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BY EMAIL

November 1, 2024

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 2025 Rate Application
OEB File Number: EB-2024-0238

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 12, 2024.

Yours truly,

Arturo Lau Digitally signed by Arturo Lau
Date: 2024.11.01 13:41:44 -04'00'

Arturo Lau
Advisor, Natural Gas

Encl.

cc: All parties in EB-2024-0238

ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Natural Gas Limited Partnership

South Bruce 2025 Rate Application

EB-2024-0238

November 1, 2024

Application Summary and Process

On August 15, 2024, EPCOR Natural Gas Limited Partnership (ENGLP) 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, 2025 (the Application).

In the Application, ENGLP requested the following:

- Approval to adjust distribution rates for South Bruce effective January 1, 2025 in accordance with the OEB-approved settlement agreement (Settlement Decision)[1] in ENGLP South Bruce's 2019-2028 Custom Incentive Rate (IR) proceeding
- Approval to dispose of certain deferral and variance account balances

On September 6, 2024, the OEB issued a Notice of Hearing. The intervention period ended on September 20, 2024. No persons applied for intervenor status.

Procedural Order No. 1 was issued on September 24, 2024. OEB staff filed written interrogatories on October 8, 2024. On October 22, 2024, ENGLP filed interrogatory responses.

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

OEB Staff Submission

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

Incentive Rate Adjustment

ENGLP seeks to increase its rates, effective January 1, 2025, 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 2025 inflation factor of 3.6%[2] in the formula yields an IR adjustment of 2.00%.

ENGLP 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 ENGLP's request and model, which used the approved inflation factor of 3.6%. 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

ENGLP sought approval to dispose of the 2023 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 ENGLP South Bruce customers is a debit of $725,069 (including interest to December 31, 2024[3]). The balances in the deferral and variance accounts are summarized as follows.

[2] OEB's 2025 Inflation Parameters Letter
[3] The Q1 2024 – Q3 2024 carrying charges were calculated using the OEB's prescribed interest rates. The Q4 2024 carrying charges were forecasted using the Q3 2024 prescribed interest rate as a proxy.

ENGLP Deferral and Variance Account Balances		
Account Acronym	Account Name	Balance with interest to December 31, 2024
CIACVA	Contribution in Aid of Construction Variance Account	$321,284
ECVA	Energy Content Variance Account	$29,434
MTVA	Municipal Tax Variance Account	$77,670
ORDA	Other Revenue Deferral Account	$(30,771)
CVVA	Customer Volume Variance Account	$327,452
	Total Deferral Account Balances	**$725,069**

Contribution in Aid of Construction Variance Account (CIACVA)

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

ENGLP requested approval to dispose of a debit balance of $321,284 including interest to December 31, 2024. ENGLP proposed to allocate the CIACVA balance based on the Common Infrastructure Plan (CIP) distribution and non-distribution rate base for all rate classes. ENGLP proposed to collect the balance, over twelve months, from rate classes 1, 6 and 11 based on CIP forecast volumes and from Rate 16 based on contract demand. The table below depicts the proposed CIACVA rate rider.

Table 1: Calculation of Proposed CIACVA Rate Rider

		A **Unit**	B **Row Sum**	C **Rate 1**	D **Rate 6**	E **Rate 11**	F **Unit**	G **Rate 16**
1	Volume	m3	11,930,679	8,270,620	2,228,157	1,431,902	CD	95,824
2	Allocation	%	100%	59%	21%	3%	%	17%
3	Sum	$	$321,284	$190,954	$67,890	$8,289	$	$54,151
4	**Rate Rider**	**¢/m3**		**2.3088**	**3.0469**	**0.5789**	**¢/CD/month**	**4.7092**

OEB staff submits that the proposed disposition of the CIACVA balance (including interest to December 31, 2024) is appropriate. OEB staff submits that the proposed allocation and disposition methodologies for the CIACVA are consistent with the decision in ENGLP South Bruce's 2022, 2023 and 2024 Rates proceeding.[4]

[4] EB-2021-0216, EB-2022-0184 and EB-2023-0161

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 ENGLP's 2019-2028 Custom IR proceeding.[5]

ENGLP requested approval to dispose of a debit balance of $29,434 including interest to December 31, 2024. ENGLP proposed to allocate the ECVA balance to rate classes based on forecasted volumes underpinning CIP revenue for each rate class. ENGLP proposed to collect the balance, over twelve months, from rate classes 1, 6 and 11 based on revised forecast volumes. The table below depicts the proposed ECVA rate rider.

Table 2: Calculation of Proposed ECVA Rate Rider

		A **Unit**	B **Row Sum**	C **Rate 1**	D **Rate 6**	E **Rate 11**
1	Volume	m3	11,930,679	8,270,620	2,228,157	1,431,902
2	Allocation	%	100%	69.7%	21.3%	9.0%
3	Sum	$	$29,434	$20,516	$6,273	$2,645
4	**Rate Rider**	**¢/m3**		**0.2481**	**0.2815**	**0.1847**

OEB staff has no concerns with the proposed ECVA balance (including interest). OEB staff has no issues with the proposed allocation methodology as it is consistent with the previous 2024 Rates proceeding.[6] OEB staff also has no concerns with the proposed disposition methodology as it is consistent with the decisions in ENGLP South Bruce's 2024 Rates proceedings.

