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

BY EMAIL

October 19, 2023

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 2024 Rate Application
OEB File Number: EB-2023-0161

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

EPCOR Natural Gas Limited Partnership is reminded that its reply submission is due by November 2, 2023.

Yours truly,

Arturo Lau

Digitally signed by Arturo Lau
Date: 2023.10.19 10:30:43 -04'00'

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2023-0161

ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

South Bruce 2024 Rate Application

EB-2023-0161

October 19, 2023

Application Summary and Process

On July 28, 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 in South Bruce to be effective January 1, 2024 (the Application).

In the Application, EPCOR requested the following:

- Approval to adjust distribution rates for South Bruce effective January 1, 2024 in accordance with the OEB-approved settlement agreement (Settlement Decision)[1] in EPCOR South Bruce's 2019-2028 Custom Incentive Rate (IR) proceeding
- Approval to dispose of certain deferral and variance account balances

On August 11, 2023, the OEB issued a Notice of Hearing. The intervention period ended on August 31, 2023. No persons applied for intervenor status.

Procedural Order No. 1 was issued on September 15, 2023. OEB staff filed written interrogatories on September 20, 2023. On October 5, 2023, EPCOR filed interrogatory responses.

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

OEB Staff Submission

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

Incentive Rate Adjustment

EPCOR seeks to increase its rates, effective January 1, 2024, based on a mechanistic IR adjustment pursuant to the Settlement Decision. The formula for determining the IR adjustment is as follows:

Incentive Rate (IR) Adjustment = [(1.0 – 0.314) x 0.0127] + [0.314 x Inflation (I)]

Using the approved 2024 inflation factor of 4.8%[2] in the formula yields an IR adjustment of 2.38%.

EPCOR proposed that the distribution rates for the South Bruce area be adjusted in accordance with the approved Settlement Decision:

I. Adjusting the monthly fixed charge and delivery charge for each rate class using the approved IR adjustment; and,
II. Adjusting the authorized overrun and unauthorized overrun charges for Rates 11 & 16 using the approved IR adjustment.

OEB staff has reviewed EPCOR's request and model, which used an inflation factor of 4.8%. Based on that review, OEB staff submits that the resulting proposed rate changes were calculated in accordance with the Settlement Decision and the OEB should approve the rate changes.

Deferral and Variance Accounts

EPCOR sought approval to dispose of the 2022 year-end balances in certain deferral and variance accounts with interest up to the time of implementation of the associated rate riders. The total amount sought for recovery from EPCOR South Bruce customers is a credit of $17,209 (including interest to December 31, 2023[3]). The balances in the deferral and variance accounts are summarized as follows.

[2] OEB's 2024 Inflation Parameters Letter
[3] 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 Deferral and Variance Account Balances		
Account Acronym	Account Name	Balance with interest to December 31, 2023
CIACVA	Contribution in Aid of Construction Variance Account	$325,181
ECVA	Energy Content Variance Account	$20,472
MTVA	Municipal Tax Variance Account	$(352,809)
ORDA	Other Revenue Deferral Account	$(10,053)
	Total Deferral Account Balances	**$(17,209)**

Contribution in Aid of Construction Variance Account (CIACVA)

The CIACVA records the revenue requirement differences between the actual capital contributions EPCOR pays to Enbridge Gas Inc. (Enbridge Gas) related to Enbridge Gas's Owen Sound Transmission Reinforcement and the Dornoch Meter and Regulator Station and the forecasted capital contribution included for the projects in the approved rates.

EPCOR requested approval to dispose of a debit balance of $325,181 including interest to December 31, 2023. EPCOR proposed to allocate the CIACVA balance based on the Common Infrastructure Plan (CIP) distribution and non-distribution rate base for all rate classes (CIP Rate Base allocator). EPCOR proposed to collect the balance, over twelve months, from rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. The table below depicts the proposed disposition methodology.

		A **Unit**	B **Row Sum**	C **Rate 1**	D **Rate 6**	E **Rate 11**	F **Unit**	G **Rate 16**
1	Volume	m^3	11,880,246	8,295,231	2,198,518	1,386,497	CD	95,824
2	Allocation	%	100%	59%	21%	3%	%	17%
3	Sum	$	$325,181	$193,270	$68,714	$8,390	$	$54,808
4	**Rate Rider**	**¢/m³**		**2.3299**	**3.1255**	**0.6051**	**¢/CD/month**	**4.7663**

OEB staff submits that the proposed disposition of the CIACVA balance (including interest to December 31, 2023) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the CIACVA are consistent with the decision in EPCOR South Bruce's 2022 and 2023 Rates proceeding.[4]

[4] EB-2021-0216 and EB-2022-0184

Energy Content Variance Account (ECVA)

The ECVA records the differences in variable revenues resulting from the differences in the energy content of the actual gas delivered and the assumed energy content of 38.89 MJ/M^3. The assumed energy content was used in determining the approved revenue requirement and delivery rates in EPCOR's 2019-2028 Custom IR proceeding.[5]

EPCOR requested approval to dispose of a debit balance of $20,472 including interest to December 31, 2023. EPCOR proposed to allocate the ECVA balance to rate classes based on forecasted volumes underpinning CIP revenue for each rate class. EPCOR proposed to collect the balance, over twelve months, from rate classes 1, 6 and 11 based on revised forecast volumes.

