

Elson Advocacy

April 10, 2023

Ms. Nancy Marconi

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

Dear Ms. Marconi:

**Re: Enbridge Gas Inc. 2024 to 2028 Rates Application
EB-2022-0200**

I am writing on behalf of Environmental Defence pursuant to *Procedural Order #4* to outline the relief it will seek at the motions hearing and a summary of the argument supporting that relief.

Economic evaluations underpinning system access costs

Environmental Defence seeks an answer to the following question that was refused by Enbridge on day five of the technical conference:

“on a best-efforts basis, stating any simplifying assumptions, to please estimate the test-year system-access spending if Enbridge were to apply a customer attachment forecast of five years and a maximum revenue horizon of 15 years.”¹

This question is relevant to a step that Enbridge could potentially take to reduce rates and to mitigate the risks to its existing customers arising from decarbonization. Enbridge’s Utility System Plan includes over \$360 million in test year spending on system access.² This spending primarily consists of customer connections governed by EBO 188.³ It includes the portion of the capital costs for customer connections that are recovered through rates, with the costs that are recovered directly from the benefiting customers already netted out (e.g. through a contribution in aid of construction).⁴

Environmental Defence is exploring whether Enbridge should treat the economic evaluations of customer connections more cautiously in order to (a) mitigate the risk that customers may leave the gas system due to decarbonization and (b) eliminate biases vis-à-vis more conservative electricity-side economic evaluations of customer connections. EBO 188 allows the overall capital costs of customer connections to be offset by the forecast revenue from the benefiting

¹ Transcript, Technical Conference Volume 5, March 28, 2023, p. 79.

² Exhibit 2, Tab 6, Schedule 1, Page 36.

³ Exhibit 2, Tab 6, Schedule 1, Page 33.

⁴ Transcript, Technical Conference Volume 5, March 28, 2023, p. 78.

customers that will attach to the gas system within a maximum of 10 years, with up to a maximum of 40 years of revenue to be counted.⁵ Electricity distributors use a more conservative approach, such as requiring deposits and allowing only a five-year customer attachment forecast.⁶

Gas connections are investments into fossil fuel infrastructure that will not be paid off until long past 2050. These are risky investments because the revenue meant to pay for them may not come to fruition. One step to mitigate this risk would be to drop the customer attachment forecasts horizon (e.g. from 10 years to five years) and to drop the overall revenue forecast horizon (e.g. from 40 years to 15 years). A 15-year revenue forecast would correspond with the average lifetime of heating equipment, which may be appropriate horizon because the likelihood of switching from gas to more cost-effective air-source heat pumps is highest when equipment is at or nearing the end of its life.

To explore this issue further, Environmental Defence is seeking to determine how much the costs recovered via rates for system access would decline were Enbridge to take a more balanced and cautious approach to customer attachment economic evaluations (i.e. a five year customer attachment forecast horizon and 15 year revenue horizon). Enbridge declined to answer. Enbridge appears to argue that the OEB does not have the jurisdiction to explore this question in this proceeding because it would require changes to EBO 188. However, the OEB clearly does have the jurisdiction to make this small adjustment to the approach to economic evaluations as set out 25 years ago in EBO 188. In any event, no explicit change to EBO 188 is required because EBO 188 only sets out a *maximum* customer attachment horizon and *maximum* revenue horizon.

Enbridge is forecasting approximately \$1.8 billion in system access spending over 2024-2028 to be funded via rates and depreciated over decades in the context of great uncertainty around the future usefulness of pipeline assets. This spending should be scrutinized to ensure it is appropriate and is not creating undue risks for existing ratepayers through insufficiently cautious economic evaluations.

Other issues

There are a significant number of other instances where Enbridge declined to provide relevant information in response to Environmental Defence interrogatories and technical conference questions. However, we are not seeking orders from the OEB in relation to these other issues at the motions hearing day. In many cases, we are not seeking orders on the basis that Enbridge has the burden to justify its proposed spending and the OEB can draw an adverse inference where Enbridge has declined to provide underlying documentation.

With respect to the Guidehouse pathways report, the associated computer model, and the draft user guide, we propose to defer any potential motions until after the revised report has been released and after the brief technical conference on the report revision, with the aim of avoiding the need for further intervention by the OEB.

⁵ OEB, EBO 188, Final Report of the Board, January 30, 1998.

⁶ OEB, *Distribution System Code*, October 1, 2022, Appendix B.

Finally, we are following up directly with Enbridge to seek clarification on a number of responses that we believe are not complete. Although we cannot be certain, we anticipate receiving answers on these points directly from Enbridge without needing to raise them at the motions hearing.

Yours truly,

A handwritten signature in blue ink, appearing to read 'K. Elson', with a stylized, cursive script.

Kent Elson

cc: Parties to the above proceeding