Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0106

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors.

PROCEDURAL ORDER NO. 1

On May 29th 2008, the Ontario Energy Board commenced a proceeding on its own motion to determine the methodology to be used by natural gas distributors for (i) gas commodity pricing, (ii) load balancing and (iii) cost allocation between the supply and delivery functions in relation to regulated gas supply. The Board has assigned file number EB-2008-0106 to this proceeding.

A Notice of Proceeding was published in newspapers across the province on June 11, 2008 and June 12, 2008. A list of the parties to this proceeding is set out in Appendix A to this Procedural Order.

The Board has determined that it will schedule an "Issues Day" to hear the submissions of the parties in relation to the issues to be considered in this proceeding. To that end, a draft issues list is attached as Appendix B to this Procedural Order. Once the issues list has been determined by the Board, the Board will issue a further procedural order directing the three regulated natural gas distributors (Enbridge Gas Distribution Inc., Union Gas Limited and Natural Resource Gas Limited) to file evidence and setting out a schedule for this proceeding.

The Board considers it necessary to make provision for the following procedural matters. Further procedural orders may be issued from time to time.

THE BOARD ORDERS THAT:

1. Any party that wishes to make written submissions on the draft issues list attached as Appendix B to this Procedural Order shall file the submissions with the Board and deliver a copy of the submissions to all other parties on or before **Thursday, July 24, 2008.**

2. A hearing to consider submissions with respect to the draft issues list attached as Appendix B to this Procedural Order will be held on **Thursday, July 31, 2008** commencing at **9:30 a.m.** in the Board's West hearing room on the 25th floor at 2300 Yonge Street.

All filings to the Board noted in this Procedural Order must be in the form of 2 hard copies and must be received by the Board by **4:45 p.m.** on the stated date.
An electronic copy of the filing must also be provided. If you already have a user ID, the electronic copy of your filing should be submitted through the Board's web portal at www.errr.oeb.gov.on.ca. If you do not have a user ID, please visit the "e-Filing Services" page on the Board's website at www.oeb.gov.on.ca and fill out a user ID password request. For instructions on how to submit and naming conventions, please refer to the RESS Document Guidelines also found on the "e-Filing Services" webpage. If the Board's web portal is not available, the electronic copy of your filing may be submitted by e-mail at Boardsec@oeb.gov.on.ca. Those who do not have internet access are required to submit the electronic copy of their filing on a CD or diskette in PDF format.

ISSUED at Toronto, July 9, 2008

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A to
Procedural Order No. 1
Dated: July 9, 2008

EB-2008-0106

METHODOLOGIES FOR COMMODITY PRICING, LOAD BALANCING AND COST ALLOCATION FOR NATURAL GAS DISTRIBUTORS

List of Intervenors

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Appendix B to
Procedural Order No. 1
Dated: July 9, 2008

EB-2008-0106

METHODOLOGIES FOR COMMODITY PRICING, LOAD BALANCING AND COST ALLOCATION FOR NATURAL GAS DISTRIBUTORS

Draft Issues List

A. REVIEW AND STANDARDIZATION OF QUARTERLY RATE ADJUSTMENT MECHANISM ("QRAM") FOR ALL NATURAL GAS DISTRIBUTORS

1. Trigger mechanism for changing the reference price or clearing the purchased gas variance account ("PGVA")

Preamble: *In the case of Enbridge Gas Distribution Inc., ("Enbridge"), a price adjustment is triggered if the resulting change in the recalculated reference price for any quarter varies from the price in effect at the time by more than 0.5¢/m³. Similarly, a year-end balance in the PGVA, when translated into ¢/m³ based on forecast consumption for the remainder of the test year, exceeding 0.5¢/m³ will trigger its clearing. For Union Gas Limited ("Union") and Natural Resource Gas Limited ("NRG"), an adjustment to the reference price and clearing of the PGVA is automatic every quarter (i.e., there are no triggers).*

Issues:

1.1 What are the advantages and disadvantages of having a trigger mechanism to prompt a change in the reference price or to clear the PGVA?

1.2 If a trigger mechanism is desirable, what is the most appropriate methodology to be used by all natural gas distributors for setting the trigger to prompt a change in the reference price or to clear the PGVA?

