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File No. 61604.50

September 19, 2023

BY EMAIL AND RESS
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Ms. Nancy Marconi
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Enbridge Gas Inc. ("EGI") Application for 2024-2028 Natural Gas Distribution Rates (EB-2022-0200) ("Proceeding")
Intervenor Argument

We represent the Association of Power Producers of Ontario ("**APPrO**") in relation to the above-noted Proceeding. Please find attached the Submission of APPrO. Same has been filed by RESS on the OEB's website.

Please contact the undersigned with any questions.

Yours truly,

BORDEN LADNER GERVAIS LLP

Colm Boyle

EB-2022-0200

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Sched. B), as amended;

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 or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2024

SUBMISSION OF THE ASSOCIATION OF POWER PRODUCERS OF ONTARIO

September 19, 2023

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I. INTRODUCTION

1. On November 14, 2022, the Ontario Energy Board (OEB) issued the Notice of Hearing for EB-2022-0200 in respect of an application by Enbridge Gas Inc. ("Enbridge") to approve rates for the sale, distribution, transmission, and storage of gas commencing January 1, 2024 (Application).

2. Enbridge's rate application is the largest of its kind in Ontario, amounting to a revenue requirement of more than $6 billion annually for the next five years. The former Enbridge and Union Gas were both under incentive rate regulation for most of the last decade – making this the first application for a full review of Enbridge's rate base since 2012/2013.

3. On August 18, 2023, Enbridge filed its argument in chief in respect of Phase 1 of the Application. On September 12, 2023, OEB Staff filed its submission in respect of Phase 1 of the Application.

4. The Association of Power Producers of Ontario (APPrO) is pleased to submit this written submission in response to unsettled issues in Phase 1 of the Proceeding.

5. APPrO's members produce most of Ontario's electricity. APPrO members make electricity from a number of different technologies, including nuclear, hydroelectric and other renewables, and natural gas. Its members include almost the entire Ontario natural gas-fired generation fleet operating in the IESO-Administered Electricity Market (IAM): about 9,000 MW of installed natural gas-fired generation – or about 90% of total transmission connected gas-fired generation in operation today. Citing the Independent Electricity System Operator (IESO), Ontario's Ministry of Energy ("Ministry" or "Minister") acknowledges that Ontario's natural gas fleet will remain a critical capacity resource, complementing the province's nuclear and hydroelectric fleets when needed to

support homes and businesses with reliable power and keeping bills down while the province further builds out its clean electricity grid.[1]

6. At a high-level, APPrO notes the following key themes in its submission:

   a. The natural gas system will remain a critical infrastructure resource for Ontario. Both the IESO and Ministry have publicly stated that there is currently no like-for-like replacement of gas-fired generation in terms of operability and reliability for the province's electricity grid.[2] Gas-fired generation – and a safe and reliable gas delivery network that underpins it – will continue to play a major role in the province's electricity grid and economic growth in the coming decades.

   b. A decision by the OEB on energy transition policy in this proceeding is premature, especially when considering that the Electrification and Energy Transition Panel headed up by Mr. David Collie has not issued its report. There is first a need for clear, high-level government policy direction. For example, coordinated planning is required between the fuels and electricity sectors to coordinate a rational and efficient energy transition. A decision in this proceeding on energy transition would only consider the natural gas sector in isolation, contrary to the Ministry's coordinated approach to planning and building the electricity infrastructure for a more electrified Ontario.[3] The issue of energy transition should be transferred to a generic hearing.

[1] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 15, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[2] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 49, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[3] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 7, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

c. A majority of Enbridge's capital plan is related to investments supporting the safe and reliable operation of the natural gas delivery network, which is imperative to APPrO members and gas-fired generation.

d. Enbridge's proposed depreciation methodology results in unnecessarily high depreciation rates in the near term that are not just and reasonable and creates intergenerational inequity for customers.

e. There is little risk facing Enbridge as it relates to the energy transition over the 2024-2028 period and, as such, APPrO does not support its proposed increase in equity thickness to 42%. APPrO would accept a phased-in increase in equity thickness to 38% by 2028 (0.5% increase over 4 years) to smooth rate impacts.

7. In accordance with the OEB's direction in Procedural Order No. 1, APPrO's argument is focused on material issues to its members to avoid unnecessary duplication and overlap with other interveners in this proceeding. While APPrO has not specifically responded to all Phase 1 Application issues, APPrO's lack of comment should not be seen as support for positions put forward by Enbridge, OEB Staff or other interveners.

II. PRELIMINARY COMMENTS

A. Enbridge's natural gas system remains critical infrastructure for Ontario

8. The Ontario Government acknowledges that natural gas will continue to play a critical role in providing Ontarians with a reliable and cost-effective fuel supply for space heating, industrial growth, and economic prosperity.[4]

9. While the number of new customers connecting to Enbridge's gas delivery network is not growing at the same pace as it has historically, Enbridge will connect more than 100,000 customers over the next five years (more than 40,000

[4] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 30, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

in 2024 alone). Total volumes are also expected to increase by around 1 million cubic meters from 2024 to 2028.[5]

10. Enbridge agrees with APPrO that its system will continue to be utilized to a high degree. Enbridge's view is that the large-scale retirement of assets is unlikely because of the ability to utilize the gas system in Ontario for reliability and resilience.[6] As Enbridge pointed out in its Argument-in-Chief, the overall value of the natural gas delivery network is around $16 billion.

11. Natural gas plays a significant role in the electricity sector. For example, the construction of multiple gas-fired generators throughout the 1990s and the 2000s was a key contributor, along with nuclear power, in the transitioning the province's electricity grid away from high-emitting coal-fired generation to a grid with one of the lowest carbon footprints in North America. Gas-fired generation has similar reliability and operational benefits as coal but is a significantly cleaner alternative.

12. While gas-fired generation amounts for a small amount of the electrical energy generated in Ontario in a year – around 15% – it provides essential capacity and energy for system flexibility such as ramping, support during peak demand hours in the winter and summer, and for reliability as a readily available resource to back up the system when there are planned or forced outages. Natural fired gas generation accounts for about 25% of Ontario's installed capacity.

13. APPrO's gas-fired generation members are large-volume consumers who will continue to rely on the gas delivery network for their operations well beyond 2028 and throughout the next decade. Further, there is growth in natural gas demand from the industrial sector to lower GHG emissions.[7] While a significant amount of attention in this proceeding has been focused on residential customers, who

[5] See: Exhibit I.5.3-STAFF-215, Attachment 1
[6] Transcript Vol 16, page 104, lines 20-23.
[7] Transcript Volume 3, page 28, lines 11-14.

represent about 96% of all natural gas customers, they only account for about 33% of all natural gas volumes consumed.[8]

14. In any case, gas-fired generation – whether that includes unabated natural gas as it exists today, or carbon capture, or use of Renewable Natural Gas (RNG) or hydrogen as its fuel stock – will remain a key reliability asset for the electricity grid for the foreseeable future. As will be discussed in the energy transition portion of this argument, every "net zero" or energy transition study that was filed or referenced in this proceeding includes a significant amount of installed capacity from the current gas-fired generation assets – relying on gas distribution pipes to deliver either natural gas or lower carbon alternative fuel as an input. As such, the importance of a reliable and cost-effective gas delivery system is paramount for APPrO members, which rely on this network to provide critical reliability functions for the electricity grid.

B. Ontario remains supportive of the natural gas system

15. Provincial policy is clearly supportive of natural gas, gas-fired generation and the gas delivery network as a whole. Natural gas makes up almost 40% of Ontario's energy mix and is the dominant fuel used for heating in Ontario, serving about 3.7 million customers.[9] As noted above, the Ontario Government acknowledges that natural gas will continue to play a critical role in providing Ontarians with a reliable and cost-effective fuel supply for space heating, industrial growth, and economic prosperity.[10]

16. In fact, Ontario is ***expanding*** access to natural gas across the province under a regulation aptly titled "Expansion of Natural Gas Distribution Systems".[11] Approximately $230 million in provincial funding was allocated to the Natural

[8] Ibid at page 24.
[9] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 24, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>
[10] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 30, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>
[11] O. Reg. 24/19: Expansion of Natural Gas Distribution Systems

Gas Expansion Program (NGEP) and Community Expansion Program (CEP) by the government of Ontario to connect customers currently unserved by the distribution network.[12] These programs aim to keep energy costs down and move customers off higher-emitting fuel sources, such as propane and oil. The introduction of the NGEP and CEP indicates that there is a strong desire for communities to benefit from attachment to the natural gas network

17. Further, the provincial government's recent release of *Powering Ontario's Growth* recognizes that natural gas generation "…currently plays a pivotal role in supporting grid reliability – with the ability to respond to changing system needs in ways other forms of supply simply cannot […] natural gas will be needed until reliable replacements (such as hydrogen) have been identified, put into service, and demonstrated their capability."[13] In fact, the IESO is careful to note that bringing emerging technologies to scale across the grid will not fully replace the flexibility that natural gas currently provides the electricity system.[14]

18. Indeed, the IESO procured 586 MW of new natural gas generation in May 2023 fulfilling part of a October 2022 directive to the IESO to procure up to 1,500 MW of further ***incremental*** gas-fired generation as part of its procurement activities.[15]

