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**Sent by EMAIL, RESS e-filing**

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
27-2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms. Marconi,

**Re: EB-2022-0184: EPCOR Natural Gas Limited Partnership's ("EPCOR") 2023 Custom  
Incentive Rate Adjustment Application – Southern Bruce**

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In accordance with Procedural Order #1, please find attached responses to the Ontario Energy Board (OEB) staff interrogatories in the above proceeding.

Please feel free to contact me if you have any questions regarding this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. Hesselink", is written over a light blue horizontal line.

Tim Hesselink, CPA, CGA  
Senior Manager, Regulatory Affairs  
EPCOR Natural Gas Limited Partnership  
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Encl.

**EPCOR Natural Gas Limited Partnership  
Responses to OEB Staff Interrogatories  
EB-2022-0184**

**OEB Staff.1 – Energy Content Variance Account- Rate 16 2022 Adjustment**

Ref: 2023 Incentive Rate Adjustment Application, page 14

Due to a clerical error, the 2022 ECVA rate rider was incorrectly added to the draft rate order and approved in EPCOR's South Bruce 2022 Custom IR update.<sup>1</sup> As this was an approved rate rider, EPCOR had billed this rate rider to four Rate 16 accounts from its commencement date of January 1, 2022 until June 27, 2022.

In EPCOR's South Bruce July 2022 QRAM, EPCOR was approved to remove the error and rebate the amounts as soon as feasible.<sup>2</sup> EPCOR was also instructed to report back to the OEB on the details of the correction.

- a) Please provide details of how the rebate amounts were calculated.
- b) Please confirm that each customer was rebated the amount proportional to their consumption from January 1, 2022 until July 1, 2022.
- c) Please explain why EPCOR cited that four Rate 16 accounts were billed this rate rider but only three customers appear to have received rebates.

**EPCOR Response:**

- a) Rebates were calculated by reversing amounts previously billed to each customer.
- b) Confirmed.
- c) The correct amount of customers is 3. During the initial review, EPCOR staff incorrectly indicated that there were 4 customers impacted

**OEB Staff.2- Contribution in Aid of Construction Variance Account (CIACVA)**

Ref: 2023 Incentive Rate Adjustment Application, pages 16-17  
 2023 Incentive Rate Adjustment Application, Auditor’s Report, CIACVA  
 EB-2018-0264, Application, Exhibit 1, Tab 2 Schedule 1, Page 31, Table 1-4

EPCOR proposed to recover the CIACVA balance of \$309,129 as of December 31, 2021, including interest to December 31, 2022. EPCOR proposed to recover balance in the CIACVA from all rate classes based on revised forecast volumes allocated by rate base assumptions included in the Common Infrastructure Plan (CIP). EPCOR requested a 12-month volumetric rate rider for the disposition of the account.

In EPCOR’s 2019-2028 rates proceeding<sup>3</sup> the following table was filed:

Table 1-4: Ten Year Revenue Requirement

(Thousands of Dollars)

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11
Description	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Sum
Row 1 CIP Distribution Revenue Requirement	1,332	4,389	6,156	7,534	8,489	9,122	9,406	9,587	9,723	9,865	75,583
Row 2 less Grant Impact	(352)	(1,435)	(1,753)	(1,721)	(1,689)	(1,657)	(1,624)	(1,592)	(1,560)	(1,528)	(14,912)
Row 3 less Tax Holidays	(114)	(189)	(214)	(223)	(231)	(235)	(249)	(250)	(251)	(252)	(2,208)
Row 4 Rate Smoothing Adjustment	279	(281)	(427)	(221)	(69)	49	87	140	194	248	(0)
Row 5 add LEAP Funding	2	4	6	7	8	9	9	9	9	9	72
Row 6 Distribution Revenue Requirement	1,147	2,487	3,768	5,376	6,508	7,288	7,629	7,875	8,115	8,343	58,535
Row 7											
Row 8 add Upstream Recovery Charge	49	230	310	366	403	467	460	452	443	435	3,625
Row 9 add Transportation and Storage Charge	80	372	513	630	712	783	789	802	815	828	6,302
Row 10 add Gas Supply Charge	190	662	1,224	1,682	1,978	2,160	2,248	2,290	2,330	2,366	17,129
Row 11 Non-distribution Revenue Requirement	319	1,273	2,047	2,678	3,093	3,391	3,497	3,544	3,588	3,627	27,056
Row 12											
Row 13 Total EPCOR Revenue Requirement	1,466	3,760	5,814	8,053	9,601	10,679	11,126	11,418	11,703	11,970	85,591

OEB staff notes that the Upstream Recovery Charge is related to overall upstream transportation capacity expansion costs (including CIAC related to Owen Sound Transmission Reinforcement and Dornoch Meter and Regulator Station).

- a) Please advise when EPCOR started making payments to Enbridge Gas related to the CIAC for the Owen Sound Transmission Reinforcement and Dornoch Meter and Regulator Station.

**EPCOR Response:**

EPCOR began making payments to Enbridge starting in 2019 and the final payment to Enbridge was made in 2021.

- b) The Auditor's Report shows that the "CIACVA revenue requirement based on the amount paid" for 2020 and 2021 is \$511,168 and \$704,053, respectively. Please discuss how this is calculated and why there is an increase in the CIACVA paid relative to the amount included in rates.

