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EPCOR Natural Gas Limited Partnership (ENGLP)
EB-2018-0264

South Bruce 2019-2028 Rate Plan

Submission Of the Vulnerable Energy Consumers Coalition (VECC)

October 21, 2019

Vulnerable Energy Consumers Coalition

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Introduction

1. EPCOR Natural Gas Limited Partnership (EPCOR) filed a custom incentive rate-setting application in April 2019. The Application is to set the initial rates for the communities known as South Bruce. The Board has previously established the cost parameters for the establishment of the rates in its decision granting the franchise to EPCOR.

2. The Board provided for a settlement conference of the interested parties and the Applicant. That conference resulted in a partial settlement of the issues among the parties. In its decision of October 3, 2019 accepted that settlement agreement as reasonable.

3. A number of issues, as identified on the Board approved issues list, were left either partially or fully unsettled. The Board identified these in its order of October 3. Of these VECC has submissions on only the following:

   - the Regulatory Expense Deferral Account;
   - the Municipal Tax Variance;
   - the Energy Content Variance Accounts;
   - the availability of Incremental Capital Module; and,
   - the recovery of additional revenue deficiency of $1.764 million.

Overview

4. It is important to consider the overall context of the Applicant's proposal. This case is unusual in that the parameters for the establishment of rates were made in the prior franchise application EB-2016-0137/138/139. Those applications settled the question as to which of two competing utilities would be granted the monopoly franchise encompassing what known now as South Bruce. EPCOR was the successful proponent and as such was bound by the parameters it had put before the Board. Those parameters are shown below:

Metric / Criteria	EPCOR	Union Gas
Net Present Value (NPV) of 10-year Revenue Requirement	$59.1 million	$55.3 million
Cumulative 10-year Revenue Requirement	$75.6 million	$70.1 million
Cumulative 10-yr revenue requirement per unit of volume[2]	$0.2209 / m^3	$0.2444 / m^3
Customer years[3]	42,569	54,171
Cumulative 10-yr volume[4]	342 million m^3	287 million m^3
Total kilometers of pipeline	309.9 km	321.7 km

5. These parameters are known as the CIP or Common Infrastructure Plan. Because these factors are determinative in the granting of the franchise they are also fixed for the purpose of establishing of rates. In our submission the Board should vary from this pre-determination in only the most exceptional circumstances. To do otherwise would be to allow EPCOR to resile from the commitments freely made to win the competition it had with Union Gas (now Enbridge) for the franchises. EPCOR has acknowledged this requirement in a number of places in its Application.[1]

6. As reflected by the settlement of most of the issues in this case EPCOR has for the most adhered to its CIP criteria. The issues we address are those which we believe are a departures from these commitments.

Deferral Accounts

7. We submit that the Board should not establish a Regulatory Expense Deferral Account and a Municipal Tax Variance Account. We do believe that it would be reasonable to grant EPCOR the Energy Content Variance Account.

8. The reason would do not support the Municipal Tax is that the Applicant has not made a case that there is a material risk to be considered. To our knowledge such an account is not currently granted to Union Gas (now Enbridge). That is, when EPCOR was competing for the franchise with Union it did not indicate to the Board that it would require further tax relief – not available to Union – for potential tax liabilities.

9. Somewhat differently the Board did establish a Regulatory Expense Deferral Account for Union Gas (and also Enbridge). However, this account was established for a particular purpose. The account was established in order for Utilities (including OEB regulated electricity distributors) to capture the impact of a change in the methodology by which the Board assessed its regulatory costs and charged them to regulated entities. For those utilities on multi-year rate plans this change in assessment methodology resulted in a mis-match as between the amounts allowed to be recovered in rates and that charged to customers. These accounts are (or should be) subsequently eliminated upon a utility's rebasing and when the impact of the new assessment methodology can be incorporated into rates. The Board's new assessment methodology was known and implemented prior to the proceeding granting the franchise. That is EPCOR was in the position to appropriately incorporate an accurate estimate of regulatory costs in its proposal to serve the franchise. Therefore it has no need for such an account.

[1] See for example, Exhibit 1, Tab 2, Schedule 1

10. Neither is the account required as a means to recover extraordinary regulatory costs for generic or other matters carried out by the OEB. It is our experience that when generic or other such regulatory processes cause material costs to be incurred the Board makes allowance for the recovery of these type of costs from ratepayers.

