not be appropriate. The consideration of the benefits of RNG in terms of GHG emission reductions would also be part of the review of any RNG strategy. In addition, the RNG strategy in the Gas Supply Plan will need to describe how it supports the compliance plan for the distributor's Cap and Trade obligations.

In the context of Gas Supply Plan reviews, the distributors will be expected to apply the same approach to the option analysis in terms of assessing RNG supplies and highlight the rate and bill impacts of RNG to consumers. In addition, any inclusion of RNG supplies will need to include: a description of the risk management process and an assessment of the risk/ cost trade-off implications for consumers that are associated with options examined and evidence to support how the final option was selected. This information, along with the information on benefits, will be a key part of the consideration of RNG as a component of gas supply.

The OEB recognizes that in some instances longer term contracts may be required to ensure that RNG producers can provide a predictable service consistent with their supply contracts with the distributors. The OEB currently has [Filing Guidelines for the Pre-Approval of Long-Term Gas Supply](#) that will help distributors determine the information required for the OEB to assess these applications. During the working group discussions, distributors confirmed that these guidelines would be appropriate to use for RNG contracts that required a long-term commitment and they may elect to do so.

### **3.2.6. Procurement Process and Policy**

Once the transportation and storage strategies have been established the execution of the Gas Supply Plan is based on the distributors' respective gas procurement policies. The Gas Supply Plan will include an overview of these policies along with a description of how the distributor monitors the market and what resources are applied to ensure that it meets demand.

In addition, the distributors should describe the 'triggers' and other considerations that require it to take action (e.g. sell/procure more gas, sell/procure transportation, curtailment or storage), the options available and the risks associated with their approach along with the impact on consumers.

Distributors will need to provide a robust description of the internal processes and level of expertise associated with developing, reviewing, approving and executing the gas supply plan. For example, distributors in the past have used consultants to provide market forecasts and analysis that were used to inform their plans. Distributors should provide a description of the work completed by third parties and how their work is considered when developing the Gas Supply Plan.

### **3.2.7. Current and Future Market Trends and Analysis**

As mentioned above distributors need to demonstrate that they have considered current and future market trends when developing their Gas Supply Plan.

The plans are expected to include detailed forecasts of trends and their potential impact on consumers. This data demonstrates that the distributors are aware of the markets in which they operate and guides their option analysis. It is important for the distributors to describe both the market and regulatory context for the decisions they make in developing their Gas Supply Plans.

Distributors currently describe these in the gas supply memorandums and should continue to do so when submitting their Gas Supply Plan as it helps demonstrate how these trends underpin some of the gas supply planning decisions and the impact on consumers.

## 4. Gas Supply Plan Assessment

The three objectives for the development of this Framework all require a robust process for the review of distributors' gas supply plans, in particular to achieve the transparency that has been endorsed by the OEB. Given the importance of gas supply related costs to natural gas consumers the process must ensure adequate participation and engagement. Gas Supply Plans play an important role in a number of different OEB processes, discussed further below, therefore it is important to consider how the process for the review of the plans can contribute to these other proceedings to deliver greater value to consumers.

The principles and the criteria set out in the Framework will guide the review of a distributors' plan. Distinct stages of the review and assessment include the following:

1. Gas Supply Plan Submission
2. Stakeholder conference
3. Written comments from stakeholders
4. Plan revision, if required
5. OEB staff report to the OEB



### 4.1. Gas Supply Plan Submission

The OEB intends for the distributors to file the Gas Supply Plan for a review once every five years. This review would provide the main OEB assessment of the cost consequences using the criteria set out in the Framework. During the years between the Gas Supply Plan reviews, an Annual Supply Plan Update would be submitted to examine changes in the demand forecast and the market, reflecting on the previous year's actual performance to plan. The depth of review of the Update will be contingent on the level of divergence from the comprehensive five year Gas Supply Plan.

