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BY EMAIL

October 5, 2023

Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
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[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: EPCOR Natural Gas Limited Partnership (EPCOR)  
Application for 2024 Rates – Aylmer Service Area  
Ontario Energy Board File Number: EB-2023-0160**

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

EPCOR Natural Gas Limited Partnership is reminded that its reply argument is due by October 19, 2023.

Yours truly,

Arturo Lau  
Advisor, Natural Gas

Encl.

cc: All parties in EB-2023-0160



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**EPCOR Natural Gas Limited Partnership**

**Aylmer 2024 Rate Application**

**EB-2023-0160**

**October 5, 2023**

## Application Summary and Process

On July 7, 2023, 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 to be effective January 1, 2024 (Application).

In the Application, EPCOR requested the following:

- I. Approval to adjust distribution rates for the Aylmer area effective January 1, 2024, in accordance with the OEB's Decision and Interim Rate Order in EPCOR's 2020-2024 Rates proceeding (Settlement Decision)<sup>1</sup>
- II. Approval to dispose of the balances of certain deferral and variance accounts

On July 28, 2023, the OEB issued a Notice of Hearing. The intervention period ended on August 18, 2023. No persons applied for intervenor status.

Procedural Order No. 1 was issued on August 25, 2023. OEB staff filed written interrogatories on September 1, 2023. EPCOR filed interrogatory responses on September 21, 2023.

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<sup>1</sup> EB-2018-0336, Decision and Interim Rate Order, July 4, 2019

## OEB Staff Submission

OEB staff provides submissions on EPCOR's proposed price cap adjustment and the proposed disposition of certain deferral and variance accounts.

### Price Cap Adjustment

EPCOR seeks to increase its rates, effective January 1, 2024, based on a mechanistic price cap adjustment (PCA) pursuant to the Settlement Decision. The PCA is calculated using an inflation factor less a productivity factor and a stretch factor.

The components of the PCA applicable to EPCOR are set out in the table below. Inserting these components into the formula results in a 4.4% increase to EPCOR's forecasted revenue:  $4.4\% = 4.8\% - (0.00\% + 0.40\%)$ .

Components	Amount
Inflation Factor	4.80%
Productivity	0.00%
Stretch	0.40%

EPCOR proposes that the distribution rates for the Aylmer area be adjusted in accordance with the Settlement Decision through:

- I. Increasing the monthly fixed charge for Rate 1 by \$1.00 and correspondingly adjusting the volumetric charges for Rate Class 1 to achieve a total projected revenue for 2024 for Rate Class 1 equivalent to the prior year OEB-approved revenue for Rate Class 1 increased by the approved PCA; and,
- II. Adjusting the monthly fixed charges and volumetric charges for all other rate classes using the approved PCA.

One of the terms approved in the Settlement Decision was that EPCOR is to refrain from seeking an adjustment to its base rates if cumulative earnings are in excess of the return on equity (ROE) dead band (i.e. earnings are more than 300 basis points above the approved ROE), unless it has reason to believe that such an adjustment can be substantiated in consideration of the excess earnings.

In EPCOR's response to interrogatories, EPCOR provided a revised 2022 regulated ROE of 7.60%, which is 138 basis points below the approved ROE of 8.98%.

Given that EPCOR's revised 2022 ROE does not exceed the ROE dead band, OEB staff has no concerns with EPCOR's request to adjust rates through the application of the PCA.

OEB staff has further reviewed EPCOR's request and model, which used an inflation factor of 4.8%.<sup>2</sup> Based on that review, OEB staff submits that the resulting proposed rate changes were calculated in accordance with the Settlement Decision and should be approved by the OEB.

## Deferral and Variance Accounts

EPCOR sought approval to dispose of the 2022 year-end balances in certain deferral and variance accounts. The total amount sought for recovery from EPCOR Aylmer customers is a debit of \$245,223 (including interest to December 31, 2023<sup>3</sup>) as shown in the table below.

EPCOR Deferral and Variance Account Balances		
<u>Account Acronym</u>	<u>Account Name</u>	<u>Balance with interest to December 31, 2023</u>
REDA	Regulatory Expense Deferral Account	\$2,196
PGTVA	Purchased Gas Transportation Variance Account	\$252,285
ADVADA	Approved Deferral/ Variance Disposal Variance Account	\$(9,258)
<b>Total Deferral Account Balances</b>		<b>\$245,223</b>

### Regulatory Expense Deferral Account (REDA)

The REDA records the costs associated with participating in generic hearings and Enbridge Gas Inc.'s (Enbridge Gas) proceedings. EPCOR has requested to dispose of a debit balance of \$2,196 including interest to December 31, 2023.

