ENBRIDGE

Mark Kitchen
Director, Regulatory Affairs &
Ombuds Office

tel 416-495-5499
EGIRegulatoryProceedings@enbridge.com

Enbridge Gas Inc.
P. O. Box 2001
50 Keil Drive North
Chatham, ON N7M 5M1

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VIA RESS AND EMAIL

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Nancy Marconi:

**Re: Enbridge Gas Inc. (Enbridge Gas, or the Company)
EB-2022-0200 – 2024 Rebasing – Response to Environmental Defence (ED) Letter regarding Extra Length Charge**

I am writing on behalf of Enbridge Gas in response to the letter filed by ED on April 22, 2024, in the above-noted proceeding.

Contrary to ED's allegation that Enbridge Gas is non-compliant with the Ontario Energy Board's (OEB) orders related to the extra length charge (ELC), Enbridge Gas has acted appropriately and expeditiously to implement the new charge as part of the draft rate order (DRO) process for setting 2024 rates (which were approved by the OEB on April 11[1]) as well as informing affected residents in certain Community Expansion (CE) areas of the new ELC coming into effect on May 1 as part of ongoing project-related communications. Further, by continuing to apply the current ELC to residents that request gas service prior to May 1, Enbridge Gas's approach is consistent with both the expectations set out in E.B.O. 188 (that economic feasibility be based on existing rates at the time of the evaluation) and the policy objectives underpinning the Natural Gas Expansion Program (NGEP).

In contrast, ED's narrow interpretation of the issue is singularly aimed at deterring gas connections, while ignoring the practical reality of the time and resources needed to give effect to the new charge via the DRO process and the public interest considerations underlying the NGEP.

Enbridge Gas's response is set out in greater detail below.

[1] EB-2022-0200, OEB Interim Rate Order (April 11, 2024) [link]: see Appendix B, p. 111 of 120, for the new ELC rate set out in Rider G.

1. **Enbridge Gas has acted diligently and appropriately to implement the new ELC through the DRO process for setting 2024 rates**

In its Phase 1 rebasing decision, the OEB approved “the proposed ELC of $159 per metre beyond the first 20 meters for use in 2024”.[2] Enbridge Gas worked diligently and expeditiously to understand the implications of the Phase 1 decision and to implement 2024 rates. It took tremendous efforts to successfully meet the DRO timelines, which included the filing of a DRO by Enbridge Gas on February 16, followed by an updated DRO on March 15 – along with reply to OEB staff/intervenor comments – and a further update on April 9. The OEB approved the Rate Order on April 11, which included Enbridge Gas’s Rate Handbook (see Rider G for the new ELC) with an effective date of May 1, 2024.

The new ELC only applies prospectively from May 1 since that is the date of the Rate Order. Until that date, the old Rider G applies in the EGD rate zone and the Distribution New Business Guidelines in the Union rate zone. As further discussed in Section 3 below, Enbridge Gas’s practice and interpretation is to apply the old charges where these were already communicated to and relied upon by potential customers.

In claiming that the new ELC should be effective as of January 1 instead of May 1, ED ignores the complexity and efforts required in interpreting and giving effect to the outcomes of the Phase 1 decision, of which the newly approved ELC was a part. This exercise was further complicated by the uncertainty that followed the release of the Phase 1 decision, in no small part due to the OEB’s order to eliminate the revenue horizon as of January 1, 2025 and the Ontario Government’s announced plan to reverse that order (Bill 165 has since then been introduced to, in part, do just that for a limited time). This is because the ELC as an element of the connection and feasibility policy is related to the revenue horizon issue, and understanding how the ELC would be implemented was part of the Company’s larger exercise in understanding the full implications of the Phase 1 decision and the subsequent introduction of Bill 165.

The passage from the Phase 1 decision quoted in ED’s letter says that the “OEB agrees that [2024 rates] should be implemented as soon as possible after approval…”, which is precisely what Enbridge Gas has achieved (together with the OEB, Staff and intervenors involved in the DRO) via significant efforts in a few short months. Implementing changes to connection policies and charges (such as the ELC) is not as simple as ED suggests, and in fact involves system changes, updates to communications and customer materials, as well as outreach to market participants (in addition to impacted customers). Picking an effective date different from May 1 would have been arbitrary and required specific OEB approval. That could have taken away from the rest of the DRO work, potentially delaying May 1 implementation for interim rates.

[2] EB-2022-0200, OEB Phase 1 Decision and Order (December 21, 2023) [link], p. 50.

