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

BY EMAIL

November 28, 2024

Ms. 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 on the Settlement Proposal
EPCOR Natural Gas Limited Partnership (ENGLP)
2025-2029 natural gas distribution rates and other charges for the Aylmer service territory
OEB File Number: EB-2024-0130

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the Settlement Proposal dated November 20, 2024, filed by ENGLP in the above referenced proceeding.

Yours truly,

Tina Zhu Digitally signed by Tina Zhu
Date: 2024.11.28 10:23:14 -05'00'

Tina Zhu
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2024-0130

ONTARIO ENERGY BOARD

OEB Staff Submission
on Settlement Proposal

EPCOR Natural Gas Limited Partnership (ENGLP)

2025-2029 natural gas distribution rates and other charges for the Aylmer service territory

EB-2024-0130

November 28, 2024

Background

ENGLP filed a cost of service application (Application) with the Ontario Energy Board (OEB) on July 18, 2024, under section 36 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates it charges for natural gas distribution in its Aylmer service territory effective January 1, 2025, and approval of an incentive rate-setting plan for the period of January 1, 2026, through December 31, 2029. The Application includes the following key requests:

- Approval of ENGLP's forecasted 2025 test year service revenue requirement of $8,048,058 and base revenue requirement of $7,939,670;
- Approval to charge new distribution rates effective January 1, 2025, to recover a base revenue requirement;
- Approval of the Utility System Plan (USP);
- Approval of the Working Capital Allowance;
- Approval of Transportation Rates;
- Approval of the proposed Unaccounted for Gas Factor;
- Approval of the rate riders for a 12-month disposition of the Purchased Gas Transportation Variance Account (PGTVA) and Unaccounted for Gas Variance Account (UFGVA) balances as at December 31, 2023 along with the projected carrying charges;
- Approval of the continued usage of ten related deferral and variance accounts (in addition to currently approved accounts related to the Quarterly Rate Adjustment Mechanism and Federal Carbon Pricing Plan applications), as well as to close and discontinue two deferral and variance accounts;
- Approval of proposed revisions to the PGTVA Rates 1-5, Regulatory Expense Deferral Account (REDA) and Earnings Share Mechanism (ESM) accounting orders;
- Approval of Changes to the utility’s Conditions of Service;
- Approval of the Customer Connection Policy.

In its Application, ENGLP estimated its 2025 change in rates and other charges will result in a $78 (6%) total bill increase over a 12-month period for a typical residential (R1 – Residential) customer.

Status of Issues

A settlement conference was held from October 28 - 29, 2024. The following intervenors participated in the settlement conference: Pollution Probe (PP) and Consumers Council of Canada (CCC) (with ENGLP, collectively referred to as the Parties). OEB staff attended the settlement conference but is not party to the settlement proposal.

ENGLP filed a settlement proposal on November 20, 2024 (Settlement Proposal). The Settlement Proposal reflects a comprehensive settlement on all issues included on the OEB approved issues list between all intervenors and ENGLP.

The Settlement Proposal, if approved, would result in: (i) a $0.32 million (4%) reduction to ENGLP's proposed 2025 distribution revenue requirement, from $7.94 million to $7.62 million; (ii) a $0.75 million (2.8%) reduction to ENGLP's proposed 2025 mid-year rate base; (iii) a decrease to the proposed total bill impact on a typical residential customer from an estimated increase of $78 (6%) per year to an increase of $51 (4%) per year.

Submission

Under the OEB's *Practice Direction on Settlement Conferences,* OEB staff is required to file a submission commenting on two aspects of the Settlement Proposal: whether the settlement represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale is adequate to support the settlement.

OEB staff submits that the Settlement Proposal is in the public interest and that the accompanying explanation and rationale are adequate to support the Settlement Proposal.

OEB staff's submission provides reasons for OEB staff's position by commenting on the Settlement Proposal's most material aspects, rather than examining each issue on the approved issues list individually.

<u>Rate Base</u>

The Application proposed a 2024 Bridge Year closing mid-year rate base at $22.24 million with forecasted capital additions of $5.1 million for the year. The Parties agreed to reduce the 2025 Test Year opening mid-year rate base by $0.7 million to reflect the fact that approximately $0.7 million of 2024 Bridge Year planned capital additions will not come into service until early 2025. The $0.7 million will be included in the 2025 Test Year capital additions, and the proposed remaining rate base amounts are otherwise appropriate.

