ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL FILED ON JUNE 3, 2019

EPCOR Natural Gas Limited Partnership
2020-2024 Rates
EB-2018-0336

June 14, 2019

Background

EPCOR Natural Gas Limited Partnership (EPCOR Natural Gas) is a privately owned utility regulated by the Ontario Energy Board (OEB) that sells and distributes natural gas in southwestern Ontario. EPCOR Natural Gas serves over 9,000 customers in Aylmer and surrounding areas.

In November 2017, EPCOR Natural Gas purchased all the distribution assets from the predecessor distributor, Natural Resource Gas Limited (NRG). In August 2016, NRG filed a cost of service and Incentive Rate-setting Mechanism (IRM) application for the period October 1, 2016 to September 30, 2021.[1] This application was superseded by an application filed by EPCOR Natural Gas to set rates under an IRM for the period 2016 to 2019.[2]

The utility's last cost of service application was for 2011 rates.[3] Since then, the utility has been under an IRM framework and is now rebasing for 2020 rates.

Summary of the Proceeding

EPCOR Natural Gas filed an application with the OEB on February 1, 2019 under section 36 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval to charge new rates for the sale and distribution of gas effective January 1, 2020 and approval of an incentive rate-setting plan for the period January 1, 2021 to December 31, 2024.

A Notice of Hearing was issued on February 28, 2019. The OEB held a community meeting in Aylmer, Ontario on March 19, 2019, to provide customers with information on the OEB's rate hearing process and on the specific application filed by EPCOR Natural Gas as well as to hear directly from customers. Integrated Grain Processors Co-operative Inc. (IGPC), Enbridge Gas Inc. (Enbridge Gas) and Vulnerable Energy Consumers Coalition (VECC) applied for and were granted intervenor status in the proceeding.

[1] NRG, EB-2016-0236
[2] EPCOR Natural Gas, EB-2018-0235
[3] NRG, EB-2010-0018

For the 2020 Test Year, EPCOR Natural Gas requested the following:

1. 2020 Test Year revenue requirement of $6,652,600
2. 2020 Test Year distribution rates, to address a $352,267 revenue sufficiency
3. Proposed incentive rate-setting (IR) plan for the period January 1, 2021 to December 31, 2024
4. Continuation, disposition and discontinuation of deferral and variance accounts
5. New fixed monthly charges
6. New Schedule of Service Charges
7. Approval to use the Dawn reference price, in place of the Ontario Landed Reference Price which Union Gas Limited (now Enbridge Gas) ceased calculating effective January 1, 2017, to determine the cost of local gas purchases
8. Approval to continue purchasing natural gas at a premium price of $8.486 per mcf. for a maximum annual quantity of 1.0 million cubic meters from On-Energy Corp. (previously NRG Corp.) until September 30, 2020
9. Changes to depreciation rates

The OEB in Procedural Order No. 1 issued on March 22, 2019, made provision for filing of interrogatories, responses to interrogatories, submission of a proposed Issues List and scheduled a settlement conference. OEB staff submitted a proposed Issues List, agreed to by all the parties, to the OEB on May 9, 2019. The OEB, in a decision issued on May 10, 2019, accepted the proposed Issues List. In that decision, the OEB required that any settlement on gas supply issues should be severable from the settlement proposal. The OEB required the flexibility to coordinate gas supply issues between this proceeding and the OEB initiated consultation that will assess the natural gas supply plans for all natural gas distributors.

A settlement conference was held on May 16 and 17, 2019 at the OEB. The settlement conference was attended by representatives from EPCOR Natural Gas, OEB staff, IGPC and VECC. Enbridge Gas did not participate in the settlement conference and is not a party to the settlement proposal. Enbridge Gas has also not supported or opposed the settlement proposal filed by the parties.

A settlement was reached on all issues in the proceeding. EPCOR Natural Gas filed the settlement proposal on June 3, 2019 and an updated settlement proposal was filed on June 10, 2019 that included total bill impacts and a revised revenue sufficiency.

