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

BY EMAIL

January 26, 2023

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- Phase 2
EPCOR Natural Gas Limited Partnership
South Bruce 2023 Rate Application
OEB File Number: EB-2022-0184

Please find attached OEB staff's submission for Phase 2 in the above referenced proceeding, pursuant to Procedural Order No. 4.

EPCOR Natural Gas Limited Partnership is reminded that its reply submission is due by February 10, 2023.

Yours truly,

Arturo Lau
Digitally signed by Arturo Lau
Date: 2023.01.26 16:00:07 -05'00'

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2022-0184

ONTARIO ENERGY BOARD

OEB Staff Submission - Phase 2

EPCOR Natural Gas Limited Partnership

South Bruce 2023 Rate Application

EB-2022-0184

January 26, 2023

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 Incentive Rates (Custom IR) proceeding
- Approval to dispose of certain deferral and variance account balances
- Approval to establish a Customer Volume Variance Account (CVVA)

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 27, 2022, the OEB issued Procedural Order No. 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. The OEB also granted intervenor status to all approved intervenors in EPCOR South Bruce's 2019-2028 Custom IR proceeding.[2] The School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) filed letters advising that they intend to participate in Phase 2 of the proceeding. The OEB also provided for interrogatories and a settlement conference. On October 28, 2022, EPCOR filed a letter, supported by intervenors, stating that no settlement was reached.

On November 3, 2022, the OEB issued a Decision and Order with respect to the Phase 1 issues.

On November 7, 2022, the OEB issued Procedural Order No. 3, which provided for additional evidence regarding the CVVA to be filed by EPCOR, interrogatories on the new evidence, a tentative technical conference, argument-in-chief, submissions and reply submission.

OEB staff and intervenors filed written interrogatories, and EPCOR filed interrogatory responses in accordance with Procedural Order No. 3. On December 7, 2022, OEB staff, with support from intervenors, filed a letter indicating a technical conference is not

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

required and requested that follow-up questions be answered by EPCOR.

On December 8, 2022, the OEB issued Procedural No. 4 cancelling the technical conference and requiring EPCOR to respond to the follow-up questions from OEB staff and intervenors. EPCOR filed responses to OEB staff and intervenor follow-up questions.

On January 9, 2023, EPCOR filed its argument-in-chief.

OEB Staff Submission

OEB staff submits that the OEB should approve the establishment of the CVVA. OEB staff submits that the effective date for the CVVA should be January 1, 2023 and EPCOR's shareholder should bear the risk of a portion of the revenue variance resulting from Rate 1 and Rate 6 volume variances for the 2023-2028 period. OEB staff also submits that the CVVA should be applicable only to the South Bruce distribution system, and not to any future expansion projects.

In the sections that follow, OEB staff provides its detailed submissions on the following CVVA-related issues:

- Appropriateness of establishing the CVVA
    - Effective date
    - Risk sharing
    - Methodology for calculating the balance
    - Draft Accounting Order
    - Bill impacts and disposition of the balance
- Applicability of the CVVA
- Future customer communications

Customer Volume Variance Account

Appropriateness of Establishing the CVVA

EPCOR noted that the expansion of natural gas service to the South Bruce communities was the outcome of a regulated, and competitive process that involved the development of a common infrastructure plan (CIP) by proponents. The CIP submissions detailed the proponents' revenue requirements to serve specific South Bruce communities and consisted of two general parameters: (i) common assumptions; and (ii) competitive parameters.

EPCOR submitted that it is clear that the average customer consumption volumes for Rate 1 and 6 customers were common assumptions in the CIP for which the risk should be borne by ratepayers. EPCOR submitted that the common assumptions applied for mass market customer volumes were based on Enbridge Gas Inc.'s (Enbridge Gas) then-current normalized average consumption (NAC) per customer in adjacent markets. EPCOR submitted that, during EPCOR's 2019-2028 South Bruce Custom IR proceeding[3], it had no reason to believe that the actual average volume would be materially different from the common assumption applied. EPCOR noted that the CIP common assumption for Rate 1 consumption volumes per customer is approximately

[3] EB-2018-0264

2,149 m^3 and EPCOR is currently forecasting approximately 1,453 m^3 per customer. EPCOR stated that the consumption variance is significant and has a material impact on EPCOR's operations.[4]

On this basis, EPCOR requested approval to establish the CVVA to track the variance in revenue resulting from the difference between the average customer volume forecast based on the common assumptions set out in the CIP and the actual average 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 (Rate 16) would not be tracked in this account as the volumes for these rate classes were not forecast using common assumptions.

