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BY EMAIL

September 20, 2022

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

Dear Ms. Marconi:

**Re: EPCOR Natural Gas Limited Partnership (EPCOR)
Application for 2023 Rates – Aylmer Service Area
Ontario Energy Board File Number: EB-2022-0183**

Please find attached OEB staff's submission in the above-referenced proceeding, pursuant to Procedural Order No. 1.

EPCOR Natural Gas Limited Partnership is reminded that its reply argument is due by October 4, 2022.

Yours truly,

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2022-0183



ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

Aylmer 2023 Rate Application

EB-2022-0183

September 20, 2022

Application Summary and Process

On June 27, 2022, EPCOR Natural Gas Limited Partnership (EPCOR) applied to the Ontario Energy Board (OEB) under section 36(1) of the *Ontario Energy Board Act, 1998* for changes to its natural gas distribution rates to be effective January 1, 2023 (Application).

In the Application, EPCOR requested the following:

- I. Approval to adjust distribution rates for the Aylmer area effective January 1, 2023, in accordance with the OEB's Decision and Interim Rate Order in EPCOR's 2020-2024 Rates proceeding (Settlement Decision)¹
- II. Approval to dispose of the balances of certain deferral and variance accounts

On July 14, 2022, the OEB issued a Notice of Hearing. The intervention period ended on August 3, 2022. No persons applied for intervenor status.

Procedural Order No. 1 was issued on August 12, 2022. OEB staff filed written interrogatories on August 22, 2022. EPCOR filed interrogatory responses on September 6, 2022.

¹ EB-2018-0336, Decision and Interim Rate Order, July 4, 2019

OEB Staff Submission

OEB staff provides submissions on EPCOR's proposed price cap adjustment, proposed adjustments to the fixed and variable rates for Rate Classes 2-5 to address past errors, and the proposed disposition of certain deferral and variance accounts.

Price Cap Adjustment

EPCOR seeks to increase its rates, effective January 1, 2023, based on a mechanistic price cap adjustment (PCA) pursuant to the Settlement Decision. The PCA is calculated using an inflation factor less a productivity factor and a stretch factor.

The components of the PCA applicable to EPCOR are set out in the table below. Inserting these components into the formula results in a 2.9% increase to EPCOR's forecasted revenue: $2.9\% = 3.3\% - (0.00\% + 0.40\%)$.

Components	Amount
Inflation Factor ²	3.30%
Productivity	0.00%
Stretch	0.40%

EPCOR has requested that the distribution rates for the Aylmer area be adjusted according to the approved Settlement Decision:

- I. Increasing the monthly fixed charge for Rate 1 by \$1.00 and correspondingly adjusting the volumetric charges for Rate Class 1 to achieve a total projected revenue for 2023 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA; and,
- II. Adjusting the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

EPCOR used an inflation factor of 3.3% as indicated in the 2022 Inflation Factor Generic Hearing.³ EPCOR proposed to update the PCA and rates, if necessary, after the OEB issues the inflation factor for 2023 rates.

² As discussed below, OEB staff notes that the inflation factor used in the application is estimated and subject to change.

³ EB-2021-0212

Rate Classes 2-5 Fixed and Volumetric Charges

EPCOR noted that in preparing the Application it discovered that the inflationary adjustments for Rate Classes 2-5 in the previous two IRM proceedings⁴ had mistakenly not followed the terms of the Settlement Decision. Although volumetric charges had been adjusted to achieve a total projected revenue for the IR year, fixed rates were not adjusted. EPCOR stated that this has not led to any material impacts for customers' bills.

In EPCOR's Application, there were three PCA implementation methodologies discussed. OEB staff views Methodology A and Methodology B (as discussed below) as two ways that EPCOR's rates for the noted rate classes can be adjusted to align with the Settlement Decision.

- I. Historical Methodology- only the volumetric rates are adjusted to achieve a total projected revenue for the IR year. Fixed rates are not adjusted.
- II. Methodology A- using the current (2022) OEB-approved rates, both fixed and volumetric rates are adjusted by the PCA in 2023.
- III. Methodology B- using the OEB-approved cost of service rates (2020), both fixed and volumetric rates are adjusted according to the PCAs for their respective years (2021-2023).

EPCOR proposed to implement Methodology B, which recalculates rates for 2021 and 2022 based on the application of the respective PCAs to both fixed and volumetric rates, and then applies the PCA to these recalculated numbers to arrive at rates for 2023. The recalculation of rates for 2021 and 2022 would have no retroactive effect; it would only be used to create the starting point for the 2023 PCA.

In response to OEB staff interrogatories⁵, EPCOR provided three tables that highlight the 2023 bill impacts resulting from the three PCA implementation methodologies on: (a) typical customers; (b) customers that are in the bottom 10th percentile in terms of consumption; and (c) customers that are in the top 10th percentile in terms of consumption. OEB staff notes that it has corrected the percentage bill increase (row 8) in the tables below. OEB staff submits that EPCOR should confirm the accuracy of Tables 1 to 3 in its reply argument.

