



Joel Denomy
Technical Manager
Strategic Regulatory Applications –
Rebasing
Regulatory Affairs

tel 416-495-5499
EGIRegulatoryProceedings@enbridge.com

Enbridge Gas Inc.
500 Consumers Road
North York, Ontario M2J 1P8
Canada

November 8, 2024

VIA RESS AND EMAIL

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

Dear Nancy Marconi:

Re: Enbridge Gas Inc. (Enbridge Gas, or the Company)
EB-2024-0111- 2024 Rebasing and IRM – Responding Submissions on
Motion for Answers to Interrogatories and Additional Questions

Enclosed please find the responding submissions of Enbridge Gas on the Environmental Defence motion for answers to interrogatories and additional questions.

Should you have any questions, please let us know.

Sincerely,

A handwritten signature in black ink that reads 'Joel Denomy' in a cursive script.

Joel Denomy
Technical Manager, Strategic Applications – Rate Rebasing

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule. B);

AND IN THE MATTER OF Phase 2 of an Application by Enbridge Gas Inc., pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2024.

ENBRIDGE GAS INC.

Responding Submissions on Motion for Answers to Interrogatories and Additional Questions

November 8, 2024

AIRD & BERLIS LLP

Barristers and Solicitors
Brookfield Place
Suite 1800, Box 754
181 Bay Street
Toronto, ON M5J 2T9

David Stevens
(dstevens@airdberlis.com)

Patrick Copeland
(pcopeland@airdberlis.com)

Tel: (416) 863-1500

OVERVIEW

1. In this motion, Environmental Defence (ED) seeks to have Enbridge Gas supply alternatives and details for a new ratemaking proposal that Enbridge Gas does not support. ED is asking Enbridge Gas to come up with multiple scenarios that are not currently available, on a topic that Enbridge Gas has not studied or considered, and to craft outcomes that Enbridge Gas does not endorse for a proposal that the Company is not making. Enbridge Gas does not agree to this request. It is not the applicant's role or obligation to provide the details for an intervenor proposal.
2. While the Company acknowledges that the merits of ED's proposal will be determined in the Phase 2 hearing, the following context around the position that Enbridge Gas will take on the merits of the issue is important in order to evaluate ED's Motion.
3. In the Partial Settlement Proposal recently filed in this proceeding, Enbridge Gas and other Parties agreed that the issue about whether Enbridge Gas's 2024-2028 Incentive Rate Mechanism (IRM) should include a mechanism to decouple revenue from customer numbers would be determined by the OEB. ED indicates in its Motion that it will pursue this issue at the hearing and in submissions.
4. ED's ratemaking proposal is that "revenue decoupling from customer numbers" should be adopted as part of Enbridge Gas's incentive rate making mechanism (IRM). The goal is to make Enbridge Gas indifferent to adding new customers. ED proposes that this would be effected by taking away from Enbridge Gas any benefits that would otherwise accrue from customer additions. ED cites no precedent for any regulator anywhere in the world having approved this type of mechanism for a gas utility or in the context of the energy transition.
5. ED has provided the barest of evidence and details about how its revenue decoupling proposal would operate. ED initially offered 2 pages of evidence from its expert on this topic and very recently supplemented that with a 3½ page interrogatory response (after initially refusing to answer a very similar interrogatory).
6. Enbridge Gas disagrees with the premise of ED's proposal. Enbridge Gas is not indifferent to adding new customers, and should not be disincentivized to do so. Importantly, the Ontario government is also not indifferent to adding new gas customers. The Ontario government

specifically supports new connections to support much needed housing, and is also supportive of customer choice.

7. In the motion, ED asks that the OEB direct Enbridge Gas to:

Describe a number of options whereby it would be made indifferent to the number of customer connections and customer exits during the IRM term from a revenue perspective, and indicate which option it believes would be the most appropriate should the OEB decide to implement revenue decoupling with respect to customer counts.

