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**BY EMAIL**

January 11, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Hearing on the Ontario Energy Board's own Motion on Enbridge Gas Inc.'s  
2021 Vector Contracting Decision  
OEB File Number: EB-2023-0326**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the Notice of Hearing and Procedural Order No. 1.

Yours truly,

*Original Signed By*

Petar Prazic  
Natural Gas Applications

Encl.

cc: All parties in EB-2023-0326



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Enbridge Gas Inc.**

**Hearing on the Ontario Energy Board's own Motion on  
Enbridge Gas Inc.'s 2021 Vector Contracting Decision**

**EB-2023-0326**

**January 11, 2024**

## Background

On March 1, 2023, the Ontario Energy Board (OEB) initiated a consultation to review the 2023 annual update to the five-year natural gas supply plan (GSP) of Enbridge Gas Inc. (Enbridge Gas) (2023 Annual Update) in accordance with the gas supply plan assessment process established in the OEB's [Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans](#) (Gas Supply Framework).<sup>1</sup>

In contrast to previous years' reviews of Enbridge Gas's annual updates to its five-year GSP, in response to Enbridge Gas's request and subsequent comments of stakeholders, the review of the 2023 Annual Update focused on the single issue related to Enbridge Gas's contract with Vector Pipeline (Vector).

On October 30, 2023, OEB staff issued its report in which it recommended that, in response to material prudence issues raised by FRPO and supported by other stakeholders during the review, the prudence of the November 1, 2021 Vector contracting decision should be determined by a panel of Commissioners.

On November 15, 2023, the OEB issued a Notice of Hearing and Procedural Order No. 1, in which the OEB announced it would hold a hearing on its own motion to determine the prudence of Enbridge Gas's 2021 Vector contracting decision, pursuant to sections 19(4) and 36 of the *Ontario Energy Board Act, 1998*.<sup>2</sup> The Notice of Hearing and Procedural Order approved all participants in the 2023 Annual Update as intervenors in the hearing. The OEB assigned file number EB-2023-0326 to this matter and indicated that the hearing would be held in writing.

For the purpose of this hearing, the OEB has relied on the record from the consultation on Enbridge Gas's 2023 Annual Update to its GSP<sup>3</sup> and the consultation on Enbridge Gas's 2022 Annual Update to its GSP.<sup>4</sup> The OEB was of the view that no further discovery was necessary and proceeded directly to arguments, in writing, on the prudence of Enbridge Gas's Vector Pipeline contracting decision.

The sole issue and scope of this proceeding is whether Enbridge Gas's 2021 Vector contracting decision was prudent. In that context, and without limiting the scope of submissions, the OEB noted that it was particularly interested in comments on the following questions:

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<sup>1</sup> EB-2023-0072

<sup>2</sup> EB-2023-0326

<sup>3</sup> EB-2023-0072

<sup>4</sup> EB-2022-0072

- In addition to the OEB's Guiding Principles for the Assessment of Gas Supply Plans,<sup>5</sup> is the Incremental Transportation Contracting Analysis approved in EB-2005-0520<sup>6</sup> informative in the assessment of the prudence of Enbridge Gas's 2021 Vector contracting decision, and if so, how?
- If the 2021 Vector contracting decision is found to be imprudent, how should any cost consequences be determined and addressed?

Enbridge Gas filed its argument-in-chief on December 7, 2023, in which it reiterated its view that there is no basis to find that the 2021 Vector contracting decision was imprudent.

OEB staff's position that Enbridge Gas's 2021 Vector contracting decision was prudent is unchanged from its report on the 2023 Annual Update.<sup>7</sup> To be of assistance to the OEB, in this submission, OEB staff will provide:

- a) Confirmation that OEB staff's analysis as set out in its report in the 2023 Annual Update, which supported OEB staff's view that the contracting decision was prudent, is consistent with both the OEB's Guiding Principles for the Assessment of Gas Supply Plans<sup>8</sup> and the Incremental Transportation Contracting Analysis approved in EB-2005-0520.<sup>9</sup>
- b) A summary of a potential option for addressing the cost consequences of the 2021 Vector contracting decision in the event the OEB finds that the decision was imprudent.

