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BY EMAIL

December 13, 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.
January 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2021-0281**

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-2021-0281

Background

The Ontario Energy Board (OEB) requires natural gas distributors, one month in advance of the normal Quarterly Rate Adjustment Mechanism (QRAM) filing date, to complete a preliminary estimate of the change in the commodity portion of a typical residential sales service customer's bill that arises from the forecast cost of gas for the next quarter and the forecasted Purchased Gas Variance Account (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 sales service 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 (if applicable), the distributor shall file its QRAM application in accordance with the OEB-approved QRAM methodology¹. If a 25% or greater change on the commodity portion of a typical residential sales service 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 has not specified what form the mitigation proposal should take, but has indicated that it would consider the necessity for and method of implementation of mitigation on a case by case basis².

On September 10, 2021, Enbridge Gas filed its October 2021 QRAM application³. Due to increasing demand in North America for natural gas, the bill impact for the commodity portion of the bill for a typical residential sales service customer would exceed 25% in all rate zones based on the approved QRAM methodology, prior to any mitigation. In order to mitigate the increase in all rate zones, Enbridge Gas proposed to defer recovery of \$173 million by applying credits in that amount to the PGVA to temporarily offset the PGVA balances and reduce the impact of the commodity cost increase to below 25%. Enbridge Gas proposed to include a PGVA debit of an equal amount with the January 1, 2022 QRAM to recover the cost of the PGVA credit not recovered through the October QRAM application. The OEB approved the application as filed, noting that it had approved similar mitigation plans for Enbridge Gas's QRAM applications in the past, most recently for April 2014, July 2020 and October 2020.

¹ EB-2008-0106

² EB-2014-0199, Decision and Order, p. 6

³ EB-2021-0219

On November 24, 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 a typical residential sales service customer in all rate zones as part of the January 2022 QRAM. Enbridge Gas identified the cost drivers as:

1. Increases related to the market price of natural gas
2. Increases related to January 1, 2022 PGVA riders being larger than the January 1, 2021 PGVA riders that expire with the January 1, 2022 QRAM
3. Increases related to the recovery of the \$173 million PGVA credits included as part of the October 1, 2021 QRAM mitigation plan

Enbridge Gas stated that it intended to include a plan to mitigate the increase to an acceptable level in its January 2022 QRAM application.

On December 1, 2021 Enbridge Gas received a letter from the Minister of Energy noting concern regarding recent increases in the price of natural gas and stating that it is a priority of the government that Ontario families have access to affordable energy for the upcoming winter heating season.⁴ The letter asked Enbridge Gas to review and consider fully all mitigation opportunities available and encouraged Enbridge Gas to take all steps to limit the immediate bill impact to customers. The Minister also sent a [letter](#) to the Chief Executive Officer of the OEB on December 1, 2021 similarly noting the government's policy priority for access to affordable energy, recognizing the OEB's use of mitigation in the past and expressing appreciation for the OEB's continued efforts in applying mitigation measures as appropriate for the upcoming winter months.

Application Summary

On December 8, 2021, Enbridge Gas filed its January 2022 QRAM application which, in keeping with the OEB's expectations that utilities consider rate mitigation for material rate increases, includes a mitigation proposal. Enbridge Gas's proposal, in response to the identified commodity-related bill impacts and the Minister's letter, reduces the commodity bill impact to less than 11% and limits the total bill impact to less than 5% for a typical residential sales service customer.

Enbridge Gas explained that there were a number of drivers behind the significant forecast increases in natural gas prices (pre-mitigation). Enbridge Gas stated that since its last QRAM application, the forward 12-month NYMEX strip has increased by approximately 16%. Enbridge Gas noted that there has been continued upward pressure on natural gas prices due to increased demand for liquified natural gas exports

⁴ The letter is included in the application at Exhibit A, Tab 2, Schedule 3.

and the shift into the heating season in North America.

Enbridge Gas also noted that production in North America has slowly increased above summer levels and is forecast to continue to increase over the winter months.

The January 2022 QRAM application reflects the higher cost of natural gas purchases and the lower TransCanada Pipeline Limited (TCPL) transportation tolls as compared to the gas costs embedded in the October 2021 QRAM application. The TCPL tolls in this application reflect the 2022 Settlement tolls and Abandonment charges expected to be approved by the Canadian Energy Regulator in December 2021 and effective January 1, 2022.

In addition to updating rates in the EGD and Union rate zones in accordance with Enbridge Gas's OEB-approved QRAM methodology, the January 1, 2022 rates will reflect the implementation of interim rates as approved by the OEB on October 28, 2021 in its Decision on Settlement Proposal and Interim Rate Order for the 2022 Rates application (Phase 1)⁵.

