

ENBRIDGE SUSTAIN ACTIVITIES ARE NOT FUNDED THROUGH RATES

1. This evidence describes the treatment of the costs related to Enbridge Sustain and demonstrates that the activities of Enbridge Sustain are not included in the budgets that underpin Enbridge Gas utility rates.
2. Enbridge Gas has provided this evidence to reflect the following issue that is being addressed in Phase 2 of this Application.

27) Has Enbridge Gas demonstrated that Enbridge Sustain's activities are not funded through rates?

3. This evidence is organized as follows:
 1. What is Enbridge Sustain
 2. No Enbridge Sustain costs are included in the budgets underpinning 2024 Rates
 3. Current treatment of Enbridge Sustain costs
 4. Enbridge Sustain as an affiliate business

1. What is Enbridge Sustain

4. Enbridge Sustain is a registered business name and an unregulated line of business carried on by Enbridge Gas Inc. (Enbridge Gas).
5. The products and services offered by Enbridge Sustain are expected to include the following: geothermal heating and cooling systems, hybrid heating systems, solar power generation, electric vehicle charging, and large scale retrofit projects. Overall, these products aim to support customers seeking to use new end-use technology options.

6. These activities are consistent with the services that Enbridge Gas is permitted to undertake pursuant to the applicable Ministerial Directives.¹
7. While Enbridge Sustain has been launched, it is still in an early stage of development with very few active projects.
8. Enbridge Sustain is working with industry participants and HVAC contractors to bring these products and services to market. There are no direct Enbridge Sustain operating costs related to project execution.
9. Product design and construction of assets and equipment are carried out by industry participants and contractors working with Enbridge Sustain. These assets are owned by Enbridge Sustain and recorded separately in the accounts of Enbridge Sustain, and not in the accounts related to the regulated utility.
10. While each product has a different model, generally customers will enter into a long-term agreement with Enbridge Sustain to provide one of the energy solutions listed above. In such cases, Enbridge Sustain contracts with a construction contractor or other industry participant to install the assets and equipment required to deliver the solution. Under this arrangement, Enbridge Sustain pays the contractor and subsequently owns the asset after construction is completed.
11. Enbridge Sustain has a variety of energy service agreements with revenue generated from customers used to support the underlying assets and business overall.
12. Direct operating costs incurred by Enbridge Sustain to date arise from three key areas: development of products including commercial structure and pricing;

¹ August 10, 2006 (OIC 1537/2006) and September 8, 2009 (OIC 1540/2009).

development of systems including customer management (billing) and other digital tools; and finally, sales and marketing activities to acquire customers and projects.

13. Most of these direct costs are employee labour for roles entirely dedicated to Enbridge Sustain activities. These roles are newly created since Enbridge Sustain was established - no positions or costs were included in the Enbridge Gas utility O&M budget presented in the 2024 rebasing application. Indirect costs relate to advisory services from Enbridge Gas employees to provide services like consulting, legal and technical support to design each product.

2.No Enbridge Sustain Costs Are Included in The Budgets Underpinning 2024 Rates

14. None of the costs pertaining to Enbridge Sustain formed part of the 2024 Utility Test Year O&M forecast and are not included in utility base rates to any extent. Thus, Enbridge Sustain costs are not funded by utility base rates. Enbridge Sustain costs are currently funded through a combination of revenue generated through Enbridge Sustain programs and the funding sources of the unregulated operations of Enbridge Gas.
15. At the time that Enbridge Gas developed its 2024 O&M budget in early 2022, the Enbridge Sustain business was in early stages of consideration. The O&M budget set out the resources and costs necessary for the Company to provide safe and reliable regulated gas distribution service. Activities related to the Enbridge Sustain business were not included in the as-filed 2024 O&M budget. Similarly, no amounts were included as O&M cost offsets, to reflect anticipated services provided by the regulated entity to Enbridge Sustain.
16. Had any amounts related to Enbridge Sustain been included in the 2024 O&M budget, they would have been offset by the amounts to be paid directly or indirectly

by Enbridge Sustain for receipt of services. Moreover, any such amounts would have been very small compared to the base O&M budget of approximately \$1,113 million²³.