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 ENGLP South Bruce.

ENGLP 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 ENGLP South Bruce's 2019-2028 Custom IR[7] for each year of the rate

[5] EB-2018-0264
[6] EB-2023-0161
[7] EB-2018-0264

stability period.

The amount recorded in the MTVA is a debit of $77,670 including interest to December 31, 2024. ENGLP proposed to allocate the balance based on the CIP Property Tax allocator as approved in ENGLP's 2023 Rates proceeding.[8] ENGLP proposed to collect the balance, over twelve months, to rate classes 1, 6 and 11 based on revised forecast volumes and to Rate 16 based on monthly contract demand. The table below depicts the proposed MTVA rate rider.

Table 3: Calculation of Proposed MTVA Rate Rider

		A Unit	B Row Sum	C Rate 1	D Rate 6	E Rate 11	F Unit	G Rate 16
1	Volume	m3	11,930,679	8,270,620	2,228,157	1,431,902	CD	95,824
2	Allocation	%	100%	54%	25%	3%	%	18%
3	Sum	$	$77,670	$41,780	$19,276	$2,360	$	$14,255
4	**Rate Rider**	**¢/m3**		**0.5052**	**0.8651**	**0.1648**	**¢/CD/month**	**1.2397**

In response to interrogatories, ENGLP noted that in previous cases the MTVA balance historically had substantial credits to customers. ENGLP stated that this was due to a lag in receiving all the property tax assessments and bills in 2021 and 2022, hence ENGLP was not billed all of its property tax owed in those years.[9] However, ENGLP was still receiving revenue, which includes property tax, from customers, thus resulting in a credit in previous years.

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.[10] OEB staff does have concerns with ENGLP response that it "experienced a lag in receiving all the property tax assessments", as it is unclear whether property tax assessments from the previous years will continue to come in. OEB staff submits that EPCOR should provide a detailed explanation of the situation on the property tax assessments received to date and what is expected in the future in its reply submission.

OEB staff also has no concerns with the proposed allocation and disposition methodology as they are consistent with the decision in ENGLP South Bruce's 2023 and 2024 Rates proceeding.[11]

[8] EB-2022-0184
[9] Interrogatory Responses, October 22, 2024, OEB Staff- 1
[10] EB-2021-0216, Decision and Order (Phase 1 and Phase 2), February 17, 2022, Schedule A
[11] EB-2022-0184 and EB-2023-0161

Other Revenue Deferral Account (ORDA)

The ORDA records the revenues generated from the customer service charges (as per the approved schedule of Miscellaneous and Service Charges in ENGLP's tariffs).[12] The OEB approved $0 in the Other Revenues in ENGLP South Bruce's 2019-2028 Custom IR proceeding.

ENGLP requested approval to dispose of a credit balance of $30,771 including interest to December 31, 2024. ENGLP proposed to allocate the ORDA balance based on the OM&A allocation for all rate classes.

ENGLP 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 ORDA rate rider.

Table 4: Calculation of Proposed ORDA Rate Rider

		A **Unit**	B **Row Sum**	C **Rate 1**	D **Rate 6**	E **Rate 11**	F **Unit**	G **Rate 16**
1	Volume	m3	11,930,679	8,270,620	2,228,157	1,431,902	CD	95,824
2	Allocation	%	100%	74%	17%	4%	%	6%
3	Sum	$	($30,771)	($22,643)	($5,104)	($1,246)	$	($1,778)
4	**Rate Rider**	**¢/m3**		**(0.2738)**	**(0.2291)**	**(0.0870)**	**¢/CD/month**	**(0.1547)**

OEB staff submits that the proposed ORDA balance (including interest to December 31, 2024) that ENGLP is seeking to dispose of is appropriate. OEB staff submits that the proposed allocation and disposition methodology is also appropriate as it is consistent with the OEB-approved 2024 Rates.[13]

Consumer Volume Variance Account (CVVA)

This is the first time ENGLP has requested the disposition of the CVVA account.

The CVVA records the variance in revenue Rates 1 and 6 resulting from the difference between customer volume forecast based on common assumptions and the Actual Normalized Average Customer Volume (NACV). The NACV is calculated as the actual average monthly consumption per customer, adjusting it to remove the impact of the ECVA, and applying the weather normalization methodology. Differences are to be shared on a 50/50 basis between ENGLP and its customers and the amount eligible for the recovery until such point that ENGLP's actual Return on Equity (ROE) reaches 300

[12] Application, August 15, 2024, pg 18
[13] EB-2023-0161

basis points below 8.78%.

The amount recorded in the CVVA is a debit of $327,452 including interest to December 31, 2024. ENGLP stated that the ROE deadband is not applicable for 2023 as its regulated net income was ($2.484M) loss in 2023, resulting in a calculated ROE of (7.34%). The ROE with the addition of the $327,452, CVVA balance, remains negative.