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<sup>5</sup> EB-2017-0129, Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans, October 25, 2018, pp. 7-8.

<sup>6</sup> EB-2005-0520, Decision with Reasons, Appendix B to the Settlement Proposal, June 29, 2006.

<sup>7</sup> EB-2023-0072, OEB Staff Report to the Ontario Energy Board: Review of 2023 Annual Update to Enbridge Gas Inc. Natural Gas Supply Plan, October 30, 2023.

<sup>8</sup> EB-2017-0129, Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans, October 25, 2018, pp. 7-8.

<sup>9</sup> EB-2005-0520, Decision with Reasons, Appendix B to the Settlement Proposal, June 29, 2006.

## OEB Staff Submission

### 2021 Vector Contract Decision Analysis

OEB staff's analysis in its report on the 2023 Annual Update is consistent with both the OEB's Guiding Principles for the Assessment of Gas Supply Plans<sup>10</sup> and the Incremental Transportation Contracting Analysis approved in EB-2005-0520.

The Gas Supply Framework set out the OEB's approach for the assessment of rate-regulated natural gas distributors' supply plans. It identified three guiding principles to be used in assessing the distributors' GSPs:

- **Cost-effectiveness** – The GSP will be cost-effective. Cost-effectiveness is achieved by appropriately balancing the principles and in executing the supply plan in an economically efficient manner.
- **Reliability and security of supply** – The GSP will ensure the reliable and secure supply of natural gas. Reliability and security of supply is achieved by ensuring gas supply to various receipt points to meet planned peak day and seasonal gas delivery requirements.
- **Public policy** – The GSP will be developed to ensure that it supports and is aligned with public policy where appropriate.

The OEB's Decision in EB-2005-0520 required Union Gas to provide an Incremental Transportation Contracting Analysis for any new or extensions to existing upstream transportation contracts with a term of one year or longer that would form part of Union's sales service gas supply arrangements.<sup>11</sup> The Incremental Transportation Contracting Analysis includes:

- Union's rationale for entering into the new transportation contract.
- All relevant transportation contract parameters, including: transportation provider, term, price, receipt and delivery point.
- A quantitative comparison of the landed costs for newly contracted capacity to alternatives reviewed by Union at the time of its decision in the form attached.
- A quantitative and/or qualitative consideration of additional factors considered relevant by Union that may include, but not be limited to:
  - Overall security of supply

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<sup>10</sup> EB-2017-0129, Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans, October 25, 2018, pp. 7-8.

<sup>11</sup> EB-2005-0520, Decision with Reasons, Appendix B to the Settlement Proposal, June 29, 2006.

- Supply basin diversity
- Contract term diversity
- Pipeline operator diversity
- Pipeline terms and conditions, and record of service
- Monthly demand charge/commodity charge structure

While OEB staff's analysis in its report on the 2023 Annual Update referred to the principles set out in the OEB's Gas Supply Framework, those principles are consistent with the analysis outlined above in Appendix B to the settlement agreement approved in the EB-2005-0520 Decision. Therefore, OEB staff confirms that its analysis in its report on the 2023 Annual Update is consistent with both the OEB's Gas Supply Framework and the Incremental Transportation Contracting Analysis approved in EB-2005-0520. OEB staff's analysis speaks to balancing the principles of cost effectiveness, reliability, and security of supply, which are the main principles set out in the OEB's Gas Supply Framework and Appendix B of the above-referenced Decision. The result of OEB staff's analysis, as set out in its report on the 2023 Annual Update, is that Enbridge Gas's 2021 Vector contracting decision was prudent.

