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BY EMAIL

September 20, 2022

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

Dear Ms. Marconi:

Re: **EPCOR Natural Gas Limited Partnership (EPCOR)**
Application for 2023 Rates – South Bruce Service Area
Ontario Energy Board File Number: EB-2022-0184

On July 18, 2022, EPCOR filed its fourth Custom IR update to establish 2023 rates (the Application). The application includes a request for approval to establish a new Customer Volume Variance Account (CVVA) with an effective date to record costs beginning January 1, 2020.

Procedural Order No. 1 was issued on August 26, 2022. OEB staff filed written interrogatories on September 7, 2022. EPCOR filed responses to interrogatories on September 19, 2022.

Customer Volume Variance Account (CVVA)

EPCOR requested approval to establish a new account to track the variance in revenue resulting from differences in forecasted and actual average use for Rate 1 and 6 customers.

EPCOR requested that balances be recorded in the CVVA effective January 1, 2020, which is the year that the first mass-market customer connected to the Southern Bruce system. The end date for the CVVA would align with the end of the approved rate stability period (i.e. December 31, 2028).

EPCOR noted that a key element of the competitive process to select the company that would be allowed to serve South Bruce was the development of a Common

Infrastructure Plan (CIP) by EPCOR and Union Gas (now Enbridge) (proponents). The CIP submissions detailed the proponents' revenue requirement to serve Southern Bruce. EPCOR stated that, generally, proponents did not accept the risk associated with variances in their common assumptions, which includes average use assumptions for mass market customers. EPCOR stated that, in contrast, the OEB determined that proponents would take the risk of achieving certain competitive parameters, which included elements such as the capital cost to build out the distribution system and the number and timing of connecting customers to the system.

EPCOR has recorded consumption volumes since connecting its first Southern Bruce customer and determined that for some classes of mass market customers, their actual average use is less than the forecasted value included as a common assumption in the CIP. This variance has resulted in a material under-generation of revenue for EPCOR.

EPCOR stated that the CVVA would address this revenue shortfall and track variances between the forecasted and actual average use of Rate 1 and 6 customers, as such forecasts were part of the CIP common assumptions and therefore not a category of risk accepted by the utility.

EPCOR estimated a \$7.75 million shortfall, accumulated in 2020-2028, between the CIP assumed consumption and actual consumption.¹ EPCOR also estimated a \$1.02 million shortfall in 2020-2022. The balance between the CIP assumed consumption and actual consumption would be recorded in the CVVA and brought forward for approval for disposition on an annual basis.

OEB staff is of the view that EPCOR's proposed establishment of the CVVA is a material issue and will take more time to evaluate relative to the schedule set out in Procedural Order No. 1. In response to OEB staff interrogatories, EPCOR agreed that it would be appropriate to address the CVVA issue in a Phase 2 proceeding.²

OEB staff recommends that the OEB issue a procedural order that bifurcates the application into two phases, as follows. Phase 1 would address the proposed price cap adjustment and request for deferral and variance account disposition. Phase 2 would address the CVVA issue. In addition, OEB staff recommends that the procedural order be sent to all intervenors in EPCOR South Bruce's 2019-2028 Custom IR proceeding³ noting that OEB may accept late interventions from interested parties related to the CVVA issue.

¹ EPCOR Application, Table 1.4, pg 32

² EPCOR response to IRs, September 19, 2022, Staff 3, q) i.

³ EB-2018-0264

OEB staff asks that EPCOR respond to this letter within three days (September 23, 2022) with any concerns to OEB staff's recommendations to the OEB.

Any questions relating to this letter should be directed to Arturo Lau, Advisor at Arturo.Lau@oeb.ca. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Arturo Lau
Advisor, Natural Gas