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BY EMAIL

February 7, 2022

Ms. Nancy Marconi
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
EPCOR Natural Gas Limited Partnership
2022 Federal Carbon Pricing Program Application
OEB File Number: EB-2021-0268**

Pursuant to Procedural Order No. 1, please find attached the OEB staff submission in the above referenced proceedings.

Yours truly,

Alexander Di Ilio
Senior Advisor, Application Policy & Conservation

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

2022 Federal Carbon Pricing Program Application

EB-2021-0268

February 7, 2022

Background

The federal *Greenhouse Gas Pollution Pricing Act* (GGPPA) established a federal carbon pricing program (FCPP). Under the GGPPA, EPCOR Natural Gas Limited Partnership (ENGLP) is required to pay to the Government of Canada a Fuel Charge to cover greenhouse gas emissions from the natural gas that it delivers to its non-exempt customers¹, and incurs further obligations to the Government of Canada for greenhouse gas emissions from its own facilities. The Fuel Charge under the GGPPA came into effect on April 1, 2019, increased on April 1, 2020 and April 1, 2021, and will increase again on April 1, 2022.

In a previous proceeding², the Ontario Energy Board (OEB) approved a Federal Carbon Charge on ENGLP customer bills to recover ENGLP's FCPP costs related to customer emissions and a Facility Carbon Charge to recover ENGLP's FCPP costs related to its own facility emissions, and established three sets of FCPP deferral and variance accounts (DVAs)³:

- Federal Carbon Charge – Customer Variance Accounts, to record the variance between actual FCPP costs related to customer emissions and FCPP costs recovered in rates related to customer emissions
- Federal Carbon Charge – Facility Variance Accounts, to record the variance between actual FCPP costs related to its own facility emissions and FCPP costs recovered in rates related to its own facility emissions
- Greenhouse Gas Emissions Administration Deferral Accounts, to record the administration costs associated with the FCPP

ENGLP filed its 2022 FCPP application on November 4, 2021, applying to the OEB for approval under section 36(1) of the *Ontario Energy Board Act, 1998* (OEB Act) to increase the Federal Carbon Charge and Facility Carbon Charge rates effective April 1, 2022 to recover forecast costs associated with meeting its obligations under the GGPPA, and to dispose of 2020 balances in FCPP-related DVAs.

ENGLP operates two distinct natural gas distribution systems in Ontario, which are treated separately for ratemaking purposes: ENGLP's Aylmer operations, and ENGLP's South Bruce operations. ENGLP's current FCPP application applies to both the Aylmer

¹ Certain customers (e.g., industrial customers and greenhouses) are eligible for full or partial exemption from the Fuel Charge under the GGPPA for their emissions and are thus also fully or partially exempt from ENGLP's Federal Carbon Charge.

² EB-2019-0101

³ The deferral and variance accounts established in the 2019 proceeding were for ENGLP's Aylmer operations only. However, identical deferral and variance accounts for the South Bruce operations were established as part of ENGLP's 2019-2028 rates proceeding (EB-2018-0264).

and South Bruce rate zones.

On November 18, 2021, the OEB issued notice of hearing and invited intervention requests. No intervention requests were received.

On December 15, 2021, the OEB issued Procedural Order No.1, which set dates for the interrogatory and submission stages in this proceeding.

On January 10, 2022, OEB staff filed interrogatories, and on January 25, 2022, ENGLP filed interrogatory responses.

Application Summary

As part of its 2022 FCPP application, ENGLP is requesting:

- Approval to increase the Federal Carbon Charge on applicable customer bills, for both Aylmer and South Bruce operations, from 7.83 ¢/m³ to 9.79 ¢/m³ effective April 1, 2022, to recover ENGLP's forecast FCPP customer-related costs. This matches the increase in the Fuel Charge that ENGLP must remit to the Government of Canada that takes effect on this date.
- Approval to decrease the Facility Carbon Charge for ENGLP's Aylmer operations from 0.0052 ¢/m³ to 0.0034 ¢/m³, effective April 1, 2022, to recover ENGLP's forecast 2022 FCPP facility-related costs.
 - ENGLP forecast that it would not incur any facility-related costs in 2022 for its South Bruce operations and did not request a Facility Carbon Charge for this rate zone.
- Approval of the 2020 balances in ENGLP's Federal Carbon Charge – Facility Variance Account for the Aylmer rate zone and Greenhouse Gas Emissions Administration Deferral Accounts for both the Aylmer and South Bruce operations.
- Approval of ENGLP's proposed methodology and rate for allocating and disposing of these account balances.

