March 16, 2022

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VIA RESS

Ms. Nancy Marconi
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Marconi:

Re: EB-2022-0089: Enbridge Gas Inc. (EGI) April 1, 2022 QRAM Application.

Industrial Gas Users Association (IGUA) Comments.

We write as legal counsel to IGUA.

IGUA's Position on Proposed Rate Adjustments

IGUA's advisors, Jupiter Energy Advisors Inc. (Jupiter), have reviewed EGI's Application for quarterly adjustment of rates (QRAM) for all of the legacy rate zones of Enbridge Gas Distribution and Union Gas Limited, such adjustment to be effective April 1, 2022. Informed by Jupiter's review, we conclude that:

1. In deriving base commodity rates, EGI has properly followed the QRAM methodology approved by the OEB's EB-2008-0106 Decision.

2. However, in order to cap customer bill increases at 10%, EGI's current QRAM proposal continues to stray from the approved QRAM methodology in proposing both a PGVA credit/debit system and implementation of a 24 month rate rider clearance period for the commodity balances in place of the prescribed 12 month period. Further comment and recommendation on this topic is provided below.

3. EGI has properly included rate adjustments approved in EB-2021-0209 (2022 Federal Carbon Pricing Program, including an update in the Parkway Delivery Commitment Incentive costs), and the 2020 deferral and variance account clearances approved in EB-2021-0148.

Comments and Recommendations on Rate Mitigation Proposals

We understand EGI's proposed continuing, and now supplemented, rate mitigation plan to essentially be as follows:

(a) Determine gas supply charges based on the January 31 - February 28, 2022 strip of forward gas price forecasts, which is consistent with the QRAM methodology. This means the most current market prices are reflected in the supply charges themselves, a result which IGUA has previously endorsed as consistent with the intent of the QRAM methodology.

(b) Include PGVA debits to recover the rate mitigation credits included in the January QRAM. The current debit amounts for each zone are $230 million for EGD, $162 million for Union South, $17 million for Union North West, and $46 million for Union North East. This is the second consecutive QRAM application in which such debits have been included, reversing credits used in the preceding QRAMs to preclude bill increases beyond 10%. The same mechanism is expected to be used, for a third consecutive time, for the July 1, 2022 QRAM.

(c) Since the inclusion of foregoing credits is one of the key drivers for commodity bills increasing by more than 25% and total bills increasing more than 10%, EGI proposes a 24-month disposition of the commodity balances in each of EGI's PGVAs to smooth the bill impacts. EGI says it will review the 24-month disposition period with each QRAM to determine if it can be shortened. This is a departure from the OEB approved QRAM mechanism, which directs the use of 12 month riders to recover variances between gas costs included in rates and actual gas costs.

(d) The application of a 24-month disposition period for the PGVA commodity balances does not, however, preclude total bill increases beyond 10% in the Union zones. Accordingly, EGI has proposed to, in addition, include yet further PGVA credits in these rate zones ($100 million for Union South, $8 million for Union North West, and $11 million for in Union North East). As noted above, these new PGVA credits will, in turn, drive offsetting PGVA debits in the next QRAM to allow EGI to recover, over time, actual gas costs.

As has been the case with previous mitigation plans, EGI's proposal in this QRAM does maintain market reflective gas supply charges, a key objective of the QRAM methodology, by using commodity riders as the vehicle for mitigating customer impacts. We note EGI's statement that[1]:

> *The proposed mitigation plan allows Enbridge Gas to use the forecast for gas costs in the derivation of the commodity rate. This allows the customers' rates to reflect market prices and is consistent with the OEB's findings in the QRAM Review:*

[1] ExA/T2/S2/p6, paragraph 18.

The QRAM is intended to strike a balance between ensuring that consumers are receiving appropriate price signals which reflect the actual natural gas market price, and protecting the interests of system supply customers by reducing, to some extent, volatility in the price of natural gas.

We agree that this mechanism retains a market reflective commodity price itself on customer bills, and thus avoids the issue which we raised in respect of EGI's mitigation plan for its October 2020 QRAM [EB-2020-0195]. In that earlier QRAM we raised concerns with EGI's use of a forecast taken prior to the prescribed date for QRAM price forecasts (and thus, in our submission, out of date) and which was no longer reflective of market prices. EGI's proposed approach to mitigation in this QRAM, as in the two previous QRAMs, avoids that issue.

However, when the two charges (commodity price and credit/debit) are combined the result is a charge that continues to depart from sending market reflective price signals. In EGI's previous (January, 2022) QRAM Application EGI stated in its evidence[2]:

The PGVA credit amounts in the current application provides a smoothing of bill increases for customers over a longer period of time and reduces potential balances that would otherwise accumulate in deferral and variance accounts for future disposition without any price increase at January 1, 2022.

This passage referred to the net result of using the prescribed gas cost forecast and the PGVA credit, which result was to allow customer bills to increase in part at that time, and further in the current QRAM as a result of EGI's proposal to debit the PGVA to reverse the PGVA credit previously proposed and approved. That is, the gas cost increase for January, 2022 was, through the proposed credit now/debit later mechanism, effectively phased in through two tranches. As noted above, the same is proposed in respect of the Union rate zones in the current QRAM.

In respect of the continuation of this credit now/debit later mechanism and the additional 24-month disposition period, EGI's evidence in this application states:[3]

The rate mitigation plan reflects the natural gas market price for commodity charges on a customer's bill but also provides for a gradual increase in response to rising natural gas prices. The 24-month disposition period and the PGVA credit in the current application provides a smoothing of bill increases for customers over a longer period of time and reduces potential balances that would otherwise accumulate in deferral and variance accounts for future disposition without any price increase for April 1, 2022.

