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

DECISION AND ORDER

EB-2023-0161

EPCOR NATURAL GAS LIMITED PARTNERSHIP (SOUTH BRUCE)

Application for Rates to be Effective January 1, 2024

BEFORE: Fred Cass
Presiding Commissioner

Emad Elsayed
Commissioner

November 9, 2023

1 OVERVIEW

EPCOR Natural Gas Limited Partnership (EPCOR) applied to the Ontario Energy Board (OEB) for changes to its natural gas distribution rates effective January 1, 2024, for its South Bruce service area (Application).

In the Application, EPCOR requested the following approvals:

I. 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 IR proceeding

II. To dispose of certain deferral and variance account balances

For the reasons provided below, the OEB approves the proposed 2024 rate adjustment. The OEB also approves the disposition of the 2022 year-end balances, including interest to December 31, 2023, in four deferral and variance accounts (Contribution in Aid of Construction Variance Account (CIACVA), Energy Content Variance Account (ECVA), Municipal Tax Variance Account (MTVA) and Other Revenue Deferral Account (ORDA)), with a required modification to the allocation methodology for the ORDA.

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

2 THE PROCESS

EPCOR filed the Application on July 28, 2023, under section 36(1) of the *Ontario Energy Board Act, 1998.* 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. EPCOR filed responses to interrogatories on October 5, 2023.

OEB staff filed a written submission on October 19, 2023. On October 20, 2023, EPCOR filed a reply submission.

3 DECISION

3.1 Price Cap Adjustment

EPCOR sought approval to increase its rates, effective January 1, 2024, based on a mechanistic rate adjustment using the annual incentive rate adjustment (IR) formula previously approved in the Settlement Decision. Under the approved IR formula, the annual adjustment is determined by adjusting the Operations, Maintenance and Administration (OM&A) portion of rates (31.4%) annually by the OEB's inflation factor and the remaining portion by a stabilization factor of 1.27%.

The IR adjustment formula is as follows:

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

EPCOR also requested that the distribution rates for the South Bruce area be adjusted according to 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.

The OEB issued its 2024 Inflation Parameters letter on June 29, 2023, which calculated the 2024 inflation factor for electricity distributors to be 4.8%.[2] The letter noted that EPCOR uses the electricity distribution inflation factor for its natural gas distribution service territories.

OEB staff reviewed EPCOR's request and model and submitted that the proposed rate changes were calculated in accordance with the Settlement Decision and should be approved by the OEB.

Findings

The OEB finds that the proposed 2024 rate changes are calculated in accordance with the Settlement Decision and are approved by the OEB.

[2] OEB's 2024 Inflation Parameters Letter

3.2 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 December 31, 2023 (i.e., up to the time of implementation of the associated rate riders).

The total amount sought for disposition is a credit to EPCOR South Bruce customers of $17,209 (including interest to December 31, 2023). The balances in the deferral and variance accounts are summarized below.

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)**

OEB staff submitted that it had no concerns with the balances being sought for disposition for each of the accounts.

Contribution in Aid of Construction Variance Account (CIACVA)

EPCOR proposed to allocate the CIACVA balance based on the Common Infrastructure Plan (CIP) rate base for all rate classes. EPCOR proposed to collect the CIACVA balance, over twelve months, from rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand.

OEB staff submitted that the proposed allocation and disposition methodologies for the CIACVA are consistent with the decisions in EPCOR South Bruce's 2022 and 2023 Rates proceedings.[3]

Energy Content Variance Account (ECVA)

EPCOR proposed to collect the balance, over twelve months, from rate classes 1, 6 and 11 based on revised forecast volumes.

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

OEB staff had no concerns with the proposed disposition methodology as it is consistent with the decision in EPCOR South Bruce's 2022 and 2023 Rates proceedings.

EPCOR updated its allocation methodology for the ECVA 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).[4]

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.[5]

OEB staff agreed with EPCOR that the proposed allocation for the ECVA is more consistent with the ECVA accounting order than the previous approach.[6]

Municipal Tax Variance Account (MTVA)

EPCOR proposed to refund the MTVA balance, over twelve months, to rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand. OEB staff had no concerns with the proposed disposition methodology.

In its interrogatory responses, EPCOR updated its MTVA allocation methodology from the total CIP Rate Base allocator to the Property Tax allocator, citing an error in the original application.[7] EPCOR filed an updated rate schedule reflecting the use of the Property Tax allocator in the MTVA rate rider.[8]

OEB staff confirmed that EPCOR had appropriately updated the MTVA rate rider and is consistent with the decision in EPCOR South Bruce's 2023 Rates proceeding.[9]

Other Revenue Deferral Account (ORDA)

EPCOR proposed to refund the ORDA balance, over twelve months, to rate classes 1, 6 and 11 based on revised forecast volumes and from Rate 16 based on contract demand.