**EPCOR Response:**

The revenue requirement has been calculated by determining the return on ratebase and annual depreciation related to the Owen Sound Reinforcement and Dornoch station assets. A supporting workbook with detailed calculations has been included with this submission (EPCOR\_IRR\_OEBStaff2\_20220919).

There is an increase in the CIAC paid relative to the amount included in rates as the original rate application had an estimated capex of \$5.3 million for both assets and the total actual capex paid was \$9.5 million.

- i. Please provide detailed calculations for the "CIAC revenue requirement based on the amount paid."

**EPCOR Response:**

Please refer to excel workbook: EPCOR\_IRR\_OEBStaff2\_20220919

- c) As shown in the Auditor's Report, the "CIACVA revenue requirement per filing" for 2020 and 2021 is \$406,235 and \$399,485, respectively.
- i. Please confirm that the "CIACVA revenue requirement per filing" is the amount included in EPCOR's approved revenue requirement to which actual costs are compared for the purposes of calculating the balance in the CIACVA.

**EPCOR Response:**

Confirmed, the CIACVA revenue requirement per filing is based on the depreciation and return on ratebase for the Owen Sound Reinforcement and Dornoch station.

- ii. Please discuss how the “CIACVA revenue requirement per filing” amounts are calculated and provide a reference to where these amounts can be found in EPCOR’s 2019-2028 rates application. In addition, please explain how the “CIACVA revenue requirement per filing” amounts relate to the Upstream Recovery Charge in Table 1-4 shown above

**EPCOR Response:**

The “CIACVA revenue requirement per filing” is based on the depreciation and return on ratebase for the Owen Sound Reinforcement and Dornoch station.

The calculation of these amounts are referenced in EB-2018-0264, EPCOR 2019 Financial Model Protected\_20190412 rows 14092 to 14096.

<https://www.rds.oeb.ca/CMWebDrawer/Record/639460/File/document>

The CIACVA revenue requirement per filing is not related to the Upstream Recovery Charge and does not overlap with the delayed/deferred recovery of the CIAC per the S&TVA deferral account.

**OEB Staff.3- Customer Volume Variance Account (CVVA)**

Ref: 2023 Incentive Rate Adjustment Application, pages 21-36 and Appendix E

EPCOR requested approval to establish the CVVA to track the variance in revenue resulting from the difference between customer volume forecast based on common assumptions and the actual customer volume. The CVVA would track the variances for all mass market customers in Rate 1 and Rate 6. Volume variances related to seasonal Rate 11 and large commercial industrial rate customers would not be tracked in this account as their volumes were not forecast using common assumptions.

EPCOR requested that the CVVA be established as of the filing date of its application. Notwithstanding the effective date that is established for the CVVA, EPCOR requested that variances be recorded back to January 1, 2020, which is when the first mass market customer was connected to the Southern Bruce system. EPCOR proposed an end date for the CVVA corresponding to the end of the approved rate stability period (i.e. December 31, 2028).

EPCOR acknowledged that it should retain the risk related to customer attachments, as that was a CIP competitive parameter. EPCOR’s draft accounting order for the CVVA stated that for EPCOR to retain the risk related to customer connection counts, the common assumption volumes per customer will be applied to the actual customer connections for each corresponding customer segment and rate class to determine the “Common Assumptions Customer Volume.”

EPCOR provided the following methodology to calculate the CVVA balance each year:

$$\left( \begin{array}{l} \text{Customer Volume} \\ \text{Common Assumption by} \\ \text{Customer Type within a} \\ \text{Rate Class} \end{array} - \begin{array}{l} \text{Actual Customer} \\ \text{Volume by Customer} \\ \text{Type within a Rate} \\ \text{Class} \end{array} \right) \times \text{Tariff for Rate Class}$$

EPCOR stated that had Enbridge Gas (then known as Union Gas) been the successful proponent, consistent with the principle of not taking the risk related to common assumptions, it would have used its existing variance accounts (i.e. Normalized Average Consumption Variance Account (NACVA) and South Purchase Gas Variance Account (SPGVA)) to capture variances in consumption volumes.

EPCOR noted that it has an approved variance account relating to the energy content of the natural gas consumed [Energy Content Variance Account (ECVA)], but there is no variance account that addresses changes in consumption volume (increase or

decrease) caused by other factors.

EPCOR stated that it intends to bring the balance recorded in the CVVA together with any carrying charges, forward for approval for disposition in its annual Incentive Rate Adjustment Applications once the balance has been audited, or at such other time as EPCOR may request and the OEB may order. EPCOR stated that the manner in which the account will be disposed of will be proposed at the time the account is brought forward for disposition.

EPCOR also provided the following table that highlights the impact on its revenues related to variances in consumption between the common assumptions used to set base rates and expected actual consumption.

**Table 1.4**  
**Summary Impact on Revenue (\$)**

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11
Forecasted Revenue	Total	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Row 1 CIP Common Assumptions	28,225,250	0	56,663	705,699	1,890,713	3,199,775	4,289,801	4,380,126	4,472,443	4,566,796	4,663,232
Row 2 Actual / Forecast	20,478,224	0	930	296,409	1,336,578	2,282,755	3,175,763	3,242,548	3,310,805	3,380,567	3,451,868
Row 3 Difference (negative = shortfall)	(7,747,026)	0	(55,733)	(409,290)	(554,135)	(917,020)	(1,114,038)	(1,137,578)	(1,161,638)	(1,186,229)	(1,211,364)

- a) Please provide a list of the specific charges (e.g. delivery charges, upstream transportation charges, etc.) that are included in the “Tariff for Rate Class” aspect of the CVVA calculation.