19. What is clear from the province's policy is that its vision for future energy plans include natural gas for industrial, commercial and residential uses and, importantly for APPrO members, gas-fired generation in the current and future

[12] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 26, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[13] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 30, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[14] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 60, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[15] IESO, Ontario's electricity system moves forward with largest energy storage procurement ever in Canada, May 16, 2023, online: <https://www.ieso.ca/Corporate-IESO/Media/News-Releases/2023/05/Ontarios-electricity-system-moves-forward-with-largest-energy-storage-procurement-ever-in-Canada>; Government of Ontario, Order in Council 1348/2022, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/corporate/ministerial-directives/Directive-from-the-Minister-of-Energy-20221007-resource-eligibility.ashx>

electricity grid. Additionally, the province specifically highlighted the potential for both Renewable Natural Gas (RNG) and hydrogen as a fuel input for the current and future fleet of gas-fired generators – both providing further support to Enbridge's evidence showing that utilizing the existing gas delivery network can provide significant value to future ratepayers.[16]

20. A number of parties throughout this proceeding have advocated for broader electrification and decarbonization scenarios that do not reflect current provincial policies. Many of these scenarios are based on a hypothetical future that adopts aggressive decarbonization scenarios that – according to both Enbridge and its expert witnesses from Guidehouse – have not undergone detailed analysis to determine whether they are physically or operationally feasible or maintain current levels of reliability.[17]

21. Broader electrification and decarbonization forecasts are often based on uncertain long-term forecasts of how the electricity and natural gas sectors will evolve over multiple decades and often avoid the much more difficult analysis of whether they are operationally feasible. For example, the IESO highlighted in its "Pathways to Decarbonization" report, that it did not perform an "operability assessment", which would require a significant amount of additional work.[18]

22. Arguments that the gas delivery network will ultimately become underutilized or stranded infrastructure based on speculative future scenarios should be given limited weight by the OEB when setting 2024-2028 rates. Provincial policy clearly supports the continued use of the natural gas system, as does APPrO and its members.

[16] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 28, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[17] Transcript Volume 3, page 186

[18] IESO, Pathways to Decarbonization, December 15, 2022, at page 30, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>

III. ISSUE 3 – ENERGY TRANSITION AND INTEGRATED RESOURCE PLANNING

Has Enbridge Gas appropriately considered energy transition and integrated resource planning in relation to such things as:

a. ***load forecast***

b. ***deemed capital structure***

c. ***depreciation rates***

d. ***forecast capital expenditures***

e. ***allocation and mitigation of risk***

to determine new rates that will be effective January 1, 2024, considering relevant government policies and legislation.

23. For the reasons that follow, APPrO submits that Enbridge has appropriately considered energy transition and integrated resource planning to determine new rates that will be effective January 1, 2024, considering relevant (i.e., ***existing and enforceable***) government policies and legislation. Speculating on future government policy or legislation for the purpose of setting rates is inappropriate.[19]

24. Provincial policy on energy transition is in the ***very*** early stages of development. As such, the OEB should be highly cautious in implementing aggressive energy transition-related policy when setting rates as part of this proceeding. A coordinated study of what a Net Zero economy will look like for both the gas and electricity networks is needed prior to making wholesale changes to the current operation and investment of the gas delivery network.

25. Furthermore, there is still not complete alignment between the federal government and the province and its agencies on energy transition policy. For example, Chuck Farmer, the Vice President of Planning, Conservation and Resource Adequacy at the IESO recently made the following comments on the Federal Government's

[19] For example, Guidehouse states, "The pathway results presented in this report are contingent on developments in provincial and federal energy policy, regulation, and other related areas"; See also Mr. Neme's report at Appendix B.

draft of the *Clean Electricity Regulations (CER)* which only allow for 450 hours of unabated gas-fired generation from 2035 onwards:

> "To address this energy transformation, a well-planned and orderly transition is critical in order to reduce reliance on natural gas generation and achieve a decarbonized electricity system. Clear and practical regulations are an important contributor to the success of this transition.
>
> The current draft of the Clean Electricity Regulations, however, has provisions that could significantly compromise the reliability and affordability of Ontario's electricity system and jeopardize the electricity system's ability to support economic development and electrification."[20]

26. Simply put, there is presently insufficient policy and legislative direction for Enbridge to reliably account for risks associated with energy transition. A determination by the OEB on how Enbridge should account for or mitigate energy transition risks in rates, such as the stranding of assets or decreasing revenue horizons, is premature. Energy transition policy and legislation may be better developed at Enbridge's next rebasing, or better yet as a separate generic proceeding.[21]

27. APPrO submits that the broader energy transition discussion should be separated out for determination in a generic hearing, pursuant to the OEB's Generic Hearings Protocol, at a future date once additional clarity and direction is provided. Evidence and submissions by parties in this proceeding on energy transition have inappropriately evolved into policy making that is common to multiple regulated entities and is well beyond facts or circumstances that are specific to Enbridge.

A. Proper notice has not been given to potentially affected parties

28. The Ministry recognizes that coordination is required between the fuels and electricity sectors for energy transition.[22] Many interested parties in both sectors

[20] IESO, Vice President, Planning, Conservation and Resource Adequacy, LinkedIn Post August 2023.
[21] Enbridge Argument in Chief at para 518.
[22] Ontario Government, Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://news.ontario.ca/en/release/1002487/ontario-finalizes-electrification-and-energy-transition-panel>

have not been notified to participate in the broader energy transition policy discussion that is occurring in this otherwise straight forward rates proceeding.[23]

29. The OEB should not proceed with a determination on energy transition policy until proper notice has been given to all potentially affected parties.

30. Even if all interested parties had been properly notified of the energy transition issues in this proceeding, the OEB's form of notice attached to the letter of direction did not include any mention of energy transition. Indeed, the OEB notice only contemplated rate impacts to Enbridge customers between 2024 and 2028 resulting from rebasing, the Incentive Rate-setting Mechanism and rate harmonization. A decision on energy transition has the potential to affect a multitude of other energy customers and stakeholders leading up to and beyond 2028.

31. Energy transition policy has been a major focus in this proceeding that has seen:[24] (a) lengthy reports by experts; (b) several days of extensive oral evidence and cross examination; and (c) hundreds of pages of submissions by Enbridge and OEB Staff. Surely all potentially affected parties should have been notified of such an important matter.

B. Defining the energy transition pathway for Enbridge is premature

32. Defining Enbridge's energy transition pathway at this time is premature and very likely to change. It is difficult to see how Enbridge is able to account for the energy transition in its Application when the Ontario Government is currently in the process of undertaking a study to make strategic decisions on the energy transition.

33. Defining the energy transition pathway for Enbridge's gas delivery network here would, in effect, be prematurely defining it for the natural gas transmission and distribution sector in Ontario.

[23] See letter of direction issued by the OEB on November 14, 2022 or the corresponding affidavit on November 23, 2022 filed by Enbridge
[24] OEB Staff submission at page 7.

34. The Ministry created the Electrification and Energy Transition Panel (EETP), headed up by Mr. David Collie, to provide key inputs into long-term energy planning for the province and prepare Ontario for the energy system of the future.[25] The EETP will advise the government on the highest value short, medium, and long-term opportunities for the energy sector to help Ontario's economy prepare for electrification and the energy transition.[26]

35. A disproportionate amount of time in this proceeding has focused on sustainability of the natural gas system and speculating on what "energy transition" means for the natural gas system. What has become clear in this proceeding is that there is more uncertainty than certainty when it comes to the energy transition for both the natural gas and electricity systems. Enbridge experts stated as much, concluding "we are dealing in a highly uncertain territory from now until 2050."[27]

36. The EETP and its final report may provide additional clarity on how Ontario could move forward with energy transition-related policies. However, how Ontario intends to further leverage the value of the gas delivery network in the future remains highly uncertain until government policy guidance is provided. We do not have that insight today and it is premature to suppose what the province's policy will ultimately be.

C. Government policy on energy transition is highly uncertain

37. The Ministry's priorities for the energy sector are promoting reliability, affordability, sustainability and consumer choice.[28] Similar priorities are also reflected in the OEB's objectives under section 2 of the *Ontario Energy Board*

[25] Ontario Government, Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://www.ontario.ca/page/electrification-and-energy-transition-panel>; Ontario Government, Ontario Finalizes Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://news.ontario.ca/en/release/1002487/ontario-finalizes-electrification-and-energy-transition-panel>
[26] Ontario Government, Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://news.ontario.ca/en/release/1002487/ontario-finalizes-electrification-and-energy-transition-panel>
[27] Transcript Volume 3, page 181.
[28] Ontario Ministry of Energy, Letter of Direction, November 15, 2022

Act, 1998.[29] The Government of Ontario, however, has yet to make strategic decisions for the energy system's future and how the energy sector can support electrification and the energy transition to meet ***all*** of these priorities.[30]

38. The OEB has not been asked by the Ministry to define an energy transition pathway or policy for achieving net zero emissions in Ontario by 2050. Indeed, the Minister's letter of direction to the OEB in 2022 states that the OEB is to only to provide ***advice*** on potential changes to the OEB's mandate and operations to integrate the regulation of the electricity and natural gas systems.[31]

39. While APPrO acknowledges the future will look different than the past in terms of the natural gas delivery network, speculating on the pace of energy transition to curtail capital investment by Enbridge is premature and imprudent. Doing so will undermine investment needed to ensure safe and reliable operation of the natural gas system, and in turn also undermine the reliability of the province's electricity grid.

