



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**Natural Resource Gas Limited Application to Correct  
Purchased Gas Transportation Variance Account Reference Prices  
EB-2017-0215**

**August 25, 2017**

## Background

Natural Resource Gas Limited (NRG) filed an application on June 2, 2016, requesting a correction to the reference prices used in the Purchased Gas Transportation Variance Account (PGTVA) to record the variance between forecast and actual transportation costs. NRG submitted that its consultant made a calculation error in NRG's last rates proceeding<sup>1</sup> by basing the reference price on Union Gas Limited transportation volumes as opposed to the load forecast sales volume. The load forecast sales volume includes not only Union Gas transportation volumes but also volumes purchased by NRG from producers within NRG's franchise areas. Accordingly, NRG has requested a correction to the reference prices for fiscal years 2011 to 2015 and an amendment to the Rate Order in NRG's last rates proceeding<sup>2</sup>.

Union Gas provides NRG with transportation, storage and load balancing services. NRG has stated that these services benefit all NRG customers and the costs related to storage, load balancing and transportation are distribution related costs. If NRG included these costs in the gas commodity charge, direct purchase customers would not be paying for their share of the services that they use. NRG records in the PGTVA, the difference (on a monthly basis) between the actual unit cost of NRG's M9 costs and the approved reference price, and multiplies that difference by the actual volume of gas delivered into NRG's system from both Union's system and local production.

The OEB in Procedural Order No. 1 scheduled a round of interrogatories and written submissions. In Procedural Order No. 2 issued on August 8, 2017, the OEB scheduled a round of supplemental interrogatories citing that certain interrogatory responses required further clarification or more detailed responses.

The submissions below reflect observations and concerns of OEB staff on NRG's request to correct the reference prices.

## Discussion and Submission

NRG has indicated that the reference price is supposed to reflect the amount that is included in the distribution rates and should therefore be based on the same volumes used to calculate distribution rates. The PGTVA operates to ensure that the actual costs are recovered from ratepayers. NRG maintains that if the reference price excluded

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<sup>1</sup> EB-2010-0018

<sup>2</sup> NRG Rate Order EB-2010-0018, February 17, 2011

volumes purchased within NRG's franchise area, then the reference price would always be much higher than it should be (because the same forecasted M9 costs would be divided by a smaller volume of gas). To then apply distribution rates (inclusive of that reference price) to all volumes of gas delivered would result in consistently over-collecting M9 costs. However, it is only Union Gas delivered volumes that attract transportation, storage and load balancing costs. No transportation costs are associated with local delivered volumes within NRG's franchise area<sup>3</sup>.

In response to a supplemental interrogatory, NRG has confirmed that if the requested correction is made, NRG will neither profit nor suffer a loss from transportation related costs for fiscal years 2011 to 2015<sup>4</sup>. NRG has further confirmed that ratepayers are only paying for the actual storage, transportation and load balancing unit costs and all variances between the actual unit cost and the reference price unit cost is recorded in the PGTVA<sup>5</sup>.

OEB staff notes that NRG has consistently over-collected transportation costs from ratepayers. This is evident from the fact that there is credit balance for each of the years from 2011 to 2015 as shown below.

	Sept 2011(\$)	Sept 2012(\$)	Sept 2013(\$)	Sept 2014(\$)	Sept 2015(\$)
Rates 1-5	(385,846.91)	(451,043.43)	(513,309.50)	(586,236.60)	(624,343.58)
Interest	(6,391.81)	(12,327.13)	(19,406.93)	(27,451.07)	(35,194.15)
Rate 6 - IGPC	(233,377.04)	(388,432.14)	(631,345.23)	(948,563.61)	(1,146,594.28)
Interest	(3,348.04)	(8,628.30)	(16,775.04)	(29,023.21)	(43,496.26)

If NRG were to correct the reference prices, the credit balance in the deferral account would be reduced. The current credit balance in the account (for fiscal years 2011 to 2015) is approximately \$1.85 million. If the requested correction is approved, the balance would be reduced to approximately \$1.05 million. The reduction amounts to approximately \$844,100 for fiscal years 2011 to 2015<sup>6</sup>. In other words, if the correction is approved, NRG will refund to ratepayers an amount of \$1.05 million and not \$1.85 million as currently reflected in the PGTVA<sup>7</sup>. NRG has indicated that if it were to refund \$1.85 million to customers as is currently reflected in the PGTVA, it would be overpaying ratepayers \$844,100<sup>8</sup>.

<sup>3</sup> Response to OEB staff interrogatory #2(a)

<sup>4</sup> Response to OEB staff supplementary Interrogatory #1(a)

<sup>5</sup> Response to OEB staff supplementary Interrogatory #1(c)

<sup>6</sup> Response to OEB staff interrogatory #4

<sup>7</sup> Response to supplementary Interrogatory #3

<sup>8</sup> Response to supplementary Interrogatory #3

The PGTVA reference price was approved by the OEB in an accounting order that was issued as part of the Rate Order<sup>9</sup> in NRG's last cost of service proceeding. The accounting orders are attached as Schedule A to this submission. The accounting orders not only describe the accounting entries for the PGTVA but also provides the specific reference prices for the two classes (Rate Class 1-5 and Rate Class – 6).

