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KITCHENER UTILITIES

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BY RESS FILING

19 September 2023
Ontario Energy Board
Attn: Ms. Nancy Marconi, Registrar
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario, M4P 1E4

Dear Ms. Marconi:

Re: EB-2022-0200 – Enbridge Gas Inc. (“Enbridge Gas”). – 2024 Rebasing - argument of City of Kitchener

Pursuant to the Ontario Energy Board's ("Board's") letter dated August 11, 2023, in the above-noted proceeding, please find attached the submission to Enbridge Gas, on behalf of Kitchener.

Sincerely,

Khaled Abu-Eseifan
Manager, Gas Supply & Engineering

EB-2022-0200

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

ARGUMENT
OF THE
CORPORATION OF THE CITY OF KITCHENER – KITCHENER UTILITIES

September 19, 2023

A. INTRODUCTION

Enbridge Gas Inc. (“EGI” or Enbridge Gas”) filed an application with the Ontario Energy Board (“OEB”) on October 31, 2022, for an order approving just and reasonable rates, and other charges for the sale, distribution, transmission, and storage of gas to be effective January 1, 2024.

In Procedure order No. 2, OEB divided the issues list into Phase 1 and Phase 2.

EGI submitted a partial Settlement Proposal to the OEB for its consideration on June 28, 2023, that covered several Phase 1 issues. The Oral Hearing held between July 13, 2022, and August 1, 2022, covered remaining unsettled and partially settled Phase 1 issues.

OEB approved the partial settlement proposal on August 17, 2023. OEB issued on a letter August 11, 2023, with schedule for written argument on the unsettled issues.

EGI filed its Argument-in-Chief on August 18, 2023 (“AIC”).

The following are the submissions of the Corporation of the City of Kitchener (“Kitchener”) with respect to the unsettled issues in the Settlement Proposal.

B. THE UNSETTLED ISSUES

In phase 1 of this application, Kitchener takes no position on the following issues:

- Issue 34: Regulatory treatment of Natural Gas Vehicle program
- Issue 40: GDAR Performance measures

Kitchener wants to provide submissions on following unsettled issues:

- Energy Transition
- Equity Thickness
- Capital Investment
- Depreciation

In exception to topics mentioned above, Kitchener is silent on other issues, as it defers to other parties who will be focusing on those topics. Silence on those topic does not mean that Kitchener accepts EGI's position.

Energy Transition

EGI's current proposal on Energy Transition is insufficient to meet climate action targets. Implication of Energy Transition planning impacts capital expenditure, equity thickness, load forecast, depreciation, and future assets risk. Hence, Kitchener supports additional studies to be taken by EGI to meet the targets of 2050.

Kitchener argument addresses energy transition from three different angles:

Leadership by local communities:

1. The Region of Waterloo consists of the cities of Waterloo, Kitchener, and Cambridge in addition to four townships. The region is a home for more than 630,000 people and is one of the fastest growing areas in Ontario. Most of the region is served by EGI except for a large portion of City of Kitchener which is served by Kitchener Utilities.
2. Kitchener Utilities is a local distribution company owned by the City of Kitchener and serves more than 77,000 customers in the city. Kitchener Utilities is a T3 customer of EGI.
3. In June 2021, The Region of Waterloo along with its 7 municipal councils endorsed TransformWR¹ strategy as the community climate change mitigation strategy for the Region. [TransformWR](https://climateactionwr.ca/2021/07/08/transformwr-endorsed-by-all-eight-municipal-councils-in-waterloo-region/) sets community GHG reduction target of 80% by 2050 with an

¹ <https://climateactionwr.ca/2021/07/08/transformwr-endorsed-by-all-eight-municipal-councils-in-waterloo-region/>

interim target of 30% by 2030. The City of Kitchener council along with all other municipal councils in the Region of Waterloo endorsed the strategy with a bolder interim target of 50% by 2030.

4. [TransformWR](#) is attached to this argument in Appendix A.
5. [TransformWR](#) defines list of actions and strategies to achieve the targets. Under Transformative Change # 3: By 2050, businesses and homes no longer use fossil fuels for space heating and cooling, and water heating; there are two strategies namely:
 - a. Strategy 3.1: Decarbonize building heating and cooling, and water heating, by replacing furnaces and hot water heaters with highly energy efficient and low carbon equipment or fuel sources.
 - b. Strategy 3.2: Build new buildings to be net-zero carbon, or build to transition to net-zero carbon.
6. Actions under these strategy items indicate the need to reduce dependency on fossil fuels, promote electric heat pumps, investigate replacements of natural gas and support building more net-zero homes.
7. The adoption of [TransformWR](#) by all eight municipal councils in Waterloo Region indicates the leadership taken by local community in absence of provincial plans or clear government directions. Gas distribution companies and the OEB need to
8. Consider these initiative as they pose risks to natural gas customers in different ways such as:
 - a. They promote using electric heat pumps and reducing natural gas consumption. As more customers adopt these initiatives, the risks of underutilized or stranded assets increase significantly to existing customers.
 - b. The lack of a clear policy on Ontario's energy transition may result in different local approaches and initiatives developed to address climate issue by different municipalities as has been done in Waterloo Region. These initiatives may not be consistent and would pose various risks and complexities to EGI and its customers.
9. To mitigate these risks, EGI need to take the lead (either by themselves or instructed by the OEB) to address energy transition issues. The lack of government policies used in EGI's argument as a reason to maintain the status quo is very risky to EGI and its customers as it opens the door for more local regulations and initiatives led by municipalities. The Region of Waterloo is an example of a local community taking the

lead in this case and now EGI has to react instead of initiating the transition themselves.

