

## 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 October 1, 2004.

### APPLICATION FOR RATE ADJUSTMENT Gas Costs First Quarter - Test Year 2005

#### 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 October 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 no. 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.
  - RP-2003-0203: The QRAM process was modified, under Issue 15.11 in the Settlement Proposal dated June 17, 2004, Exhibit N1, Tab 1, Schedule 1, pp. 56-58 of 59. The Board approved the entire Settlement Proposal on June 16, 2003; see transcript volume 1, paragraphs. 32 to 39.
3. The particulars of the QRAM process are described, for ease of reference, in Appendix A to this Application.

#### **Utility Price**

4. Applying the prescribed method of calculation for the QRAM process, and the rates contemplated by the Settlement Proposal in the RP-2003-0203 proceeding, Enbridge proposes a utility price during this first quarter of Test Year 2005 of  $\$332.236/10^3\text{m}^3$  ( $\$8.815/\text{GJ}$  @  $37.69 \text{ MJ}/\text{m}^3$ ).
5. Enbridge has used this 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 October 1, 2004. The resultant rates are higher than the rates resulting from the Settlement Proposal, since the latter had an embedded utility price of  $\$308.159/10^3\text{m}^3$ . However these rates are lower than the rates currently in effect (EB-2004-0266) and would decrease the total bill for a typical residential customer on system gas by \$9 or 0.6% (approx.) annually and, for a typical residential customer on direct purchase, by \$25 or 4.2% (approx.) annually.
6. The amendment to the QRAM methodology in RP-2003-0203 requires the Company to clear the PGVA balance arising from an inventory adjustment in the first quarter of the year provided that the threshold of 0.5 cents/m<sup>3</sup> is exceeded. However the threshold has not been exceeded, consequently the Company is not proposing to clear the estimated year-end PGVA balance in this application.

#### **Regulatory Framework**

7. 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).

8. 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.
9. 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 September 14, 2004.
  - Any reply comments from Enbridge are filed with the Board (10 copies), and served on all interested parties (one copy), on or before September 17, 2004.
  - 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 October 1, 2004.
10. Enbridge requests that the Board issue such an order on or before September 24, 2004. Enbridge would then be able to implement the resultant rates during the first billing cycle in October 2004.
11. 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:

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DATE: September 7, 2004

**ENBRIDGE GAS DISTRIBUTION INC.**

Per: Tania Persad  
for 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. Enbridge shall use the AECO index plus Nova transportation plus fuel costs as the benchmark in calculating the load balancing component of the PGVA.
12. 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.
13. 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.
14. For the purpose of determining whether the PGVA is to be cleared in any quarter, the adjusted year-end balance in the PGVA is further adjusted to account for any changes in upstream transportation tolls. 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 and specifies, by rate class, the unit rate for all sales service customers.
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) If a material over or under collection pertaining to a prior test year is anticipated to be accumulated and included in a current fiscal year PGVA, Enbridge will notify all parties as soon as possible in order to enable interested parties to provide responsive comments to the Board within the prescribed QRAM deadlines. Enbridge will also outline in its notification how it intends to deal with the clearing of any material over or under collection.
  - (b) 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).
  - (c) 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.
  - (d) 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.
  - (e) 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.
  - (f) 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 [energyshop.com](http://energyshop.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.