ENGLP estimated that the incremental bill impact on a typical residential customer in ENGLP's Aylmer operations resulting from these requests would be an increase of \$32.62 per year. ENGLP estimated that the incremental bill impact on a typical residential customer in ENGLP's South Bruce operations resulting from these requests would be an increase of \$42.12 per year.

ENGLP requested that approvals be granted on a final basis by March 15, 2022, such that rates can be applied to customer bills effective April 1, 2022. Should the OEB determine that it is not possible to review and grant the approvals request by such date, ENGLP requested that the OEB grant approvals on an interim basis.

Summary of OEB Staff Submission

OEB staff submits that ENGLP’s requested rates for the Federal Carbon Charge should be approved on a final basis for both the Aylmer and South Bruce operations, effective April 1, 2022. Below, OEB staff discusses specific aspects of ENGLP’s application in more detail.

Federal Carbon Charge

ENGLP requested approval on a final basis of the Federal Carbon Charge rate of 9.79 ¢/m³, effective April 1, 2022 for both the Aylmer and South Bruce operations.

The requested rates for the Federal Carbon Charge match the volumetric rates for the Fuel Charge that ENGLP must pay to the Government of Canada for its customers’ emissions, as shown in Table 1. ENGLP customers are charged the Federal Carbon Charge monthly based on actual billed volumes.

Table 1: Fuel Charge Payable to Government of Canada for Eligible Volumes of Natural Gas⁴

Effective Date	Fuel Charge (¢/m ³)
April 1, 2019	3.91
April 1, 2020	5.87
April 1, 2021	7.83
April 1, 2022	9.79

Submission

OEB staff submits that ENGLP’s methodology for establishing the Federal Carbon Charge is appropriate, and that the requested rates for the Federal Carbon Charge for both the Aylmer and South Bruce operations should be approved on a final basis.

Facility Carbon Charge

Aylmer Operations

For its Aylmer operations, ENGLP requested approval of a Facility Carbon Charge of 0.0034 ¢/m³, effective April 1, 2022, to reflect forecast 2022 facility related FCPP costs.

ENGLP’s requested Facility Carbon Charge rates were calculated by forecasting ENGLP’s facility-related FCPP costs for the period April 1, 2022 to March 31, 2023 (i.e., forecast facility-related emissions from ENGLP’s buildings and natural gas vehicles, and applicable Fuel Charge payable to the Government of Canada for these emissions), and determining what rate would be needed to recover these costs, based on forecast

⁴ Greenhouse Gas Pollution Pricing Act, schedule 2.

customer volumes.

The year-over-year reduction in the Aylmer Facility Carbon Charge recoverable from rate payers is due to the reduction in the volumes of natural gas consumed by ENGLP's buildings and natural gas vehicles from 66,520 m³ to 31,214 m³ for the current term. ENGLP has indicated that Aylmer facility natural gas volumes will normalize going forward⁵.

Submission

OEB staff submits that ENGLP's requested rates for the Facility Carbon Charge for its Aylmer operations should be approved on a final basis.

South Bruce Operations

Current rate schedules for ENGLP's South Bruce operations do not include a Facility Carbon Charge. ENGLP forecast that it will not incur any facility-related FCPP costs in 2022 for its South Bruce operations, as it leases its building space and does not operate any natural gas vehicles. This is consistent with ENGLP's previous FCPP applications⁶.

However, South Bruce rate zone customers do benefit from ENGLP facilities that have been allocated to the Aylmer rate zone, such as the management and billing functions, and operations staff and equipment that operate out of Aylmer rate zone buildings. ENGLP stated that since South Bruce customers accounted for less than 2% of ENGLP's combined customer count, any facility related FCPP costs that could be allocated to the South Bruce rate zone are currently immaterial⁷.

Submission

ENGLP's tariff for its South Bruce operations currently does not include a Facility Carbon Charge. OEB staff agrees that ENGLP's tariff for its South Bruce operations should continue not to include a Facility Carbon Charge.

OEB staff submits that ENGLP's proposal to not allocate and recover a Facility Carbon Charge from the South Bruce rate zone is acceptable. However, as ENGLP's South Bruce rate zone operations continue to grow, it is expected that the South Bruce allocation of facility costs from ENGLP building use continue to grow and attract a material balance. Therefore, OEB staff recommend that ENGLP begin to recover Facility Carbon Charges from the South Bruce rate zone in the future to ensure an equitable recovery of facility costs from all ENGLP's natural gas customers.

⁵ Interrogatory Responses, January 25, 2022, Response to IR-6

⁶ Combined EB-2020-0076 / EB-2020-0231

⁷ Interrogatory Responses, January 25, 2022, Response to IR-2

Disposition of 2020 Deferral and Variance Account Balances

The 2020 FCPP deferral and variance account balances sought for disposition are shown in Table 2, along with ENGLP’s proposed allocation and disposition approach, and the resulting rate rider.

Table 2: ENGLP 2020 FCPP Deferral and Variance Account Balances

Rate Zone	Account	Purpose	2020 Balance	Proposed Allocation Approach	Rate Rider
Aylmer	Customer Variance Account ⁸	Difference between actual 2020 FCPP customer-related costs incurred, and costs recovered in rates	nil	N/A	nil
	Facility Variance Account	Difference between actual 2020 FCPP facility-related costs incurred, and costs recovered in rates	\$3,053	Fixed customer charge	\$0.03 per customer per month
	Administration Deferral Account	2020 FCPP administration costs	\$3,243		\$0.03 per customer per month
South Bruce	Customer Variance Account ⁹	Difference between actual 2020 FCPP customer-related costs incurred, and costs recovered in rates	nil	N/A	nil
	Facility Variance Account	Difference between actual 2020 FCPP facility-related costs incurred, and costs recovered in rates	nil ¹⁰	Fixed customer charge	nil
	Administration Deferral Account	2020 FCPP administration costs	<\$10 ¹¹		nil

⁸ ENGLP originally applied to recover a total balance of \$56,044 in respect of the Aylmer FCPP Customer Variance Account, but later withdrew that request because of over-remittance to the CRA. As a result, ENGLP is not looking to recover any FCPP Customer Variance Account balances in the current proceeding.

⁹ ENGLP originally applied to refund a total balance of \$14,799 in respect of the South Bruce FCPP Customer Variance Account, but later withdrew that request because of over-remittance to the CRA. As a result, ENGLP is not looking to dispose of any FCPP Customer Variance Account balances in the current proceeding.

¹⁰ South Bruce operations do not incur facility related costs, hence there is no request for disposition.

¹¹ There is no request for disposition for 2020 balances due to immateriality (claim of less than \$10). ENGLP will continue to allocate relevant costs between rate zones for future claims as operations in the South Bruce rate zone expand.

OEB staff first addresses the proposed calculation of interest and the disposition period, which are issues that impact all deferral and variance accounts, before discussing specific considerations relevant to the individual accounts.

Interest on Deferral and Variance Account Balances

ENGLP's application included carrying charges on the balances in the deferral and variance accounts, through to March 31, 2022. ENGLP used a carrying charge interest rate of 0.57% for the period of Q3 2020 to Q1 2022 and a rate of 2.18% for the period of Q1 2020 to Q2 2020 in its calculations. These are the correct carrying charge interest rates prescribed by the OEB^{12,13}.

Submission

OEB staff submits that ENGLP's methodology for calculating carrying charges on the FCPP deferral and variance account balances is appropriate.

Disposition Period and Bill Smoothing

ENGLP seeks disposition of its 2020 FCPP deferral and variance account balances using twelve-month rate riders that would commence on April 1, 2022.

As shown in Table 3, the combined changes to charges payable by customers is 1.2% for ENGLP Aylmer residential customers, and 2.8% for ENGLP South Bruce residential customers. This increase in customer bills accounts for both the Federal & Facility Carbon Charges, as well as the disposition of those FCPP-related deferral and variance accounts that ENGLP has sought clearance of.

Billing increases are less for Aylmer rate zone customers on a percentage basis due to material year-over-year reductions in rate riders (i.e., Administration Deferral Account). Specifically, the 2020 balance in the Administration Deferral Account was approximately \$81,000 or 96% less than that disposed of for the 2019 period.

Submission

OEB staff supports the twelve-month disposition period, noting that the extended disposition period helps smooth the combined bill impact of the increase in the Federal Carbon Charge and Facility Carbon Charge and the disposition of the 2020 FCPP DVA balances, all of which become effective on April 1, 2022 for ENGLP customers in both the Aylmer and South Bruce rate zones.