8. ED also asks that Enbridge Gas be required to answer three other questions, relating to facts and evidence about customer connections and providing the Company's response to the specific approach for revenue decoupling that ED has advanced.
9. In accordance with its obligations under the OEB's *Rules of Practice and Procedure*, Enbridge Gas is prepared to provide relevant "information", and therefore agrees to answer the latter three questions in ED's motion. Enbridge Gas is not prepared to "describe a number of options" that would accomplish and implement ED's proposal. Formulating rate proposals that have not been considered or studied goes well beyond providing "information".
10. Where a party makes a ratemaking proposal within an OEB proceeding, it should be incumbent on that party to establish the appropriateness of the proposal and supply the details so that the proposal can be implemented. A concept of a proposal is not enough. An intervenor should not be permitted to offload its responsibility to make its case onto the applicant.
11. Effectively, ED is asking Enbridge Gas to do ED's work. Left with a dearth of evidence, ED is now asking the OEB to have Enbridge Gas to fill this void in respect of a proposal that Enbridge Gas does not support and which ED chose to not substantiate with its own evidence or specifics.
12. Enbridge Gas requests that this Motion be dismissed.

THE ED PROPOSAL AND MINIMAL EVIDENCE IN SUPPORT

13. In August 2024, ED filed a report from its expert, Current Energy Group (CEG), titled “Incentive Ratemaking for Capital Cost Containment and Energy Transition Risk Reduction”.¹ This report included a number of recommended adjustments to the IRM to “better align Enbridge’s financial incentives with customer interests”.
14. One recommendation is titled “Revenue Decoupling”. For this item, CEG says that “the OEB should extend revenue decoupling to make Enbridge Gas indifferent to the number of customers it connects to its system”.²
15. CEG’s evidence on this recommendation was set out over 2 pages in the report.³ No details were provided as to the actual revenue decoupling mechanism to be implemented other than a reference to a “revenue by customer class” approach and a “harmonized revenue balancing account”.⁴
16. Enbridge Gas and other parties asked interrogatories to CEG about the report. In its responses, CEG declined to provide further details. Specifically, CEG declined the following requests:
- a. To provide references to other gas utilities or jurisdictions with revenue true-up mechanisms by rate class⁵;
 - b. To provide details of how revenue per customer class would work under Enbridge Gas’s proposed IRM framework⁶; and
 - c. To confirm the mechanics of a harmonized revenue balancing account⁷.
17. CEG indicated that the answers to the declined questions were beyond the scope of their retainer, and in any event were too much work to prepare within the budget and time allotted for interrogatories. This underlines the limited nature of CEG’s (and ED’s) evidence, and the

¹ Exhibit M2.

² Exhibit M2, page 2.

³ Exhibit M2, pages 12-14.

⁴ Exhibit M2, pages 13-14.

⁵ Exhibit M2.EGI.9.

⁶ Exhibit M2.EGI.10

⁷ Exhibit M2.EP.14.

actual effort that would be required to properly and completely address the issue that ED is raising.

18. On October 18, 2024, ED filed further interrogatory responses from CEG, addressing questions from Consumers Council of Canada (CCC). In this update, CEG apparently reversed its decision that it would not provide details of how its proposed revenue decoupling mechanism would work, and set out a brief explanation of a “hypothetical example” of a proposed revenue decoupling mechanism.⁸
19. In total, ED has provided less than 6 pages of evidence supporting its proposal, including one very high level “hypothetical example” of how revenue decoupling per customer class could work. ED has provided no examples of where such a methodology has been approved in similar circumstances, pointing only to an historic example from an electric utility in Hawaii. For ease of reference, the relevant CEG evidence filed by ED is attached as Appendix A to these submissions.
20. ED originally asked Enbridge Gas only one interrogatory on this topic – Exhibit I.10.1-ED-59. That question asked broadly about “revenue decoupling”, with part (c) asking Enbridge Gas to “discuss options to remove an incentive for Enbridge to encourage more gas connections”.⁹
21. Enbridge Gas answered most of the general questions in ED’s interrogatory about revenue decoupling. In relation to the specific request in Exhibit I.10.1-ED-59(c) for options to remove an incentive for the Company to encourage new connections, Enbridge Gas responded as follows:

*Enbridge Gas has not developed options or alternative models that aimed at removing potential incentives to the Company to add customers, and therefore cannot comment on any such options.*¹⁰
22. ED did not ask any follow-up questions on this interrogatory response or topic at the four day Technical Conference.

