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January 5, 2021

Sent by EMAIL, RESS e-filing

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

Dear Ms. Long:

**Re: EB-2020-0234: EPCOR Natural Gas Limited Partnership's ("ENGLP") 2021
Incentive Rate Adjustment Application - Aylmer**

In accordance with EB-2020-0234 Procedural Order 1, please find enclosed ENGLP's submission in response to the OEB Staff submission of December 18, 2020.

Please feel free to contact me if you have any questions regarding this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. Hesselink", with a stylized flourish at the end.

Tim Hesselink
Senior Manager, Regulatory Affairs
EPCOR Natural Gas Limited Partnership
(705) 445-1800 ext. 2247
THesselink@epcor.com

Encl.

cc. Arturo Lau, Case Manager, OEB Staff

Micheal Millar, OEB Counsel

Daniela O'Callaghan, Susannah Robinson, EPCOR Utilities Inc.

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, (Schedule B) (the “OEB Act”);

AND IN THE MATTER OF an application by EPCOR Natural Gas Limited Partnership pursuant to section 36(1) of the OEB Act for an order or orders approving or fixing just and reasonable rates and other charges for the sale and distribution of gas to be effective January 1, 2021 for the EPCOR Natural Gas Limited Partnership gas distribution system to serve Aylmer and surrounding areas with its service territory.

**REPLY SUBMISSION OF
EPCOR NATURAL GAS LIMITED PARTNERSHIP (“ENGLP”)**

**2021 IRM Application for natural gas distribution rates and other
charges effective January 1, 2021**

**EB-2020-0234
January 5, 2021**

Overview of Reply Submission

In accordance with EB-2020-0234 Procedural Order 1, ENGLP is filing this submission in response to the OEB Staff submission of December 18, 2020 (the “OEB Staff Submission”).

While ENGLP is in general agreement with the comments and position of Board Staff as stated in the OEB Staff Submission, this reply submission will directly address questions posed by OEB Staff in its submission to provide clarity on the methodologies and values included in the application. The numerical references for each section below align with the OEB Staff Submission in order to simplify the review process.

There are four sections that are being addressed in this reply submission:

- 3.2 - Springwater Pipeline and Putnam and Culloden Projects - Clarification of the net book value used to calculate the revenue requirement
- 3.2 - Debt Rate - Weighted debt rate determination
- 3.3 - Deferral and Variance Account Carrying Charges
- 3.4 - Effective Date

Part 1 - 3.2 Springwater Pipeline and Putnam and Culloden Projects - Clarification of the net book value used to calculate the revenue requirement.

As stated on page 5 of the OEB Staff Submission:

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.

And page 6:

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.

ENGLP confirms that the revenue requirement set out in its application was based on the actual costs of the projects net of the average accumulated depreciation as of December 31, 2020. Therefore, ENGLP's request is consistent with Board Staff's submission on this issue.

In order to calculate the net book value, the original cost of the projects were depreciated from when they were put into service in 2016 and 2017 through to the end of 2020 per the approved depreciation rates in place for the respective years¹.

The average of the 2020 opening net book value and the 2020 closing net book value is the amount included in rate base. This is the same approach as was used in determining the revenue requirement for these projects as part of the cost of service filing and would be consistent with the 2020 rate base that was referenced in the 2020 Cost of Service application EB-2018-0336 and in Phase 2 of that proceeding. A simplified version of the table has been included below:

Table 1 - Net Book Value Calculation

Project		Putnam - Culloden	Springwater
Project Cost		\$ 570,000	\$ 292,000
2016-2019	2016 - Half Year	(9,235)	
	2017 Depreciation	(18,471)	(4,731)
	2018 Depreciation	(18,471)	(9,462)
	2019 Depreciation	(18,471)	(9,462)
2020	Opening NBV	\$ 505,353	\$ 268,345
	2020 Depreciation	(12,862)	(6,660)
	Closing NBV	\$ 492,491	\$ 261,684
	Average NBV	\$ 498,922	\$ 265,015

¹ An increase in the useful lives of a number of asset groups, including plastic mains, was approved as part of EB-2018-0336. As a result of implementing the change to the useful lives in 2020, the depreciation rate and expense for these projects is lower in 2020 than in prior years.

