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BY EMAIL

June 8, 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.
July 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2022-0150**

Please find attached OEB staff's comments in the above referenced proceeding.

Yours truly,

Ritch Murray
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2022-0150

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

In response to increased market prices at the time, Enbridge Gas proposed mitigation plans in its October 2021, January 2022 and April 2022 QRAM applications. The mitigation plans involved offsetting rate increases by applying credits to the Purchased Gas Variance Accounts (PGVAs) for expected recovery with subsequent QRAM applications. The April 2022 QRAM also proposed the use of a 24-month disposal period (as opposed to the typical 12-month periods). The OEB approved these plans.

At its peak, the total deferred amount in the PGVAs was \$455 million. Enbridge Gas began recovering a portion of the deferred amount through the April 2022 QRAM. The current deferred balance of the PGVAs is \$119 million.

In its decision for Enbridge Gas's April 2022 QRAM,³ the OEB noted that an expected increase of 25% in the commodity portion of the customer's bill is the trigger for

¹ EB-2008-0106

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

³ EB-2022-0089, Enbridge Gas, April 2022 QRAM [Decision & Rate Order, March 24, 2022](#)

communication to the OEB in advance of filing an application, and the filing of a rate impact mitigation plan with the application.⁴ However, the 25% on the commodity is not a cap and the OEB will consider the total bill impact in determining whether additional mitigation is warranted. The OEB uses a 10% total bill impact extensively for the electricity sector⁵ and considers that a reasonable target for the natural gas sector as well. However, the OEB also does not consider the 10% total bill impact a cap but rather a point at which the OEB will consider adopting mitigation measures.

On May 27, 2022, Enbridge Gas filed a letter with the OEB to provide notice that it estimates the gas commodity portion of sales service customer bills will increase by more than 25% in all rate zones in its July 2022 QRAM application (Notice Letter).

Application Summary

On June 3, 2022, Enbridge Gas filed its July 2022 QRAM application. It is the fourth consecutive QRAM application in which Enbridge Gas has proposed a mitigation plan.

Enbridge Gas explained that forward natural gas prices have remained volatile and continued to increase since the April 2022 QRAM application. Due to the significant uncertainty in forward market prices, the International Energy Agency is warning of a fuel crisis,⁶ which would put significant upward pressure on prices for longer than the duration of this QRAM term. As a result, the forward 12-month NYMEX strip increased 46% since the April 2022 QRAM.

As reported in the table below, absent any mitigation the application would result in increases to the commodity portion of the bill of a typical residential sales service customer of between 57.7% and 84.8% and total annual bill increases of between 21.1% and 29.0%, depending on the rate zone.

⁴ EB-2014-0199, Review of the Quarterly Rate Adjustment Mechanism, [Decision and Order, August 14, 2014](#) (page 4)

⁵ [OEB Handbook for Utility Rate Applications](#) (October 13, 2016); see Introduction (page 1) and Rate Mitigation (Appendix 3, page v)

⁶ <https://markets.businessinsider.com/news/commodities/fuel-shortages-summer-energy-crisis-oil-gasprice-shocks-iea-2022-5>

Results of QRAM (Before July Rate Mitigation)

Line No.	Rate Zone	Commodity Bill Current			Total Bill (1) Current		
		Change (a)	Bill Total (b)	% (c)	Change (d)	Bill Total (e)	% (f)
1	EGD	245.07	425.02	57.7%	268.52	1,274.38	21.1%
2	Union South	310.23	443.35	70.0%	314.01	1,083.64	29.0%
3	Union North West	286.18	337.37	84.8%	295.99	1,210.89	24.4%
4	Union North East	286.51	430.55	66.5%	296.35	1,323.51	22.4%

Enbridge Gas included two mitigation alternatives in the application: its preferred mitigation plan and an alternate.