⁸ Exhibit M2.CCC.3.

⁹ Exhibit I.10.1-ED-59.

¹⁰ Exhibit I.10-ED-59(c).

THE ED MOTION

23. In the Partial Settlement Proposal, the Parties identified the following item as not being settled:

[T]here is no agreement as to whether the 2024-2028 IRM should include a mechanism to decouple revenue from customer numbers. The Parties agree that the OEB should determine this item through a hearing process. Nothing in the settlement of any issues precludes an OEB decision implementing an appropriate mechanism that would operate in conjunction with the IRM framework described in Issue 1, to decouple revenue from customer numbers.¹¹

24. ED's Motion sets out its position on this unsettled issue, stating "Environmental Defence believes it is contrary to the interests of ratepayers for Enbridge to have a strong incentive to connect new customers and to find ways to prevent customers from transitioning away from the gas system." ED says that adding new customers risks stranded assets and prevents customers from saving money and decarbonizing by converting to electric heat pumps.¹²
25. Effectively, ED's proposal is aimed at finding ways to have Enbridge Gas decide not to add new customers. ED appears to be proposing to have the OEB implement a framework under which any benefits that Enbridge Gas could otherwise gain from adding customers will be taken away (presumably to be credited to other customers). What ED does not acknowledge (but surely knows) is that under this mechanism Enbridge Gas will no longer dedicate resources and capital to customer additions.
26. In its Motion, ED asks the OEB to direct Enbridge Gas to:
- a. Describe a number of options whereby it would be made indifferent to the number of customer connections and customer exits during the IRM term from a revenue perspective, and indicate which option it believes would be the most appropriate should the OEB decide to implement revenue decoupling with respect to customer counts.
 - b. Comment on the decoupling mechanisms described by the Current Energy Group's response to CCC interrogatory 3.

¹¹ Exhibit N1, Tab 1, Schedule 1, page 20 (Issue 7).

¹² ED Motion, pages 1-2.

- c. In relation to the Customer Count Variance Account described by the Current Energy Group, provide the average revenue per customer and the average incremental cost per customer for the general service customer classes, and if those figures differ significantly from \$600 in average revenue and \$74.89 in incremental costs for residential customers, to explain why.
 - d. Provide Enbridge's latest estimates of customer connections and exits by rate class over the rate term as well as the revenue it forecasts generating over that term from net customer additions by rate class.
27. These requests go beyond any Interrogatories or Technical Conference questions that ED asked previously.

ENBRIDGE GAS POSITION ON THE ED PROPOSAL

28. As context for Enbridge Gas's response to the ED Motion, it is important to set out the Company's position on the ED proposal. While Enbridge Gas acknowledges that the ultimate issue about whether ED's proposal (as undetailed as it is) should be adopted is not being determined in this Motion, the Company's perspective underpins its response to the Motion.
29. Enbridge Gas is not indifferent to adding new customers. Enbridge Gas supports customer choice. New customers are asking the Company for connections. Enbridge Gas aims to add feasible new customers and support economic growth in Ontario. And of course, Enbridge Gas has a statutory obligation to connect new customers.¹³
30. Enbridge Gas fundamentally disagrees with the proposition that it should be disincentivized from adding new customers. If an approach that takes away any benefits from adding new customers is implemented, then the Company will not be "indifferent" to adding to new customers. Instead, the Company will not dedicate new capital to customer attachments because it will no longer get the benefits of such investments. To the extent that Enbridge Gas is required to add new customers under its obligation to serve, the Company would be punished for doing so where all it recovers is its base costs, as compared to other capital allocations where the Company earns a return.

¹³ *Ontario Energy Board Act, 1998*, section 42(2).

