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BY EMAIL

September 16, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Letter of Comment
Enbridge Gas Inc.
October 2021 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2021-0219**

Please find attached OEB staff's letter of comment in the above referenced proceeding.

Yours truly,

Ritch Murray
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2021-0219

Background

The OEB last updated the Quarterly Rate Adjustment Mechanism (QRAM) in the proceeding on Methodologies for Commodity Pricing, Load Rebalancing and Cost Allocation for Natural Gas Distributors (Generic QRAM Proceeding)¹. The QRAM is intended to strike a balance between ensuring that consumers are receiving appropriate price signals which reflect natural gas market prices and protecting the interest of consumers that purchase their gas from the distributor by reducing, to some extent, the volatility in the price of natural gas. The QRAM, by design, provides some smoothing of system gas costs by spreading differences between actual and forecast cost of gas over a 12-month period.

The winter of 2014 was exceptional in terms of sustained colder than normal weather. The cold weather of the 2014 winter exerted significant upward pressure on natural gas prices. To properly consider April 2014 QRAM applications, the OEB allowed for more discovery and argument than is provided for in a typical QRAM application.

In its Decision and Order in one of the April QRAM proceedings², the OEB determined that it would commence a process to consider alternatives to the current QRAM protocols associated with the dissemination of information, timing and underlying drivers of the QRAM. The OEB commenced a proceeding on its own motion (QRAM Update Proceeding) and issued its decision in August 2014³. The OEB's findings are discussed in the following section.

OEB Policy Regarding Changes in Commodity Price

In its decision for the QRAM Update Proceeding, the OEB found that where a quarterly increase driven by the disposition of the Purchased Gas Variance Gas Account (PGVA) balances and the projected cost of gas will have a very significant effect on system supply customers, the goal of reflecting the market price must be compromised, to some extent, in order to provide protection for those consumers. The OEB found that an increase or decrease of 25% on the commodity portion of a typical residential system supply customer's bill (which includes all commodity related rate riders) indicates the need for advance notification to customers, and potentially a more thorough review of a QRAM application than was contemplated under the then existing QRAM methodology.

The OEB now requires gas distributors, one month in advance of the normal QRAM filing date, to complete a preliminary estimate of the change in the commodity portion of a typical residential system supply customer's bill that arises from the forecasted reference price for the next quarter and the forecasted PGVA balances to be cleared. A

¹ EB-2008-0106

² Enbridge Gas Distribution Inc., EB-2014-0039

³ EB-2014-0199

gas distributor that anticipates an increase or decrease of 25% or more on the commodity portion of a typical residential system supply customer's bill (which includes all commodity related rate riders), must file a letter with the OEB describing the anticipated increase or decrease and the cost drivers underpinning the anticipated change. The letter must include information regarding the 21-day strip used and the forecasted PGVA balances that the distributor expects to clear. The letter must be filed with the OEB as soon as possible after the preliminary forecast has been completed and no later than 14 days before the filing date of the QRAM application.

After the letter is filed with the OEB (where applicable), the distributor shall file its QRAM application based on the existing QRAM established in the Generic QRAM Proceeding. If a 25% or greater change on the commodity portion of a typical residential system supply customer's bill is still anticipated, the distributor must also include evidence which explains, in detail, the reasons for the large rate increase (or decrease). Where the change is an increase, the distributor must include a plan for mitigation of the increase. The OEB did not establish a policy on rate mitigation, but stated that it would consider the necessity for and method of implementation of mitigation on a case-by-case basis.

Recent QRAM Applications with Rate Mitigation Plans

There are two recent applications where Enbridge Gas proposed a rate mitigation plan: its July 2020 QRAM and its October 2020 QRAM.

