Ontario Energy Board Staff Questions
IRM 2022 Update – EPCOR Natural Gas LP-
South Bruce EB-2021-0216

Received - November 5, 2021

OEB Staff.1 – Other Revenue

Ref: 2022 Incentive Rate Adjustment Application, page 12

EPCOR noted "other revenue" was collected in 2020 and 2021 and that due to the "immaterial amounts of other revenue collected, EPCOR recommends to defer the decision regarding the approval of a deferral account until the 2023 filing."

The Custom IR Decision and Order stated, "For the years 2019 to 2021, Other Revenues will be set at zero, given the greenfield nature of the utility. Whether a deferral account should be approved for 2022 for incremental net revenues can be determined in the 2022 IRM rate application."

a) Please confirm that other revenues are not included in EPCOR's OEB-approved revenue requirement for the Custom IR term and that actual other revenues are not tracked in any deferral or variance account.

EPCOR Response:

EPCOR confirms this statement to be accurate.

b) Please provide EPCOR's forecast of other revenues for 2022. If a precise forecast is not available, please advise whether EPCOR believes that other revenues will continue to be immaterial in 2022 (as was the case in 2020 and 2021).

EPCOR Response:

EPCOR projects that other revenues will continue to be immaterial in 2022 and has currently forecasted $0 for 2022.

OEB Staff.2- Energy Content Variance Account (ECVA)

Ref: 2022 Incentive Rate Adjustment Application, page 14-15
2019 Custom Incentive Rate Application (EB-2018-0264), Exhibit 3, Tab 1, Schedule 2, Table 3-9- Throughput Volumes by Rate Class

EPCOR has proposed to dispose of the ECVA balances as of December 31, 2020. EPCOR proposed that "the balance in this account will be apportioned to Rates 1, 6 and 11 based on forecasted volumes underpinning CIP revenues for each rate class". EPCOR also stated that the recovery of the cost be based on the revised forecast volumes.

a) Please provide the forecasted volumes underpinning CIP revenues for each rate class (and a citation to the evidence where this amount can be found).

b) EPCOR in this application proposed the balance to be apportioned to Rates 1 ,6 and 11 based on the forecasted volumes underpinning the CIP. In EPCOR South Bruce's 2019 Custom IR application Table 3-9 provided a forecasted throughput volume by rate class, however EPCOR's 2022 Rates Application Table 5 volume does not reflect these numbers. Please explain where the volumes in Table 5 came from or explain how these numbers were derived.

c) Please provide the "revised forecast volumes" for each rate class and explain what these volumes are.

EPCOR Response:

Rate Class		Count	Delivery Charge Tier 1	Delivery Charge Tier 2	Delivery Charge Tier 3	Delivery Charge Contract Demand	Gas Supply
Rate 1	General Firm Service	3,703	3,438,479	3,192,323	78,289		6,709,090
Rate 6	Large Volume General Firm Service	56	465,406	1,108,352	242,837		1,816,595
Rate 11	Large Volume Seasonal Service	6			1,595,894		1,595,894
Rate 16	Contracted Firm Service	2				89,716	0

Forecast volumes used in the application (including Table 5) align with the South Bruce 2021 Gas Supply Plan Update (EB-2021-0146), (see Figure 3-3 - Forecast Monthly General Service Demand, by Customer Type). In 2020, actual customer connections forecast deviated significantly from the assumptions made in the CIP due to a later start date for customer conversion, and a slower than forecasted pace of customer conversion.[1] The forecasted throughput volume by rate class in the 2021 Gas Supply Plan Update reflects the customer applications received in 2020 and 2021, updated as of April 16, 2021, as well as revised pace of daily customer conversions.

d) EPCOR requested that the balance be allocated based on the forecasted volumes underpinning the CIP revenues and that the balance be recovered based on the revised forecasted volumes. OEB staff understood these statements together as allocating the balances based on the CIP forecasted volumes by rate class then dividing the allocated balance to each rate class by the revised forecast volumes for each rate class to achieve a rate class specific unit rate. However, Table 5 appears to indicate that the balance was allocated to rate classes by a total revised forecasted volume. Please clarify what EPCOR is requesting.

EPCOR Response:

EPCOR is proposing to recover the December 31, 2020 ECVA balance based on the most recent projections (as described in Staff 2-b) as these numbers provide the most reasonable billing determinant to accurately recover the balance (meaning to not over-collect or under-collect from the existing customer base).

[1] A number of factors contributed to the delay in conversion: (a) construction delays as a result of the evolving health and safety guidance caused by the Covid-19 pandemic, (b) customers having difficulty scheduling HVAC contractors for equipment inspection and conversion, and (c) customers with propane equipment filled up their propane tanks over winter and delayed conversion until spring time.

e) Please explain why the account balance is only allocated to Rates 1, 6 and 11?

EPCOR Response:

Allocation to Rates 1, 6 and 11 is consistent with the approved accounting order:

EB-2018-0264 Rate Order page 30 of 34. (January 9, 2020).

The audited balance in this account, together with carrying charges, will brought forward for approval for disposition on an annual basis. The balance in this account will be apportioned to Rates 1, 6 and 11 based on forecasted volumes underpinning CIP revenues for each rate class.

OEB Staff.3- Contribution in Aid of Construction Variance Account (CIACVA)

Ref: 2022 Incentive Rate Adjustment Application, page 15-16

EPCOR has proposed to dispose of the CIACVA balances as of December 31, 2020 including interest as of the same date. EPCOR proposed to recover the balance in the CIACVA from all rate classes based on revised forecast volumes allocated by distribution rate base assumptions included in the CIP. EPCOR requested a 12-month volumetric rate rider for disposition of the account.

a) Please provide a detailed calculation of the allocation to rate classes based on "distribution rate base assumptions included in the CIP" (and provide citation to the evidence where the allocations can be found). Please confirm that this same calculation is applicable to the EFVA.

EPCOR Response:

	Unit	Calculation	Sum	Rate 1	Rate 6	Rate 11	Rate 16
Rate Base	$000's	R1	54,946	32,657	11,611	1,418	9,261
Les Non-distribution Rate Base	$000's	R2	(4,186)	(1,579)	(959)		(1,648)
Allocation	$000's	R3-R1+R2	50,760	31,078	10,651	1,418	7,613
Allocation	%	R4 = % of R3 SUM	100%	61%	21%	3%	15%

Reference: EB-2028-0264, Exhibit 7, Tab 1, Schedule 2, Table 7-25

EPCOR confirms that the same calculation was used for the EFVA.

b) Please explain why the volumes used in calculating the rate riders for ECVA and CIACVA/EFVA are different (i.e. 10,121,579 m3 for the ECVA and 38,301,632 m^3 for the CIACVA and the EFVA).

EPCOR Response:

The noted difference is a result of an error in the tables. The data was transposed incorrectly one column over. As a result, the CIACVA and EFVA rate riders were incorrectly calculated. Values have been recalculated and revised as indicated below and an updated application has been included with this submission.

CIACVA Rate Rider Calculation (m^3)

	Originally Submitted	Revised
Rate 1 - General Firm Service	0.1257	0.5577
Rate 6 - Large Volume General Firm Service	0.1920	0.7091
Rate 11 - Large Volume Season Service	0.1013	0.1153

EFVA Rate Rider Calculation (m^3)

	Originally Submitted	Revised
Rate 1 - General Firm Service	0.1171	0.5197
Rate 6 - Large Volume General Firm Service	0.1789	0.6608
Rate 11 - Large Volume Season Service	0.0944	0.1075

OEB Staff.4- External Funding Variance Account (EFVA)

Ref: 2022 Incentive Rate Adjustment Application, page 17-18

EPCOR requested to dispose the EFVA balance as of December 31, 2020 including associated carrying charges. Final payment was received in 2020.

a) Please confirm once the final payment was completed in 2020 there were no other amounts booked in this account aside from carrying charges.

EPCOR Response:

EPCOR confirms this statement to be accurate.

b) If this balance is approved for disposition, will EPCOR continue to require this account? When will EPCOR request to close the EFVA account.

EPCOR Response:

EPCOR will no longer require this account and will request to close the EFVA in the custom IR filing for rates effective January 1, 2023.

OEB Staff.5- Approved Deferral/Variance Disposal Account (ADVADA)

Ref: 2022 Incentive Rate Adjustment Application, page 18
2022 Incentive Rate Adjustment Application, Appendix E, page 66

EPCOR requested to approve of the ADVADA, which is consistent with EPCOR Aylmer's accounting process.

a) Please confirm that requested ADVADA is identical to the ADVADA account EPCOR has for Aylmer. If not please do a side-by-side comparison of the two Accounting Orders.

EPCOR Response:

EPCOR confirms that the requested ADVADA account for South Bruce is identical to Aylmer.

OEB Staff.6- Municipal Tax Variance Account (MTVA)

Ref: 2022 Incentive Rate Adjustment Application, page 18-21

The approved Accounting Order for the MTVA states:

The Municipal Tax Variance Account ("MTVA") is to record the difference between the actual annual municipal taxes paid, net of municipal contributions related to municipal taxes, and the net municipal taxes included in the annual revenue requirement for EPCOR's South Bruce operations as approved in EB- 2018-0264 for each year of the rate stability period. The effective date of this account is January 1, 2019.

The proposed Accounting Order for the MTVA states:

The purpose of the MTVA is to record any impacts to ENGLP resulting from changes in municipal tax rates or levies, or the introduction of any new municipal tax or levies that occur during the period covered by this application.

a) Please explain the difference between what would be tracked in the proposed account relative to the approved account.

EPCOR Response:

The following wording in the approved accounting order: 'the difference between the actual annual municipal taxes paid is to record the difference between the actual annual municipal taxes paid, net of municipal contributions related to municipal taxes, and the net municipal taxes included in the annual revenue requirement', in plain terms indicates the account should be tracking actual net taxes paid compared with forecasted net taxes paid on a sum basis. Due to variances between actual and CIP forecasted connections and capital infrastructure installation, this would create a variance payable to existing customers on a sum basis.

EPCOR's October 29, 2019 EB-2018-0264 reply submission states, the MTVA will record impacts to EPCOR resulting from changes in municipal tax rates or levies, or the introduction of new municipal tax or levies.[2]

Further in this submission, in paragraph 100, the establishment of the MTVA protects both the ratepayer and EPCOR if municipal taxes differ from what was forecast in the CIP. The drivers for these variances relate wholly to government actions over which a utility has no control over and were not expected to accept the risk for during the competitive process. Therefore, the establishment of the MTVA is both consistent with EPCOR's CIP Proposal and appropriate.[3]

By revising the wording in the accounting order, it accurately reflects the agreed upon intent of the variance account, which was to capture unanticipated and expected changes in municipal tax rates compared with what was built into the CIP.

The current wording duplicates the assumption of connection risk that EPCOR would be willing to take. Not only would EPCOR assume the risk of customer connection (overall project risk) but there would be a secondary impact through the MTVA as a result, based on the above explanation.

An example is provided below, demonstrating the difference between the two approaches:

Approach 1 - Current MTVA Accounting Order Wording:

NPV of CIP Municipal Taxes (2019-2020):	$224k
Actual Municipal Taxes Paid:	$50k
Net Balance in MTVA account (payable to customers)	($174k)

[2] EB-2018-0264 Reply Argument, page 26, paragraph 94.
[3] EB-2018-0264 Reply Argument, page 26, paragraph 100-101.

Approach 2 - Proposed MTVA Accounting Order Wording:

Projected Municipal Taxes Paid (CIP rates on actual assessment value)	$48k
Actual Municipal Taxes Paid (Actual rates on actual assessment value):	$50k
Net Balance in MTVA account (receivable from customers)	$2k

(The 'approach 2 scenario assumes an increase in the municipal tax mill rate compared with values built into the South Bruce rate structure).

b) Please provide rationale for the following changes in the proposed Accounting Order (relative to the approved Accounting Order).

I. The removal of language that describes that the account tracks variances between actual tax amounts paid and amounts included in revenue requirement.

EPCOR Response: See response to Staff 6-a

II. The removal of language that described that the account tracks "net" tax amounts (i.e. taxes net of municipal contributions).

EPCOR Response: This was not a deliberate deletion. EPCOR anticipates any revisions to the approved accounting order would be based on net taxes.

III. The change to the wording to focus on changes to "tax rates".

EPCOR Response: See response to Staff 6-a

IV. The addition of the wording to include "new municipal tax or levies". Is EPCOR expecting that a new tax or levy will be imposed?

EPCOR Response: EPCOR is not anticipating a new tax or levy, but one of the purposes of the MTVA was to mitigate risk for both the utility and customers as a result of something that could not be anticipated at the time.

c) Please specify what period is referenced by the statement, “the period covered by this application” in the proposed Accounting Order.

EPCOR Response: EPCOR is referring to the period of the original CIP and rate stability period of 2019-2028. This outcome aligns with the EB-2018-0264 Decision and Order, which states in part*: “However, the account will be established with an end date corresponding to the end of the rate stability period (i.e. December 31, 2028).”*[4]

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[4] EB-2018-0264 Decision and Order, November 28, 2019 page 20