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

BY EMAIL

June 15, 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
July 2022 Quarterly Rate Adjustment Mechanism (QRAM) Application
OEB File Number: EB-2022-0174

Please find attached OEB staff's comments in the above-referenced proceeding.

Yours truly,

Arturo Lau
Digitally signed by Arturo Lau
Date: 2022.06.15 11:18:32 -04'00'

Arturo Lau
Case Manager, Natural Gas Applications

Encl.

cc: All parties in EB-2022-0174

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 files its QRAM application in accordance with the OEB-approved QRAM methodology.[1] 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 basis.[2]

In response to increased market prices at the time, EPCOR Natural Gas Limited Partnership (EPCOR) proposed mitigation plans in its October 2021, January 2022, and April 2022 QRAM applications. The October 2021 mitigation plan involved using a 21-day strip from August 5, 2021 as opposed to August 30, 2021 to achieve an under 25% increase to the commodity portion of the bill. The January 2022 mitigation plan involved offsetting rate increases by applying a $380,000 credit to the PGCVA for expected recovery in subsequent QRAM applications. The OEB approved both proposed plans.

For the April 2022 QRAM, EPCOR proposed to recover the $380,000 credit to the PGCVA over a 24-month period, as opposed to a 12-month period, as a rate mitigation measure. In its decision for EPCOR South Burce's April 2022 QRAM,[3] the OEB noted that 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

[1] EB-2008-0106
[2] EB-2014-0199, Decision and Order, p. 6
[3] EB-2022-0100, EPCOR South Bruce, April 2022 QRAM Decision & Rate Order, March 24, 2022

a rate impact mitigation plan with the application.[4] The OEB uses a 10% total bill impact extensively for the electricity sector[5] and considers that a reasonable target for the natural gas sector as well. However, the OEB also did not consider the 10% total bill impact a cap but rather a point at which the OEB will consider adopting mitigation measures. The OEB stated that 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. Therefore, the OEB denied EPCOR's proposed rate mitigation approach and approved the option of using the typical 12-month smoothing period

On May 27, 2022, EPCOR filed a letter to inform the OEB that, based on market pricing trends, the gas commodity portion of the bill was expected to 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 June 10, 2022, EPCOR filed its July 2022 QRAM application for South Bruce. In its application, EPCOR provided two approaches: the preferred approach and the rate mitigation approach.

For its preferred approach, EPCOR proposed no additional mitigation measures and will continue to recover the remainder of the PGCVA credit until the end of March 2023 (nine-months remaining).

EPCOR also provided a rate mitigation approach for the OEB's consideration. In this approach, EPCOR proposed to extend the recovery of the PCGVA credit for an additional 24 months beginning July 2022 (the recovery will end June 2024).

The table below shows the commodity and the total annual bill impacts for the two approaches for a typical residential sales service customer:

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

Table 1: Annual Bill Impacts on EPCOR's Proposed Approaches

	Commodity Bill		Total Bill	
	$	%	$	%
Preferred Approach (No additional mitigation)	$222.95	51.9%	$222.95	13.0%
Rate Mitigation Approach (Remaining PGCVA recovered over additional 24 months)	$185.45	43.2%	$185.45	10.8%
Impact of Mitigation	($37.50)	-8.74%	($37.50)	-2.20%

EPCOR's preferred approach is to apply no additional mitigation and continue to recover the remainder of the PCGVA credit over the remaining nine months, ending March 2023. EPCOR stated the following in support of the preferred approach:

a) Even without any additional rate mitigation measures, the commodity and total bill impacts are equal to or less than Enbridge Gas's July 2022 QRAM application after the adoption of Enbridge Gas's preferred rate mitigation approach.
b) Natural gas prices could continue to rise, and additional rate mitigation measures could delay the increases into the October 2022 QRAM.
c) EPCOR's alternate rate mitigation approach to spread out the recovery of the remaining PGCVA credit over 24 months only leads to a small difference in the total bill impact.
d) The preferred approach would represent a closer reflection of actual natural gas market prices, ensures consumers are receiving appropriate price signals, and is consistent with previous OEB findings.[6]

[6] "… the QRAM is intended to strike a balance between ensuring that consumers are receiving appropriate price signals which reflect the actual natural gas market price, and protecting the interests of system supply customers by reducing, to some extent, volatility in the price of natural gas." From EB-2014-0199 Review of the Quarterly Rate Adjustment Mechanism, Decision and Order, August 14, 2014, p. 4.

OEB Staff Position

OEB staff submits that the OEB should approve EPCOR's preferred approach as filed.

Proposed Rates

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 preferred approach achieves this balance.

As the OEB stated in its Decision and Rate Order for EPCOR South Bruce's April 2022 QRAM, neither a 25% impact on the commodity portion of the bill nor a 10% impact on the total bill are considered caps or limits on the magnitude that customer bills may increase.

Based on current natural gas market dynamics, OEB staff agrees with EPCOR that it is appropriate that the OEB approve rates that result in total bill impacts that are higher than 10%. OEB staff submits that additional rate mitigation could delay increases to October 2022 when there is higher natural gas consumption and this may result in substantial bill increases at that time.

As seen in Table 2 below, OEB staff also agrees with EPCOR that the commodity-related bill impacts of its preferred approach are similar to the commodity-related bill impacts of Enbridge Gas's preferred rate mitigation approach for its Union South Zone, where EPCOR South Bruce is located. OEB staff notes that the total bill impacts resulting from ECPOR's preferred rate mitigation approach are lower than the total bill impacts resulting from Enbridge Gas's preferred rate mitigation approach for its Union South Zone.

Table 2: Annual Bill Impacts on EPCOR's Preferred Approach and Enbridge Gas's Preferred Rate Mitigation Approach

	Commodity Bill		Total Bill	
	$	%	$	%
Preferred Approach (No additional mitigation)	$222.95	51.9%	$222.95	13.0%
Enbridge Gas- Union South Rate Zone (Preferred rate mitigation approach) [7]	$246.92	55.7%	$250.70	23.1%

[7] EB-2022-0150, Enbridge Gas Q3 QRAM, Exhibit A, Tab 2, Schedule 2, Page 8, Table 3

OEB staff notes that the near-term impact of the preferred approach on a typical residential customer over the next three months, subject to EPCOR's confirmation in its reply letter, is a total bill increase of approximately $22, whereas the rate mitigation approach results in a total bill increase of approximately $18 over three months. In other words, the rate mitigation approach only reduces the total bill impact by a little more than $1/ month.[8]

OEB staff submits that EPCOR's preferred approach better reflects forecast natural gas market prices, relative to the rate mitigation approach, and ensures that consumers are receiving appropriate price signals.

Customer Notifications

EPCOR's application does not indicate EPCOR's approach to customer notification of bill changes. EPCOR, in its reply letter, may wish to describe the process for customer notification of bill changes arising from decisions on EPCOR's QRAM applications. As part of the response, EPCOR should advise whether it sends printed customer notices / bill inserts to its customers.

If EPCOR sends printed customer notices, OEB staff submits that EPCOR should address in a future QRAM application the value that printed notices provide as compared to the level of effort required and the impact on the efficiency of the QRAM process. EPCOR should also file an updated proposal for customer notification in a future QRAM application.

[8] OEB staff took the third quarter's consumption of 211.6 m3, calculated the third quarter's bill impact using the current rates, proposed preferred approach rates, and the proposed rate mitigation rates, and calculated the difference between current rates and the proposed preferred rates, and the current rates and the proposed rate mitigation rates.