

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, Sched. B, as amended.

AND IN THE MATTER OF an Application by Enbridge
Gas Distribution Inc. for an Order approving or fixing rates
for the sale, distribution, storage, and transmission of gas
effective January 1, 2004.

APPLICATION FOR RATE ADJUSTMENT Gas Costs Second Quarter - Test Year 2004

Introduction

1. Enbridge Gas Distribution Inc. ("Enbridge") hereby applies to the Board for an order approving or fixing rates for the sale, distribution, storage, and transmission of gas effective January 1, 2004. This Application is made pursuant to, and the order would be issued under, section 36 of the *Ontario Energy Act, 1998*, as amended. The order would be made interim, though, under subsection 21(7) of this statute.
2. This Application and the supporting evidence were prepared in accordance with the process for Enbridge's Quarterly Rate Adjustment Mechanism ("QRAM"). The QRAM process was originally prescribed and subsequently modified, respectively, in the following Settlement Proposals that were approved by the Board as indicated:
 - RP-2000-0040: The QRAM process was prescribed, under Issue 2.2, in the "Settlement Proposal (Main Case)" dated May 11, 2001; see Exhibit N2, Tab 1, Schedule 1, pp. 13-18 of 54. The Board approved the entire Settlement Proposal on May 30, 2001; see transcript volume 1, pp. 107-9.

- RP-2002-0133: The QRAM process was modified, under Issue 4.2, in the Settlement Proposal dated March 14, 2003; see Exhibit N1, Tab 1, Schedule 1, pp. 21-25 of 93. The Board approved the entire Settlement Proposal on March 20, 2003; see transcript volume 1, para. 687.
3. The particulars of the QRAM process are described, for ease of reference, in Appendix A to this Application.

Utility Price

4. Enbridge's utility price during this first quarter of Test Year 2004 is $\$280.181/10^3\text{m}^3$ ($\$7.434/\text{GJ}$ @ 37.69 MJ/m^3). This price was approved by the Board's Decision and Interim Rate Order dated September 26, 2003 (EB-2003-0229).
5. Enbridge has recalculated the utility price for the second quarter of Test Year 2004 using the prescribed methodology. The recalculated utility price is $\$263.197/10^3\text{m}^3$ ($\$6.983/\text{GJ}$ @ 37.69 MJ/m^3).
6. Enbridge has used the recalculated utility price, together with the consequential effect on the prescribed commodity-related costs, as the basis for recalculating the gas supply charges for sales service, and also the delivery charges and the gas supply load balancing charges, effective as of January 1, 2004. The resultant rates would decrease the total bill for a typical residential customer on system gas by \$65 or 5% (approx.) annually and, for a typical residential customer on direct purchase, would increase the total bill by \$5 or 0.9% (approx.) annually.

PGVA

7. Enbridge has adjusted the forecast balance in its Purchased Gas Variance Account ("PGVA") as of the end of Test Year 2004 (i.e., September 2004) to account for the recalculated utility price and the consequential gas storage inventory adjustments. There have been no changes in upstream transportation tolls during the first quarter of Test Year 2004 to date and, in consequence, Enbridge has made no further adjustments in this regard.
8. The adjusted year-end balance in the PGVA, when translated into $\text{¢}/\text{m}^3$ based on forecast consumption for the remainder of Test Year 2004, is $2.2\text{¢}/\text{m}^3$ and thus more than the threshold of $0.5\text{¢}/\text{m}^3$. The adjusted year-end balance will therefore be cleared by means of a rate rider over the remainder of Test Year 2004.

