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

December 5, 2008

VIA COURIER and E-MAIL

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

Dear Ms. Walli:

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

Please find enclosed VECC's interrogatories for EGD and Union with respect to the above noted proceeding. VECC has no questions for NRG.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

ONTARIO ENERGY BOARD

Methodologies for Commodity Pricing, Load Balancing, And Cost Allocation for Natural Gas Distributors

EB-2008-0106

Vulnerable Energy Consumers' Coalition ("VECC") Interrogatories to Enbridge Gas Distribution Ltd. ("EGD" or "Enbridge")

VECC/EGD - 1

Reference: Enbridge Evidence para 141; Discussion with Mr. Thompson at Technical Conference Day 1 Transcript page 72, line14 to page 73, line 6

Preamble: Based on the noted references, the gas commodity rate charged to Enbridge's sales customers is based on a forward Empress price, plus fuel and other minor cost items. In particular, that commodity rate does not reflect the expected landed cost, in Ontario, of Enbridge's overall supply portfolio. Under Enbridge's approach to calculating reference prices and allocating transportation costs, differences between the Ontario landed cost of Empress supply and the Ontario landed cost of Enbridge's overall portfolio are treated as an adjustment to transportation or load balancing rates, which are charged to both sales customers and direct purchase customers.

Requests:

(a) Please comment on the advantages and disadvantages, from the perspectives of Enbridge, gas consumers, and marketers, of alternative approaches under which either (a) rates paid by sales customers reflect gas costs arising from the overall supply and transportation portfolio of the utility, or (b) rates paid by sales customers reflect gas costs at Empress only, with differences between the Ontario landed cost of Empress supply and the Ontario landed cost of the overall portfolio recovered from all sales and bundled transportation customers through balancing or transportation charges.

(b) What adjustments to the current reference price and cost allocation mechanism would be required in order for Enbridge's gas commodity rates, in combination with other rate elements for sales customers, to reflect the expected landed cost of Enbridge's overall portfolio rather than the landed cost of Empress supply?

(c) Would it be appropriate, in Enbridge's view, to exclude from the calculation for rate purposes, and from the adjustments that are identified in response to (b), any gas supply costs arising from peaking services and seasonal services that have a clear balancing function? Why or why not?

(d) Would Enbridge incur material costs to implement the changes identified in response to (b)? If so, please estimate those costs.

(e) Please provide an historical comparison, over the period since 2001, between (i) the Ontario landed cost of Empress supply as reflected in Enbridge's commodity rates and (ii) the Ontario landed cost of Enbridge's overall portfolio.

(f) Approximately what percentage of Enbridge's forecast system supply volumes come from (i) Empress, (ii) Alberta via Alliance/Vector, (iii) Chicago via Alliance, (iv) Dawn, (v) others (please identify).

(g) Does Enbridge attempt, in the long run, the short run, or both, to optimize or minimize the Ontario landed cost of its overall supply and transportation portfolio used to supply sales customers? Does Enbridge believe that it has an obligation to do that? Why or why not? Does Enbridge have an incentive to do that, given the pass-through nature of gas costs? Please discuss.

<u>VECC/EGD - 2</u>

Reference: Issue 4.1, Enbridge Evidence para.47

Preamble: It appears from the discussion that balances in Enbridge's single PGVA are allocated (i) amongst rate classes and (ii) between sales, Western Bundled T, and Ontario Bundled T customers, on the basis of established principles. Under Union's structure, however, given the nature of its services, all PGVA balances are allocated to sales customers.

Requests:

(a) Would Enbridge be able to disaggregate its current PGVA into separate accounts that would individually track variances to be allocated to sales, Western Bundled T, and Ontario Bundled T customers? Why or why not?

(b) Please discuss the advantages and disadvantages of adopting the suggested approach.

<u>VECC/EGD – 3</u>

Reference: Enbridge Evidence para. 53

Preamble: Enbridge proposes to adopt Union's approach to clearing the PGVA by clearing the account quarterly based on a 12 month forward volume forecast, with individual riders applicable to sales, Western Bundled T, and Ontario Bundled T services.

Request: If the Union approach is adopted, so that new rates and applicable riders would be determined for each type of service quarterly, is it necessary to state, and is there any purpose for stating, the adjusted rate and adjusted rider separately for billing purposes? Why or why not? Would there be any advantage, from the perspective of bill presentation and customer acceptance, of combining the rates and applicable riders for presentation purposes? Why or why not?