Settlement Proposal

OEB staff has reviewed the settlement proposal filed by EPCOR Natural Gas in the context of applicable OEB policies and the OEB's statutory obligations. OEB staff supports the settlement of the issues and is of the opinion that the settlement is in the public interest. OEB staff has also reviewed the draft rate order and accounting order that was filed with the settlement proposal. OEB staff is satisfied with the proposed adjustments and the calculation of rates flowing from the settlement proposal.

EPCOR Natural Gas forecasted a revenue sufficiency of approximately $352,000 in its original evidence. On May 14, 2019, EPCOR Natural Gas provided intervenors and OEB staff with updated information that resulted in a reduced revenue requirement, increasing the revenue sufficiency to $601,446. EPCOR Natural Gas made certain corrections to the proposed useful lives of assets prior to the settlement conference. The reduction in depreciation expenses and adjustment to other revenues further increased the revenue sufficiency to $601,446, a breakdown of which is provided as Appendix A to the settlement proposal. Further, as a result of the agreement between the parties in the settlement proposal, the revenue sufficiency has increased to $751,626.[4] The resulting delivery rate impact for a typical residential customer is an annual reduction of $29.27 and the total bill impact including the impact of rate riders is a reduction of $34.61 or 4.35% on the total bill.

OEB staff is of the view that the accompanying explanations and rationale are adequate to support the settlement proposal. OEB staff offers the following additional commentary on the settlement proposal that provides context to some of the issues discussed in the document.

OEB Staff Comments

The submission follows the OEB-approved Issues List.

Issue 1 Administration

a) Has EPCOR Natural Gas complied with the OEB directives from and since the utility's last cost of service proceeding (EB-2010-0018)?

Parties (applicant and intervenors who participated in the settlement conference) agreed that EPCOR Natural Gas has complied with OEB directives from and since the

[4] Appendix L of Settlement Proposal

last cost of service proceeding.[5] As per OEB directives in EB-2010-0018, EPCOR has filed a system integrity study and a competitive market study that was completed by NRG. OEB staff does not dispute the compliance with previous OEB directives but as explained later, does have issues with the projects completed by NRG to address system integrity issues.

b) Are the proposed changes to EPCOR Natural Gas' Conditions of Service appropriate?

Parties agreed to remove the miscellaneous and service charges and fees from the Conditions of Service. These charges are already included in the rate schedules. OEB staff confirms that this is consistent with OEB policy that no rates or charges should appear in the Conditions of Service. The Conditions of Service also clarified that the service lateral fee of $100 as part of the initial installation would cover a length of 20 meters.

Issue 2 Rate Base

a) Were amounts closed (or proposed to be closed) to rate base since the utility's last rate proceeding in EB-2010-0018 prudently incurred?

With the exception of four capital projects completed by NRG in 2016 and 2017, parties agreed that the amounts closed (or proposed to be closed) to rate base are prudent.

In the last rates proceeding[6], NRG indicated that it required locally produced gas in order to address system pressure issues in the southern part of its service territory. In that application, NRG submitted a system integrity study completed by Aecon Utility Engineering that suggested a cost of between $8 million and $23 million for new pipeline infrastructure to resolve system pressure issues. NRG argued that purchasing local gas was a lower cost alternative than spending on the recommended pipelines. However, local gas was planned to be procured from an affiliate company. NRG had proposed to purchase 2.4 million cubic meters from the affiliate company at a rate of $8.486 per mcf., a significant premium to the market price. VECC and OEB staff opposed the proposed approach and recommended that NRG be required to complete

[5] Eb-2010-0018
[6] EB-2010-0018

an independent study with input from intervenors. In its decision, the OEB ordered NRG to complete a system integrity study that would examine possible engineering solutions and a competitive market study that would consider the mechanics of establishing a competitive market for natural gas using local sources within NRG's franchise area.[7] In the meantime, the OEB allowed NRG to purchase a maximum annual quantity of one million cubic meters from the affiliate at a premium price of $8.484 per mcf. NRG was required to file the study no later than September 30, 2012.