In this proceeding, EPCOR proposed to update its allocation methodology for the ECVA relative to previous years. More specifically, EPCOR proposed to use the CIP volumes for the year the balance in the ECVA is accumulated as opposed to the year the balance is to be disposed (which was the methodology that was approved in EPCOR South Bruce's 2022 and 2023 Rates proceedings).[6] EPCOR stated that the updated approach is more consistent with the accounting order as EPCOR believes that this approach is more representative of the intent of the accounting order, which allocates the balance based on the CIP consumption of the year the ECVA balance was accumulated.

In response to OEB staff interrogatories, EPCOR noted that there was an error in its original filing and updated its calculations using its proposed allocation methodology.[7] The table below depicts the bill impacts between the two allocation methodologies: (i) the initial submission, using 2023 CIP volumes; and (ii) the revised submission, using 2022 CIP volumes.

¢/m3	Initial Submission	Revised Submission	Average Use Per Customer	Variance
Rate Class	2023	2022		
Rate 1	0.1720	0.1725	2,149	$0.01
Rate 6	0.1984	0.1903	26,933	($2.20)
Rate 11	0.1327	0.1425	101,499	$9.98

OEB staff has no concerns with the proposed ECVA balance (including interest). OEB staff also has no concerns with the proposed disposition methodology as it is consistent with the decisions in EPCOR South Bruce's 2022 and 2023 Rates proceedings.[8]

[5] EB-2018-0264
[6] EB-2021-0216 and EB-2022-0184
[7] EPCOR IR Response, October 5, 2023, OEB Staff 1. The 2023 CIP volumes were used in the original filing as opposed to the intended 2022 CIP volumes (i.e. when the balance was accumulated).
[8] EB-2021-0216 and EB-2022-0184

With respect to the proposed updated allocation methodology, OEB staff agrees with EPCOR that the updated allocation based on the CIP volumes for the year that the balance in the ECVA is accumulated is more consistent with the ECVA accounting order than the previous approach.[9] OEB staff has reviewed the calculations in EPCOR's interrogatory responses relating to the ECVA account and submits the allocation has been calculated correctly.

Municipal Tax Variance Account (MTVA)

The MTVA records the difference between the actual municipal taxes paid, net of municipal contributions related to municipal taxes, and the net municipal taxes billed to customers by EPCOR South Bruce.

EPCOR noted that the net municipal taxes billed to customers is calculated by multiplying the annual distribution revenues billed to customers and accrued for the year by the proportion of annual municipal taxes included in the annual revenue requirement as approved in EPCOR South Bruce's 2019-2028 Custom IR[10] for each year of the rate stability period.

The amount recorded in the MTVA is a credit of $352,809 including interest to December 31, 2023. EPCOR proposed to allocate the balance based on the CIP Rate Base allocator (similar to the CIACVA). EPCOR proposed to distribute the balance, over twelve months, to rate classes 1, 6 and 11 based on revised forecast volumes and to Rate 16 based on contract demand.

EPCOR, in response to OEB staff interrogatories, noted that it made an error in its initial application. In its interrogatory responses, EPCOR updated its MTVA allocation methodology from the total CIP Rate Base allocator to the Property Tax allocator.[11] OEB staff notes that the Property Tax allocator was approved in EPCOR South Bruce's 2023 rates proceeding for the MTVA.[12] The table following depicts the difference in rate rider based on the two allocations:

Allocation	Rate 1	Rate 6	Rate 11	Rate 16
	¢/m3	¢/m3	¢/m3	¢/CD/month
Rate Base	-$2.5278	-$3.3910	-$0.6565	-$5.1713
Property Tax	-$2.2878	-$3.9827	-$0.7730	-$5.6311
Variance	**$0.2400**	**-$0.5917**	**-$0.1165**	**-$0.4598**
Variance (%)	*-9%*	*17%*	*18%*	*9%*

9 EB-2018-0264, Rate Order, January 9, 2020, page 30 of 34
10 EB-2018-0264
11 EPCOR IR Responses, October 5, 2023, OEB Staff 2
12 EB-2022-0184, Decision and Order (Phase 1), November 3, 2022, Page 6

OEB staff has no concerns with the proposed MTVA balance (including interest) as the balance was calculated in a manner consistent with the MTVA accounting order.[13] OEB staff also has no concerns with the proposed disposition methodology and the updated allocation methodology, as set out in EPCOR's interrogatory responses, as they are consistent with the decision in EPCOR South Bruce's 2023 Rates proceeding.[14]

Other Revenue Deferral Account (ORDA)

This is the first time that EPCOR has requested approval to dispose of the balance in the ORDA.

The ORDA records the revenues generated from the customer service charges (as per the approved schedule of Miscellaneous and Service Charges in EPCOR's tariffs). The OEB approved $0 in the Other Revenues in EPCOR South Bruce's 2019-2028 Custom IR proceeding.

