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

BY EMAIL

November 17, 2021

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

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
EPCOR Natural Gas Limited Partnership
Aylmer 2022 Rate Application
OEB File Number: EB-2021-0215

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

EPCOR Natural Gas Limited Partnership is reminded that its reply argument is due by November 24, 2021.

Yours truly,

Original Signed By

Arturo Lau
Natural Gas

Encl.

cc: All parties in EB-2021-0215

ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

Aylmer 2022 Rate Application

EB-2021-0215

November 17, 2021

Application Summary and Process

On September 14, 2021 EPCOR Natural Gas Limited Partnership (EPCOR) 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, 2022 (Application).

In the Application, EPCOR requested the following:

I. Approval to adjust distribution rates for the Aylmer area effective January 1, 2022 in accordance with the OEB's Decision and Interim Rate Order in EPCOR's 2020-2024 Rates proceeding (Settlement Decision)[1]
II. Approval to dispose of the balances of certain deferral and variance accounts

On September 30, 2021, the OEB issued a Notice of Hearing. The intervention period ended on October 18, 2021. No persons applied for intervenor status.

Procedural Order No. 1 was issued on October 22, 2021. OEB staff filed written interrogatories on October 29, 2021. EPCOR filed interrogatory responses on November 10, 2021.

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

OEB Staff Submission

OEB staff provides submissions on EPCOR's proposed price cap adjustment, and the proposed disposition of certain deferral and variance accounts.

Price Cap Adjustment

EPCOR seeks to increase its rates, effective January 1, 2022, based on a mechanistic 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.

The components of the PCA applicable to EPCOR are set out in the table below. Inserting these components into the formula results in a 2.9% increase to EPCOR's forecasted revenue: ***2.9% = 3.3% - (0.00% + 0.40%)***.

Components	Amount
Inflation Factor[2]	3.3%
Productivity	0.00%
Stretch	0.40%

EPCOR has requested that the distribution rates for the Aylmer area be adjusted according to the approved Settlement Decision:

I. Increasing the monthly fixed charge for Rate 1 by $1.00 and correspondingly adjusting the volumetric charges for Rate Class 1 to achieve a total projected revenue for 2022 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA; and,
II. Adjusting the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

EPCOR used an inflation factor of 3.3% as indicated in the Notice of Hearing in the 2022 Inflation Factor Generic Hearing, which will consider the appropriate inflation factor to be used to set rates for electricity and natural gas distributors in 2022.[3] EPCOR proposed to update the PCA and rates, if necessary, after the OEB issues the final

[2] As discussed below, OEB staff notes that the inflation factor used in the application is estimated and subject to change.
[3] EB-2021-0212, OEB Notice of Hearing, August 6, 2021, pg. 1

inflation factor for 2022 rates.

In accordance with the Settlement Decision, EPCOR is to refrain from seeking an adjustment to its base rates if cumulative earnings are in excess of the return on equity (ROE) dead band (i.e. earnings are more than 300 basis points above the approved ROE), unless it has reason to believe that such an adjustment can be substantiated in consideration of the excess earnings.

EPCOR's actual 2020 regulated ROE was 5.42%, which is 356 basis points below the approved ROE of 8.98%. EPCOR stated that there were two main contributing factors: unplanned maintenance of the Integrated Grain Processors Co-operative (IGPC) pipeline and lower than projected sales volumes due to warmer than normal weather. EPCOR noted that there was a unique set of circumstances in 2020 and expects to recover to expected ROE levels in 2021.

Given that EPCOR's actual 2020 ROE does not exceed the ROE dead band, OEB staff has no concerns with EPCOR's request to adjust rates through the application of the PCA.

OEB staff has reviewed EPCOR's request and model and submits that the resulting proposed rate changes were calculated in accordance with the Settlement Decision and should be approved by the OEB, subject to any changes required as a result of the decision in the 2022 Inflation Factor Generic Hearing.

The total annual bill impacts for the general service rate class resulting from the proposals in the Application are as follows:

Rate Class	Change to delivery charge		Change in Rate Rider		Total Change	
	($/year)	(%)	($/year)	(%)	($/year)	(%)
Rate 1- Residential	$14.79	3.1%	$12.57	69.8%	$27.36	3.1%
Rate 1- Commercial	$24.51	1.8%	$3.57	6.8%	$28.08	0.8%
Rate 1- Industrial	$50.40	1.4%	$23.50	15.7%	$73.90	0.7%

Deferral and Variance Accounts

EPCOR sought approval to dispose of the 2020 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 EPCOR Aylmer customers is a debit of $352,527 (including interest to December 31, 2021). The balances in the deferral and variance accounts are summarized below.

EPCOR Deferral and Variance Account Balances		
Account Acronym	Account Name	Balance with interest to December 31, 2021
REDA	Regulatory Expense Deferral Account	$38,804
PGTVA	Purchased Gas Transportation Variance Account	$91,376
LDMDA	Loss on Disposal of Meters Deferral Account	$154,518
SICDA	2016/2017 System Integrity Capital Deferral Account	$67,829
	Total Deferral Account Balances	**$352,527**

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. EPCOR has requested to dispose of a debit balance of $38,804 including interest to December 31, 2021. EPCOR 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 REDA balances are related to the following proceedings with associated 2020 principal amount:

Case Number	Description	2020 Principal amount
EB-2017-0108	Overlapping Certificates of Public Convenience and Necessity (CPCN)	$9,328
EB-2018-0214	2019 Integrated Achievable Potential Study	$1,118
EB-2020-0094	Harmonized System Expansion Surcharge (SES)	$20,645
EB-2019-0255	Consultation on Potential Projects to expand access	$52
EB-2019-0137	Enbridge Gas Inc – Review of Gas Supply Plan	$301
EB-2015-0245	Demand Side Management Evaluation Process	$6,884
EB-2019-0003	Post-2020 DSM Framework Consultation	$115
	Total 2020 Principal Amount	**$38,443**
	2021 Interest charges	$360
	Total balance requested for disposition (including interest charges to December 31, 2021)	**$38,803**

OEB staff notes that the REDA balance includes: (i) the cost of third-party legal counsel associated with EPCOR's participation in the Overlapping CPCN and Harmonized SES proceedings; and (ii) the OEB costs allocated to EPCOR for other generic proceedings.[4]

In response to OEB staff interrogatories, EPCOR updated the table depicting the proposed disposition methodology as follows.[5]

		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	Connections	Cx	9608	8892	541	73	50	6	41	4	1
2	Allocation for DSM	%	100%	92.56%	5.63%	0.76%	0.52%	0.06%	0.43%	0.04%	N/A
3	Allocation for Other	%	100%	92.55%	5.63%	0.76%	0.52%	0.06%	0.43%	0.04%	0.01%
4	DSM	$	7,111	6,581	400	54	37	4	30	3	N/A
5	Other REDA	$	31,693	29,331	1,785	241	165	20	135	13	3
6	Sum	$	38,804	35,913	2,185	295	202	24	166	16	3
7	**Rate Rider / month**	**$ / month**		**0.33**	**0.33**	**0.33**	**0.33**	**0.33**	**0.33**	**0.33**	**0.27**

OEB staff submits that the amounts recorded in the REDA associated with EPCOR's participation in the above noted proceedings (along with the OEB costs allocated to ECPOR for other generic proceedings) are reasonable. OEB staff submits that the proposed disposition of the REDA balance (including interest to December 31, 2021) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the REDA are consistent with the approvals in the Settlement Decision and the decision in EPCOR's 2021 Rates proceeding.[6]

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 through 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 cost of transportation and that the utility does not incur a profit or loss on these costs.

The amount recorded in the PGTVA is debit of $91,376 including interest as of December 31, 2021. EPCOR is proposing to allocate the balance to the various customer rate classes on a volumetric basis and to recover the allocated costs from the

[4] EPCOR 2022 Rates Application, Appendix D: Auditors Report, September 14, 2021
[5] EPCOR Response to OEB Staff IRs, Additional Follow-Up, November 10, 2021
[6] EB-2020-0234, Decision and Order, January 28, 2021, pg. 8

customers in Rate 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	28,601,377	16,640,846	5,037,308	2,218,060	789,336	1,310,553	1,768,644	836,630
2	Allocation	%	100%	58.2%	17.6%	7.8%	2.8%	4.6%	6.2%	2.9%
3	Sum	$	91,377	53,165	16,093	7,086	2,522	4,187	5,651	2,673
4	**Rate Rider / m3**	**¢/m3**	**0.3195**	**0.3195**	**0.3195**	**0.3195**	**0.3195**	**0.3195**	**0.3195**	**0.3195**

OEB staff submits that the proposed disposition of the PGTVA balance (including interest to December 31, 2021) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the PGTVA are consistent with the approvals in the Settlement Decision and the decision in EPCOR's 2021 Rates proceeding.[7]

Loss on Disposal of Meters Deferral Account (LDMDA)

The purpose of the LDMDA is to record the loss on disposal of residential meters resulting from the change in useful life in 2020. A change in depreciation rate is necessitated by the fact that a new residential meter has a seal life of ten years and the full replacement of the meter at the end of the seal life is more economical than refurbishment. The change in the depreciation rate for these meters from 3.62% to 10% in 2020 results in a loss on disposal equal to the net book value of the meters that have been in service for ten years or more.

The amount recorded in the LDMDA is debit of $154,518 including interest as of December 31, 2021. The balance in the account is allocated to only Rate 1 customers as the change in depreciation only affects residential meters. EPCOR is proposing to recover the amount from Rate 1 customers through the implementation of a twelve-month fixed rate rider commencing on January 1, 2022. The table below shows the proposed disposition methodology.

		A	B	C	D	E
		Unit	Row Sum	Rate 1 - Residential	Rate 1 - Commercial	Rate 1 - Industrial
1	Connections	Cx	9,506	8,892	541	73
2	Allocation	%	100%	93.54%	5.69%	0.77%
3	Sum	$	$154,518	$144,538	$8,794	$1,187
4	**Rate Rider / month**	**$ / month**		**$1.35**	**$1.35**	**$1.35**

[7] EB-2020-0234, Decision and Order, January 28, 2021, pg. 8

OEB staff submits that the proposed disposition of the LDMDA balance (including interest to December 31, 2021) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the LDMDA are consistent with the methodologies approved in the Settlement Decision.[8]

EPCOR noted that it does not anticipate recording any additional amounts in the LDMDA and will request closure of the account in its 2023 Rates filing.[9]

2016/2017 System Integrity Capital Deferral Account (SICDA)

The purpose of the SICDA is to record the revenue requirement associated with the 2020 net book value of four capital projects in 2016 to 2017 that address specified system integrity issues. The specific capital projects are as follows: Bradley Station project, Bradley to Wilson pipeline project, Putnam to Colloden pipeline project and Springwater Road pipeline project.

In EPCOR's 2020-2024 Rates proceeding, the OEB approved the Bradley Station and Bradley to Wilson pipeline projects to be included in the 2020 rate base.[10] In EPCOR's 2021 rates proceeding, the OEB approved the Putnam to Colloden pipeline and Springwater Road pipeline projects to be included in the 2021 rate base.[11]

The SICDA balance requested for deposition reflects the 2020 revenue requirement associated with the Putnam to Colloden pipeline and Springwater Road pipeline projects.[12] EPCOR does not expect to record any additional amounts in the SICDA as these projects are already included in the 2021 rate base. EPCOR expects to request closure of the SICDA in its 2023 Rates filing.

The amount recorded in the account is a debit of $67,829 including interest to December 31, 2021. EPCOR proposes to allocate the balance to Rate 1-5 on the basis of a volumetric allocator and dispose of the amount to customers using a twelve-month volumetric rate rider. The table below depicts the proposed disposition methodology.

[8] EB-2018-0336, Decision and Interim Rate Order, July 4, 2019, Schedule C, pg. 64 of 75
[9] EPCOR Response to OEB Staff IRs, Staff- 3, November 10, 2021
[10] EB-2018-0336, Decision and Rate Order- Phase 2, EB-2018-0336
[11] EB-2020-0234, Decision and Order, January 28, 2021
[12] EPCOR Response to OEB Staff IRs, Staff- 4, November 10, 2021

		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	28,601,377	16,640,846	5,037,308	2,218,060	789,336	1,310,553	1,768,644	836,630
2	Allocation	%	100%	58.2%	17.6%	7.8%	2.8%	4.6%	6.2%	2.9%
3	Sum	$	67,829	39,464	11,946	5,260	1,872	3,108	4,194	1,984
4	**Rate Rider / m3**	**¢/m3**	**0.2372**	**0.2372**	**0.2372**	**0.2372**	**0.2372**	**0.2372**	**0.2372**	**0.2372**

OEB staff generally has no concerns with the proposed disposition of the SICDA balance (including interest to December 31, 2021). OEB staff submits that the balance in the account has been calculated appropriately. OEB staff notes that the revenue requirement associated with the Bradley Station and Bradley to Wilson pipeline projects is not included in SICDA balance as the net book value related to those projects was already placed in rate base in 2020.

However, OEB staff notes that EPCOR stated that the proposed allocation methodology, which uses a volumetric allocator, is consistent with how the amounts would have been allocated to rate classes had these projects been included in rate base at the outset of the rate term. OEB staff requests that EPCOR, in its reply argument, further support that the proposed allocation methodology for the SICDA is the same as if the assets were included in rate base at the outset of the rate term.

~All of which is respectfully submitted~