31. Ontario government policy also does not support having Enbridge Gas reduce or dramatically reduce new gas connections.
32. To the contrary, the Ontario government has made clear that it supports continued access to new gas connections. The Ontario government is strongly focused on encouraging and enabling housing development. This underpinned the *Keeping Energy Costs Down Act, 2024*, which legislated the continued application of a 40 year revenue horizon for new gas connections until a later OEB generic review.¹⁴
33. In late October 2024, the Ontario government released its new energy policy statement, titled “*Ontario’s Affordable Energy Future: The Pressing Case for More Power*”.¹⁵ That policy statement confirms that the Ontario government supports an “all-energy” or “all-of-the-above” approach to planning and meeting the Province’s energy goals, including electricity, natural gas, hydrogen and other fuels. As stated in the policy: “[t]he build out of a cleaner and more diversified economy must be paced according to the needs of homes, businesses and economic investment, including the need to keep energy costs competitive, not ideologically driven.”¹⁶
34. The Ontario government, like Enbridge Gas, supports customer choice. As stated in *Ontario’s Affordable Energy Future*:
- By planning for all sources of energy and ensuring the energy system supports key goals such as building housing and attracting investment, Ontario will have a pathway to achieving its energy vision. The pace of change will be driven by the emergence of new major energy users, such as in the electric vehicle supply chain and data centres, and by individual decisions made by consumers with respect to how they power their homes, vehicles and businesses. Maintaining customer choice as a driving principle of Ontario’s vision requires regular planning to ensure that energy sources are available for customers when they need them.*¹⁷ (emphasis added)

¹⁴ [Ontario Keeping Energy and Housing Costs Down | Ontario Newsroom – the 40 year revenue horizon was stipulated in an accompanying regulation - O. Reg. 273/24: REVENUE HORIZON \(NATURAL GAS\).](#)

¹⁵ [Ontario’s Affordable Energy Future: The Pressing Case for More Power | ontario.ca](#)

¹⁶ [Ontario’s Affordable Energy Future: The Pressing Case for More Power | ontario.ca](#) – under “Priorities for Natural Gas” heading.

¹⁷ [Ontario’s Affordable Energy Future: The Pressing Case for More Power | ontario.ca](#) – under “Integrated energy resource planning” heading.

35. All of this context confirms why Enbridge Gas indicated in its response to Exhibit I.10.1-ED-59(c) that the Company has not developed options or alternative models that aimed at removing potential incentives to the Company to add customers. There is no rational reason why Enbridge Gas would have studied and/or developed ideas for ratemaking mechanisms that the Company does not support and that is contrary to Ontario government policy.

ENBRIDGE GAS RESPONSE ON THE ED MOTION

36. As already noted, Enbridge Gas is prepared to answer the latter three questions submitted in ED's Motion, even though these questions have been advanced for the first time in this Motion. The Company acknowledges that these questions seek information that is potentially relevant and is reasonably available. The Company further acknowledges that regulatory efficiency favours providing this information in advance of the hearing. Enbridge Gas believes that it can provide the responses by the end of November 2024.
37. Enbridge Gas does not agree to provide a response to ED's first request.
38. ED and its experts have provided only scant details about how to implement their concept of revenue decoupling from customer numbers. ED now looks to Enbridge Gas to do that work for them.
39. As stated at the outset of these submissions, ED is asking Enbridge Gas to come up with multiple scenarios that are not currently available, on a topic that Enbridge Gas has not studied or considered, and to craft outcomes that Enbridge Gas does not endorse for a proposal that the Company is not making.
40. Enbridge Gas submits that where an intervenor (or OEB staff) in an OEB proceeding advances a proposal, it should be incumbent on that party to establish the appropriateness of the proposal and supply the details so that the proposal can be implemented. The applicant could potentially make a counterproposal, but that ought not to be a requirement. The OEB ought not to order the applicant to make the intervenor's case.