In other words, OEB staff submits that the starting point for assessing the prudence of the Vector contracting decision is the Gas Supply Framework which sets out the guiding principles. It is not strictly necessary to look to the criteria set out in Appendix B of the settlement agreement approved in EB-2005-0520. However, there is no contradiction between the Gas Supply Framework and the EB-2005-0520 criteria. Applying those criteria leads to the same result: the Vector contracting decision was prudent.

#### Potential Option for Addressing the Cost Consequences of Enbridge Gas's 2021 Vector Contracting Decision in the Context of a Finding of Imprudence

If the OEB were to disagree with OEB staff and find that the 2021 Vector contracting decision was impudent, one potential option would be to disallow the recovery of the cost premium of the 2021 Vector contracting decision. OEB staff submits that this disallowance should be applied on a prospective basis. OEB staff agrees with Enbridge Gas that the OEB should not impose retroactive rate adjustments as the 2022 Annual Update was already reviewed through the process outlined in the Gas Supply Framework and did not result in a hearing on the prudence of the Vector contracting decision (as OEB staff supported the contracting decision and the OEB did not initiate a hearing by a panel of Commissioners).<sup>12</sup> Additionally, the costs associated with this contract have been approved in Quarterly Rate Adjustment (QRAM) proceedings every quarter starting with Enbridge Gas's January 1, 2022 QRAM.<sup>13</sup> On this basis, the

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<sup>12</sup> EB-2023-0326, Enbridge Gas Inc. Argument-in-Chief, p. 16.

<sup>13</sup> EB-2021-0281, Enbridge Gas Application for quarterly rate adjustment mechanism commencing January 1, 2022.

starting point for any disallowance should be November 1, 2023, as October 30, 2023 is the date that the OEB first signaled that it would hold a hearing to review the prudence of the 2021 Vector contracting decision.<sup>14</sup>

With respect to the calculation of the cost premium disallowance that could be applied on a prospective basis (from November 1, 2023 to the end of the contract (October 31, 2026)), OEB staff submits that the calculation should be based on the ICF landed cost analysis.<sup>15</sup> Enbridge Gas noted that, at the time of contracting, landed supply transported on the new and renewed Vector capacity had an expected total premium over Dawn supply for the new and renewed contracts over the 5-year term ending October 31, 2026 of \$0.09 CAD/GJ using the landed cost analysis informed by a natural gas price forecast prepared by ICF.<sup>16</sup> OEB staff submits that it is appropriate to use the ICF landed cost analysis (as opposed to market settlement data) as the cost premium in the ICF landed cost analysis reflects the incremental cost of the Vector contract relative to Dawn supply that was known by Enbridge Gas when it decided to proceed with its contracting decision. In addition, the ICF analysis is more appropriate to use for this calculation than the market settlement data as it better reflects the long-term nature of the Vector contract.

If the OEB were to disallow cost recovery (which OEB staff disagrees with as OEB staff believes that the contracting decision was prudent), Enbridge Gas should be required to calculate the November 1, 2023 to October 31, 2026 forecast cost premium as derived from the ICF landed cost analysis for that time period.<sup>17</sup> This amount would be applied as a credit to ratepayers through the Purchased Gas Variance Account at the next available Quarterly Rate Adjustment Mechanism proceeding. The disallowance could be credited to ratepayers over a period of time (to the end of the contract term).

~All of which is respectfully submitted~

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<sup>14</sup> EB-2023-0072, Cover Letter to OEB Staff Report to the Ontario Energy Board: Review of 2023 Annual Update to Enbridge Gas Inc. Natural Gas Supply Plan, October 30, 2023.

<sup>15</sup> ICF is a third-party consultant that produced a five-year forecast and landed cost analysis which Enbridge Gas used to make its Vector contracting decision. The methodology has been used by Enbridge Gas and previously accepted by the OEB for several years.

<sup>16</sup> EB-2023-0326, Enbridge Gas Inc. Argument-in-Chief, p. 7.

<sup>17</sup> OEB staff asks that Enbridge Gas calculate, and provide in its reply submission, the amount resulting from OEB staff's methodology so the OEB has the potential quantum of the disallowance when making its decision.