In May, 2020, Enbridge Gas filed a letter informing the OEB that, based on preliminary estimates, the commodity portion of the bill would increase in excess of 25% for a typical residential customer in one of its rate zones. As a result of the ongoing COVID-19 pandemic, Enbridge Gas proposed to forego its July 2020 QRAM application⁴ in accordance with the OEB's requirement that natural gas distributors bring forward a rate mitigation plan in the face of significant forecast commodity cost increases. Enbridge Gas proposed to hold rates normally changed through the QRAM constant until its October 2020 QRAM application. Enbridge Gas noted that discontinuing the July 1, 2020 QRAM would not ultimately absolve customers of gas costs incurred, as Enbridge Gas expected these increased gas costs to persist through its October 2020 QRAM application when recovery would be sought. In light of the severe economic pressures caused by the COVID-19 pandemic, the OEB found that it would be prudent to dispense with Enbridge's July 2020 QRAM application. The OEB stated its expectation that Enbridge Gas would propose a rate mitigation plan with its October 2020 QRAM filing if commodity prices once again exceeded the 25% increase threshold, and/or if total bill impacts were material enough to require mitigation.

⁴ EB-2020-0144

In September 2020, Enbridge Gas filed its October 2020 QRAM application⁵. Enbridge Gas stated that the bill impacts for a typical residential sales service customer would exceed 25% of the commodity portion of the bill in two rate zones. As a result, Enbridge Gas proposed a rate mitigation plan for all of its rate zones that involved:

- a) The use of a 21-day strip ending August 3, 2020 rather than August 31, 2020 to mitigate commodity price increases that would otherwise exceed 25%. The variance between forecast costs included with the application and actual costs will be recorded in the respective deferral and variance accounts for disposition as part of a future QRAM application. Enbridge Gas estimated that that this would result in commodity bill impacts that would be below 25% for all rate zones.
- b) A credit of 2.0000 ¢/m³ in the Union North West gas commodity price adjustment for the period October 1, 2020 to December 31, 2020 to mitigate total bill increases that would otherwise exceed 10%.

The OEB approved the proposed rate mitigation plan. The OEB stated that the departure from the prescribed QRAM methodology was limited to the date at which the gas cost forecast price was prepared, and was intended to balance the need to reflect market price signals while at the same time to temporarily mitigate the bills increases experienced by customers.

In the case of Enbridge Gas's April 2014 QRAM referenced earlier, the OEB approved a rate mitigation plan that consisted of spreading the recovery of PGVA balances over a period of 24 months instead of the standard period of 12 months.

⁵ EB-2020-0195

Application Summary

On August 27, 2021, Enbridge Gas filed a letter to inform the OEB that, based on preliminary estimates, Enbridge Gas was forecasting that the gas commodity portion of the bill will increase by more than 25% for sales service customers in the EGD, Union North West and Union North East rate zones. At that time, Enbridge Gas forecasted the commodity bill increase would be slightly less than 25% for sales service customers in the Union South rate zone.

On September 10, 2021, Enbridge Gas filed its October 2021 QRAM application. Enbridge Gas noted that since its last QRAM application, there has been increasing demand in North America for natural gas due to increased domestic consumption, gas-fired electricity generation and an increase in LNG exports. This increase in demand combined with slight decreases in production and supply interruptions related to Hurricane Ida have put upward pressure on natural gas prices.

Enbridge Gas identified that, prior to any sort of mitigation, the bill impacts for a typical residential sales service customer would exceed 25% of the commodity portion of the bill in all rate zones based on approved QRAM methodologies. The bill impacts were prepared using a forecast of gas costs effective October 1, 2021 based on a 21-day strip ending August 31, 2021 and resulted in annualized commodity increases of approximately 35.9% for customers in the EGD rate zone, 33.7% for customers in the Union South rate zone, 32.3% for customers in the Union North West rate zone and 39.5% for customers in the Union North East rate zone.

