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

DECISION AND ORDER

EB-2020-0234

EPCOR NATURAL GAS LIMITED PARTNERSHIP (AYLMER)

Application for Rates to be Effective January 1, 2021

BEFORE: **Michael Janigan**
Presiding Commissioner

Pankaj Sardana
Commissioner

Janurary 28, 2021

1 INTRODUCTION AND SUMMARY

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 requested the following approvals:

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. To dispose of the balances of certain deferral and variance accounts

On December 4, 2020, in response to interrogatories, ENGLP filed an updated application.

If approved, the bill impact for a residential customer who uses 2,113 cubic metres of natural gas per year is an increase of approximately $25.05 on an annual basis.

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

2 THE 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 responses to interrogatories on December 4, 2020.

On November 30, 2020, the OEB issued an Interim Rate Order, declaring the existing distribution rates interim effective January 1, 2021.

OEB staff filed written a submission on December 18, 2020. ENGLP filed a reply submission on January 5, 2021.

3 DECISION

3.1 Price Cap Adjustment

ENGLP seeks to increase its rates, effective January 1, 2021, based on a mechanistic rate adjustment using the price cap adjustment (PCA) approved in the Settlement Decision.[2] The PCA is calculated using an inflation factor less a productivity factor and a tretch factor.

The components of the PCA applicable to ENGLP for 2021 rates 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%)***.

Table 1: Price Cap IR Adjustment Formula

Components	Amount
Inflation Factor[3]	2.20%
Productivity	0.00%
Stretch	0.40%

The productivity and stretch components, at 0.00% and 0.40% respectively, were approved in the Settlement Decision.

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 Class 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.

[2] EB-2018-0336, Decision and Interim Rate Order, July 4, 2019
[3] For the 2021 Inflation Factor, see Ontario Energy Board 2021 Electricity Distribution Rate applications webpage – November 9. 2020

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on utilities and customers alike, for 2021 rate adjustment applications, 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.[4]

ENGLP advised in an interrogatory response, that the utility is electing an inflation factor of 2.20% for its 2021 rates.[5] This results in a PCA of 1.80% (i.e. inflation factor (2.20%) less a productivity (0.00%) and stretch (0.40 %) component).

OEB staff reviewed ENGLP’s request and model and submitted that the proposed rate changes were calculated in accordance to the Settlement Decision.

Findings

The OEB finds that ENGLP’s request for a 1.80% rate adjustment is in accordance with the annually updated inflation parameters set by the OEB, as well as the process established for the implementation of the 2021 inflation factor. The adjustment is approved, and ENGLP’s new rates shall be effective January 1, 2021.

The adjustment applies to 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, to increasing the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

3.2 Springwater Pipeline and Putnam to Culloden Projects

Springwater Pipeline Project

On October 24, 2019, the OEB issued a decision and rate order- Phase 2 that addressed four system integrity capital projects including the Springwater Pipeline project.[6] In that decision, the OEB approved 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]

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[4] OEB Letter, 2021 Inflation Parameters, issued November 9, 2020
[5] ENGLP Response to OEB Staff IR 6, December 4, 2020
[6] EB-2018-0336, Decision and Rate Order- Phase 2, October 24, 2019
[7] Ibid, page 13

In this application, ENGLP stated that the utility transitioned to a fully market-based supply of gas on October 1, 2020 and is therefore eligible to include the revenue requirement of the Springwater Pipeline project into base rates in 2021. OEB staff agreed.

OEB staff submitted that ENGLP is to confirm the net book value (NBV) amount used to calculate the revenue requirement and argued that this amount should be the actual cost of the project net of the average accumulated depreciation as of December 31, 2020.

In its reply submission, ENGLP confirmed that the revenue requirement was based on the actual cost of the project ($292,000) net of the average accumulated depreciation as of December 31, 2020. The Springwater Pipeline project was put into service in 2017 and depreciated to 2020 according to the approved depreciation rates for the respective years. The average 2020 net book value for Springwater Pipeline project is $265,015.