NRG has submitted that it is not applying to change distribution rates that were set in the last rates proceeding<sup>10</sup>. It is only seeking a correction to the reference prices expressed in an accounting order. NRG has argued that since a rate rider has not been established and the OEB has not approved the balances for disposition, there is no rate retroactivity<sup>11</sup>. Although the account balances have not been disposed of, the requested correction in OEB staff's opinion arguably leads to an out-of-period adjustment. The reference prices were approved in the final Rate Order issued by the OEB. Changing that rate order more than six years after the fact appears to be an out-of-period adjustment. However, OEB staff does agree that since the account has not been disposed of, there is less concern of rate retroactivity.

OEB staff notes the OEB's Decision in an application by North Bay Hydro Distribution Limited (North Bay) for correcting the accounting entries in the Retail Settlement Variance Account for the period May 2002 to December 2008<sup>12</sup>. North Bay filed the application in 2009 requesting an out-of-period adjustment. The RSVA is similar to the PGTVA as it is a pass-through account that is ongoing.

In denying the requested recovery, the OEB noted that correcting the error would amount to retroactive ratemaking. The OEB further noted that it is not driven by a need for a symmetrical treatment of ratepayers and utilities in situations where correction of utility mistakes is required. The utility has control of its books and records and has the responsibility to ensure that mistakes do not occur<sup>13</sup>. Nevertheless, OEB staff notes that in the North Bay case the balances in the deferral account had already been disposed of through a final rate order. In the current case, they have not.

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<sup>9</sup> EB-2010-0018 Rate Order, February 17, 2011

<sup>10</sup> EB-2010-0018

<sup>11</sup> Response to OEB staff interrogatory #6

<sup>12</sup> Decision and Order, North Bay Hydro Distribution Limited, EB-2009-0113, September 8, 2009

<sup>13</sup> Decision and Order, EB-2009-0113, pg.8

NRG has requested an arguably out-of-period adjustment that requires amending a Rate Order after six years. NRG is responsible to ensure that its draft Rate Order accurately reflects the OEB's decision and all underlying calculations are appropriate. This was an error that was clearly in management control.

Nevertheless, OEB staff does note that the balances have not been disposed of and the requested adjustment has not appeared in customer bills. The larger question is whether the OEB should permit utilities to correct errors that have occurred in prior rate cases, the impact of which favours the utilities and not ratepayers. Utilities should be held accountable for the numbers and underlying calculations that underpin a final rate order.

OEB staff submits that amending a final rate order after six years to fix an error made by NRG may not provide the certainty that customers expect of a ratemaking process. Nonetheless, OEB staff does recognize that the correction does not appear to raise any issues of rate retroactivity and should the OEB approve the requested correction, OEB staff has no concerns.

– All of which is respectfully submitted –

**SCHEDULE A**  
**OEB STAFF SUBMISSION**  
**NATURAL RESOURCE GAS LIMITED**  
**EB-2017-0215**  
**AUGUST 25, 2017**  
**ACCOUNTING ENTRIES IN THE PGTVA**  
**RATE ORDER EB-2010-0018**

## **Accounting Order**

### **Deferral Account to Record**

#### **Accounting Entries for the Purchased Gas Transportation Variance Account**

Note: Account numbers are in accordance with the Uniform System of Accounts for Gas Utilities, Class A, prescribed under the Ontario Energy Board Act.

#### Accounting Entries for Purchased Gas Transportation Variance Account Rates 1 – 5 (PGTVA 1-5)

Effective October 1, 2010 NRG is authorized to reset the reference price for the PGTVA Fiscal 2011. Whereas formerly a single reference price was used effective October 1, 2010 two reference prices will be relied on:

A reference price of \$0.023909/m<sup>3</sup> applicable to all customers in classes 1 through 5;

Debit/Credit Account No. 179-45 Purchased Gas Transportation Variance Account  
Rates 1 – 5 (PGTVA 1-5)

Credit/Debit Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179, interest on the balance in Deferral Account

Debit/Credit Account No. 179-46 Interest on PGTVA 1-5

Credit/Debit Account No. 323 Other Interest Expense

Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

## **Accounting Order**

### **Deferral Account to Record**

#### **Accounting Entries for the Purchased Gas Transportation Variance Account**

Note: Account numbers are in accordance with the Uniform System of Accounts for Gas Utilities, Class A, prescribed under the Ontario Energy Board Act.

#### Accounting Entries for Purchased Gas Transportation Variance Account Rates 6 (PGTVA 6)

Effective October 1, 2010 NRG is authorized to reset the reference price for the PGTVA Fiscal 2011. Whereas formerly a single reference price was used effective October 1, 2010 two reference prices will be relied on:

A reference price of \$0.0105000/m<sup>3</sup> applicable to IGPC exclusively.

Debit/Credit Account No. 179-47 Purchased Gas Transportation Variance Account Rates 6 (PGTVA 6)

Credit/Debit Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179, interest on the balance in Deferral Account

Debit/Credit Account No. 179-48 Interest on PGTVA 6

Credit/Debit Account No. 323 Other Interest Expense

Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.