VECC/EGD - 4

Reference: Reference price determinations

Preamble: Enbridge indicates that it forecasts 12 month forward prices on the basis of 21-day "strips" at Empress and other supply points where Enbridge purchases gas.

Requests:

(a) Is Enbridge's procedure for determining the Empress strip identical to Union's, as described at page 8 of Union's evidence? If not what market measures are relied on at Empress? What market measures are relied on at other supply points where Enbridge acquires supply?

(b) If the objective is to obtain the most accurate forward forecast of future prices, why would Enbridge not rely on a shorter series of forward prices later in the period before the forecast period commences (e.g. average of last three trading days), on the ground that, at any given time, the most recent market expressions of expected prices should be the most accurate? Please discuss.

VECC/EGD - 5

Reference: BGA Disposition, Enbridge Evidence paras. 101-106

Preamble: Enbridge discusses the need for and desirability of more rigorous balancing provisions, e.g. two-checkpoint balancing as on Union.

Requests:

(a) Does Enbridge agree that, ignoring implementation difficulties arising from Enbridge's particular circumstances, it would be desirable to shift more responsibility for maintaining BGA's in balance to direct purchase customers, e.g. by requiring checkpoint balancing or otherwise requiring direct purchase customers to maintain an appropriate inventory position on an on-going basis? Why or why not?

(b) As the purchaser of system gas, does Enbridge monitor its inventory position relative to forecast on an on-going basis, and make adjustments to its gas purchases and transportation management from time to time, in order to keep the system supply function inventory at target levels within a reasonable tolerance? If not, why not?

(c) If the system supply function is required to make such adjustments not only for the purpose of managing supply for sales customers, but also to compensate for a failure by direct purchase customers to stay in balance relative to target during the course of a year, does Enbridge agree that that could or would be likely to increase the total balancing costs borne by all customers? Why or why not?

VECC/EGD - 6

Reference: Enbridge Evidence, para. 120

Preamble: Enbridge argues that introducing checkpoints on the Enbridge system, as has been done on Union, would require Enbridge to increase the availability of BGA management mechanisms for customers throughout the year, which it may not be able to do.

Request: Given that a checkpoint system, or any other more rigorous balancing requirement for direct purchase customers, would involve requiring customers to maintain inventories at certain levels or within certain tolerances, and given that Enbridge's owned and contracted-for storage facilities are all part of the Dawn storage complex, why would customers not normally be able to trend their inventory positions appropriately through purchases or sales of BGA amounts at the Dawn market hub, or inventory transfers within storage? Please discuss, with an explanation of whether, and if so why and to what extent, balancing activity by customers must be undertaken at locations remote from Dawn. If applicable, please also indicate whether balancing activity at Dawn or elsewhere would be constrained by existing contractual or operational factors and whether Enbridge would be prepared to develop balancing tools that would avoid those constraints.

VECC/EGD - 7

Reference: Enbridge Evidence, para. 167

Preamble: Enbridge recommends retaining the existing incremental design of DPAC and system cost fees.

Request: Does Enbridge agree that any change to a fully allocated methodology for determining either fee should be implemented for both fees in order to maintain parity between sales service and direct purchase? Why or why not?

VECC/EGD - 8

Reference: General

Requests:

(a) Please provide a breakdown of residential customers over the last five years indicating the number of sales (system) customers and the number of direct purchase customers. Please also indicate approximately what percentage of Enbridge's residential customers are served via (i) sales service, (ii) Western Bundled T service, (iii) Ontario Bundled T Service and (iv) unbundled service.

(b) If known or if the information is available, for each of the last five years please provide the number of residential customers that migrated from being system sales customers to become direct purchase customers.

(c) If known or if the information is available, for each of the last five years please provide the number of residential customers that returned to system sales service from the direct purchase option.

VECC/EGD - 9

Reference: General

Request: Please confirm that in costing any service using incremental cost (IC), fully allocated cost (FAC), or stand alone cost (SAC) methodologies, the following relationship is maintained: $IC \leq FAC \leq SAC$. If unable to so confirm, please explain why.

ONTARIO ENERGY BOARD

Methodologies for Commodity Pricing, Load Balancing, And Cost Allocation for Natural Gas Distributors

EB-2008-0106

Vulnerable Energy Consumers' Coalition ("VECC") Interrogatories to Union Gas Limited ("Union")

<u>VECC/Union - 1</u>

Reference: Calculation of reference prices; Union Evidence page 11; discussion with Mr. Thompson at Technical conference, day 1, transcript page 75, line 18 to page 77, line 10.

