

ENBRIDGE GAS INC. 2024 REBASING APPLICATION

EB-2022-0200

ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON INTERVENOR EVIDENCE (ENERGY TRANSITION)

May 17, 2023

Exhibit M8 – On the Topic of Business Risk & Capital Structure – Dr. Asa S. Hopkins

M8.Staff-1

Ref: Exhibit M8, pp. 7-8

Dr. Hopkins discusses capital recovery risk and notes that “...in practice, however, when a utility asset that was installed prudently becomes no longer used and useful, regulators commonly allow the continued recovery of some or all of the value of that asset”.

- a) Are there specific regulatory decisions supporting this statement that are particularly pertinent to the OEB’s approach to treatment of stranded assets for Enbridge Gas associated with energy transition? If so, please provide references.
- b) If the OEB grants the approvals requested by Enbridge Gas related to new capital spending in this application (e.g., the forecast of 2024 capital expenditures underpinned by the Asset Management Plan), in Dr. Hopkins view to what degree (based on regulatory precedent) is this an acknowledgement that the OEB considers the investments described in the Asset Management Plan to be prudent, and thus likely eligible for rate recovery if stranded, particularly for capital expenditures that will not require a future project-specific approval (e.g., Leave to Construct approval) from the OEB?
- c) In your opinion, does the OEB need to provide additional guidance as to how it would assess the prudence of capital expenditures made over the rebasing term in relation to energy transition?
- d) If the OEB determines in this proceeding that Enbridge Gas shareholders, not ratepayers, would be responsible for energy transition-related stranded asset risk associated with new capital spending (or a subset of capital spending, e.g., capital spending for new customer connections), how would this affect Enbridge Gas’s capital-recovery risk? Would this change any of Dr. Hopkins’ recommendations? Please provide details as needed.

M8.Staff-2

Ref: Exhibit M8, Q # 28 and 29, p.14

Dr. Hopkins notes that risks which can be better quantified and evaluated should be given greater weight, all else equal. In general, this means near-term, well understood risks should be given greater weight, while uncertain less established risks should be given less weight. Dr. Hopkins further states that given the potential for change and the ability to adapt, it is generally the case that risks should be given less weight the further they would manifest in the future.

- a) Is Dr. Hopkins of the opinion that risks related to energy transition should be given less weight than other near-term risks? Please explain your response.
- b) Please identify the other near-term risks noted above?

M8.Staff-3

Ref: Exhibit M8, Q # 56 and 65, pp. 34 and 39

Dr. Hopkins evidence notes that at this time, Ontario does not have an established path forward to decarbonize the building and industrial sectors. That pathway is being developed through the Ministry of Energy's Cost-Effective Energy Pathways Study process. Once that path is clear and policies and programs are developed to accomplish it, those will become among the primary drivers for customer heating system choice. At this point, the right path forward would be for Enbridge Gas to wait until that study and policy-setting process is complete, then develop business-specific analysis of its future in the context established by that framework.

In light of the impending Ministry of Energy's Cost-Effective Energy Pathways Study, how does Dr. Hopkins propose that the Ontario Energy Board approach Energy Transition as it pertains to Enbridge Gas's current rebasing application?

Exhibit M9 – Energy Transition, Chris Neme – Energy Futures Group

M9.Staff-1

Ref: Exhibit M9, pp. 42-43, Exhibit I.1.15-ED-84

Energy Futures Group recommends shortening new construction cost recovery periods and reducing infill connection costs funded by rates, to reduce the risk of creating stranded assets should these new customers exit the system prior to the full costs being recovered. This change would generally lead to an increase in upfront connection costs that would need to be paid by new customers (e.g., through a Contribution In Aid of Construction or higher infill connection cost).

- a) Does Energy Futures Group believe the same objective (reducing stranded asset risk associated with new customer connections) could also be achieved by: (1) requiring new customers to provide some form of financial assurance in support of the forecast revenue from the customer (as Enbridge Gas has indicated it uses on occasion for larger customers, see I.1.15-ED-84), such that exiting customers would be responsible for an exit fee if leaving the system prior to the cost of their connection being recovered; or (2) by the OEB determining that Enbridge Gas shareholders, not ratepayers, would be responsible for any stranded assets associated with new customer connections? Please comment on the relative merits of the three options to address this risk, including any relevant learnings from other jurisdictions.
- b) With either an increased upfront connection cost or a potential exit fee, a challenge is that the entity making the decision as to whether or not to connect to the natural gas system (e.g., a developer) may not be the same as the entity that ultimately pays the higher connection cost or exit fee (the eventual building owner). Does Energy Futures Group have any suggestions as to how to address this challenge, including any relevant learnings from other jurisdictions?

M9.Staff-2

Ref: Exhibit M9, pp. 10-11, p. 44

Energy Futures Group notes that hybrid gas-electric solutions are common in independent decarbonization pathways scenarios, and means that less electric generating, transmission and distribution system capacity needs to be built. Energy Futures Group recommends that (in lieu of a moratorium on new gas connections) the OEB require all new gas connections to be heated with hybrid systems involving electric

heat pumps and net-zero natural gas, and notes that Energir, a Quebec gas utility, intends to pursue a similar approach in its next rates case.

- a) Do any of the independent decarbonization pathways scenarios (or other research you are aware of) provide useful learnings as to whether an all-electric or hybrid heating approach to serving new customer additions is more cost-effective from a systems perspective, taking into account both impacts on gas infrastructure and electricity infrastructure, and the roles that would be played by the gas and electricity systems in meeting cold weather peak demand? Please describe as needed.
- b) To Energy Futures Group's knowledge, are there specific Quebec provincial policies or laws (e.g., the legislation and regulations governing the Régie de l'énergie) that provide support for Energir's proposed approach? Please describe any notable differences between Ontario and Quebec provincial energy and climate policy and legislation in this regard.

M9.Staff-3

Ref: Exhibit M9, pp. 47-48, [Enbridge Gas IRP Framework](#)

Energy Futures Group recommends that the OEB require Enbridge Gas to explicitly assess the potential for repairing (whenever that is feasible) rather than replacing aging pipes.

Does Energy Futures Group believe that the existing IRP Framework does not require Enbridge Gas to assess replacement versus repair of aging pipes? If not, are there changes to specific sections of the IRP Framework that Energy Futures Group would recommend in order to establish this requirement?