The process of sourcing and engaging consultants to complete the studies took longer than expected and NRG filed the study in August 2016 as part of its cost of service application.[8] NRG filed two reports in its application. The first study completed by SNC-Lavalin, examined system pressure issues and recommended engineering solutions while the second study completed by Dr. Philip Walsh, assessed the market for locally-sourced gas and recommended procurement solutions. Before the application could be processed, NRG informed the OEB that it had signed an asset purchase agreement to transfer its entire natural gas distribution system to EPCOR Natural Gas. Consequently, NRG requested the OEB to place its rates application on hold pending the outcome of NRG's application to the OEB requesting approval to transfer the assets to EPCOR Natural Gas. The OEB approved the transfer in August 2017.

EPCOR Natural Gas did not revise NRG's original application but filed a new application[9] in July 2018 requesting an IRM adjustment for the period 2016 to 2019 and the application superseded NRG's cost of service application. In other words, NRG's 2016 cost of service application was never reviewed by the OEB.

In its cost of service application, NRG planned to spend approximately $2.0 million in 2016 and 2017 on projects to address system integrity issues. That application was processed up to and including the filing of responses to the first round of interrogatories before the application was placed in abeyance and eventually withdrawn. However, the evidence up to that point did not appear to establish a clear link between the proposed system integrity projects and the projects that were recommended by the SNC-Lavlin study. It is not clear to OEB staff what system integrity issues NRG was intending to resolve. This is because in its application, NRG again requested approval to purchase 1.5 million m^3 of natural gas annually from the affiliate at a premium price of $8.486 per mcf. for the rate period until 2021.

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[7] OEB Decision and Order, Phase 2, May 17, 2012
[8] EB-2016-0236
[9] EB-2018-0235

In this application, EPCOR Natural Gas has planned two capital projects to address system integrity based on a new study completed by Cornerstone Energy Services. This is in addition to all the other projects completed by NRG to-date. However, OEB staff supports the projects planned by EPCOR Natural Gas as they are tied to the commitment of discontinuing to purchase premium priced natural gas from local sources as of September 30, 2020. This raises the question of the prudency of the projects completed by NRG and the system pressure issues that they actually addressed.

Although EPCOR Natural Gas in its application has requested the addition of the net book value in the amount of $1.94 million related to the four projects completed by NRG, it has not provided the required information to determine prudence and establish a clear link between the projects and the SNC-Lavlin study. The OEB in its decision did not approve the purchase of premium priced gas on a permanent basis but it was a temporary measure until the study can advise on possible solutions. The objective of the OEB was to find possible solutions so that customers did not have to pay for premium priced gas and the affiliate did not exercise market power to extract the premium.[10] However, NRG failed to establish a relationship between system integrity spending and the need to purchase locally sourced premium priced gas in its application.

The settlement proposal notes that there is insufficient evidence to substantiate the projects completed by NRG and OEB staff agrees with this view. Parties therefore agreed to establish a deferral account to track the revenue requirement related to the four projects pending a review by the OEB. As parties have suggested, the OEB could review the prudency of the costs in a future rates proceeding or as Phase 2 of this proceeding. OEB staff supports a Phase 2 approach to address the prudency of the four projects as it is a more efficient process, considering that the OEB will not require the publication of a new notice. EPCOR Natural Gas may wish to file additional evidence to support the prudency of the projects.

b) Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- customer feedback and preferences
- productivity
- benchmarking of costs

[10] OEB Decision Phase 2, EB-2010-0018, pg. 8, May 17, 2012

- reliability and service quality
- impact on distribution rates
- trade-offs with OM&A spending
- government-mandated obligations
- the objectives of EPCOR Natural Gas and its customers
- the utility system plan
- the business plan

Parties agreed that the level of planned expenditures and pacing choices were appropriate. OEB staff is satisfied that the planned expenditures are appropriate and have been adequately explained. However, the proposed rate base for 2020 could be adjusted based on the review related to the four projects identified earlier.

c) Is the working capital allowance for the 2020 Test Year appropriate?

OEB staff has no concerns as EPCOR Natural Gas did not request any working capital allowance in its application.

Issue 3 Operating Revenue

a) Are the customer addition forecasts for the 2019 Bridge Year and 2020 Test Year appropriate?
b) Are the volume throughput and revenue forecasts for the 2019 Bridge Year and 2020 Test Year appropriate?