Enbridge Gas's preferred mitigation plan is a 24-month disposition period for commodity balances within each rate zone's respective PGVA account balance. Enbridge Gas also proposes to use the forecast of gas costs effective July 1, 2022, based on a 21-day strip ending May 6, 2022 (the same 21-day strip as used to prepare the Notice Letter). This approach provides for:

- a) Recovery of all current QRAM-related costs in current rates
- b) No PGVA credits for future recovery to manage in light of continuing natural gas price increases
- c) Commodity rates that are more reflective of market prices

Enbridge Gas also provided an alternative mitigation plan for the OEB's consideration. In the alternative, total bill increases would be limited to 15% in all rate zones for typical residential customers by applying PGVA credits that total \$601 million for recovery with the October 2022 QRAM. This option has been prepared with a 12-month disposition period for commodity balances and uses the same 21-day strip as used to prepare the Notice Letter. This approach allows for a total bill increase that is less than the preferred approach but does not provide for recovery of all current QRAM-related costs in current rates. Enbridge Gas stated that natural gas prices could continue to rise, and that it could be challenging to propose the recovery of an additional \$601 million of PGVA credits with the October QRAM, as it would result in a substantial bill increase leading into customers' high consumption winter period. The total amount of credits for the alternate mitigation plan is \$601 million as follows:

- \$290 million for the EGD rate zone
- \$258 million for the Union South rate zone

- \$36 million for the Union North East rate zone
- \$17 million for the Union North West rate zone

Under both mitigation options, the total outstanding PGVA credit amount from the April 2022 QRAM of \$119 million for the Union rate zones has been included for recovery.

Although it was not possible for Enbridge Gas to file its application early and also base its forecast of gas costs on a 21-day strip ending May 31, 2022 (which is the typical timing), Enbridge Gas noted that had this strip been used instead of the proposed strip ending May 6, 2022 (advanced timing) then the PGVA reference prices would be 10-12% higher. Therefore, using the advanced timing strip has resulted in rate mitigation relative to the typical timing strip.

The table below reports the commodity and total bill impacts before and after Enbridge Gas's preferred mitigation plan is applied.

Annual Bill Impacts of Preferred Rate Mitigation Approach

Line No.	Rate Zone	QRAM Estimate (Before Rate Mitigation)		As Filed (After Rate Mitigation)		Impact of Rate Mitigation	
		\$	%	\$	%	\$	%
		(a)	(b)	(c)	(d)	(e)	(f)
<u>Commodity Bill</u>							
1	EGD	245.07	57.7%	219.81	51.7%	(25.26)	-5.9%
2	Union South	310.23	70.0%	246.92	55.7%	(63.31)	-14.3%
3	Union North West	286.18	84.8%	235.38	69.8%	(50.80)	-15.1%
4	Union North East	286.51	66.5%	239.61	55.7%	(46.90)	-10.9%
<u>Total Bill (1)</u>							
5	EGD	268.52	21.1%	243.25	19.1%	(25.26)	-2.0%
6	Union South	314.01	29.0%	250.70	23.1%	(63.31)	-5.8%
7	Union North West	295.99	24.4%	245.19	20.2%	(50.80)	-4.2%
8	Union North East	296.35	22.4%	249.45	18.8%	(46.90)	-3.5%

The table below reports the commodity and total bill impacts before and after Enbridge Gas's alternative mitigation plan is applied.

Annual Bill Impacts of Alternate Rate Mitigation Approach

Line No.	Rate Zone	QRAM Estimate (Before Rate Mitigation Plan)		As Filed (After Rate Mitigation Plan)		Impact of Rate Mitigation Plan	
		\$ (a)	% (b)	\$ (c)	% (d)	\$ (e)	% (f)
<u>Commodity Bill</u>							
1	EGD	245.07	57.7%	160.70	37.8%	(84.37)	-19.9%
2	Union South	310.23	70.0%	158.09	35.7%	(152.14)	-34.3%
3	Union North West	286.18	84.8%	171.58	50.9%	(114.60)	-34.0%
4	Union North East	286.51	66.5%	188.44	43.8%	(98.07)	-22.8%
<u>Total Bill (1)</u>							
1	EGD	268.52	21.1%	184.14	14.4%	(84.37)	-6.6%
2	Union South	314.01	29.0%	161.87	14.9%	(152.14)	-14.0%
3	Union North West	295.99	24.4%	181.39	15.0%	(114.60)	-9.5%
4	Union North East	296.35	22.4%	198.28	15.0%	(98.07)	-7.4%

The total bill impacts in the tables above also account for the implementation of the unit rates for implementation effective July 1, 2022 in Enbridge Gas's 2022 Rates (Phase 2 – ICM) proceeding (EB-2021-0148), approved on April 12, 2022.