2. Price adjustment frequency and forecast periods

Preamble: *Union and Enbridge currently recalculate the reference price for each quarter on the basis of a 12 month forecast of the price of natural gas using a 21-day strip. NRG uses a shorter strip.*

Issues:

2.1 Is a quarterly price adjustment based on a 12-month price forecast appropriate for the regulated gas supply option?

2.2 If not, what alternative methodology would be most appropriate for use by all natural gas distributors?

3. Methodology for the calculation of the reference price

Preamble: *Enbridge's reference price is a weighted average of a basket of pricing indices for different delivery points that reflect Enbridge's supply portfolio. NRG's reference price also reflects its supply portfolio. Union's Empress gas price is based on a simple average of the NYMEX one-year future market price*.

Issues:

3.1 What would be the advantages and disadvantages of moving to a single Ontario-wide reference price as the basis for the gas supply commodity charge?

3.2 Should the reference price be calculated as a weighted average of different volumes at different pricing (delivery) points so that it reflects the current distributor-specific supply portfolio mix?

4. Deferral and variance accounts and disposition methodology

Preamble: *Union has two different PGVAs to take into consideration the differences between its North and South delivery areas. In the South, the PGVA reflects an Ontario landed price (i.e., commodity and TCPL tolls) while the North PGVA reflects a price at Empress. In addition, the South Portfolio Cost Differential captures differences between the South transportation costs portfolio and TCPL tolls. Variances in transportation costs in the North, as well as spot account/ load balancing costs and inventory revaluations are captured in separate deferral/variance accounts. Similarly, NRG has separate accounts for commodity and transportation variances and inventory revaluations. In contrast, Enbridge's PGVA captures commodity, transportation and load balancing variances and inventory revaluations.*

Union and NRG dispose of deferral/variance account balances over a 12 month rolling period. In Enbridge's case, if the year end PGVA balance exceeds 0.5 ¢/m³ based on forecast consumption for the remainder of the test year, the balance is cleared over the remaining months of the test year. For the fourth quarter of the test year, Enbridge has the discretion to select either 3 months (standard practice) or an extended clearing period of six months

Enbridge makes a final adjustment to re-allocate the PGVA to its customer rate classes. This adjustment reflects, among other things, the detailed components of the PGVA, the amounts collected/refunded through Rider C and annualized throughput.

Issues:

4.1 What are the advantages and disadvantages of having separate deferral/variance accounts to capture variances in commodity, transportation and load balancing and inventory revaluations? What is the most appropriate methodology for use by all natural gas distributors?

4.2 What is the most appropriate methodology for use by all natural gas distributors to determine the deferral/variance account balances to be disposed of?

4.3 What is the most appropriate methodology for use by all natural gas distributors to dispose of the deferral/variance account balances? How frequently should the accounts be cleared?

4.4 What are the advantages and disadvantages of making a final adjustment to re-allocate the PGVA? What is the most appropriate methodology for use by all natural gas distributors?

5. Effect of a change in the reference price on the revenue requirement

Preamble: *In Enbridge's case, a change in the reference price is translated into a change in the revenue requirement which includes changes in the carrying cost of gas in inventory, in capital and large corporation taxes, as well as in the working cash allowance. Union and NRG do not make these adjustments.*

Issues:

5.1. Should the revenue requirement (other than gas costs) change as a result of a change in the reference price?

5.2 If so:

- i. what component(s) of the revenue requirement should be adjusted?
- ii. what is the most appropriate methodology for use by all natural gas distributors for the purpose of allocating the change in the revenue requirement to the various customer rate classes?

6. Implications/costs of standardizing pricing mechanisms across all natural gas distributors

Issues:

6.1. What are the costs and implications of standardizing the pricing mechanisms across all natural gas distributors?

7. Filing requirements

Preamble: *Currently, there are no standard filing requirements that are common to all three natural gas distributors in relation to QRAM applications. As a result, there are differences in the materials filed*.

Issues:

7.1. What should be the standard filing requirements for QRAM applications?

B. REVIEW AND STANDARDIZATION OF LOAD BALANCING OBLIGATIONS FOR ALL NATURAL GAS DISTRIBUTORS

Preamble: *At present, the load balancing policies for Union and Enbridge differ. Union has a three-point balancing mechanism while Enbridge has an annual load balancing mechanism*. *NRG is subject to Union's three-point balancing mechanism.*

Issues:

8.1 What are the advantages and disadvantages of the current load balancing mechanisms used by each of Union and Enbridge?

8.2 What is the most appropriate method for standardizing the load balancing mechanism across all natural gas distributors?

C. COST ALLOCATION

Preamble: *Further examination is required to determine whether the manner in which natural gas distributors currently allocate costs between the delivery and the regulated gas supply functions raises concerns regarding cross-subsidization.*

Issues:

9.1 What activities and underlying costs should be incorporated into the regulated gas supply option?