

Appendix B

EB-2008-0106

METHODOLOGIES FOR COMMODITY PRICING, LOAD BALANCING AND COST ALLOCATION FOR NATURAL GAS DISTRIBUTORS

Draft Revised Draft Issues List

A. REVIEW AND STANDARDIZATION OF QUARTERLY RATE ADJUSTMENT MECHANISM (“GRAM”) FOR ALL NATURAL GAS DISTRIBUTORS

1. Trigger mechanism for changing the reference price or clearing the purchased gas variance account (“PGVA”)

Preamble: In the case of Enbridge Gas Distribution Inc., (“Enbridge”), a price adjustment is triggered if the resulting change in the recalculated reference price for any quarter varies from the price in effect at the time by more than 0.5¢/m³. Similarly, a year-end balance in the PGVA, when translated into ¢/m³ based on forecast consumption for the remainder of the test year, exceeding 0.5¢/m³ will trigger its clearing. For Union Gas Limited (“Union”) and Natural Resource Gas Limited (“NRG”), an adjustment to the reference price and clearing of the PGVA is automatic every quarter (i.e., there are no triggers).

Issues:

- 1.1 What are the advantages and disadvantages of having a trigger mechanism to prompt a change in the reference price or to clear the PGVA?
- 1.2 If a trigger mechanism is desirable, what is the most appropriate methodology to be used by all natural gas distributors for setting the trigger to prompt a change in the reference price or to clear the PGVA?

2. Price adjustment frequency and forecast periods

Preamble: Union and Enbridge currently recalculate the reference price for each quarter on the basis of a 12 month forecast of the price of natural gas using a 21-day strip. NRG uses a ~~shorter~~ 10 day strip.

Issues:

2.1

2.1 Is a ~~quarterly~~ price adjustment based on a 12-month price forecast appropriate for the regulated gas supply option?

2.2 2.2—If not, what alternative forecast period or methodology would be most appropriate for use by all natural gas distributors?

2.3 Is a quarterly price adjustment appropriate for the regulated gas supply option?

2.4 If not, what alternative frequency would be most appropriate for use by all natural gas distributors?

3. Methodology for the calculation of the reference price

Preamble: *Enbridge's reference price is a weighted average of a basket of pricing indices for different delivery points that reflect Enbridge's supply portfolio. NRG's reference price also reflects its supply portfolio. In addition to different pricing indices for the different delivery points, NRG also includes actual prices that have been contracted for in the forecast period. Union's Empress gas price is based on a simple average of the NYMEX one-year future market price.*

Issues:

3.1

3.1 What would be the advantages and disadvantages of moving to a single Ontario-wide reference price as the basis for the gas supply commodity charge?

3.2—Should

3.2 If a single Ontario-wide reference price is implemented, how should it be determined? What are the advantages and disadvantages if such reference price is provided by the Board to the natural gas distributors?

3.3 If not, should the reference price be calculated as a weighted average of different using actual contracted prices (where applicable) for the appropriate volumes at each of the different pricing (delivery) points so that it reflects the current distributor-specific supply portfolio mix purchase activity?

- 3.4 [If the reference price were to be calculated as a weighted average of the forecast indices and actual contracted prices, what are the advantages and disadvantages of the following information being provided by the Board to the natural gas distributors:](#)
- (a) [the price index; and](#)
 - (b) [the upstream tolls to be used for the forecast period?](#)

4. **Deferral and variance accounts and disposition methodology**

Preamble: *Union has two different PGVAs to take into consideration the differences between its North and South delivery areas. In the South, the PGVA reflects an Ontario landed price (i.e., commodity and TCPL tolls) while the North PGVA reflects a price at Empress. In addition, the South Portfolio Cost Differential captures differences between the South transportation costs portfolio and TCPL tolls. Variances in transportation costs in the North, as well as spot account/ load balancing costs and inventory revaluations are captured in separate deferral/variance accounts. Similarly, NRG has separate accounts for commodity and transportation variances and inventory revaluations. ~~In contrast,~~ However NRG includes differences in the TCPL tolls in its commodity account ("PGCVA"), not the transportation account ("PGTVA"). The transportation account captures variances in the Union Gas tolls for moving the gas in Ontario to NRG, including load balancing costs. Further, the balance in the PGTVA gets allocated to all customers, including direct purchase customers, while the balance in the PGCVA is allocated only to system gas customers.*

Enbridge's PGVA captures commodity, transportation and load balancing variances and inventory revaluations.

Union and NRG dispose of deferral/variance account balances over a 12 month rolling period. In Enbridge's case, if the year end PGVA balance exceeds 0.5 ¢/m³ based on forecast consumption for the remainder of the test year, the balance is cleared over the remaining months of the test year. For the fourth quarter of the test year, Enbridge has the discretion to select either 3 months (standard practice) or an extended clearing period of six months

Enbridge makes a final adjustment to re-allocate the PGVA to its customer rate classes. This adjustment reflects, among other things, the detailed components of the PGVA, the amounts collected/refunded through Rider C and annualized throughput.

