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

ACCOUNTING ORDER

EB-2022-0184

EPCOR NATURAL GAS LIMITED PARTNERSHIP (SOUTH BRUCE)

Application for Rates to be Effective January 1, 2023 (Phase 2)

BEFORE: Emad Elsayed
Presiding Commissioner

Allison Duff
Commissioner

October 26, 2023

1 OVERVIEW

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 to be effective January 1, 2023 (Application).

On September 27, 2022, the OEB bifurcated the Application into two phases. Phase 1 addressed all of the issues with the exception of the Customer Volume Variance Account (CVVA) issue. Phase 2 addressed only the CVVA issue. On April 6, 2023, the OEB issued a Decision and Order with respect to Phase 2 (CVVA Decision).

The CVVA Decision approved the establishment of the CVVA with certain modifications and required EPCOR to file a draft accounting order that reflected the OEB's findings. The OEB received submissions from parties regarding the CVVA draft accounting order and in particular, the appropriate return on equity to reference in the accounting order.

The OEB finds that the CVVA accounting order should reference a return on equity of 8.78% and there is no need to address disposition scenarios in the accounting order. The approved accounting order is attached as Schedule A. For reference, a version of the approved accounting order, with tracked changes to the draft accounting order filed by EPCOR is also attached, as Schedule B.

2 CONTEXT AND PROCESS

EPCOR filed the Application on July 18, 2022, under section 36(1) of the *Ontario Energy Board Act, 1998.*

On September 27, 2022, the OEB issued Procedural Order No. 2, bifurcating 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[1] for Phase 2 of this proceeding. 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.

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

EPCOR filed a draft accounting order on April 20, 2023. On April 27, 2023, OEB staff, and intervenors filed submissions on the draft accounting order. EPCOR filed a reply submission on May 4, 2023.

On May 10, 2023, EPCOR filed a notice of motion (Motion) to review and vary the terms of the CVVA as approved by the OEB in the CVVA Decision.[2] On June 7, 2023, the OEB issued a Notice of Hearing, Procedural Order No. 1, and Decision on Threshold Question and Request for Stay (Motion Procedural Order No. 1) ordering a stay of the accounting order process and customer communications direction set out in the CVVA Decision and putting this proceeding into abeyance in accordance with the OEB's *Protocol for Adjusting Adjudicative Timelines*.[3]

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[1] EB-2018-0264
[2] EB-2023-0140
[3] EB-2023-0140, Notice of Hearing, Procedural Order No. 1, and Decision on Threshold Question and Request for Stay, June 7, 2023. The OEB also made provision for the filing of argument on the Motion.

On October 12, 2023, the OEB issued a decision denying the Motion, lifting the stay ordered in the Motion Procedural Order No.1 and taking this proceeding out of abeyance.[4]

[4] EB-2023-0140, Decision on Motion, October 12, 2023

3 DECISION

Customer Volume Variance Account - Accounting Order

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

In the CVVA Decision, the OEB approved the establishment of the CVVA, which was 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 of 50% of the annual CVVA balance is limited to the point that EPCOR's actual earnings reach 300 basis points below the return on equity (ROE) that underpinned EPCOR's rates established in the 2019-2028 Custom IR proceeding.
- The methodology proposed by EPCOR 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.

The CVVA Decision further invited EPCOR to advise whether it believes the 8.78% ROE is the appropriate figure to use as the ROE for the purposes of determining the 300 basis points below the ROE underpinning rates in the CVVA.

<u>Return on Equity</u>

In the letter accompanying its draft accounting order, EPCOR stated that the most appropriate ROE to use for the purposes of determining the ROE percentage that is 300 basis points below the ROE underpinning rates is the current 2023 OEB-approved ROE

[5] EB-2016-0137/ 0138/ 0139

of 9.36%. EPCOR stated that the 2023 OEB-approved ROE is appropriate as it does not have an approved deemed ROE on which its rates are designed.

OEB staff and intervenors submitted that the 8.78% ROE is more appropriate. They noted that while the OEB did not explicitly approve an ROE in the EPCOR South Bruce's 2019-2028 Custom IR proceeding[6], the 8.78% ROE figure does underpin EPCOR's approved 10-year revenue requirement. SEC noted that using the ROE that underpins EPCOR's rates is entirely consistent with calculations used by the OEB in similar circumstances.[7]

OEB staff also submitted that if the OEB agrees with EPCOR, the ROE should be updated annually, which is a similar approach to that applied by Enbridge Gas Inc. in determining amounts subject to earning sharing.[8]

EPCOR stated, in its reply submission, that the OEB allowed proponents to address ROE as they deemed appropriate during the competitive process. In EPCOR's case, its ROE was not tied to any specific OEB-approved rate, so EPCOR proposed to use the OEB's approved ROE at the time of the proceeding (9.36%) as a fair measure for the ROE dead band.

