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

DECISION AND ORDER

EB-2022-0183

EPCOR NATURAL GAS LIMITED PARTNERSHIP (AYLMER)

Application for Rates to be Effective January 1, 2023

BEFORE: Emad Elsayed
Presiding Commissioner

Allison Duff
Commissioner

October 11, 2022

1 OVERVIEW

EPCOR Natural Gas Limited Partnership (EPCOR) applied to the Ontario Energy Board (OEB) for changes to its natural gas distribution rates effective January 1, 2023 for its Aylmer service area (Application).

In the Application, EPCOR requested the following approvals:

I. To adjust distribution rates for natural gas in the Aylmer service area effective January 1, 2023 in accordance with a previous OEB-approved decision (Settlement Decision)[1]

II. To dispose of the balances of certain deferral and variance accounts

The OEB approves the application to adjust distribution rates in the Aylmer area, effective January 1, 2023, in accordance with the Settlement Decision and for EPCOR to dispose of the balances in certain deferral and variance accounts.

Subject to any changes resulting from the OEB's issuance of the 2023 inflation factor, the bill impact for a residential customer using 2,100 cubic metres of natural gas per year is a net decrease of approximately $7.56 on an annual basis. The annual bill impact is a net decrease because the approved increase in delivery rates of $15.27 per year is offset by a decrease of $22.82 per year[2] resulting from the disposition of certain deferral and variance account balances.

[1] EB-2018-0336, Decision and Interim Rate Order, July 4, 2019
[2] The $22.82 per year decrease associated with the disposition of certain deferral and variance account balances is calculated relative to the rate riders approved in EPCOR's 2022 rates proceeding.

2 THE PROCESS

EPCOR filed the Application on June 27, 2022 under section 36(1) of the *Ontario Energy Board Act, 1998.* 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 responses to interrogatories on September 6, 2022.

OEB staff filed a written submission on September 20, 2022. EPCOR filed its reply submission on September 21, 2022.

3 DECISION

3.1 Price Cap Adjustment

EPCOR sought to increase its rates, effective January 1, 2023, based on a mechanistic rate adjustment using the price cap adjustment (PCA) previously approved in the Settlement Decision. The PCA is calculated using an inflation factor less a productivity factor and a stretch factor. The productivity and stretch components, at 0.00% and 0.40% respectively, were approved in the Settlement Decision.

The components of the PCA applicable to EPCOR for 2023 rates are set out in the table below. Inserting these components into the formula results in a 2.90% increase to EPCOR's forecasted revenue: ***2.90% = 3.30% - (0.00% + 0.40%)***. The inflation factor of 3.3% used by EPCOR in the Application is the 2022 Inflation Factor.[3] EPCOR proposed to update the PCA and rates, if necessary, after the OEB issues the inflation factor for 2023 rates.

Table 1: Price Cap IR Adjustment Formula

Components	Amount
Inflation Factor[4]	3.30%
Productivity	0.00%
Stretch	0.40%

EPCOR requested that the distribution rates for natural gas in the Aylmer service area be adjusted according to the approved Settlement Decision:

I. Increasing the monthly fixed charge for Rate Class 1 by $1.00 and correspondingly adjust the volumetric charges for Rate Class 1 to achieve a total projected revenue for 2022 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA; and,
II. Increasing the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

Findings

The distribution rate adjustments EPCOR applied for are based on an approved price cap adjustment mechanism that takes into consideration an inflation factor, a productivity factor and a stretch factor.

[3] EB-2021-0212
[4] For the 2022 Inflation Factor, see Ontario Energy Board 2022 Electricity Distribution Rate applications webpage – November 18, 2021

The OEB approves the proposed increase in rates effective January 1, 2023, based on the application of the price cap adjustment. This approval is subject to any change required as a result of the OEB's determination of the inflation factor for 2023 rates. EPCOR based its application on the approved inflation factor for 2022 rates of 3.3%. Once the OEB's 2023 inflationary factor is issued, EPCOR shall file an updated rate model and draft rate order if necessary.

Rate Classes 2-5 Fixed and Volumetric Charges

EPCOR noted that in preparing the Application it discovered that the PCA for Rate Classes 2-5 in the previous two IRM proceedings[5] 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.

In the Application, there were three PCA implementation methodologies discussed. OEB staff viewed Methodology A and Methodology B 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.

OEB staff noted 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%. OEB staff noted 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]

[5] EB-2020-0234 and EB-2021-0215
[6] EB-2022-0100, Decision, March 24, 2022, Pg. 5

OEB staff agreed that EPCOR's proposal to apply Methodology B to adjust rates to align with the Settlement Decision is appropriate. OEB staff submitted 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. OEB staff also submitted 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.

Findings

The OEB finds that EPCOR's distribution rate request using Methodology B is in keeping with the Settlement Decision's price cap provisions and is, therefore, approved. The OEB agrees with OEB staff that the resulting billing impact to Rate Classes 2-5 is reasonable, and that Methodology B has the benefit of aligning 2023 rates to what they would have been had the price cap adjustment been applied correctly.

EPCOR shall file an updated draft rate order incorporating updated rates for Rate Classes 2-5 reflecting the inflation factor for 2023 rates, if necessary.

3.2 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 December 31, 2022 (i.e. up to the time of implementation of the associated rate riders).

The total amount sought for disposition from EPCOR Aylmer customers is a debit of $129,500 (including interest to December 31, 2022). The balances in the deferral and variance accounts are summarized below.

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

OEB staff submitted that it has no concerns with the balances being sought for disposition for each of the accounts.

EPCOR proposed to allocate the balance of the REDA to the various customer rate classes on the basis of average connection count and to recover the allocated costs over a twelve-month fixed rate rider.

For the PGTVA, EPCOR proposed to allocate the balance to the various customer rate classes on a volumetric basis and to recover the costs from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider.

OEB staff submitted that the allocation and disposition methodologies for the REDA and PGTVA are consistent with the methodologies previously approved in the Settlement Decision and the decision in EPCOR's 2022 and 2021 Rate proceedings.[7]

Findings

EPCOR is seeking to dispose of the balances of the following deferral and variance accounts in this proceeding.

Regulatory Expense Deferral Account

The regulatory expense deferral account records the costs of EPCOR's participation in generic hearings and other regulatory proceedings that are important to its operations.

EPCOR's request to dispose of the $2,148 debit balance recorded in the REDA, including interest to December 31, 2022, is approved.

The OEB finds that the costs and activities EPCOR pursued that are associated with this account are reasonable and in keeping with the Settlement Decision and the decisions in EPCOR's 2021 and 2022 Rates proceedings.

Purchased Gas Transportation Variance Account

There is a cost to transport natural gas into the EPCOR system from the Enbridge Gas system. These costs are forecast, and then trued up to ensure the ratepayers pay for the actual cost of transportation and that EPCOR does not incur a profit nor a loss on these costs.

EPCOR's request to dispose of the $127,352 debit balance in the PGTVA, including interest to December 31, 2022, is approved.

The OEB finds these costs to be appropriate and in keeping with the Settlement Decision and the decisions in EPCOR's 2021 and 2022 Rates proceedings.

[7] EB-2020-0234 and EB-2021-0215

4 IMPLEMENTATION

EPCOR filed draft rate schedules with the Application for rates effective on January 1, 2023. The draft rate schedules reflect the existing 2022 OEB-approved inflation factor as a placeholder.

The OEB is making provisions for the filing of a draft rate order, comments and reply comments. After issuance of the 2023 OEB-approved inflation factor, EPCOR shall file an updated draft rate order with detailed supporting material, if necessary. OEB staff may file comments on the draft rate order. EPCOR may file responses to OEB staff's comments.

If no update is required, EPCOR shall file a letter indicating that no update is required.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR shall file with the OEB a draft rate order reflecting the OEB findings in the 2023 Inflation Factor Generic Hearing no later than **seven days** after the OEB releases its Decision and Order. The draft rate order shall include customer rate impacts and supporting information showing the calculation, including rate models, of final 2023 rates.

2. OEB staff shall file any comments on the draft rate order with the OEB and forward them to EPCOR no later than **seven days** after EPCOR has filed its draft rate order.

3. EPCOR shall file with the OEB responses to any comments on its draft rate order no later than **seven days** after OEB staff has filed its comments.

DATED at Toronto October 11, 2022

ONTARIO ENERGY BOARD

Nancy Marconi

Digitally signed by Nancy Marconi
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Nancy Marconi
Registrar