41. ED claims that only Enbridge Gas can provide options for decoupling.¹⁸ That is not true at all. Where intervenors seek alternate outcomes in a regulatory proceeding, they frequently make their own proposals, supported by expert evidence. That is seen already in this Enbridge 2024 rebasing case, for topics like equity thickness, depreciation and X-factor, where intervenor experts have supplied detailed alternate proposals. Enbridge Gas can and does answer informational discovery requests to allow intervenor experts to do their work, but that's different from Enbridge Gas formulating options and alternatives designed to implement intervenor proposals.
42. Enbridge Gas's agreement to answer some but not all of ED's questions fits with the OEB's discovery rules.
43. Rule 26 of the OEB's *Rules of Practice and Procedure* indicates that interrogatories are intended to "contain specific requests for clarification of a party's evidence, documents or other information in the possession of the party and relevant to the proceeding". Rule 27 states that a party who is unable or unwilling to provide a full and adequate response to an interrogatory shall explain why the request is not relevant or the information is not available or why a response cannot be given.
44. Enbridge Gas has followed these expectations.
45. As noted above, and in accordance with its obligations under the OEB's *Rules of Practice and Procedure*, Enbridge Gas is prepared to provide "relevant information", and therefore is agreeing within this Motion to provide answers to the latter three questions in ED's Motion. It should be noted that these are new requests, as opposed to being answers to questions that were previously refused.
46. Enbridge Gas does not believe that it should be required to answer ED's request to "describe a number of options" that would accomplish and implement ED's proposal. Formulating and presenting rate proposals that have not been considered or studied goes well beyond providing "information". The answers to this request are not "in the possession" of Enbridge Gas. As Enbridge Gas indicated in its response to Exhibit I.10.1-ED-59(c), "*Enbridge Gas*

¹⁸ ED Motion, page 3.

has not developed options or alternative models that are aimed at removing potential incentives to the Company to add customers, and therefore cannot comment on any such options.”

47. ED is asking the OEB to require Enbridge Gas to create new “information”. Importantly, this request is not a simple or straightforward task. The work required would take a substantial amount of time, effort and cost.
48. Designing and presenting rate design proposals is a very complex topic. It is not something that can or should be done without appropriate research and consideration. Enbridge Gas would need to do a jurisdictional scan, because ED’s expert declined to provide that information. Work would then be undertaken to consider a variety of options to evaluate if any can make Enbridge Gas indifferent to adding new customers. The options would then need to be considered in light of how they would interact with the parameters of the IRM that all parties have agreed upon in the Settlement Proposal. Implementation considerations would have to be taken into account. All of this would take time and resources.
49. In Exhibit JT 1.3(a)¹⁹, Enbridge Gas provided information about the timeline associated with the EB-2022-0200 rebasing case, including when the various expert studies were begun. The Company explained that initial planning for the 2024 Rebasing Application (including evaluating the studies that were required, drafting, issuing and completing RFPs for studies to be completed, evaluating proponents, negotiating contracts and then gathering the data) began in 2020 for an October 2022 filing, and that the various studies for the 2024 Rebasing Application were completed primarily in 2021 through to early 2022. This is indicative of the time and effort required to prepare, evaluate and work with experts on ratemaking proposals. The OEB will have had similar experiences in its own work with internal expert staff and external experts where changes are being considered and presented for ratemaking mechanisms, such as the recent review of the incremental capital module (EB-2024-0236) and the consultation on standby rates (EB-2023-0278).

¹⁹ This is a response provided during the Technical Conference in this proceeding.

50. It is not reasonable to expect Enbridge Gas to perform all of this work and to create new information in order to respond to an interrogatory request. That is work that the party (intervenor) making a ratemaking proposal should be doing.
51. Enbridge Gas therefore requests that ED's motion be dismissed, on the proviso that Enbridge Gas will answer the second, third and fourth questions of ED's motion.
52. If the OEB grants ED's motion and requires Enbridge Gas to answer the first ED question, this will impact the timing of the hearing of the "revenue decoupling" issue.
53. Enbridge Gas does not currently know how long it would take to provide a proper response to ED's first question. It is clear, though, that this cannot be done in time for a hearing in December 2024. If necessary, Enbridge Gas can provide later submissions about timing for responding to ED's first question.
54. The Company requests that if the OEB requires Enbridge Gas to answer ED's first question, then the contested issue about "revenue decoupling" ought to be heard separately and later than the hearing of the other two contested issues remaining for Phase 2 (meter reading metrics and the Low Carbon Voluntary Program).

All of which is respectfully submitted this 8th day of November, 2024.

A handwritten signature in blue ink, appearing to read "David Stevens", with a stylized flourish at the end.

David Stevens, Aird & Berlis LLP
Counsel to Enbridge Gas

APPENDIX A – CEG EVIDENCE ON “REVENUE DECOUPLING”

Revenue Decoupling

Enbridge Gas's Y factors should sufficiently integrate partial revenue decoupling mechanism(s) that materially and equitably address the throughput incentive in a manner that is supportive of continued electrification and the ongoing energy transition. A partial revenue decoupling mechanism should be designed to ensure that Enbridge Gas is indifferent to whether new customers are added to its system while still exposing the company to revenue variations attributable to weather risks.

