PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

July 24, 2008

VIA COURIER and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Board File No. EB – 2008 - 0106
Notice of Proceeding on Commodity Pricing, Load Balancing, and Cost Allocation Methodologies for Natural Gas Distributors in Relation to Regulated Gas Supply

Please find enclosed VECC's submissions on the proposed issue list with respect to the above noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

ISD23

EB-2008-0106

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

VECC Comments/Submissions on Proposed 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?

SUBMISSION

The frequency of the reference price adjustment is determinative of whether a trigger is appropriate to avoid unnecessary regulatory burden. This relates to issue 2.

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?

SUBMISSION

The proposed wording confuses the issues of the type of reference price forecast and the frequency of the reference price adjustment.

These two issues should be separated into 4 issues:

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

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

2.3 Is a quarterly price adjustment appropriate for the regulated gas supply option?

2.4 If not, what alternative frequency 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?

SUBMISSION

The proposed wording of Issue 3 does not recognize that a portion of the regulated supply of the three distributors is contracted on either a fixed or indexed price basis. Issue 3.3 should be added to recognize this:

3.3 *If a standardized Ontario-wide reference price is implemented, how should it be determined? If not, what supply inputs and pricing point data should be utilized to determine a reference price for each utility?*

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?

SUBMISSION

The premise of the approach taken by Board Staff appears to be that both volume and price forecasts are available for commodity, transportation and load balancing and gas in inventory revaluation. A related issue is that rates for low volume customers for transportation, load balancing and delivery are bundled.

The following issue should be added:

4.5 How would the separation of deferral /variance accounts operate under incentive regulation since volume forecasts may not be available?

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?

SUBMISSION

The delivery revenue requirement (revenue requirement less gas costs) does not change. One option is for the changes in the RR arising from changes in the regulated supply reference price to be tracked in a deferral account and the balance cleared at the time rates are reset under the IRM.

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?

NO SUBMISSIONS

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?

SUBMISSION

The filing requirements should be a function of the new/standardized methodologies for reference price adjustments.

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?

SUBMISSION

VECC notes the following with respect to its view on the scope of these issues:

Load balancing is required by all heat sensitive customers and applies to both system/regulated supply customers and direct purchase customers.
It is also applicable to bundled and unbundled rates.

For example reference to Union's three-point balancing mechanism appears to relate only to bundled direct purchase customers. There are also semi-bundled customers (rates T1 and T3) and/or the fully unbundled customers (U series of rates).

Load balancing should be considered a separate function/service available to all bundled/unbundled customers.

There are sub-issues related to drafting of the system (negative banked gas account balance).

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?

SUBMISSION

This issue is framed without reference to the fact that apart from the source of commodity, both direct purchase and system/regulated supply customers use the storage transportation/compression and distribution assets of the distributor.

As noted earlier costs should be separated into commodity related and asset-related costs and functionalized into load balancing and delivery services applicable to both direct purchase and system/regulated supply customers.

The issues should be reframed as follows:

9.1 What asset-related costs should be allocated to load balancing and delivery and how should the costs of these services be allocated between system/regulated supply and direct purchase customers?

9.2 What activities and underlying costs should be incorporated into the regulated gas supply and direct purchase options?

All of which is Respectfully Submitted this 24th day of July, 2008

Michael Buonaguro
Counsel to VECC