Parties accepted the customer addition and load/revenue forecasts for the bridge and test year. There was no change to customer numbers or load forecast from the original application. OEB staff has no concerns with the proposed agreement.

In OEB staff IR#38, staff inquired into the reasons for not using furnace efficiency and number of persons in household for load forecasting purposes. EPCOR Natural Gas agreed to include furnace efficiency and number of persons in household in future customer surveys and use the information for preparing its volume and revenue forecast for the next rebasing application. OEB staff supports the proposed approach.

c) Are the proposed Other Revenues for the 2020 Test Year appropriate?

In response to staff IR#36, EPCOR Natural Gas updated its Other Revenue forecast for 2020. OEB staff agrees with the updated number of $147,777.

Issue 4 Operating Costs

a) Is the level of planned OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained, giving due consideration to:

- customer feedback and preferences
- productivity
- benchmarking of costs
- reliability and service quality
- impact on distribution rates
- trade-offs with capital spending
- government-mandated obligations
- the objectives of EPCOR Natural Gas and its customers
- the utility system plan
- the business plan
- Affiliate Shared Services
- Corporate Shared Services and the Corporate Structure/Status

Parties agreed to a total reduction of $150,000 to the applied for operating costs. The resulting operating costs are $3,208,803 for the 2020 Test Year. OEB staff is satisfied with the agreed costs. In the 2011 rates proceeding, the OEB approved a total of $2.63 million in OM&A costs. In the past nine years, customer count has increased by 35% (from approximately 7,155 customers in 2011 to a forecast of 9,538 for 2020). On an OM&A cost per customer basis, the cost has declined from $369.17 in 2011 to $336.42 in 2020.

b) Are the depreciation costs for the 2020 Test Year appropriate?

Parties agreed that the depreciation costs are reasonable and have been appropriately determined in accordance with OEB guidelines.

The settlement proposal has provided further explanation for the change in the depreciation rate for meters from 3.62% to 10.0% to reflect the seal life of ten years for a residential meter. In response to VECC IR#3, EPCOR Natural Gas noted that the cost to recertify a meter was greater than the cost of acquiring and installing a new meter. OEB staff accepts the proposed approach and notes that in NRG's 2016 cost of service application which was not reviewed by the OEB, NRG had requested a change in the depreciation rate of meters, from 3.62% to 9.22%.[11] At the same time, the depreciation rate approved for Enbridge Gas Distribution's 2014-2018 Custom IR application was 9.22%.[12] Given the evidence filed by EPCOR Natural Gas and the depreciation rate used by Enbridge Gas Distribution, OEB staff agrees with the proposed change.

c) Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the ratemaking treatment of each of these impacts appropriate?

Parties agreed that changes in accounting standards and policies have been properly identified and the ratemaking treatment of these impacts is appropriate. To this end, OEB staff notes the recent change in legislation that allows companies to claim accelerated capital cost allowance (CCA) on eligible property. Although EPCOR Natural Gas has not claimed the accelerated CCA in its application, it has agreed to establish a deferral account to record the impact associated with changes to income taxes payable should EPCOR Natural Gas claim accelerated CCA during the Price Cap IR term. OEB staff is satisfied with the proposed approach.

d) Are the cost consequences of the EPCOR Natural Gas Supply Plan, including the proposal for gas purchases from On- Energy Corp. appropriate?
e) Is the gas transportation cost forecast for the 2020 Test Year appropriate?

[11] EB-2016-0236, Exhibit 4, Tab 2, Schedule 1, Pg. 2
[12] EB-2012-0459, Decision and Rate Order, Appendix F, August 22, 2014

These two issues are related to gas supply. In its decision on the Issues List dated May 10, 2019, the OEB advised parties to ensure that any settlement reached on gas supply issues should be severable from the overall settlement proposal. This was to ensure that the OEB retained the required flexibility to coordinate between this proceeding and a parallel OEB consultation that will review the gas supply plans of all natural gas distributors.[13] Accordingly, the parties agreed that the above two issues were severable from the settlement proposal and acknowledged that the outcome of the gas supply planning review could impact the settlement reached on the above two items.

