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

# DECISION AND ORDER

## EB-2022-0100

## EPCOR NATURAL GAS LIMITED PARTNERSHIP- SOUTH BRUCE

**Application for quarterly rate adjustment mechanism commencing April 1, 2022**

**Before:** **Allison Duff**
Presiding Commissioner

**Lynne Anderson**
Chief Commissioner

**David Sword**
Commissioner

**March 24, 2022**

# INTRODUCTION

EPCOR applied for an order or orders approving or fixing just and reasonable rates and other charges for the sale and distribution of natural gas commencing April 1, 2022 for its South Bruce operations on March 14, 2022 and revised its application on March 17, 2022 (the Application).

The Application was made pursuant to section 36(1) of the *Ontario Energy Board Act, 1998* and in accordance with the Quarterly Rate Adjustment Mechanism (QRAM) established by the OEB for dealing with changes in gas costs.[1]

The Ontario Energy Board (OEB) is not approving the mitigation plan proposed by EPCOR Natural Gas Limited Partnership (EPCOR). EPCOR proposed a 24-month mitigation plan. The OEB finds additional mitigation, beyond the typical 12-month smoothing, is not required. The OEB will approve the standard updates to rates using the ordinary QRAM methodology.

EPCOR stated that based on the forecast increase in natural gas prices, absent any rate mitigation, the increase to the commodity portion of the bill effective April 1, 2022 for a typical residential customer[2] who purchases its natural gas supply from EPCOR would exceed 25%. As a result, EPCOR proposed a rate mitigation plan of 24 months for its South Bruce customers.

Parties and OEB staff wishing to file comments on the Application were required to file them with the OEB by March 18, 2021. OEB staff filed a letter of comment indicating that EPCOR's proposed rate mitigation plan was acceptable and recommended that it be approved. No other comments were filed.

The OEB approves the typical 12-month smoothing period and expects ECPOR to make every effort possible to have this Decision implemented by April 1, 2022.

## OEB Process for QRAM

The OEB has established a process for reviewing QRAM applications, which was last updated in 2014.[3] This process requires distributors, one month in advance of the normal QRAM filing date, to complete a preliminary estimate of the change in the

[1] EB-2008-0106
[2] A typical residential customer in South Bruce uses about 2,149 cubic metres of natural gas per year
[3] EB-2014-0199, Review of the Quarterly Rate Adjustment Mechanism (August 14, 2014)

commodity portion of a typical residential customer's bill who purchases their natural gas supply from the distributor.

The preliminary estimate is based on a forecast of natural gas prices, including any true-ups for the difference between actual and forecast natural gas prices for prior periods. In accordance with the QRAM process established by the OEB in a previous decision,[4] the forecasted reference price must be based on the most current 21-day strip of market prices available at the time.

If a distributor anticipates an increase or decrease of 25% or more on the commodity portion of a typical residential customer's bill, the distributor must file a letter with the OEB describing the anticipated increase or decrease and the cost drivers underpinning the anticipated change.

If a 25% or greater change on the commodity portion of a typical residential customer's bill is still anticipated with the QRAM application, the distributor must file evidence that explains, in detail, the reasons for the rate increase or decrease. Where the change is an increase, the distributor must also propose a plan for rate mitigation.

[4] EB-2008-0106

## EPCOR'S PROPOSED RATE MITIGATION PLAN

EPCOR stated that based on the QRAM, the bill impacts effective April 1, 2022 for a typical residential customer who purchases its natural gas supply from EPCOR 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 prices over the next 12-month based on a 21-day strip ending March 1, 2022. It also included the recovery of the difference between actual and forecast natural gas prices for prior periods and the recovery of an amount of $380,000 that was previously deferred in the January 2022 QRAM as part of an OEB approved mitigation plan over the next 12-months (referred to as the PGCVA amount). The total bill impact for a typical residential customer was forecasted to be an increase of approximately 10%.

In order to keep the commodity portion of the bill under 25%, EPCOR proposed to recover the PGCVA amount over a period of 24-months instead of the usual 12-month, beginning in April 2022.

The bill impacts of the proposed rate mitigation plan for a typical residential customer who purchases its gas supply from EPCOR- South Bruce are depicted in Table 1 below.