Regulatory Framework

9. The QRAM process includes the regulatory framework for interested parties as well as the Board and its staff to examine the Application with the supporting evidence and, thereafter, for the Board to issue an interim order disposing of the Application. Enbridge's list of interested parties is presented in Appendix B; the list includes the name(s) of the parties and their respective representative(s).
10. Enbridge is filing with the Board one copy of this Application alone by facsimile and, thereafter, 10 copies of the Application with supporting evidence in binder format by courier. Enbridge is also serving the representative(s) of each interested party with one copy of the Application by facsimile and, unless indicated otherwise in Appendix B, with one copy of the Application and the supporting evidence (binder format) by courier. Whenever a person is listed in Appendix B as the representative of more than one interested party, though, Enbridge is serving the person with only one copy of each document.
11. The following is the prescribed regulatory framework for processing the Application:
 - Any responsive comments from interested parties are filed with the Board (10 copies), and served on Enbridge and the other interested parties (one copy), on or before December 10, 2003.
 - Any reply comments from Enbridge are filed with the Board (10 copies), and served on all interested parties (one copy), on or before December 15, 2003.
 - The Board thereafter issues an interim order approving the applicable utility price, gas supply charges for sales service, delivery and load balancing charges for distribution service, or modifying them as required, and likewise the resultant rates effective January 1, 2004.
12. Enbridge requests that the Board issue such an order on or before December 19, 2003. Enbridge would then be able to implement the resultant rates during the first billing cycle in January 2004.
13. Enbridge also requests that all documents in relation to the Application and its supporting evidence, including the responsive comments of any interested party, be served on Enbridge and its counsel as follows:

(1) Ms. Marika O. Hare
Director, Regulatory Affairs

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Electronic access: marika.hare@enbridge.com

(2) Ms. Tania Persad
Legal Counsel, Regulatory

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Willowdale, Ontario
M2J 1P8

Mailing address: P.O. Box 650
Scarborough, Ontario
M1K 5E3

DATE: December 2, 2003

ENBRIDGE GAS DISTRIBUTION INC.

Original Signed

Per: _____
Marika O. Hare
Director, Regulatory Affairs

QUARTERLY RATE ADJUSTMENT MECHANISM (RP-2000-0040, RP-2002-0133)

Introduction

1. The QRAM process approved by the Board for Enbridge now comprises the following components: the calculation of a forecast price for rate-making purposes during a test year ("utility price"); the means of adjusting the utility price for rate-making purposes during a test year; the means of calculating and clearing variances recorded in Enbridge's Purchased Gas Variance Account ("PGVA"); the regulatory framework for approving adjustments and clearances; and the means of providing pricing information to end-use customers, or their marketers, and to other stakeholders as well.
2. The QRAM process is intended to achieve or accommodate the following eight principles:
 - more reflective of market prices on an ongoing basis;
 - enhanced price transparency;
 - regular quarterly review process;
 - customer awareness, customer acceptance, and less confusion in the marketplace;
 - mitigation of large adjustments of customer bills;
 - fairness and equity among all customer groups;
 - implementation in a cost effective manner: and
 - reduced regulatory burden relative to the former "trigger methodology", and the related rate adjustment mechanism, for Enbridge's PGVA.

Utility Price

3. Enbridge calculates the utility price for a test year by using its Board-approved methodology to develop a forecast of its supply (i.e., commodity) costs, including buy/sell as well as system gas, and its transportation costs for the test year. The forecast of supply costs includes the forecast price of natural gas based on a so-called "21-day strip".
4. This 21-day strip represents the simple average of future market prices, as reported by various media and other services, over a 21-day period for a basket of pricing periods, pricing points, and pricing indices that reflects Enbridge's gas

purchase arrangements, both actual and anticipated, during the 12 months subsequent to the 21-day period.

5. Enbridge uses the initial utility price as the basis for calculating the gas supply charges for sales service, subject to subsequent adjustment(s), during a test year. Sales service is provided to buy/sell gas customers, who are direct purchasers, as well as to system gas customers. Enbridge also uses the initial utility price for PGVA purposes.