**EPCOR Response:**

The Delivery Charge is the specific charge included in the Tariff for Rate Class aspect of the CVVA calculation.

- b) Please provide a simple example that shows how the CVVA will ensure that EPCOR retains the risk associated with customer attachments. As part of this response, please include calculations for each the “Customer Volume Common Assumption” and “Actual Customer Volume.”

**EPCOR Response:**

The table below illustrates that EPCOR retains the risk associated with customer attachments upon implementation of the CVVA.

**Table 3 b. – Illustration of Customer Attachment Risk**

		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	
	Calculation	Total	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	
Row 1	Customer Attachment Committed		0	100	200	300	400	500	600	700	800	900	
Row 2	Customer Attachment Realized		0	70	140	210	280	350	420	490	560	630	
Row 3	Difference (negative = shortfall)	R2 - R1	0	(30)	(60)	(90)	(120)	(150)	(180)	(210)	(240)	(270)	
Row 4													
Row 5	Common Assumption Volume per Cx		2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	
Row 6	Actual Volume per Cx		1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453	
Row 7	Difference (negative = shortfall)	R6 - R5	(747)	(747)	(747)	(747)	(747)	(747)	(747)	(747)	(747)	(747)	
Row 8													
Row 9	Assumed Volumetric Tariff (cents / m3)		29.2913	29.6841	30.0987	30.6142	31.0266	31.4452	31.8701	32.3013	32.7390	33.1832	
Row 10													
Row 11	Tariff Revenue Realized (\$)	R2 x R6 x R9 / 100	1,465,587	0	30,192	61,227	93,413	126,229	159,915	194,490	229,975	266,390	303,756
Row 12	Recovery from CVVA (\$, excl. carrying cost)	(R2 x R5 X R9 / 100) - R11	753,471	0	15,522	31,477	48,025	64,895	82,213	99,989	118,232	136,954	156,164
Row 13	Total Revenue Realized (\$)	R11 + R12	2,219,058	0	45,713	92,704	141,438	191,124	242,128	294,479	348,208	403,344	459,919
Row 14													
Row 15	Tariff Revenue under Committed Attachment (\$)	R1 x R5 x R9 / 100	3,170,082	0	65,305	132,434	202,054	273,034	345,897	420,685	497,440	576,206	657,028
Row 16	Customer Attachment Risk (\$)	R13 - R15	(951,025)	0	(19,591)	(39,730)	(60,616)	(81,910)	(103,769)	(126,205)	(149,232)	(172,862)	(197,108)

Row 11 above is the revenue that EPCOR would collect if realizing a lower than committed customer attachment. Row 12 is the CVVA disposal related to the consumption shortfall of actual customers attached to the system. Row 13 is the total revenue EPCOR would receive from the actual customers attached. Row 15 is the revenue EPCOR would realize if the customer attachments included in the CIP are realized and they consumed the volume of gas as per the common assumption. Row 16 is the revenue shortfall EPCOR would realize due to lower than committed customer attachment including collection of the CVVA for those customers that did attach. As shown, EPCOR would realize a revenue shortfall with implementation of the CVVA if EPCOR's actual customer attachment is lower than its committed attachment. That revenue shortfall would be equal to the customer shortfall times the common volume consumption assumption times the volumetric tariff (R3 x R5 x R9/100).

- c) Please provide a summary table describing how the NACVA and SPGVA operate to true-up consumption variances for the Union Rate Zones and compare the operation of those accounts to EPCOR's proposed CVVA. As part of this response, please discuss if, and how, EPCOR intends to address weather normalization in the CVVA.

**EPCOR Response:**

Table 3 c) below summaries how Enbridge's NACVA and EPCOR's proposed CVVA would operate to true-up consumption variances.