OEB staff submits that the September 2024 year-to-date actual capital additions are approximately $3.3 million[1] and there is a $1.8 million yet-to-spend variance from the forecasted capital additions of $5.1 million for the year. Given the actual spending pattern in the year so far, a reduction to the 2024 Bridge Year closing mid-year rate base (equivalent to the 2025 Test Year opening mid-year rate base) is appropriate. This approach leaves room for capital additions in the remaining three months in 2024, and as

[1] EB-2024-0130, Interrogatory Response, page 239 of 283

such OEB staff has no concerns about the $0.7 million reduction agreed by the Parties.

Capital Expenditure

The Application proposed 2025 net capital expenditures of $4.06 million, and a total of $16.84 million net capital expenditures in 2025-2029. Through settlement, the Parties agreed to apply a $0.8 million general reduction in 2025 capital expenditures, to re-tune the planned expenditure level and project pacing.

OEB staff submits that the reduction is reasonable, it provides ENGLP with the opportunity to refine its capital planning approach. Further, it imposes greater discipline for it to enhance its capital project procurement strategy to mitigate such growth trend, this is given the recent years' heightened capital cost pressure reflected in ENGLP's rate base.

OEB staff submits that the settled capital expenditure level is appropriate considering customer growth and projects identified in ENGLP's USP. The settled spending level is prudent while ensuring the reliability and sustainability of ENGLP's distribution network.

Operating, Maintenance and Administrative expenses (OM&A)

The Application proposed an OM&A budget of $4.32 million in 2025. The Parties agreed to reduce OM&A by $0.18 million (4.2%) in 2025. The Parties agreed that ENGLP will be permitted to manage its OM&A budget as it sees fit, with acknowledgement that specific adjustments to ENGLP's OM&A plans have not been finalized and may change.

OEB staff submits that the settlement reached by the Parties with respect to 2025 OM&A is reasonable, for the following reasons:

- From 2020 to 2025, ENGLP's OM&A shows an accumulated growth rate of 34.7%, mainly driven by inflation, customer service-related cost pressure, and additional full-time equivalents (FTEs). Despite the growth trend on OM&A, OEB staff acknowledge the increased spending needs to support ENGLP's operation as the utility grows.

- OEB's Handbook for Utility Rate Applications[2] (the Handbook) sets the objectives that utilities are expected to demonstrate ongoing continuous improvement in their productivity and cost performance. Aligning with the Handbook's intended outcomes, OEB staff supports that the Parties settled on an OM&A at $4.14 million for 2025, which represents a 4.2% reduction from the proposed spending level in 2025, to incentivize OM&A efficiency and productivity improvements.

[2] OEB's Handbook for Utility Rate Applications

- Permitting ENGLP to manage its OM&A budget as it sees fit would give ENGLP the flexibility to allocate resources to its various projects and programs as the rate term unfolds. This is intended to optimize spending on individual items and incentivize cost performance, while keeping the overall spending within the budget agreed upon by the Parties.

Overall, OEB staff has no concerns on the OM&A level as settled by the Parties.

Incentive Rate-Setting Plan

The Application proposed an incentive rate-setting plan for 2026-2029.

The Parties agreed on ENGLP's incentive rate-setting plan after incorporating the following modifications:

- ENGLP will apply a 0.45% stretch factor in its annual update applications as opposed to a 0.4% stretch factor as proposed.

- ENGLP will maintain its ESM with the regulated return on equity (ROE) calculation to be performed on an annual basis as opposed to on a rate-term basis as proposed.

- ENGLP will add a new Y-factor that would track revenue requirement impacts from any OEB generic proceeding on determining an appropriate revenue horizon (for general service and other customers) and/or customer attachments. The details of this Y-factor would be determined after an OEB decision in the generic proceeding.

- ENGLP will propose rate mitigation if bill impacts are greater than 10% for the lowest 10th percentile volume customer in any given year of the term, for R1 – Residential and R1 – General Service customers.

OEB staff submits that ENGLP's incentive rate-setting plan is appropriate, for the following reasons:

- Given recent years' higher general inflation and cost pressures, a higher stretch factor is reasonable in that it limits the growth trend on operating costs. This approach acknowledges the on-going challenges ratepayers face to manage cost-of-living increases.

