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BY EMAIL

May 8, 2024

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Regarding EPCOR South Bruce's Request to Correct Certain Historical
Quarterly Rate Adjustment Mechanism Errors
OEB Staff Submission
Ontario Energy Board File Number: EB-2024-0124**

Please find attached OEB staff's refiled submission for the above-referenced proceeding.

OEB staff corrected a typo on page 6, correcting the word "that" to "regarding" in the second last paragraph.

EPCOR Natural Gas Limited Partnership is reminded that its reply submission is due by May 14, 2024.

Yours truly,

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2024-0124



ONTARIO ENERGY BOARD

OEB Staff Submission

**Proceeding to Consider EPCOR South Bruce's Request to Correct
Certain Historical Quarterly Rate Adjustment Mechanism Errors**

EB-2024-0124

May 8, 2024

Background

On March 21, 2024, the Ontario Energy Board (OEB) approved, on an interim basis, EPCOR Natural Gas Limited Partnership's (EPCOR) April 2024 Quarterly Rate Adjustment Mechanism (QRAM) application (April QRAM Application) as filed.¹

In the April QRAM Application, EPCOR requested approval to correct two errors that were made in previous QRAMs. The first error was a reference price error in which EPCOR applied the incorrect reference price to the October to December 2023 volumes in the Purchased Gas Commodity Variance Account (PGCVA). The second error was a billing error whereby approximately 75 customers were incorrectly billed for lower volumes during the period April 2021-January 2024, which affected the volumes in the Gas Purchase Rebalancing Account (GPRA).

In addition, over the course of the April QRAM proceeding, OEB staff discovered that the heat value applied by EPCOR differed from the heat value used by Enbridge Gas Inc. for its Union South rate zone when calculating its Gas Commodity Charge.

In its March 21, 2024 decision, the OEB recommended that further discovery and argument with respect to these errors be allowed in a subsequent proceeding. The OEB noted that, in accordance with the OEB's October 31, 2019 letter regarding the correction of pass-through costs, the OEB may explore further the nature of the errors and the appropriate approach to finalizing the rates for the subject period.²

On April 1, 2024, the OEB issued a Notice of Hearing and Procedural Order No.1 to proceed with a hearing on its own motion pursuant to sections 19(4) and 36(1) of the *Ontario Energy Board Act, 1998* to determine whether EPCOR's proposals to correct two identified errors and whether the heat value applied in its April QRAM Application are appropriate (Motion). The Motion relied on the record in the April QRAM Application.

OEB staff filed written interrogatories on April 18, 2024. On April 25, 2024, EPCOR filed interrogatory responses. No other parties are participating in the hearing.

¹ EB-2024-0100

² [OEB's Letter: Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition](#), October 31, 2019

OEB Staff Submission

Reference Price Error

In its April QRAM Application, EPCOR stated that an error was discovered in its January 2024 QRAM³ regarding the reference price recorded for October 2023 to December 2023. The approved rate from the October 2023 QRAM was \$0.161348 per m³ however, it was erroneously recorded as \$0.17429 per m³ (Reference Price Error) in their January 2024 QRAM application resulting in under billing customers. The PGCVA tracks the difference between the actual/forecasted price, and the reference price to calculate the entries in the monthly PGCVA. Since the period in which the error occurred was a historical period, EPCOR had already collected the \$0.161348/m³ from customers but recorded \$0.17429/m³ in the PGCVA, resulting in an over credit in favour of EPCOR customers. The reference price is used in both the PGCVA calculations and the GPRA calculations, and thus the error was recorded in both accounts. Both accounts were disposed in the January 2024 QRAM application for the historical period.

EPCOR proposed to correct the reference price to the approved rate of \$0.161348/m³ in both the PGCVA and the GPRA, which would capture the discrepancy caused by the incorrect rate used in the January 2024 QRAM (Approach 1).⁴

In response to interrogatories in the April QRAM Application, EPCOR confirmed the quantum of the error is a combined \$71,138 for both the PGCVA and the GPRA. EPCOR also agreed that an alternative approach to correct the error would be to directly debit the amount of \$71,138 to the PGCVA (Approach 2).⁵ In response to further interrogatories, EPCOR confirmed that the difference between the two approaches is not material, approximately \$254, and that EPCOR preferred Approach 1.⁶

In its March 21, 2024 Decision, the OEB suggested that the errors in the QRAM Application be considered in accordance with the OEB's October 31, 2019 letter regarding the correction of pass-through costs.⁷ The letter sets out that the OEB will determine whether to make retroactive adjustments on a case-by-case basis based on the circumstances of each case, taking into account factors including:

- Whether the error was within the control of the distributor
- The frequency with which the distributor has made the same error
- Failure to follow guidance provided by the OEB

³ EB-2023-0388

⁴ EB-2024-0100, Schedule 1, pg. 10

⁵ EB-2024-0100, EPCOR Interrogatory Responses, Staff 1-f)

⁶ EPCOR Interrogatory Responses, Staff 1

⁷ [OEB's Letter: Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition](#), October 31, 2019

- The degree to which other distributors are making similar errors

The October 2019 letter also identified the possibility of asymmetrical approaches to correcting errors, in favour of customers. For example, if a distributor repeats an error, and if correcting the error is solely to the benefit of the distributor, the OEB may not approve part or all of the correction and of any associated carrying charges.