Revenue Variances for Rate Class 1 and Rate Class 6

OEB staff requested that EPCOR clarify the following statement included in its 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 stated that its understanding is that this is intended to mean either the total balance (both Rate 1 and Rate 6) in the account will be disposed of assuming the ROE

[6] EB-2018-0264
[7] The OEB's policy regarding recovery of the impacts arising from COVID-19, which was referred to in the CVVA Decision as an example of a similar mechanism, measures 300-basis points from the utility's OEB-approved ROE, not the deemed ROE released by the OEB in that year.
[8] See, for example, EB-2022-0110 at Exhibit B, Tab 1

dead band is not breached or, alternatively, if the dead band is breached, the total balance will not be disposed of. EPCOR confirmed OEB staff's understanding.

VECC submitted that it was also confused by the above noted statement in the draft accounting order and believed that the statement is not necessary and should be removed in the final accounting order.

EPCOR replied that its wording should remain in the final accounting order and that removing the statement could lead to misinterpretations for parties in future rate proceedings.

Findings

The OEB finds that the CVVA accounting order should reference an ROE of 8.78% which is consistent with the ROE used to calculate the approved 10-year revenue requirement, and thus underpins EPCOR's rates. The accounting order as approved reflects this finding.

The OEB acknowledges that the OEB did not explicitly approve an ROE in the EPCOR South Bruce's 2019-2028 Custom IR decision[9]; however, an ROE of 8.78% was used to calculate EPCOR's approved 10-year revenue requirement from 2019-2028.

Regarding the clarity of the paragraph in the draft accounting order about the account balance disposition options, the OEB agrees with VECC that this particular paragraph, as drafted, is unnecessary in the accounting order. The OEB's CVVA Decision indicated that allocation and disposition among rate classes of an approved CVVA balance should be considered by a future panel[10]. It is sufficient that the draft accounting order reflects that EPCOR will track the Rate 1 and Rate 6 separately, to provide allocation and disposition options. The accounting order as approved reflects this finding.

[9] EB-2018-0264
[10] EB-2022-0184 Decision and Order, p. 21

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR Natural Gas Limited Partnership shall establish the Customer Volume Variance Account as set forth in Schedule A.

2. Intervenors shall submit their cost claims to the OEB and forward a copy to EPCOR Natural Gas Limited Partnership by November 9, 2023.

3. EPCOR Natural Gas Limited Partnership shall file with the OEB and forward to intervenors any objections to the claimed costs by November 23, 2023.

4. Intervenors to which EPCOR Natural Gas Limited Partnership filed an objection to the claimed costs shall file with the OEB, and forward to EPCOR Natural Gas Limited Partnership, any responses to any objections for cost claims by December 7, 2023.

5. EPCOR Natural Gas Limited Partnership shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto October 26, 2023

ONTARIO ENERGY BOARD

Nancy Marconi

Digitally signed by Nancy Marconi
Date: 2023.10.26 10:46:05 -04'00'

Nancy Marconi
Registrar

SCHEDULE A

ACCOUNTING ORDER

EPCOR NATURAL GAS LP

EB-2022-0184

OCTOBER 26, 2023

EPCOR NATURAL GAS LIMITED PARTNERSHIP

DRAFT ACCOUNTING ORDER

CUSTOMER VOLUME VARIANCE ACCOUNT ("CVVA")

The Customer Volume Variance Account is to record the variance in revenue by rate class resulting from the difference between customer volume forecast based on common assumptions and the Actual Normalized Average Customer Volume ("NACV") as defined below. This account will record such resulting variances in revenue for Rate 1 and Rate 6 since a common assumption related to customer usage volume was used for these rate classes in the development of the Common Infrastructure Plan as submitted by EPCOR in EB-2016-0137 / EB-2016-0138 / EB-2016-0139.

The effective date of this account is January 1, 2023 and this account will record such variances for amounts consumed until December 31, 2028.

The common assumption volumes per customer by rate class to be used in determining the balances to be recorded in this account are as follows:

Rate Class	Segment / Sub-segment		Average Annual Consumption (M3/year)
Rate 1	Residential	Pre-existing Homes	2,149
		Future Construction	2,066
	Commercial	Small (0-15,000 m3/year)[1]	4,693
Rate 6		Medium (15,001- 50,000 m3/year)	26,933
		Large (>50,000 m3/year)	75,685
	Agricultural	Cash Crop Farm (excl. large grain dryers)	4,720
		Other Agri-Business	4,720

In order that EPCOR retain the risk related to customer connection counts, for the purposes of calculating amounts to be recorded in the CVVA the common assumption volumes per customer outlined in the table above will be applied to the actual customer connections for each corresponding customer segment and rate class to determine the "Common Assumptions Customer Volume".

The NACV shall be calculated as the actual average monthly consumption per customer, adjusting it to remove the impact of the Energy Content Variance Account (ECVA), and applying the weather normalization methodology.

Differences are to be shared on a 50/50 basis between EPCOR and its customers. Accordingly, the monthly balance to be recorded in this account will be calculated as 50% of the variance in revenue resulting in the difference between the Common Assumptions Customer Volume and the NACV, both determined in the applicable manner described above for Rate 1 and Rate 6 customers. The revenue difference shall be calculated by applying approved rate schedules (including volumetric charges, monthly fixed charges and the delay in revenue rate rider) to the calculated difference between the Common Assumptions Customer Volume and the NACV.

