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BY EMAIL

October 4, 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 Submission
EPCOR Natural Gas Limited Partnership
South Bruce 2022 Rate Application
OEB File Number: EB-2022-0184**

Please find attached OEB staff's submission for Phase 1 in the above referenced proceeding, pursuant to Procedural Order No. 2.

EPCOR Natural Gas Limited Partnership is reminded that its reply submission is due by October 14, 2022.

Yours truly,

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2022-0184



ONTARIO ENERGY BOARD

OEB Staff Submission - Phase 1

EPCOR Natural Gas Limited Partnership

South Bruce 2023 Rate Application

EB-2022-0184

October 4, 2022

Application Summary and Process

On July 18, 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 in South Bruce to be effective January 1, 2023 (the Application).

In the Application, EPCOR requested the following:

- Approval to adjust distribution rates for South Bruce effective January 1, 2023 in accordance with the OEB-approved settlement agreement (Settlement Decision)¹ in EPCOR South Bruce's 2019-2028 Custom IR proceeding
- Approval to dispose of certain deferral and variance account balances
- Approval to establish a Customer Volume Variance Account (CVVA)

On August 5, 2022, the OEB issued a Notice of Hearing. The intervention period ended on August 24, 2022. No persons applied for intervenor status.

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

On September 20, 2022, OEB staff filed a letter indicating that the CVVA issue is material and requires more time to evaluate. OEB staff recommended that the CVVA issue should be addressed in Phase 2 of the current proceeding. On September 27, 2022, the OEB issued Procedural Order 2, which bifurcated the application into two phases: Phase 1 would address the proposed price cap adjustment and request for deferral and variance account disposition and Phase 2 would address the CVVA issue.

This submission will address the Phase 1 issues as outlined in Procedural Order 2.

¹ EB-2018-0264, Decision and Order, October 3, 2019

OEB Staff Submission

OEB staff provides submissions on EPCOR's proposed Incentive Rate (IR) adjustment and the proposed disposition of certain deferral and variance accounts.

Incentive Rate Adjustment

EPCOR seeks to increase its rates, effective January 1, 2023, based on a mechanistic IR adjustment pursuant to the Settlement Decision. The formula for determining the IR adjustment is as follows:

$$\text{Incentive Rate (IR) Adjustment} = [(1.0 - 0.314) \times 0.0127] + [0.314 \times \text{Inflation (I)}]$$

EPCOR used an inflation factor of 3.3% from the 2022 Inflation Factor Generic Hearing.² EPCOR proposed to update the IR adjustment and rates, if necessary, after the OEB issues the final inflation factor for 2023 rates.

Using the approved 2022 inflation factor of 3.3% in the formula yields an IR adjustment of 1.91%.

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

- I. Adjusting the monthly fixed charge and delivery charge for each rate class using the approved IR adjustment; and,
- II. Adjusting the authorized overrun and unauthorized overrun charges for Rates 11 & 16 using the approved IR adjustment.

OEB staff has reviewed EPCOR's request and model and OEB staff submits that the resulting proposed rate changes were calculated in accordance with the Settlement Decision and the OEB should approve the rate changes, 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 with interest up to the time of implementation of the associated rate riders. The total amount sought for recovery from EPCOR South Bruce customers is a debit of \$50,786 (including interest to December 31, 2022). The balances in the deferral and variance accounts are summarized below.

² EB-2021-0212

EPCOR Deferral and Variance Account Balances		
<u>Account Acronym</u>	<u>Account Name</u>	<u>Balance with interest to December 31, 2022</u>
CIACVA	Contribution in Aid of Construction Variance Account	\$309,129
ECVA	Energy Content Variance Account	\$27,134
MTVA	Municipal Tax Variance Account	\$(285,477)
	Total Deferral Account Balances	\$50,786

Contribution in Aid of Construction Variance Account (CIACVA)

The purpose of the CIACVA is to record the revenue requirement differences between the actual capital contributions EPCOR pays to Enbridge Gas related to Enbridge Gas's Owen Sound Transmission Reinforcement and the Dornoch Meter and Regulator Station and the forecasted capital contribution included for the projects in the approved rates.

EPCOR requested approval to dispose of a debit balance of \$309,129 including interest to December 31, 2022. EPCOR proposed to allocate the CIACVA balance based on the Common Infrastructure Plan (CIP) rate base for all rate classes. EPCOR proposed to collect the balance, over twelve-months, from rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. The table below depicts the proposed disposition methodology.

		A	B	C	D	E	F	G
		Unit	Row Sum	Rate 1	Rate 6	Rate 11	Unit	Rate 16
1	Volume	m3	8,897,276	5,502,795	2,081,332	1,313,149	CD	95,824
2	Allocation	%	100%	59%	21%	3%	%	17%
3	Sum	\$	\$309,129	\$183,729	\$65,322	\$7,976	\$	\$52,102
4	Rate Rider	¢/m3		3.3388	3.1385	0.6074	¢/CD/month	4.5311

OEB staff submits that the proposed disposition of the CIACVA balance (including interest to December 31, 2022) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the CIACVA are consistent with the decision in EPCOR South Bruce's 2022 Rates proceeding.³

Energy Content Variance Account (ECVA)

The purpose of the ECVA is to record the differences in variable revenues resulting from the differences in the energy content of the actual gas delivered and the assumed energy content of 38.89 MJ/M³. The assumed energy content was used in determining the approved revenue requirement and delivery rates in EPCOR's 2019-2028 Custom

³ EB-2021-0216, Decision and Order (Phase 1), December 9, 2021

IR proceeding.⁴

EPCOR requested approval to dispose of a debit balance of \$27,134 including interest to December 31, 2022. EPCOR proposed to allocate the ECVA balance to rate classes based on forecasted volumes underpinning CIP revenue for each rate class. EPCOR proposed to collect the balance, over twelve-months, from rate classes 1, 6 and 11 based on revised forecast volumes. The table below depicts the proposed disposition methodology.

