Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

December 18, 2020

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON, M4P 1E4

Dear Ms. Long:

Re: EPCOR Natural Gas Limited Partnership
Aylmer 2021 Rate Application
Ontario Energy Board File Number: EB-2020-0234

In accordance with Procedural Order No. 1, please find attached the OEB staff submission for the above proceeding. This document has been sent to EPCOR Natural Gas Limited Partnership.

EPCOR Natural Gas Limited Partnership is reminded that its reply submission is due by January 5, 2021.

Yours truly,

Original Signed By

Arturo Lau
Advisor, Natural Gas

Encl.

c. EPCOR Natural Gas Limited Partnership

Aylmer 2021 Rate Application

EPCOR Natural Gas Limited Partnership

EB-2020-0234

OEB Staff Submission

December 18, 2020

1 INTRODUCTION

On October 8, 2020 EPCOR Natural Gas Limited Partnership (ENGLP) applied to the Ontario Energy Board (OEB) under section 36(1) of the *Ontario Energy Board Act, 1998* for changes to its natural gas distribution rates to be effective January 1, 2021.

In this application, ENGLP has requested the following:

I. Distribution rates for natural gas distribution service for the Aylmer area be adjusted and updated effective January 1, 2021 in accordance to the OEB-approved decision and interim rate order (Settlement Decision)[1]
II. Distribution rates be adjusted and updated effective January 1, 2021 to reflect the inclusion of the revenue requirement of the Springwater Pipeline and Putnam to Culloden Projects
III. Approval to dispose of the balances of certain deferral and variance accounts

2 PROCESS

On October 22, 2020, the OEB issued a completeness letter and a Notice of Hearing. The intervention period ended on November 9, 2020. No persons applied for intervenor status.

Procedural Order No. 1 was issued on November 11, 2020. OEB staff filed written interrogatories on November 20, 2020. ENGLP filed interrogatory responses on December 4, 2020.

ENGLP's reply submission is due by January 5, 2021.

3 SUBMISSIONS

3.1 Price Cap Adjustment

ENGLP seeks to increase its rates, effective January 1, 2021, based on a mechanistic rate adjustment using a price cap adjustment (PCA) pursuant to the Settlement Decision. The PCA is calculated using an *inflation factor less a productivity factor and a stretch factor*.

[1] EB-2018-0336, Decision and Interim Rate Order, July 4, 2019

The components of the PCA applicable to ENGLP are set out in the table below. Inserting these components into the formula results in a 1.80% increase to ENGLP's forecasted revenue: ***1.80% = 2.20% - (0.00% + 0.40%)***.

Components	Amount
Inflation Factor[2]	2.20%
Productivity	0.00%
Stretch	0.40%

ENGLP has requested that the distribution rates for its natural gas distribution service for the Aylmer area be adjusted according to the approved Settlement Decision:

I. Increasing the monthly fixed charge for Rate 1 by $1.00;
II. Increasing the volumetric charges for Rate Class 1 to achieve a total projected revenue for 2021 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA; and,
III. Increasing the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

In a letter addressed to all utilities, the OEB allowed utilities the discretion of applying either the calculated inflation factor in accordance with the OEB-approved methodology or a lower value. Utilities were also given the discretion to forego the inflationary increase entirely.[3]

ENGLP advised in an interrogatory response, that the utility is electing an inflation factor of 2.20% for its 2021 rates.[4] This results in a PCA of 1.80% (i.e. inflation factor (2.20%) less a stretch factor (0.40%)).

OEB staff has reviewed ENGLP's request and model and submits that the resulting proposed rate changes were calculated in accordance to the Settlement Decision and should be approved by the OEB.

The total bill impacts for the general service rate class underpinning the Application are as follows:

[2] For the 2021 Inflation Factor, see Ontario Energy Board 2021 Electricity Distribution Rate applications webpage – November 9. 2020
[3] OEB Letter, 2021 Inflation Parameters, issued November 9, 2020
[4] ENGLP Response to OEB Staff IR 6, December 4, 2020

Rate Class	Change due to PCA	Change due to Putnam to Culloden	Change due to Springwater	Change due to rebalancing[5]	Total Change
Rate 1- Residential	$8.64	$3.51	$1.83	$2.00	$15.98
Rate 1- Commercial	$29.02	$18.80	$9.79	$(23.87)	$33.73
Rate 1- Industrial	$71.47	$51.98	$27.06	$(77.83)	$72.68

3.2 Springwater Pipeline and Putnam and Culloden Projects

Springwater Pipeline Project

On October 24, 2019, the OEB issued a decision and rate order- Phase 2 (Phase 2 Decision) that addressed four system integrity capital projects including the Springwater Pipeline.[6] In that decision, the OEB stated that: “OEB is therefore excluding this project [Springwater Pipeline] ($265,015) from the 2020 rate base. The OEB approves the inclusion of the Springwater Pipeline project in rate base for the rate year following the transition to a fully market-based supply of gas.”[7]

ENGLP stated that it transitioned to a fully market-based supply of gas on October 1, 2020 and is therefore eligible to include Springwater Pipeline project into its rate base in 2021. OEB staff agrees.