[1] Small commercial customers with a volume greater than 10,000m3/year will be billed as a Rate 6 customer.

EPCOR shall only be eligible for the recovery of the annual net balance in the CVVA from its customers until such point that EPCOR's actual Return on Equity (ROE) reach 300 basis points below 8.78%, consistent with the ROE in the 10-year revenue requirement.

The revenue variances for each of Rate Class 1 and Rate Class 6 shall be calculated separately and tracked in subaccounts to enable allocation and disposition options when the balances in both accounts are disposed.

The variance account will apply only to the Southern Bruce distribution system.

Simple interest is to be calculated monthly on the opening balance in the CVVA in accordance with the methodology approved by the Board in EB-2006-0117.

The audited balance of this account, together with carrying charges, will be brought forward for approval for disposition an annual basis, unless otherwise directed by the Board. The manner in which the account will be disposed of will be proposed at the time the account is brought forward for disposition.

<u>Accounting Entries</u>

Subaccount to record 50% of the revenue impact of the difference between Common Assumptions Customer Volume and the NAC for Rate Class 1:

Debit / Credit Account No. 179.96 Customer Volume Variance Account – Rate 1 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 1:

Debit / Credit Account No. 179.97 Interest on Customer Volume Variance Account – Rate 1

Credit / Debit Account No. 323 Other Interest Expense

Subaccount to record 50% of the revenue impact of the difference between Common Assumptions Customer Volume and the NAC for Rate Class 6:

Debit / Credit Account No. 179.98 Customer Volume Variance Account – Rate 6 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 6:

Debit / Credit Account No. 179.99 Interest on Customer Volume Variance Account - Rate 6

Credit / Debit Account No. 323 Other Interest Expense

SCHEDULE B

ACCOUNTING ORDER

EPCOR NATURAL GAS LP

EB-2022-0184

OCTOBER 26, 2023

EPCOR NATURAL GAS LIMITED PARTNERSHIP

DRAFT ACCOUNTING ORDER

CUSTOMER VOLUME VARIANCE ACCOUNT ("CVVA")

The Customer Volume Variance Account is to record the variance in revenue by rate class resulting from the difference between customer volume forecast based on common assumptions and the Actual Normalized Average Customer Volume ("NACV") as defined below. This account will record such resulting variances in revenue for Rate 1 and Rate 6 since a common assumption related to customer usage volume was used for these rate classes in the development of the Common Infrastructure Plan as submitted by EPCOR in EB-2016-0137 / EB-2016-0138 / EB-2016-0139.

The effective date of this account is January 1, 2023 and this account will record such variances for amounts consumed until December 31, 2028.

The common assumption volumes per customer by rate class to be used in determining the balances to be recorded in this account are as follows:

Rate Class	Segment / Sub-segment		Average Annual Consumption (M3/year)
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		Future Construction	2,066
	Commercial	Small (0-15,000 m3/year)[1]	4,693
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		Other Agri-Business	4,720

In order that EPCOR retain the risk related to customer connection counts, for the purposes of calculating amounts to be recorded in the CVVA the common assumption volumes per customer outlined in the table above will be applied to the actual customer connections for each corresponding customer segment and rate class to determine the "Common Assumptions Customer Volume".

The NACV shall be calculated as the actual average monthly consumption per customer, adjusting it to remove the impact of the Energy Content Variance Account (ECVA), and applying the weather normalization methodology.

Differences are to be shared on a 50/50 basis between EPCOR and its customers. Accordingly, the monthly balance to be recorded in this account will be calculated as 50% of the variance in revenue resulting in the difference between the Common Assumptions Customer Volume and the NACV, both determined in the applicable manner described above for Rate 1 and Rate 6 customers. The revenue difference shall be calculated by applying approved rate schedules (including volumetric charges, monthly fixed charges and the delay in revenue rate rider) to the calculated difference between the Common Assumptions Customer Volume and the NACV.

EPCOR shall only be eligible for the recovery of the annual net balance in the CVVA from its customers until such point that EPCOR's actual Return on Equity (ROE) reach 300 basis points below 8.78~~9.36~~%,

[1] Small commercial customers with a volume greater than 10,000m3/year will be billed as a Rate 6 customer.

consistent with the ROE in the 10-year revenue requirement~~outlined in the Board's 2023 cost of capital parameters~~.

~~While t~~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~~ to enable allocation and disposition options when ~~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~~.

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Debit / Credit Account No. 179.96 Customer Volume Variance Account – Rate 1 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 1:

Debit / Credit Account No. 179.97 Interest on Customer Volume Variance Account – Rate 1

Credit / Debit Account No. 323 Other Interest Expense

Subaccount to record 50% of the revenue impact of the difference between Common Assumptions Customer Volume and the NAC for Rate Class 6:

Debit / Credit Account No. 179.98 Customer Volume Variance Account – Rate 6 (CVVA)

Credit / Debit Account No. 300 Operating Revenue

To record simple interest on the opening balance of the CVVA for Rate Class 6:

Debit / Credit Account No. 179.99 Interest on Customer Volume Variance Account - Rate 6

Credit / Debit Account No. 323 Other Interest Expense