Enbridge Gas identified that, prior to any mitigation, the commodity portion of the bill for a typical residential sales service customer would increase by more than 25% in all rate zones based on the approved QRAM methodology. The impacts were prepared using a forecast of gas costs effective January 1, 2022 based on a 21-day strip ending November 30, 2021 and included the recovery of the \$173 million debit associated with the rate mitigation plan included in the October 2021 QRAM. Absent any mitigation, the application would result in increases to the commodity portion of the bill of a typical residential sales service customer of approximately 30.3% for customers in the EGD rate zone, 37.0% for customers in the Union South rate zone, 34.9% for customers in the Union North West rate zone and 49.0% for customers in the Union North East rate zone.

Similar to the approach in its October 2021 QRAM application, in order to mitigate the increase in all rate zones Enbridge Gas is proposing to defer recovery of an additional \$282 million by applying credits in that amount to the PGVA. Enbridge Gas proposes that these additional PGVA credits be added to the PGVA credits from October 2021 of \$173 million for a total of \$455 million. The total amounts of the proposed credits for each rate zone are:

- \$230 million for the EGD rate zone
- \$162 million for the Union South rate zone
- \$17 million for the Union North West rate zone

⁵ EB-2021-0147

- \$46 million for the Union North East rate zone

Based on Enbridge Gas's application as filed, the commodity bill impacts for a typical residential sales service customer, before and after the proposed rate mitigation plan, are depicted in Table 1 below.

Table 1 - 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	96.51	30.3	29.60	9.3	-66.91	-21.0
Union South	133.21	37.0	37.29	10.4	-95.92	-26.7
Union North West	100.99	34.9	-13.92	-4.8	-114.91	-39.7
Union North East	160.38	49.0	34.77	10.6	-125.61	-38.4

Enbridge Gas's proposed mitigation plan reduces the total bill impact for all rate zones to 5% or less. Table 2 below shows the total bill impacts for a typical residential sales service customer, before and after the proposed rate mitigation plan, based on Enbridge Gas's application as filed.

Table 2 - Total Bill Impacts Before and After Rate Mitigation

Rate Zone	Change Before Mitigation (\$)	Change Before Mitigation (%)	Change After Mitigation (\$)	Change After Mitigation (%)
EGD	121.09	11.0	54.18	4.9
Union South	142.59	15.1	47.25	5.0
Union North West	164.37	15.6	-1.49	-0.1
Union North East	182.52	15.8	48.46	4.2

Enbridge Gas stated that it will propose to include a PGVA debit with the April 1, 2022 QRAM to recover the \$455 million in PGVA amounts that are proposed to be deferred through Enbridge Gas's mitigation proposal.

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 a longer period of time.

OEB Staff Position

Enbridge Gas's proposed mitigation plan reduces the total bill impact to the typical residential customer in all rate zones to 5% or less. While OEB staff notes that the proposed rate mitigation plan is more substantial than the level approved in the October 2021 QRAM, 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 interests of consumers that purchase their gas from their 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 October 2021 QRAM application, which was approved by the OEB. 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.

OEB staff notes that the rate adjustments in Line 4.0 Exhibit A, Tab 3, Schedule 1 excludes one-time rate adjustments disposed of in October 2021, specifically the 2019 DSM Deferrals⁷. To provide a complete picture of the total bill change from the October 2021 QRAM to the January 2022 QRAM, OEB staff re-calculated the total bill impacts for a typical residential sales service customer with the full rate adjustments from the October 2021 QRAM after the rate mitigation, and requests that Enbridge Gas confirm the following figures:

Table 3 - Total Bill Impacts of Enbridge Gas's Application Before and After Rate Mitigation Including Full October 2021 QRAM Rate Adjustments

Rate Zone	Change Before Mitigation (\$)	Change Before Mitigation (%)	Change After Mitigation (\$)	Change After Mitigation (%)
EGD	121.09	11.0	50.25	4.54
Union South	142.59	15.1	38.68	4.05
Union North West	164.37	15.6	48.65	4.61
Union North East	182.52	15.8	56.10	4.86

⁶ OEB [Handbook for Utility Rate Applications](#) (October 13, 2016) Appendix 3, page v, Rate Mitigation

⁷ EB-2021-0072

OEB staff notes that the implementation of Enbridge Gas's proposed rate mitigation plan will result in the deferral of a larger PGVA balance (i.e. \$455 million plus applicable carrying charges) that Enbridge Gas will ultimately seek to recover from ratepayers. OEB staff also notes that increases in the federal carbon charges are also expected to be implemented in the April 2022 QRAM, which will further increase bill impacts for customers. OEB staff suggests that Enbridge Gas may wish to consider a phased recovery of the deferred amount, where the deferred amount would start to be progressively recouped over more than one quarter. OEB staff submits that a longer-term approach to the recovery of the deferred amount would provide for rate smoothing for the benefit of ratepayers.

Other Issues

OEB staff's comments have focused on Enbridge Gas's proposed rate mitigation plan. OEB staff notes that the application reflects changes in 2022 TCPL transportation tolls and Abandonment charges that are expected to be approved by the Canadian Energy Regulator in December 2021 and effective January 1, 2022. OEB has no other issues or concerns with the balance of Enbridge Gas's January 2022 QRAM application. OEB staff submits that Enbridge Gas's application should be approved as filed.