EPCOR requested approval to dispose of a credit balance of $10,053 including interest to December 31, 2023. EPCOR proposed to allocate the ORDA balance based on the CIP Rate Base allocator.

EPCOR proposed to distribute the balance, over twelve months, to rate classes 1, 6 and 11 based on revised forecast volumes and to Rate 16 based on contract demand. The table below depicts the proposed disposition methodology.

		A	B	C	D	E	F	G
		Unit	Row Sum	Rate 1	Rate 6	Rate 11	Unit	Rate 16
1	Volume	m^3	11,880,246	8,295,231	2,198,518	1,386,497	CD	95,824
2	Allocation	%	59%	59%	21%	3%	%	17%
3	Sum	$	($10,053)	($5,975)	($2,124)	($259)	$	($1,694)
4	**Rate Rider**	**¢/m³**		**(0.0720)**	**(0.0966)**	**(0.0187)**	**¢/CD/month**	**(0.1473)**

In responses to OEB staff interrogatories, EPCOR also provided two other potential allocation methodologies: (i) using the amount of other revenues actually generated by each rate class (Actual Revenue Generated allocator); and (ii) based on CIP OM&A (OM&A allocator). EPCOR provided the following table comparing the three potential allocation methodologies for the ORDA:

[13] EB-2021-0216, Decision and Order (Phase 1 and Phase 2), February 17, 2022, Schedule A
[14] EB-2022-0184

Allocated Amount	Sum	Rate 1	Rate 6	Rate 11	Rate 16
3a - Rate Base	(10,053)	(5,975)	(2,124)	(259)	(1,694)
3b - Actual Revenue	(10,053)	(7,661)	(1,570)	(233)	(589)
3c - OM&A	(10,053)	(7,397)	(1,668)	(407)	(581)

% of Total	Sum	Rate 1	Rate 6	Rate 11	Rate 16
3a - Rate Base	100%	59%	21%	3%	17%
3b - Actual Revenue	100%	76%	16%	2%	6%
3c - OM&A	100%	74%	17%	4%	6%

EPCOR stated that the CIP Rate Base allocator is the most representative of the allocation that likely would have been applied if the other revenues had been included in the revenue requirement at the time of EPCOR South Bruce's 2019-2028 Custom IR.[15] With respect to the Actual Revenue Generated allocator, EPCOR stated that the other revenue amounts are not categorized by rate class in its financial system and would require manual efforts to update the Actual Revenue Generated allocator annually. EPCOR stated that it is open to OEB guidance on the appropriate allocation methodology.[16]

OEB staff submits that the proposed ORDA balance (including interest to December 31, 2023) that EPCOR is seeking to dispose is appropriate. OEB staff submits that the proposed disposition methodology is also appropriate.

With respect to the appropriate allocation methodology for the ORDA, OEB staff submits that the OM&A allocator should be applied. OEB staff is of the view that had the other revenues been included for the purpose of rate-making in EPCOR South Bruce's 2019-2028 Custom IR proceeding, an OM&A-based allocator would likely have been applied as EPCOR's approved customer charges appear to largely result in operational costs being incurred as opposed to capital costs.

OEB staff notes that the Actual Revenue Generated allocator is likely optimal for the allocation of the ORDA. However, given the need for manual updates each year to classify the actual other revenue generated into rate classes and the immaterial difference between the two allocation methodologies, OEB staff submits that the OM&A allocator is a reasonable alternative.

Implementation

OEB staff notes that EPCOR provided updated calculations and tariff sheets as part of its interrogatory responses. EPCOR corrected the calculations for the ECVA (i.e., to properly apply its proposed updated methodology) and for the MTVA (i.e., to apply the

[15] EB-2018-0264
[16] EPCOR IR Responses, October 5, 2023, OEB Staff 3

OEB-approved Property Tax allocator). OEB staff has reviewed the updated calculations and revised tariff sheets and submits that the calculations are accurate.

OEB staff submits that if the OEB determines that the ORDA allocation methodology should be revised, the OEB should provide a draft rate order process to allow EPCOR to update the draft rate order.

If the OEB determines the allocation methodology for ORDA as proposed by EPCOR is appropriate, OEB staff is of the view that no draft rate order process is required as the latest inflation factor has already been applied in the IR Adjustment and any update to the Q4 interest rates[17] 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 customers in the general service rate class resulting from the proposals in the Application are as follows:

Rate Class	Change in Fixed Delivery	Change in Volumetric Delivery	Change Rate Rider	Total Change	
				$	%
Rate 1- Existing Residential	$7.66	$14.53	$(16.10)	$6.09	0.36%
Rate 1- New Residential	$7.66	$13.98	$(13.99)	$7.64	0.47%
Rate 1- Commercial	$7.66	$31.41	$(35.17)	$3.90	0.12%
Rate 1- Agricultural	$7.66	$31.58	$(35.37)	$3.87	0.12%

~All of which is respectfully submitted~

[17] According to the OEB Prescribed Interest Rates, the 2023 Q3 interest rate is 4.98% and 2023 Q4 is 5.49%