		A Unit	B Row Sum	C Rate 1	D Rate 6	E Rate 11
1	Volume	m3	8,897,276	5,502,795	2,081,332	1,313,149
2	Allocation	%	100%	69.7%	21.3%	9.0%
3	Sum	\$	\$27,134	\$18,913	\$5,783	\$2,438
4	Rate Rider	¢/m3		0.3437	0.2778	0.1857

OEB staff has no concerns with the proposed ECVA balance (including interest). OEB staff submits that the proposed allocation for the ECVA is consistent with the approvals in the ECVA accounting order.⁵ OEB staff also has no concerns with the proposed disposition methodology as it is consistent with the decision in EPCOR South Bruce's 2022 Rates proceeding.⁶

Municipal Tax Variance Account (MTVA)

The purpose of the MTVA is to record the difference between the actual municipal taxes paid, net of municipal contributions related to municipal taxes, and the net municipal taxes billed to customers by EPCOR South Bruce.

EPCOR noted that the net municipal taxes billed to customers is calculated by multiplying the annual distribution revenues billed to customers and accrued for the year by the proportion of annual municipal taxes included in the annual revenue requirement as approved in EPCOR South Bruce's 2019-2028 Custom IR⁷ for each year of the rate stability period.

The amount recorded in the MTVA is a credit of \$285,477 including interest to December 31, 2022. EPCOR proposed to allocate the balance based on the total CIP rate base for all rate classes (similar to the CIACVA). EPCOR proposed to collect the balance, over twelve-months, from rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. The table below depicts the

⁴ EB-2018-0264

⁵ EB-2018-0264, Rate Order, January 9, 2020, page 30 of 34

⁶ EB-2021-0216, Decision and Order (Phase 1), December 9, 2021

⁷ EB-2018-0264

proposed disposition methodology.

		A	B	C	D	E	F	G
		Unit	Row Sum	Rate 1	Rate 6	Rate 11	Unit	Rate 16
1	Volume	m3	8,897,276	5,502,795	2,081,332	1,313,149	CD	95,824
2	Allocation	%	100%	59%	21%	3%	%	17%
3	Sum	\$	-\$285,477	-\$169,672	-\$60,324	-\$7,366	\$	-\$48,116
4	Rate Rider	¢/m3		-3.0834	-2.8983	-0.5609	¢/CD/month	-4.1844

OEB staff notes that this is the first time EPCOR has requested approval for MTVA disposition. OEB staff has no concerns with the proposed MTVA balance (including interest) as the balance was calculated in a manner consistent with the MTVA accounting order.⁸

OEB staff is concerned with EPCOR's proposed allocation methodology (i.e. total CIP rate base) for the MTVA. It is unclear why a rate base allocator should be used for the allocation of a municipal tax-related deferral account. OEB staff submits that it is likely more appropriate to use the property tax allocation that underpinned EPCOR's base rates as approved in EPCOR's 2019-2028 Custom IR proceeding.⁹ OEB staff notes, based on its own calculations, that while the change in the percentage of costs allocated to each of the rate classes is not significant¹⁰, it appears to be a more appropriate allocator to apply to the MTVA. OEB staff asks that EPCOR, in its reply submission, advise whether OEB staff's calculations are correct as set out in the footnote below. OEB staff also asks EPCOR to discuss whether it agrees that the property tax allocator is appropriate for the MTVA or provide further rationale supporting the proposed use of the rate base allocator.

OEB staff has no concerns with the proposed disposition methodology.

⁸ EB-2021-0216, Decision and Order (Phase 1 and Phase 2), February 17, 2022, Schedule A

⁹ EB-2018-0264

¹⁰ EB-2018-0264, Exhibit 7, Tab 1, Schedule 2, pp. 10-11, Table 7-25 and 7-27, Updated April 11, 2019. The property tax approach allocates 54% to Rate 1, 25% to Rate 6, 3% to Rate 11 and 18% to Rate 16. This compares to 59% to Rate 1, 21% to Rate 6, 3% to Rate 11 and 17% to Rate 16 using the rate base allocator.

Bill Impacts

The total annual bill impacts for customers in the general service rate class resulting from the proposals in the Application are as follows:

Rate Class	Change in Fixed Delivery	Change in Volumetric Delivery	Change Rate Rider	Total Change	
				\$	%
Rate 1- Existing Residential	\$6.02	\$11.43	\$(12.98)	\$4.47	0.23%
Rate 1- New Residential	\$6.02	\$10.99	\$(12.48)	\$4.53	0.24%
Rate 1- Commercial	\$6.02	\$24.70	\$(28.36)	\$2.37	0.06%
Rate 1- Agricultural	\$6.02	\$24.84	\$(28.52)	\$2.34	0.06%

~All of which is respectfully submitted~