In the result, this is the third gas price increase deferral in three consecutive QRAMs[4], with the result that the <u>effective</u> commodity price paid by customers (i.e. net of the application of the mitigation credits and now an extended PGVA recovery period) is moving further away from the market price, and for an extended period of time. That result goes beyond simple rate smoothing, and is inimical

[2] EB-2021-0281, ExA/T2/S2/p6, paragraph 17.
[3] ExA/T2/S2/p6, paragraph 19.
[4] ExA/T2/S2/p4, paragraph 13.

to the intent of the QRAM mechanism, which is to allow for OEB approved gas costs to continue to reflect market prices.

As was the case in the previous QRAMs, however, IGUA does recognize that continuing and now expanded rate mitigation mechanisms, while contrary to the regulatory policy on which the QRAM was founded, has recently been endorsed by the Ontario Minister of Energy[5], and is thus in accord with more immediate government policy. That policy was expressly applicable to natural gas rates for this past winter and formulated in light of *"global supply and demand issues that transcend Ontario's borders"*, at a time, and as a result of, the continued impacts of the COVID-19 pandemic. These impacts are now magnified by the tragic geo-political conflicts in Europe.

While the gas market and resulting prices will always *"transcend Ontario's borders"*, IGUA does acknowledge the continuing global circumstances which drove this near term government policy and which are now driving very significant gas commodity price increases. Because the proposed mitigation mechanism does not adjust the delivery rate impact of gas supply prices, those circumstances and the resulting impact will continue to be reflected in natural gas delivery rates, as well as in the gas commodity costs paid by IGUA's members.

As was the case for the January, 2022, QRAM, and in light of the continuing gas price and general economic circumstances, IGUA takes no objection to the rate treatment proposed by EGI in the current application. However, IGUA does note that the 10% bill impact beyond which rate mitigation mechanisms are considered by the OEB is not a hard and fast rate cap, but rather a guidepost indicating the point at which the OEB has deemed it appropriate to consider exercising its rate making discretion in favour of diluting accurate cost/price signals it otherwise strives for in favour of mitigating customer impacts.

Accordingly, and to ensure both transparency and an informed consideration by the OEB of whether to exercise its discretion in favour of rate mitigation, ***IGUA recommends that EGI include in its reply submissions;***

1. a clear breakdown of the distinct impacts of each of the rate mitigation proposal components, being; i) the proposed extension to 24 months from 12 months of the PGVA balance recovery period; and ii) the proposed PGVA credit now/debit later mechanism for the Union rate zones; and

2. disaggregated presentation of the principal and interest components of each of the items described in 1., above (i.e. reflecting the additional cost to customers of the deferral of gas cost recovery).

Finally, we have considered the following passages from the notice to customers posted by EGI on its website related to the January 1, 2022 gas supply cost changes;[6]

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[5] Letter dated December 1, 2021 from Ontario Ministry of Energy to Chief Executive Officer of the OEB.
[6] https://www.enbridgegas.com/-/media/Extranet-Pages/residential/myaccount/rates/rate-1-system-en.ashx?rev=7a36ca722e6743e1aa47b176f5f07003

> ***Gas Supply Charge*** *The gas supply charge has increased from 14.9222 ¢/m³ to 16.7717 ¢/m³. The gas supply component of the cost adjustment is currently a refund of 2.2516 ¢/m³. This refund, combined with the gas supply charge, results in a new total effective gas supply rate of 14.5201 ¢/m³.*
> ***Cost Adjustment*** *The current adjustment is a refund of 2.3697 ¢/m³ effective until Dec. 31, 2022. The cost adjustment reflects the true-up between actual and forecast prices for prior periods. Please see the chart on the reverse for the breakdown by component.*

With no disrespect to EGI (the regulated gas cost pricing approach is a complex one), we find the foregoing explanation completely impenetrable. In particular, we find references to increases and refunds confusing, and there is no information indicating that portions of market price increases have been deferred for recovery in the future in order to mitigate rate impacts. ***EGI and the OEB may wish to consider how to more clearly communicate gas cost and pricing changes to customers going forward.***

Costs

Pursuant to the Board's *Practice Direction on Cost Awards*, IGUA is eligible to apply for a cost award as a party primarily representing the direct interests of ratepayers in relation to regulated gas services.

IGUA has, in the past, been consistently awarded modest costs for review of QRAM applications. IGUA respectfully submits that the Board, in making such awards, has recognized some value (commensurate with modest costs) in the independent and informed review of such applications.

IGUA continues to be mindful of the need for efficiency in its regulatory interventions, in particular in respect of non-contentious matters such as is normally the case with QRAM applications. For QRAM reviews, IGUA has retained Jupiter, whose professionals are expert in Ontario gas commercial and regulatory matters, including rate matters in particular. Jupiter conducts a review of the QRAM application as filed, and provides a report to IGUA. Following receipt and review of Jupiter's report, IGUA is either in a position to advise the Board of any concerns or that, as in this instance, it has no cause for objection.

IGUA submits that it has acted responsibly with a view to informing the Board's review and decision on this Application, while maintaining due attention to cost efficiency. On this basis, IGUA is requesting recovery of its costs for participation in this process.

Yours truly,

Ian A. Mondrow

c. Dr. Shahrzad Rahbar (IGUA)
Richard Wathy (EGI)
Tania Persad (EGI)
Valerie Young (Jupiter)
Intervenors of Record (EB-2021-0147; EB-2021-0148)

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