The parties agreed that EPCOR Natural Gas' proposal to use the Dawn Reference Price in place of the Ontario Landed Reference Price which Union Gas (now Enbridge Gas) ceased calculating effective January 1, 2017 is appropriate. This price was used to calculate the price of gas purchases in excess of 1.0 million cubic meters from NRG Corp., the affiliate company of NRG. Since NRG had not received OEB approval to use the Dawn Reference Price, all Quarterly Rate Adjustment Mechanisms for the commodity effective January 1, 2017 and later, became interim until the OEB made a final determination on this matter. The settlement proposal has agreed to make interim rate orders final. OEB staff is of the view that this issue is not related to the gas supply planning review as the approval for using the Dawn Reference Price is for historic periods and not the supply plan review period of 2020 to 2024. OEB staff supports the agreed approach as the OEB's intent in NRG's 2011 rates decision was to use a market based price to determine gas purchases in excess of 1.0 million cubic meters from NRG Corp. Like the Ontario Landed Reference Price, the Dawn Reference Price is also a market based price and therefore OEB staff has no concerns.

Further, the parties have agreed to allow EPCOR Natural Gas to use the Dawn Reference Price to determine the cost for gas purchases in excess of 1.0 million cubic meters from On-Energy Corp. for the period January 1, 2020 to the end of the term of the Gas Supply Agreement (September 30, 2020). OEB staff notes that the natural gas producing assets (wells) of NRG Corp. have been recently purchased by On-Energy Corp. a third party. Although OEB staff agrees that this covers the period of the gas supply planning review, the proposed purchases cover only nine months of the 60-month review period of gas supply plans.

As noted earlier, the OEB allowed NRG to purchase up to one million cubic meters at a premium price of $8.486 per mcf. As part of the settlement proposal, parties agreed

[13] EB-2017-0129

that EPCOR Natural Gas could recover from ratepayers the cost of gas purchased from On-Energy Corp. at a rate of $8.486 per mcf. up to a maximum annual quantity of 1.0 million cubic meters until September 30, 2020. Although the proposed quantities and the rate could be reviewed in the gas supply plan framework proceeding, OEB staff notes that the proposal extends only until the end of September 2020.

Issue 4(e) deals with gas transportation costs. EPCOR Natural Gas is a system gas customer of Enbridge Gas and receives services under the M9 rate class. M9 is a bundled service and EPCOR Natural Gas does not need to arrange for commodity, transportation or storage services. EPCOR Natural Gas purchases over 90% of its requirements from Enbridge Gas as a system gas customer. Parties agreed that the gas transportation forecast for the 2020 Test Year was appropriate. At the same time, parties acknowledged that the transportation costs could be reviewed under the gas supply plan review proceeding and therefore this issue is severable. The OEB could sever this issue and review it as part of the gas supply plan consultation. However, OEB staff notes that the alternative would be for EPCOR Natural Gas to manage its own commodity, storage and transportation. The franchise area of EPCOR Natural Gas is surrounded by the Enbridge Gas franchise area and EPCOR Natural Gas does not have access to multiple transportation paths.

While EPCOR Natural Gas is a sophisticated operator, it is still a small utility with respect to gas distribution in Ontario. The other issue with considering alternatives would be whether it is economically beneficial for a small utility like EPCOR Natural Gas to manage a complicated function like gas supply on an unbundled basis and deal with issues such as arranging commodity purchases, transportation paths, load balancing and storage services.

OEB staff is of the view that given the timing of this settlement proposal and the fact that the gas supply review is just commencing, it would be more efficient and reasonable to accept the parties' settlement proposal on all aspects of EPCOR Natural Gas' supply plan for this five year period and leverage the annual gas supply plan review process to consider any changes that EPCOR Natural Gas may propose as part of their annual updates. OEB staff is of the view that should the OEB accept the proposed approach of staff on this matter, EPCOR Natural Gas should still participate in the gas supply plan consultation so that it can provide observations on the process and review any impact that Enbridge Gas Inc.'s gas supply plan may have on its operations.

Issue 5 Deferral and Variance Accounts

a) Is EPCOR Natural Gas' proposal for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts and the continuation or closure of existing accounts, appropriate?

Parties agreed that EPCOR Natural Gas' proposal with respect to deferral and variance accounts including balances, methods of disposition, calculation of rate riders and request for new/continuation of accounts is appropriate. OEB staff has reviewed the balances in the accounts and the associated rate riders and is satisfied that the balances and rate riders are appropriate.

With respect to the Unaccounted for Gas Variance Account, parties have agreed to establish a materiality threshold of $25,000 for Rates 1 to 5. OEB staff supports the proposed approach as the established threshold incentivizes EPCOR Natural Gas to make efforts to reduce Unaccounted for Gas.

In its application, EPCOR Natural Gas requested the establishment of an Income Tax Deferral Account to recover changes in income taxes as compared to the amount included in rates during the IR period. However, EPCOR Natural Gas withdrew the request subsequent to the interrogatory process.

Parties have agreed to establish the Accelerated CCA Income Taxes Deferral Account. OEB staff has referred to this deferral account in an earlier section and supports the establishment of this account.

Parties have also agreed to establish a deferral account to track the revenue requirement associated with the four capital projects completed by NRG in 2016 and 2017. OEB staff has provided a detailed explanation of the requirement to establish this account in an earlier discussion.

Parties have agreed to establish an Earnings Sharing Mechanism Deferral Account to record the annual earnings sharing mechanism over the Price Cap IR term. This has been discussed later in this submission.

Parties have also agreed to establish an Approved Deferral/Variance Disposal Account to track the collection/refund of all deferral and variance accounts against the balances which have been approved for disposition. This account is to ensure that all balances are appropriately recovered and there is no under or over recovery from all deferral accounts approved for disposition. As noted in the settlement proposal, the account will be tracked and accounted for in the same manner as Account 1595 (Disposition and Recovery/Refund of Regulatory Balances Control Account) as per the Uniform Chart of Accounts for electricity distributors. OEB staff supports the establishment of this account.

Issue 6 Cost of Capital

a) Is EPCOR Natural Gas' proposed capital structure of 60% debt (56% long-term and 4% short-term) and 40% equity appropriate?
b) Is EPCOR Natural Gas' cost of capital for the 2020 Test Year appropriate?

Parties accepted the proposed approach of EPCOR Natural Gas with respect to the capital structure and cost of capital. OEB staff has reviewed the evidence and has no concerns. The proposed approach is consistent with the OEB's guidelines provided in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (the 2009 Report).[14] The proposed cost of capital parameters are in line with the OEB's cost of capital parameter updates for 2019 cost of service applications dated November 22, 2018.

Issue 7 Cost Allocation and Rate Design

a) Are the proposed changes to cost allocation, rate design and revenue-to-cost ratios appropriate?
b) Are the proposed rates appropriate?

Parties agreed that the proposed changes to cost allocation, rate design and revenue-to-cost ratios were appropriate. OEB staff was concerned with some of the proposed revenue-to-cost ratios as per the original evidence. The revenue-to-cost ratios for rate classes 4 and 5 were lower than 1.0 and staff requested supporting rationale through interrogatories. As part of the settlement, EPCOR Natural Gas increased distribution rates for Rates 4 and 5 in the 2020 Test Year to effect an increase of 10% for the typical customer and bring the revenue-to-cost ratio for Rate 6 to 1.06. This has resulted in the revenue-to-cost ratio for Rate 4 to move from 0.84 to 0.93 and for Rate 5, from 0.60 to 0.64. Although the Rate 5 revenue-to-cost ratio is still considerably lower than 1.0, OEB staff recognizes that this rate class has lost one customer or 20% of the rate class since 2017 (only four customers remain in this rate class). Further, the

[14] EB-2009-0084, December 11, 2009

revenue that is not being recovered from this class to bring the revenue-to-cost ratio to 1.0 is only $37,900. OEB staff has no concerns with the proposed revenue-to-cost ratios and would encourage EPCOR Natural Gas to consider further movement in the revenue-to-cost ratio of Rate 5 at the next rebasing.

In its application, EPCOR Natural Gas proposed to increase the fixed monthly charge to $17.00 for Rate 1 customers (which includes residential) and further increase it by $1.0 every year to bring it to $21 by the end of the IRM term. Parties have agreed to increase the fixed monthly charge for Rate 1 to $16.50 for the 2020 Test Year and $1 thereafter every year for the next four years. In other words, the fixed monthly charge for Rate 1 in 2024 will be $20.50. OEB staff supports the proposed approach as the proposed changes are in line with the fixed monthly charge for the Union Gas ($21) and Enbridge Gas Distribution ($20) rate zones.

In its application, EPCOR Natural Gas proposed an increase to the fixed monthly charge for all rate classes except Rate 4. In staff IR#68, OEB staff asked for supporting rationale for not increasing the fixed monthly charge for this rate class. EPCOR Natural Gas in its response noted that Rate 4 customers were seasonal and could be motivated to disconnect gas service during certain months if the fixed monthly charge was too high. However, EPCOR Natural Gas recommended that should there be an increase, the fixed monthly charge should be set at $20. Accordingly, parties have agreed to increase the fixed monthly charge to $20 from $17.25 for Rate 4. OEB staff supports the proposed approach.

OEB staff has reviewed the resulting rates as a result of the settlement proposal and is satisfied with the supporting calculations and the derived rates. The settlement has further increased the revenue sufficiency and rates have declined for most rate classes with the exception of Rates 4 and 5. Since the revenue-to-cost ratios have been moved closer to 1.0 as a result of the settlement proposal, Rate classes 4 and 5 will experience a distribution rate increase of close to 10%.

Summary of Annual Distribution Rate Impacts (Typical Customer)

Rate Class	Annual Bill – ($) Current Rates	Annual Bill ($) – Proposed Rates	Change ($)	Change (%)
Rate 1 – Residential	469.92	440.65	- 29.27	- 6.23%
Rate 1 - Commercial	832.18	750.24	- 81.93	- 9.85%
Rate 1 - Industrial	2,080.55	1,835.07	- 245.48	- 11.80%
Rate 2	2,691.46	2,568.09	- 123.36	- 4.58%
Rate 3	93,609.24	93,382.08	- 227.16	- 0.24%
Rate 4	2,283.44	2,490.24	206.80	9.06%
Rate 5	14,922.42	16,404.80	1,482.39	9.93%
Rate 6 - IGPC	1,133,887.44	734,759.06	- 399,128.38	- 35.20%

Above table does not include rate riders or the cost of commodity

Total Bill Rate Impacts (Typical Customer)

Rate Class	Annual Bill – ($) Current Rates	Annual Bill ($) – Proposed Rates	Change ($)	Change (%)
Rate 1 – Residential	795.11	760.49	- 34.62	- 4.35%
Rate 1 - Commercial	1,519.46	1,469.21	- 50.24	- 3.31%
Rate 1 - Industrial	4,081.42	4,001.97	- 79.45	- 1.95%
Rate 2	5,123.98	5,088.00	- 35.98	- 0.70%
Rate 3	113,490.25	114,114.94	624.69	0.55%
Rate 4	5,089.61	5,378.51	288.90	5.68%
Rate 5	42,400.38	46,348.65	3,948.27	9.31%
Rate 6 - IGPC	1,139,531.00	919,725.79	- 219,805.21	- 19.29%

Includes rate riders and cost of commodity

For certain rate classes, the total bill impact differs significantly from the distribution bill impact and for Rate 3, the reduction has turned into an increase. This is mainly due to the Purchased Gas Transportation Variance Account rate rider that represents recovery of gas transportation costs. Rate classes with high volumes have a larger debit impact as it is a volumetric charge.

c) Are the proposed changes to EPCOR Natural Gas' Schedule of Service Charges appropriate?