Enbridge True-up Operation and Values <sup>1</sup>				EPCOR Values	
Line No.	Particulars	Rate 01	Rate 1	Comment for EPCOR Value	
<b>Base Rates</b>					
1	2019 Target NAC: m <sup>3</sup>	2,852.7	2,149	CIP Common Consumption Assumption	
2	2019 Actual NAC: m <sup>3</sup>	2,880.0	1,440	Example of weather normalized NAC Consumption vs 1,453 actual consumption	
3	Actual Changes in NAC: m <sup>3</sup> (line 1 – 2)	(27.2)	(709)		
<b>Y Factor Rates</b>					
4	2019 Target NAC: m <sup>3</sup>	2,762.1	N/A	Y Factor Rates not applicable as	
5	2019 Actual NAC: m <sup>3</sup>	2,880.0	N/A	EPCOR does not have a DSM	
6	Actual Changes in NAC: m <sup>3</sup> (line 4 – 5)	(117.9)	N/A	program	
7	2013 Board – approved number of Customers at December	323,287.0	2,474	Average forecast customers for 2022	
<b>Base Rates</b>					
8	Annual Volume Impact (10 <sup>3</sup> m <sup>3</sup> )	1 (8,769.9)	(1,754.1)		
9	2019 Net Annual Average Delivery Rate (\$/m <sup>3</sup> )	2 0.1	0.28	Using rate for first 100m <sup>3</sup> /month in this simplified example	
10	2019 Net Annual Average Storage Rate (\$/m <sup>3</sup> )	3 0.0	N/A	Storage costs not addressed in this variance account	
11	Delivery Rate Annual Balance Amount (\$000)	4 (736.2)	(491.1)		
12	Storage Rate Annual Balance Amount (\$000)	4 (374.6)	N/A	Storage costs not addressed in this variance account	
<b>Y Factor Rates</b>					
13	Annual Volume Impact (10 <sup>3</sup> m <sup>3</sup> )	1 (37,753.0)	N/A		
14	2019 Net Annual Average Delivery Rate (\$/m <sup>3</sup> )	2 0.0	N/A		
15	2019 Net Annual Average Storage Rate (\$/m <sup>3</sup> )	3 0.0	N/A	Y Factor Rates not applicable as	
16	Delivery Rate Annual Balance Amount (\$000)	4 (170.0)	N/A	EPCOR does not have a DSM	
17	Storage Rate Annual Balance Amount (\$000)	4 (0.2)	N/A	program	
<b>Total Annual Balance Amounts (\$000)</b>					
18	Total Delivery Rate Annual Balance Amount (line 11+16)	(906.1)	(491.1)		
19	Total Storage Rate Annual Balance Amount (line 12+17)	(374.8)	N/A		
20	Storage Cost Annual Balance Amount (\$000)	62.7	N/A		
21	Interest (\$000)	5 (19.4)	-----	Not calculated for this simplified example	
22	Total Deferral Account Amounts (\$000) (line 18+19+20+21)	(1,237.7)	(491.1)		

<sup>1</sup> EB-2020-0134 Enbridge Gas Inc. 2019 Utility Earnings and Disposition for Deferral & Variance Account Balances Application and Evidence, Exhibit E, Tab 1, Schedule 6, page 1 of 1

Notes (Enbridge)

- 1 The annual volume is obtained from a monthly calculation of approved customers and the monthly usage variance.
- 2 The Net Annual Average Delivery Rate is the volume-weighted average of Board-approved monthly unit rates in effect
- 3 The Net Annual Average Storage Rate is the volume-weighted average of Board-approved monthly unit rates in effect
- 4 The annual revenue is obtained from a monthly calculation of volumes (lines 8 and 13) and the monthly unit delivery and storage rates (lines 9, 10, 14 and 15).
- 5 Interest is calculated to December 31, 2020.

For the CVVA, EPCOR intends to use the weather normalized actual consumption ("NAC") to compare against the CIP common assumption volume. In calculating the NAC EPCOR intends to adopt the same methodology as EPCOR Aylmer, and use historical average and actual heating degree days specific to the South Bruce region (i.e. Kincardine), to weather normalize consumption. The weather normalized consumption will be captured as the NAC average consumption, which will be used to calculate the variance against the CIP annual volumes. Use of the proposed NAC is illustrated in Line 2 of Table 3 c) as the average customer volume variance in Line 3 will use the difference between the CIP common assumption volume and the NAC to calculate the difference in distribution revenue.

As summarized in the Enbridge notes included in the example, EPCOR proposes to use monthly customer and consumption data and weighted average of Board approved delivery charges to determine the annual value to be recognized in the CVVA. As a result of this, EPCOR proposes a change to the Draft Accounting Order included in Appendix E of the application. The proposed Draft Accounting Order is included in Appendix A of this document.

EPCOR determined that Enbridge's SPGVA records variances in the per unit cost of gas purchased each month for Union's Southern operations area and the unit costs of gas included in the approved gas sales rates. As Union's gas sales rates include a gas energy content that varies according to the source of the gas purchased that quarter this account takes into account variances in energy content. EPCOR understands that this account is cleared through the QRAM for Union Rate Zones (EPCOR South Bruce's equivalent of the PGCVA) and will not impact its NACVA, the equivalent of EPCOR's requested CVVA. EPCOR's PGCVA is the equivalent of Enbridge's SPGVA and is also cleared quarterly through the QRAM. Like Enbridge, the PGCVA will not impact the CVVA, as the PGCVA captures the variances in gas commodity spend and have no impact on distribution revenue. The ECVA then records the variance between energy content of gas transported from Enbridge's transmission system to South Bruce, and the Common Assumption made in the CIP. As a result, EPCOR's ECVA and proposed CVVA do not have the same interaction as Enbridge's NACVA and SPGVA.

- d) Please discuss the operation of the CVVA in the context of the OEB-approved ECVA. Specifically, please discuss how EPCOR will ensure that variances in actual energy content relative to the assumed energy content used in determining EPCOR's revenue requirement are not captured in both the ECVA and the CVVA.

**EPCOR Response:**

EPCOR would propose to continue to operate the ECVA as is currently the case and to normalize the NAC used in the CVVA for any energy content variance that is recognized in the ECVA. This normalization would be accomplished using a ratio of the actual heat value to the rate setting heat value of 38.89. This will avoid any double counting of changes in consumption due to changes in energy content.

- e) Please provide detailed calculations, along with the excel files, supporting Tables 1.4 and 1.5.

**EPCOR Response:**

Please refer to attachment EPCOR\_IRR\_OEBStaff3e\_20220919.

- f) For Table 1.6 Actual/Forecast Connection Count (Annual Average), please describe how the Annual Average is calculated for each rate class.

