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DECISION AND ORDER

EB-2022-0245

EPCOR NATURAL GAS LIMITED PARTNERSHIP

2023 Federal Carbon Pricing Program Application

BY DELEGATION, BEFORE: Theodore Antonopoulos
Vice President
Applications

February 9, 2023



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1 OVERVIEW

EPCOR Natural Gas Limited Partnership (ENGLP) applied to the Ontario Energy Board (OEB) for approval under section 36(1) of the *Ontario Energy Board Act, 1998* to increase rates and recover costs associated with meeting its obligations under the federal *Greenhouse Gas Pollution Pricing Act (GGPPA)*.

ENGLP operates two natural gas distribution systems in Ontario, which are treated separately for rate-making purposes. These are ENGLP's Aylmer rate zone and ENGLP's South Bruce rate zone, a newer service territory with the first customer connections in the second half of 2020.

As part of its 2023 Federal Carbon Pricing Program (FCPP) application, ENGLP has requested:

- Approval to increase the Federal Carbon Charge on applicable customer bills, for both the Aylmer and South Bruce rate zones, from 9.79 ¢/m³ to 12.39 ¢/m³ effective April 1, 2023, to recover ENGLP's forecast FCPP customer-related costs
- Approval to increase the Facility Carbon Charge for ENGLP's Aylmer's rate zone from 0.0034 ¢/m³ to 0.0037 ¢/m³, effective April 1, 2023 and to introduce a Facility Carbon Charge for ENGLP's South Bruce rate zone of 0.0011 ¢/m³, effective April 1, 2023, to recover ENGLP's forecast 2023 FCPP facility-related costs.

The incremental bill impact on a typical residential customer in ENGLP's Aylmer rate zone resulting from these requests would be an increase of \$48.87 per year. The incremental bill impact on a typical residential customer in ENGLP's South Bruce rate zone resulting from these requests would be an increase of \$55.90 per year.

In this Decision and Order, the OEB approves ENGLP's request for the Federal Carbon Charge and Facility Carbon Charge on a final basis.

2 CONTEXT AND PROCESS

The GGPPA established a FCPP under which a natural gas utility in Ontario is required to pay a fuel charge to the Government of Canada for emissions from the natural gas it delivers to its customers and for its facility-related emissions. The fuel charge came into effect on April 1, 2019, and has increased annually since. The next increase to the fuel charge is expected to take effect on April 1, 2023, at which time the fuel charge under the GGPPA will increase from 9.79 ¢/m³ of natural gas use to 12.39 ¢/m³ of natural gas use.

Emissions from certain customers (e.g., large industrial customers and greenhouses) are eligible for full or partial exemption from the fuel charge under the GGPPA. These customer volumes are therefore subject to ENGLP's Facility Carbon Charge, but not the Federal Carbon Charge for customer use. Effective January 1, 2022, the Government of Canada announced that the Ontario Emissions Performance Standards (EPS) program will replace the Government of Canada's Output-Based Pricing System (OBPS) for large industrial customers who are eligible for exemption from the fuel charge under the GGPPA.

The OEB has previously established three FCPP deferral and variance accounts (DVAs) for both ENGLP's Aylmer and South Bruce rate zones:¹

- Federal Carbon Charge – Customer Variance Accounts to record the variance between actual FCPP costs related to customer emissions, and FCPP costs recovered in rates related to customer emissions.
- Federal Carbon Charge – Facility Variance Accounts to record the variance between actual FCPP costs related to facility emissions and FCPP costs recovered in rates related to facility emissions.
- Greenhouse Gas Emissions Administration Deferral Accounts to record the administration costs associated with the FCPP.

On October 12, 2022, ENGLP filed its 2023 FCPP application with the OEB, requesting final approval to increase its FCPP rates for both the Aylmer and South Bruce rate zones. There was no request to dispose of any DVA balances related to the GGPPA in

¹ The FCPP DVAs for ENGLP's Aylmer rate zone were established in EB-2019-0101. The FCPP DVAs for the South Bruce rate zone were established as part of ENGLP's 2019-2028 rates proceeding (EB-2018-0264).

ENGLP's 2023 FCPP application and ENGLP will defer disposition until its 2024 FCPP application.

On November 24, 2022, the OEB issued a Case Management Letter informing ENGLP that given the rate adjustments contemplated are largely mechanistic, an employee of the OEB to whom authority has been delegated under Section 6 of the *Ontario Energy Board Act, 1998*, intends to make a decision on the application without holding a hearing.

On December 12, 2022, OEB staff e-mailed ENGLP with clarification questions.

On January 4, 2022, ENGLP's provided responses to OEB staff's clarification questions, which were put on the record for this proceeding. These responses were taken into consideration during the review of the application by the OEB.

3 DECISION

The OEB approves the Federal Carbon Charge increase to 12.39 ¢/m³ for both the Aylmer and the South Bruce rate zones effective April 1, 2023.

The OEB also approves a Facility Carbon Charge for the Aylmer rate zone of 0.0037 ¢/m³ and a Facility Carbon Charge for the South Bruce rate zone of 0.0011 ¢/m³, both effective April 1, 2023.

3.1 Federal Carbon Charge and Facility Carbon Charge

ENGLP requested approval, on a final basis, of a Federal Carbon Charge of 12.39 ¢/m³ for both the Aylmer and South Bruce rate zones, effective April 1, 2023. ENGLP proposed to charge customers the Federal Carbon Charge monthly based on actual billed volumes. The requested rate for the Federal Carbon Charge matches the volumetric rate for the fuel charge that ENGLP expected to pay to the Government of Canada for emissions from its non-exempt customers, effective April 1, 2023.