**Table 1: Rate Mitigation Plan- Bill Impacts**

| | Commodity Bill | | Total Bill | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Before Rate Mitigation (beyond the typical 12 months) | $107.91 | 33.5% | $150.03 | 9.6% |
| After Rate Mitigation (recovery over 24 months) | $72.76 | 22.6% | $114.88 | 7.3% |
| Impact of Mitigation | ($35.15) | (10.9%) | ($35.15) | (2.3%) |

Under the mitigation proposal, the total annual bill impact for a typical residential customer who purchases their gas supply from EPCOR would be an increase of approximately $114 on an annual basis or 7.3%. The total bill impact also includes changes to the federal carbon charge previously approved for recovery through rates by the OEB.

## Reasons for the Increase in Gas Supply Prices

EPCOR explained that the combination of low storage levels, flat production, and increased demand in natural gas exports has led to a further increase in natural gas prices in North America. Further, the geopolitical conflict in Europe led to additional volatility in natural gas market prices. This increase is reflected in the reference price based on the 21-day market strip ending on March 1, 2022 used for the commodity forecast.

## Comments on the Application

Comments were received from OEB staff. OEB staff reviewed the models for the recovery of the PGCVA amount over 12-months, 18-months, and 24-months. OEB staff commented that except for the 24-month recovery period for the PGCVA amount, all other scenarios resulted in an increase greater than 25% on the commodity portion of the bill. OEB staff submitted that EPCOR's proposed rate mitigation plan for recovery of the PGCVA amount over 24-months was acceptable and should be approved as filed.

# FINDINGS

The OEB does not approve EPCOR's application to recover the PGCVA over a 24-month period. The OEB finds additional mitigation, beyond the typical 12-month smoothing period, is not required.

An expected increase of 25% in the commodity portion of the customer's bill is the trigger for communication to the OEB in advance of filing an application, and the filing of a rate impact mitigation plan with the application[5]. However, this 25% on the commodity is not a cap and the OEB will consider the total bill impact in determining whether additional mitigation is warranted. The OEB uses a 10% total bill impact extensively for the electricity sector, and considers that a reasonable target for the natural gas sector as well. This threshold is referenced in the OEB's Handbook for Utility Rate Applications applicable to all rate-regulated utilities[6].

However, the OEB also does not consider the 10% total bill impact a cap but rather a point at which the OEB will consider adopting mitigation measures. The OEB considers

[5] EB-2014-0199, Review of the Quarterly Rate Adjustment Mechanism, Decision and Order, August 14, 2014 (page 4)
[6] OEB Handbook for Utility Rate Applications (October 13, 2016); see Introduction (page 1) and Rate Mitigation (Appendix 3, page v)

it reasonable for commodity prices to increase by more than 25% if the bill increase is less than 10% in order to preserve as much of the market price signal as reasonable. This allows for flexibility on a case-by-case basis as necessity and circumstances deem appropriate[7].

ECPOR's Application outlined that the impact of a 12-month rate smoothing period resulted in a 33.5% commodity price increase and a 9.6% total bill increase.

The OEB approves this option of using the typical 12-month smoothing period as it strikes the appropriate balance between reflecting the forecast natural gas market prices while shielding customers from excessive bill increases.

The OEB expects ECPOR to make every effort possible to have this Decision implemented effective April 1, 2022. If this is not possible to implement these changes effective April 1, 2002, EPCOR shall file an alternative plan for implementation for approval, including details on the timing of ECPOR's billing cycles for South Bruce.

[7] EB-2013-0416/EB-2015-0079, Hydro One Networks Inc. application for 2016 electricity distribution rates, Decision and Order, December 22, 2015

# THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR shall file with the OEB a draft rate order reflecting the OEB's findings in this Decision, by **March 28, 2022**. The draft rate order shall include customer rate impacts and supporting information showing the calculation of final rates.

2. OEB staff shall file any comments on the draft rate order with the OEB and forward them to EPCOR on or before **March 29, 2022**.

3. EPCOR shall file with the OEB responses to any comments on its draft rate order on or before **March 30, 2022.**

**ISSUED** at Toronto, March 24, 2022

**ONTARIO ENERGY BOARD**

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Registrar