10. To respond to [TransformWR](#), EGI has to develop an action plan to ensure that targets are met while maintaining customer demands and business sustainability. Kitchener Utility is currently developing a low carbon strategy to meet the requirements of [TransformWR](#). Through-out this application evidence, technical conference and hearing, Kitchener Utilities did not find EGI energy transition plan sufficient to help The Region of Waterloo communities meet their GHG reduction targets nor to support Kitchener Utilities efforts in meeting [TransformWR](#) goals.

The status quo is a risky pathway:

11. EGI argue that critical decisions regarding pathways to support net-zero future should not be made in this proceeding ahead of any policy direction from the Government of Ontario.
12. The argument by EGI that a premature decision that is misaligned with eventual government policy direction may increase risks. However, the same argument can be used against maintaining the status quo and continuous capital investments to grow and add new customers.
13. Kitchener understands that there are no clear government policies and that committing to a certain pathway now is risky. However, Kitchener also considers the continuous growth of capital expenditure to add more customer similar to committing to a pathway with so many unknowns.
14. The clear reality is that the demand for natural gas in residential sector will drop over the years and spending additional capital to add more residential customers without proper considerations will increase risks to existing customer significantly.
15. Kitchener supports arguments that ask for the reduction in capital spending and the fair allocation of cost between new and existing customers.
16. Kitchener support the reduction of revenue horizon for new connections significantly and an accelerated depreciation for certain assets as discussed below.

Low carbon fuels and CCUS:

17. Kitchener supports EGI's key message # 6 that low carbon fuels (RNG and Hydrogen) and CCUS will have a critical role in achieving net zero. However, this has to be

accepted with the assumption that dependency on natural gas will drop significantly in the future.

18. RNG and Hydrogen supplies are limited and cannot replace current demands for natural gas. The prospects of RNG, hydrogen and CCUS cannot be used to justify the expansion of and the growth of the natural gas distribution system.
19. These technologies and solutions should be used to replace/assist natural gas for customers who cannot end dependency on natural gas.
20. Kitchener considers RNG, hydrogen and CCUS as part of the strategy to meet [TransformWR](#) targets.
21. Kitchener cannot deliver on these components without the support of EGI and various industry and market stakeholders. EGI's key message # 6 is essential for Kitchener in meeting its energy transition targets.

Equity Thickness

22. Kitchener supports keeping the equity ratio at existing level as recommended by IGUA's expert Dr. Cleary. Kitchener considers proposed EGI Energy Transition plan insufficient to address the advantages and risks of energy transition.
23. Kitchener supports the argument that it is premature to increase the equity thickness without EGI taking prudent steps to mitigate energy transition risks.

Capital Investment

24. In absence of clear government policies, EGI should not be approved to make significant capital investment, which could lead to future stranded asset.
25. Kitchener supports the argument that the capital envelope should be reduced.
26. EGI should minimize growth related investments until clear government policies or energy transition plans are developed and certain pathways are prevailing.
27. Kitchener support the argument that EGI capital expenditure to maintain the infrastructure should be revised to account for energy transition assumptions, alternative repair options and a fully developed integrated gas-electricity planning process.
28. Kitchener supports the argument that the revenue horizon for economic feasibility assessment should be reduced significantly.

29. The new revenue horizon should be less than 20 years. Shorter horizon is more aligned with [TransformWR](#) requirements, reduces risks of stranded or underutilized assets and properly allocates inter-generational costs.

Depreciation

30. EGI needs to do more detail analysis/ study on various assets considering the impact of energy transition as suggested by IGUA's energy transition expert Dr. Hopkins in Exhibit M8.
31. The study should identify which customers are more likely to leave the system and which assets are more likely to underutilized. The study should also identify when these risks are likely to materialize.
32. Kitchener supports the argument that depreciation should be accelerated to address the risk of stranded assets. However, this should be done through a move to an Economic Planning Horizon (EPH) on certain asset categories. The EPH shall be specific for each asset category based on the outcome of the analysis discussed in 30.
33. Kitchener support the argument that adopting Equal Life Group (ELG) depreciation procedure is not appropriate response to energy transition.
34. Kitchener supports OEB staff arguments that Average Life Group depreciation procedure shall be used to determine depreciation rates for EGI.