OEB STAFF INTERROGATORIES

EPCOR Natural Gas Limited Partnership

Application for Rates October 1, 2016 to December 31, 2019, a Fixed Monthly Charge for Rate 6, Disposition of Deferral and Variance Accounts and Approval to Change Rate Year from October 1 to January 1 effective January 1, 2020

EB-2018-0235

Exhibit A – 2016 IRM Application, October 1, 2016 to September 30, 2017

A-Staff-1

Ref: Exhibit A / Page 4

On August 9, 2016 Natural Resource Gas Limited (NRG) filed a rate application (EB-2016-0236) for the period October 1, 2016 to September 30, 2021. The application for the period October 1, 2016 to September 30, 2017 was on a cost-of-service basis and for the remaining years, the proposed rate-setting approach was based on the OEB's 3rd Generation IRM framework for electricity distributors. The application was placed in abeyance at the request of NRG pending the sale of NRG's distribution system assets to EPCOR Natural Gas Limited Partnership (EPCOR). The OEB approved the transfer of the distribution system (MAADs Application, EB-2016-0351) to EPCOR on August 3, 2017 and the transaction closed on November 1, 2017.

a) Considering that NRG filed its cost-of-service application two months prior to the effective date of October 1, 2016, why does EPCOR presume that an effective date of October 1, 2016 is appropriate?
b) The transaction to purchase NRG's distribution system closed on November 1, 2017. In other words, EPCOR starting managing the natural gas utility as of November 1, 2017. Why is EPCOR seeking an adjustment to rates for the period October 1, 2016 to October 30, 2017 considering that it did not own the distribution system assets during that period and did not incur any operating costs to manage the utility?
c) Please provide revised bill impacts and rate adjustments for 2017 (November 1, 2017 to September 30, 2018) and 2018 (October 1, 2018 to December 31, 2019) assuming that EPCOR is not permitted to adjust rates for the period October 1, 2016 to October 30, 2017.

A-Staff-2

Ref: Exhibit A / Page 5-6

EPCOR has filed three IRM applications to adjust rates covering the period October 1, 2016 to December 31, 2019. EPCOR has also requested for the establishment of deferral accounts to record annual amounts for the historic unrecovered IRM adjustments and the annual historic unrecovered shared tax changes.

Please explain why EPCOR has requested deferral accounts to address historic unrecovered amounts as opposed to recovering the foregone revenues directly through a rate rider.

A-Staff-3

Ref: Exhibit A / Page 11 / Tables 1 and 2

In tables 1 and 2, EPCOR has provided current rates and proposed rates for the 2017 rate year. In the proposed distribution rates (Table 2), EPCOR has not adjusted the monthly service charge based on the price cap adjustment factor. EPCOR has made further adjustments to the volumetric rate in order to account for the price cap adjustment to the monthly service charge. EPCOR has adopted this method in subsequent IRM adjustments for 2018 and 2019.

a) Please confirm that under the OEB's 4th Generation IRM framework, both the monthly customer charge and the volumetric charge are to be adjusted based on the price cap adjustment factor.
b) Please confirm if there are any other OEB-regulated utilities that have not revised the monthly customer charge to adjust rates under the OEB 4th Generation IRM approach.
c) Please explain the reasons for not proposing a modified monthly customer charge for 2017 and subsequent IRM periods to account for the proposed price cap adjustment.

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Exhibit A / Page 12 / Table 3

Table 3 shows the deferred revenue recovery for the period October 1, 2016 to September 30, 2017. In column B, EPCOR has used the current revenue to calculate the price cap adjustment factor of 1.7%.

Please confirm that the current revenue in column B is calculated using 2015 OEB-approved rates and actual volumes for the period October 1, 2016 through September 30, 2017.

A-Staff-5

Exhibit A / Page 13

In accordance with the IRM plan approved in NRG's last rebasing application (EB-2010-0018), changes in income tax are to be shared 50/50 between the customers and the utility. As part of this application, EPCOR has requested recovery of $17,051 (50% of $34,103) from customers for 2017, 2018 and 2019.

Please confirm that under the OEB's 4th Generation IRM approach, any changes in income tax are to be shared 50/50 between the customers and the utility.

A-Staff-6

Exhibit A / Page 14 / Table 5

Table 5 provides the illustrative bill impact summary to show the impact of the proposed rate adjustment for the period October 1, 2016 to September 30, 2017.

Please explain why the Shared Tax Rate Rider is a credit considering that EPCOR has proposed to recover $17,051 from customers over the proposed period.

A-Staff-7

Exhibit A / Appendix A – Accounting Orders

In the draft accounting orders for the Unrecovered Shared Tax Changes and the Unrecovered IRM Adjustment deferral accounts, the credit entry is to Account No. 632 Gas Purchases.

Please explain why the credit entry is to the Gas Purchase account (an expense account) as opposed to a revenue account.

