



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

BY EMAIL

March 17, 2022

Ms. Nancy Marconi
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 Letter of Comment
EPCOR Natural Gas Limited Partnership- South Bruce
April 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2022-0100**

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

Yours truly,

Arturo Lau
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2022-0100

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 that 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 February 25, 2022, EPCOR Natural Gas Limited Partnership (EPCOR) filed a letter to inform the OEB that, based on market pricing trends, EPCOR was forecasting 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 March 14, 2021, EPCOR filed its April 2022 QRAM application for South Bruce. On March 17, 2021, EPCOR filed an updated application. In the updated application, EPCOR proposed to recover the existing \$380,000 PGCVA credit (from the previous QRAM filing), over 24 months, instead of the usual 12-months, beginning in April 2022.

¹ EB-2008-0106

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

EPCOR indicated that if a 12-month recovery was requested, the impact for a typical residential sales service customer would exceed 25% on the commodity portion of the bill. The impact on the commodity portion of the bill was prepared using a forecast of gas costs based on a 21-day strip ending March 1, 2022 and included the recovery of the \$380,000 in deferred PGCVA amount approved in the January 2022 QRAM application. As seen in Table 1 below, this resulted in commodity increases of approximately 33.5%. 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 increasing commodity rates, EPCOR is also implementing changes to the federal carbon charge (FCC) previously approved by the OEB.

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

Table 1: Results of Mitigation Plan- Bill Impacts

	Commodity Bill		Total Bill	
	\$	%	\$	%
Before Rate Mitigation (recovery over 12 months)	\$107.91	33.5%	\$150.03	9.6%
After Rate Mitigation (recovery over 24 months)	<u>\$72.76</u>	<u>22.6%</u>	<u>\$114.88</u>	<u>7.3%</u>
Impact of Mitigation	(\$35.15)	(10.9%)	(\$35.15)	(2.3%)

The total bill impact for a typical residential sales service customer, after the proposed rate mitigation, is about 7.3% on an annualized basis. The impact on the commodity portion of the bill is 22.6%.

On March 17, 2022, EPCOR provided a response to OEB staff's request for a model of an 18-month recovery of the PGCVA deferred amount. EPCOR stated that an 18-month recovery will result in a 26.3% increase to the commodity portion of the bill with an 8.1% increase to the total bill.

OEB Staff Position

OEB staff reviewed the models for 12-month, 18-month and 24-month recovery of the PGCVA credit, and each of the models, except for 24-month recovery, resulted in a greater than 25% increase to the commodity portion of the bill. EPCOR's proposed mitigation plan reduces the commodity bill impact for a typical sales service residential customer in South Bruce to under 25%. OEB staff is of the view that EPCOR's proposed rate mitigation plan for recovery over 24-months 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 for Enbridge's April 2022 QRAM application³. OEB staff supports the proposed rate mitigation plan as it allows for the full recovery of the previously deferred PGCVA amount of \$380,000 while not unduly exposing customers to rapid and steep increases in the price of natural gas. OEB staff notes that the total bill impact for a typical residential sales service customer is also less than the 10% threshold used in the electricity sector to trigger the need for a rate mitigation plan⁴. The increase in the commodity portion of the bill is also below the 25% threshold established by the OEB in the QRAM policy.

In its letter of comment filed in EPCOR's January 2022 QRAM⁵, OEB staff noted that, given the magnitude of the PGCVA balance (i.e., \$380,000 plus applicable carrying charges) combined with the increases in the FCC being implemented in the current QRAM, 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 submitted that a longer-term approach to the recovery of the deferred amount would provide for rate smoothing for the benefit of ratepayers. For this reason, OEB staff supports EPCOR's proposal to recover the PGCVA balances over a period of 24-months rather than the typical 12-month period. The 24-month disposition period is also consistent with the OEB's Decision and Order from Enbridge Gas

³ EB-2022-0089

⁴ OEB's [Handbook for Utility Rate Applications](#) (October 13, 2016) page v, Rate Mitigation

⁵ EB-2021-0309

Distribution's April 1, 2014 QRAM.⁶

⁶ EB-2014-0039