The primary objective of revenue decoupling is to weaken the link between utility earnings and sales volume. Revenue decoupling is designed to enable greater energy efficiency improvements by reducing the "throughput incentive" – the inherent financial incentive that utilities have to sell more therms of gas.

Revenue decoupling is a tool that addresses the throughput incentive. When variable rates are used to recover costs that are fixed in the short term, the utility can increase its revenues by selling more energy without a corresponding increase in its costs. This creates a powerful incentive to grow sales and oppose measures that reduce energy usage. However, revising the rate structure to collect a greater share of revenues via fixed rates is not an appropriate solution. A high fixed charge approach to addressing the throughput incentive would undermine customers' incentive to conserve energy and impose greater costs on low-usage (and often low-income) customers.

Removing the throughput incentive means that customers do not overpay for the use of the utility's existing assets when usage increases and that the utility does not fail to recover its prudently incurred costs for those assets when usage decreases. It also eliminates the profit opportunity that increased energy sales represent and thus reduces the utility's financial incentive to oppose energy-efficiency or DSM measures.

Under traditional regulation, utilities can retain any additional revenue they receive when their sales exceed the forecast that was used to set their revenue requirement, creating a

¹⁷ Ontario Energy Board. Enbridge Gas Application for 2024 Rate – Phase 1 Decision and Order. EB-2022-0200. P. 22-23.

clear incentive for a gas utility to oppose energy efficiency and DSM initiatives that would result in reduced sales. Under revenue decoupling, most, if not all, variations between a utility's expected revenue and actual revenue are "trued up" annually. If the utility sells less gas than expected, rates will increase the following year to make up for the shortfall, and vice versa if it sells more gas than expected.

A Well-Designed Partial Revenue Decoupling Mechanism Should Leave the Utility Indifferent to Customer Additions or Reductions in the Near-Term

As the OEB has previously concluded, the energy transition is expected to result in declining sales from small-volume customers. In such a regulatory environment, it is important that Enbridge Gas's incentive structure does not present it with a financial preference for increasing average customer use within the MRP period. In addition, Enbridge Gas should not be exposed to the risk of under-collecting allowed revenues related to its fixed costs if the number of connected customers were to decline over the relevant time period.

In the Phase 1 Decision and Order, the OEB directed Enbridge Gas to utilize a harmonized average use variance account that requires it to continue to assume weather forecast risk as a part of the ratemaking process.¹⁸ This is akin to "revenue per customer" decoupling, whereby it is thought that customer count is somewhat more closely correlated with growth in non-production costs, stronger than either growth in system peak or growth in energy sales. The revenue-per-customer method may not be appropriate in an era of energy transition, where new customers may have significantly different usage patterns than existing customers – e.g., partial electrification or enhanced energy efficiency measures – or where existing customers may begin departing the system – e.g., full electrification – over the course of an MRP period. An average use variance account is inherently tied to customer counts and, therefore, may still expose Enbridge Gas to under-collection of allowed revenues attributable to its fixed costs should the number of customers decline over the variance account period.

Given the concern that the energy transition is expected to result in declining sales from small-volume customers, an average use variance, or revenue per customer decoupling mechanism, may not adequately address the utility's financial exposure to a decline in the number of customers. In lieu of an average use variance account, the OEB should consider an alternative approach – revenue per customer class. Like revenue per customer, revenue per customer class determines the appropriate revenue to be collected regardless of the

¹⁸ Decision and Order, December 21, 2023, at 123.



level of demand from customers. Revenue per customer class, on the other hand, is indifferent to the number of customers on the system or to average customer use.

To address the OEB's expectation of declining sales from small-volume customers, the OEB should explore a harmonized revenue balancing account that allows for truing up collected revenues against allowed revenues in a manner that is not tied to customer counts or customer average use. Such a total sales-based approach to decoupling could be designed in a manner that does not true up any weather-related revenue variances, thereby continuing to ensure that Enbridge Gas bears weather-related risks.¹⁹

¹⁹ It is important to note that a partial revenue mechanism that is not developed on a per-customer basis or tied to customer average use may decrease the utility's overall cost recovery risk. Accordingly, such a revenue decoupling design should be coupled with other alternative incentives to ensure that the structure remains balanced.