In its April 25, 2024 interrogatory responses, in response to OEB staff questions regarding the OEB's October 31, 2019 letter,⁸ EPCOR stated:

- This was the first time that a reference price error has occurred
- They have identified the source of the error and have introduced further checks to minimize future errors

EPCOR did not comment on if there was a failure to follow guidance provided by the OEB nor on whether other distributors have made similar errors. EPCOR also did not comment on past errors made in QRAM applications.

EPCOR provided a reference for its approved Return on Equity (ROE) of 2.9% over the 10 year-rate stability period and its forecasted ROE of -2.0% over the same time period.⁹

OEB Staff Submission

OEB staff notes that in previous QRAM proceedings, EPCOR made several errors and omissions.¹⁰ Because of this, in the January 2024 QRAM, the OEB reminded EPCOR that “[a]pplicants are responsible for providing comprehensive and accurate evidence”.¹¹

Notwithstanding these previous errors and omissions, OEB staff submits that the OEB should accept EPCOR's proposed correction as filed on a final basis but that the OEB caution EPCOR one final time that errors within the control of a utility should not be made with such regularity, especially in a QRAM proceeding where there are less than three weeks to finalize rates.

⁸ [OEB's Letter: Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition](#), October 31, 2019

⁹ EB-2023-0140, EPCOR Motion, [ENGLP Affidavit Motion to Review 20230510](#), Exhibit A

¹⁰ For example, in the January 2024 QRAM, OEB staff noted changes to actual purchase cost between two QRAM applications and EPCOR explained that it changed its methodology to calculate actual purchase costs without raising it with the OEB (EB-2023-0338); in the October 2023 QRAM EPCOR Aylmer made an unexplained update to the RNG pricing formula relative to the formula applied in previous QRAM applications again without raising it first with the OEB (EB-2023-0269); In the July 2023 QRAM OEB staff noted that there was an error in the pre-filed application in Schedule C and EPCOR filed an updated Schedule C prior to the decision being issued (EB-2023-0159).

¹¹ EB-2023-0338, Decision and Order, pg. 2

OEB staff notes that EPCOR's approved 10-year Distribution Revenue Requirement is \$58,534,511.¹² The materiality threshold is \$50,000.¹³ Although the quantum of the errors isn't large relative to its 10-year Distribution Revenue Requirements, it does surpass the materiality threshold. As noted previously, the ROE of EPCOR South Bruce is forecasted to be below its approved ROE. Both of these facts in OEB staff's view are informative but should not be determinative of the approach that should be taken to correcting errors.

EPCOR stated that this was the first time this error was made, the source of the error was identified and additional checks were put in place. OEB staff notes that this error was first introduced in its January 2024 QRAM and found in the subsequent April 2024 QRAM, meaning EPCOR found the error within a quarter. OEB staff notes that in previous OEB decisions on retroactive recovery of pass-through accounts, the error persisted for several years and the OEB disallowed recovery based on customers that were not previously connected when the error occurred (thereby did not receive a credit or were underbilled) with the respective utilities and interests.¹⁴ OEB staff notes that this latest error by EPCOR was caught quickly and did not propagate beyond the quarter.

If the OEB accepts EPCOR's proposed correction of the Reference Price Error, OEB staff submits that the OEB should accept Approach 1 as EPCOR has already implemented Approach 1 in its April QRAM and the difference between Approach 1 and 2 is not material.

Billing Error

EPCOR discovered a billing issue where approximately 75 customers were affected by incorrect programming of digital encoder receiver transmitters, which resulted in underbilling to these customers (Billing Error). The error occurred during the period of April 2021 to January 2024. This error reduced the inventory rate in the GPRA by increasing the throughput volumes from April 2021 to January 2024 thus lowering the inventory recorded. EPCOR applied billing adjustments recently to the customers to

¹² EB-2018-0264, Decision on Settlement Proposal and Procedural Order No.6, October 3, 2019, pg. 6 and Schedule A, pg. 9

