

June 16, 2022

## Market Prices for Natural Gas Continue to Rise: OEB Works to Smooth the Impact of Cost Increases for Ontario Customers

The Ontario Energy Board (OEB) has approved new natural gas prices for Enbridge Gas Inc. (Enbridge), including a rate mitigation plan proposed by Enbridge that will continue to help temporarily shield Ontario natural gas customers from the full impact of significant bill increases related to high market prices.

Several factors give rise to the rate change approved as part of the OEB's Quarterly Rate Adjustment Mechanism (QRAM). Natural gas prices remain high because of sustained global demand for North American liquefied natural gas and uncertainty in the global energy landscape.

The International Energy Agency (IEA) is warning of continued significant upward pressure on prices beyond this quarter<sup>1</sup>, and production in North America has not been able to keep up with demand, while storage levels across North America remained below the 5-year average.

The OEB does not allow utilities to earn a profit on the sale of gas, regardless of market fluctuations in price.

As noted in Table 1, beginning July 1, 2022, the total annual bill impact\* for residential customers using a typical amount of natural gas in each rate zone will be:

**Table 1**

	Enbridge Gas Distribution	Union South	Union North East	Union North West
<b>Typical Annual Usage for a Residential Customer</b>	2,400 m <sup>3</sup>	2,200 m <sup>3</sup>	2,200 m <sup>3</sup>	2,200 m <sup>3</sup>
<b>Total Quarterly Rate Adjustment Mechanism (QRAM) and distribution rate changes (A)</b>	\$243.25	\$250.70	\$249.45	\$245.19
<b>Temporary Rate Adjustments (B)</b>	\$4.28	\$1.11	-\$5.20	-\$5.20
<b>Total Annual Bill Impact (A+B)</b>	\$247.53	\$251.81	\$244.25	\$239.99
<b>Percentage Change</b>	19.4%	23.2%	18.5%	19.8%

\*Bill impacts will vary depending on how much natural gas individual customers use. Natural gas use is lowest during the summer months.

### Current QRAM

The OEB has approved a rate mitigation plan proposed by Enbridge that reduces the total bill impact for a residential customer that uses a typical amount of natural gas to a range of between 18.5% to 23.2%, depending on the rate zone. Rate mitigation is a tool used by the OEB to help protect consumers from experiencing large bill increases all at once.

<sup>1</sup> <https://www.iea.org/reports/gas-market-report-q2-2022>

Enbridge proposed the use of a 24-month period to pass the increased cost of natural gas on to customers (as opposed to the typical 12-month period) which helps to smooth rate impacts.

The OEB-approved mitigation plan provides for:

- a) Recovery of all current QRAM-related costs in current rates
- b) No Purchased Gas Variance Account (PGVA) credits for future recovery to manage in light of continuing natural gas price increases
- c) Commodity rates that are more reflective of market prices

This is the fourth consecutive QRAM in which Enbridge has proposed a rate mitigation plan to temporarily help protect customers from rising market prices. In QRAM applications for October 2021, January 2022 and April 2022 rates, the mitigation plans involved offsetting rate increases by applying credits to the PGVAs to be recovered from customers later in future QRAM applications.

At its peak, the total deferred amount in the PGVAs was \$455 million. Enbridge began recovering a portion of the deferred amount through the April 2022 QRAM. The current deferred balance of the PGVAs is approximately \$119 million. Under the approved decision today, that balance will be fully recovered. Clearing the balance in the PGVAs provides more flexibility to smooth rates in the future if the commodity price for natural gas continues to rise, as forecasted by the IEA.

### What Prices Would Otherwise Have Been

The OEB typically calls for a mitigation plan that would restrict the rate increase to 10% or less. This would, however, have resulted in a forecasted PGVA balance of more than \$900M.

As seen in Table 2, without the OEB-approved mitigation plan in place, a residential customer would have faced an additional total annual bill impact ranging from \$21 to \$62, depending on their rate zone.

**Table 2**

Rate Zones	Total Annual Bill	
	Change Before Mitigation (\$)	Change Before Mitigation (%)
Enbridge Gas Distribution	\$272.80	21.4%
Union South	\$315.12	29.1%
Union North West	\$290.79	24.0%
Union North East	\$291.15	22.0%

### Other Reasons for Bill Impacts

For all Enbridge rate zones, the total annual bill is also affected by:

- The implementation of 2022 distribution rates (Phase 2 – Incremental Capital Module), approved on April 12, 2022 (EB-2021-0148).
- The disposition of the balances in the 2020 Demand Side Management Deferral and Variance Accounts<sup>2</sup>, approved on May 5, 2022 (EB-2022-0007).

<sup>2</sup> Deferral accounts track the cost of a project or program which the utility could not forecast when the rates were set. When the costs are known, the utility can then request OEB approval to recover the costs in rates. Variance accounts track



## About the QRAM

Natural gas is a commodity that is bought and sold on North American energy markets. At any given time, its price fluctuates based on a variety of factors including supply and demand, seasonal changes, levels of stored natural gas, and major weather events. Enbridge updates its forecast of market prices every three months and uses that forecast to seek the OEB's approval of its proposed changes to natural gas commodity prices. These proposed changes cover:

- **Future costs:** This is based on a forecast of market prices for natural gas over the next 12-month period.
- **Past costs:** This is based on the difference between what the utility previously forecast that their customers would pay and what their customers actually paid. This kind of adjustment is needed because the gas prices charged to customers are based on forecasts, which are never exact. This may be called the Gas Price Adjustment or Cost Adjustment on your bill. It can increase or lower the rate accordingly. For example, if a utility collected more from customers than it paid for gas in the past, the difference is credited back to customers through a lower rate. Likewise, if not enough was collected by the utility, the rate will be higher.

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## Resources to Support Natural Gas Customers

Conservation programs are available to help customers reduce their energy use. Some of these are special programs for low-income customers.

- **Enbridge Gas**  
Help for income-qualified homes and rebates for energy-efficient upgrades to help consumers save energy and lower their natural gas bill.
  - **Visit this page for programs for businesses.**
- **Low-income Energy Assistance Program (LEAP)**  
This program provides a one-time grant towards a customer's electricity or natural gas bill if they're behind on their bill and may face having their service shut off. It is for emergency situations.
- **Special rules for low-income customers**  
Electricity utilities, natural gas utilities and unit sub-metering providers have to follow special rules when dealing with low-income customers; for example, waiving security deposits and allowing longer payment times under arrears payment plans.

## About the OEB

The OEB is committed to delivering public value through careful regulation and independent adjudicative decision-making, which contributes to Ontario's economic, social and environmental development. With respect to natural gas prices and the reliability and quality of gas service, we set rates for the natural gas that customers of Enbridge use in their homes and businesses, and we also set the rates that those utilities charge for the delivery of natural gas to their customers.

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the difference between the forecast cost of a project or program, which has been included in rates, and the actual cost. If the actual cost is lower or higher, then the utility can request OEB approval to return the difference to customers as a credit or to recover the difference through rates.



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*This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decisions and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the three Decision and Orders issued today, which are the official OEB documents.*

*Ce document est aussi disponible en français.*