The REDA balance are further broken down as follows:

Case Number	Description	2022 Principal amount
EB-2015-0245	Demand Side Management (DSM) Evaluation Process	\$2,066
	<b>Total 2022 Principal Amount</b>	<b>\$2,066</b>
	2022 Interest charges	\$29
	2023 Interest charges	\$102
	<b>Total balance requested for disposition (including interest charges to December 31, 2023)</b>	<b>\$2,196</b>

<sup>2</sup> OEB's [2024 Inflation Parameters Letter](#)

<sup>3</sup> The Q1 2023 – Q3 2023 carrying charges were calculated using the OEB's prescribed interest rates. The Q4 2023 carrying charges were forecasted using the Q3 2023 prescribed interest rate as a proxy.

EPCOR proposes to allocate the REDA balance to Rate Classes 1-5 on the basis of average connection count and to recover the allocated costs over twelve months using a fixed rate rider. EPCOR is not proposing a REDA rate rider for Rate 6 customers as the DSM Evaluation Process was not applicable to Rate 6 customers.<sup>4</sup>

OEB staff submits that the amount recorded in the REDA associated with EPCOR's participation in the DSM evaluation process is reasonable. OEB staff also agrees that the proposed allocation and disposition methodologies are appropriate. OEB staff notes that the disposition methodologies for the REDA are consistent with the approvals in the Settlement Decision and the decisions in EPCOR's 2021, 2022 and 2023 Rates proceedings.<sup>5</sup>

#### Purchased Gas Transportation Variance Account (PGTVA)

The PGTVA records differences between the average forecasted transportation costs per cubic meter included in EPCOR's approved rates in Rate Classes 1- 5 and the actual transportation costs per cubic meter incurred by EPCOR under its M9 and Bundled T contract with Enbridge Gas for the volumes required to serve the customers in these rate classes. As the transportation costs are a flow-through to customers, this deferral account ensures that ratepayers pay the actual cost of transportation and that EPCOR does not profit or incur a loss on these costs.

The amount recorded in the PGTVA is debit of \$252,285 including interest to December 31, 2023. EPCOR proposed to allocate the balance to the various customer rate classes on a volumetric basis (total deliveries) and to recover the allocated costs from the customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider.

OEB staff submits that the proposed disposition of the PGTVA balance (including interest to December 31, 2023) is appropriate. OEB staff notes that the proposed allocation and disposition methodologies for the PGTVA are consistent with the approvals in the Settlement Decision and the decisions in EPCOR's 2021, 2022 and 2023 Rates proceeding.<sup>6</sup>

#### Approved Deferral/Variance Disposal Variance Account (ADVADA)

The ADVADA records all deferral and variance account residual balances which have been previously approved for disposition. This account is similar to Account 1595 (Disposition and Recovery/Refund of Regulatory Balances Control Account) used by

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<sup>4</sup> EPCOR IR Response, Staff 3a

<sup>5</sup> EB-2020-0234, EB-2021-0215, and EB-2022-0183

<sup>6</sup> EB-2020-0234, EB-2021-0215 and EB-2022-0183

Electricity Distributors. The deferral account has a credit balance of \$9,258 with interest to December 31, 2023. EPCOR is proposing to allocate the balance to customers in Rate Classes 1-5 through the implementation of a twelve-month volumetric rate rider commencing on January 1, 2024. Rate 6 has been excluded as the amounts related to REDA is a monthly fixed charge with one customer in Rate 6 and the PGTVA is a volumetric rate rider which excludes Rate 6 customers.

OEB staff has no concerns with the principal amount being sought for disposition. OEB staff notes that the balance consists of a combination of credit balances from the previous disposition of REDA and PGTVA which over-collected the approved balances from Rate 1-5 customers.

OEB staff submits that the volumetric allocation methodology is appropriate as the variance is attributable to differences in forecasted and actual volumes and is consistent with the decisions in EPCOR's 2021 Rates proceeding.<sup>7</sup>

### Next Steps

Typically, in EPCOR's annual rate filings, there is a draft rate order process to allow EPCOR to update: (a) the inflation factor to reflect the latest OEB-approved inflation factor; and (b) the interest rate applied to the deferral account balances for Q4.

OEB staff is of the view that no draft rate order process is required in the current proceeding as the latest inflation factor has already been applied in the PCA and any update to the interest rates would result in an immaterial change to the deferral account balances. However, OEB staff requests that EPCOR provide its views on the need for a draft rate order process in its reply submission.

### Bill Impacts

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

Rate Class	Change to Delivery Charge		Change in Rate Rider		Total Change	
	(\$/year)	(%)	(\$/year)	(%)	(\$/year)	(%)
Rate 1- Residential	\$23.37	4.4%	\$6.71	72.6%	\$30.08	2.3%
Rate 1- Commercial	\$65.11	4.1%	\$35.11	74.4%	\$100.22	1.8%
Rate 1- Industrial	\$153.46	4.0%	\$98.48	74.4%	\$251.94	1.7%

~All of which is respectfully submitted~

<sup>7</sup> EB-2020-0234