EPCOR noted that the CVVA is designed to record only variances associated with volume variances for Rate 1 and Rate 6 customers actually connected to the South Bruce system and EPCOR retains the risk related to customer attachments, as that was a CIP competitive parameter.

EPCOR requested that the CVVA be established to record costs from January 1, 2021, until December 31, 2028.

EPCOR forecast that the total balance in the CVVA for the 2021-2028 period would be \$7.85 million.[5] This represents 13.4% of its approved revenue requirement over the 10-year rate stability period (2019-2028).[6] EPCOR stated that in the absence of approval of the CVVA its net income over the 2019-2028 period would reduce from an expected \$6.1 million to a loss of \$1.8 million.[7]

EPCOR submitted that the OEB confirmed that customer consumption is a non-competitive element within the CIP at the time that the successful proponent was selected and cited the following OEB finding:

> Customer Consumption: Proponents were to use common consumption levels for each mass market segment, except for large commercial or industrial customers, which were to be left to competition.[8]

In its Application, EPCOR noted that the OEB approved the Energy Content Variance

[4] EPCOR South Bruce 2023 IRM Application, July 18, 2022, pg. 31
[5] EPCOR Interrogatory response, December 5, 2022, SEC-8
[6] Adjusted Revenue Requirement of \$58.53 million per Decision on Settlement Proposal and PO no. 6, EB-2018-0264, Schedule A, Issue 5b
[7] Argument-in-Chief, pg. 4. OEB staff has attempted to calculate the \$6.1 million and -\$1.8 million net income figures and EPCOR appears to be referring to the 2021-2028 period (or the proposed effective period of the CVVA) as opposed to the entire 10-year term. EPCOR should advise whether this is the correct time period in its reply argument.
[8] South Bruce Expansion, EB-2016-0137, Decision and Order, April 12, 2018, pg. 8

Account (ECVA)[9] in its 2019-2028 Custom IR proceeding, which confirmed the principle that customer consumption was a common assumption that the proponents were not taking the risk on, citing the following OEB finding:

> The OEB concludes that a variance in energy content of natural gas is outside of what was considered for the CIP, therefore the OEB approves the [Energy Content Variance Account]. EPCOR Southern Bruce developed the common average use assumptions for each market with Union Gas (now Enbridge Gas) during the CIP process. These projections were based on Union Gas' average use per customer. The OEB notes that Enbridge Gas has variance accounts to record changes in average use that captures changes in consumption volumes due to among other things changes in the heat content, for both the Enbridge Gas Distribution and Union Gas rate zones.[10]

EPCOR further submitted that if Enbridge Gas had been the successful proponent, consistent with the principle of not taking the risk on common assumptions regarding customer consumption, its existing NAC account would have captured variances in actual consumption volume relative to those approved in rates.[11]

OEB staff agrees with EPCOR that the forecast Rate 1 and Rate 6 customer volumes are common assumptions in the CIP.[12] OEB staff also agrees with EPCOR that had Enbridge Gas been the successful proponent its existing NAC account would have likely captured the same type of volume variances that EPCOR intends to record in the CVVA. Therefore, OEB staff submits that the OEB should approve the establishment of the CVVA, with certain modifications.

OEB staff submits that, due to the timing of the request to establish the CVVA (i.e., as part EPCOR's 2023 rates proceeding), the effective date should be January 1, 2023 and EPCOR's shareholder should bear the risk of a portion of the revenue variance resulting from Rate 1 and Rate 6 volume variances for the 2023-2028 period. These arguments are discussed in more detail below.

OEB staff also provides submissions on the methodology for calculating the CVVA balance and commentary with respect to the bill impacts resulting from disposition of the CVVA and the potential need for an extended recovery time.

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[9] EB-2018-0264, Rate Order, December 11, 2019, Schedule B, ECVA Accounting Order. The ECVA records the difference in the energy content of the gas that is actually delivered and the assumed energy content used at the time of determining the revenue requirement and delivery rates.
[10] EB-2018-0264, Decision and Order, November 28, 2019, pg. 20-22
[11] EPCOR South Bruce 2023 IRM Application, July 18, 2022, pg. 28 and argument-in-chief, pg. 8
[12] EB-2016-0137

Effective Date for the CVVA

In its original application, EPCOR requested that the CVVA be effective as of January 1, 2020. EPCOR amended the requested effective date to January 1, 2021, as prior to the revised effective date there was insufficient data to calculate the weather-normalized volumes.[13]

OEB staff submits that the CVVA should have an effective date of January 1, 2023, which is the same effective date as the distribution rates requested in the Application. Any effective date prior to this would offend the rule against retroactive ratemaking.