**EPCOR Response:**

EPCOR projected connection counts in years 2020 – 2024 based on existing customer additions and currently observed pace of customer unlocks for each rate class. In years 2025 -2028, we applied a general growth rate of 0.75%. Annual Average was taken as the average of the current and previous year's year-end customer count for each rate class.

- g) In EPCOR's 2022 Gas Supply Plan update<sup>4</sup> proceeding, in response to OEB staff questions<sup>5</sup>, EPCOR provided the following table.

Year	2020 GSP				2021 GSP Update				2022 GSP Update			
	Rate1	Rate6	Rate11	Total	Rate1	Rate 6	Rate 11	Total	Rate1	Rate 6	Rate 11	Total
2020	2,249	34	2	2,285	179	-	1	180	179	-	1	180
2021	3,616	56	5	3,677	2,614	40	3	2,657	1847	7	1	1,858
2022	4,248	78	5	4,331	3,703	56	6	3,765	3,112	21	6	3,139
2023	4,795	87	5	4,887	4,792	71	6	4,869	4,878	34	7	4,919
2024					5,039	91	6	5,136	5,829	34	7	5,870
2025									5,829	34	7	5,870

Please discuss why the customer connection forecast in the table above differs from the forecast in Table 1.6 in the current application.

**EPCOR Response:**

The customer connection forecast for the Gas Supply Plan is an updated version to the version that was included in the current application. The more recent version reflects an increase in customer applications for gas connections that EPCOR has experienced since the forecast was developed for the current application. As the requested CVVA account is a volume per customer account, changes in the number of customers attached will not impact the calculation of the account.

- h) For Table 1.8 Actual/Forecast Volume by Rate Class, the total Actual 2020 Existing Residential only consumed 2,850m<sup>3</sup> with an Annual Average connection count of 81 residential customers. This implies the average customer used 35m<sup>3</sup> in 2020. Likewise, the average existing residential customer in 2021 used 836m<sup>3</sup>. Please discuss why these numbers differ from the annual consumption of 1,453m<sup>3</sup> estimated by EPCOR in its application.

**EPCOR Response:**

For the 1,453 m<sup>3</sup>/yr estimated average annual volume, EPCOR reviewed Rate 1 residential customers that have at least 12 months of billed consumption history. Since customer connections happen throughout the year, dividing the annual customer consumption by the year-end customer will result in an under-estimate of annual consumption, as the customer count will reflect a number of customers that have less than a full years' worth of consumption.

- i) Please comment on the extent to which the backdating of the CVVA to 2020 amounts to impermissible retroactive ratemaking.

**EPCOR Response:**

Backdating of the CVVA to 2020 does not amount to retroactive ratemaking. Rather doing so is consistent with and upholds the ten year regulatory compact that was central to the competitive process under which EPCOR was awarded a Certificate of Public Convenience and Necessity (CPCN) to construct the South Bruce gas distribution system and the subsequent 10-year custom incentive rate tariff. Certain elements of this regulatory package were meant to be competitive resulting in risk to the utility while other elements were meant to be non-competitive common assumptions which were not a risk. The average volume per customer was a common assumption and its forecasted value was the result of collaboration between EPCOR and Union and accepted by the Board. EPCOR had no reason to believe the actual average volume per customer would be materially different than the common element agreed upon as between EPCOR, Union and the Board. This fact has only recently come to light now that the South Bruce system has been operating for a period of time. In the context of a 10 year regulatory compact, it is only fitting that a discrepancy between a forecasted common assumption and its actual value, needs to be addressed. The requested CVVA restores the underlying risk apportionment of this 10 year deal.

As discussed in this application, the Board and proponents went through a multi-phase process in defining the agreed to competitive and regulatory framework for this community expansion. The process started with the generic proceeding to review gas expansion opportunities in the province and how those opportunities should be awarded if multiple utilities were interested in providing service. In its Community Expansion Decision the Board established the basic regulatory framework confirming that rates would cover a utility's costs, that there would be an extended forecast horizon during which the regulatory compact would hold, and how the risk sharing would work. The Board indicated that "A minimum rate stability period of 10 years (for example) would ensure that rates applied for are representative of the actual underpinning long-term costs."<sup>2</sup> The regulatory framework was further refined and finalized by the Board during the competitive process with the establishment of the Common Infrastructure Plan. Refinements included a more detailed definition of risk sharing between the utility and ratepayer and reaffirmed that this was a long-term 10-year regulatory agreement. There was also agreement as to when the 10-year period would begin "The OEB concludes that an effective date of January 1, 2019 was established as part of the CIP and was

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<sup>2</sup> EB-2016-00004 Decision With Reasons, November 17, 2016, Section 6 OEB Findings, Page 20

confirmed in the decision on the issues list.”<sup>3</sup> There was agreement that during the 10-year period, the utility would be able to cover the costs that were included in the winning proposal and thereafter confirmed in the subsequent rate case. Approval of this request to backdate the CVVA should therefore not be considered retroactive rate making but recognition that the variance account should be effective starting in 2020 in order to recognize the principle of the risk sharing compact that was agreed to by all parties and that EPCOR has been relying on this agreement as it has continued to buildout the distribution system and connect customers as committed to in that compact.

- j) EPCOR has requested an effective date of January 1, 2020 for the CCVA. Please confirm if EPCOR intends to recover carrying charges from January 1, 2020 to the effective date of this decision for any amounts recorded for this period.

**EPCOR Response:**

EPCOR would intend to recover carrying charges from the effective date of the CCVA to the effective date of this decision.

- k) Please discuss the impact on EPCOR Natural Gas Limited Partnership’s financial viability in the following two scenarios:
  - i. The OEB does not approve the CVVA, which EPCOR forecasted to record a total debit balance of \$7.48 million by 2028.

**EPCOR Response:**

The utility does not have the ability to absorb the losses through cost efficiencies or other means and as a result there would be a direct negative impact on the ROE of the utility. As detailed in Table 3 k) below, if the CVVA is not approved, the utility will substantially under earn, with a forecast average reduction of the utility’s ROE for 2019 – 2028 of 3.97% with the greatest reduction in 2028 of 6.12%. This extended period of under earning will have a number of impacts on the utility, including its ability to expand. As an example, it will directly impact PI calculations through EBO 188, potentially increasing the requirement for upfront customer contributions, reducing the attractiveness of connecting to the system for certain customers.

In addition, without the CVVA, community expansions would be less likely to take place. As an example, EPCOR has recently been awarded a \$22.0 million grant from the

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<sup>3</sup> EB-2018-0264 Decision and Order, November 28, 2019, Findings, Page 11

Provincial Government to expand the distribution system into the Brockton area under the Phase 2 of the Natural Gas Expansion program. In applying for the grant EPCOR was required to use a common assumption for annual customer consumption of 2,200m<sup>3</sup>. Without access to the CVVA, this community expansion would now become uneconomic. It would also put the utility at a direct disadvantage in competing for future expansion grants given that Enbridge currently has an approved NACVA that would address shortfalls in consumption between common assumptions and actual consumption.

**Table 3k – Impact to ROE**

		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	
	Unit	Weighted Average	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	
Row 1	Projected Rate Base in EB-2018-0264	\$000s	20,920	50,663	60,186	60,940	60,885	60,319	59,114	57,621	56,320	54,940	
Row 2													
Row 3	Deemed Equity	\$000s	7,531	18,239	21,667	21,938	21,919	21,715	21,281	20,744	20,275	19,778	
Row 4													
Row 5	Revenue Shortfall Related to Customer Volume Variance	\$000s	0	(56)	(409)	(554)	(917)	(1,114)	(1,138)	(1,162)	(1,186)	(1,211)	
Row 6													
Row 7	Impact to Realized ROE due to Revenue Shortfall	%	(3.97%)	0.00%	(0.31%)	(1.89%)	(2.53%)	(4.18%)	(5.13%)	(5.35%)	(5.60%)	(5.85%)	(6.12%)

- i. The OEB does approve the CVVA, however, the effective date is January 1, 2023 and is not applied retroactively to 2020 (forecasted deficit of \$1.02 million).

**EPCOR Response:**

Approving the CVVA with an effective date of January 1, 2023 would allow the utility to earn an ROE aligned with expectations going forward but would not address the utility’s under earning during 2019 – 2023. The \$1.02 million shortfall is equal to approximately 8.8% of distribution revenue earned during that period.

- l) Please discuss the impact on EPCOR Utilities Inc.’s financial viability in the following two scenarios:
  - i. The OEB does not approve the CVVA, which EPCOR forecasted to record a total debit balance of \$7.48 million by 2028.

**EPCOR Response:**

EPCOR Utilities Inc. (EUI) would remain financially viable. However, this outcome would materially impact the utility's ROE and therefore EUI's willingness to further invest in the utility.

- i. The OEB does approve the CVVA, however, the effective date is January 1, 2023 and is not applied retroactively to 2020 (forecasted deficit of \$1.02 million).

**EPCOR Response:**

EPCOR Utilities Inc. would remain financially viable.

- m) Please provide evidence on EPCOR's proposed allocation and disposition methodologies for the CVVA.

**EPCOR Response:**

EPCOR is proposing to allocate the CVVA balance to Rate 1 and Rate 6 customers based on the proportion of actual distribution revenue as a percent of the total distribution revenue for Rate 1 and Rate 6 customers during the period of accumulation. This calculation would be completed monthly to account for any connection and volume variances.



- i. Please provide a high-level estimate of the bill impact associated with the recovery of a \$1 million debit balance from Rate 1 customers in 2024, which is the year when EPCOR expects the majority of Rate 1 customers to be connected.

**EPCOR Response:**

Refer to the table below:

	Col. 1	Col. 2	Col. 3
	Forecasted Tariff	Bill Determinant	Annual Amount (\$)
Row 1	Distribution Charge		
Row 2			
Row 3	28.06	12	337
Row 4			
Row 5	Volumetric Charge		
Row 6	28.9989	903	262
Row 7	28.4277	606	172
Row 8	27.5880	21	6
Row 9			
Row 10	1.6330	1,530	25
Row 11			
Row 12	1.4740	1,530	23
Row 13			
Row 14	30.3706	1,530	465
Row 15			
Row 16	14.52	1,530	222
Row 17			
Row 18	Total Billed Amount without CVVA		1,511
Row 19			
Row 20	CVVA Disposal		1,000,000
Row 21	2024 Rate 1 Year End Connection		5,375
Row 22	CVVA Disposal per Connection		186
Row 23			
Row 24	Bill Impact		12.31%

n) Please provide the total forecast CVVA debit (2020-2028) as a percentage of total actual/estimated distribution revenues (2020-2028) and for each year (2020-2028) provide the forecast CVVA debit as a percentage of the actual/estimated distribution revenue.