In addition, this QRAM also implements the unit rates for the 2020 Demand Side Management Deferral and Variance Account Dispositions in EB-2022-0007 which were approved on May 5, 2022. These impacts are not included in the bill impact tables above. The expected bill impacts on the typical residential customer are:

Rate Zone	Annual Bill Impact (\$)
EGD	4.28
Union South	1.11
Union North West	(5.20)
Union North East	(5.20)

Enbridge Gas argued that the benefits of the preferred mitigation plan include the following:

- All QRAM-related costs are included in current rates for certainty of recovery. There are no PGVA credits to include for recovery with the October QRAM. By contrast, the alternate approach requires PGVA credits of \$601 million for recovery with the October QRAM.
- Including all QRAM-related costs in rates now allows sufficient time for customers to become accustomed to natural gas costs that are more aligned with market prices.
- It could be challenging to propose recovery of \$601 million PGVA credits with the

October QRAM, which leads into customers' high consumption winter period. The July to September period represents the lowest period of natural gas consumption by a typical residential customer.

- d) Natural gas prices could continue to rise and variances from the reference prices used in this application and the increase in the natural gas prices since it was prepared would need to be recovered with the October QRAM.
- e) Commodity rates under the preferred approach are more reflective of market prices than the alternate approach while still providing some level of mitigation.
- f) In terms of the near-term impact on customers over the next 3 months, the preferred approach results in a total bill increase of about \$16, whereas the alternate approach results in a total bill increase of about \$12. In other words, the alternative approach only reduces the incremental impact by a little more than \$1 / month.⁷
- g) Under the preferred rate mitigation approach, the PGVA interest would be \$4.8 million in the EGD rate zone and \$4.2 million in the Union rate zones for a total of \$9.015 million. Under the alternate rate mitigation approach, the PGVA interest would be \$4.6 million in the EGD rate zone and \$4.0 million in the Union rate zones for a total of \$8.635 million. Enbridge Gas explained that the alternate approach shows a lower interest amount of approximately \$0.4 million because this approach only captures the accumulated interest for 12 months vs 24 months in the preferred approach, partially offset by the higher PGVA principal balance.⁸ In other words, there is only a small difference between the interest accrued under the preferred versus the alternate mitigation plans.
- h) A 24-month disposition period is consistent with the OEB's Decision and Order from Enbridge Gas's April 2022 QRAM. Enbridge Gas says it will review the 24-month disposition period from both the April 2022 QRAM and this application in future QRAM applications to determine if market prices at that time will provide an opportunity to shorten the 24-month period of the PGVA riders.

In its letter responding to questions from OEB staff, Enbridge Gas stated that the PGVA credits required to mitigate total bill impacts to less than or equal to 10% for a typical residential customer, based on the May 6, 2022 21-day strip, would total about \$936 million.⁹ Enbridge Gas did not provide this alternative as a rate mitigation approach in the QRAM application due to the \$936 million of PGVA credits required. Enbridge Gas submitted that this level of mitigation of natural gas market prices is not in the interest of customers or the utility with continued rising natural gas prices.

⁷ OEB staff does not dispute the bill impacts cited by Enbridge Gas for the July 1, 2022 to August 31, 2022 period. However, OEB staff is of the view that the OEB would benefit from Enbridge Gas filing a calculation supporting these figures as part of its reply comments in the current proceeding.

⁸ Enbridge Gas's response to I.Staff.2

⁹ Enbridge Gas's response to I.Staff.1

OEB Staff Position

OEB staff submits that the OEB should approve Enbridge Gas's preferred mitigation plan as filed. OEB staff also submits that, in a future QRAM application, Enbridge Gas should file a proposal for customer notification of bill changes arising from decisions on Enbridge Gas' QRAM applications. Finally, OEB staff submits that the OEB should not further standardize the approach to QRAM rate mitigation plans.

Approve the Preferred Rate Mitigation Plan

For the following reasons, OEB staff submits that the OEB should approved Enbridge Gas's preferred mitigation approach as filed.

OEB staff agrees with Enbridge Gas that some level of rate mitigation is needed. OEB staff is of the view that total bill impacts resulting from the no rate mitigation scenario¹⁰ are too high.