40. APPrO anticipates that positions advanced by other interveners will focus on only one of the Ministry's priorities (sustainability) without giving due consideration to the other competing priorities of reliability, affordability and consumer choice in Ontario's energy sector. Below are some examples of why this is problematic:

    a. Regarding reliability, the IESO states that Ontario's natural gas generation fleet is capable of providing continuous, flexible energy year-round and under all weather conditions, and <u>there is currently no like-for-like replacement</u>. This means natural gas will be needed until reliable replacements have been identified, put into service and have demonstrated their capability.[32] The IESO's *Pathways to Decarbonization* report, which

[29] *Ontario Energy Board Act, 1998*, SO 1998, c 15, Sch B
[30] Ontario Government, Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://www.ontario.ca/page/electrification-and-energy-transition-panel>
[31] Ontario Ministry of Energy, Letter of Direction, October 21, 2022, online: <https://www.oeb.ca/about-oeb/corporate-governance-and-reports/letters-direction-formerly-mandate-letters>
[32] IESO, Pathways to Decarbonization, December 15, 2022, at page 1, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>

aims to phase out gas generation by 2035, assumes that 8,000 MW (approximately 17% of all generation) of gas generation would remain in 2035 either for reliability purposes or where it is economically feasible to run.[33]

b. Regarding affordability, the scenario outlined by the IESO in its *Pathways to Decarbonization* report would require $375 billion to $425 billion in new infrastructure investment, with an annual total system cost of approximately $60 billion by 2050. This could result in a 20-30% increase in current unit rates. Toronto Hydro anticipates annual increases in residential rates between 5-9% between 2025 and 2034 to pay for capital investments in the distribution system alone (not including investments transmission system). These costs result from Ontario needing to expand the electricity system's effective capacity by 200 to 300 percent of its current capacity to meet its peak needs to respond to widespread electrification.[34]

c. Regarding consumer choice, the province continues to support the expansion of the gas delivery network into communities currently unserved by natural gas. The province has clearly stated that connecting new communities provides Ontarians with greater choice in terms of heating their homes and supporting their businesses, while lowering their overall energy costs. Supporting the gas delivery network also allows for the choice of hybrid heating systems, which can result in lower emissions and greater reliability for energy users.

41. There is also significant uncertainty around the lack of alignment between federal and provincial government policies for de-carbonization. Currently, Ontario's policy targets a 30% reduction in emissions from 2005 by 2030. That target has nearly been met – largely through policies that closed the province's coal-fired

[33] IESO, Pathways to Decarbonization, December 15, 2022, at pages 20-21, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>
[34] Exhibit K6.2, at pages 7, 9 and 15.

generation facilities – and is expected to be fulfilled by 2030. The provincial government has yet to set an explicit target beyond 2030. Whereas the federal government expects to see net-zero emissions by 2050 under the *Canadian Net-Zero Emissions Accountability Act* and recently issued draft legislation titled "*Clean Electricity Regulations*" which sets a technology-neutral emissions standard for the generation of electricity that is provided to the grid as of 2035.

D. It is unclear whether the proposed energy transition pathways are feasible

42. As noted above, the Ministry recognizes that coordination is required between the fuels and electricity sectors for energy transition.[35] The energy transition is, at its most basic level, a transfer of energy use from one system (natural gas or other fossil fuels) to the electricity grid, which is expected to be supported by non-emitting sources of supply (i.e., be a non-emitting source of energy). Any discussion on a large-scale shift from the provision of energy from the gas delivery system to the electricity system would need to include an analysis (among others) on:

    a. whether the electricity grid can support such a significant increase in demand; and

    b. whether there would be acceptable impacts to the reliability affordability and customer choice of energy supply to customers in Ontario.

43. <u>There is currently no evidence in this proceeding that addresses these vital questions</u>. Justifying fundamental changes to Enbridge's capital and/or operational plans on the basis of the energy transition may introduce significant risk to the gas delivery network. APPrO is concerned about coordination between gas and electricity providers in Ontario on energy transition.

44. The Guidehouse study submitted by Enbridge as part of this application did not assess whether the scenarios included in its various pathways to Net Zero were

[35] Electrification and Energy Transition Panel, accessed on September 12, 2023, online: <https://news.ontario.ca/en/release/1002487/ontario-finalizes-electrification-and-energy-transition-panel>

achievable or operationally feasible. In response to questions from APPrO during the oral hearing Guidehouse noted:[36]

> *MR. YAUCH: So, with that, your study is essentially just a cost optimization, not a reliability or operational analysis of what is going to be required, or whether it is even possible in an electrification scenario?*
>
> *MS. ROSZELL: That is right. We haven't assessed whether or not it is possible.*

45. For example, APPrO is concerned about the feasibility of Guidehouse's assumption in the electrification scenario that 20,000 MW of wind capacity will be installed by 2030. Such a scenario would require a quadrupling of the existing 4,800 MW of installed transmission-connected wind capacity in less than seven years. However, there is currently no procurement program from the IESO or the Ministry for new wind resources in Ontario.

46. Guidehouse agreed that such a scenario is very unlikely:[37]

> *MR. YAUCH: And that goes back to sort of the operational sort of constraint I was about, was that these cost optimization exercises and the IESO Pathways report that we will talk about in a minute don't do an operational assessment, so we don't even know if this is plausible. It is really just, theoretically, this is what you would have to do, and here is the cost associated with it -- or some bucket of cost; it is not even all the costs.* ***Okay. Actually, I want to ask: By 2030, I think you see the wind, installed wind, goes to 20,000 megawatts or 20 gigawatts. The IESO currently has no procurement for wind between now and 2030, so that number is, I think we can agree, incorrect, will not happen.***
>
> ***MR. RINGO: It is very unlikely.***

47. Guidehouse is not alone. The IESO's Pathways to Decarbonization report reported that it did not include an operability assessment and that "…currently there is no like-for-like replacement for the operating characteristics of natural gas. Low-carbon fuels might be able to fill this gap and would be a valuable

[36] Transcript Volume 3, page 180
[37] Transcript Volume 3, page 184

addition to the supply mix, but *they do not yet exist at scale and there are many barriers to commercialization [emphasis added].*"[38]

48. The IESO has concluded natural gas generation is needed to maintain system reliability until nuclear refurbishments are complete and new non-emitting technologies such as storage mature. Thus, natural gas generation will be needed until reliable replacements have been identified, put into service and demonstrated their capability.[39]

49. The social and economic value of the Ontario gas delivery network is significant and the risk of it being stranded in the medium, or even longer term, appears unlikely.[40] The Ontario Government recognizes that natural gas will continue to play a critical role in providing Ontarians with a reliable and cost-effective fuel supply for space heating, industrial growth, and economic prosperity.[41]

E. Enbridge's gas delivery network is central to the reliability of the electricity grid

50. The provincial government's support of gas-fired generation and the gas delivery network comes at a time when the broader electricity grid and energy landscape is facing significant change. Notably, the province's electricity grid is facing a two-prong challenge over the next decade: potentially material demand growth and capacity shortfalls. Gas-fired generation will help the IESO manage both of these risks as electricity demand grows.

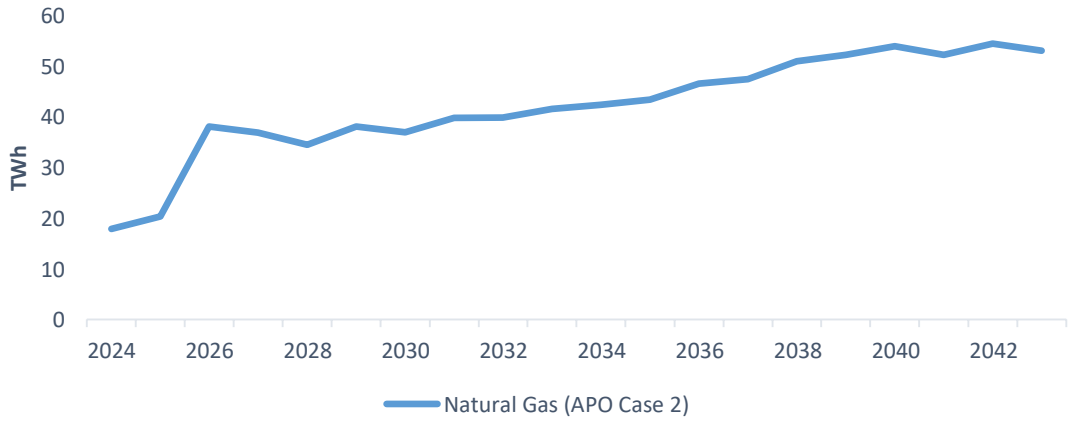
51. On an annual basis, the IESO issues its "Annual Planning Outlook" (APO), which is a long-term view of Ontario's electricity system and considers forecasted electricity system demand, reliability, capacity and energy needs and explores the

[38] IESO, Pathways to Decarbonization, December 15, 2022, at page 32, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>
[39] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 49, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>
[40] Transcript Vol 16, page 104, lines 20-23.
[41] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 30, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

province's ability to meet them. This is a key planning document for Ontario's electricity grid.

