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

BY EMAIL

April 27, 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
EPCOR Natural Gas Limited Partnership
South Bruce 2023 Rate Application – Phase 2
OEB File Number: EB-2022-0184

Please find attached OEB staff's submission in the above referenced proceeding, regarding the draft accounting order for the Customer Volume Variance Account, pursuant to the April 6, 2023 Decision and Order.

EPCOR Natural Gas Limited Partnership is reminded that its reply argument is due by May 4, 2023.

Yours truly,

Arturo Lau

Digitally signed by Arturo Lau
Date: 2023.04.27 13:27:19 -04'00'

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2022-0184

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Ontario

ONTARIO ENERGY BOARD

OEB Staff Submission on Draft Accounting Order

EPCOR Natural Gas Limited Partnership

South Bruce 2023 Rate Application – Phase 2

EB-2022-0184

April 27, 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 (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)

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.

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

On April 6, 2023, the OEB issued a Decision and Order with respect to Phase 2: EPCOR's proposal to establish the CVVA (Decision). The Decision provided for the filing of a draft accounting order for the CVVA, submissions from OEB staff and intervenors and a reply submission.

On April 20, 2023, EPCOR filed a motion in accordance with rule 7 of the OEB's *Rules of Practice and Procedures* for an extension of time for the filing of a motion to review the Decision from April 26, 2023 (20 days from Decision issuance) to May 10, 2023.

On April 21, 2023, the OEB granted EPCOR's request without prejudice to whether the motion meets the threshold test to be heard. The OEB also stated that the procedural schedule set out in the Decision with respect to the draft accounting order process is unchanged.

OEB staff's submission on the draft accounting order for the CVVA is set out below.

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

Background

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 common infrastructure plan[2] (CIP) and the actual normalized average customer volume from January 1, 2021, until December 31, 2028.

In the Decision, the OEB approved the establishment of the CVVA, which is modified relative to the variance account proposed by EPCOR. The OEB findings established that:

- The effective date of the CVVA is January 1, 2023.
- The CVVA is applicable only to the South Bruce distribution system, and not to any future expansion projects.
- A 50/50 sharing mechanism is applicable to the CVVA and recovery is only eligible up to actual earnings of 300 basis points below the return on equity (ROE) that underpinned EPCOR's rates established in the 2019-2028 Custom IR proceeding.
- The proposed methodology for calculating revenue variances to be recorded in the CVVA is appropriate. As a result, the CVVA will start to track the revenue impact of average volume variances for Rate 1 and Rate 6 customers compared to the CIP assumptions, excluding the energy content variance, effective January 1, 2023.
- In its first application seeking disposition of CVVA balances, EPCOR shall file a rate class allocation and disposition proposal for the CVVA.

The Decision invited EPCOR to advise whether it believes an 8.78% ROE figure is the appropriate figure to use as a starting point for determining the ROE percentage which is the 300 basis points below the ROE underpinning rates. In EPCOR's draft accounting order, EPCOR stated that the most appropriate ROE to use is the current 2023 OEB-approved ROE of 9.36% as EPCOR does not have an approved deemed ROE on which its rates are designed.

OEB Staff Submission

OEB staff submits that ECPOR's draft accounting order properly reflects the Decision subject to two comments below.

First, with respect to the proposed use of the OEB-approved 2023 ROE figure (9.36%)

[2] EB-2016-0137

for determining the ROE percentage that is 300 basis points below the ROE underpinning rates, OEB staff submits that the 8.78% figure is more appropriate. While it is true that the OEB did not specifically opine on the 8.78% ROE figure in EPCOR's original Custom IR decision, that number does underpin EPCOR's rates. So, in OEB staff's view it is not correct to say that the 8.78% was not approved for rate-setting purposes.

That said, if the OEB agrees with EPCOR that using the 2023 OEB ROE as established by the OEB's annual cost of capital parameter update is appropriate, OEB staff submits that the ROE used to calculate the ROE percentage that is 300 basis points below the approved ROE should then be updated annually. For example, the disposition of 2023 balances in the CVVA would be subject to the 2023 OEB ROE of 9.36% minus 300 basis points. For 2024, the disposition of balances in the CVVA would be subject to the OEB's updated 2024 ROE figure minus 300 basis points. OEB staff notes that this is similar to the approach (i.e., using OEB-approved ROE figures updated annually) applied by Enbridge Gas Inc. in determining amounts subject to earnings sharing.[3]

Second, OEB staff requests clarification of the following statement that is included in the draft accounting order:

> While the revenue variances for each of Rate Class 1 and Rate Class 6 shall be calculated separately and tracked in the subaccounts as outlined below in the accounting entries, for the purposes of disposition these accounts they shall not be bifurcated. Therefore, either the balances in both accounts are disposed of, or as in a case where the EPCOR is not eligible for recovery based on its ROE as described above, neither balance shall be eligible to be recovered/returned to ratepayers.

OEB staff believes that this is intended to mean that either the total balance (both Rate 1 and Rate 6) in the account will be disposed of assuming the ROE dead band is not breached or, alternatively, if the dead band is breached, the total balance will not be disposed. Further, it is OEB staff's understanding that this statement is not intended to, in any way, limit the OEB's discretion in the first application that EPCOR seeks disposition of the CVVA balance to determine an appropriate rate class allocation and disposition methodology. If OEB staff's understanding is correct, OEB staff has no concerns with the inclusion of this language in the draft accounting order.

~All of which is respectfully submitted~

[3] See, for example. EB-2022-0110 at Exhibit B, Tab 1