OEB staff is however unclear about the net book value that ENGLP is proposing to use to calculate the revenue requirement to be included in the 2021 rates. OEB staff requests that ENGLP clarify this in its reply submission.

Considering that the project was put into service in 2017, OEB staff submits that the amount to be included in rates should be the revenue requirement based on the actual costs of the project net of the average accumulated depreciation as of December 31, 2020.

Putnam to Culloden Project

On March 5, 2020, the OEB issued its decision on a motion (Motion Decision).[8] In the Motion Decision, the OEB stated that: “the Project [Putnam to Culloden] was a prudent investment and its cost of $498,922 shall be included in EPCOR Natural Gas’s rate

[5] As per the Settlement Decision, the rebalancing consist of increasing Rate 1 monthly fixed rate by $1.00 and adjusting Rate 1 volumetric rates to achieve a total projected revenue of for 2021 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA.
[6] EB-2018-0336, Decision and Rate Order- Phase 2, October 24, 2019
[7] Ibid, page 13
[8] EB-2019-0276, Decision and Order on Motion, March 5, 2020

base as of January 1, 2020." The Motion Decision also stipulated that the 2020 revenue requirement should be recorded in the System Integrity Capital Deferral Account (SICDA) and disposed of in the annual rate adjustment, and the balance of the project be put into the next rate proceeding.

ENGLP requested that the Putnam to Culloden project be placed into rate base as of January 1, 2021. ENGLP stated that including the project into rate base now will reduce the administration burden associated with tracking and disposing of the annual revenue requirement included in the SICDA. If approved, the SICDA will no longer track the revenue requirement for this project beyond December 31, 2020. ENGLP did not request to dispose of the 2020 revenue requirement of this project as the balance in the 2020 SICDA has not been audited and is currently still accumulating for 2020. ENGLP stated its intention to request the disposition of the 2020 revenue requirement for this project in the incentive rate-setting mechanism (IRM) filing for rates effective January 1, 2022.

OEB staff has no concerns with ENGLP including the revenue requirement of Putnam to Culloden project into rates as opposed to tracking the annual revenue requirement in the SCIDA for later disposition as ratepayers would be financially indifferent as the SCIDA will accrue interest to account for the time value of money. In addition, the impact on delivery rates for 2021 amount is about $3.50 on an annualized basis for a typical residential customer which is not material.[9]

Similar to the Springwater project, OEB staff is unclear about the net book value that ENGLP is proposing to use to calculate the revenue requirement to be included in rates for the Putnam to Culloden project in 2021. OEB staff submits that the revenue requirement should be based on the actual costs of the project net of the average accumulated depreciation as of December 31, 2020.

Debt Rate

In response to an interrogatory, ENGLP provided a simplified revenue requirement model for each of the Springwater and Putnam to Culloden projects.[10] In both models, ENGLP used a weighted debt rate of 4.04%. OEB staff notes that it is unclear how that weighted debt rate was calculated as the Settlement Decision approved a long and short term debt rate of 3.84% and 2.82% respectively.[11] OEB staff submits that ENGLP should use the weighted long and short term debt rate approved in the Settlement

[9] ENGLP Response to OEB Staff IR 1.g, Table Staff 1-2, December 4, 2020
[10] ENGLP Response to OEB Staff IR 1.f and 2.b, December 4, 2020
[11] EB-2018-0336, Decision and Interim Rate Order, July 4, 2019, Settlement Proposal, Page 22 -23

Decision to calculate the revenue requirement associated with the Springwater and Putnam to Culloden projects.

3.3 Deferral and Variance Accounts

ENGLP sought approval to dispose of the 2019 year-end balances in certain deferral and variance accounts with interest up to the time of implementation of the associated rate riders. The total amount sought for disposition from ENGLP Aylmer customers is a debit of $239,954 (including interest to December 31, 2019). The balances in the deferral and variance accounts are summarized below.

ENGLP Deferral and Variance Account Balances		
Account Acronym	Account Name	Balance with interest to December 31, 2019
REDA	Regulatory Expense Deferral Account	$85,096
PGTVA	Purchased Gas Transportation Variance Account	$96,883
ADVADA	Approved Deferral/Variance Disposal Variance Account	$57,975
	Total Deferral Account Balances	**$239,954**

Regulatory Expense Deferral Account (REDA)

The purpose of the REDA is to record the costs associated with participating in generic hearings and in Enbridge Gas Inc. (Enbridge Gas) proceedings. ENGLP has requested to dispose of a debit balance of $85,096 including interest to December 31, 2019. ENGLP proposes to allocate the balance to the various customer rate classes on the basis of average connection count and to recover the allocated costs over a twelve-month fixed rate rider. The table below depicts the proposed disposition methodology.

		A	B	C	D	E	F	G	H	I	J
		Unit	**Row Sum**	**Rate 1 - Residential**	**Rate 1 - Commercial**	**Rate 1 - Industrial**	**Rate 2**	**Rate 3**	**Rate 4**	**Rate 5**	**Rate 6**
1	Average Connection Count	Cx	9213	8561	485	71	49	6	36	4	1
2	Allocation for DSM	%	100%	92.93%	5.26%	0.77%	0.53%	0.07%	0.39%	0.04%	0.00%
3	Allocation for Other REDA	%	100%	92.92%	5.26%	0.77%	0.53%	0.07%	0.39%	0.04%	0.01%
4	DSM	$	3,405	3,164	179	26	18	2	13	1	0
5	Other REDA	$	81,691	75,910	4,300	630	434	53	319	35	9
6	Sum	$	85,096	79,074	4,480	656	453	55	333	37	9
7	**Rate Rider / month**	**$ / month**		**0.77**	**0.77**	**0.77**	**0.77**	**0.77**	**0.77**	**0.77**	**0.74**

OEB staff notes that a large portion ($80,959 not including interest) of the account relates to the EB-2017-0108 (Overlapping CPCN) proceeding. In response to an interrogatory, ENGLP explained that the costs of their legal counsel, Osler, Hoskin & Harcourt LLP, totaled $80,959 in 2019.[12] ENGLP stated that the 2019 cost for their legal counsel included the following activities:

- Corresponding with and advising ENGLP staff;
- Email and telephone correspondence with the OEB, OEB Staff and Union Gas/ Enbridge;
- Drafting and revising CPCNs and accompanying maps;
- Preparing and filing submissions;
- Preparing and filing replies to submissions of Board Staff and Union Gas/ Enbridge;
- Preparing supplementary submissions;
- Preparing joint submission;
- Correspondence, preparation for and participation in technical conference;
- Responding to procedural order action items; and,
- Review of Board Decision and correspondence regarding revised OEB Decision

Given the complexity of the Overlapping CPCN proceeding and the number of steps involved, OEB staff has no concerns with the principal amount being sought for disposition. OEB staff observes that ENGLP has requested the disposition of its deferral and variance account balances as of December 31, 2019 and the associated carrying charges up to the date of implementation of the associated rate riders. However, the carrying charges included in the application are as of December 31, 2019. OEB staff submits that the approach proposed by ENGLP to calculate the carrying charges up to the time of implementation of the associated rate riders is in accordance with standard practice of the OEB. OEB staff expects that the carrying charges for all deferral and variance account balances approved for disposition will be updated as part of the rate order process in this proceeding.

OEB staff also submits that the proposed disposition methodology for REDA is consistent with the methodology previously approved in the Settlement Decision.

Purchased Gas Transportation Variance Account (PGTVA)

The purpose of the PGTVA is to record differences between the average forecasted transportation costs per cubic meter included in EPCOR's approved rates in Rate Classes 1 though 5 and the actual transportation costs per cubic meter incurred by EPCOR under its M9 and Bundled T contract with Enbridge Gas for the volumes required to serve the customers in these rate classes. As the transportation costs are a flow-through to customers, this deferral account ensures that ratepayers pay the actual

[12] ENGLP Response to OEB Staff IR 3, December 4, 2020

cost of transportation and that the utility does not incur a profit or loss on these costs. The amount recorded in the PGTVA account is debit of $96,883 including interest as of December 31, 2019. ENGLP is proposing to allocate the balance to the various customer rate classes on a volumetric basis and to recover the allocated costs from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider. The table below depicts the proposed disposition methodology.

		A	B	C	D	E	F	G	H	I
		Unit	**Row Sum**	**Rate 1 - Residential**	**Rate 1 - Commercial**	**Rate 1 - Industrial**	**Rate 2**	**Rate 3**	**Rate 4**	**Rate 5**
1	Volume	m3	31,594,505	18,089,906	5,749,421	2,383,735	1,250,889	1,544,524	1,780,546	795,484
2	Allocation	%	100%	57.26%	18.20%	7.54%	3.96%	4.89%	5.64%	2.52%
3	Sum	$	96,883	55,472	17,630	7,310	3,836	4,736	5,460	2,439
4	**Rate Rider / m3**	**¢/m3**	**0.3066**	**0.3066**	**0.3066**	**0.3066**	**0.3066**	**0.3066**	**0.3066**	**0.3066**

OEB staff has no concerns with the principal amount being sought for disposition.

OEB staff also submits that the proposed disposition methodology is consistent with the methodology previously approved in the Settlement Decision.

<u>Approved Deferral/Variance Disposal Variance Account (ADVADA)</u>

The purpose of the ADVADA is to record all deferral and variance account residual balances which have been previously approved for disposition. This account is similar to Account 1595 (Disposition and Recovery/Refund of Regulatory Balances Control Account) used by Electricity Distributors. The deferral account has a debit balance of $57,975 with interest to December 31, 2019. ENGLP is proposing to allocate the balance to the various customer rate classes on a volumetric basis and to recover the allocated cost from the customers in Rates 1-5 through the implementation of a twelve-month volumetric rate rider commencing on January 1, 2021. Since the customer in Rate 6 is on a fully fixed charge, ENGLP is proposing to recover the amount through the implementation of a twelve-month fixed-rate rider commencing on January 1, 2021. The table below depicts the proposed disposition methodology.

		A	B	C	D	E	F	G	H	I	J
		Unit	**Row Sum**	**Rate 1 - Residenti al**	**Rate 1 - Commer cial**	**Rate 1 - Industri al**	**Rate 2**	**Rate 3**	**Rate 4**	**Rate 5**	**Rate 6**
1	Volume	m3	31,594,505	18,089,906	5,749,421	2,383,735	1,250,889	1,544,524	1,780,546	795,484	0
2	Allocation for Rates 1-5	%	100%	57.26%	18.20%	7.54%	3.96%	4.89%	5.64%	2.52%	0%
3	Connection Count	Cx									1
3	Allocation for Rate 6	%	100%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.%
4	ADVADA 1-5	$	46,892	26,849	8,533	3,538	1,857	2,292	2,643	1,181	
5	ADVADA 6	$	11,083	0	0	0	0	0	0	0	11,083
6	Sum	$	57,975	26,849	8,533	3,538	1,857	2,292	2,643	1,181	11,083
7	Rate Rider / m3	¢/m3		0.1484	0.1484	0.1484	0.1484	0.1484	0.1484	0.1484	
8	Rate Rider / month	$ / month									923.58

In response an interrogatory, ENGLP explained that the main driver for the amount was the consumption variance between the approved forecasted volumes and the actual volumes, noting that the actual volumes in 2019 had increased by about 20% for Rate Classes 1-5.

OEB staff has no concerns with the principal amount being sought for disposition. OEB staff notes that the balances previously approved for disposition consisted of a combination of debit and credit balances. However, the residual balance sought for disposition is largely attributable to ENGLP over-refunding amounts as a result of the increase in 2019 actual consumption over the volumetric forecast used to derive the applicable rate riders.

OEB staff notes that this is the first time ADVADA will be disposed since its establishment in the Settlement Decision. OEB staff agrees with the volumetric allocation methodology as the variance is attributable to differences in forecasted and actual volumes.

3.4 Effective Date

ENGLP requested that the effective date of the distribution rates be January 1, 2021. OEB staff notes that ENGLP filed its application on October 8, 2020 and requested that the application proceed by way of a written hearing. OEB staff notes that electricity distributors that are applying for their annual IRM adjustment with an effective date of January 1st are required to file their application in mid-August of the previous year. While the OEB issued a Rate Order declaring the existing distribution rates interim as of January 1, 2021 in this proceeding, OEB staff submits that it was in ENGLP's control to submit the application in time to reasonably expect a decision date in advance of January 1, 2021. Accordingly, OEB staff submits that the OEB could consider an effective date of February 1, 2021, as ENGLP filed its IRM application about one and a half months after the expected filing dates for IRM applications for electricity distributors. OEB staff invites ENGLP to include as part of its reply submission the reasons underlying the timing of its IRM application.

All of which is respectfully submitted.