In its application, EPCOR Natural Gas requested changes to the amounts charged for miscellaneous and service charges. These include charges for reconnection, late payment, bill reprint, customer transfer, returned cheque and for service work. Parties agreed to remove charges for disconnection which was part of the initial proposal and reduce the returned cheque (NSF) charges from the proposed $48 to the existing charge of $20.

Issue 8 Incentive Regulation Plan

a) Is EPCOR Natural Gas' proposed Incentive Regulation Plan for the period 2021 to 2024 appropriate?

EPCOR Natural Gas proposed a Price Cap IR Plan that is based on the OEB's guidance on IRM's for electricity distributors and the recently approved plan for Enbridge Gas in the MAADs proceeding.[15] The Price Cap adjustment mechanism is based on an inflation factor less a productivity factor and stretch factor. In its application, EPCOR Natural Gas proposed a productivity factor of 0% and a stretch factor of 0.3% in line with that approved for Enbridge Gas.[16]

EPCOR Natural Gas further proposed the use of Y factors for costs associated with specific items that are subject to deferral account treatment and are passed through to customers, Z-factor adjustments to address material cost changes associated with unforeseen events outside the control of management and an off-ramp.[17] EPCOR Natural Gas also requested the availability of an Incremental Capital Module to address the treatment of incremental capital investment needs that arise during the Price Cap IR term.

Parties agreed to use the two-factor input price index methodology for the inflation factor and a productivity factor of 0%. For the stretch factor, it was agreed to increase it from 0.3% to 0.4%. The IRM for NRG from 2014 onwards and EPCOR Natural Gas' approved IRM for the 2016 to 2019 period used a stretch factor of 0.4%. OEB staff supports the use of a 0.4% stretch factor for the proposed IRM term of 2021 to 2024. The utility has demonstrated that it can manage with a stretch factor of 0.4% since 2014 and OEB staff believes that the utility should be able to manage with the same stretch factor for the next IRM term.

In its application, EPCOR Natural Gas did not proposes an earnings sharing mechanism (ESM). However, as per the settlement proposal, EPCOR Natural Gas will implement an asymmetrical ESM wherein if the cumulative return on equity (ROE) at

[15] EB-2017-0306/ EB-2017-0307
[16] EB-2017-0306 / 0307, Decision and Order, August 30, 2018
[17] Off ramp – a regulatory review may be triggered if a distributor's earnings are outside of a dead-band of +/-300 basis points from the OEB approved return on equity.

the end of the IRM term exceeds the OEB-approved ROE by more than 150 basis points, EPCOR Natural Gas is required to share the excess earnings with ratepayers on a 50/50 basis. For purposes of determining ESM, EPCOR Natural Gas' annual affiliate and corporate shared services costs as included in this application will be capped at the lower of: a) actual costs incurred annually; or b) inflated annually by the inflation factor used in the annual IRM applications. This will ensure that changes in corporate/shared services costs greater than inflation do not impact the ESM calculation. OEB staff supports the agreed to approach for including the principle of ESM and the methodology to calculate ESM. OEB staff further notes that the OEB approved a similar threshold (150 basis points) for the ESM in the Price Cap framework for Enbridge Gas Inc. (Enbridge Gas Distribution and Union Gas Limited).[18]

Issue 9 Score Card

a) Is EPCOR Natural Gas' proposed Score Card appropriate?

Parties agreed that the proposed scorecard is appropriate. The proposed scorecard is modeled after the electricity distributors' scorecard. The applicant has further noted that the scorecard is also compliant with the Gas Distribution Access Rule (GDAR) as amended January 1, 2017. In the MAADs Decision, the OEB required Enbridge Gas Inc. to include reporting on total cost per customer per year and the total cost per km of distribution pipe as part of the scorecard.[19] As part of the settlement proposal, EPCOR Natural Gas has agreed to add the above two metrics to its scorecard. OEB staff agrees with the proposed scorecard and the noted additions. There is no indication in the evidence or the settlement proposal of when a completed scorecard would be filed. OEB staff believes that a completed scorecard would be provided as part of the annual rates application.

– All of which is respectfully submitted –

[18] EB-2017-0306 / EB-2017-0307 Decision and Order, August 30, 2018, pg.30
[19] *ibid*, pg.54