⁴ EB-2020-0234 and EB-2021-0215

⁵ EPCOR IR Response, Staff 1c, d & e

Table 1: Annual Impact for a Typical Customer Rates 2-5

#	Typical Customer	Calculation	Rate 2	Rate 3	Rate 4	Rate 5
1	Annual Bill- Current OEB Approved Rates (2022)	XXX	\$8,670	\$104,265	\$21,086	\$89,238
2	Annual Bill- Historical Methodology (2023)	AAA	\$8,716	\$105,129	\$21,259	\$89,933
3	Annual Bill- Methodology A (2023)	BBB	\$8,716	\$105,129	\$21,259	\$89,933
4	Annual Bill- Methodology B (2023)	CCC	\$8,689	\$104,562	\$21,166	\$89,893
5	Annual Bill impact- Historical Methodology (\$)	\$AAA-XXX	\$ 46	\$ 865	\$ 172	\$ 695
6	Annual Bill impact- Historical Methodology (%)	%	0.53%	0.83%	0.82%	0.78%
7	Annual Bill impact- Methodology A (\$)	\$BBB-XXX	\$ 46	\$ 865	\$ 172	\$ 695
8	Annual Bill impact- Methodology A (%)	%	0.53%	0.83%	0.82%	0.78%
9	Annual Bill impact- Methodology B (\$)	\$CCC-XXX	\$ 19	\$ 297	\$ 80	\$ 655
10	Annual Bill impact- Methodology B(%)	%	0.22%	0.28%	0.38%	0.73%

Table 2: Annual Impact for the Bottom 10th Percentile Customer Rates 2-5

#	Bottom 10th Percentile	Calculation	Rate 2	Rate 3	Rate 4	Rate 5
1	Annual Bill- Current OEB Approved Rates (2022)	XXX	\$277	\$38,054	\$809	\$43,580
2	Annual Bill- Historical Methodology (2023)	AAA	\$273	\$38,266	\$810	\$43,908
3	Annual Bill- Methodology A (2023)	BBB	\$280	\$38,311	\$817	\$43,943
4	Annual Bill- Methodology B (2023)	CCC	\$292	\$38,187	\$826	\$43,983
5	Annual Bill impact- Historical Methodology (\$)	\$AAA-XXX	\$ (4)	\$ 211	\$ 1	\$ 328
6	Annual Bill impact- Historical Methodology (%)	%	-1.44%	0.55%	0.12%	0.75%
7	Annual Bill impact- Methodology A (\$)	\$BBB-XXX	\$ 3	\$ 257	\$ 8	\$ 363
8	Annual Bill impact- Methodology A (%)	%	1.08%	0.68%	0.99%	0.83%
9	Annual Bill impact- Methodology B (\$)	\$CCC-XXX	\$ 15	\$ 132	\$ 17	\$ 402
10	Annual Bill impact- Methodology B(%)	%	5.42%	0.35%	2.10%	0.92%

Table 3: Annual Impact for the Top 10th Percentile Customer Rates 2-5

#	Top 10th Percentile	Calculation	Rate 2	Rate 3	Rate 4	Rate 5
1	Annual Bill- Current OEB Approved Rates (2022)	XXX	\$35,679	\$367,194	\$66,783	\$136,300
2	Annual Bill- Historical Methodology (2023)	AAA	\$35,885	\$369,393	\$67,341	\$137,373
3	Annual Bill- Methodology A (2023)	BBB	\$35,863	\$369,211	\$67,326	\$137,337
4	Annual Bill- Methodology B (2023)	CCC	\$35,713	\$366,856	\$67,004	\$137,215
5	Annual Bill impact- Historical Methodology (\$)	\$AAA-XXX	\$ 206	\$ 2,199	\$ 559	\$ 1,073
6	Annual Bill impact- Historical Methodology (%)	%	0.58%	0.60%	0.84%	0.79%
6	Annual Bill impact- Methodology A (\$)	\$BBB-XXX	\$ 184	\$ 2,017	\$ 543	\$ 1,037
6	Annual Bill impact- Methodology A (%)	%	0.52%	0.55%	0.81%	0.76%
7	Annual Bill impact- Methodology B (\$)	\$CCC-XXX	\$ 34	\$ (337)	\$ 222	\$ 915
6	Annual Bill impact- Methodology B(%)	%	0.10%	-0.09%	0.33%	0.67%

Subject to EPCOR's confirmation regarding the accuracy of the above tables, OEB staff notes that for typical customers in each of Rate Classes 2-5, the 2023 bill impact using Methodology A is an increase of 0.53% to 0.83%. The 2023 bill impact for typical customers in each of Rate Classes 2-5 using Methodology B is similar, with an increase of 0.22% to 0.73%. With respect to customers in the top 10th percentile and bottom 10th percentile in terms of consumption, the bill impacts resulting from using each of Methodology A and Methodology B are all well below 10%, with Rate 2 customers under Methodology B experiencing the largest bill impact (5.42%). OEB staff notes that the OEB considers a 10% total bill impact not as a cap but as a reasonable target for the natural gas sector to consider adopting mitigation measures.⁶

OEB staff has reviewed EPCOR's proposal to apply Methodology B to adjust rates to align with the Settlement Decision and agrees that it is appropriate. OEB staff notes that the bill impacts resulting from Methodology A and Methodology B are similar for customers in Rate Classes 2-5. OEB staff submits that Methodology B has the benefit of aligning 2023 rates to what they would have been had the PCA adjustment been applied correctly, in accordance with the Settlement Decision, at the outset of EPCOR's incentive regulation term. For that reason, OEB staff submits that the OEB should approve the rate changes resulting from Methodology B, subject to any changes required as a result of the decision in the 2023 Inflation Factor Generic Hearing.

Deferral and Variance Accounts

EPCOR sought approval to dispose of the 2021 year-end balances in certain deferral and variance accounts. The total amount sought for recovery from EPCOR Aylmer customers is a debit of \$129,500 (including interest to December 31, 2022). In its interrogatory responses, EPCOR updated its deferral and variance account balances to reflect the OEB-approved third-quarter interest rates, the updates are summarized below.⁷

EPCOR Deferral and Variance Account Balances		
<u>Account Acronym</u>	<u>Account Name</u>	<u>Balance with interest to December 31, 2022</u>
REDA	Regulatory Expense Deferral Account	\$2,148
PGTVA	Purchased Gas Transportation Variance Account	\$127,352
Total Deferral Account Balances		\$129,500

Regulatory Expense Deferral Account (REDA)

The purpose of the REDA is to record the costs associated with participating in generic

⁶ EB-2022-0100, Decision, March 24, 2022, Pg. 5

⁷ EPCOR IR Response, 2c

hearings and Enbridge Gas Inc.'s (Enbridge Gas) proceedings. EPCOR has requested to dispose of a debit balance of \$2,148 including interest to December 31, 2022.

The REDA balances are related to the following proceedings:

Case Number	Description	2020 Principal amount
EB-2015-0245	Demand Side Management (DSM) Evaluation Process	\$2,106
EB-2019-0255	Potential Projects to Expand Access to Natural Gas	\$5
	Total 2021 Principal Amount	\$2,111
	2021 Interest Charge	\$5
	2022 Interest charges	\$32
	Total balance requested for disposition (including interest charges to December 31, 2021)	\$2,148

EPCOR proposed to allocate the REDA balance to the Rate Classes 1-5 on the basis of average connection count and to recover the allocated costs over twelve months using a fixed rate rider. EPCOR stated that the majority of the principal amounts in REDA are associated with the DSM Evaluation Process. The DSM Evaluation Process was not applicable to Rate 6 customers. Therefore, Rate 6 does not have a REDA rate rider.⁸

OEB staff submits that the amounts recorded in the REDA associated with EPCOR's participation in the above-noted proceedings are reasonable. OEB staff submits that the proposed allocation and disposition methodologies are appropriate. OEB staff notes that the proposed allocation and disposition methodologies for the REDA are consistent with the approvals in the Settlement Decision and the decisions in EPCOR's 2021 and 2022 Rates proceedings.⁹

Purchased Gas Transportation Variance Account (PGTVA)

The purpose of the PGTVA is to record differences between the average forecasted transportation costs per cubic meter included in EPCOR's approved rates in Rate Classes 1- 5 and the actual transportation costs per cubic meter incurred by EPCOR under its M9 and Bundled T contract with Enbridge Gas for the volumes required to serve the customers in these rate classes. As the transportation costs are a flow-through to customers, this deferral account ensures that ratepayers pay the actual cost of transportation and that the utility does not incur a profit or loss on these costs.

The amount recorded in the PGTVA is debit of \$127,352 including interest as of December 31, 2022. EPCOR proposed to allocate the balance to the various customer rate classes on a volumetric basis (total deliveries) and to recover the allocated costs

⁸ EPCOR IR Response, Staff 2b

⁹ EB-2020-0234 and EB-2021-0215

from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider.

OEB staff submits that the proposed disposition of the PGTVA balance (including interest to December 31, 2022) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the PGTVA are consistent with the approvals in the Settlement Decision and the decisions in EPCOR's 2021 and 2022 Rates proceeding.¹⁰

Bill Impacts

The total annual bill impacts for typical general service customers resulting from the proposals in the Application are as follows¹¹:

Rate Class	Change to delivery charge		Change in Rate Rider		Total Change	
	(\$/year)	(%)	(\$/year)	(%)	(\$/year)	(%)
Rate 1- Residential	\$15.27	3.1%	-\$22.82	-71.1%	-\$7.56	-0.6%
Rate 1- Commercial	\$26.42	1.9%	-\$34.16	-45.0%	-\$7.74	-0.2%
Rate 1- Industrial	\$55.77	1.5%	-\$65.89	-33.2%	-\$10.12	-0.1%

~All of which is respectfully submitted~

¹⁰ EB-2020-0234 and EB-2021-0215

¹¹ OEB staff notes that the bill impacts are subject to change based on the decision in the 2023 Inflation Factor Generic Hearing.