Environmental Defence Opening Statement Outline

1. Declines in demand are certain; massive declines are possible

(a) Fossil gas: a major source of GHG emissions

- Combustion of fossil gas = ~33% of Ontario's emissions
- Upstream and BTM leaks are undercounted; may make gas as bad as burning coal
- Huge fossil gas reductions required to meet climate targets

(b) Low carbon gases cannot replace fossil gas

- Potential RNG volumes are far too low due to limited feedstocks (~2.5% throughput)
- Hydrogen blending potential is extremely limited (between 0.6% and 6% at best)
- 100% hydrogen is not feasible for most customers (b/c it needs new/larger pipelines and massive coordinated simultaneous changeovers)
- Hydrogen for industry may use on-site electrolysers, not provincial pipelines

(c) Markets and price signals are likely to drive electrification

- All-electric heat pumps are now far cheaper than traditional gas heating (lifetime and annual costs) – over $10k in lifetime savings
  - All-electric is even cheaper when compared to use of low-carbon gases (RNG/H2)
  - All-electric is also cheaper than hybrid gas-electric heating
- Gas heat pumps are not cost-effective nor market available

(d) Government policy supports electrification

- *Canadian Net-Zero Emissions Accountability Act* mandates targets and plans
- Federal gov't projects 41% decline in building emissions by 2030 (from 2019)
- Net-zero electricity generation by 2035
- New York State: Fossil gas ban for new construction

(e) Pathways studies find significant gas declines

- Independent studies: high electrification pathway is cheapest and least risky
- Gas-sponsored studies: promote hybrid heating, but still predict demand declines
- Guidehouse study: fundamentally flawed, but its "electrification" scenario is still cheapest even if a few errors are corrected

2. Actions needed now to protect customers

(a) Priority #1: reduce capital costs

- Rate base slated to grow by $2 billion over 2024 to 2028
- Capital invested today is not paid off until the 2080s
- Risks: rising rates, underutilized/stranded assets, and possible death spiral

(b) Customer connections: moratorium on subsidized new connections

- Existing ratepayers to pay $1.3 billion for new customers' connections over 2024-28
- Existing ratepayers should pay $0 in new connection costs
  - Mitigate stranded asset risk
  - Consistent with "beneficiary pays" principle
  - Improved fairness
  - Necessary to slow rate base growth
- Alternatively, reduce subsidy from 40 to 10 years of revenue

(c) Capital planning: account for risk of underutilized/stranded assets

- Project economics must account for the risk of declining demand
  - E.g. Calculate PI based on weighted average of three demand scenarios
- Current practices assign 0% risk of decline in PI calculations
- May mean that: (a) a growth project is not cost-effective, (b) a growth project requires greater CIACs, or (c) repair is chosen over replacing a pipeline

(d) Depreciation: account for risk of demand declines

- Current approach:
  - Assumes 0% chance of underutilized/stranded assets
  - Allows for continued rate base growth
  - Risk of future rate increases, unaffordability, death spiral, and inequities
- Need interim increases and a new approach that:
  - Accounts for future demand scenarios (e.g. economic life is based on weighted average of three demand scenarios)
  - Ensures costs are paid off before demand drops and customers exit
- Need to act asap to mitigate risks and avoid rate spikes

(e) Site restoration costs: need a segregated fund

- Ratepayer dollars held by Enbridge for SRC: $1.6 billion
- Estimated cost to decommission all assets today: $6.9 billion
- A segregated SRC fund is needed to:
  - Mitigate risk of non-payment in death spiral situation
  - Increase ability to allocate stranded asset risk to Enbridge
- CER provides a good precedent

(f) Take actions consistent with all futures

- Integrated resource planning: allow electric non-pipe alternatives, where cost-effective
- DSM programs: expand access with instant rebates and upstream incentives
- Diversify into geothermal and district heating
- Strategic pruning: where costly replacements are required, help ratepayers and participating customers save via neighbourhood electrification, where cost-effective