Preamble: For the Union South system, the commodity rate reflects an expected Empress price, plus fuel, rather than the average cost of Union's overall portfolio. However, the difference between the landed cost of Empress gas and the landed cost of Union's overall portfolio is reflected in the transportation fee that is charged to all sales customers, and only to sales customers. The result appears to be that sales customers pay total rates that reflect the average Ontario landed cost of Union's overall portfolio. This appears to be different from the situation on the Enbridge system, where sales customers pay a commodity rate that reflects Empress prices only, with differences between those prices and overall portfolio prices recovered from both system and direct purchase customers via balancing or transportation charges.

Requests:

(a) Please comment on the advantages and disadvantages, from the perspectives of Union, gas consumers, and marketers, of alternative approaches under which either (a) rates paid by sales customers reflect gas costs arising from the overall supply and transportation portfolio of the utility, or (b) rates paid by sales customers reflect gas costs at Empress only, with differences between the Ontario landed cost of Empress supply and the Ontario landed cost of the overall portfolio recovered from all sales and bundled transportation customers through balancing or transportation charges.

(b) Please provide an historical comparison, over the period since 2001, between (i) the Ontario landed cost of Empress supply as reflected in Union's commodity rates and (ii) the Ontario landed cost of Union's overall portfolio.

(c) Approximately what percentage of Union's forecast system supply volumes come from (i) Empress, (ii) Alberta via Alliance/Vector, (iii) Chicago via Alliance, (iv) Dawn, (v) others (please identify).

(d) Does Union attempt, in the long run, the short run, or both, to optimize or minimize the Ontario landed cost of its overall supply and transportation portfolio used to supply sales customers? Does Union believe that it has an obligation to do that? Why or why not? Does Union have an incentive to do that, given the pass-through nature of gas costs? Please discuss.

(e) Given that both the commodity charge and the transportation charge are charged to all sales customers, and only to sales customers, what purpose is served by stating the two charges separately? Does Union consider that combining those into a single "gas supply charge" that was applicable only to sales customers and that was directly comparable to direct purchase offerings in Union's territory would have benefits for consumers evaluating direct purchase options and/or marketers trying to sell those options? Why or why not?

VECC/Union - 2

Reference: Union Evidence, pages 16-18 (graphs)

Preamble: The referenced graphs show the effects on rate stability and accuracy of different possible approaches to determining reference prices.

Requests:

(a) With respect to the thin blue lines labelled "reference price", what reference price is being referred to, i.e. commodity rate alone, the commodity rate plus transportation rate?

(b) Please specify the "riders" referred to in connection with the thick blue lines?

(c) Why has the effect of the riders been to consistently decrease customer rates over the entire period since July 2006? Please comment on whether that is an odd coincidence, or identify any structural or other factors in the market or in Union's cost allocation or PGVA clearance mechanisms that has or could have led to that result.

VECC/Union - 3

Reference: Union Evidence, Section C, Cost Allocation, page 58

Preamble: In this section of its evidence Union supports the continuation of incremental costing for both the DPAC and system sales fees.

Request: Does Union agree that any change to a fully allocated methodology for determining either fee should be implemented for both fees in order to maintain parity between sales service and direct purchase? Why or why not?

<u>VECC/Union - 4</u>

Reference: Union Evidence

Preamble: Union's approach to clearing the PGVA involves clearing the account quarterly based on a 12 month forward volume forecast, with individual riders applicable to sales and Bundled T services.

Request: Under Union's approach is it necessary to state, and is there any purpose for stating, the adjusted rate and adjusted rider separately for billing purposes? Why or why not? Would there be any advantage, from the perspective of bill presentation and customer acceptance, of combining the rates and applicable riders for presentation purposes? Why or why not?

<u>VECC/Union - 5</u>

Reference: General

Requests:

(d) Please provide a breakdown of residential customers over the last five years indicating the number of sales (system) customers and the number of direct purchase customers. Please indicate the approximate percentages of residential customers that are served by (i) sales service, (ii) Bundled T service, and (iii) Unbundled Service.

(e) If known or if the information is available, for each of the last five years please provide the number of residential customers that migrated from being system sales customers to become direct purchase customers.

(f) If known or if the information is available, for each of the last five years please provide the number of residential customers that returned to system sales service from the direct purchase option.

<u>VECC/Union - 6</u>

Reference: General

Request: Please confirm that in costing any service using incremental cost (IC), fully allocated cost (FAC), or stand alone cost (SAC) methodologies, the following relationship is maintained: IC $\leq$ FAC $\leq$ SAC. If unable to confirm, please explain why.