Price Adjustment

6. Enbridge recalculates the utility price, using the same methodology, for each of the subsequent three quarters of the test year. The forecast of the price of natural gas, in each case, is based on a 21-day strip. The last day of each 21-day strip precedes the quarter in question by no more than 45 days.
7. If a recalculated utility price for any quarter varies from the utility price in effect at the time by more than $0.5\text{¢}/\text{m}^3$, net of upstream transportation tolls in each case, the former supersedes the latter, subject to subsequent adjustment(s), during the test year. Otherwise, the latter continues in effect.
8. Whenever a recalculated utility price comes into effect at the beginning of a quarter, Enbridge calculates the consequential effect of this price on the following commodity-related costs: carrying costs of gas in storage, working cash allowance (gas costs), unbilled and unaccounted for gas, company-use gas, and lost and unaccounted for gas (storage). Enbridge then uses the recalculated utility price, together with the consequential effect on these commodity-related costs, as the basis for adjusting the revenue requirement for a test year and, in turn, the gas supply charges for sales service, and the delivery charges and gas supply load balancing charges (when discrete) for distribution service, effective as of the beginning of the quarter. Enbridge also begins to use the recalculated utility price for PGVA purposes on the same effective date.
9. The following provisions apply when adjusting the revenue requirement for a test year:
 - (a) The volumetric forecast of sales service is Enbridge's as-filed forecast for the test year, as updated (if any), until there is a Board-approved forecast. The latter is the volumetric forecast thereafter.
 - (b) The capital structure for rate base and rate of return purposes is Enbridge's as-filed capital structure for the test year, as updated (if any), until there is

a Board-approved capital structure. The latter is the capital structure thereafter.

- (c) The cost of equity for rate of return purposes is the Board-approved rate of return on equity ("ROE") for the prior test year, notwithstanding Enbridge's as-filed ROE, until there is a Board-approved ROE for the test year. The latter is the cost of equity thereafter.

PGVA

10. Enbridge records in the PGVA the product derived by multiplying the volumes delivered during each month of a test year by the variances between the utility price in effect and Enbridge's actual purchased gas costs per unit during each month of a test year.
11. Whenever a recalculated utility price comes into effect at the beginning of a quarter, the opening balance of gas in storage is adjusted at the same time in order to reflect the recalculated utility price. The resultant debits or credits, as the case may be, are recorded in the PGVA as commodity-related entries.
12. Whenever a recalculated utility price comes into effect during a test year, the forecast balance in the PGVA as of the end of the test year is adjusted to account for this price and the consequential gas storage inventory adjustment.
13. For the purpose of determining whether the PGVA is to be cleared commencing in the second quarter, the adjusted year-end balance in the PGVA (when calculated near the end of the first quarter) is further adjusted to account for any changes in upstream transportation tolls during the first quarter. If the further adjusted year-end balance, when translated into $\text{¢}/\text{m}^3$ based on forecast consumption for the remainder of the test year, exceeds $0.5\text{¢}/\text{m}^3$, the further adjusted year-end balance is to be cleared during the remainder of the test year by means of a rate rider. This rate rider becomes effective at the beginning of the second quarter and specifies, by rate class, the unit rate for all sales service customers.
14. For the purpose of determining whether the PGVA is to be cleared thereafter, the adjusted year-end balance in the PGVA (when calculated near the end of the second quarter or the third quarter, as the case may be) is further adjusted to account for any changes in upstream transportation tolls during the quarter in question and for the amounts collected by means of the rate rider(s) in effect, if any, in the previous quarter(s). If the further adjusted year-end balance, when translated into $\text{¢}/\text{m}^3$ based on forecast consumption for the remainder of the test

- year, exceeds $0.5\text{¢}/\text{m}^3$, the further adjusted year-end balance is to be cleared during the remainder of the test year by means of a rate rider. This rate rider becomes effective at the beginning of the quarter in question and specifies, by rate class, the unit rate for all sales service customers. This rate rider supersedes the rate rider(s) in effect, if any, in the previous quarter(s) as of the beginning of the quarter in question.
15. The following provisions also apply when determining whether the PGVA is to be cleared for the quarter in question and, when the quarter in question is the fourth one, the period over which the PGVA is to be cleared:
- (a) Enbridge's "forecast consumption for the remainder of the test year", in the case of the second or third quarter, is derived from the applicable volumetric forecast of sales services (see para. 9(a) above).
 - (b) When the PGVA is to be cleared commencing in the fourth quarter of the test year, Enbridge has the discretion to select either of two clearance periods. One is a period of three months, which is the standard clearing practice, and the other is an extended period of six months. Enbridge must demonstrate, when selecting the extended period, that such a deviation from the standard clearing practice is reasonable under the circumstances.
 - (c) Enbridge's "forecast consumption for the remainder of the test year", in the case of the standard period, is derived from the applicable volumetric forecast of sales service.
 - (d) Enbridge's "forecast consumption for the remainder of the test year", in the case of the extended period, is derived from the applicable volumetric forecast of sales service. For this purpose, the first quarter of the test year serves as a proxy for the last three months of the extended period.
 - (e) Enbridge has the discretion, in each of these cases, to modify the applicable volumetric forecast of sales service in order to reflect the current level of migration by customers from system gas to direct purchase, and *vice versa*, in the forecast for the case in question.
16. The unit rate of Rider C for each rate class is based on the applicable volumetric forecast of sales service (see para. 9(a) above) and, as such, reflects the responsibility of each rate class for the year-end PGVA balances. At the end of the test year, however, Enbridge recalculates the rate class responsibility using the most recent composition of the year-end PGVA balance and the most recent volumetric estimate (i.e., monthly actuals, to date, plus forecast) on an annualized