2. Enbridge Gas acted reasonably in notifying potentially affected residents of the new ELC as part of its normal course communications on CE projects

ED objects to Enbridge Gas's communications with potentially impacted residents to inform them of the new ELC and tries to paint these communications as encouraging residents to "circumvent implementation of the new charges". Enbridge Gas strongly disagrees with this mischaracterization.

ED fails to recognize the need for and importance of keeping CE communities apprised of relevant updates as part of the Company's normal course practice. To suggest that Enbridge Gas is somehow intentionally encouraging residents to apply in a manner that circumvents the OEB's order is a baseless accusation. The choice of whether/when to connect to a CE project is always the customer's. Enbridge Gas does not exert inappropriate influence in this regard, and in this case it has simply made residents aware of the ELC change and the effective date, so they are equipped with the latest information to plan and decide accordingly.

It is also important to bear in mind the context of the NGEP. The in-flight CE projects have been in development for years by Enbridge Gas in accordance with established government policy and regulatory construct, requiring the Company to remain in close contact with the communities and potential customers. Like any noteworthy project updates or changes that are communicated, the new ELC was brought to the attention of potentially impacted residents.

Furthermore, the policy intent of the NGEP is to expand access to natural gas to areas of Ontario that currently do not have access to gas distribution service, to make life more affordable for families and businesses and to help increase economic development and job opportunities for those communities.[3] Enbridge Gas has worked closely with communities and stakeholders to advance the NGEP; and informing potential customers of the new ELC – so they can factor it into their decision-making – helps to facilitate customer choice in line with the public interest. In contrast, ED's April 22, 2024 letter should be read in the context of its particular interests in the CE proceedings, which expressly include the promotion of electric heat pumps for CE project areas.[4] In aiming to deter access to natural gas under a priority government program, ED's narrow interpretation on the ELC issue is incongruent with the public policy objectives of the NGEP.

3. Applying the current ELC to CE service applications made prior to May 1, 2024, is consistent with the typical approach to evaluating economic feasibility

Enbridge Gas disagrees with ED's argument that "it is inconsistent with the OEB decision to determine whether the old or new charges apply based on the date a connection application is received, as that is arbitrary and fails to protect existing customers from subsidizing new connections". Although a fixed service charge, the

[3] https://www.ontario.ca/page/natural-gas-expansion-program
[4] EB-2023-0313, OEB Decision and Order (December 13, 2023) [link], p. 16.

purpose of the ELC is similar to that of the contribution in aid of construction (CIAC), in that some connections require upfront charges to support project economic feasibility. Enbridge Gas's typical practice is to set the CIAC at the time of the customer application for service. In this respect, the Company's approach to the ELC for CE project connections is consistent with the intent and practice behind the CIAC and aligned with the expectations set out in E.B.O. 188 that feasibility evaluations leverage existing rates (and other financial parameters) in place at the time of the evaluation, regardless of in-service timing.

As noted above, some CE projects have been in development for years, and residents and businesses in the relevant communities are expecting to obtain access to natural gas based on the project scope and cost assumptions (including the ELC rate) previously communicated to them. To ensure fair treatment of CE communities under a priority government program, Enbridge Gas believes it is reasonable to provide notice regarding the new ELC (which it has done via standard outreach for certain in-flight CE projects) and allow residents an opportunity to apply, if they so choose, before the new charge comes into effect.

4. **Contrary to ED's speculation, there are no "significant subsidies" resulting from Enbridge Gas's approach to the ELC**

ED asserts without basis that Enbridge Gas's approach to the ELC will result in "significant subsidies from existing ratepayers to new customers". This is incorrect. The fact is that only a small number of residents and service applications are potentially affected by the ELC issue. Recognizing that the actual number and timing of attachments from year to year remain to be seen, Enbridge Gas anticipates less than 300 *s*ervice connections for NGEP Phase 2 CE projects in total for 2024 – the majority of which are not likely to incur ELC payments. Further, less than 200 connection applications have been received year to date, which contradicts ED's speculation about an "unusually high number of customers" applying to connect to these projects. As such, any resulting impact to the projects' profitability index is expected to be small.

ED's argument about subsidies also overlooks the reality of how and when the shortfalls (if any) in actual project revenue relative to costs will be dealt with, which is a risk to be borne by Enbridge Gas during the 10-year rate stability period of each project and to be reviewed by the OEB in the first rebasing after the expiry of such period. Lastly, ED seems to ignore the fact that overall project feasibility is generally improved with additional connections, either with application of the current or new ELC.

Please let us know if there are any questions.

Sincerely,

Mark Kitchen

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Director, Regulatory Affairs & Ombuds Office