**EPCOR Response:**

**Forecasted CVVA as a % of Actual / Estimated Distribution Revenue**

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	
	Total	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	
Row 1	Estimated Distribution Revenue	46,774,426	0	571,987	1,941,707	3,757,098	5,319,335	6,767,921	6,899,607	7,034,047	7,171,299	7,311,425
Row 2	Forecasted CVVA Disposal	7,785,402	0	56,117	410,457	556,650	921,697	1,119,720	1,143,380	1,167,562	1,192,279	1,217,541
Row 3	CVVA as % of Distribution Revenue	16.6%	0.0%	9.8%	21.1%	14.8%	17.3%	16.5%	16.6%	16.6%	16.6%	16.7%

o) Please provide the total forecast CVVA debit (2020-2028) as a percentage of the total OEB-approved Revenue Requirement (2020-2028) and for each year (2020-2028) provide the forecast CVVA debit as a percentage of the OEB-approved Revenue Requirement.

**EPCOR Response:**

**Forecasted CVVA as a % of Actual / OEB Approved Distribution Revenue**

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	
	Total	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	
Row 1	OEB Approved Distribution Revenue	75,583,261	1,332,492	4,388,984	6,155,922	7,534,172	8,488,867	9,122,050	9,406,087	9,567,338	9,722,807	9,864,542
Row 2	Forecasted CVVA Disposal	7,785,402	0	56,117	410,457	556,650	921,697	1,119,720	1,143,380	1,167,562	1,192,279	1,217,541
Row 3	CVVA as % of Distribution Revenue	10.3%	0.0%	1.3%	6.7%	7.4%	10.9%	12.3%	12.2%	12.2%	12.3%	12.3%

p) Please advise whether EPCOR agrees that the establishment of the CVVA reflects a material change to the rate framework approved by the OEB in EPCOR's 2019-2028 rates proceeding.

**EPCOR Response:**

EPCOR does not agree that establishment of the CVVA reflects a material change to the rate framework approved by the OEB in EPCOR's 2019-2028 rates proceeding. As detailed in 3 i) above, the rate framework that was approved by the Board is the

culmination of a multi-phase process that resulted in a well thought-out and balanced framework whose elements included a detailed risk sharing matrix, approved costs and revenue requirement. Approval of the CVVA is consistent with the OEB's approved risk sharing framework, as the utility has no control over and was never meant to assume risk over average customer consumption.

The 10-year revenue requirement approved by the OEB in EPCOR's 2019-2028 rates proceeding will remain unchanged. The CVVA will allow EPCOR to earn revenue in accordance with the approved revenue requirement. Should the CVVA not be approved, it would immediately place EPCOR in a significant revenue deficiency and result in the utility (a) chronically starting from a position of underearning for the next several years; and (b) not being able to expand the South Bruce gas distribution system. Setting rates on this basis will not allow EPCOR to earn a fair return on its investment. Further, it is contrary to standard ratemaking principles and the statutory objects in the Ontario Energy Board Act, 1998.

EPCOR would have applied for the CVVA in the 2019-2028 proceeding, however, the common customer consumption assumption as approved by all parties was based on historical consumption in adjacent regions and there was no indication that achieving it represented a material risk to the ratepayer or utility and therefore disadvantage either. While at this time there is a shortfall in average per customer consumption, this could potentially reverse itself over time as more customers switch out their water heaters to gas, add other gas appliances and new customers with stronger consumption profiles connect to the system. If that occurs, the CVVA would then serve to safeguard the ratepayers.

- q) Please advise whether EPCOR agrees that the proposal to establish the CVVA is not a mechanistic issue that would typically be addressed in an annual update proceeding.

**EPCOR Response: Agreed**

- i. Please advise whether EPCOR agrees that it is appropriate to address the typical issues (i.e. incentive rate adjustment and disposition of existing deferral account balances) as Phase 1 to this proceeding and a Phase 2 process can be established, subject to the OEB Panel's findings on this procedural matter, to address EPCOR's CVVA proposal.

**EPCOR Response: Agreed**

**Appendix A – Revised Draft Accounting Order - Clean**

**EPCOR NATURAL GAS LIMITED PARTNERSHIP**

**DRAFT ACCOUNTING ORDER**

**CUSTOMER VOLUME VARIANCE ACCOUNT (“CVVA”)**

The Customer Volume Variance Account is to record the variance in revenue by rate class resulting from the difference between customer volume forecast based on common assumptions and the actual customer volume. This account will record such resulting variances in revenue for Rate 1 and Rate 6 since a common assumption related to customer usage volume was used for these rate classes in the development of the Common Infrastructure Plan as submitted by EPCOR in EB-2016-0137 / EB-2016-0138 / EB-2016-0139.

The effective date of this account is June XX, 2022. Notwithstanding the effective date of June XX, 2022, this account will record revenue variances as a result of variance in customers’ usage volume as of January 1, 2020. This account will record such variances until December 31, 2028.