Issues:

- 4.1 [4.1](#)—What are the advantages and disadvantages of having separate deferral/variance accounts to capture variances in commodity, transportation and load balancing and inventory revaluations? What is the most appropriate methodology for use by all natural gas distributors?
- 4.2 [4.2](#)—What is the most appropriate methodology for use by all natural gas distributors to determine the deferral/variance account balances to be disposed of?
- 4.3 What is the most appropriate methodology for use by all natural gas distributors to dispose of the deferral/variance account balances? How frequently should the accounts be cleared?
- 4.4 [4.4](#)—What are the advantages and disadvantages of making a final adjustment to re-allocate the PGVA? What is the most appropriate methodology for use by all natural gas distributors?—
- 4.5 [What are the implications of incentive regulation and the absence of system gas consumption forecasts and test years for the choice of methodologies?](#)
- 4.6 [What are the implications of the different methodologies considered in light of seasonal consumption patterns?](#)

5. **Effect of a change in the reference price on the revenue requirement**

Preamble: *In Enbridge's case, a change in the reference price is translated into a change in the revenue requirement which includes changes in the carrying cost of gas in inventory, in capital and large corporation taxes, as well as in the working cash allowance. Union and NRG do not make these adjustments: [trough a change in the revenue requirement.](#)*

Issues:

- 5.1. [What is the most appropriate methodology to be used by all natural gas distributors for recovering the carrying cost of gas in inventory and related costs?](#)
- 5.2. Should the revenue requirement (other than gas costs) change as a result of a change in the reference price?

[5.2](#)—If so:

- i. what component(s) of the revenue requirement should be adjusted?
- ii. what is the most appropriate methodology for use by all natural gas distributors for the purpose of allocating the change in the revenue requirement to the various customer rate classes?

6. Implications/costs of standardizing pricing mechanisms across all natural gas distributors

Issues:

- 6.1. What are the costs and implications [for ratepayers, gas marketers and natural gas distributors](#) of standardizing the pricing mechanisms across all natural gas distributors?

7. Filing requirements

Preamble: *Currently, there are no standard filing requirements that are common to all three natural gas distributors in relation to QRAM applications. As a result, there are differences in the materials filed.*

Issues:

- 7.1. What should be the standard filing requirements for QRAM applications?

B. REVIEW AND STANDARDIZATION OF LOAD BALANCING OBLIGATIONS FOR ALL NATURAL GAS DISTRIBUTORS

Preamble: [Load balancing is required by all heat sensitive customers and applies to both system/regulated supply customers and direct purchase customers. It is also applicable to bundled and unbundled rates. At present, the load balancing policies for Union and Enbridge differ. For example, Union has a three-point balancing mechanism while Enbridge has an annual load balancing mechanism. NRG is subject to Union's three-point balancing mechanism.](#)

[Also, the methodology for setting the daily delivery volumes for load balancing purposes currently differs as between natural gas distributors. Union reviews changes in expected consumption to account for customer](#)

attrition and changes due to weather or customer consumption profiles. Union then adjusts the customer's Daily Contract Quantity ("DCQ") whenever the Pool's delivery requirements change by a minimum of +/- 4 GJ/day. The DCQ volumes for Union are also weather-normalized. Enbridge establishes the Mean Daily Volumes ("MDV") for its customers thirty days prior to the start of a Direct Purchase contract (Pool) using all enrol requests for that Pool. Enbridge determines the consumption based on the prior year's historical usage for the customers included in the Pool and this MDV becomes the delivery requirement for the contract term, which is typically one year. Currently, the MDV is only adjusted on the Pool's anniversary or termination date. Enbridge does not weather-normalize the MDV volumes.

Issues:

- 8.1 What are the advantages and disadvantages of the current load balancing mechanisms used by each of Union and Enbridge?
- 8.2 What is the most appropriate method for standardizing the load balancing—Should there be standardized load balancing mechanisms for Union and Enbridge?
- 8.3 What mechanism across all(s) for load balancing should be used by natural gas distributors?
- 8.4 What are the implications of different balancing mechanism(s) in relation to the issue of drafting?
- 8.5 What are the advantages and disadvantages of moving to a standard MDV/DCQ reestablishment process, including the weather normalization of MDV/DCO volumes?

C. COST ALLOCATION

Preamble: Further examination is required to determine whether the manner in which natural gas distributors currently allocate costs between the delivery and the regulated gas supply functions raises concerns regarding cross-subsidization.

Issues:

- 9.1 What activities and underlying costs should be incorporated into the regulated gas supply option?

- 9.2 What asset-related costs should be allocated to load balancing and delivery and how should the costs of these services be allocated between system/regulated supply and direct purchase customers?
- 9.3 Under what circumstances should the natural gas distributors be permitted to change cost allocation principles, percentages, or amounts as between distribution, load balancing, and commodity?

D. BILL PRESENTMENT

Preamble: Currently, there are no standards for bill presentment by the various natural gas distributors. Each uses differing nomenclature and presentations for the many line items on the consumer bill.

Issue:

- 10.1 What are the advantages and disadvantages of using a common format for bill presentment and using standard billing terminology on customer bills?

E. IMPLEMENTATION ISSUES

Issues:

- 11.1 What are the costs of implementing changes to methodologies currently used by natural gas distributors?
- 11.2 Who should bear those costs?
- 11.3 How and when should any such changes be implemented?