Putnam to Culloden Project

On March 5, 2020, the OEB issued its decision on a motion (Motion Decision), stating 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 base as of January 1, 2020."[8] 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 and the revenue requirement be included into 2021 rates. If approved, the SICDA would no longer track the revenue requirement for this project beyond December 31, 2020. ENGLP stated that including the project into rate base will reduce the administration burden associated with tracking and disposing of the annual revenue requirement in the SICDA.

OEB Staff had no concerns with ENGLP's request to include the revenue requirement of the project into rates as opposed to tracking the amount through SICDA for further disposition, as ratepayers would be financially indifferent.

[8] EB-2019-0276, Decision and Order on Motion, March 5, 2020

Similar to the Springwater Pipeline project, OEB staff requested that ENGLP confirm the NBV amount used to calculate the revenue requirement for the Putnam to Culloden project and argued that the amount should be the actual cost of the project net of the average accumulated depreciation as of December 31, 2020.

ENGLP confirmed that the requested amount is the actual cost of Putnam to Culloden project ($570,000) net of the average accumulated depreciation as of December 31, 2020. The project was put into service in 2016. The average 2020 net book value for the project is $498,922.

ENGLP provided the following NBV calculations for both the Springwater Pipeline and Putnam to Culloden projects.

Table 2: NBV of Springwater Pipeline and Putnam to Culloden Projects

Project		Putnam - Culloden	Springwater
Project Cost		**$ 570,000.00**	**$ 292,000.00**
2016-2019	2016 - Half Year	$ (9,235.00)	
	2017 Depreciation	$ (18,471.00)	$ (4,731.00)
	2018 Depreciation	$ (18,471.00)	$ (9,462.00)
	2019 Depreciation	$ (18,471.00)	$ (9,462.00)
2020	Opening NBV	**$ 505,353.00**	**$ 268,345.00**
	2020 Depreciation	$ (12,862.00)	$ (6,660.00)
	Closing NBV	**$ 492,491.00**	**$ 261,684.00**
	Average NBV	**$ 498,922.00**	**$ 265,015.00**

Debt Rate

In response to an interrogatory from OEB staff, ENGLP provided a simplified revenue requirement model for each of the Springwater and Putnam to Culloden projects.[9] In the models, ENGLP used a weighted debt rate of 4.04%. OEB staff submitted that the weighted debt rate should be calculated using the approved long and short term debt rates of 3.84% and 2.82% respectively underpinning the Settlement Decision.

In its reply submission, ENGLP submitted that the 4.04% provided in the model was in error. ENGLP however confirmed the use of the approved long and short term debt

[9] ENGLP Response to OEB Staff IR 1.f and 2.b, December 4, 2020

rates of 3.84% and 2.82% respectively to calculate the revenue requirement of the Springwater Pipeline and Putnam to Culloden projects.

Findings

The OEB finds it appropriate for ENGLP to include both the Springwater and Putnam to Culloden project into rate base and finds that ENGLP has included the net book value of both projects into rate base. The OEB further finds that ENGLP has used the approved long-term and short-term debt rates that underpinned the Settlement Decision as the basis for determining the revenue requirement consequence of adding the Springwater and Putnam to Culloden projects to rate base.

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 accounts requested for disposition are the following:

- Regulatory Expense Deferral Account (REDA)
- Purchased Gas Transportation Variance Account (PGTVA)
- Approved Deferral/Variance Disposal Variance Account (ADVADA)

OEB staff had no concerns with the principal amounts being sought for disposition for each of the accounts. OEB staff also submitted 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 stated its expectation 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.

In its reply submission, ENGLP provided the table below depicting the principal and carrying charges as of January 1, 2021 for the three accounts being sought for disposition.

Table 3: Account balances to January 1, 2021

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

ENGLP proposed to allocate the balance of the REDA 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.

For the PGTVA, ENGLP proposed to allocate the balance to the various customer rate classes on a volumetric basis and to recover the costs from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider.

With respect to the ADVADA, ENGLP proposed to allocate the balance to the various customer rate classes on a volumetric basis and to recover the costs from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider. However, because the customer in Rate 6 is on a fully fixed charge, ENGLP proposed to recover the amount through the implementation of a twelve-month fixed-rate rider.

OEB staff submitted that the disposition methodology for REDA and PGTVA are consistent with the methodology previously approved in the Settlement Decision. OEB staff also noted that this is the first time ADVADA will be disposed of since its establishment in the Settlement Decision. OEB staff agreed with the volumetric allocation methodology as the variance is attributable to differences between forecast and actual volumes.

Findings

The OEB approves the disposition of deferral and variance account debit balances along with their carrying charges up to the time of implementation in connection with the April 1, 2021 QRAM and finds that the allocation methods as well as the twelve-month recovery period for each of these accounts are appropriate.

3.4 Effective Date

ENGLP requested that the effective date of the distribution rates be January 1, 2021.

OEB staff noted that electricity distributors that are applying for their annual IRM adjustment with an effective date of January 1 are required to file their application in mid-August of the previous year. OEB staff submitted 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 submitted 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.

ENGLP submitted 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, particularly given the differences between electricity and natural gas distributors (including the count of each). While ENGLP conceded that the Aylmer 2021 IRM application was filed later than intended, ENGLP argued that an effective date of January 1, 2021 is still appropriate in the circumstances. ENGLP explained that the later filing date is reflective of the fact that this was the first IRM out of the Cost of Service proceeding (EB-2018-0336) and noted the additional complexity of bringing in the Putnam-Culloden and Springwater projects into rate base. ENGLP further noted that subsequent to when the Motion Decision was issued on March 5, 2020 there were 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. ENGLP indicated that in the future, the utility expects to be able to file its IRM applications earlier in the year and will make best efforts to avoid a similar situation.

Findings

The OEB approves an effective date of ENGLP's distribution rates of January 1, 2021. The OEB notes that, not being expressly included in a filing deadline notice from the OEB[10] does not constitute license to "file-when-ready". ENGLP could have sought clarification of the OEB's filing guidelines from OEB staff, particularly since natural gas distributors were not mentioned in the letter. The OEB accepts ENGLP's explanation of the added complexity of including two projects into rate base in an IRM application which was filed relatively soon after the issuance of the Motion Decision on March 5, 2020, as well as the resource burden created from ENGLP's other proceedings.

[10] OEB Letter, Process for 2021 Incentive Rate-Setting Mechanism Distribution Rate Applications, issued July 14, 2020

Nevertheless, the OEB would encourage ENGLP to file future applications in a timely manner in order to avoid potential delays in effective start dates for its distribution rates and charges. The OEB orders that ENGLP recover the foregone revenue from January 1, 2021 to the actual implementation date of this rate order via a foregone revenue rate rider recovered over a three-month period at the implementation of 2021 rates.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR Natural Gas Limited Partnership shall file a draft Rate Order that reflects the findings in this Decision and Order by **February 4, 2021**.

2. OEB staff will have the opportunity to submit comments on the draft Rate Order by **February 11, 2021**.

3. EPCOR Natural Gas Limited Partnership will have the opportunity to provide responses to comments received from OEB staff by **February 18, 2021**.

All materials filed with the OEB must quote the file number, **EB-2020-0234**, and be submitted in a searchable/unrestricted PDF format with a digital signature through the OEB's web portal at https://p-pes.ontarioenergyboard.ca/PivotalUX/. Filings must clearly state the sender's name, postal address, telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found at www.oeb.ca/industry. We encourage the use of RESS; however, parties who have not yet set up an account, may email their documents to registrar@oeb.ca.

All communications should be directed to the attention of the Registrar and be received no later than 4:45 p.m. on the required date.

Email: registrar@OEB.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto January 28, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar