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BY EMAIL

March 16, 2022

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

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Letter of Comment
Enbridge Gas Inc.
April 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2022-0089**

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-2022-0089

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 methodology.¹ 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 basis.²

On September 10, 2021, Enbridge Gas filed its October 2021 QRAM application.³ 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 reduce the impact of the commodity cost increase to below 25%. 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.

On December 8, 2021, Enbridge Gas filed its January 2022 QRAM application.⁴ The bill

¹ EB-2008-0106

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

³ EB-2021-0219

⁴ EB-2021-0281

impact for the commodity portion of the bill for a typical residential sales service customer exceeded 25% in all rate zones based on the approved QRAM methodology, prior to any mitigation. Enbridge Gas's proposed a mitigation plan that would reduce the commodity bill impact to less than 11% and limited the total bill impact to less than 5% for a typical residential sales service customer. Enbridge Gas proposed to defer recovery of an additional \$282 million, for a total of \$455 million in deferred PGVA credits. Enbridge Gas proposed to begin recovering the deferred amount in its April 2022 QRAM application. The OEB approved the application as filed, noting that it had approved a similar rate mitigation plan in Enbridge Gas's previous QRAM application.

Enbridge Gas filed a letter with the OEB on February 25, 2022, notifying the OEB that, without any rate mitigation, the gas commodity portion of the bill in its April 2022 QRAM application would increase by more than 25% for sales service customers in all rate zones. This conclusion was based on a preliminary estimate that determined that the effect of increased gas costs combined with a full recovery of the deferred PGVA amounts (i.e. \$455 million) and the implementation of the new Federal Carbon Charge would result in increases in the commodity portion of the bills for sales service customers of between 26% and 43%, depending on the rate zone.

Application Summary

On March 11, 2021, Enbridge Gas filed its April 2022 QRAM application. Rather than recovering the total outstanding PGVA credit balance with the current QRAM, Enbridge Gas proposes a "mitigation plan" to recover as much of the balance as possible without increasing the gas commodity portion of the bill by more than 25% or the total bill by more than 10% for sales service customers in any rate zone. This approach would recover approximately \$336 million of the current \$455 million deferred amount with the current QRAM. This would leave approximately \$119 million for recovery with the July 2022 QRAM. Enbridge Gas proposes to recover the PGVA balances including the \$336 million deferred amount over a period of 24 months instead of the usual 12 months.

Enbridge Gas explained that upward pressure on pricing has continued since the January QRAM, due to colder than normal weather and increased uncertainty in the global energy landscape. Also, natural gas production in North America decreased slightly and storage across North America is expected to remain below the 5-year average through the end of March. As a result, the forward 12-month NYMEX strip increased 5% since the January QRAM.

In addition to updating rates in the EGD and Union rate zones in accordance with Enbridge Gas's OEB-approved QRAM methodology, the April 1, 2022, rates will reflect the implementation of interim rates as approved by the OEB:

- a) Unit rates for the 2020 Utility Earnings/Disposition of Deferral and Variance Account Balances (approved January 27, 2022)⁵
- b) Unit rates for the Federal Carbon Pricing Program (approved on February 10, 2022)⁶

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 April 1, 2022 based on a 21-day strip ending Feb 28, 2022 and included the recovery of the \$455 million debit associated with the rate mitigation plans included in the October 2021 and January 2022 QRAM applications. 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 33.9% for customers in the EGD rate zone, 35.1% for customers in the Union South rate zone, 52.5% for customers in the Union North West rate zone and 41.0% for customers in the Union North East rate zone.

Similar to the approach in its October 2021 and January 2022 QRAM applications, Enbridge Gas is proposing to defer recovery of \$119 million. Enbridge Gas states that the previously deferred amount for the EGD rate zone will be eliminated with this April 2022 QRAM application. However, \$119 million will remain unrecovered for the legacy Union Gas Limited rate zones.

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	117.99	33.9	76.54	22.0	-41.45	-11.9
Union South	139.31	35.1	46.20	11.6	-93.11	-23.4
Union North West	144.67	52.5	61.61	22.3	083.06	-30.1
Union North East	148.46	41.0	68.80	19.0	-79.66	-22.0

⁵ EB-2021-0149

⁶ EB-2021-0209

Enbridge Gas's proposed mitigation plan reduces the total bill impact for all rate zones to 10% 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	154.01	13.3	112.56	9.7
Union South	191.10	19.2	97.99	9.9
Union North West	161.13	14.6	78.07	7.1
Union North East	199.75	16.5	120.09	9.9

Enbridge Gas stated that it will propose to recover the remaining \$119 million of deferred amounts for the legacy Union rate zones as part of the July 2022 QRAM.

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 for typical residential customers in all rate zones to 10% or less. While OEB staff notes that the proposed rate mitigation plan is more substantial in terms of the total bill impact than the level approved in the October 2021 and January 2022 QRAM applications, 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 and January 2022 QRAM applications (in terms of capping the commodity and total bill increases), which were 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 plan.⁷

In its letter of comment filed in Enbridge Gas's January 2022 QRAM, OEB staff noted that, given the magnitude of the PGVA balance (i.e., \$455 million plus applicable carrying charges) combined with the increases in the federal carbon charges being implemented in the current QRAM, 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 submitted that a longer-term approach to the recovery of the deferred amount would provide for rate smoothing for the benefit of ratepayers. For this reason, OEB staff supports Enbridge Gas's proposal to recover the PGVA balances over a period of 24 months rather than the typical 12-month period. The 24-month disposition period is also consistent with the OEB's Decision and Order from Enbridge Gas Distribution's April 1, 2014 QRAM.

Enbridge Gas indicated that it intends to review the proposed 24-month disposition period in future QRAM applications to determine if market prices at that time will provide

⁷ OEB [Handbook for Utility Rate Applications](#) (October 13, 2016) Appendix 3, page v, Rate Mitigation

an opportunity to shorten the 24-month period of the April 2022 PGVA riders. OEB staff fully supports this approach.