

# **EPCOR Natural Gas Limited Partnership**

**Cost of Service Application**

EB-2024-0130

July 18, 2024

**Exhibit 6 – Revenue Deficiency/Sufficiency**

PROVIDING MORE





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1     **6.0           Revenue Deficiency/Sufficiency**

2     This section complies with the requirements as set out in the OEB’s Minimum Filing Requirements  
 3     for Natural Gas Distribution Cost of Service Applications. Consistent with the requirements,  
 4     ENGLP has included the following tables in this section:

- 5             • Deficiency or Sufficiency in revenue;
- 6             • Gross Deficiency or Sufficiency in Revenue;
- 7             • Determination of Net Utility Income;
- 8             • Statement of Rate Base;
- 9             • Actual Utility Return on Rate Base;
- 10            • Indicated Rate of Return; and
- 11            • Requested Rate of Return.

12     A supporting excel workbook accompanies this Exhibit which includes detailed calculations of the  
 13     revenue requirement: ENGLP\_EB-2024-0130\_Revenue Requirement.

14     **6.0.1       Revenue Deficiency**

15     ENGLP has determined that the revenue deficiency for the 2025 Test Year is \$567,889. The  
 16     calculation of the revenue sufficiency is shown in Table 6.0.1-1 below.

17   **Table 6.0.1-1**  
 18   **Summary of Cost of Service (\$)**  
 19

Driver	2025T
OM&A	\$4,321,958
Depreciation	\$1,320,799
Property Taxes	\$705,564
Income Taxes	\$74,989
Cost of Debt	\$643,825
Return on Equity	\$980,922
<b>Service Revenue Requirement</b>	<b>\$8,048,058</b>
<i>Revenue Offsets</i>	<i>(\$108,388)</i>
<b>Distribution Revenue Requirement</b>	<b>\$7,939,670</b>
<i>Distribution Revenue at Current Rates</i>	<i>\$7,371,781</i>
<b>Revenue Deficiency</b>	<b>(\$567,889)</b>

1 ENGLP has calculated the revenue deficiency net of gas supply-related changes captured in the  
2 QRAM in accordance with the OEB's Filing Requirements. This also includes the removal of any  
3 Transportation costs consistent with the information in Exhibits 4 and 8. The revenue deficiency  
4 was calculated using distribution rates as approved in ENGLP's 2024 IRM filing (EB-2023-0160).  
5 As Transportation costs were previously included in ENGLP's revenue requirement, the  
6 equivalent of the approved reference price was removed from the variable component of  
7 distribution revenue in order to provide a consistent comparison. Detailed calculations can be  
8 found in ENGLP's rate model workbook (ENGLP\_EB-2024-0130\_Rate Model).

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## 10 **6.0.2 Cost Drivers on Revenue or Deficiency**

11 The 2025 Test Year revenue deficiency is driven by a combination of inflation, increased OM&A  
12 costs, higher staffing requirements, increased contractor costs, and increased depreciation and  
13 debt financing costs due to higher capital investment requirements.

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**Table 6.0.2-1  
Revenue Deficiency Cost Drivers**

<b>Driver</b>	<b>Deficiency</b>
Inflation	\$265,384
Increased Depreciation	\$124,268
Cost of Debt	\$72,941
Additional FTE & Other OM&A	<u>\$105,296</u>
<b>Total</b>	<b>\$567,889</b>

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1     **Inflation**

2     On June 20, 2024, the OEB released the updated inflationary index for 2025 rates. This included  
3     an inflation factor of 3.6% to be used in 2025 for the base determination of inflationary increase  
4     for distribution rates. After the application of ENGLP's current stretch factor of 0.4%, the cost of  
5     inflation is projected to be \$265,384 in 2025.

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7     **Depreciation**

8     ENGLP has calculated an increase in depreciation expense of \$161,370 from 2024 to 2025 due  
9     to additional assets being put into service. Refer to Exhibit 2 for additional information on the  
10    increase in rate base and Exhibit 4 for additional information on depreciation expense. After  
11    removal of the inflationary impact, using the inflationary factor above, there remains a revenue  
12    deficiency of \$124,268.

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14    **Cost of Debt**

15    As noted in Exhibit 4, ENGLP is anticipating the issuance of \$2M in December 2024, and an  
16    additional \$1M in 2025. This would increase the cost of long-term debt from \$463,835 to \$551,619  
17    from 2024-2025. After removing the inflation impact, using the inflationary factor above, there  
18    remains a revenue deficiency of \$72,941.

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20    **Additional FTE & Other OM&A**

21    As noted in Exhibit 4, ENGLP is anticipating an increase of 1.5 FTE in 2025 in order to ensure  
22    compliance with utility locate legislation and health, safety and environment needs of ENGLP.  
23    ENGLP is also planning on utilizing contractors to assist with several training and procedural  
24    updates in 2025. These increase result in the remaining revenue deficiency for 2025, quantified  
25    at \$105,296.

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1 **6.0.3 Determination of Net Utility Income**

2 ENGLP calculated a 2025 Test Year Net Income of \$980,922. Table 6.0.3-1 below outlines the  
 3 net income calculations:

4 **Table 6.0.3-1**  
 5 **Proposed 2025 Test Year Net Utility Income (\$)**  
 6

Driver	2025T
Distribution Revenue	\$7,939,670
Other Revenue	<u>\$108,388</u>
<b>Total Revenue</b>	<b>\$8,048,058</b>
OM&A	(\$4,321,958)
Depreciation	(\$1,320,799)
Property Taxes	(\$705,564)
Income Taxes	(\$74,989)
Cost of Debt	<u>(\$643,825)</u>
<b>Net Income</b>	<b>\$980,922</b>

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10 **6.0.4 Statement of Rate Base**

11 ENGLP 2025 Proposed Test Year Mid-Year Rate Base is \$26.627 million. Table 6.0.4-1 below  
 12 outlines the Rate Base calculations:

13 **Table 6.0.4-1**  
 14 **2025 Test Year Rate Base (\$)**  
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Description	Amount
Opening Fixed Assets	\$24,181,455
Closed Fixed Assets	\$26,924,586
<b>Mid-Year (Average) Fixed Assets</b>	<b>\$25,553,020</b>
Working Capital Allowance	\$1,073,537
<b>Total Rate Base</b>	<b>\$26,626,558</b>

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*Refer to Exhibit 2 for additional detail on Rate Base calculations*



1 **6.0.5 Actual Utility Return on Rate Base**

2 ENGLP’s proposed 2025 Test Year return on rate base is calculated below in Table 6.0.5-1 below:

3 **Table 6.0.5-1**  
 4 **2025 Test Year Return on Rate Base (\$)**

Capital Component	Mid-Year Rate Base	Ratio	Cost Rate	Return Component (WACC)	Return Amount
Equity	\$10,650,623	40%	9.21%	3.68%	\$980,922
LT Debt	\$14,910,872	56%	3.87%	2.17%	\$577,471
ST Debt	\$1,065,062	4%	6.23%	0.25%	\$66,353
<b>Total</b>	<b>\$26,626,558</b>	<b>100%</b>		<b>6.10%</b>	<b>\$1,624,747</b>

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7 **6.0.6 Indicated Rate of Return**

8 ENGLP’s 2025 indicated rate of return is 6.10% as shown in Table 6.0.5-1, above.

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10 **6.0.7 Requested Rate of Return**

11 ENGLP’s 2025 requested rate of return is \$1,624,747 or 6.10% as shown in Table 6.0.5-1 above.

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13 *Refer to Exhibit 5 for additional detail on Weighted Average Cost of Capital calculations.*

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