52. The APO highlights how natural gas generation may play a larger role in the future Ontario electricity grid. The graph below from the APO forecasts gas supply generation, which may potentially increase from around 15 TWh in 2022 to as much as 54 TWh in 2040 – a more than three-fold increase.

Figure 1 Gas-Fired Generation Supply in the APO



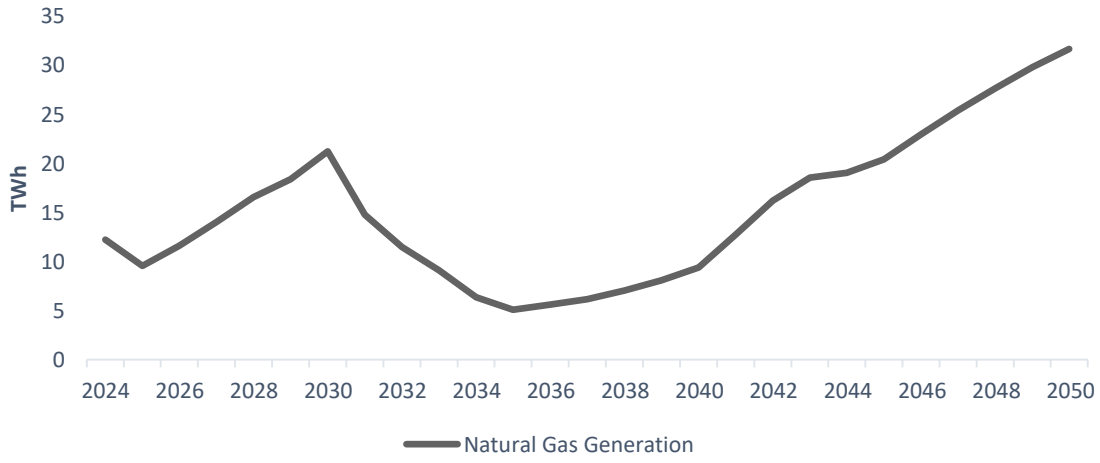
53. As APPrO highlighted in its cross examination of Panel 1, the APO forecasts a significant ***increase*** in gas-fired generation over the next two decades unless a large-scale construction program starts today to add non-emitting forms of supply (i.e. wind, nuclear, hydro and solar).[42]

54. The IESO's APO is not alone, as the Canada Energy Regulator's Energy Futures Report 2023 is forecasting a similar increase in gas-fired generation, although it is assumed that the gas-fired facilities include Carbon Capture, Utilization and Storage (CCUS) equipment to mitigate GHG emissions. According to the Canada Energy Regulator in the Canada Net Zero scenario, gas-fired generation will

[42] The APO includes two cases: Case 1 and Case 2. Case 1 assumes all assets currently under contract expire at the end of the their contract. Given this would result in mass retirements over the next decade and the IESO is currently pursuing upgrades and contract extensions with a number of gas-fired generators, APPrO does not view this as a reasonable scenario. Case 2 assumes all existing assets remain in commercial operation.

increase from around 15 TWh in 2022 to more than 31 TWh in 2050 – or a doubling in energy output.

Figure 2 Gas-Fired Generation Supply in the CER Energy Futures Report 2023



55. In 2021, the IESO undertook a study to assess "the impact of phasing out natural gas generation by 2030" and ominously concluded that "without gas generation, Ontario's electricity system would see frequent and sustained blackouts in 2030."[43] The IESO states that natural gas generation provides a level of flexibility to respond to changing system needs that would be impossible to replace in the span of just eight years. The IESO forecasts "that removing gas from the electricity system would result in a substantial increase in costs to consumers. For the average homeowner, "the effect of removing gas would add $100 to the monthly electricity bill, which represents a 60 per cent increase." The near and medium-term future without gas-fired generation will entail higher costs and less reliability, as evidenced in the quote by Mr. Chuck Farmer of the IESO above on the CER.

56. The IESO is also overseeing the Hydrogen Innovation Fund, which is investigating ways to incorporate hydrogen as a fuel input to gas-fired generation

[43] Decarbonization and Ontario's Electricity System Assessing the impacts of phasing out natural gas generation by 2030, online: <https://www.ieso.ca/en/Learn/The-Evolving-Grid/Natural-Gas-Phase-Out-Study>

– providing further support that the gas delivery network is likely to play a supporting role in the energy transition.

57. It is imperative that the Enbridge's rates established in this proceeding allow for continued investment in the gas delivery system to ensure it is reliable for its largest customers, including gas-fired generators. The electricity grid needs gas-fired generation to maintain reliability.

F. Mr. Neme's evidence should be given limited weight

58. Based on flawed reasoning, Mr. Neme has concluded that infrastructure built pursuant to Enbridge's current application may ultimately be underutilized or stranded due to market forces and/or climate policy. For the reasons that follow, Mr. Neme's evidence should be given limited weight by the OEB. Mr. Neme's comments are at odds with those from the IESO, the provincial government and Guidehouse in terms of the challenges of the energy transition and large-scale electrification.

59. The most glaring omission from Mr. Neme's evidence is the lack of consideration of whether it is operationally feasible for the electricity grid to support a significant increase in demand from electrification. Despite all the evidence discussing real and substantial challenges to electrification, which require decades of planning to address, Mr. Neme glosses over these challenges to conclude that vast-scale electrification is "eminently feasible" and "eminently doable":

> *So, as to the feasibility of growing the electric grid -- it is going to have to grow substantially. As to the feasibility of doing that, I think it is eminently feasible. Everybody has an electric meter today. We know what technologies -- we have them today -- that need to be installed in order to electrify. The electrification can proceed at a gradual pace, not only building by building but even appliance by appliance within the buildings. We know that those technologies are getter more efficient, too. In addition, we know how to add generating capacity on the grid. We know how to add storage. We know how to upgrade the TNV system. This can all be accomplished with technology and know-how that we have today. That is not to say it is going be easy or without cost, but it is* ***eminently doable****.*

60. There is no evidence in this proceeding to support such a conclusion. The evidence shows that fully decarbonizing the economy and the electricity grid will require a combination of large-scale adoption of technologies that are not commercially feasible and involves investment and construction on an unprecedented scale.[44] Operationalization of these resources on the Ontario electricity grid to meet demand will require "…planning studies that incorporate novel approaches, tools and a thorough understanding of the location and technological features of individual resources as they are integrated into the electricity grid."[45]

61. The IESO's Pathways to Decarbonization report modelling relied heavily on low-carbon fuels to meet reliability and flexibility needs of operating a provincial electricity grid. However, the IESO explicitly states that "low-carbon fuels might be able to fill this gap and would be a valuable addition to the supply mix, *but they do not yet exist at scale and there are many barriers to commercialization [emphasis added]*."[46]

62. Mr. Neme's comments make it appear that electrification and the investments needed to support it are a "done deal," but that is far from the viewpoint of the system operator that would have to manage the transition while maintaining reliability. The IESO has not been asked in the is proceeding to comment on the evidence of the Mr. Neme or other parties that are suggesting that fully decarbonizing the grid is feasible in the medium to long-term. The reality is that the gas delivery network – moving methane or low carbon gaseous fuels – is likely going to be needed over the long-term in order to help manage the transition, but the IESO (or any party to this proceeding) does not know in what role the gas network will play.

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[44] IESO, Pathways to Decarbonization, December 15, 2022, at pages 20-22 and 29-30, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>

[45] IESO, Pathways to Decarbonization, December 15, 2022, at page 30, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>

[46] IESO, Pathways to Decarbonization, December 15, 2022, at page 32, online: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/gas-phase-out/Pathways-to-Decarbonization.ashx>

63. Second, Mr. Neme's evidence fails to consider what would be acceptable impacts to the reliability, affordability and customer choice of energy supply to customers in Ontario. Mr. Neme proposes a false dilemma to support favourable customer economics to fit his vision of electrification:[47]

> *Well, not in that scenario, but in that scenario the gas costs would also go up because whatever consumption is remaining on the gas side would have to be fed by much more renewable gas. And so one would have to look at it on both sides of the equation, which is why I started with an analysis that is based on current prices, assuming they just grow with inflation.*
>
> *And then I did a second analysis that is a little cruder, but looked at: Well, what if electricity prices went up by the 20 to 30 percent -- if I use the midpoint, the 25 percent that the IESO forecast -- and then let's assume that, on the gas side as the alternative, the gas price increases to a level that is consistent with what would be the market-clearing price for renewable gas under high demand for RNG, and the economics actually get even better in that analysis, substantially better.*

64. Simply put, there are a much broader range of possibilities and outcomes than the one considered by Mr. Neme. An isolated residential heating example cannot be used to justify the economics of widespread electrification, particularly as it relates to other customer classes, such as industrial and commercial customers, that account for a majority of total gas consumption. A much more comprehensive study, including a sensitivity analysis and broad customer engagement, is required. It also ignores the fact that frequent and sustained blackouts will occur if natural gas generation is phased out.

65. Mr. Neme's proposed increases in electricity prices also faces substantial political risk. One of the key election issues for Ontarians in the prior decade was the substantial increase in electricity prices from policies related to wind, solar and other alternative energy sources. Indeed, the current Ontario Government is

[47] Transcript Vol 6, page 56, lines 3-18.

committed to maintaining an affordable electricity system to keep people safe, create jobs and grow the economy.[48]

66. The cost to consumers of fully decarbonizing the grid could be significant. In the IESO's initial study on removing gas-fired generation from the electricity grid by 2030, it estimated that the bill impact could be as much as an additional $100 per month – amounting to a 60% increase.[49] The cost to the electricity distribution network are highly uncertain, as noted by the IESO in its Pathways report.