ENGLP proposed to allocate the CVVA balance to Rate 1 and 6 customers that is consistent with the NACV calculation. ENGLP proposed to collect the balance, over twelve months, to rate classes 1 and 6 based on monthly fixed rate rider.

ENGLP stated that a fixed rate rider was chosen as it is a more equitable means of recovery, as a variable rate rider would result in a higher overall cost to customers who are consuming more gas, when it could be argued that high consumption customers contributed less to the need for the CVVA; hence, a variable rate rider could be considered punitive to those customers. A fixed rate rider is a more balanced recovery of the revenue shortfall collected through the CVVA as it is not based on consumption.

The table below depicts the proposed CVVA rate rider.

Table 5: Calculation of Proposed CVVA Rate Rider

		A **Unit**	B **Row Sum**	C **Rate 1**	D **Rate 6**
1	Customer Count	m3	5,570	5,516	54
2	Allocation	%	100%	109%	-9%
3	Sum	$	$327,452	$355,612	($28,160)
4	**Rate Rider**	**$/month**		**$5.37**	**($43.46)**

In interrogatory responses, ENGLP updated its CVVA workbook to include 2023 Q4 actuals in the Rate Class 1 Residential and Agricultural tabs.[14] ENGLP noted that the adjustments did not change the resulting calculations of the CVVA balance.

OEB staff submits that the proposed CVVA balance (including interest to December 31, 2023) that ENGLP is seeking to dispose of is appropriately calculated. OEB staff confirms that by including the CVVA in the ROE calculation, the ROE remains 300 basis points below 8.78%. OEB staff submits that the proposed allocation methodology is also appropriate as it is consistent with the accounting order.[15] OEB staff submits that the proposed allocation methodology is appropriate as a monthly fixed rate rider is not punitive to customers who consume more natural gas. OEB staff notes that customers

[14] Interrogatory Responses, October 22, 2024, OEB Staff- 2
[15] EB-2022-0184, Accounting Order, October 26, 2023

who consume more natural gas reduce the debit in the CVVA.

Bill Impacts and Implementation

The total annual bill impacts for customers in the general service rate class resulting from the proposals in the Application are as follows:

Table 6: Annual Bill Impact

Rate Class	Change in Fixed Delivery	Change in Volumetric Delivery	Change in Rate Rider	Total Change	
				$	%
Rate 1- Existing Residential	$7	$13	$122	$141	8%
Rate 1- New Residential	$7	$12	$119	$138	8%
Rate 1- Commercial	$7	$27	$189	$223	7%
Rate 1- Agricultural	$7	$27	$190	$224	7%

OEB staff notes that for electricity distributors, the OEB has a policy requiring the filing of a mitigation plan when the total bill impact is 10% or more for any customer class.[16] In ENGLP's response to interrogatories, ENGLP believes that if the total bill impact is 10% or more for any rate class, it should be required to submit a mitigation plan or provide sufficient rationale as to why mitigation would not be possible.[17]

OEB staff notes that the OEB previously approved ENGLP's rate mitigation proposal due to the forecasted increase of the commodity portion of the bill exceeding 25% and the forecasted total bill impact increase to be approximately 10%.[18] OEB staff further notes that the OEB found that it "does not consider the 10% total bill impact a cap but rather a point at which the OEB will consider adopting mitigation measures."[19]

OEB staff anticipates that ENGLP will seek to implement 2025 rates through its next quarterly rate adjustment mechanism (QRAM) application. OEB staff submits that if the total bill impact is greater than 10% for any customer class in the applicable QRAM application, ENGLP should be required to propose a mitigation plan to reduce the impact to 10% or less. This is consistent with ENGLP's commitment to its response to interrogatories.[20]

OEB staff notes that if a distributor anticipates an increase or decrease of 25% or more on commodity portion of a customer's bill, the distributor is required to file a letter 14-days prior to filing its QRAM application.[21] OEB staff submits that ENGLP should file a

[16] OEB Handbook for Utility Rate Applications (October 13, 2016); see Introduction (page 1) and Rate Mitigation (Appendix 3, page v)
[17] Interrogatory Responses, October 22, 2024, OEB Staff- 3
[18] Decision and Rate Order, EPCOR South Bruce April 1, 2022 QRAM, March 24, 2022
[19] Ibid, pg 5
[20] Interrogatory Responses, October 22, 2024, OEB Staff- 3
[21] EB-2014-0199, Decision and Order, August 14, 2014, pg. 4-6

letter 14-days prior to filing its January 2025 QRAM application if ENGLP forecasts a total bill increase of 10% or over. This will allow for a more thorough review of the QRAM application than is currently feasible in the existing QRAM process timelines.

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[22] would result in an immaterial change to the deferral account balances.[23] However, OEB staff requests that EPCOR provide its views on the need for a draft rate order process in its reply submission.

~All of which is respectfully submitted~

[22] According to the OEB Prescribed Interest Rates, the 2024 Q3 interest rate is 5.20% and 2024 Q4 is 4.40%

[23] OEB staff has calculated that the difference due to interest rates is roughly $1,300 credit to customers.