Exhibit C– 2018 IRM Application, October 1, 2018 to September 30, 2019

C-Staff-8

Exhibit C / Page 12

EPCOR has proposed to dispose of the balances in the 2016-2017 Shared Tax Changes Deferral Account and the 2016-2017 IRM Adjustment Deferral Account through the implementation of a rate rider over a twelve month period commencing on October 1, 2018.

a) Has EPCOR received approval to establish the above mentioned deferral accounts?
b) Considering that EPCOR has not received OEB approval to establish the Shared Tax Changes and the IRM Adjustment deferral accounts, how does it intend to dispose of the balances in this proceeding?

C-Staff-9

Exhibit C / Pages 5-6

In EPCOR's application for the 2019 rate year, October 1, 2018 to September 30, 2019, it has requested disposition of the balances in the 2016-2017 Shared Tax Changes Deferral Account and the 2016-2017 IRM Adjustment Deferral Account through the implementation of rate riders. However, there are no proposed additions to the deferral accounts in order to capture 2017-2018 adjustments.

a) Will EPCOR be seeking recoveries for the foregone revenue related to 2017-2018 Shared Tax Changes and IRM adjustments? If yes, when?

b) If the foregone revenue for 2017-2018 was recovered what amounts would be recorded in the Shared Tax Changes and the IRM Adjustment Deferral Accounts?

Exhibit D– Application for a Fixed Monthly Charge for Rate 6

D-Staff-10

Exhibit D / Page 6

EPCOR has proposed a fixed monthly charge to recover costs for serving Integrated Grain Processors Co-operative (IGPC) under Rate 6. The modified rate structure would eliminate the recovery associated with increases in IGPC's volumes and would set the revenue for the 2019 rate year from IGPC equal to the revenue proposed in the 2018 IRM application. The revenue would be recovered through twelve flat monthly fixed payments.

a) Does EPCOR's proposal to recover IGPC related costs through a fixed monthly charge recover all costs incurred to serve IGPC including the allocation of administrative and regulatory costs? Please provide a detailed response.
b) Is the proposal to move to a fixed monthly charge for Rate 6 a permanent rate design change?

D-Staff-11

Exhibit D / Page 6

On page 7 of Exhibit D, EPCOR has provided rationale supporting the monthly fixed charge for Rate 6. The applicant notes that the monthly fixed charge will provide IGPC with stable and predictable distribution costs and the proposal is supported by IGPC.

Can EPCOR provide any written communication with IGPC that validates support for the proposed approach?

Exhibit E – Application for Disposition of PGTVA, REDA and IFRS Conversion Cost Deferral Accounts

E-Staff-12

Exhibit E / Pages 5-6

The credit balance in the PGTVA for customers in rate classes 1 to 5 as of September 30, 2017 is $428,919 and for Rate 6 (IGPC), the credit balance is $544,304 for a similar period. The balances include interest and are proposed to be disposed of over a twelve month period, from October 1, 2018 to September 30, 2019. In the EB-2017-0215 application, NRG requested a correction to the reference prices used in the PGTVA to record the variance between forecast and actual transportation costs. NRG submitted that there was a calculation error in NRG's last rates proceeding (EB-2010-0018) as the reference price was based on Union Gas Limited's transportation volumes rather than NRG's load forecast sales volume. The OEB allowed NRG to make the correction and the corrected credit balances as of September 30, 2015 was $428,722 plus $18,887 in interest for rate classes 1 to 5 and $527,067 plus $31,853 in interest for rate class 6 (IGPC).

The credit balances as of September 30, 2015 and September 30, 2017 are not very different. Please provide reasons for the minimal change in the balances from September 30, 2015 to September 30, 2017.

E-Staff-13

Exhibit E / Pages 6-7

The balance in the Regulatory Expense Deferral Account (REDA) and the IFRS Conversion Cost Deferral Account (IFRSDA) as of September 30, 2017 is $158,260. EPCOR has proposed to dispose of the balance relating to both the REDA and the IFRSDA over a twelve month period from October 1, 2018 to September 30, 2019. The IFRSDA account balance has been allocated to rate classes 1 through 6 based on the number of customers in each rate class. The REDA balance includes activities related to customers using the low pressure distribution system (Rates 1 to 5) and not served with the dedicated high-pressure pipeline (Rate 6). EPCOR has provided continuity schedules associated with the accounts in Excel format.

a) Please provide the type of costs that are included in the IFRSDA?

b) The costs incurred in the REDA deferral account are not allocated to Rate 6. Please explain why costs related to corporate governance, cyber security and regulatory costs should not be allocated to Rate 6.

E-Staff-14

Continuity Schedule – PGTVA and REDA (Excel)

In the Excel spreadsheet that shows the continuity schedule of the REDA account, there are costs under the heading, “Application for Service – put to capital cost of pipeline”.

a) Please confirm that these costs are related to providing service to IGPC and have not been allocated to or proposed to be recovered from other rate classes.
b) Does the balance of $158,260 as of September 30, 2017 in the REDA account include costs that are under the heading, “Application for Service – put to capital cost of pipeline”? If yes, please explain why these costs are included.

E-Staff-15

Continuity Schedule – PGTVA and REDA (Excel)

In the Excel spreadsheet that shows the continuity schedule of the REDA account, there are costs related to Demand Side Management (DSM).

Considering that EPCOR does not implement DSM initiatives, please explain the costs related to DSM in the spreadsheet.