It is a well established principle that an economic regulatory tribunal, such as the OEB, operating under a positive approval scheme of ratemaking must exercise its rate-making authority on a prospective basis. Generally speaking, absent express statutory authorization, such a regulator may not exercise its rate-making authority retroactively or retrospectively. Ordinarily, rates must be set on a going forward basis, and rates cannot be adjusted after the fact in respect of costs or revenues that occurred prior to rates being set.[14]

There are a number of exceptions to the rule against retroactive ratemaking, most importantly interim rates and where certain costs have been recorded in a deferral or variance account. Under those circumstances the OEB has the authority to consider "out of period" (i.e. retroactive) adjustments. However, neither of these exceptions apply in the current case. EPCOR's current rates are final and not interim, and EPCOR does not currently have a deferral or variance account that captures the difference between the average use reflected in base rates and actual average use.

In its responses to OEB staff interrogatories, EPCOR stated that backdating the CVVA to 2020 does not amount to retroactive ratemaking, as average volume per customer was one of the common assumptions between EPCOR and Enbridge Gas that was accepted by the OEB in the competitive process.[15] The fact that the OEB accepted that EPCOR and Enbridge Gas should use certain common assumptions in the competitive process did not amount to a guarantee that there could never be any risk associated with those common assumptions. Given the absence of a deferral or variance account, or some other explicit statement by the OEB that average volume per customer would be trued up to reflect actual consumption, OEB staff submits that EPCOR cannot recover any variances between actual and forecast average volume per customer for the period prior to 2023.

OEB staff therefore submits that EPCOR should only be able to record amounts in the

[13] EPCOR Interrogatory response, December 5, 2022, OEB Staff Question 4
[14] *Union Gas Ltd. v. Ontario (Energy Board)*, 2015 ONCA 453, para. 82
[15] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(i)

CVVA starting January 1, 2023. OEB staff notes that EPCOR stated if the effective date of the account is January 1, 2023, EPCOR will experience an estimated revenue shortfall of $1.02 million for the 2019-2022 period.[16]

Risk Sharing

OEB staff submits that the appropriate time to seek approval for an account to record the variance in revenue resulting from the difference between the average customer volume forecast based on the common assumptions set out in the CIP and the actual average customer volume was in EPCOR's 2019-2028 Custom IR proceeding.[17] This was the proceeding where the OEB established EPCOR's base rates and the overall rate framework that would apply during the 2019-2028 period.

OEB staff submits that while there was no better volume forecast available at the time of EPCOR's 2019-2028 Custom IR proceeding than Enbridge Gas's then current normalized average consumption per customer for its adjacent markets, EPCOR should have considered the potential material impact that volume variances in Rate 1 and Rate 6 could have on its revenues in that proceeding. In addition, EPCOR ought to have considered that Enbridge Gas had existing variance accounts that recorded the difference between forecast and actual NAC (or average use) and made a proposal to establish a similar account in the 2019-2028 Custom IR proceeding.

By not considering the mass market volume risk and not seeking approval of a variance account as part of the 2019-2028 Custom IR proceeding, EPCOR has deprived its Rate 1 and Rate 6 customers that connected during the 2019-2022 period of a comprehensive understanding of the changes to their rates that customers may experience during the 10-year period contemplated in EPCOR's Custom IR proceeding. The customers that connected earliest to EPCOR's South Bruce system had no way to know that they could be responsible for covering the costs associated with changes in average use as between forecast and actual. This information could not have been communicated to them as no account was established, nor contemplated, when these customers were considering whether to connect to EPCOR's system, and therefore, customers signed up for natural gas service in the absence of a full understanding of the risks.

For the above reasons, OEB staff submits that EPCOR should share the risk of revenue variances resulting from the difference between the average customer volume forecast based on the common assumptions set out in the CIP and the actual average customer volume for the 2023-2028 period.