basis. The variances between the final year-end amount for each rate class and the amount recovered from the rate class by means of the rate rider(s), during the quarter(s) in question, is charged or remitted, as the case may be, to customers in each rate class as a one-time adjustment. This adjustment is effective coincident with the clearing of Enbridge's other variance accounts and its deferral accounts.

17. Whenever there is a change in upstream transportation tolls during a quarter, Enbridge records the consequential effect of the change in the PGVA. Enbridge also adjusts the delivery charges (for small volume customers) and the gas supply load balancing charges (for large volume customers), at the beginning of the next quarter, in order to account for the consequential effect of the changes in upstream transportation tolls.

Regulatory Framework

18. Enbridge maintains and updates, from time to time, a list of interested parties for the purposes of the QRAM process; for example, serving documents filed with the Board. An "interested party" is Board staff, an intervenor in Enbridge's most recent rates proceeding, and any other stakeholder in Enbridge's franchise area who advises Enbridge of its interest in the QRAM process. The list of interested parties includes the name of each interested party and, as each of them indicates, the name(s) of their respective representative(s) and any limitation(s) on service (e.g., application only). Enbridge also maintains and updates the address(es) for service of each such representative.
19. Whenever a recalculated utility price comes into effect for a quarter subsequent to the first quarter of a test year, or whenever it does not but the PGVA is nevertheless to be cleared commencing in the quarter, Enbridge files a corresponding application and supporting evidence with the Board, and serves one or both on each interested party's representative(s), no fewer than 20 business days prior to the quarter in question. The application seeks approval of the applicable utility price for PGVA purposes, the corresponding gas supply charges for sales service, the corresponding delivery charges and gas supply load balancing charges (when discrete) for distribution service, and the rate rider (if any) to be used to clear the PGVA balance. The application will include an executive summary of the application in a tabular format or otherwise.
20. Interested parties may file with the Board, and serve on Enbridge and the other interested parties, comments in response to each application. The deadline for filing and serving responsive comments is seven days after Enbridge files and serves its application. Enbridge may file with the Board, and serve on the interested parties, comments in reply to any responsive comments. The deadline

for reply comments is seven days after the interested parties file and serve their respective responsive comments.

21. The Board thereafter issues an order, prior to the quarter in question if possible, approving the applicable utility price for PGVA purposes, the corresponding gas supply charges for sales service, the corresponding gas distribution and load balancing charges (when discrete) for distribution service, and the rate rider (if any) to be used to clear PGVA, or modifying them as required, effective as of the beginning of the quarter.
22. There is another procedure, though, whenever there is no recalculated utility price for, and no clearance of the PGVA commencing with, a quarter subsequent to the first quarter of a test year. Enbridge then files an advisory letter with the Board, and serves it on each interested party and any other intervenor of record in Enbridge's most recent rates proceeding, no fewer than 20 business days prior to the first day of the quarter in question. The advisory letter provides Enbridge's forecast price of natural gas based on the 21-day strip, the resultant utility price (approx.), and the reasons for maintaining the existing rates for sales and distribution services. The advisory letter also provides the following two schedules in the format used for an application: "Summary of Gas Costs to Operations", but without a variance column (%) for volumes and costs, and "Projected Year-End PGVA Balance".