¹³ Ibid, Schedule A, pg. 20

¹⁴ In EB-2023-0106, Synergy North made a coding error with customers who transitioned from non-interval meters to real-time meters. This resulted in excess credits being distributed in 2021 and 2022 incentive rate-setting mechanism (IRM) updates through its pass-through accounts (Account 1588 and 1589). The OEB disallowed part of the recovery based on customers who were not part of the utility's customer base prior to the error (i.e. 2019/2020) and interest collected on the excess credit. In EB-2022-0305, GrandBridge Energy incorrectly recorded the recovery in Accounts 1589 and 1580 instead of Account 1580, resulting in over-credits in Accounts 1589 and 1580 and under-credits in Account 1580. The OEB reduced the amount recovered by the consumption of customers that transitioned and the growth in the customer base in those customer classes.

recover the additional amounts owed according to EPCOR's conditions of service. The cumulative impact of correcting the Billing error results in an overall credit to customers. In the April QRAM interrogatories, EPCOR stated that there should be an additional credit adjustment of \$5,841.56 in GPRA based on the adjusted inventory rates and billing volume correction.¹⁵

In interrogatories, EPCOR stated three customers were impacted by the Billing Error who are no longer served by EPCOR and its shareholders will be responsible for the costs.¹⁶ EPCOR did not comment on the quantum of the costs of the three customers. EPCOR also confirmed that the \$5,841.56 credit adjustment was not included in the April QRAM Application and recommended the adjustment be made in its July 2024 QRAM.

OEB Staff Submission

OEB staff has reviewed EPCOR's proposal and submits that the Billing Error correction should be approved on a final basis, in addition to the \$5,841.56 credit adjustment in the GPRA. Both errors, the Billing Error correction and the additional credit are in favour of customers and should be credited accordingly. OEB staff notes that EPCOR acknowledges that its shareholder will absorb the cost of the underbilling for those customers who are no longer serviced by EPCOR.

OEB staff submits that the additional credit should be disposed of in EPCOR's July 2024 QRAM Application.

Heat Value

In its April 2024 QRAM Application, EPCOR used a heat value of 39.09 MJ/m³ for its service area, found on Enbridge Gas Inc.'s (Enbridge Gas) website. Enbridge Gas used a heat value of 39.17 GJ/10³m³ (i.e. 39.17 MJ/m³) for the Union South rate zone, which EPCOR South Bruce is a customer of, in its own April 2024 QRAM application.¹⁷

In interrogatories, EPCOR confirmed that the heat value used in its application should be the same as the one that Enbridge Gas uses for its Union South rate zone (i.e. 39.17 GJ/10³m³).¹⁸ EPCOR also confirmed that the existing QRAM methodology will true-up the actual heat values in its next QRAM application.

OEB Staff Submission

OEB staff submits that in future QRAM applications, EPCOR should use the heat value

¹⁵ EB-2024-0100, EPCOR Interrogatory Responses, Staff 2-b) ii)

¹⁶ EPCOR Interrogatory Responses, Staff 2

¹⁷ EB-2024-0093, Interrogatory Responses, Exhibit I. Staff.2

¹⁸ EPCOR Interrogatory Responses, Staff 3

from Enbridge Gas's QRAM as this is what Union South rate zone commodity rates are based on.

OEB staff also submits that the QRAM methodology will true-up based on the actual heat values used in the previous period (i.e. April – June 2024).

Conclusion

OEB staff notes that the OEB approved on an interim basis as part of the April QRAM Application, the corrections to the Reference Price Error using Approach 1 and the Billing Error, excluding the additional credit identified by EPCOR in the discovery phase of this Motion.

OEB staff submits that if the OEB does not accept EPCOR's proposal and determines that the proposed Reference Price Error correction method should be revised, the OEB should require EPCOR to provide a detailed calculation based on the OEB's findings in the next QRAM application.

If the OEB determines EPCOR's proposed approach to correct the Reference Price Error and Billing Error is appropriate, OEB staff is of the view that no further action is required other than formally approving the corrections on a final basis and approving the additional Billing Error credit of \$5,141.56 into GRPA which should be implemented in the July QRAM.

OEB staff submits that EPCOR, as discussed previously, should use Enbridge Gas's Union South rate zone heat value found in Enbridge Gas's QRAM application. OEB staff notes that the QRAM mechanism will true up the actual heat value in previous periods, including those in the April QRAM Application, hence no further action is required by EPCOR to correct the heat value used in its April QRAM Application.

Finally, the OEB should consider a final caution to EPCOR regarding any further errors that are within the control of the utility. In its October 2019 letter, the OEB reminded utilities that it is their responsibility to ensure that all of their pass-through account balances are accurately reported when seeking approval for disposition from the OEB.¹⁹ In OEB staff's view, this applies to any other commodity-related rates, reference prices, etc.

OEB staff notes that there have been several decisions where the OEB has partially disallowed recovery of pass-through accounts.²⁰ And in OEB staff's view, there is no reason why EPCOR should not also be held accountable if errors persist in future

¹⁹ [OEB's Letter: Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition](#), October 31, 2019

²⁰ EB-2022-0305 and EB-2023-0106

GRAM or other applications.

~All of which is respectfully submitted~