In order to mitigate the increase in all rate zones, Enbridge Gas is proposing not to dispose of the entire PGVA at this time. Instead, Enbridge Gas is proposing to apply PGVA credits to temporarily offset the PGVA balances and reduce the impact of the commodity cost increase to below 25%. The amounts of the proposed credits are:

- \$105 million for the EGD rate zone
- \$50 million for the Union South rate zone
- \$15 million for the Union North East rate zone
- \$3 million for the Union North West rate zone

The commodity bill impacts, before and after the proposed rate mitigation plan, are depicted in Table 1 below.

Table 1 - Proposed Commodity Bill Impacts Before and After Rate Mitigation

Rate Zone	Change Before Mitigation (\$)	Change Before Mitigation (%)	Change After Mitigation (\$)	Change After Mitigation (%)	Impact of Mitigation (\$)	Impact of Mitigation (%)
EGD	92.27	35.9	61.72	24.0	-30.55	-11.9
Union South	98.11	33.7	68.87	23.7	-29.24	-10.0
Union North West	75.59	32.3	55.33	23.6	-20.26	-8.6
Union North East	103.97	39.5	63.63	24.2	-40.36	-15.3

In addition to updating rates in the EGD and Union rate zones in accordance with Enbridge Gas's OEB-approved QRAM methodologies, the October 1, 2021 rates will reflect the implementation of two additional OEB Decisions:

- a) On July 8, 2021, the OEB approved unit rates for implementation effective October 1, 2021 in Enbridge Gas's 2019 Utility Earnings Sharing and Disposition of DVA application, EB-2020-0134
- b) On July 22, 2021, the OEB approved unit rates for implementation effective October 1, 2021 in Enbridge Gas's 2019 DSM DVA Disposition application, EB-2021-0072

The proposed total annual bill impacts when the proposed rate mitigation plan and implementation of the 2019 DSM and 2019 Utility Sharing and Deferral and Variance Account Balances are taken into account are as follows.

Table 2 - Proposed Total Annual Bill Impacts

Rate Zone	Total Bill Impact	Total Bill Impact
EGD	\$85.15	8.3%
Union South	\$53.38	5.9%
Union North West	\$16.11	1.6%
Union North East	\$70.15	6.5%

Enbridge Gas is proposing to include a PGVA debit of an equal amount with the January 1, 2022 QRAM to recover the cost of the PGVA amounts not recovered in the current QRAM application.

Enbridge Gas states that its rate mitigation plan reflects the natural gas market price but provides for a gradual increase in customer's bills over two QRAM periods.

OEB Staff Position

OEB staff submits that Enbridge Gas has adhered to the OEB's QRAM policy. OEB staff is of the view that Enbridge Gas's proposed rate mitigation plan is acceptable, and should be approved as filed.

Proposed Rate Mitigation Plan

OEB staff notes that the QRAM is intended to strike a balance between ensuring that consumers are receiving appropriate price signals which reflect natural gas market prices, and protecting the interest of consumers that purchase their gas from the distributor by reducing, to some extent, the volatility (and in particular rapid increases) in the price of natural gas. OEB staff submits that Enbridge Gas's proposed rate mitigation plan achieves this balance.

Enbridge Gas's proposed rate mitigation plan in its current application is similar to the rate mitigation proposed for the Union North West rate zone in its October 2020 QRAM application which was approved by the OEB. OEB staff submits that Enbridge Gas's current proposal is consistent with past practices. OEB staff notes that the total bill impact for a typical residential sales service customer is also less than the 10% threshold used in the electricity sector to trigger the need for a rate mitigation plan⁶.

Other Issues

OEB staff's comments have focused on Enbridge Gas's proposed rate mitigation plan. In closing, OEB staff notes that it has no issues or concerns with the balance of Enbridge Gas's October 2021 QRAM application. OEB staff submits that Enbridge Gas's application should be approved as filed.

OEB staff notes that while the current mitigation plan is sufficient to address the increase in commodity costs at this time, further rate mitigation may be required for the January 2022 QRAM, depending on the market dynamics at that time.

⁶ OEB's [Handbook for Utility Rate Applications](#) (October 13, 2016) page v, Rate Mitigation