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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
EPCOR Natural Gas Limited Partnership- South Bruce
October 2021 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2021-0236**

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

Yours truly,

Original Signed By

Arturo Lau
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2021-0236

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 impact 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 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

¹ EB-2008-0106

² Enbridge Gas Distribution Inc., April 2014 QRAM application, EB-2014-0039

³ EB-2014-0199

reference price for the next quarter and the forecasted PGVA balances to be cleared. A 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 Inc. (Enbridge Gas) proposed a rate mitigation plan: the July 2020 QRAM and the 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 the 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 September 1, 2021, EPCOR Natural Gas Limited Partnership (ENGLP) filed a letter to inform the OEB that, based on preliminary estimates, ENGLP was forecasting that the gas commodity portion of the bill will increase by slightly less than 25% for system gas customers in South Bruce. ENGLP also stated that should the commodity bill increase be greater than 25% for an average residential customer, it planned to include a rate mitigate proposal.

On September 10, 2021, ENGLP filed its October 2021 QRAM application for South Bruce. ENGLP 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. The bill impacts were prepared using a forecast of gas costs effective October 1, 2021 based on a 21-day strip ending August 30, 2021 and resulted in commodity increases of approximately 25.7% for customers in the South Bruce.

In order to mitigate the gas price increase in South Bruce, ENGLP is proposing to implement rate changes at October 1, 2021 based on a 21-day strip ending in August 5, 2021 rather than August 30, 2021. The August 5, 2021 forecast results in commodity bill impacts that are less than the August 30 forecast and below 25%.

The annual commodity bill impact for a typical residential sales service customer, before and after the proposed rate mitigation plan, are as follows.

	Commodity Bill Impact (\$)	Commodity Bill Impact (%)
Before Rate Mitigation	\$62.05	25.7%
After Rate Mitigation	<u>\$47.86</u>	<u>19.8%</u>
Difference	\$(14.19)	(5.9)%

The total bill impact for a typical residential sales service customer, after the proposed rate mitigation, is about 3.9% on an annualized basis.

The variance between forecast costs included with the application and actual cost will be recorded in the respective deferral and variance accounts (Gas Purchase Rebalancing Account and Purchase Gas Commodity Variance Account) for disposition with a future QRAM application.

OEB Staff Position

QRAM Policy

The OEB requires distributors, one month in advance of normal QRAM filing date to complete a preliminary estimates of change in commodity portion of a typical residential customer. If the distributor anticipates increase or decrease of 25% or greater, a letter must be filed with the Board 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.⁶

On September 1, 2021, ENGLP submitted a letter indicating that the commodity portion of typical residential customer bills is estimated to exceed 25%. ENGLP subsequently submitted its QRAM application on September 10, 2021. OEB staff notes that there were 10 days between the submission of the letter and the QRAM filing.

Rate Mitigation Plan

ENGLP proposed a rate mitigation plan that implements rate changes at October 1, 2021 based on a 21-day strip ending in August 5, 2021 as opposed to August 30, 2021.

OEB staff notes the rate mitigation methodology proposed by ENGLP is similar to Enbridge Gas' rate mitigation methodology that was approved in its October 2020 QRAM.⁷ Enbridge Gas was granted approval to use a 21-day strip ending August 3, 2020 rather than on August 31, 2020.

OEB staff submits that ENGLP's rate mitigation plan is acceptable and aligns with a previously approved rate mitigation methodology. 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 plan.⁸

Other Issues

OEB staff's comments have focused on ENGLP's proposed rate mitigation plan. In closing, OEB staff notes that it has no issues or concerns with the balance of ENGLP's October 2021 QRAM application. OEB staff submits that ENGLP'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 EB-2014-0199, Decision and Order, August 14, 2014, pg. 4-5

⁷ EB-2020-0195, Enbridge Gas Inc., October 1, 2020 QRAM Application

⁸ OEB's [Handbook for Utility Rate Applications](#) (October 13, 2016) page v, Rate Mitigation