

RÉPONSE DE GAZ MÉTRO À UNE DEMANDE DE RENSEIGNEMENTS

Origine : Demande de renseignements n° 1 en date du 7 juin 2007

Demandeur : Association des consommateurs industriels de gaz

Référence : Dr. Paul Carpenter's Evidence

Préambule :

With reference to Dr. Carpenter's discussion of the decline in average consumption of gas by Gaz Metro's customers on page 23.

Questions :

- 11.1.** a) Please indicate why this is a risk factor if it can be predicted by the accuracy shown in the graphs on Page 23, that is why has it made the consumption for natural gas more difficult to forecast?
- b) Please indicate whether Union Gas and EDGY for whom Dr. Carpenter testified in 2006 have suffered the same declining in average use.
- c) Please indicate any decisions by the Ontario Energy Board and provide extracts from the decisions that have specifically accepted declining average gas consumption as a risk factor for Union Gas and EDGY.
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Réponses :

11.1.a) The issue is not simply whether declining average use has made natural gas consumption more difficult to forecast. Gaz Métro's distribution system is a fixed asset in place. It cannot be easily adjusted for declines in average use. Therefore, declining average use increases the risk to Gaz Métro of having stranded distribution system assets.

11.1.b) Dr. Carpenter testified in their respective 2007 rates cases that Union Gas and EGDI have experienced declining average use, but he has not testified that the declining average use is the same in all cases. See pages 16 – 20 of "Written Evidence of Paul R. Carpenter for Union Gas Limited," OEB Docket No. 2005-0520, Exhibit E2, Tab 2, January 2006 and pages 14 – 16 of "Written Evidence of Paul R. Carpenter for Enbridge Gas Distribution Inc.," OEB Docket No. EB-2006-0034, Exhibit E2, Tab 1, Schedule 2, August 2006.

11.1.c) The Staff of the Ontario Energy Board and its consultant have recognized that Union Gas and EGDI have experienced declining average use in the ongoing proceeding to establish incentive regulation regimes for these distributors as part of the OEB's Natural Gas Forum proceeding. See for example the OEB Staff discussion paper titled "On an Incentive Regulation Framework For Natural Gas Utilities" (January 5, 2007), which states:

Board staff recognizes that declining average use is being experienced by many gas utilities in North America. This trend has financial implications for the gas utilities that "increase the need for rate escalation". As a result, a number of gas utilities in North America have rate mechanisms that separate or decouple the recovery of fixed system costs from the volume of gas delivered to customers or use novel rate methodologies to stabilize earnings or revenue flow.

Therefore, Board staff sees merit in investigating this issue further. PEG [the OEB Staff's consultant] will undertake analysis to determine the extent of declining average use, and whether it differs materially among rate classes. (p. 18, footnotes omitted)

OEB Staff's consultant Pacific Economics Group (PEG) did investigate declining average use for EGDI and Union, and found in its study titled "Rate Adjustment Indexes for Natural Gas Utilities" (June 8, 2007):

Declining average use is being experienced by many gas utilities in North America today. The conditions encouraging declining average use include more efficient gas furnaces, better home insulation, and customer response to higher natural gas prices. This trend has increased the need of gas utilities for rate escalation. The trend affects rates for different customer rate classes differently. Heat-sensitive loads are primarily in the residential and commercial rate classes. Growth in the number of customers and input price inflation are the principle drivers of higher cost of gas distributor base rate inputs. For the PCI, the AU factor [the factor that accounts for average use trends] was calculated as the difference between the revenue-weighted and elasticity-weighted output indexes. Weather normalized volumes are used in these calculations. For Enbridge and Union, the AU factors are -0.81 and -0.72. (p. vi)