11. On the other hand while Union does not have an account specifically called an "Energy Content Variance Account" it does have a similar variance accounting carried out through the average use methodologies – the Average Use True-Up Variance Account in the Enbridge Rate Zone and the Normalized Average Consumption Account in the Union Zone. For this reason we think it reasonable that EPCOR be allowed an account which, at least in part, addresses the same issues – that is the variation in gas heat content and their effect on the distribution portion of rates.

Incremental Capital Module

12. We do not agree that EPCOR has an *a priori* right to the Incremental Capital Module. In this case the potential need for an ICM would seem limited. That is because the granting of the franchise was done on the basis of the entirety of service to the franchise. Except in the case of extraordinary (potentially catastrophic) circumstances to grant additional rate funding for capital projects would violate the regulatory compact under which the franchise was granted. If EPCOR were to expand to a new franchise then it would require a new application, which might be competed for by other utilities, and where presumably it would put forward a rate proposal.

13. EPCOR does not foresee any potential capital expenditures during the next 10 years that could result in an ICM[2]. In any event it is difficult to see how the Board would or could order a blanket agreement to or prohibition from future applications seeking some form of relief. As such we think this issues does not require a finding by the Board.

Recovery of additional revenue deficiency of $1.764 million.

14. EPCOR stated that a delay in the OEB approval process has impacted the construction schedule and triggered a revenue deficiency of $1.764 million on a net present value basis compared to that included in the CIP. This is made up of $1.640 million in distribution revenue and $0.124 million in upstream charges. The table below provides a summary of these costs.

[2] 10-SEC-19

Table 3: Summary of Revenue Deficiency[31]

Description	NPV of Revenue Deficiency ($'000)
Change in customer connection profile – Forgone Revenues	2,324
Change in property taxes – Forgone Cost	(224)
Change in capital expenditure profile – Forgone Cost	(460)
Deferred recovery of upstream charges	124
	1,764

15. These costs arise out of the delay EPCOR has said it will have in connecting customers.

16. It is important to differentiate this figure from a similar dollar impact which arises out of the difference in the time EPCOR originally expected to begin the project and when it actually did begin. As a result of the delay in the construction schedule from that submitted with the CIP, the cost of construction has increased $1.739 million from $91.428 million to $93.167 million. This is offset by a delay in capital expenditures as shown in the table above.[3]

17. The delay which EPCOR refers to is in fact with respect to the impact of the cancellation of the Natural Gas Grant Program (NGGP) under which the Utility was awarded $22.0 million in support of building the South Bruce distribution system. The Utility made clear that without such funding it was unable to proceed. It is for this reason that the project went into hiatus. This program was subsequently replaced by equal funding under Ontario Regulation 24/19 which was filed in March 2019.

18. There is no evidence as to how the $1.739 million in additional capital costs arises. Nor is there an explanation as to how this increase in costs leads to a decrease in revenue requirement. That the two numbers (the revenue deficiency and the increase in the capital cost) are remarkably similar is left at being serendipitous. No evidence exists to clarify. And we hold no additional evidence should be allowed by way of reply argument to be considered by the Board. As can be inferred by the inability of the parties to settle on this issue the Applicant has aware of, and given sufficient opportunity to, clarify its position. Consideration of any new and untested evidence at this point would be unfair.

19. The explanation for the need to recover additional amounts is the delay in the start of construction (whatever the source of that). We observe that at no time prior to the Board's determination to grant EPCOR this franchise in April of 2012 did the Utility amend its CIP or inform the Board of the implications of delay. In any event if the underlying reason is that a delay in revenues arises from a delay in customer connections then the Utility, understanding it would not be able to maintain its original start date which had encompassed a full winter season, could have sought to delay the project by one year. Furthermore if the revenue shortfall arises from the delay and if the Board grants the 10 year CIP period from the date of

[3] 1-Staff-4

the first connection (November 1, 2019), which we recommend, then there should be no shortfall. If the Applicant chooses to maintain a November 1, 2019 first connection then what has occurred is a variance as between the CIP parameter that was proffered for the purpose of winning the franchise, and the actual connections. It was clear in granting this franchise that forecast risk was to be to the account of the Utility shareholder and not its new customers.

20. For these reasons we submit the Board should not grant the relief sought of an additional $1.7 in revenue requirement but rather should make its order effective as of November 1, 2019 which should coincide with the start of the CIP 10 year period.

Costs

21. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

OCTOBER 21, 2019