- Calculating the regulated ROE on an annual basis as opposed to on a rate-term basis will provide more protection to the ratepayers. This is given that any single-year overearnings above the profit-sharing threshold will be recorded in the

Earnings Sharing Mechanism Deferral Account (ESMDA) and shared with ratepayers.

- Adding the Y-factor as related to the revenue horizon is appropriate, and it is consistent with the approach agreed by the intervenors in a recent natural gas proceeding .

- Affordability remains a top priority for ratepayers. ENGLP's commitment on bill impact mitigation (as applicable) will better address affordability concerns as they arise.

As a result, OEB staff has no concerns on the incentive rate-setting plan as settled by the Parties.

Residential Customer Rate Design and Bill Impact Mitigation

The Application proposed to increase the fixed charge proportion in the distribution rate design structure for R1 – Residential customers, by implementing a 17.07% fixed charge increase in 2025 and a 15% annual fixed charge increase (after inflation) for each year of 2026-2029. ENGLP estimated the fixed charge proportion will be at 94% at the end of the rate term.

The Parties agreed to the proposed rate design for ENGLP's residential customers. However, the Parties further agreed that settlement of the issue in this Application does not reflect a general acceptance of the appropriateness of a move to fully fixed residential rates by gas distributors and is without prejudice to any Party taking any position with respect to the appropriateness of a move to fully fixed residential rates for natural gas distributors in other proceedings.

The Parties also agreed that ENGLP will propose rate mitigation plan if bill impacts are expected to be greater than 10% for the lowest 10th percentile volume customer in any given year of the rate term.

While OEB staff does not take issue with the proposed residential distribution rate design structure as agreed by the Parties, OEB staff notes the increase of the fixed charge proportion would cause a higher bill impact for the lowest 10th percentile volume customers. From an affordability perspective, such bill impact will be further assessed and mitigated (as applicable) in ENGLP's annual update applications through 2026-2029.

Deferral and Variance Accounts - Balance for Disposition

The Application proposed disposition of two deferral and variance account balances: PGTVA and UFGVA.

The Parties agreed with the disposition of the PGTVA balance as applied for by ENGLP.

The Parties agreed with the disposition of the UFGVA balance, however ENGLP will remove the carrying charges from the UFGVA balance for disposition.

OEB staff submits that removing the carrying charges from the UFGVA disposition is appropriate, for the following reasons:

- The existing UFGVA Accounting Order[3] states that the materiality threshold for this account is $25,000. The audited balance in UFGVA, together with any carrying charges, will be brought forward for approval for disposition from / to Rates 1-5 on an annual basis.

- OEB staff notes the UFGVA balance seeking for disposition in this Application has accumulated since 2020, with the annual closing balance exceeding $25,000 threshold in each year since 2020.

- Had ENGLP requested to dispose of the UFGVA on an annual basis, there would have been lower carrying charges for recovery from rate payers. Therefore, removing the carrying charges is reasonable from a public interest perspective. Going forward, the request for balance disposition is expected to be brought forward for approval in a timely manner.

As a result, OEB staff has no concerns on the PGTVA and UFGVA balance for disposition as settled by the Parties.

Deferral and Variance Accounts – Update and Discontinuation

The Application proposed the continued usage of ten deferral and variance accounts (in addition to currently approved accounts related to the Quarterly Rate Adjustment Mechanism and Federal Carbon Pricing Plan applications), as well as to close and discontinue two deferral and variance accounts.

The Parties agreed on most deferral and variance account treatments as proposed in the Application with the following exceptions:

- ESMDA: The Parties agreed to revise the wording of the accounting order included in the application to change the calculation methodology from a cumulative calculation (over the rate-setting period) to an annual calculation.

[3] EB-2024-0130 Exhibit 1, page 59 of 145

- REDA: The Parties agreed on the continuance of the REDA based on the revised accounting order.

- Transportation Service Charge Deferral Account (TSCDA): The Parties agreed on the continuance of the TSCDA based on the revised accounting order.

- Getting Ontario Connected Deferral Account: The Parties agreed that ENGLP will discontinue the Getting Ontario Connected Deferral Account.

