

INTERIM DECISION AND ORDER

EB-2020-0076

EPCOR NATURAL GAS LIMITED PARTNERSHIP (SOUTHERN BRUCE OPERATIONS)

2020 Federal Carbon Pricing Program Application

BEFORE: Lynne Anderson
Presiding Member

May 21, 2020

1 INTRODUCTION AND SUMMARY

EPCOR Natural Gas Limited Partnership (ENGLP) filed an application on February 27, 2020, under section 36(1) of the *Ontario Energy Board Act, 1998*, seeking Ontario Energy Board (OEB) approval to increase rates to recover costs associated with meeting its obligations under the federal *Greenhouse Gas Pollution Pricing Act* (GGPPA), and to dispose of 2019 balances for all deferral and variance accounts related to the Federal Carbon Pricing Program (FCPP).

This application originally pertained to ENGLP's Aylmer operations (ENGLP Aylmer), which serves approximately 9,300 customers in Aylmer and surrounding areas. The OEB issued an Interim Decision and Order on March 26, 2020, approving ENGLP Aylmer's proposed rates for the Federal Carbon Charge and Facility Carbon Charge¹ on an interim basis, effective April 1, 2020.

On May 1, 2020, ENGLP filed supplementary evidence in this application in support of a request to recover costs associated with meeting its obligations under the GGPPA for its Southern Bruce operations (ENGLP Southern Bruce) including a request for interim FCPP-related rates for the Southern Bruce franchise area. ENGLP Southern Bruce is a greenfield utility which has not yet connected any customers, but expects to connect its first customers in June 2020.

In its review of ENGLP Southern Bruce's custom incentive ratemaking application (EB-2018-0264), the OEB approved rate schedules, effective as of January 1, 2019, that included a Federal Carbon Charge of 3.91 ¢/m³ to recover customer-related FCPP costs; however, no Federal Carbon Charge has been collected, as no customers are currently connected. As part of that previous application, the OEB also approved the establishment of FCPP-related variance accounts for customer-related costs and facility-related costs, and a deferral account for ENGLP Southern Bruce's administration costs.

In this Interim Decision and Order, the OEB addresses ENGLP Southern Bruce's request for approval of rates on an interim basis.

ENGLP Southern Bruce requested approval to increase the Federal Carbon Charge on customer bills to reflect forecast 2020 costs. As of April 1, 2020, the Federal Carbon Charge that must be remitted to the Government of Canada under the GGPPA for eligible volumes of natural gas increased from 3.91 ¢/m³ to 5.87 ¢/m³. ENGLP Southern

¹ The Facility Carbon Charge recovers from customers the costs that ENGLP must remit to the Government of Canada for its own emissions.

Bruce requested approval to update the Federal Carbon Charge on customer bills to match the level in the GGPPA.

If approved, the incremental² bill impact of the increase to the Federal Carbon Charge over a twelve-month period would be an increase of \$40.49 for a typical residential customer with an annual consumption of 2,066 m³, or \$42.12 for a typical residential customer with an annual consumption of 2,149 m³, respectively.³

ENGLP Southern Bruce did not forecast any FCPP facility-related costs in 2020, and requested either an interim Facility Carbon Charge of \$0.0000/m³, or no Facility Carbon Charge.

ENGLP Southern Bruce requested that the OEB approve its proposed rate for the Federal Carbon Charge on an interim basis to be effective by June 1, 2020, which will be before the first customers in the Southern Bruce franchise area are connected. ENGLP Southern Bruce expects that only industrial customers who are expected to be exempt from the Federal Carbon Charge will be connected in June, with residential and other classes of customers connecting closer to the end of 2020. Therefore, the Federal Carbon Charge may not be applied to any customer bills until later in 2020.

The OEB approves ENGLP Southern Bruce's proposed rate for the Federal Carbon Charge on an interim basis, effective June 1, 2020.

Charge	Unit Rate (¢/m ³)
Federal Carbon Charge	5.8700

In light of the COVID-19 emergency, the OEB is also providing ENGLP Southern Bruce the option of deferring the implementation date of this rate increase until September 1, 2020 to coincide with the implementation date that ENGLP Southern Bruce has requested for changes to its Rate Schedules as part of its 2020 Incentive Rate Adjustment Application (EB-2019-0264).