As the OEB stated in its Decision and Rate Order for Enbridge Gas's April 2022 QRAM, neither a 25% impact on the commodity portion of the bill nor a 10% impact on the total bill are considered caps or limits on the magnitude that customer bills may increase.

Based on current natural gas market dynamics, OEB staff agrees with Enbridge Gas that it is appropriate that the OEB approve rates that result in total bill impacts that are higher than 10%. OEB staff submits that accruing \$936 million of PGVA credits, which results from mitigating total bill impacts to 10%, for future recovery with the October 2022 QRAM is not in the interest of customers (nor Enbridge Gas) amid continued rising natural gas prices. Similarly, OEB staff submits that the alternate mitigation plan, which limits total bill impacts to 15% and results in \$601 million of PGVA credits for future recovery, is also not in the interest of customers for the same reason. The alternate mitigation plan results in only a small difference in the total bill impact, and would leave a significant balance in the PGVAs.

OEB staff submits that Enbridge Gas's preferred approach reflects the appropriate balance between mitigating bill impacts in the current proceeding and avoiding potential rate shock in future QRAM periods. OEB staff also submits that maintaining a closer reflection of natural gas market prices, relative to the alternative approach, ensures that consumers are receiving appropriate price signals.

Customer Notification

OEB staff submits that, in a future QRAM application, Enbridge Gas should file a proposal for customer notification of bill changes arising from decisions on Enbridge

¹⁰ Total bill impacts range from 21% to 29% (depending on the specific rate zone).

Gas' QRAM applications. OEB staff submits that included in this proposal should be an assessment of the value of bill inserts as compared to a number of alternatives including e-notices as part of e-billing, social media, and Enbridge Gas's website.

Enbridge Gas noted that, in a proceeding over 20 years ago, it agreed to "ensure that customers are given a clear explanation, by means of a message on the bill or a bill insert, of the pricing information displayed on the bill".¹¹ However, Enbridge Gas believes it would be appropriate for the OEB to potentially endorse the use of alternate means of communication with customers for rate changes instead of bill inserts.¹² OEB staff agrees with this given that the OEB has not directly opined on this matter in recent years.

Enbridge Gas stated that even if it were to discontinue print versions of bill inserts the timeline from application filing to decision issuance could not be lengthened. OEB staff does not dispute this statement. However, OEB staff submits that the elimination of paper bill inserts (and subject to a thorough assessment of both positive and adverse impacts) could have other benefits such as reducing the level of effort required by Enbridge Gas associated with QRAM applications and making the QRAM process more efficient overall.

Standardize QRAM Rate Mitigation Plans

OEB staff considered whether it may be appropriate to suggest that the OEB further standardize the practice of filing QRAM applications in advance of the normal timeframe (using an earlier 21-day strip of natural gas prices) and providing rate mitigation options for the OEB's consideration in cases where rate mitigation is proposed.

In response to questions from OEB staff,¹³ Enbridge Gas stated that the use of an earlier 21-day strip of natural gas prices does not satisfy the goal of the QRAM process to provide appropriate price signals that reflect actual market prices.

Enbridge Gas stated that where the total bill impact is relatively low, then the mitigation plan is straightforward and, in those situations, Enbridge Gas does not believe it is necessary to provide the OEB with rate mitigation options.

Enbridge stated that only in extraordinary circumstances (such as those now being experienced) would it be necessary for it to provide rate mitigation options to the OEB. Enbridge proposed that should extraordinary circumstances arise in the future it would again proceed, as in this case, and provide notice to the OEB in advance of the normal timeframe (using an earlier 21-day strip of natural gas prices) along with rate mitigation

¹¹ RP-2000-0040, Exhibit N2, Tab 1, Schedule 1, page 17

¹² Enbridge Gas's response to I.Staff.4

¹³ Enbridge Gas's response to I.Staff.3

options appropriate to the circumstances. In Enbridge Gas’s view, no “standardized approach” is needed for this.

OEB staff agrees with Enbridge Gas’s assessment. OEB staff submits that the practice of filing QRAM applications in advance of the normal timeframe (using an earlier 21-day strip of natural gas prices) and providing rate mitigation options for the OEB’s consideration should be left to Enbridge Gas’s discretion.