- Accelerated CCA Deferral Account: The Parties agreed that ENGLP will discontinue the Accelerated CCA Deferral Account.

A copy of the revised accounting order has been included as Appendix D in the Settlement Proposal[4], as applicable to the accounts discussed above.

OEB staff submits that for the determination of ESMDA balance, calculating the regulated ROE on an annual basis as opposed to on a rate-term basis will provide more protection to the ratepayers. This is given that any single-year overearnings above the profit-sharing threshold will be recorded in the account and shared with ratepayers.

The annual calculation mechanism also will improve ENGLP's earnings transparency to the public.

Overall, OEB staff has no concerns on the updates and discontinuations on the above deferral and variance accounts as settled by the Parties.

Cost of Capital

As part of the Settlement Proposal, the Parties acknowledged:

- OEB's 2025 cost of capital parameters were issued on October 31, 2024[5]. The Parties agreed that ENGLP will provide such updates, as applicable. The updates are filed in the Settlement Proposal under Appendix E[6]; and,

- The OEB's ongoing Generic Proceeding on Cost of Capital and Other Matters[7] (the Generic Cost of Capital Proceeding). The Parties agreed that, for the 2025-2029 capital structure and cost of capital parameters, ENGLP will implement whatever outcomes are decided by the OEB in the Generic Cost of Capital Proceeding, including what the OEB decides with respect to implementation. For

[4] EB-2024-0130 Settlement Proposal, Appendix D
[5] 2025 Cost of Capital Parameters
[6] EB-2024-0130 Settlement Proposal, Appendix E
[7] EB-2024-0063

clarity, no Party will be restricted from taking any position, or making any submission in the Generic Cost of Capital proceeding as a result of this settlement.

OEB staff has no concerns about the cost of capital approach as agreed by the Parties.

Accelerated Capital Cost Allowance (CCA)

The Application proposed to not claim accelerated CCA. As a result, ENGLP estimated the 2025 Test Year income taxes expense to be $74,989.

The Parties agreed that ENGLP will claim accelerated CCA in 2025. ENGLP estimated a reduction of $63,623 (84.8%) on its 2025 Test Year income taxes expense.

OEB staff submits that claiming accelerated CCA would reduce 2025 Test Year distribution revenue requirement which benefits ratepayers. OEB staff has no concerns on the accelerated CCA settlement agreed by the Parties.

Changes to ENGLP's Conditions of Service

The Application proposed changes to ENGLP's Conditions of Service[8], since it was last updated in January 2020; the proposed changes are largely clerical. The Parties agreed that the proposed changes to ENGLP's Conditions of Service are appropriate.

Parties also agreed that ENGLP's existing billing error correction periods will remain unchanged in its Conditions of Service, that, regardless of whether the customer or ENGLP is responsible for the error, or whether the error results in an over or under billing, errors will be corrected retroactively for a period of up to two (2) years for residential customers; and for all other customers, the error will be corrected retroactively for a period of up to six (6) years.

While OEB staff does not take issue with the proposed changes as agreed to by the Parties nor the existing terms and conditions specified in the ENGLP's Conditions of Service, OEB staff notes ENGLP's terms and conditions provide different billing error correction periods to residential customers and other customers.

Other - Demand Side Management (DSM)

On top of the OEB's approved issues list, the Parties agreed that DSM was relevant to certain issues in this proceeding.

The Parties further agreed that ENGLP will file a plan for the delivery of a cost-effective DSM program (including any relevant ratemaking mechanisms) by the 2027 annual

[8] EPCOR Natural Gas Limited Partnership - Aylmer Natural Gas Operations Conditions of Service

filing (forecasted to be filed in 2026) for the OEB's consideration and approval and provide a copy to all Parties to this proceeding. In developing its DSM proposal:

- ENGLP will consult with relevant stakeholders, which may include OEB staff, the Independent Electricity System Operator (IESO), municipal representatives, Ministry of Energy and Electrification, and PP; and

- The DSM proposal may leverage cost-effective partnerships with IESO and/or Enbridge Gas Inc.

Parties are free to take any position on the filed DSM proposal.

OEB staff does not take issue with the DSM proposal as settled by the Parties. The cost and benefit associated with the DSM plan will be assessed at the time when the plan is filed.

~All of which is respectfully submitted~