67. Mr. Neme's comments regarding "we know how to add generating capacity to the grid" should also be heavily discounted. While it is true that adding generating capacity to the provincial grid has been happening for over a century, the difficulty of adding new, firm capacity to the grid is incredibly challenging. The firm new capacity that has been added to the Ontario's electricity grid over the last decade has been overwhelmingly gas-fired generation. There has been limited hydroelectric plants and no new nuclear plants, which can provide the firm capacity needed to manage the energy transition.

68. APPrO believes the comments from Enbridge and IESO – given their expertise in maintaining operability and system-wide reliability – should carry significant weight in this proceeding.

G. Establish a generic proceeding for energy transition

69. The OEB recognizes the issue of energy transition is common to multiple OEB regulated in its "*Report of the Ontario Energy Board to Ontario's Electrification and Energy Transition Panel*" when it states, "coordination and planning alignment between the natural gas and electricity sectors is critical given the magnitude of change and infrastructure development that will be required to support the energy transition."

[48] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 30, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>

[49] Decarbonization and Ontario's Electricity System: Assessing the impacts of phasing out natural gas generation by 2030, online: <https://www.ieso.ca/en/Learn/The-Evolving-Grid/Natural-Gas-Phase-Out-Study>

70. As proposed above, APPrO believes the issue of energy transition meets all of the OEB criteria for a generic hearing. APPrO submits that the evolution of the energy transition discussion in this proceeding necessitates its transfer to a generic process. Specifically, the issue of energy transition:

    a. is common to multiple regulated entities.

    b. turns on facts or circumstances that are not specific to Enbridge, or any other regulated entity;

    c. is a novel issue that has, historically, not been part of a typical application;

    d. is not addressed in OEB or government policy;

    e. is significant enough to warrant a stand-alone generic hearing, as indicated by the voluminous evidence in this proceeding;

    f. involves a risk that it may not receive adequate consideration given the extensive list of other issues in this proceeding and truncated timeline to implement rates by January 1, 2024;

    g. involves stakeholders that are not parties to this proceeding, who would provide a different perspective (e.g., electricity system participants) and are likely be interested in participating in a generic hearing;

    h. can be separated out of the live proceeding without significantly affecting other issues in the live proceeding; and

    i. is not time-sensitive, especially since the Government of Ontario has yet to release its policy on energy transition.

71. APPrO notes that the treatment of the energy transition issue has been identified as early as possible. This is the first phase of a three-phase proceeding.

IV. ISSUE 6 – IS THE 2024 PROPOSED RATE BASE APPROPRIATE?

A. Recovery of integration related capital expenditures

72. APPrO submits that Enbridge should recover in rates the remaining net book value of integration related capital costs that were previously incurred over the 2019-2023 timeframe. The total amount that will be added to rate base and included in 2024 rates is $119 million. Enbridge estimates that $86 million in sustained annual savings to ratepayers will result from integration.[50] Integration capital costs were incurred in order provide ratepayers with significant long-term savings that far exceed the costs.

73. APPrO anticipates that other parties may attempt to apply the *Handbook to Electricity Distributor and Transmitter Consolidations* to argue that incremental transaction and integration costs are not generally recoverable through rates.[51] However, the handbook also purports to address these concerns by providing the opportunity for electricity distributors to defer rebasing for a period up to ten years following the closing of a consolidation transaction. The handbook states the deferred rebasing period is intended to enable distributors to fully realize anticipated efficiency gains from the transaction and retain achieved savings for a period of time to help offset the costs of the transaction.[52]

74. Enbridge proposed a ten-year deferred rebasing in its merger application to the OEB, as a ten-year deferred rebasing period is necessary to undertake a large and complex integration and to deliver significant integration savings and synergies to ratepayers on rebasing.[53] In argument in the merger proceeding, Enbridge submitted that "a ten year rebasing deferral period will give Amalco the 'runway' that it needs to carry out detailed integration planning, to make major capital investments, to execute on the integration while maintaining safe and reliable service to customers, to manage the risks associated with these activities and to

[50] Enbridge Argument in Chief, para 231.
[51] OEB, *Handbook to Electricity Distributor and Transmitter Consolidations*, January 19, 2016, at pages 8-9, online: <https://www.oeb.ca/oeb/_Documents/Regulatory/OEB_Handbook_Consolidation.pdf>
[52] *Ibid*.
[53] OEB Decision EB-2017-0306/EB-2017-0307, August 30, 2018, at page 20.

optimize savings and synergies from the merger that will be delivered to ratepayers on rebasing." The ten-year deferred rate setting ensured that "all of the risk associated with the amalgamation is borne by the shareholder."[54]

75. However, the OEB only approved a deferred rebasing period of five years as the "…five years provides a reasonable opportunity for the applicants to recover their transition costs."[55] This finding was contrary to the evidence put forth by Enbridge. None of the potential scenarios in undertaking response Exhibit J2.4 resulted in Enbridge recovering its costs within 5 years.[56] The five-year deferred rebasing period was – in APPrO's view – likely to result in some amount of integration-related capital costs remaining undepreciated at the end of the five-year term. This is exactly what has occurred.

76. APPrO opposed the ten-year deferred rebasing period largely due to the significant cost allocation issues that APPrO believed (and continues to believe) should be addressed prior to the end of a decade-long rebasing period. APPrO argued that a five-year deferral period is more appropriate – a view shared by other parties to the proceeding and ultimately adopted by the OEB.

77. With the introduction of a Phase 3 component to this proceeding – in recognition of the complexity and importance of the impact from harmonization to many parties – APPrO believes its early concerns that there are significant cost allocation and harmonization issues with the merged utility that should be dealt with in a timely manner and not delayed until 2029 have been validated.

78. If the OEB had approved a ten-year rebasing period, Enbridge would have fully recovered – in fact it would have more than recovered – these costs through operational savings that would not have gone to ratepayers. Instead, ratepayers are

[54] OEB Proceeding EB-2017-0306/EB-2017-0307, Applicant Argument in Chief, June 1, 2018, at para 6, online: <https://www.rds.oeb.ca/CMWebDrawer/Record/610336/File/document>
[55] OEB Decision EB-2017-0306/EB-2017-0307, August 30, 2018, at page 22.
[56] Undertaking Response Exhibit J2.4, May 11, 2018, online: <https://www.rds.oeb.ca/CMWebDrawer/Record/608294/File/document>

now receiving $86 million in annual savings as a result of capital expenditures that Enbridge has not been allowed to recover.

79. A number of parties are likely to argue that because Enbridge "over-earned" on its Return on Equity (ROE) in recent years, it should not be allowed to recover its integration-related capital costs. APPrO does not believe that Enbridge's ROE should have any bearing on its request in recovering integration capital costs.

80. Focusing on ROE and integration costs is conflating two components of the regulatory process.

81. Incentive regulation is explicitly designed to reward utilities through higher-than-approved ROE if they can reduce costs at a faster pace than the annual rate adjustment. This ensures regulated utilities are constantly seeking ways to reduce costs, which are then returned to ratepayers when the utility appears before the regulator for a re-basing application. Enbridge's higher-than-approved ROE in recent years is simply the outcome of this regulatory rate design – it is a benefit, not a flaw.

82. Conflating Enbridge's ROE with its integration related capital spending – and the benefits this accrues for ratepayers – undermines basics regulatory principles.

B. In-service rate base amounts for 2023 (non integration related)

83. APPrO takes no position on this issue.

C. Customer attachment policies (non integration related)

84. APPrO takes no position on this issue.

D. Overhead capitalization

85. APPrO takes no position on this issue.

V. ISSUE 7 – IS THE FORECAST OF 2024 CAPITAL EXPENDITURES UNDERPINNED BY THE ASSET MANAGEMENT PLAN, AND IN-SERVICE ADDITIONS APPROPRIATE?

A. Capital budget

86. While Enbridge's capital budget is materially higher than historical levels, APPrO generally supports Enbridge's capital spending included in this rate application.

87. As APPrO noted extensively in its arguments on the energy transition, the gas delivery network is explicitly included in the province's *Powering Ontario Growth* energy policy and gas-fired generation is considered an integral resource for the province's electricity grid by both the IESO and the Minister of Energy. As such, maintaining the safety and reliability of the gas delivery network is of paramount importance for APPrO members.

88. The evidentiary record, as it stands today, lacks evidence that directly contradicts Enbridge's capital spending program. Notably, there is a lack of evidence that the current reliability and safety of the gas delivery network can be maintained through an *alternative* capital budget. Additionally, there is no evidence to suggest an alternative method of maintaining existing assets other than what Enbridge has proposed as part of its asset management planning.

89. While a number of parties are likely to question various elements of the capital budget, a large portion of the spending is related to maintaining the current gas delivery network, connecting new customers or expanding connections for existing customers. APPrO members view the integrity investments as necessary spending to maintain the existing system, which is vital to their operations.