The Filing Requirements attached as an Appendix to this Report provide an overview of the types of information that is expected to be contained in the distributor's Gas Supply Plan submissions. These filing requirements have taken into consideration the types of information identified in EB-2015-0238. The filing requirements will provide the OEB with the information necessary for the review and assessment of a distributor's plan for alignment with the principles set out in the Framework. An understanding of the plan and its implications will be achieved through a combination of a stakeholder presentation, written stakeholder submissions assessing the plan against the guiding principles and criteria.

#### **4.2. Stakeholder Engagement**

Distributors will submit their Gas Supply Plan in accordance with the timing to be established by the OEB. The OEB will publish the plans and establish the time for a stakeholder conference. The stakeholder conference will provide an opportunity for the distributor to present its plan and address questions from stakeholders as to the manner in which the guiding principles are achieved, relying on the criteria set out in the Framework.

Stakeholders will have the opportunity to provide written comments related to the plan and whether it addresses the principles and the Framework criteria. Distributors would not be required to respond, as the submissions are expected to summarize stakeholder perspectives after the discussions that were held.

Distributors, based on feedback received from the stakeholders and OEB staff, may choose to revise their plans prior to the OEB staff report.

#### **4.3. Staff Report to the OEB**

OEB staff will prepare a report to the OEB providing its assessment of the plan. The OEB staff report will be informed by the stakeholder conference and written submissions. Following consideration of the OEB staff report, the OEB may determine that a proceeding is required to address specific issues highlighted by the staff report. Unless the OEB decides to hold a proceeding to consider the distributors plan, the five year review process would end with the OEB staff report.

#### **4.4. Annual Gas Supply Plan Updates**

Distributors will be required to provide an update to their Gas Supply Plan annually. The Update will primarily focus on updates to the outlook section of the gas supply plan, a description of significant changes from previous updates and a historical comparison of

actuals to the outlook. The content and format of the Updates can be found in the Filing Requirements.

The review and assessment of the Update will be carried out in a manner similar to the five year Gas Supply Plan. The OEB will determine if the Update submitted has significantly diverged from the five year plan, and would benefit from holding a more in-depth evaluation. OEB staff will prepare a report to the OEB providing its assessment of the Update. The timing of the Update and review may be coordinated with other related applications from the distributor.

## 5. Links to other Applications

It is expected that information provided in the gas supply plan will be used to inform other gas supply related applications submitted to the OEB. The gas supply plan will provide a foundation for the OEB to consider other related applications. A robust review of the Gas Supply Plan is expected to provide for greater efficiency in these other related application processes.

### 5.1. QRAM

The Gas Supply Plan describes the most likely outcome and cost envelope (best/worst case) of the distributor's planning activities over a five-year forecast period. In addition, the annual Updates will include any adjustment to the forecast and a comparison of actuals vs forecast for the previous 3 years. With the Updates, distributors can demonstrate how changes compare to their true-ups and forecast in QRAM. This also provides a baseline for assessing actual costs compared to forecasted costs and the impact on the customers' rates.

