

VIA E-MAIL & COURIER TO THE BOARD

November 24, 2014

Ontario Energy Board  
P.O. Box 2319  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attn: Kirsten Walli, Board Secretary

**RE: EB-2014-0289 NGMR - Winter of 2013/14 Storage Target Approach**

I am writing on behalf of the Federation of Rental-housing Providers of Ontario ("FRPO"),

As the Board is well aware, FRPO submitted its concerns over additional gas costs from last winter in the Enbridge QRAM proceedings. The attached spreadsheet provides the Board with some data to consider in reviewing the utility's response to the winter of 2013/14.

Our primary concern was that although Enbridge had a gas supply plan that set out a storage fill target, the actual withdrawals from storage were greater than expected and additional gas was not brought in to keep storage fill at targeted levels. While we respect that last winter was one of the coldest on record in Ontario increasing natural consumption, in our view, a utility ought to have a plan and stick to it unless additional information warrants an adjustment to the planned strategy. Said differently, the utility can and should alter its plan if consumption patterns and/or market developments generate a known improved plan with less risk.

To demonstrate the merits of sticking to the plan, we have developed a simple model that uses data from last winter and estimates the impact of a simple strategy that takes the difference between the actual storage position to the targeted position as a prompt to buy more or less gas in the following month. Using a marginal impact approach, the model assumes a company buys more or less gas in the subsequent month to try to minimize that difference in the following month. Of course, ideally, this could be done more frequently (i.e., weekly or bi-weekly).

To estimate the impact, we have simply added a hypothetical transaction in the subsequent month to minimize the difference between planned and actual. Starting at the end of November, a difference between targeted and actual storage fill was 13.23 PJ's. Hypothetically, this difference would trigger a purchase of that same amount in the month of December. The additional cost of that hypothetical transaction of \$102.2 million (line 13) was estimated using the average monthly cost for that month (from Enbridge QRAM). Moving through the subsequent months, January resulted in an additional purchase of 1.2 PJ's at a cost of \$13.7 million while February's purchases were reduced by 4.81 PJ's. This reduction in purchases shows up as an avoided cost transaction (negative), at the margin, of \$95.5 million. The only difference in the model is a recognition that a company would not purchase excess in March,

especially during high prices period, so the reduction in purchases is a combination of end of February hypothetical surplus and end of March actual difference to try to emulate a tapering of purchases in March due to ample storage. The sum of the avoided cost for 13.23 PJ's that would not need to be purchased in March to reduce the March surplus to target is \$218.6 million. The resulting additional purchases of gas in December and January followed by avoided purchases in February and March yield a net reduced cost of \$198.2 million.

The resulting hypothetical end of March position is lower than actual end of March, so to equate the actual and hypothetical approach, an additional transaction was assumed in April to notionally buy gas in the hypothetical scenario so that the same end point volume of gas is in storage in either scenario. The cost of buying this additional 3.61PJ's of gas in April is \$32.5 million. Overall, the adjustment of purchases informed by the prior month's storage position relative to target results in a decrease of costs of \$165.7 million.

As can be seen through this simplified estimation, transacting to manage a storage target position could have resulted in over a hundred million dollars of reduction to cost. While it has been argued that this is done using hindsight, in our view, a company should be proactive in managing its gas balance or be able to demonstrate that it had a better approach to minimizing risk. We will defer further comments until after the stakeholder conference.

Respectfully Submitted on Behalf of FRPO,



Dwayne R. Quinn  
Principal  
DR QUINN & ASSOCIATES LTD.

c. S. Cain - Board Staff  
EGD Regulatory Proceedings

Attach

## IMPACT OF MANAGING TO STORAGE TARGETS

		A	B	C	D	E		
		November	December	January	February	March	April	
1	STORAGE CAPACITY	*	120.30	120.30	120.30	120.30		
2	TARGET(%)	*	95	78	47	24	6	
3	TARGET(PJ)	(1 X 2)	114.29	93.83	56.54	28.87	7.22	
4	ACTUAL(%)	*	84	66	39	19	14	
5	ACTUAL(PJ)	(1 X 4)	101.05	79.40	46.92	22.86	16.84	
6	NET ACTUAL STORAGE WITHDRAWAL	(A5 - B5, etc.)		21.65	32.48	24.06	6.02	
7	ACTUAL STORAGE DEFICIT TO TARGET	(3 - 5)	13.23	14.44	9.62	6.02	-9.62	
8	HYPOTHETICAL MONTHLY NET TRANSACTIONS	(Prior Month 10)	0.00	13.23	1.20	-4.81	<b>-13.23 (D9 + E6)</b>	
9	HYPOTHETICAL END OF MONTH STORAGE POSITION	(Prior Month 9-6+8)	101.05	92.63	61.35	32.48	13.23	
10	HYPOTHETICAL END OF MONTH DEFICIT	(3 - 9)	13.23	1.20	-4.81	-3.61	-6.02	
11	Monthly Average Gas Cost (\$/10 3 m3)	**		204.60	302.26	526.05	437.73	238.70
12	Monthly Average Gas Cost (\$/GJ)	(11 X 0.03774)		7.72	11.41	19.85	16.52	9.01
13	HYPOTHETICAL MONTHLY TRANSACTION VALUE (000,000)	(8 X 12)		\$102.2	\$13.7	<b>-\$95.5</b>	<b>-\$218.6</b>	\$32.5
14	HYPOTHETICAL CUMULATIVE VALUE (000,000)	(A14 +B13, etc.)		\$102.2	\$115.9	\$20.4	<b>-\$198.2</b>	<b>-\$165.7</b>
15	ADDITIONAL MAKEUP IN APRIL TO EQUATE	(E5-E9)						3.61
	END OF MARCH ACTUAL AND HYPOTHETICAL (PJ)							

\* Enbridge Monthly UDC Report

\*\* Average Monthly Gas Cost from QRAM EB-2014-0191 Q4-3 T1 S2 pg.1