90. Using Figure 3 below, more than half of the entire capital budget in 2024 is directly related to spending for reactive projects of less than one year and system reinforcement (Rows 1, 2, 5 and 7). APPrO views these investments, to a large extent, as non-negotiable, although some portion of the spending may potentially be smoothed over a longer time period (as discussed later in this section).

Figure 3 Enbridge Capital Expenditures

Table 2: Capital Expenditures – 2023 to 2032 /u

Investment Sub-Category	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Gas Infrastructure - Replacement - Reactive	51.2 M	60.7 M	40.6 M	44.1 M	56.6 M	72.4 M	58.3 M	61.4 M	76.7 M	58.9 M
Gas Infrastructure - Replacement - Proactive - Short Term (1y +)	353.9 M	147.5 M	283.7 M	126.1 M	153.5 M	60.6 M	60.9 M	63.0 M	66.6 M	62.5 M
Gas Infrastructure - Replacement - Proactive - Long Term (20y +)	1.9 M	1.4 M	0.9 M	11.8 M	18.5 M	94.0 M	146.6 M	208.7 M	270.7 M	320.5 M
Gas Infrastructure - Replacement - Proactive - Long Term Cost Effectiveness*	34.0 M	39.7 M	113.5 M	75.4 M	64.6 M	75.3 M	74.1 M	64.0 M	69.5 M	124.5 M
Gas Infrastructure - Sustainment	391.8 M	472.7 M	406.6 M	439.0 M	378.6 M	367.7 M	345.8 M	359.1 M	361.9 M	357.3 M
Gas Infrastructure - Growth - Customer Connection	325.0 M	333.6 M	285.9 M	296.7 M	294.8 M	269.6 M	261.3 M	261.6 M	254.5 M	243.0 M
Gas Infrastructure - Growth - System Reinforcemer	112.8 M	277.4 M	268.9 M	176.9 M	262.8 M	140.9 M	220.8 M	51.8 M	27.3 M	103.0 M
Business Sustainment	119.9 M	195.8 M	171.6 M	204.1 M	122.9 M	163.2 M	121.6 M	139.5 M	139.3 M	125.1 M
Emission Reductions	0.8 M	1.8 M	4.1 M	1.2 M	11.9 M	0.0 M	0.0 M	0.0 M	0.0 M	0.0 M
Energy Transition	38.4 M	134.1 M	55.0 M	31.5 M	28.0 M	35.7 M	25.0 M	25.0 M	25.0 M	25.0 M
Grand Total	**1429.9 M**	**1665.2 M**	**1630.5 M**	**1406.7 M**	**1392.3 M**	**1279.5 M**	**1314.5 M**	**1234.1 M**	**1291.5 M**	**1419.7 M**

91. If customer connections and long-term investments related to what Enbridge terms as "cost effectiveness" are included, more than 80% of the capital budget is either related to customer requests to attach (or expand their connection) to the gas delivery network or investments that provide long-term value for ratepayers. APPrO members are very much cognizant that capital spending has a significant impact on rates, but support capital spending that is required to maintain the safe and reliable operation of the gas delivery network.

92. Without reiterating the point *ad nauseum*, the reliability of the gas delivery network is imperative to maintain the reliability of the electricity grid. As noted previously in this argument, gas-fired generation is most needed when demand on the electricity grid is highest – typically on the hottest and coldest days of the year. Given that nearly 80% of the capital budget is related to spending on projects that maintain the reliability and safety of the gas delivery network, customer connections or long-term cost-effective projects, APPrO largely accepts the capital budget.

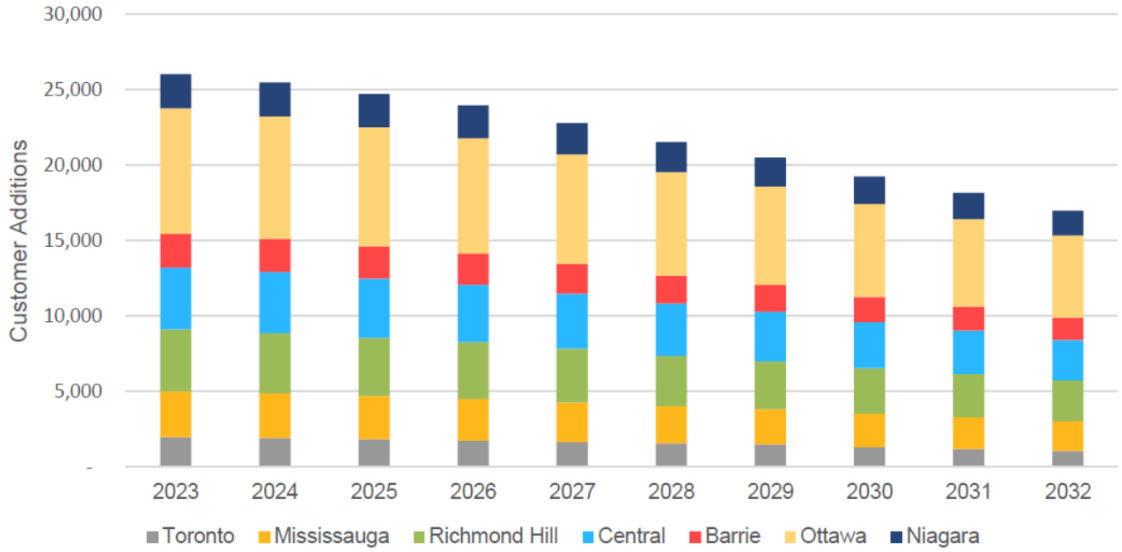
93. APPrO's view on customer connections as it relates to its members is that customer connection costs that support the reliability of the electricity grid should not be blocked, as it has the potential to create reliability concerns across the energy landscape, particularly for APPrO members. APPrO members have publicly supported projects such as the Panhandle Region Expansion Project (PREP)

94. For small-volume consumers, there has been significant discussion throughout this proceeding on whether future customers will face the risk (and associated cost) of stranded assets.

95. APPrO would point to two points to temper the concern of stranded assets. First, is that the number of customers connecting to the gas system continues to grow – albeit at a lower pace than in the past. The figure below shows that for the former Enbridge system, around 25,000 new customers are expected to be added in 2024 alone. While that figure declines over the next decade, the system will continue to grow. The former Union South customer growth forecast shows a similar patter (although adds around 15,000 customers in 2024). In total, the combined utility is expected to add as much as 40,000 new customers in 2024.

96. Second, in addition to the forecast included in this application, is the province's policy to build as many as 1.5 million homes over the next decade. Even assuming half of those homes rely on natural gas furnaces (or 75,000 new customers annually over the next decade, which may be a conservative estimate) that can last on average between 15-20 years, this severely limits the risk that a vast portion of the current gas delivery network will be stranded over the next 20 to 30 years. As discussed previously, adopting a hybrid heating policy would further mitigate the risk of stranded assets while providing GHG emissions reductions across the economy by cost-effectively utilizing the current gas delivery infrastructure.

Figure 4 Enbridge Customer Additions



97. The OEB should be careful in accepting arguments regarding "utilization" and how this should be adopted in Enbridge's capital spending budget – both in this application and future applications. First, utilization would need to be defined as either utilization of total throughput of a pipe or peak utilization of the pipe. If, for example, a certain asset is used sparingly throughout the year, but is fully utilized during peak demand conditions that may be considered a fully "utilized" asset. Conversely, an asset that has a "flat profile" throughout the year may be more fully utilized from a total throughput perspective, but less utilized from a peak demand analysis.

98. Given the peaking nature of the assets owned by APPrO members – the total capacity factor of gas-fired generators is low, but their capacity factor in times of peak demand on the IESO grid is high – the risk of approving capital budgets based on a utilization factor is concerning. Both the gas and electricity grids are, to a large extent, designed and built to accommodate the peak demand of their customers. Peak demand often occurs for short periods of time – typically over a few days. By its nature, building a system to accommodate short periods of high demand will require a certain number of assets to have a low utilization factor. Many of APPrO members' assets are largely operated in this manner.

99. Limiting investment in the gas delivery network based on an undetermined utilization factor would put the reliable operation of a number of assets owned by APPrO members in question. Doing so could have material impacts on the operation of the electricity grid as well. If the OEB does view a utilization metric as reasonable, APPrO recommends that an appropriate metric (i.e. total or peak utilization) be determined for the different assets and customer types.

100. While the rates approved in this hearing are for 2024 (and then escalated through a pre-determined formula for 2025-2028), the useful life of the assets associated with Enbridge's capital program are significantly longer than this – typically up to 40 years (and greater) for most assets. This creates what was referred to as a "mismatch" between the capital budget process and useful lives of these assets in the context of the broader energy transition and its impact on the gas delivery system.

101. APPrO notes that this mismatch is not unique to Enbridge. Utilities and system operators in the electricity system often justify investments based on long-term forecasts that carry significant uncertainty. In order to maintain the reliability of the grid (or the gas delivery network) as it exists today, the risk that the long-term operation and usefulness of the grid may reduce the need or value of the asset is inherent in any utility asset management plan.

102. In APPrO's view, comments from Mr. Neme on how the risk of stranded assets is negligible in the electricity sector are highly misleading. Mr. Neme commented that:[57]

> *[transcript 6] MR. NEME: Well, for the reason I just articulated. There is no risk anyone who gets connected to the electric grid is going to leave. They need electricity. They are going to need electricity in the future, no matter what, for lighting, refrigeration, whatever, for at least something. That situation is not the same on the natural gas side, where they could exit the system and function just fine without natural gas in the future.*

[57] Transcript Volume 6, page 42

103. Mr. Neme appears to claim that because most electricity customers will remain connected to the electricity grid, there is little risk of capital assets being stranded. But this is simply not true.

104. Capital investments in the electricity sector run the risk of being stranded as well. Ontario's Debt Retirement Charge (DRC) that sought to recover stranded assets from the break up of Ontario Hydro is one example.[58] Transmission assets – substations and transformers, for example – can also be "overbuilt" or stranded if demand forecasts do not materialize or Behind-the-Meter (BTM) or Non-Wires Alternatives (NWAs) become the more cost-effective solution. The electricity grid is facing rapid evolution with Distributed Energy Resources (DERs), which may have a material impact on the utilization of existing and planned assets. The growing adoption of DERs as part of the energy transition may have a similar impact on the capital budget planning process for Local Distribution Companies (LDCs) as Enbridge, given it may result in the potential for stranded assets as well.

105. While the OEB should approve an appropriate capital plan that protects the long-term interests of ratepayers, the uncertainty surrounding the long-term nature of assets and future utilization is not unique to the gas delivery network, even if the energy transition makes this mismatch more pronounced.

B. How to mitigate the impact of Enbridge's capital budget

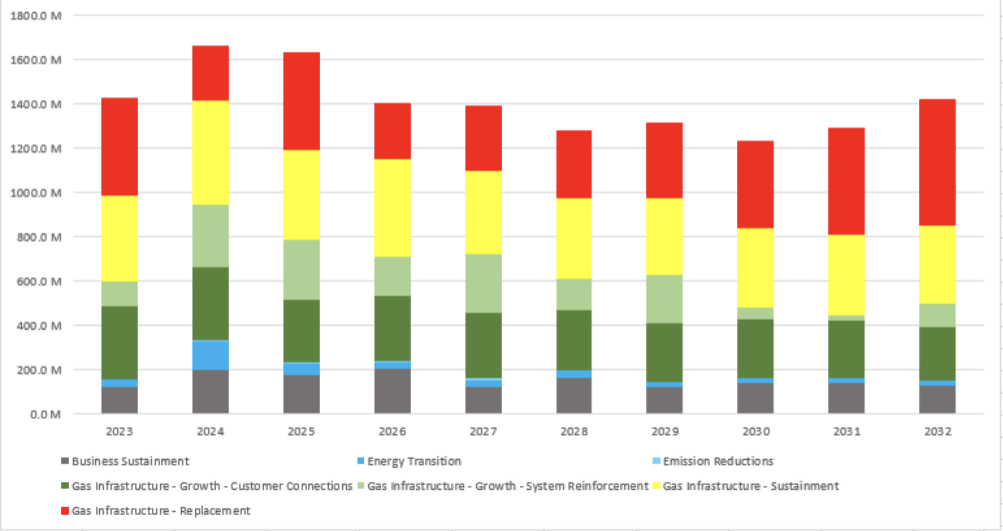
106. Given the magnitude of proposed capital investment, APPrO identified areas where the OEB could reduce the capital budget without causing undue harm to the safe and reliable operation of the gas delivery network.

[58] Another example is Hawaii. High electricity costs created a substantial risk of grid defection to self generated solar and battery storage, thus stranding existing assets. Hawaii needed to modernize the grid and amend the compensation framework for utilities to avoid the "utility death spiral". See: Hawaiian Electric, Modernizing Hawaii's Grid for Our Customers, August 29 2017, at ES-2, online: <https://www.hawaiianelectric.com/Documents/about_us/investing_in_the_future/final_august_2017_grid_modernization_strategy.pdf>; Hawaii Public Utilities Commission, Decision and Order No. 37507, December 23, 2020, online: <https://puc.hawaii.gov/wp-content/uploads/2020/12/2018-0088.PBR_.Phase-2-DO.Final_.mk_.12-22-2020.E-FILED.pdf>; Hawaii Public Utilities Commission, Summary of Phase 2 Decision and Order Establishing a PBR Framework, December 22, 2020, online: <https://puc.hawaii.gov/wp-content/uploads/2020/12/PBR-Phase-2-DO-5-Page-Summary.Final_.12-22-2020.pdf>

107. First, the OEB could "smooth" the capital spending over the next five years. As shown in the following figure, Enbridge's capital budget is "front-loaded", with spending the highest in the first two years (2024 and 2025). Given the structure of incentive regulation, high capital spending in the early years of the five-year application will carry through the rest of the five-year horizon. The OEB could apply an "average" approach to setting the capital budget for 2024, using all of the forecasted spending amounts between 2024-2028 and use that amount to set 2024 rates.

Figure 5 Enbridge Capital Plans 2023-2032

Figure 2: Capital Expenditures – 2023 to 2032 /u



108. Second, the OEB may also consider a variance account or specific tracking mechanism related to the Enhanced Distribution Integrity Management Program (E-DIMP).

109. The E-DIMP, according to Enbridge "will augment existing asset data and provide new insights into asset health". Based on discussion in the oral hearing, Enbridge did not currently include any "deferrals or delays" in its capital budget to account for the E-DIMP program, even though as much as $500 million of capital spending that will be subject to it. APPrO supports the E-DIMP – which

was a result of the St. Laurent decision – and believes that any of the savings from the program should be accurately shared with ratepayers. Given the structure of incentive regulation, a failure to track E-DIMP savings may result in those savings being offset by cost increases in other parts of the capital program over the next five years.

C. Incorporation of the energy transition in Capital Planning

110. APPrO addressed its viewpoint in the energy transition in its previous comments. The only additional comments are APPrO's view that Enbridge has included a number of what it deems "safe bet" investments in its application. Subject to OEB review of specific projects, APPrO views the general concept as a reasonable request and does not believe aggressive energy transition related policies should be incorporated in Enbridge's current capital program and 2024 rates until the province provides greater clarity on future policies.

VI. ISSUE 15 – ARE THE PROPOSED HARMONIZED DEPRECIATION RATES AND THE 2024 TEST YEAR DEPRECIATION EXPENSE APPROPRIATE?

111. APPrO submits that the proposed harmonized depreciation rates and the 2024 Test Year depreciation expense are not appropriate. APPrO submits that the OEB should adopt the approach to depreciation set out by Mr. Dustin Madsen. In the interests of avoiding duplication, APPrO provides the following brief arguments to support the submissions of the Industrial Gas Users Association and, where aligned with IGUA, OEB Staff on depreciation.

A. Depreciation Methodology

112. APPrO does not support Enbridge's proposal to change its depreciation methodology from Average Life Group (ALG) – that was utilized by both of the previous gas utilities prior to the amalgamation – to Equal Life Group (ELG). As noted by OEB Staff, the ALG approach to depreciation continues to be the most common depreciation methodology in use by utilities across North America.

113. While both ALG and ELG recover the same capital cost, the pattern of cost recovery is different. Rate base is reduced more rapidly under the ELG procedure since it front-loads the recovery of investments by calculating the highest depreciation rate for the newest vintages.[59] This results in the depreciation expense increasing in the near-term future, as evidenced by an $83.4 million difference between the ELG and ALG methodologies in the Test Year.[60]

114. Transitioning from ALG to ELG creates intergenerational inequity for customers. Future customers will end up paying a lower level of depreciation expenses since the front loading will result in the highest level of annual revenue requirements on customers in the near term for new investment.

115. On August 24, 2023, the Manitoba Public Utilities Board rejected Manitoba Hydro's proposal to move from ALG to ELG on the basis that "…the ELG methodology would result in unnecessarily high depreciation rates in the near term that are not just and reasonable."[61] APPrO submits that the OEB should reject Enbridge's depreciation proposal for the same reason.

116. APPrO would also like to note comments by the Manitoba Public Utilities Board that applying ELG depreciation methodologies "in a utility operating at a steady state…may be appropriate. However, Manitoba Hydro just completed a doubling its asset base, which exacerbates the early-recovery effect of ELG. The Board finds that transitioning to such a methodology is not just or reasonable."[62] APPrO notes that Enbridge has also recently doubled its rate base and, as such, the impact of moving to ELG on current ratepayers would not be just or reasonable.

117. While the ELG approach is possible now that utilities have greater insight into the operating life of their different assets, it also introduces significantly more complexity in the calculation of depreciation amounts. As noted by Staff and

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[59] Enbridge Argument in Chief at para 493.
[60] Enbridge Argument in Chief at para 495.
[61] Manitoba Public Utilities Board, Order No. 101/23, August 24, 2023, at pages 12-13, online: <http://www.pubmanitoba.ca/v1/proceedings-decisions/orders/pubs/23-orders/101-23.pdf>
[62] *Ibid* at page 143.

experts in this proceeding, it is not clear that such complexity provides greater accuracy when determining the value that different assets provide to ratepayers and associated depreciation amounts.[63]

B. Energy transition

118. As discussed at length above, the energy transition is in the early stages and changing depreciation methodologies to account for it is premature. It is certainly not clear that Enbridge's natural gas delivery network will be underutilized or stranded. Indeed, the Ontario Government sees that with "…developments in energy efficiency, and low-carbon fuels such as RNG and low-carbon hydrogen, the natural gas distribution system will help contribute to the province's transition from higher carbon fuels in a cost-effective way."[64]

119. In argument, Enbridge accepts Concentric's recommendations regarding a "moderated and considerate approach to energy transition" which includes:

a. Using the ELG procedure to more appropriately respond to concerns expressed regarding stranded assets to account for a material risk of declining throughput in future years;[65]

b. Shortening the service lives of assets;[66] and

c. Erring on the shorter end within a range of average service lives;[67]

120. It is difficult to reconcile this position with Ms. Giridhar's statement that "…the **large-scale retirement of assets is unlikely** because of the ability to utilize the gas system in Ontario for reliability and resilience."[68] [*Emphasis added*] Enbridge

[63] Staff Argument, page 80.
[64] Ontario Ministry of Energy, Powering Ontario's Growth – Ontario's Plan for a Clean Energy Future, July 7, 2023, at page 28, online: <https://www.ontario.ca/files/2023-07/energy-powering-ontarios-growth-report-en-2023-07-07.pdf>
[65] Enbridge Argument in Chief at para 488.
[66] Enbridge Argument in Chief at para 2 on page 191 [sic].
[67] Enbridge Argument in Chief at para 517.
[68] Transcript Vol 16, page 104, lines 20-23.

even admits in argument there is still much uncertainty as to the impact of energy transition.[69]

121. APPrO questions whether Enbridge should account for energy transition in the calculation of depreciation expenses when it views the risk of stranded assets as "unlikely" and the impact of energy transition as being uncertain. Thus, it is not clear that Enbridge's evidence supports significantly increasing depreciation amounts in the early years of an asset's operating life as being appropriate or equitable for current or future ratepayers.

122. As described in detail by OEB Staff, if Enbridge believes it is appropriate to use depreciation as a tool to address the energy transition, it should propose a methodology that is purposefully designed to do so and that would incorporate issues around stranded assets and utilization where appropriate. Changing the depreciation methodology to solve a different issue (energy transition) is not appropriate.

C. The depreciation expense is driven by distribution related costs

123. APPrO would also like to highlight that a significant driver of the increase in depreciation costs are distribution-related costs. The table below summarizes the 2024 Test Year impact of proposed depreciation rates, as of March 8, 2023:[70]

Intangible Plant	$0
Local Storage Plant	$(0.8) million
Storage Plant	$7.7 million
Transmission	$(3.7) million
Distribution Plant	$166.1 million
General Plant	$(48.5) million
TOTAL DEPRECIATION	**$120.7 million**

124. How those costs are ultimately allocated to customers through cost allocation and rate harmonization may have a material impact on different customer classes, particularly some of APPrO's members. Given the uncertainty around a number

[69] Enbridge Argument in Chief at para 515.
[70] Exhibit 4, Tab 5, Schedule 1, Attachment 2

of cost allocation and harmonization issues, APPrO believes it is prudent to maintain the current depreciation methodology and associated costs.

VII. ISSUE 22 – IS THE PROPOSED PHASE-IN OF INCREASES TO EQUITY THICKNESS OVER THE 2024 TO 2028 TERM APPROPRIATE?

125. APPrO submits that the proposed phase-in of increases to equity thickness over the 2024 to 2028 term are not appropriate. If the OEB believes an increase in equity thickness is appropriate, APPrO would accept an increase to 38% by 2028 based on the analysis undertaken by LEI and comparable figures for other utilities.

126. Enbridge Gas is requesting an increase of its equity thickness from its current level of 36% to 42%, with that increase being phased in over the 2024-2028 horizon – 38% beginning in 2024 and subsequent annual increases of 1%. The revenue impact of that increase is material, resulting an annual increase in rates of $80.6 million (assuming the equity ratio is 42%).[71] APPrO does not support Enbridge's request.

127. Nearly all of the parties discussing equity thickness noted that the major change in risk facing Enbridge is the energy transition. Concentric discussed it both in their evidence and at length in the hearing, as did London Economics International (LEI) and to a lesser extent Dr. Cleary (and did Dr. Hopkins, but his comments were not directly associated with equity thickness). APPrO's comments will largely focus on the evidence of Concentric and LEI.

128. In Enbridge's Argument-in-Chief, Concentric notes that its analysis finds "the energy transition, including its impact on stranded cost risk and reductions in growth opportunities, *is a key element of Concentric's risk assessment [emphasis added]*…"[72]

129. During examination by APPrO, LEI concluded that energy transition is the only change in risk facing Enbridge since the OEB last set its equity thickness. LEI

[71] Undertaking J9.1
[72] Argument in Chief, page 2019

states that all of the other components of risk facing Enbridge, such as volumetric, financial, operational and regulatory risks, have either remained the same or declined since the last OEB review of equity thickness.

130. In fact, Enbridge expects the current system to largely remain in place until well into the future irrespective of the energy transition. This was Enbridge's response when asked whether the company assumes "your system will survive ad infinitum into the future":[73]

> *MS. GIRIDHAR: We are assuming that the gas system* ***will continue to be used as usual in the future****, you know, with the right set of policies and will require to be transformed in some way, shape, or form. We don't expect the status quo to continue out to 2050. There will be changes required to the gas system, but, inherently, I would admit we have difficulty seeing how such an extensive and low-cost system would completely cease to exist in 2050…*

131. There is a lack of evidence that the current equity/debt levels are making it difficult for Enbridge to raise the necessary funds required to cost-effectively run its business. In short, there is simply no evidence that investors are assuming greater risk to Enbridge as a result of the energy transition and failing to provide funding. In fact, the evidence suggests the opposite. LEI's expert concluded that, based on their analysis, "we haven't seen any real evidence today of capital attraction standard not being met."[74]

132. APPrO posits that if there is risk to Enbridge that it is struggling to attract capital as a result of the energy transition, Enbridge has failed to adequately show this to be the case either through the ratings agencies report filed as part of the evidentiary record (which remain supportive of Enbridge's business with high ratings) or a capital plan that sees it reduce the overall size of its rate base – either through lower capital spending overall or capital spending below annual depreciation amounts – to mitigate these concerns.

[73] Transcript Volume 3, page 164
[74] Transcript Volume 10, page 68

133. APPrO further notes that it is difficult to reconcile: (a) Concentric's views on equity thickness and how the energy transition is going to change the future of Enbridge's business; with (b) the lack of material change in Enbridge's proposed operations or capital planning in the application to account for energy transition. In fact, Enbridge is proposing a significant ***increase*** in its capital budget – suggesting that this is not a utility reshaping its capital and budgeting process to account for a material change in its future viability. The only apparent adoption of the energy transition included in this application is a number of what Enbridge refers to as "safe bet" investments. As the same suggests, "safe bet" options entail little risk either to Enbridge's business model (in fact they support the status quo) or its customers.

134. There is great uncertainty on what energy transition means for the gas delivery system. Until the province and the EETP provide clear guidance on the most cost-effective manner of implementing the energy transition, it is not clear that there is a material increase in risk for Enbridge's business. Depending on how the energy transition plays out, the gas delivery system may continue to be used and useful for decades to come, even if the overall utilization or fuel inputs will change. More importantly as it relates to this proceeding, the risk to Enbridge over the next five years is very low given it plans on adding tens of thousands of new small-volume customers annually, industrial customers continue to adopt natural gas through fuel switching and gas-fired generation is expected to increase over the next ten years.

135. At a high-level, Enbridge is planning to expand its asset base, add tens of thousands of both small and large volume consumers, rely on provincial support to attach remote communities and continue to support a hybrid heating model for future space heating. At the same time, the province's electricity grid is facing the potential for a significant capacity deficit over the next decade, which may limit its ability to aggressively adopt electrification polices for space heating.

VIII. ISSUES WHERE APPRO TAKES NO POSITION

136. APPrO takes no position on the following issues:

a. Issue 8 – Are the proposed harmonized indirect overhead capitalization methodology and proposed 2024 overhead amounts appropriate?

b. Issue 10 – Is the 2024 other revenue forecast appropriate?

c. Issue 16 – Are the proposed 2024 Site Restoration Costs appropriate, and should the OEB establish a segregated fund for the Site Restoration Costs?

d. Issue 18 – In relation to the 2024 Test Year gas cost forecast is the 2024 Test Year Parkway Delivery Commitment Incentive (PDCI) Forecast appropriate?

e. Issue 20 – Is the proposed 2024 Capital Structure, including return on equity appropriate?

f. Issue 21 – Is the proposed 2024 cost of debt and equity components of the Capital Structure appropriate?

g. Issue 32 - Is the proposal to close and continue certain deferral and variance accounts and establish new ones appropriate?

h. Issue 33 - Is the proposal to dispose of the forecast balances in certain deferral and variance accounts appropriate?

i. Issue 34 – Is the proposed regulatory treatment of the Natural Gas Vehicle Program appropriate?

j. Issue 37 – Is it appropriate to have an earnings sharing mechanism for 2024?

k. Issue 38 – How should Dawn Parkway capacity turnback risk be dealt with?

l. Issue 40 – Should the OEB grant Enbridge Gas's request for a partial exemption for 2024 from the Call Answering Service Level, Time to Reschedule a Missed Appointment and Meter Reading Performance Measurement targets set out in GDAR?

m. Issue 41 – How should the OEB implement the approved 2024 rates relevant to this proceeding if they cannot be implemented on or before January 1, 2024?