M2-CCC-3

Ref: Ex. M2/pp.12-14

Questions:

- a) Please advise whether CEG's proposed "revenue per customer class" decoupling approach results in a true-up of revenues for both changes in average use per customer and customer count (but not weather). As part of the response, please explain how variances in demand/throughput relative to forecast caused by changes in weather relative to forecast is addressed in the proposed methodology.
- b) Please provide a numerical example that highlights the operation of the revenue per customer class decoupling approach. As part of the response, please highlight how the utility retains weather risk.
- c) Please advise whether the recommended comprehensive revenue decoupling approach (i.e., full true up of revenues related to both volumes per customer and customer count) has been implemented in any other jurisdictions. If so, please provide references to the relevant policy documents, decisions, etc.

Response:

- a/b) CEG confirms that the "revenue per customer class" decoupling approach discussed in the evidence is intended to true up actual revenues for changes in sales volume per customer class (but not weather) and customer count per class. The variances in sales volume would be 'normalized' to account for weather changes to ensure the utility still holds weather-related risk. This approach to weather normalization could operate akin to the approach directed by the OEB in the average usage per customer variance account. The difference is that rather than applying weather risk and weather normalization to the average use per customer, the CEG proposed revenue decoupling approach would seek to true up actual revenues collected to authorized revenues due to changes to total sales volume per customer class, which would include sales declines due to customer departures – not just changes to average use per customer.

Note that there are other mechanisms that could be used to achieve the same goal of ensuring that the utility is made largely indifferent to customer additions or reductions, as discussed below.

A hypothetical example is provided below to help illustrate the operation of a revenue per customer class decoupling approach.

Revenue Decoupling per Customer Class – Hypothetical Example	
Class	Residential
Allowed Revenues ⁵	\$2,000,000
Collected Revenues ⁶	\$1,500,000
Variance	\$500,000
Weather Normalization Adjustment	(\$100,000)
Weather-Normalized Revenue Variance	\$400,000

In the above hypothetical example, allowed revenues were \$2,000,000 for the residential customer class. The utility under-collected revenues at a total of \$1,500,000. Of the \$500,000 variance, \$100,000 of the loss in sales volume was attributable to weather. Accordingly, after a weather adjustment, the revenue variance to be trued up for the residential customer class is \$400,000. This \$400,000 would be collected via a minor increase in residential customer bills over a predetermined true-up period. This example would also work in the opposite direction to result in a negative variance if the collected revenues are higher than the allowed revenues. With a modest adjustment, the utility could be allowed to earn a percent of said revenue to account for incremental O&M costs of serving more customers.

The above hypothetical approach is comprehensive in its design, ensuring that the utility does not have an inherent structural preference for adding new customers over the plan period and would remain indifferent to customer departures as well. Moreover, the comprehensive per customer class revenue decoupling mechanism ensures that the utility is indifferent to reductions in customer usage. The Revenue Decoupling per Customer Class mechanism would be effectuated through a Revenue Balancing Account that would replace the existing Average Use per Customer Variance Account. Overall, it reflects a comprehensive approach to realigning structural financial incentives for the utility in an era of energy transition. In other words, the utility could not earn more revenue from increasing customer counts nor lose revenue from decreasing customer counts vis-à-vis the allowed revenues assumed in the test year.

⁵ “Allowed Revenues” would be established during the test year on a per customer class basis. Allowed Revenues could be escalated year over year pursuant to the same I-X formula applied to the Price Cap mechanism.

⁶ “Collected Revenues” would reflect actual revenues collected per customer class during the true-up interval, which could be monthly, quarterly, or annually.