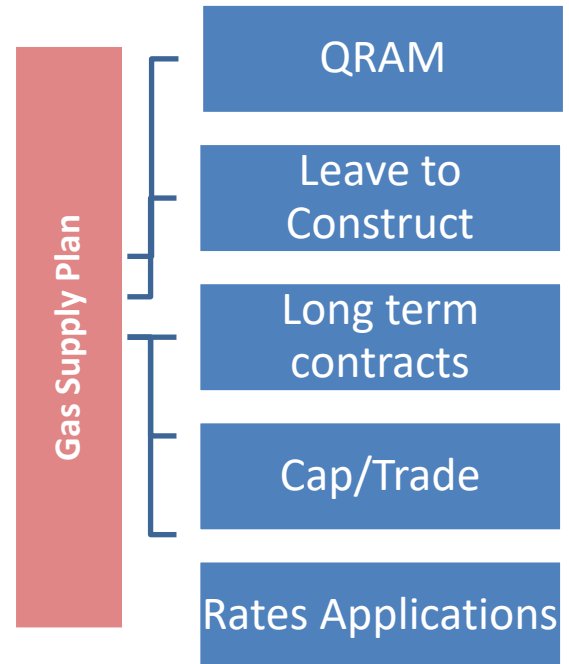
### 5.2. Leave to Construct

In some cases, leave to construct applications are centered on improving cost effectiveness/reliability for consumers and therefore create value for consumers. The gas supply plan provides distributors with a consistent mechanism to demonstrate how the project will deliver value to consumers and can be used to measure the impact over time to determine if the distributor's assessment of benefit was accurate. In addition, the gas supply plan can highlight the need for additional facilities to support demand and provides a link to the distributors Utility System Plan.

### 5.3. Long Term Contracts

Applications for pre-approval of long-term contracts often focus on the value to consumers in terms of cost, reliability and public policy (e.g. RNG). The gas supply plan will provide a mechanism for the distributor to demonstrate the value to consumers of the proposed long-term contract (e.g. NEXUS) and the ability to measure the outcome over time.

### 5.4. Cap and Trade



The distributor's Cap and Trade Compliance Plan considers the forecast of distributor abatement activity that provides a link to the gas supply plan. In addition, a review of the Gas Supply Plan will consider the distributor's approach to integrating supply of RNG from a public policy perspective compared to conventionally sourced natural gas and its impact on consumers. For example, this will include a comparison of the cost effectiveness of various RNG production sources and an assessment of the reliability of RNG in relation to the broader gas supply plan.

## **5.5. Rate Applications**

As discussed earlier, distributor's rate applications have or may have an impact on gas supply, transportation and storage rates. The Gas Supply Plan offers a consistent basis to demonstrate how the distributor's gas supply plans and decisions may affect rate applications, including capital plans for new facilities.

## 6. Monitoring the Framework in meeting the OEB's Objectives

The OEB expects that over time, experience and lessons learned will provide insight into aspects of the Framework that can be further enhanced and strengthened.

The OEB will assess the Framework and review process against the following outcomes to determine if it has achieved the policy outcomes consistent with the OEB's 2011 [Evaluation Framework for Board Policy](#):

- The regulatory expectations in relation to gas supply planning inputs are understood by the gas utilities and all gas supply stakeholders.
- The regulatory approach to assessing Gas Supply Plans is clear and consistent.
- The application of OEB performance metrics on the outcomes of gas supply planning result in positive outcomes for consumers.

The OEB will monitor, evaluate and report on whether the expected policy outcomes for the Framework are being met over time.



## **Appendix**

### **Filing Requirements – Distributor Gas Supply Plans**

These Filing Requirements are intended to assist distributors in preparing their Gas Supply Plan in order to align with the OEB's Framework for the Assessment of Distributor Gas Supply Plans (Framework). The guidelines outline the minimum information necessary to be filed by gas distributors in order for the OEB to review their gas supply plans and gas supply plan updates.

These requirements provide direction to the distributors on the content of their plans. The requirements should be read in conjunction with the Framework to fully understand the intention behind the requirements.

#### **1. General Gas Supply Plan Requirements**

The plans and updates are to be submitted to the OEB by deadlines established by the OEB. The basic information that distributors must include with their gas supply plans are outlined in this section.