The common assumption volumes per customer by rate class to be used in determining the balances to be recorded in this account are as follows:

<b>Rate Class</b>	<b>Segment / Sub-segment</b>		<b>Average Annual Consumption (M<sup>3</sup>/year)</b>
Rate 1	Residential	Pre-existing Homes	2,149
		Future Construction	2,066
Rate 6	Commercial	Small (0-15,000 m <sup>3</sup> /year) <sup>4</sup>	4,693
		Medium (15,001- 50,000 m <sup>3</sup> /year)	26,933
	Agricultural	Large (>50,000 m <sup>3</sup> /year)	75,685
		Cash Crop Farm (excl. large grain dryers)	4,720
		Other Agri-Business	4,720

In order that EPCOR retain the risk related to customer connection counts, the common assumption volumes per customer outlined in the table above will be applied to the actual customer connections for each corresponding customer segment and rate class to determine the “Common Assumptions Customer Volume”.

The balance to be recorded in this account will be calculated as the variance in revenue resulting in the difference between the common assumption volumes included in the CIP and the actual normalized average consumption (NAC) for Rate 1 and Rate 6 customers.

Simple interest is to be calculated monthly on the opening balance in the CVVA in accordance with the methodology approved by the Board in EB-2006-0117.

The audited balance of this account, together with carrying charges, will be brought forward for approval for disposition an annual basis, unless otherwise directed by the Board. The manner in which the account will be disposed of will be proposed at the time the account is brought forward for disposition.

<sup>4</sup> Small commercial customers with a volume greater than 10,000m<sup>3</sup>/year will be billed as a Rate 6 customer.

Accounting Entries

Subaccount to record the revenue impact of the difference between common volume assumptions and actual volume consumed by Rate Class 1:

Debit / Credit Account No. 179.96 Customer Volume Variance Account – Rate 1 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 1:

Debit / Credit Account No. 179.97 Interest on Customer Volume Variance Account – Rate 1

Credit / Debit Account No. 323 Other Interest Expense

Subaccount to record the revenue impact of the difference between common volume assumptions and actual volume consumed by Rate Class 6:

Debit / Credit Account No. 179.98 Customer Volume Variance Account – Rate 6 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 6:

Debit / Credit Account No. 179.99 Interest on Customer Volume Variance Account - Rate 6

Credit / Debit Account No. 323 Other Interest Expense

**Appendix B – Revised Draft Accounting Order – Red Line**

**EPCOR NATURAL GAS LIMITED PARTNERSHIP**

**DRAFT ACCOUNTING ORDER**

**CUSTOMER VOLUME VARIANCE ACCOUNT (“CVVA”)**

The Customer Volume Variance Account is to record the variance in revenue by rate class resulting from the difference between customer volume forecast based on common assumptions and the actual customer volume. This account will record such resulting variances in revenue for Rate 1 and Rate 6 since a common assumption related to customer usage volume was used for these rate classes in the development of the Common Infrastructure Plan as submitted by EPCOR in EB-2016-0137 / EB-2016-0138 / EB-2016-0139.

The effective date of this account is June XX, 2022. Notwithstanding the effective date of June XX, 2022, this account will record revenue variances as a result of variance in customers’ usage volume as of January 1, 2020. This account will record such variances until December 31, 2028.

The common assumption volumes per customer by rate class to be used in determining the balances to be recorded in this account are as follows:

Rate Class	Segment / Sub-segment		Average Annual Consumption (M <sup>3</sup> /year)
Rate 1	Residential	Pre-existing Homes	2,149
		Future Construction	2,066
Rate 6	Commercial	Small (0-15,000 m <sup>3</sup> /year) <sup>5</sup>	4,693
		Medium (15,001- 50,000 m <sup>3</sup> /year)	26,933
	Agricultural	Large (>50,000 m <sup>3</sup> /year)	75,685
		Cash Crop Farm (excl. large grain dryers)	4,720
		Other Agri-Business	4,720

In order that EPCOR retain the risk related to customer connection counts, the common assumption volumes per customer outlined in the table above will be applied to the actual customer connections for each corresponding customer segment and rate class to determine the “Common Assumptions Customer Volume”.

The balance to be recorded in this account will be calculated as the variance in revenue resulting in the difference between the common assumption volumes included in the CIP and the actual normalized average consumption (NAC) for Rate 1 and Rate 6 customers. ~~difference between the Common Assumptions Customer Volume and the actual volume for the same time period multiplied by the relevant tariff for that period. Separate calculations for each customer type within a rate class will be completed and then each subaccount (for Class 1 and Class 6) will record the total resulting from calculations of the customer types in that rate class.~~

Simple interest is to be calculated monthly on the opening balance in the CVVA in accordance with the methodology approved by the Board in EB-2006-0117.

<sup>5</sup> Small commercial customers with a volume greater than 10,000m<sup>3</sup>/year will be billed as a Rate 6 customer.



The audited balance of this account, together with carrying charges, will be brought forward for approval for disposition on an annual basis, unless otherwise directed by the Board. The manner in which the account will be disposed of will be proposed at the time the account is brought forward for disposition.

Accounting Entries

Subaccount to record the revenue impact of the difference between common volume assumptions and actual volume consumed by Rate Class 1:

Debit / Credit Account No. 179.96 Customer Volume Variance Account – Rate 1 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 1:

Debit / Credit Account No. 179.97 Interest on Customer Volume Variance Account – Rate 1

Credit / Debit Account No. 323 Other Interest Expense

Subaccount to record the revenue impact of the difference between common volume assumptions and actual volume consumed by Rate Class 6:

Debit / Credit Account No. 179.98 Customer Volume Variance Account – Rate 6 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 6:

Debit / Credit Account No. 179.99 Interest on Customer Volume Variance Account - Rate 6

Credit / Debit Account No. 323 Other Interest Expense