In the alternative, should the OEB wish to preserve the existing Average Use per Customer Variance Account or prefer a different approach for other reasons, the core objectives of the Revenue Decoupling per Customer Class mechanism could be achieved through the creation of a Customer Count Variance Account. Under a Customer Count Variance Account approach, all or a portion of the revenue associated with net customer additions would be offset via the variance account. This customer count true up could be calculated against the customer counts for the test period. The variance account would record the revenue impact of the difference between the annual customer counts and those embedded in base rates for each of the general service rate classes.⁷ The true-up likely should be offset by the incremental costs or savings from adding or subtracting customers of that class (i.e. the incremental O&M cost of serving an additional customer in the relevant rate class).⁸ A hypothetical example is shown below.

Customer Count Variance Account – Hypothetical Example	
Class	Residential
Net customer additions vs. test year ⁹	10,000
Average revenue per customer ¹⁰	\$600
Average incremental cost per customer ¹¹	\$100
Variance	-\$5,000,000

This example would also work in the opposite direction to result in a positive variance if there are net customer losses. This example calculates the variance based on average revenue per customer. However, it may be possible for the utility to calculate the variance with more specificity using the actual billing data for customers that are connected to the system and those that exit the system. We do not know whether that is possible with the utility's information systems. Either option would be an improvement on the current approach.

⁷ For example, a simplified calculation would be: [variance in customer counts] x [average revenue per customer], with the assumption that each customer connecting to the system or leaving the system does so halfway through the year.

⁸ The calculation would be [variance in customer counts] x [average incremental costs per customer].

⁹ This example assumes that 20,000 customers were connected throughout the current year, with each customer being connected to the system for an average of 50% of the year. In year 2, all of the customer additions from year 1 would be included plus 50% of the customer additions in year 2.

¹⁰ This would be a weather-normalized figure to ensure that the utility maintains the weather-related risk. However, a non-weather-normalized figure could be used without negatively impacting the efficacy of this approach.

¹¹ The incremental cost per customer per rate class would be based on the test year and adjusted by I – X for each future year. Although this is likely the simplest and best approach, the incremental cost per customer could alternatively be held static for each of the future years or set each year based on actuals.

This variance account could be designed in a number of different ways and the design would depend on how much of the revenue from incremental customers it would be appropriate for utility to retain. The above example reflects a decision that the utility should be allowed to retain enough incremental revenue from incremental customers to cover incremental costs associated with those customers (and vice versa with respect to customer defections). But if the regulator felt it was appropriate for the utility to retain all of the revenue from incremental customers this could be achieved by recording and truing up the revenue impact of the difference between the annual customer counts and forecast customer counts. One ancillary benefit of establishing a customer count forecast is that it would illuminate the utility's assumptions and projections related to customer growth or defections.

As this discussion shows, there are a number of ways to make the utility indifferent to customer additions and customer defections. Our main point is that this is a very important step to take in light of the energy transition for the reasons outlined in our report. Any of the above options would be acceptable because they would give the utility the appropriate incentives. The Revenue Decoupling Per Customer Class option is the most comprehensive whereas the Customer Count Variance Account would be the simplest to add on to the existing framework.

- c) The CEG recommended comprehensive revenue decoupling mechanism shares similarities with the Hawaiian Electric Companies' revenue decoupling mechanism.

Reconciling Actual Revenue with Authorized Revenue

Revenue Balancing Accounts (RBAs) record the monthly differences between target revenues and the adjusted recorded electric sales revenues. The RBA applies monthly interest, equal to the annual rate for short-term debt from the cost of capital in each HECO Company's last base rate case, to the simple average of the beginning and ending balances each month in the RBA. In effect, the RBA applies one-twelfth of the rate each month. Finally, the RBA provides for collection or return of the calendar year-end balances in the RBA over the subsequent year period. The target revenue is the most recent Authorized Base Revenue or the re-determined Authorized Base Revenue calculated.

The Company must file with the Commission a statement of the previous year-end balance in each RBA sub-account and the Authorized Base Revenue level for the current calendar year with supporting calculations. An amortization of the year-end balance in the RBA sub-accounts are recovered through the per-kWh RBA rate adjustments.¹²

¹² See Hawaiian Electric Company, Inc., Revenue Balancing Account ("RBA") Provision, Revised Sheet No. 92, Effective October 1, 2023, *available at* https://www.hawaiianelectric.com/Documents/my_account/rates/hawaiian_electric_rates/heco_rates_rba.pdf.