



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

BY EMAIL

December 14, 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 Letter of Comment
EPCOR Natural Gas Limited Partnership- South Bruce
January 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2021-0309**

Please find attached OEB staff's letter of comment in the above referenced proceeding.

Yours truly,

Original Signed By

Arturo Lau
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2021-0309

Background

The Ontario Energy Board (OEB) requires natural gas distributors, one month in advance of the normal Quarterly Rate Adjustment Mechanism (QRAM) filing date, to complete a preliminary estimate of the change in the commodity portion of a typical residential sales service customer's bill that arises from the forecast cost of gas for the next quarter and the forecasted Purchased Gas Commodity Variance Account (PGCVA) balances to be cleared. A gas distributor that anticipates an increase or decrease of 25% or more on the commodity portion of a typical residential sales service customer's bill (which includes all commodity-related rate riders), must file a letter with the OEB describing the anticipated increase or decrease and the cost drivers underpinning the anticipated change. The letter must include information regarding the 21-day strip used and the forecasted PGCVA balances that the distributor expects to clear. The letter must be filed with the OEB as soon as possible after the preliminary forecast has been completed and no later than 14 days before the filing date of the QRAM application.

After the letter is filed with the OEB (if applicable), the distributor shall file its QRAM application in accordance with the OEB-approved QRAM methodology¹. If a 25% or greater change on the commodity portion of a typical residential sales service customer's bill is still anticipated, the distributor must also include evidence which explains, in detail, the reasons for the large rate increase (or decrease). Where the change is an increase, the distributor must include a plan for mitigation of the increase. The OEB has not specified what form the mitigation proposal should take, but has indicated that it would consider the necessity for and method of implementation of mitigation on a case by case basis².

On November 25, 2021, EPCOR Natural Gas Limited Partnership (EPCOR) filed a letter to inform the OEB that, based on market pricing trends, EPCOR was forecasting that the gas commodity portion of the bill will increase by more than 25% for sales service customers in South Bruce. EPCOR also stated that should the commodity bill increase be greater than 25% for an average residential customer, it planned to include a rate mitigation proposal.

Application Summary

On December 9, 2021, EPCOR filed its January 2022 QRAM application for South Bruce. EPCOR identified that, prior to any sort of mitigation, the bill impacts for a typical residential sales service customer would exceed 25% of the commodity portion of the bill. The bill impacts were prepared using a forecast of gas costs based on a 21-day

¹ EB-2008-0106

² EB-2014-0199, Decision and Order, p. 6

strip ending December 1, 2021 and resulted in commodity increases of approximately 36.0%. EPCOR stated that the combination of low storage levels, flat production and increased demand in natural gas exports led to increases in natural gas prices.

In addition to increase commodity rates, EPCOR is also implementing changes in delivery rates and additional rate riders previously approved by the OEB effective January 1, 2022.

EPCOR proposed to limit the total bill increase limit to 5% in order to align with the rate mitigation plan proposed by Enbridge Gas Inc. (Enbridge Gas) and in consideration of a letter to Enbridge Gas from the Minister of Energy, dated December 1, 2021, to “review and consider fully all mitigation opportunities available, considering rising inflation and broader affordability issues for energy consumers in its development of the mitigation plan for the upcoming QRAM.” The proposed rate mitigation plan takes into consideration the forecast increase in natural gas prices and the implementation of new delivery rates and additional rate riders previously approved by the OEB.

EPCOR, as part of its rate mitigation plan, proposed to include a \$380,000 PGCVA credit to limit total bill increases to 5%. EPCOR further noted that it will propose to include a PGCVA debit of an equal amount with the April 1, 2022 QRAM to recover the cost of the PGCVA credit not recovered in the current QRAM application.

The annual commodity bill impact for a typical residential sales service customer, before and after the proposed rate mitigation plan, are as follows.

| | Commodity Bill | | Total Bill | |
|------------------------|----------------|--------------|----------------|-------------|
| | \$ | % | \$ | % |
| Before Rate Mitigation | \$104.20 | 36.0% | \$147.17 | 9.9% |
| After Rate Mitigation | <u>\$32.16</u> | <u>11.1%</u> | <u>\$75.13</u> | <u>5.0%</u> |
| Difference | (\$72.04) | (24.9%) | (\$72.04) | (4.9%) |

The total bill impact for a typical residential sales service customer, after the proposed rate mitigation, is about 5% on an annualized basis.

OEB Staff Position

EPCOR's proposed mitigation plan reduces the total bill impact for a typical sales service residential customer in South Bruce to 5%. While OEB staff notes that the proposed rate mitigation plan is more substantial than the level approved in the October 2021 QRAM for Enbridge Gas³, OEB staff is of the view that EPCOR's proposed rate mitigation plan is acceptable, and should be approved as filed.

Proposed Rate Mitigation Plan

OEB staff notes that the QRAM is intended to strike a balance between ensuring that consumers are receiving appropriate price signals which reflect natural gas market prices, and protecting the interest of consumers that purchase their gas from the distributor by reducing, to some extent, the volatility (and in particular rapid increases) in the price of natural gas. OEB staff submits that EPCOR's proposed rate mitigation plan achieves this balance.

EPCOR's proposed rate mitigation plan in its current application is similar to the rate mitigation methodology proposed by Enbridge Gas for the October 2021 QRAM application⁴, which was approved by the OEB. OEB staff notes that the total bill impact for a typical residential sales service customer is also less than the 10% threshold used in electricity sector to trigger the need for a rate mitigation plan⁵.

OEB staff notes that the implementation of EPCOR's proposed rate mitigation plan will result in the deferral of a PGCVA balance (i.e. \$380,000 plus applicable carrying charges) that EPCOR will ultimately seek to recover from ratepayers. OEB staff also notes that increases in the federal carbon charges are also expected to be implemented in the April 2022 QRAM, which will further increase bill impacts for customers. OEB staff suggests that EPCOR may wish to consider a phased recovery of the deferred amount, where the deferred amount would start to be progressively recouped over more than one quarter. OEB staff submits that a longer-term approach to the recovery of the deferred amount would provide for rate smoothing for the benefit of ratepayers.

Other Issues

OEB staff's comments have focused on EPCOR's proposed rate mitigation plan. In closing, OEB staff notes that it has no issues or concerns with the balance of EPCOR's January 2022 QRAM application. OEB staff submits that EPCOR's application should be approved as filed.

³ The Enbridge Gas October 2021 QRAM had a mitigation plan to reduce total bill impacts to 10%.

⁴ EB-2021-0219, Enbridge Gas Inc., October 1, 2021 QRAM Application

⁵ OEB's [Handbook for Utility Rate Applications](#) (October 13, 2016) page v, Rate Mitigation