The OEB does not approve a Facility Carbon Charge as part of this Interim Decision and Order; however, ENGLP Southern Bruce can use its Facility Carbon Charge – Facility Variance Account to record any actual facility-related FCPP costs, should these turn out to be non-zero, until such time as a Facility Carbon Charge has been approved.

² Incremental to the currently approved Federal Carbon Charge of 3.91 ¢/m³.

³ ENGLP Southern Bruce uses 2,149 m³ as the typical annual consumption for existing residences converting to natural gas, and 2,066 m³ as the typical annual consumption for new residences.

This determination is made without prejudice to the OEB's decision on the application. Despite this Interim Decision and Order, the OEB retains the discretion to set the final rates to whatever it ultimately determines to be just and reasonable.

The OEB will initiate next steps in this proceeding following ENGLP's submission of updated evidence that includes final December 31, 2019 balances for FCPP-related variance accounts for ENGLP Aylmer, and a proposed disposition methodology for these balances, including expected bill impacts.

2 DECISION

2.1 Federal Carbon Charge

Under the GGPPA, ENGLP Southern Bruce is required to remit payment to the Government of Canada, on behalf of its customers, for emissions associated with the natural gas delivered by ENGLP Southern Bruce and used by these customers. Approved rate schedules for ENGLP Southern Bruce, effective as of January 1, 2019, have included a Federal Carbon Charge of 3.91 ¢/m³ to recover this cost; however, no amounts have been collected, as no customers are currently connected.

The Federal Carbon Charge that ENGLP Southern Bruce must remit to the Government of Canada for customer emissions increased by 50%, from \$20 per tonne of carbon dioxide equivalent (3.91 ¢/m³ of natural gas) to \$30 per tonne of carbon dioxide equivalent (5.87 ¢/m³), effective April 1, 2020. ENGLP Southern Bruce requested OEB approval to increase the Federal Carbon Charge on customer bills to the same level (5.87 ¢/m³), effective June 1, 2020, before ENGLP Southern Bruce's first customers are connected.

Under the GGPPA, certain customers (e.g. some industrial customers and greenhouses) are eligible for full or partial exemption from the Federal Carbon Charge for their emissions. ENGLP Southern Bruce's current rate schedules for all rate classes include the Federal Carbon Charge, with the wording "if applicable". Customers providing ENGLP Southern Bruce with valid exemption certificates would have their bills adjusted accordingly. ENGLP Southern Bruce stated that it expects that its first two customers will be large volume customers in Rate 16 (contracted firm service) who will qualify for emissions exemption certificates.

Findings

The OEB approves ENGLP Southern Bruce's proposed increase to the Federal Carbon Charge on customer bills effective June 1, 2020, on an interim basis. ENGLP Southern Bruce's proposed charge was calculated to pass-through the costs of remitting the Federal Carbon Charge related to customer use to the Government of Canada. The Federal Carbon Charge under the GGPPA increases on April 1 of each year. It is appropriate to adjust the Federal Carbon Charge on customer bills to match the level set in the GGPPA.

The OEB will set final rates after it has reviewed and fully tested the application. However, the OEB believes that the adjustment to ENGLP Southern Bruce's Federal Carbon Charge on customer bills is sufficiently mechanistic that changes to the interim rate are unlikely. Any differences between the amounts collected from customers and

those remitted to the Government of Canada are tracked in a variance account for future disposition to customers. Because ENGLP Southern Bruce applies the Federal Carbon Charge on customer bills to actual billed volumes, future variances are expected to be minimal.

The OEB notes an inconsistency in the application regarding ENGLP Southern Bruce's proposed Federal Carbon Charge for Rate 16 (contracted firm service) customers. ENGLP Southern Bruce's draft rate schedule for this rate class (Exhibit E-S, Tab 3, Schedule 1) included the Federal Carbon Charge (with the wording "if applicable"), however, its summary of Carbon Charge unit rates by rate class (Exhibit E-S, Tab 2, Schedule 3) showed no Federal Carbon Charge for this rate class.

While most, if not all, customers within this rate class may be able to provide ENGLP Southern Bruce with emissions exemption certificates, this should not be assumed. ENGLP Southern Bruce should continue to include the Federal Carbon Charge in its rate schedules for Rate 16, with the wording "if applicable".