[16] Argument-in-chief, pg. 4
[17] EB-2018-0264

OEB staff submits that the starting point for determining the appropriate proportion of the risk that should be borne by EPCOR's shareholder is to calculate the percentage of mass market customers actually connected at the end of 2022 relative to the total number of mass market customers that are expected to be connected to ECPOR's South Bruce system at the end of the 10-year Custom IR term (2028). OEB staff submits that using the year-end 2022 customer count as part of this risk sharing calculation is appropriate as these are the customers that did not have all the information necessary to make a fully informed decision regarding taking natural gas service from EPCOR.

OEB staff notes that the most up-to-date customer count forecast on the record shows that 3,133 Rate 1 and Rate 6 customers were to be connected by the end of 2022 and a total of 5,863 Rate 1 and Rate 6 customers are to be connected by the end of 2025 (i.e., 53% of customers were connected by the end of 2022).[18] OEB staff has used the 2025 customer connection forecast[19] as a proxy for the 2028 customer connection forecast in order to undertake the risk sharing calculation as it appears to be the most up-to-date forecast available. However, if EPCOR has more accurate figures, it should provide those in its reply submission.

Based on the calculation described above, EPCOR's shareholder would be responsible for 53% of the balance eventually recorded in the CVVA and only the remaining 47% should be considered recoverable from Rate 1 and Rate 6 customers.

OEB staff submits that the OEB should approve recovery of 47% of the eventual balance in the CVVA for the 2023-2028 period and no recovery during the 2021-2022 period. OEB staff notes that this reduces the proposed forecast CVVA recovery from $7.85 million to approximately $3.43 million, a reduction of approximately $4.41 million.

In the table below, OEB staff compares EPCOR's forecast ROE for the 2021-2028 period based on EPCOR's proposal to the forecast ROE based on no CVVA recovery during the 2021-2022 period and 47% CVVA recovery during the 2023-2028 period.[20]

[18] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(g). The up-to-date customer count forecast shown in the interrogatory response concludes in 2025 and the 2028 customer count forecast in the pre-filed evidence is lower than the up-to-date 2025 forecast.
[19] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(g)
[20] OEB staff used EPCOR's interrogatory response, December 5, 2022, SEC-8 as the basis for the calculations. OEB staff asks that EPCOR confirm, or otherwise correct, OEB staff's calculations in its reply submission.

Table 1: Forecast ROE

ROE	2021	2022	2023	2024	2025	2026	2027	2028
No CVVA Recovery	-14.0%	-9.1%	-2.4%	1.9%	3.2%	3.5%	3.8%	3.4%
EPCOR's Proposal	-13.4%	-7.2%	1.1%	6.5%	8.3%	8.8%	9.2%	9.0%
47% CVVA Recovery and no recovery in 2021 and 2022	-14.0%	-9.1%	-0.8%	4.0%	5.6%	6.0%	6.3%	6.1%

OEB staff recognizes that EPCOR will be worse off financially under OEB staff's proposal. In response to OEB staff's questions regarding EPCOR's financial viability in the context of the OEB potentially refusing to establish the CVVA, EPCOR referenced potential issues with its ability to expand natural gas service but did not explain in detail why this is the case nor did it state directly that its long-term financial viability would be threatened.[21] OEB staff is the view that the level of CVVA recovery proposed by OEB staff appropriately balances the need for EPCOR to share the risk of volume variances for mass market customers and EPCOR's continued ability to build out the South Bruce distribution system.

Methodology for Calculating the Balance in the CVVA

EPCOR provided additional evidence on November 14, 2022, that set out the methodology that it proposed to apply to calculate the balance in the CVVA.[22]

EPCOR stated that deriving the appropriate volume involves calculating the actual monthly consumption per customer, adjusting it to remove the impact of the ECVA, and applying the weather normalization methodology to determine the monthly NAC. The monthly NAC, and approved rate schedules (including volumetric charges, monthly fixed charges and the delay in revenue rate rider) are then used to generate an average customer's monthly revenue. The average customer's monthly revenue is multiplied by the number of actual billable customers in that rate class to calculate the total monthly NAC revenue of that rate class. The total CIP revenue for each month is calculated using the assumed monthly CIP consumption with the approved rate schedule multiplied by the actual billable customers in that rate class. The difference between the total monthly NAC revenue and the total monthly CIP revenue for the corresponding months is calculated and recorded in the CVVA each month.

OEB staff notes that the proposed weather normalization process is similar to EPCOR Aylmer's weather normalization process.[23] The difference between the two processes is that Aylmer's methodology uses 120 months of data which allows for separate

[21] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(k)
[22] EPCOR Additional Evidence, November 14, 2022, Appendix A
[23] EPCOR Interrogatory response, December 5, 2022, OEB Staff Question 1a

regression parameters for each month, whereas the proposed South Bruce methodology uses monthly data within the calendar year so there is only a single regression parameter each year. OEB staff has no issues with the proposed weather normalization methodology as it is similar to the methodology approved for EPCOR's Aylmer operations. OEB staff accepts the limitation of a lack of historical data for EPCOR's South Bruce operations.

OEB staff has reviewed EPCOR's proposed CVVA calculation methodology and has no concerns. The calculation process ensures there is no double counting of the ECVA, by removing the impact of the energy content, and properly incorporates the proposed weather normalization methodology.

OEB staff notes that if the OEB accepts OEB staff's proposal as set out in this submission, only 47% of the calculated balance in the CVVA for the 2023-2028 period would be recoverable from ratepayers.

Draft Accounting Order

In its pre-filed evidence, EPCOR filed a draft accounting order for its proposed CVVA.[24] EPCOR revised its draft accounting order in response to OEB staff interrogatories.[25]

OEB staff submits that, depending on the OEB's findings in this proceeding, a number of changes to the revised drafting accounting may be required. Even if EPCOR's proposal is accepted as filed, the most recent draft accounting order should be revised to reflect a detailed summary of the updated CVVA calculation methodology described in EPCOR's additional evidence filed on November 14, 2022.

OEB staff submits that the OEB should establish a process to address the finalization of the accounting order in its Decision and Order. This process should include the filing of an updated draft accounting order based on the OEB's findings, an opportunity for comment by OEB staff and intervenors, and reply comments from EPCOR.

Bill Impacts and Disposition of CVVA Balance

OEB staff notes that the disposition of the balance in the CVVA will likely have material impacts on Rate 1 customers.

OEB staff has calculated a high-level bill impact for a typical Rate 1 customer related to the disposition of the forecast balances in the CVVA. OEB staff has undertaken this bill impact analysis in two ways: (a) using EPCOR's proposal and; (b) OEB staff's submission (i.e. no recovery of the balance for the 2021-2022 period and 47% recovery

[24] EPCOR South Bruce 2023 IRM Application, July 18, 2022, pg. 28
[25] EPCOR Interrogatory response, December 5, 2022, OEB Staff Question 3c, and Appendix A

of the balance in the 2023-2028 period). OEB staff assumed that the first CVVA disposition will be in 2024 in EPCOR's proposal and 2025 in OEB staff's proposal.[26] OEB staff produced the following tables[27]:

Table 2: EPCOR Proposal – Estimated Bill Impacts

		2023	2024	2025	2026	2027	2028	2029	2030
A	**Rate 1 EPCOR Proposed Disposition ($ '000 s)[28]**	-	629[29]	809	1,130	1,276	1,304	1,335	1,366
B	**Rate 1 Customer count [30]**	4878	5829	5829	5829	5829	5829	5829	5829
C	**Average Annual Bill Impact per Customer ($) (A / B)**	-	108	139	194	219	224	229	234

OEB staff notes that the forecast average annual bill impact for Rate 1 customers for the 2024-2030 period based on EPCOR's proposal is approximately $192 per year. The total recovery between 2024 to 2030 is $1,347 per customer. OEB staff also notes that based on EPCOR's most recently approved rates, the forecast average annual delivery-related bill impact of the CVVA disposition for a typical Rate 1 customer, which does not include gas supply, federal carbon charges, upstream charges and rate riders, will be an approximate 20% increase.[31] The forecast average total annual bill impact, which includes gas supply, federal carbon charges, upstream charges, delivery charges and rate riders, will be an approximate 10% increase.[32]

[26] OEB staff notes that under EPCOR's proposal the first disposition would be in 2024 (i.e. the 2021 and 2022 balances brought forward in 2023 as part of EPCOR's 2024 rates application). Under OEB staff's proposal the first disposition would be in 2025 (i.e. the 2023 balance brought forward in 2024 as part of EPCOR's 2025 rates application).
[27] OEB staff asks that EPCOR confirm, or otherwise correct, the high-level bill impact analysis set out by OEB staff.
[28] The account balances were shifted two years to account for disposition timing. Figures are calculated based on the forecast CVVA balances shown in EPCOR's interrogatory response, December 5, 2022, SEC-8.
[29] The 2024 disposition is the sum of the 2021-2022 CVVA balances.
[30] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(g)
[31] EPCOR January 2023 QRAM, EB-2022-0297, Application, Schedule 9
[32] EPCOR January 2023 QRAM, EB-2022-0297, Application, Schedule 9