##### **1.1 Administrative Information**

- Table of Contents
- Introduction - The introduction should include a summary of the objectives of the plan and, at a high-level, how the plan achieves the Framework's guiding principles.
- Significant Changes - To facilitate a more efficient review of the plans, distributors will describe the significant changes to the plan from the previously submitted plan and the resulting consumer impact
- Process, Resources and Governance- Distributors will provide a description of the internal processes and level of expertise associated with developing, reviewing, approving and executing the gas supply plan. For example, distributors in the past have used consultants to provide market forecasts and analysis that were used to inform their plans. Distributors should provide a description of the work completed by third parties and how their work is considered when developing the Gas Supply Plan

## 1.2. Gas Supply Plan Criteria

A description of the following Gas Supply Plan criteria:

- 1) Demand Forecast Analysis
- 2) Option Analysis
- 3) Performance Metrics
- 4) Risk Mitigation Strategy
- 5) Achieving Public Policy - Renewable Natural Gas
- 6) Procurement Process and Policy
- 7) Current and future market trends and analysis

The plans should focus on both the risk and impact to the consumers. To effectively demonstrate that the plans have considered a variety of options and their impact on consumers, distributors will provide information that supports their planning decisions. This will include, but not be limited to, the following:

- A detailed description of the process they undertake to develop the demand forecast and describe the associated risks with their approach
- A detailed description of the rationale that supports their approach to developing their demand forecast, the options considered and their impacts on consumers
- A description of the costs associated with the various options considered and how the final option(s) was chosen
- Analysis of the bill impact of options considered and how these compare to the chosen option including a description of the considerations used to determining the final solution
- A description of how the options considered (and chosen) impact price volatility and predictability and how the distributor determined what level of volatility was deemed acceptable for consumers.
- A description of the various options considered to deliver reliable supply to consumers and why the final option(s) was chosen
- Analysis of the cost and bill impact of options considered and how these reliability options compare to the chosen option including a description of the considerations used to determining the final solution
- A description of the distributors approach to balancing reliability and flexibility within a plan and what are the cost and risk trade-offs associated with their approach.
- A description of how the distributor built supply and transportation route diversity into the plan and what the cost implications and risks are associated with their approach

### **1.3. Gas Supply Plan Outlook**

The performance metrics of the Gas Supply Plans should provide a quantitative forecast, or Outlook, of the following outputs of the plan that the distributor plans to use to meet its demand requirements. The performance metrics should describe how the plan is performing versus the forecast and should be meaningful to consumers. At minimum the Outlook section of the gas supply plan should include the following:

- Forecasted Demand
- Commodity portfolio
- Renewable Natural Gas Portfolio
- Transportation Portfolio
- Storage
- Market based solutions
- Unutilized Capacity
- Long-Term Contracts
- Other solutions that the distributor determines will be used to meet its demand requirements

### **1.4. Gas Supply Plan Execution**

The Gas Supply Plan should include an overview of the natural gas procurement policies used by the distributors and a description of the triggers that signal that action is required. This section will also include a description of the flexibility built into the plan, how these quantities were arrived at and what the impacts are for consumers.

### **1.5. Description of continuous improvement strategies**

Continuous improvement to the gas supply planning task undertaken by the distributors is an important element of the transparency objective of the Framework. Distributors are expected to include areas of improvement to their plans.

### **1.6. Link to Other Applications**

Distributors should describe how their plans link to other applications submitted to the OEB and highlight the bill and rate impacts of applications on the gas supply plan. If at a later date the distributor submits an application that appears to have an impact on the gas supply plan, the distributor will be required to describe why the gas supply plan impact was not included.

## **2. Annual Gas Supply Plan Update General Requirements**

Distributors will submit an Annual Gas Supply Plan Update (Update) to the OEB for review and include a three year analysis of actual data that the OEB can compare to the data the distributor included in the Outlook section of the Gas Supply Plan.

The following sections describe the minimum information that distributors are to include in their Update.

### **2.1. Significant Changes to the Gas Supply Plan**

The Update should describe the significant changes to the plan from the previously submitted Update and the resulting consumer impact.

### **2.2. Updated Gas Supply Plan Outlook**

The Update should include updated data for the five year Outlook.

### **2.3. Three Year Historical Review**

The Update should include a review of the prior three years comparing the Outlook included in the Gas Supply Plan to actual data.