



ONTARIO ENERGY BOARD

STAFF COMMENTS ON DRAFT RATE ORDER FILED ON NOVEMBER 1, 2019

**EPCOR Natural Gas Limited Partnership
2020-2024 Rates – PHASE 2
EB-2018-0336**

November 7, 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). The utility's last cost of service application was for 2011 rates.¹ Since then, the utility has been under an IRM framework and is now rebasing for 2020 rates.

EPCOR Natural Gas filed an application with the OEB on February 1, 2019 under section 36 of the *Ontario Energy Board Act, 1998*, 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.

In a Decision and Interim Rate Order issued on July 4, 2019, the OEB accepted EPCOR Natural Gas' settlement proposal on all issues in the proceeding. The OEB also approved draft rate schedules and accounting orders that were included with the settlement proposal. In the settlement proposal, parties agreed to defer the approval of four system integrity capital projects that were completed by NRG in 2016 and 2017. The OEB in its Decision and Interim Order determined that it would review the prudence of the four system integrity capital projects in phase 2 of this proceeding.

In its Decision and Order (phase 2) issued on October 24, 2019, the OEB approved two of the four system integrity capital projects for addition to rate base in 2020. The remaining two projects (Putnam-Culloden and Springwater pipelines) will not be added to the 2020 rate base. Since the four projects were included in rate base to determine 2020 rates, the OEB directed EPCOR Natural Gas to file a draft rate order that excludes the net book value of the two projects (Putnam-Culloden and Springwater) to determine rates effective January 1, 2020.

EPCOR Natural Gas filed a draft rate order on November 1, 2019, with draft rate schedules and supporting calculations to exclude the net book value of the two projects. EPCOR Natural Gas also provided revised bill impacts as a result of the determinations made in phase 2 of the proceeding.

The exclusion of the two projects has resulted in a reduction to EPCOR Natural Gas' 2020 revenue requirement related to reduced depreciation, a cost of capital adjustment

¹ NRG, EB-2010-0018

and a reduction to income taxes. In addition, the adjustment has resulted in a small decline in Operations and Maintenance expenses related to the reduction in the Low-income Energy Assistance program (due to reduction in revenue requirement) and a slight reduction (0.01%) in the weighted average cost of capital.

OEB Staff Comments

OEB staff has reviewed the rate schedules and supporting calculation showing the exclusion of the two projects to determine the revised revenue requirement and rates. OEB staff is satisfied that the revenue requirement and resulting rates accurately reflect the OEB's decision in phase 2 of the proceeding. As a result of the approved settlement proposal, distribution rates for most customers will decline in 2020 compared to existing rates. As a result of the determinations made in phase 2 of the proceeding, distribution rates have further declined due to the reduction in revenue requirement.

In this proceeding, EPCOR Natural Gas requested a 2020 Test Year revenue requirement of \$6,740,568. This amount dropped to \$6,253,241 in the approved settlement proposal. As a result of the phase 2 Decision and Order, the revenue requirement has been adjusted to \$6,186,083, a further reduction of approximately \$67,000. The phase 1 approved settlement proposal resulted in lowering rates for most rate classes. The phase 2 Decision and Order has further reduced rates for customers.

Summary of Distribution Rate Impacts for Phase 2 Decision (Typical Customer)

Rate Class	Annual Bill – (\$) Based on Phase 1 Settlement	Annual Bill (\$) – 2020 Final Rates	Change (\$)	Change (%)
Rate 1 – Residential	452.65	448.22	- 4.43	- 1.82%
Rate 1 - Commercial	762.24	752.16	- 10.08	- 1.32%
Rate 1 - Industrial	1,847.07	1,816.81	- 30.26	- 1.64%
Rate 2	2,580.09	2,550.43	- 29.67	- 1.15%
Rate 3	93,394.08	93,111.92	- 282.16	- 0.30%
Rate 4	2,502.24	2,463.41	- 38.83	- 1.55%
Rate 5	16,416.81	16,172.62	- 244.20	- 1.47%
Rate 6 - IGPC	734,771.06	734,771.06	0.00	0.0%

Above table does not include rate riders, cost of commodity or the Federal Carbon Charge. The table includes an additional one dollar per month to the Monthly Fixed Charge in accordance with Bill 32 and Ontario Regulation 24/19.

There is no impact on Rate 6 as a result of the phase 2 Decision and Order. Rate 6 consists of a single customer (IGPC) that is served through a dedicated pipeline and

this rate class is not allocated capital costs for pipelines that are used to serve other customers of EPCOR Natural Gas.

EPCOR Natural Gas has provided customer notices for Rate 1 customers that will be provided to customers with the first bill on or after January 1, 2020. OEB staff understands that the customer notice may change as a result of commodity rate changes effective January 1, 2020 and other charges including the Federal Carbon Charge. OEB staff has reviewed the information provided in the customer notices and is satisfied that it provides accurate information about bill impacts as a result of this rate application.

– All of which is respectfully submitted –