ENGLP also requested approval, on a final basis, of a Facility Carbon Charge for the Aylmer rate zone of 0.0037 ¢/m³ and a Facility Carbon Charge for the South Bruce rate zone of 0.0011 ¢/m³, effective April 1, 2023. Per ENGLP's 2022 FCPP application, South Bruce was not previously allocated a Facility Carbon Charge due to lack of materiality since customers in this rate zone accounted for approximately 2% of ENGLP's total customers. However, in its Decision and Order on ENGLP's 2022 FCPP application², the OEB indicated its expectation that ENGLP consider a Facility Carbon Charge for the South Bruce service area in a future application. Accordingly, the volumetric rate proposed by ENGLP for the Facility Carbon Charge in the current application is based on forecasted facility-related emissions from ENGLP's buildings and natural gas vehicles and forecast customer volumes. Building emissions were allocated between the Aylmer and South Bruce rate zones based on forecast volumes of all customers. 100% of natural gas vehicle emissions were allocated to Aylmer since South Bruce has a separate fleet that does not include natural gas vehicles.

²EB-2021-0268, Decision and Order, March 3, 2022, Page 4

Findings

The Federal Carbon Charge:

The OEB finds that the increase in the Federal Carbon Charge and the methodology for establishing the charge is consistent with the costs ENGLP is expected to incur through the Federal Carbon Pricing Program, and is therefore approved.

The OEB acknowledges that the requested rate for the Federal Carbon Charge has been established based on a change to the fuel charge that has been announced by the Government of Canada, but is not yet reflected in the relevant Schedule of the GGPPA.³ However, the OEB is approving the proposed rate based on the best information available at this time, and the DVAs will record any cost impacts in the unlikely event that increases to the fuel charge are not made for April 1, 2023.

The Facility Carbon Charge

The OEB finds that the increase in Facility Carbon Charge for the Aylmer and South Bruce rate zone is consistent with the costs ENGLP incurs through the Federal Carbon Pricing Program, and is therefore approved.

The OEB acknowledges that the allocation of a Facility Carbon Charge to the South Bruce rate zone is in accordance with the OEB's Decision and Order to ENGLP's 2022 FCPP anticipating growth in this service area. The OEB also accepts the allocation methodology proposed by ENGLP as the allocation methodology considers the proportionality of facility related emissions between Aylmer and South Bruce from ENGLP's building and natural gas vehicles, and forecasted customer volumes.

3.2 Deferral and Variance Account Disposition Requests

ENGLP is not seeking to dispose of any deferral and variance account (DVA) balance related to the GGPPA in its 2023 FCPP application and will defer disposition until its 2024 FCPP application when ENGLP plans on disposing DVA balances as of December 31, 2022.

In ENGLP's prior year 2022 FCPP application, ENGLP withdrew its request to dispose of the 2020 balances in the Aylmer and South Bruce rate zone Customer Carbon

³ Schedule 2 of the *Greenhouse Gas Pollution Pricing Act*, S.C. 2018, c. 12, s. 186 has still not been revised to increase the fuel charge to 12.39 ¢/m³ from the current rate of 9.79 ¢/m³, as has been previously announced by the Government of Canada.

Charge Variance Accounts (CCCVA) after discovering data errors, until a historical review could be completed and all adjustments to the CCCVA are made. Per ENGLP's current 2023 FCPP application, adjustments to the CCCVA did not take place until 2022 and as a result, ENGLP is deferring disposition of the account until all final adjustments are made. The OEB accepts this and directs ENGLP to provide a summary of any CCCVA historical review undertaken to confirm the adjusted balance in ENGLP's next FCPP application.

ENGLP also noted to keep administrative costs down it did not engage a special purpose audit for the FCCVA (Facility Carbon Charge Variance Account) or the GGEADA (Greenhouse Gas Emissions Administration Deferral Account) due to the lack of materiality of those accounts.

For reference, the balances as of December 31, 2021 were \$107,710 in the CCCVA, \$776 in the FCCVA, and \$4,858 in the GGEADA. The CCCVA balance is small in relation to the forecast costs recovered by ENGLP through the Federal Carbon Charge (\$5,447,810 forecast in the 12 months beginning on April 1, 2023),⁴ such that the bill impact to customers of deferring disposition will be insignificant.

The OEB accepts these reasons for deferring the disposition of the DVAs until ENGLP's next FCPP application.

⁴ \$4,243,499 in the Aylmer rate zone and \$1,204,311 in the South Bruce rate zone.

4 IMPLEMENTATION

ENGLP intends to reflect any changes to rates for the Federal Carbon Charge and Facility Carbon Charge as part of its April 1, 2023 Quarterly Rate Adjustment Mechanism (QRAM) application.

As noted in ENGLP's 2023 FCPP application, ENGLP proposes to file updated draft rate schedules as distribution rates are finalized and commodity costs updated for ENGLP's Incentive Rate-Making (IRM) applications for the South Bruce and Aylmer rate zone for rates effective January 1, 2023.

Findings

The OEB finds that a draft rate order process is not necessary in this proceeding. The rates approved by the OEB in this proceeding shall be brought forward by ENGLP for incorporation in its April 1, 2023 QRAM application.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Federal Carbon Charge rate of 12.39 ¢/m³ for EPCOR Natural Gas Limited Partnership's Aylmer and South Bruce rate zones is approved effective April 1, 2023.
2. The Facility Carbon Charge rate of 0.0037 ¢/m³ for EPCOR Natural Gas Limited Partnership's Aylmer rate zone is approved effective April 1, 2023.
3. The Facility Carbon Charge rate of 0.0011 ¢/m³ for EPCOR Natural Gas Limited Partnership's South Bruce rate zone is approved effective April 1, 2023.

DATED at Toronto February 9, 2023

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar