Ontario Energy Board

Quinte Manufacturers Association Submission

Enbridge Gas Inc.

2024 Rates Application - Phase 1

EB-2022-0200

September 19, 2023

OVERVIEW

The Quinte Manufacturers Association ("QMA" or "Association") is pleased to have had the opportunity to participate as an intervenor in this important and complex cost of service proceeding for Enbridge Gas Inc. ("Enbridge Gas" or "EGI") which serves customers across an expansive service territory in Ontario.[1]

Enbridge Gas filed an Application ("Application") with the Ontario Energy Board ("OEB" or "Board") for approval to change rates for the storage, transportation, and distribution of natural gas it charges to its customers across its service territory in Ontario effective January 1, 2024. The Application also included a proposal for an incentive rate-making mechanism ("IRM") to cover the 2025-2028 rate period. The review of the Application was initially divided into two initial phases ("Phase 1" and "Phase 2"; a further "Phase 3" is proposed) by the Board in Procedural order No. 2 which also included the formal Issues List for the proceeding. The focus of this proceeding is to assist the Board in its determination on 2024 rates and other charges – Phase 1. The Application was assigned docket number EB-2022-0200.

The QMA appreciates the effort of all parties in the proceeding who contributed to the evidentiary record in this very challenging and complex cost of service application. The central driving issue in EGI's Application is the impact of energy transition ("ET") on its business as Ontario and Canada move towards a decarbonized future.[2]

Enbridge Gas has provided, in its extensive filing of evidence (as corrected from time to time), an exhaustive exploration and accounting of issues that it feels will provide a solid financial base for the company with a fair return to its shareholders and benefits to its very large customer base.

Given the evolving state of energy transition, the QMA is of the view that EGI, has in its evidence and confirmed through its consultants and witness testimony, identified ET issues that will affect customers and utility operations have been. The QMA believes these issues have been carefully considered throughout the Application. The Association also recognizes this is a challenging task given weak government policy direction and uncertainty on a clear path forward for energy transition in Ontario.

[1] Enbridge Gas Inc. is the name of the new corporation as a result of the amalgamation of Union Gas Limited and Enbridge Gas Distribution Inc. (the "legacy utilities") which became effective January 1, 2019. QMA members were previously served by Union Gas Limited.
[2] Energy transition to decarbonization/net-zero is a fast-moving global phenomenon. It is a business factor that QMA member manufacturers and processors are facing and must address in competitive markets.

Although many issues identified on the Issues List were of initial concern to the QMA, matters regarding fair and reasonable pricing for the delivery, reliability, and security of supply of natural gas for manufacturing and processing purposes are of significant concern to the QMA. The Association's concerns have been focused on the significance of impacts to manufacturers post amalgamation when Union Gas Limited service was switched to Enbridge Gas Inc.

The QMA participated in a technical conference, a settlement conference, and the oral hearing. The Association was a signatory to the resulting Settlement Proposal between the intervenors and Enbridge Gas. The Settlement Proposal which addressed many issues on the Issues List for Phase 1 was accepted by the Board on August 17, 2023.

SELECTED ISSUES

In the following sections, the QMA offers comments on those issues that are important to the Association.

Customer Benefits Post Amalgamation Proceeding EB-2017-0306/0307

While the QMA did not participate in the above-noted proceeding, the Association recognizes the efforts EGI has made in reducing costs and finding efficiencies that would benefit customers going forward as a result of the amalgamation of the legacy utilities.

In general, the QMA does not take issue with EGI's integration capital investments reflected over the deferred rebasing term. Enbridge Gas also realized an increase in total annual savings each year during the deferred rebasing term, a permanent savings of $86 million in integrated operations and maintenance to be reached in 2023.[3,4] Other synergy savings funded other integration projects during the deferred rebasing period. The QMA views this as good business practice.

Although amalgamation savings benefit gas customers are always welcomed by Association members, it is important to note that EGI's operations and maintenance costs as indicated in their evidence will also continue to rise over time. For example, the implementation of the Ontario government's *Getting Ontario Connected Act, 2022* which came into force on April 14, 2022, has and will contribute new operations and maintenance costs. The QMA recognizes these as a regulatory cost of doing business in Ontario. QMA members also experienced, over the same period of EGI's deferred rebasing term, comparable cost pressures due to certain factors triggered by the COVID-19 pandemic, labour shortages, supply chain issues, rapid inflation pressures and related economic conditions in Canada and around the world. These issues have had a significant and challenging impact on business.

[3] Exhibit 1/Tab 9/Schedule 1/Table 3.
[4] Argument in Chief, Para 227, pg. 85

QMA Position

The QMA has recognized certain benefits as a result of the amalgamation, but one of the most important for manufacturers has been the apparent seamless switch-over from legacy Union Gas to Enbridge Gas with the same level and quality of service over the rebasing period. This is appreciated by the Association. The QMA also understands the challenges faced in corporate amalgamations and business rationalization and the blending of corporate cultures and takes no issue with EGI's management and operation of its business during the post amalgamation period.

Energy Transition

Energy transition of and how it is beginning to impact business is a growing concern of manufacturers and processors. The pathway that is necessary to follow to get to a progressive and sustainable way of reducing our collective carbon footprint in Ontario is not yet clear as testimony in the oral portion of the hearing demonstrated. The absence of a clear energy transition plan and implementation timelines going forward induces unacceptable levels of corporate risk (e.g. appropriate equity levels, credit, customer attachments/detachments, depreciation values, and stranded assets, etc.) that may need to be avoided. Consequently, the broader costs associated with transitioning Ontario's economy to a low carbon and environmentally more sustainable energy future in all sectors of the economy must be identified and quantified.

QMA members are actively engaged in world markets and participate in the global supply chain where sustainability and energy transition rules are increasingly important to production input and output. As the Association indicated in its opening statement at the beginning of the oral hearing, decarbonization energy transition drivers are a reality for members. As noted in EGI's evidence in this proceeding, there is currently a policy direction vacuum for energy transition beyond 2030. The Ontario Government has not yet established how a decarbonized, net-zero future will be achieved and by when, and how the economy and end-use energy consumers will be impacted.[5] Nevertheless, EGI with the assistance of its expert consultants Guidehouse and Postarity Group has built important energy transition assumptions into its capital plan concerning demand forecasting and integrated resource planning processes based on its best assessment of how ET directions may impact its business.[6]

The reports of all the consultants providing evidence in this proceeding are interesting in how they see the energy transition environment unfolding for Enbridge Gas and its customers. They are an environmental scan of how the net-zero future may unfold based on information and

[5] Exhibit 1/Tab 10/Schedule 6
[6] Argument in Chief, Paragraph 388, pg. 139-140

provincial government policy that was available at the time the reports were prepared. The QMA finds the reports helpful and informative as guideposts for the future but cautions against applying too much weight to the study outcomes regarding customer needs and wants and how EGI should respond without clear government direction going forward. They may be helpful from a residential customer perspective and how Enbridge Gas may respond to the net-zero interests of residential customers and suitable for the Phase 1 filing. The QMA is supportive of EGI's work in this area which is heavily focused on its large residential customer base. Manufacturers also need the government to set the ET policy pathway to help inform good business decisions and how Enbridge Gas can assist going forward.

Ms. Giridhar made a relevant observation during cross-examination by Mr. Shepherd when they were discussing the possibility of customers disconnecting from the gas system as a result of energy transition. She made the following statement that the QMA agrees with: *"I don't think we need to conclude that everybody is disconnected off the gas system and they are relying on electricity… I think that is a future we have difficulty envisioning, based on everything we know about the cost of getting to net zero… The Government has to figure out what it wants to spend on energy system resiliency, versus health care, versus education, et cetera. So let's wait for the government to tell us how they want to make those allocative decisions."*[7]

The QMA agrees with EGI that any decision the Board may make on 2024 rates must have regard to the Ontario government's energy policy which, until recently, has provided little direction on the province's clean energy future including the drive to net-zero carbon emissions. During this proceeding, on July 10, 2023, the Ontario Ministry of Energy released "*Powering Ontario's Growth*" which outlines the government's plan for Ontario's energy future. In addition, the Electrification and Energy Transition Panel has been established by the government to assist in policy planning and development. The QMA views these is important and helpful steps in the clean energy pathway forward.[8]

Much of the evidence and testimony concerning energy transition during the hearing phase of this proceeding focused on various decarbonization scenarios put forward by consultants on what Ontario's ET future might look like and why EGI needs to consider investing in suitable energy transition alternatives including the reduction of carbon emissions using hydrogen and renewable natural gas. In its energy transition plan, EGI has developed a set of "Safe Bets" to reduce near-term carbon emissions.

Notwithstanding the desire and need for a lower carbon future, the QMA believes natural gas will remain a necessary, reliable cost-effective energy source for member manufacturers and processors into the future. The QMA agrees that the Ontario energy transition future must be

[7] Transcript 3, pg. 93-94
[8] Argument in Chief, Para. 75, pg.26

planned for, but the pathways to that future remain in flux at this time as discussed above. The QMA supports the measured preliminary approach EGI is taking with its energy transition planning and "safe bet" scenarios as presented in its evidence.[9,10]

QMA Position

The QMA is not opposed the energy transition proposals EGI has put forward in its Application, as amended, and is supportive of the fact that Enbridge Gas is not waiting for specific government direction before moving the utility forward on energy transition. EGI has the steps it feels are necessary to move forward on energy transition by incorporating such activities as embedding IRP into the planning and asset management process, a hydrogen study, and investments in moving customers to low carbon fuels as part of their capital planning work.[11]

Prudent renewable natural gas investments, finding ways to decarbonize the transportation and industrial (including manufacturing/processing) sectors, working to better integrate planning and coordination of gas and electric systems, and working with customers impacted by energy transition requires, careful regulatory monitoring and oversight by the Board where jurisdiction permits. The QMA members work with the rules established in other jurisdictions that are moving forward on energy transition initiatives – there is no choice for QMA members if they wish to complete globally.

The Association believes for energy transition to be implemented effectively, the Ontario government must provide the leadership and the coordinating effort necessary to bring the appropriate parties together to build-out the implementing framework necessary that goes beyond 2030 to a net-zero carbon future. Although Enbridge Gas has, in the Association's view, demonstrated in this proceeding that it is working hard to address the energy transition issue, it can not do so, as a single utility, on its own.

The QMA is of the view is that coordinated regulatory oversight is necessary to ensure ratepayers, and manufacturers in particular, benefit from EGI's energy transition investments going forward.

Comment on Cost of Capital

The matter of utility capital structure and the impact of emergence of energy transition risk (stranding of assets, customer attachments/detachments, etc.) on Enbridge Gas is an interesting issue for QMA members. The QMA recognizes the fact that there have been substantial changes in the risk profiles of certain businesses in the past few years because of global

[9] Argument in Chief, para. 44, pg. 16
[10] Argument in Chief, para. 94,d), pg. 35
[11] Argument in chief, Para.441, pg. 164

economic conditions combined with dynamic energy transition issues. That said, the QMA does not disagree with the business and financial risks EGI has identified in its evidence and through witness testimony, but also believes it is somewhat premature to be speculating about a corporate "death spiral" for a company as resilient as Enbridge Gas is in Ontario.[12]

The QMA believes that given the evidence presented, the utility comparators provided, and expert testimony, it is fair and reasonable to recognize an increase in EGI's business risk and to boost the equity ratio at this time, but in a gradual or stepwise manner to best manage the impact on rates over the 2025-2028 period of the rate plan.

The QMA takes no position on what the "correct" equity ratio number should be but notes that it appears to fall between 38% and 42% according to the expert witnesses for London Economics and Concentric respectively.[13] Board Staff supports the increase to 38% and the QMA has no objection to that increase. This remains an important matter that the Board should carefully monitor going forward as the energy transition environment develops over the term of the rate plan.

Comment on Rate Implementation

The QMA is not opposed to the establishment of interim just and reasonable rates effective January 1, 2024, and recognizes rate adjustments may be required as a consequence of determinations made in the Phase 2 portion of the proceeding.

Other Matters

The QMA has reviewed the submissions of Board Staff on other matters of concern in this proceeding and is supportive of those positions.

- All of which is respectfully submitted -

[12] Argument in Chief, Para. 607, pg. 224 and Concentric Report
[13] Argument in Chief, Para. 623-624, pg. 230