Table 3: OEB Staff Proposal – Estimated Bill Impacts

		2023	2024	2025	2026	2027	2028	2029	2030
A	**Rate 1 OEB Staff Proposed Disposition ($ '000 s)[33]**	-	-	380	531	600	613	627	642
B	**Rate 1 Customer count [34]**	4878	5829	5829	5829	5829	5829	5829	5829
C	**Average Annual Bill Impact per Customer ($) (A / B)**	-	-	65	91	103	105	108	110

OEB staff notes that the average annual impact for Rate 1 customers for the 2025-2030 period based on OEB staff's proposal is approximately $97 per year. The total recovery between 2024 to 2030 is $582 per customer. OEB staff also notes that based on EPCOR's most recently approved rates, the average annual delivery-related bill impact of the CVVA disposition for a typical Rate 1 customer, which does not include gas supply, federal carbon charges, upstream charges and rate riders, will be an approximate 10% increase on the delivery portion of customer bills.[35] The average total annual bill impact, which includes gas supply, federal carbon charges, upstream charges and rate riders, will be an approximate 5% increase.[36]

OEB staff submits that a rate smoothing proposal, as necessary, should be filed in the first application that EPCOR seeks disposition of the CVVA balance if the total annual bill impact, including the recovery of CVVA balances, is greater than 10%. The 10% threshold is referenced in the OEB's Handbook for Utility Rate Applications applicable to all rate-regulated utilities.[37]

Applicability of the CVVA

EPCOR requested that the OEB find that the CVVA is applicable to all Rate 1 and 6 customers who are subject to EPCOR's South Bruce rates. EPCOR noted that this would include future expansion projects as EPCOR intends to use the South Bruce rate structure for future expansions in order to achieve operational and regulatory efficiencies.[38]

OEB staff notes that EPCOR has been awarded a grant from the Ontario Government

[33] The account balances were shifted two years to account for disposition timing. Figures are calculated based on the CVVA balances shown in EPCOR's interrogatory response, December 5, 2022, SEC-8 (adjusted for the 47% recovery proposed by OEB staff and no recovery of the 2021 and 2022 CVVA balances).
[34] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3(g)
[35] EPCOR January 2023 QRAM, EB-2022-0297, Application, Schedule 9
[36] EPCOR January 2023 QRAM, EB-2022-0297, Application, Schedule 9
[37] OEB Handbook for Utility Rate Applications (October 13, 2016); see Introduction (pg. 1) and Rate Mitigation (Appendix 3, pg. v)
[38] Argument-in-chief, pg. 5.

to expand into Brockton.[39] EPCOR stated that when applying for the grant a common assumption of approximately 2,200 m^3 was used and without the CVVA the Brockton community expansion would become uneconomical.

OEB staff submits that the applicability of the CVVA should be limited to the current South Bruce distribution system that underpinned EPCOR's 2019-2028 Custom IR application. OEB staff notes that the rates established for EPCOR's South Bruce distribution system are based on the OEB-approved revenue requirement for only that distribution system.

For future community expansions, including Brockton, EPCOR should seek the necessary rate approvals under section 36 of the *Ontario Energy Board Act, 1998* at the time that it seeks leave to construct approval for the community expansion. OEB staff is not taking the position that applying the South Bruce rate structure, including the availability of the CVVA to record revenue variances, is necessarily inappropriate. However, EPCOR must directly seek this approval from the OEB, and the current proceeding is not the appropriate forum to do so. This proceeding is with respect to EPCOR South Bruce's 2023 rate application. The OEB has insufficient evidence before it with respect to appropriateness of applying the South Bruce rate structure to other community expansions, including Brockton.

<u>Future Customer Communication</u>

OEB staff notes that EPCOR is expecting approximately 2,700 customers to connect to the South Bruce distribution system in the 2023-2025 period. OEB staff submits that in all communications targeting prospective customers, EPCOR should provide forecast delivery costs inclusive of the impact of the CVVA. OEB staff submits customers should have comprehensive cost information (including the impact of the CVVA) when deciding whether to connect to EPCOR's South Bruce distribution system.

~All of which is respectfully submitted~

[39] EPCOR Interrogatory response, September 19, 2022, OEB Staff Question 3k