Pricing Information

23. Enbridge's monthly bill displays the gas supply charges for sales service and the rate rider (if any) in effect for the month, and the total of the two when there is a rate rider, expressed in $\text{¢}/\text{m}^3$ in each case. Enbridge ensures 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 and, whenever the pricing information changes, of the significance of the changes.
24. Enbridge posts on its website, promptly after receiving the Board's order in this regard, information on the gas supply charges for sales service and the rate rider (if any), and the total of the two when there is a rate rider, expressed in $\text{¢}/\text{m}^3$ in each case. Enbridge also posts, on a monthly basis, the forecast year-end balance in the PGVA translated into $\text{¢}/\text{m}^3$, for each rate class, based on its forecast of sales service for the test year. Enbridge provides on its website a meaningful description of the posted information so as to inform customers of its significance, in plain language, and of the significance of changes in the posted information whenever change occurs.

25. Enbridge's website provides links to other websites, such as energystore.com, that provide prices and other information on competitive gas services in Enbridge's franchise area.
26. Enbridge also makes similar information available, through an additional branch, on Enbridge's Curtailment and Buy/Sell Information Line on a timely basis.

List of Interested Parties

CANADIAN MANUFACTURERS & EXPORTERS	Mr. Malcolm Rowan
COALITION FOR EFFICIENT ENERGY DISTRIBUTION	Mr. George Vegh
COALITION FOR EFFICIENT ENERGY DISTRIBUTION	Mr. Paul Kerr
COALITION FOR EFFICIENT ENERGY DISTRIBUTION	Mr. Tomasz Lange
COALITION FOR EFFICIENT ENERGY DISTRIBUTION	Ms. Sandra McDonough
CONSUMERS' ASSOCIATION OF CANADA	Dr. Peter J. Dyne
CONSUMERS' ASSOCIATION OF CANADA	Ms. Julie Girvan
CONSUMERS' ASSOCIATION OF CANADA	Mr. Robert B. Warren
DIRECT ENERGY MARKETING LIMITED	Mr. Ian Mondrow
ENERGY PROBE	Mr. David MacIntosh
GREEN ENERGY COALITION	Mr. Kai Millyard
GREEN ENERGY COALITION	Mr. David Poch
HEATING, VENTILATION, AIR CONDITIONING CONTRACTORS COALITION INC.	Mr. Brian Dingwall
HEATING, VENTILATION, AIR CONDITIONING CONTRACTORS COALITION INC.	Mr. Martin Luymes



HYDRO ONE NETWORKS INC.	Mr. Glen E. MacDonald
INDUSTRIAL GAS USERS ASSOCIATION	Mr. Peter L. Fournier
INDUSTRIAL GAS USERS ASSOCIATION	Mr. Peter C.P. Thompson
NATURAL RESOURCE GAS LIMITED	Mr. William Blake
NATURAL RESOURCE GAS LIMITED	Mr. Randy Aiken
ONTARIO ASSOCIATION OF PHYSICAL PLANT ADMINISTATORS	Mrs. Valerie Young
ONTARIO ASSOCIATION OF SCHOOL BUSINESS OFFICIALS	Mr. J. Thomas Brett
ONTARIO ENERGY BOARD – BOARD STAFF	Mr. Colin Schuch / Chris Mackie
78 FAIRFIELD AVENUE	Mr. Malcolm Hayes
ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION (OPSBA)	Ms. Gail Anderson
ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION (OPSBA)	Mr. Jay Shepherd
POLLUTION PROBE	Mr. Jack Gibbons
POLLUTION PROBE	Mr. Murray Klippenstein
TORONTO HYDRO ELECTRIC SYSTEM	Mr. Richard Zebrowski
SUPERIOR ENERGY MANAGEMENT	Mr. Gerry Haggarty
TRANSCANADA PIPELINES LIMITED	Mr. Patrick Keys
TRANSCANADA PIPELINES LIMITED	Mr. Jim Bartlett



TRANSCANADA PIPELINES LIMITED	Mr. Tibor E. Haynal
UNION GAS	Mr. Jim Laforet
VULNERABLE ENERGY CONSUMERS COALITION	Mr. Roger Higgin
VULNERABLE ENERGY CONSUMERS COALITION	Mr. Michael Janigan
VULNERABLE ENERGY CONSUMERS COALITION	Ms. Sue Lott