[4] EB-2021-0216 and EB-2022-0184
[5] EPCOR IR Response, OEB Staff 1
[6] EB-2018-0264 Rate Order, January 9, 2020, Schedule B, pg 17
[7] EPCOR IR Response, OEB Staff 2
[8] EPCOR IR Response, Appendix B
[9] EB-2022-018

OEB staff had no concerns with the proposed disposition methodology.

Similar to the CIACVA, EPCOR proposed to allocate the ORDA balance based on the CIP rate base. In its interrogatory responses, EPCOR provided two additional allocator methodologies: (i) Actual Revenue Generated allocator and (ii) OM&A allocator. 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. EPCOR also stated that it is open to OEB guidance on the appropriate allocation methodology.

OEB staff submitted that it is more appropriate to use the OM&A allocator that underpinned EPCOR's base rates in its 2019-2028 Custom IR proceeding[10] as 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 noted that the Actual Revenue allocator would have been optimal. However, as it requires manual updates each year to classify actual other revenue generated and results in an immaterial difference relative to the OM&A allocator, the OM&A allocator should be applied.

Findings

For the reasons that follow, the OEB approves the proposed disposition of the 2022 year-end balances in the four deferral and variance accounts, with a required modification to the allocation methodology for the ORDA.

CIACVA

The proposed disposition of the CIACVA balance (including interest to December 31, 2023) is appropriate. The proposed allocation and disposition methodologies are consistent with the OEB decisions in EPCOR South Bruce's 2022 and 2023 Rates proceedings.

ECVA

The proposed disposition of the ECVA balance (including interest to December 31, 2023) is appropriate. The proposed disposition methodology is consistent with the OEB

[10] EB-2018-0264, Exhibit 7, Updated April 11, 2019, Schedule 2, page 11, Table 7-27

decisions in EPCOR South Bruce’s 2022 and 2023 Rates proceedings. The updated allocation methodology is more consistent with the ECVA accounting order.

MTVA

The proposed disposition of the MTVA balance (including interest to December 31, 2023) is appropriate. The proposed disposition methodology and updated allocation methodology are consistent with the OEB decision in EPCOR South Bruce’s 2023 Rates proceeding.

ORDA

The proposed disposition of the ORDA balance (including interest to December 31, 2023) as well as the proposed disposition methodology are appropriate. Regarding the allocation methodology, the OEB agrees with OEB staff that, of the three methodologies put forward by EPCOR, the OM&A allocator methodology is preferable and shall be applied.

4 IMPLEMENTATION

EPCOR filed draft rate schedules with the Application for rates effective on January 1, 2024. EPCOR used the latest OEB-approved inflation factor and the 2023 third quarter's prescribed interest rate (4.98%) in its 2023 fourth quarter (Q4) for calculating interest charges. The OEB updated its 2023 Q4 prescribed interest rate to 5.49%.[11]

OEB staff submitted that if the OEB determines the allocation methodology for the ORDA as proposed by EPCOR is appropriate, then no draft rate order process is required as the latest inflation factor has been applied and the change to the interest rate applied to 2023 Q4 is immaterial to the deferral account balances.

EPCOR in its reply submission, agreed with OEB staff's view of forgoing the increased 2023 Q4 prescribed interest rate if the OEB determines the allocation methodology for the ORDA is appropriate as proposed by EPCOR. Otherwise, if EPCOR is required to update the ORDA allocation methodology, EPCOR will also update the interest rate applied in Q4.

Findings

Based on the OEB's finding regarding the ORDA allocation methodology, EPCOR shall file a draft rate order updating its ORDA allocation methodology and applying the 2023 Q4 prescribed interest rate for the calculation of the deferral account balances for disposition.

[11] OEB- Approved Prescribed Interest Rates

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. EPCOR shall file with the OEB a draft rate order reflecting the OEB findings no later than **November 16, 2023**. The draft rate order shall include customer rate impacts and supporting information showing the calculation, including rate models, of final 2024 rates.
2. EPCOR Natural Gas Limited Partnership shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2023-0161** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the OEB's online filing portal.

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found at the File documents online page on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet set up an account, or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Arturo Lau at Arturo.Lau@oeb.ca and OEB Counsel, Lawren Murray at Lawren.Murray@oeb.ca.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto November 9, 2023

ONTARIO ENERGY BOARD

Nancy Marconi

Digitally signed by Nancy Marconi
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Nancy Marconi
Registrar