Part 2 - 3.2 - Debt Rate - Weighted Debt Rate Determination

As stated on page 6 of the OEB Staff Submission:

In response to an interrogatory, ENGLP provided a simplified revenue requirement model for each of the Springwater and Putnam to Culloden projects. 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. OEB staff submits that ENGLP should use the weighted long and short term debt rate approved in the Settlement Decision to calculate the revenue requirement associated with the Springwater and Putnam to Culloden projects

ENGLP confirms that it has used the weighted long and short term debt rate approved in the Settlement Decision (the long and short term debt rates of 3.84% and 2.82% respectively) to calculate the revenue requirement associated with the Springwater and Putnam to Culloden projects for inclusion in rates. Therefore, ENGLP's request is consistent with Board Staff's submission on this issue.

The revenue requirement calculated using the approved weighted debt rate of the Settlement Decision is \$67,158, which is consistent with the revenue requirement removed from rates for 2020 upon conclusion of the Phase 2 of EB-2018-0336 as noted in the EB-2018-0336 Phase 2 Proceeding Draft Rate Order filed by ENGLP on November 1, 2019 in Table 3 of Appendix A.

The weighted debt rate of 4.04% provided in the simplified revenue requirement model was an error. When populating this simplified revenue model the weighted average debt rate was calculated using the deemed long-term debt rate of 4.13% instead of the rate of 3.84% that was approved in the Settlement Decision. This error was made only in populating the simplified revenue requirement model, the weighted long and short term debt rate approved in the Settlement Decision was used in determining the revenue requirement for inclusion in the 2021 proposed rates.

Part 3 - 3.3 - Deferral and Variance Account Carrying Charges

As stated on page 8 of the OEB Staff Submission:

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.

ENGLP confirms that it will provide updated rate riders for the REDA/PGTVA and ADVADA accounts as part of the rate order process. The revised balances as of December 31, 2020 are included below in Table 3.

Table 3 - Updated Deferral/Variance Account Carrying Charges

	REDA	PGTVA	ADVADA
Dec 2019 Principal Balance	\$ 84,743	\$ 96,183	\$ 60,392
2019 Carrying Charges	353	700	(2,417)
2020 Carrying Charges	<u>1,165</u>	<u>1,323</u>	<u>830</u>
Balance January 1, 2021	\$ 86,261	\$ 98,206	\$ 58,805

Part 4 - 3.4 - Effective Date

As stated on page 10 & 11 on the OEB Staff Submission:

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.

ENGLP notes that it was not of the understanding that the deadline for electricity IRM filings constituted an obligation for the filing of natural gas IRM applications by this same deadline, particularly given the differences between electricity and natural gas distributors (including the count of each). If this is the Board's intent, ENGLP notes that it would be helpful for the Board to provide express guidance to this effect with defined filing deadlines for natural gas IRM applications.

While ENGLP does concede that the Aylmer 2021 IRM application was filed later than intended, we believe that an effective date of January 1, 2021 is still appropriate in the circumstances. The later filing date of this application is reflective of the fact that this was the first IRM out of the Cost of Service proceeding (EB-2018-0336), and the additional complexity of bringing in the Putnam-Culloden and Springwater Projects into rate base. Further, ENGLP notes that subsequent to when the Decision and Order was issued on the Phase 2 Motion to review and vary proceeding (EB-2019-0276) on March 5, 2020 there have been a number of ongoing proceedings for both its Aylmer and South Bruce operations and Covid-19 related impact items requiring the attention of ENGLP's resources.

In the future, ENGLP expects to be able to file its IRM applications earlier in the year and will make best efforts to avoid a similar situation as the present circumstances. . In light of (a) ENGLP best efforts to complete the applications and its intention to file future

applications earlier and (b) the Board's decision to allow for interim rates, pending the outcome of this proceeding, we note that Board Staff's proposed effective date of February 1, 2021 would result in one month's lost revenue increase during a large usage month, which in our view is unnecessarily punitive. Therefore, we respectfully request that the effective date of the distribution rates be January 1, 2021, as applied for.

All of which is respectfully submitted.