In light of the COVID-19 emergency, the OEB is also providing ENGLP Southern Bruce the option of deferring the implementation date of this rate increase until September 1, 2020 to coincide with the implementation date that ENGLP Southern Bruce has requested for changes to its Rate Schedules as part of its 2020 Incentive Rate Adjustment Application (EB-2019-0264). ENGLP Southern Bruce shall notify the OEB of whether it elects to postpone this rate change. ENGLP Southern Bruce's Federal Carbon Charge – Customer Variance Account, which has already been established, can be used to record any foregone revenue if the change to the Federal Carbon Charge is deferred.

2.2 Facility Carbon Charge

ENGLP Southern Bruce is also required to remit payment to the Government of Canada for its own greenhouse gas emissions. ENGLP Southern Bruce is not eligible for the Output-Based Pricing Standards component of the GGPPA, and is required to pay the Federal Carbon Charge to the Government of Canada for all of its facility-related emissions.

However, ENGLP Southern Bruce has no natural gas vehicles, and leases its current facilities (i.e. does not directly incur costs for its facility-related natural gas use). Therefore, ENGLP Southern Bruce forecasts no FCPP facility-related costs for 2020. This is in contrast to ENGLP Aylmer, which applies a non-zero Facility Carbon Charge to customer bills to recoup the costs associated with facility-related emissions.

As a result, ENGLP Southern Bruce requested to either have no Facility Carbon Charge, or have a Facility Carbon Charge of 0.0000 cents/m³ for 2020. In its evidence, ENGLP Southern Bruce did not include a Facility Carbon Charge in its draft rate schedules.

Findings

The rates approved in this Interim Decision and Order do not include a Facility Carbon Charge. However, ENGLP Southern Bruce can use its Facility Carbon Charge – Facility Variance Account to record any actual facility-related FCPP costs, should these turn out to be non-zero, until such time as a Facility Carbon Charge has been approved.⁴

2.3 2019 Federal Carbon Pricing Plan-Related Deferral and Variance Accounts

In the OEB's review of ENGLP Southern Bruce's custom incentive ratemaking application (EB-2018-0264), the OEB approved FCPP-related deferral and variance accounts for ENGLP Southern Bruce's customer-related costs, facility-related costs, and administration costs, identical in purpose to those established for ENGLP Aylmer.

ENGLP Southern Bruce has no amounts pertaining to 2019 recorded in any of the FCPP-related deferral and variance accounts, and therefore ENGLP Southern Bruce is not seeking recovery of balances with respect to 2019 costs.

In 2020, ENGLP Southern Bruce will record costs and variances resulting from compliance with the GGPPA using these deferral and variance accounts.

⁴ The accounting orders for ENGLP Southern Bruce's FCPP-related deferral and variance accounts can be found in: EB-2018-0264, Rate Order (Schedule B), January 9, 2020.

3 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR Natural Gas Limited Partnership's proposed unit rate for the Federal Carbon Charge of 5.8700 ¢/m³ (if applicable) for its Southern Bruce Operations is approved on an interim basis, effective June 1, 2020.
2. In light of the COVID-19 emergency, EPCOR Natural Gas Limited Partnership shall, on or before May 28, 2020, file a letter with the OEB indicating whether it intends to postpone the implementation of this change to the Federal Carbon Charge to September 1, 2020.
3. If EPCOR Natural Gas Limited Partnership elects to postpone the implementation of the Federal Carbon Charge to September 1, 2020, any temporarily forgone revenue associated with the postponement shall be tracked in EPCOR Natural Gas Limited Partnership's Federal Carbon Charge – Customer Variance Account.
4. If EPCOR Natural Gas Limited Partnership elects not to postpone the implementation of the change to the Federal Carbon Charge, then the interim Federal Carbon Charge of 5.8700 ¢/m³ shall be effective June 1, 2020, and shall be implemented in the first billing cycle on or after June 1, 2020. All other rates approved for EPCOR Natural Gas Limited Partnership's Southern Bruce Operations as part of the decision and rate order in EB-2018-0264, dated January 9, 2020, remain unchanged.

DATED at Toronto May 21, 2020

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary