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

BY EMAIL

November 19, 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
South Bruce 2022 Rate Application
OEB File Number: EB-2021-0216

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 29, 2021.

Yours truly,

Original Signed By

Arturo Lau
Natural Gas

Encl.

cc: All parties in EB-2021-0216

ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

South Bruce 2022 Rate Application

EB-2021-0216

November 19, 2021

Application Summary and Process

On September 27, 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 in South Bruce to be effective January 1, 2022 (Application).

In the Application, EPCOR requested the following:

- Approval to adjust distribution rates for South Bruce effective January 1, 2022 in accordance with the OEB-approved settlement agreement (Settlement Decision)[1]
- Approval to dispose of certain deferral and variance account balances
- Approval to establish an Approved Deferral/Variance Disposal Account
- Approval to revise the existing Accounting Order for the Municipal Tax Variance Account

On October 12, 2021, the OEB issued a Notice of Hearing. The intervention period ended on November 2, 2021. No persons applied for intervenor status.

Procedural Order No. 1 was issued on November 3, 2021. OEB staff filed written interrogatories on November 5, 2021. On November 12, 2021, EPCOR filed interrogatory responses and updated its application to correct for certain errors.

[1] EB-2018-0264, Decision and Order, October 3, 2019

OEB Staff Submission

OEB staff provides submissions on EPCOR's proposed Incentive Rate (IR) adjustment, the proposed deferral of the decision with respect to establishing a deferral account to record other revenues, the proposed disposition of certain deferral and variance accounts, a proposed additional variance account and a proposed modification to an existing variance account.

Incentive Rate Adjustment

EPCOR seeks to increase its rates, effective January 1, 2022, based on a mechanistic IR adjustment pursuant to the Settlement Decision. The formula for determining the IR adjustment is as follows:

Incentive Rate (IR) Adjustment = [(1.0 – 0.314) x 0.0127] + [0.314 x Inflation (I)]

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.[2] EPCOR proposed to update the IR adjustment and rates, if necessary, after the OEB issues the final inflation factor for 2022 rates. The OEB issued its Decision and Order in the 2022 IPI Generic Proceeding on November 18, 2021. The OEB determined that an inflation factor of 3.3% for 2022 is appropriate for electricity distributors and EPCOR.[3] Therefore, OEB staff notes that no update to the inflation factor is necessary.

Using the approved 2022 inflation factor of 3.3% in the formula yields an IR adjustment of 1.91%.

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

I. Adjusting the monthly fixed charge and delivery charge for each rate class using the approved IR adjustment; and,
II. Adjusting the authorized overrun and unauthorized overrun charges for Rates 11 & 16 using the approved IR adjustment.

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

[2] EB-2021-0212, OEB Notice of Hearing, August 6, 2021, pg. 1
[3] EB-2021-0212, Decision and Order, November 18, 2021

should be approved by the OEB.

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

Rate Class	Change in Fixed Delivery	Change in Volumetric Delivery	Change Rate Rider	Total Change	
				$	%
Rate 1- Existing Residential	$5.91	$11.22	$26.17	$43.30	3.00%
Rate 1- New Residential	$5.91	$10.79	$25.16	$41.85	2.99%
Rate 1- Commercial	$5.91	$24.24	$57.15	$87.29	3.16%
Rate 1- Agricultural	$5.91	$24.38	$57.48	$87.76	3.17%

Other Revenues

In the Decision and Order[4] with respect to EPCOR's Custom IR application, the OEB approved EPCOR's proposal to not include any other revenues as an offset to its revenue requirement. The OEB further stated that the determination as to whether a deferral account to capture other revenues should be established starting in 2022 should take place in the 2022 IRM rate proceeding.

EPCOR noted that the following other revenue amounts have been collected to date:

- 2020 - $35
- 2021 - $1640 (amounts collected at the time of filing)

EPCOR forecast that other revenues will continue to be immaterial in 2022.[5] Due to the immaterial amounts of other revenue to be collected, EPCOR recommended deferring the decision regarding the approval of a deferral account to capture other revenues until the 2023 filing.

OEB staff supports EPCOR's request to defer the approval of a deferral account to capture other revenues until the next annual filing.

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

[4] EB-2018-0264, Decision and Order, November 28, 2019, pg. 10
[5] EPCOR Response to OEB Staff IRs, OEB Staff- 1b, November 12, 2021

rate riders. The total amount sought for recovery from EPCOR South Bruce customers is a debit of $132,700 (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
ECVA	Energy Content Variance Account	$14,199
CIACVA	Contribution in Aid of Construction Variance Account	$61,341
EFVA	External Funding Variance Account	$57,160
	Total Deferral Account Balances	**$132,700**

OEB staff notes that EPCOR used “revised forecast volumes” for calculating the volumetric rate riders that dispose of the balances in all of the above noted deferral and variance accounts. EPCOR confirmed that the revised forecast volumes are the volumes set out in its 2021 Gas Supply Plan Update.[6] OEB staff accepts EPCOR’s proposal to use the revised forecast volumes to calculate the volumetric rate riders as this forecast represents the most up-to-date volume projections available (and will best avoid over/under-recovery from ratepayers).

EPCOR also requested approval to establish the Approved Deferral/Variance Disposal Account and modifications to Municipal Tax Variance Account.

Energy Content Variance Account (ECVA)

The purpose of the ECVA is to record the differences in variable revenues resulting from the differences in the energy content of the actual gas delivered and the assumed energy content of 38.89 MJ/M^3. The assumed energy content was used in determining the approved revenue requirement and delivery rates in EPCOR’s Custom IR proceeding.[7]

EPCOR requested approval to dispose of a debit balance of $14,199 including interest to December 31, 2021.

EPCOR proposed to allocate the ECVA balance to rate classes using revised forecast volumes. OEB staff notes that the approved ECVA Accounting Order states: “[t]he

6 EB-2021-0146, Figure 3-3. OEB staff notes that no numbers were provided in Figure 3-3 (it is a graph of the forecasted volumes over time). However, based on a review of Figure 3-3, OEB staff is of the view that the 2022 forecasted volumes provided in this application are aligned with those provided in Figure 3-3.
7 EB-2018-0264

balance in this account will be apportioned to Rates 1, 6 and 11 based on forecasted volumes underpinning CIP [Common Infrastructure Plan] revenues for each rate class."[8] Therefore, it appears that EPCOR is seeking a departure from the approved ECVA Accounting Order in the Application.

EPCOR proposed to collect the balance, over twelve-months, from rate classes 1, 6 and 11 based on revised forecast volumes. The table below depicts the proposed disposition methodology.

		A Unit	B Row Sum	C Rate 1 - General Firm Service	D Rate 6 - Large Volume General Firm Service	E Rate 11 - Large Volume Season Service
1	Volume	m3	10,121,579	6,709,090	1,816,595	1,595,894
2	Allocation	%	100%	66.29%	17.95%	15.77%
3	Sum	$	$14,199	$9,412	$2,548	$2,239
4	Rate Rider / month	¢/m3		0.1403	0.1403	0.1403

OEB staff has no concerns with the proposed ECVA balance (including interest). OEB staff also has no concerns with the proposed disposition methodology. However, it is not clear to OEB staff why EPCOR is seeking a departure from the approved ECVA Accounting Order with respect to the allocation methodology.

In response to an OEB staff question on the issue of the allocation methodology, EPCOR stated that "[it] is proposing to recover the December 31, 2020 ECVA balance based on the most recent projections as these numbers provide the most reasonable billing determinants to accurately recover the balances…"[9] OEB staff notes that this response explains why the disposition methodology is appropriate but does not speak to the allocation methodology.

OEB staff calculated the allocation of the ECVA balance to rate classes based on the forecasted volumes that underpin the CIP revenues (CIP volumes) and notes that the allocation is similar to the proposed.[10] Given the small balance in the ECVA ($14,199) and the insignificant change to the allocation resulting from the use of the CIP volumes, OEB staff submits that EPCOR's proposed allocation methodology should be accepted

[8] EB-2018-0264, Rate Order, January 9, 2020, pg. 30
[9] EPCOR Response to OEB Staff IRs, OEB Staff- 1d, November 12, 2021
[10] EB-2018-0264, Exhibit 3, Tab 1, Schedule 2, pg. 3. The allocation based on the CIP volumes is approximately 69.9% to Rate 1 ($9,927), 20.4% to Rate 6 ($2,901) and 9.7% to Rate 11 ($1,370).

on a one-time basis subject to EPCOR confirming that OEB staff's calculation of the allocation based on the CIP volumes is correct.

The OEB should further direct EPCOR, in its next annual rates application, to provide an explanation supporting the use of revised forecast volumes for the allocation of the ECVA balance to rate classes (or alternatively, apply the methodology as approved in the ECVA Accounting Order).

Contribution in Aid of Construction Variance Account (CIACVA)

The purpose of the CIACVA is to record the revenue requirement differences between the actual capital contributions EPCOR pays to Enbridge Gas related to Enbridge Gas's Owen Sound Transmission Reinforcement and the Dornoch Meter and Regulator Station and the forecasted capital contribution included for the projects in the approved rate base.

EPCOR requested approval to dispose of a debit balance of $61,341 including interest to December 31, 2021.

The approved CIACVA's Accounting Order states that the balance in the account be "brought forward on an annual basis and that EPCOR will propose a methodology and timing of disposition of the balance that aligns with customer's use of capacity and EPCOR's rate smoothing objectives."[11]

EPCOR proposed to allocate the CIACVA balance based on the CIP rate base less "non-distribution rate base" for all rate classes.[12] EPCOR proposed to collect the balance, over twelve-months, from rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. The table below depicts the proposed disposition methodology.

[11] EB-2018-0264, Rate Order, January 9, 2020, pg. 32
[12] EPCOR Response to OEB Staff IRs, OEB Staff- 3, November 12, 2021

		A	B	C	D	E	F	G
		Unit	Row Sum	Rate 1 - General Firm Service	Rate 6 - Large Volume General Firm Service	Rate 11 - Large Volume Season Service	Unit	Rate 16 - Contracted Firm Service
1	Volume	m3		6,709,090	1,816,595	1,595,894	contract demand	89,716
2	Allocation (1)	%	100%	61%	21%	3%	%	15%
3	Sum	$	$61,341	$37,418	$12,882	$1,840	$	$9,201
4	Rate Rider	¢/m3		0.5577	0.7091	0.1153	¢/CD/month	0.8547

OEB staff has no concerns with the proposed CIACVA balance (including interest). OEB staff also has no concerns with the proposed disposition methodology.

OEB staff generally supports the allocation of the CIACVA balance to rate classes using a rate base allocator as the variances tracked in the account (i.e. the revenue requirement impact of capital contribution differences) are related to amounts included in rate base. However, EPCOR allocated the CIACVA balance to rate classes based on total CIP rate base minus "non-distribution rate base." It is unclear what is included in non-distribution rate base and why it is appropriate that the rate base allocator applied should be net of non-distribution rate base. OEB staff requests that EPCOR, in its reply argument, discuss what is included in non-distribution rate base and explain why the proposed allocation methodology for the CIACVA balance is appropriate.

External Funding Variance Account (EFVA)

The purpose of the EFVA is to record the differences in timing and quantum of external funding available to the South Bruce project compared to EPCOR's forecast reflected in approved rates.

The approved EFVA Accounting Order states, "the balance in this account, together with carrying charges, will be brought forward for disposition as part of the annual IR application following receipt of the final payment."[13]

EPCOR requested approval to dispose of a debit balance of $57,160 including interest to December 31, 2021.

EPCOR is proposing to use the same allocation methodology for the EFVA as is applied to the CIACVA. EPCOR proposed to collect the balance, over twelve-months, from rate

[13] EB-2018-0264, Rate Order, January 9, 2020, pg. 34

classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. The table below depicts the proposed disposition methodology.

		A Unit	B Row Sum	C Rate 1 - General Firm Service	D Rate 6 - Large Volume General Firm Service	E Rate 11 - Large Volume Season Service	F Unit	G Rate 16 - Contracted Firm Service
1	Volume	m3		6,709,090	1,816,595	1,595,894	CD	89,716
2	Allocation [(1)]	%	100%	61%	21%	3%	%	15%
3	Sum	$	$57,160	$34,866	$12,003	$1,715	$	$8,574
4	Rate Rider	¢/m3		0.5197	0.6608	0.1075	¢/CD/month	0.7964

EPCOR noted that if the 2020 EFVA balance is approved, the account will no longer be required and it will request closure of the account in its 2023 rates filing.[14]

OEB staff has no concerns with the proposed EFVA balance (including interest). OEB staff also has no concerns with the proposed disposition methodology.

Similar to the comments on the CIACVA, OEB staff requests that EPCOR, in its reply argument, explain why its proposed allocation methodology (i.e. total CIP rate base minus non-distribution rate base) is appropriate for the EFVA.

Approved Deferral/Variance Disposal Account (ADVADA)

EPCOR requested approval to establish the ADVADA to track the actual collection/refund of all deferral and variance account balances against the balances that have been approved for disposition. The ADVADA allows any over or under collection/refund of EPCOR's deferral and variance account balances that have been approved for disposition to be tracked and accounted for in the same manner as Account 1595 (Disposition and Recovery/Refund of Regulatory Balances Control Account).

OEB staff reviewed the approved ADVADA Accounting Order for EPCOR Aylmer and compared it with the proposed Accounting Order for South Bruce and confirms that the accounting orders are the same. OEB staff submits that it is appropriate to establish the ADVADA as this will align the treatment of EPCOR South Bruce with the treatment of electricity distributors, Enbridge Gas and EPCOR Aylmer.

[14] EPCOR Response to OEB Staff IRs, Staff- 4, November 12, 2021

Municipal Tax Variance Account (MTVA)

The approved MTVA Accounting Order describes the purpose of the account as follows:

> 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.[15]

In this proceeding, EPCOR requested approval to revise the approved Accounting Order to align with the original Accounting Order filed as part of its Custom IR application as follows:

> 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.[16]

EPCOR stated that due to variances between actual and CIP forecasted connections and capital infrastructure installation, the current design of the MTVA creates a variance payable to existing customers. EPCOR further stated that the current wording duplicates the assumption of connection risk that EPCOR would 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.[17]

EPCOR requested a revision to the approved MTVA Accounting Order “to more accurately reflect the purpose of the outcome and decision of the settlement agreement in proceeding EB-2018-0264.”[18]

EPCOR stated that the original purpose of the account, as described in its Custom IR application, was to record any impacts to EPCOR resulting from changes in municipal tax rates or levies or the introduction of any new municipal tax or levies that occur during the period of the original CIP (2019-2028).[19] EPCOR further stated that the original Accounting Order filed as part of its Custom IR application is consistent with this purpose.[20] In the Application, EPCOR clarified that the reason that the Accounting Order was changed during the Custom IR proceeding is that EPCOR inadvertently modified the wording when providing interrogatory responses.

[15] EB-2018-0264, Rate Order, January 9, 2020, pg. 34
[16] EPCOR Application, pg. 20
[17] EPCOR Response to OEB Staff IRs, OEB Staff-6, pg. 9-10
[18] EPCOR Application, pg. 18
[19] EB-2018-0264, Exhibit 9, Tab 2, Schedule 1, pg. 5
[20] EB-2018-0264, Exhibit 9, Tab 2, Schedule 2, pg. 11

OEB staff notes that the establishment of the MTVA was not part of the approved settlement proposal in the Custom IR proceeding.[21] On November 28, 2019, the OEB issued the Decision and Order on the Unsettled Issues[22], which included findings on the establishment of MTVA.

In the Decision and Order on the Unsettled Issues, the OEB approved the establishment of the MTVA as follows:

> The OEB approves the establishment of the MTVA. Given that EPCOR Southern Bruce is a greenfield utility, the actual municipal tax assessment is still unknown. The costs can therefore be higher or lower than forecast. On this basis, the OEB agrees it is appropriate to record the difference between the forecast and the actual costs in a variance account for future disposition.[23]

OEB staff is of the opinion that the intent of the MTVA as approved by the OEB was to ensure that the utility is kept whole and is not liable for municipal taxes that were not known at that time. At the same time, the MTVA ensures that ratepayers are responsible for the actual municipal taxes. OEB staff submits that the OEB's findings are clear that it established the MTVA to true-up the difference between forecast municipal taxes (i.e. the amounts in revenue requirement) and the actual municipal taxes paid. This finding ensures that only the actual municipal taxes paid by EPCOR are recovered from ratepayers.

EPCOR, through the proposed revised wording, aims to reduce the scope of the MTVA to capturing only the impacts from changes in municipal tax rates, or the introduction of new taxes, which was not the intent of the OEB. This would not be fair to ratepayers and is contrary to the original objective of the account that intends to keep all parties (ratepayers and utility) whole. OEB staff submits that the symmetrical treatment of the account is appropriate and ratepayers should receive the appropriate benefit for any excess tax amounts that are currently recovered through rates.

~All of which is respectfully submitted~

[21] EB-2018-0264, Decision on Settlement Proposal and PO No.6, October 3, 2019, pg.3 and 16-17
[22] EB-2018-0264, Decision and Order, November 28, 2019
[23] EB-2018-0264, Decision and Order, November 28, 2019, pg. 19-20