¹² <https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates>

¹³ Interrogatory Responses, January 25, 2022, Response to IR-11

Table 3: Proposed Year-Over-Year Changes to Federal Carbon Charge and Other Rate Riders¹⁴

Rate Change	Annual Incremental Bill Impact on Residential Customers	
	Rate Zone	
	Aylmer	South Bruce
2022 Federal & Facility Carbon Charges	\$41.37	\$42.12
2020 DVA - Customer Variance Account Rate Rider	(\$19.90)	nil
2020 DVA - Facility Variance Account Rate Rider	\$0.24	nil
2020 DVA - Administration Deferral Account Rate Rider	(\$9.00)	nil
Total	\$12.72	\$42.12
Average Annual Customer Bill (prior to requested rate changes)	\$1,060	\$1,492
% Increase in Customer Bill	1.2%	2.8%

Customer Variance Account – Balance and Allocation Approach

ENGLP originally sought disposition of a 2020 balance of \$56,044 in the Aylmer rate zone Customer Variance Account and a 2020 balance of (\$14,799) in the South Bruce rate zone Customer Variance Account. However, ENGLP later withdrew this request upon discovering that data errors resulted in an over-remittance to the CRA. ENGLP noted that the two sources of error related to an improper proration of consumption amounts for March 2020 and a data source issue that impacted the accounting for exempt and eligible greenhouse amounts. ENGLP also noted that it would seek to recover any outstanding balances in the 2020 FCPP Customer Variance Account after a historical review is completed¹⁵.

Submission

OEB staff supports ENGLP’s withdrawal of its request to dispose of the 2020 balances in the Aylmer and South Bruce FCPP Customer Variance Accounts until such time that a historical review is completed. OEB staff submits that the OEB direct ENGLP to provide a summary of any FCPP Customer Variance Account historical reviews undertaken during ENGLP’s next FCPP application.

Facility Variance Account – Balance and Allocation Approach

ENGLP seeks disposition of a 2020 balance of \$3,053 in the Aylmer rate zone Facility Variance Account. ENGLP proposes allocating this balance equally across all Aylmer

¹⁴ Interrogatory Responses, January 25, 2022, Appendix E

¹⁵ Interrogatory Responses, January 25, 2022, Response to IR-3

rate zone customers, to be recovered through a fixed monthly charge based on customer count. ENGLP's South Bruce operations do not incur facility related costs, hence there is no request for disposition.

Submission

OEB staff has no concerns regarding the Facility Variance Account and submits that the 2020 balance and allocation and disposition approach should be approved.

Administration Deferral Account – Balance and Allocation Approach

ENGLP seeks disposition of a 2020 balance of \$3,243 in the Aylmer rate zone Administration Deferral Account, due to FCPP-related administration costs in 2020, plus interest. ENGLP has noted that the 2020 balance in the South Bruce rate zone Administration Deferral Account is immaterial and is not currently seeking disposition of the account balance.

The 2020 balance in the Administration Deferral Account was approximately \$81,000 or 96% less than that disposed of for the 2019 period. ENGLP stated that this decrease was because FCPP program setup costs have stabilized, allowing for reduced administration costs¹⁶.

ENGLP proposes allocating the balance in the Administration Deferral Account equally across all customers, to be recovered through a fixed monthly charge based on customer count.

Submission

OEB staff submits that the 2020 balance and allocation and disposition approach for the Aylmer rate zone Administration Deferral Account should be approved, and that ENGLP should continue to ensure that annual FCPP administration costs remain at levels comparable to those currently being sought for disposition.

FCPP DVA Accounting Order Amendments for EPS

In response to OEB staff interrogatories, ENGLP proposed to amend its FCPP DVA Accounting Orders to reflect the transition from the Government of Canada's Output-Based Pricing System (OPBS) to the Province of Ontario's Emissions Performance Standards (EPS) program.

Submission

OEB staff has reviewed the proposed Accounting Orders and note that the amendments

¹⁶ Interrogatory Responses, January 25, 2022, Response to IR-13

are largely clerical in nature to reflect the transition from the OPBS to the EPS. OEB staff submits that the proposed amendments to ENGLP's FCPP DVA Accounting Orders are reasonable and should be approved.

Implementation

OEB staff submits that if the OEB approves the rates requested by ENGLP in this application (which OEB staff has supported), that a Draft Rate Order in this proceeding is necessary. In OEB staff's view, the need for a Draft Rate Order arose from ENGLP's amendment to its disposition request noted in its response to OEB staff interrogatories¹⁷.

Draft complete tariff sheets reflecting the OEB's determination could be filed by ENGLP for each of the Aylmer and South Bruce rate zones as part of its reply submission.

All of which is respectfully submitted.

¹⁷ Interrogatory Responses, January 25, 2022, Response to IR-3