3. Current Treatment of Enbridge Sustain Costs

17. While Enbridge Sustain is currently operated as a line of business within Enbridge Gas, it is treated as though it is an affiliate and costs are charged to Enbridge Sustain on a fully allocated basis, consistent with the requirements of the Affiliate Relationships Code for Gas Utilities (ARC).
18. The magnitude of operating costs related to Enbridge Sustain are modest in the scope and scale of the full Enbridge Gas operation.
19. The Enbridge Sustain team is currently made up of 31 full-time Enbridge Gas employees (FTE) in positions that include sales, operations, marketing, product and customer experience functions. All salaries and other related costs are treated as 100% non-utility.
20. Additionally, support services are provided to Enbridge Sustain by other Enbridge Gas staff members in areas such as legal, supply chain, finance, technology (TIS) and human resources. Enbridge Gas employees who are providing support services directly to Enbridge Sustain track their time and related costs are treated as 100% non-utility and are charged to the Enbridge Sustain unregulated line of business. Enbridge Gas has documented processes in place to ensure that such costs are charged on a fully allocated basis and that none of the costs are passed to utility ratepayers. Further, Enbridge Sustain will also be charged for general

² EB-2022-0200, Settlement Agreement, Exhibit O1, Tab 1, Schedule 1, August 17, 2023, p.30.

³ \$1,113 million is the gross O&M budget net of DSM related costs.

support in these areas through the Central Function Cost Allocation Methodology. Further details on the allocation of costs are provided below.

21. Details regarding the reporting and billing process related to regulated services provided to Enbridge Sustain are set out at Attachment 1 and Attachment 2 to this Exhibit. These documents show Enbridge Gas has the necessary processes and policies in place to ensure Enbridge Sustain's activities are not "funded through rates".

22. The Enbridge Sustain actual operating costs for 2023 and 2024 year to date, along with details of each item, are set out below.

Table 1
Enbridge Sustain 2023 and 2024 Operating Costs

Line No.	Particulars (\$ millions)	2023 Actuals	2024 Actuals YTD - May 2024	Treatment
	<u>Cost Types</u>			
1	Direct Costs	4.8	2.0	Paid directly; do not flow through utility
2	HR Burden	0.7	0.3	Charged to Enbridge Sustain from regulated utility at weighted average burden rates
3	Indirect Costs	0.6	0.1	Charged to Enbridge Sustain from regulated utility at fully allocated cost rates
4	Corporate Cost Allocations	0.3	0.1	Paid directly; do not flow through utility
5	Total	6.4	2.5	

Note:

(1) Indirect cost allocations are completed on a quarterly basis. 2024 actuals only reflect Q1 allocations.

23. The direct costs for Enbridge Sustain include the costs for the full-time employees working for the Enbridge Sustain business as well as marketing and other project development activities provided by third party contractors and other industry participants. All of these costs are expensed directly to the unregulated line of business, and paid by Enbridge Sustain, with none of the costs being included in the determination of utility budgets and financial results.
24. The HR burden costs are the amounts allocated to Enbridge Sustain for the pension and benefit costs associated with the full-time employees working for Enbridge Sustain. This amount is calculated using the weighted average burden rate of 41.7% of salaries and wages that is applied to determine pension and benefit costs, please see EB-2022-0200 Exhibit 2, Tab 4, Schedule 2, pages 12-14. These costs are paid by Enbridge Sustain to the regulated Enbridge Gas utility, thereby compensating the utility and ensuring that these costs are not borne by the utility and ratepayers.
25. The indirect costs are the amounts related to support services provided to Enbridge Sustain directly by utility employees of Enbridge Gas. The support services are provided by areas including finance, business development, legal, public and regulatory affairs, and TIS. These amounts are determined based on time spent, and the relevant fully allocated cost attributable to the person providing the services. These costs are paid by Enbridge Sustain to the regulated Enbridge Gas utility, thereby compensating the utility and ensuring that these costs are not borne by the utility and ratepayers.
26. The corporate cost allocations are the amounts pertaining to Enbridge Sustain under the Enbridge Inc. Central Functions Cost Allocation Methodology. These costs are separate from the corporate cost allocations to the regulated utility. None

of these costs are included in the determination of utility budgets and financial results.

27. As can be seen, the regulated utility (and ratepayers) are not paying for or funding the Enbridge Sustain business.

28. Enbridge Sustain has also incurred capital costs to develop various technology applications to support the business. These investments include a separate customer information system, an Enbridge Sustain app to enable various products, a third-party sales support/tracking tool and a new website. The costs are directly incurred and charged and do not flow through the utility.

4. Enbridge Sustain as an Affiliate Business

29. Enbridge Gas plans to establish an affiliate business during 2024 and the Enbridge Sustain business will be moved to that affiliate. Enbridge Gas currently expects this to occur before the end of 2024. The OEB and parties to this proceeding were made aware of this decision in Enbridge Gas's letter to the OEB of May 27, 2024. That letter is set out at Attachment 3 for convenience.

30. While Enbridge Gas already applies the principles of the ARC in relation to Enbridge Sustain, moving this line of business to an affiliate means that the ARC will formally apply to interactions with Enbridge Sustain once that move is completed.

31. Enbridge Gas will continue to report on utility results, inclusive of amounts recovered from affiliates by the utility, through annual earnings sharing proceedings from 2025 to 2028.

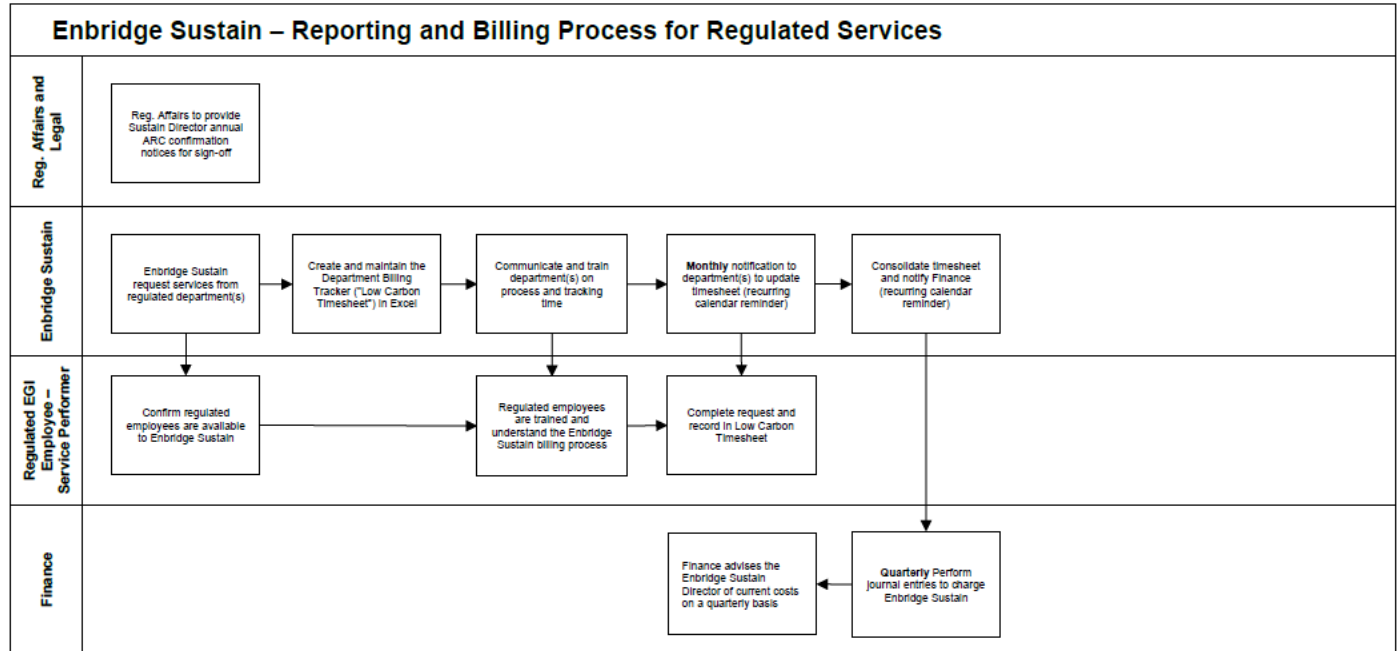


Appendix II – Enbridge Sustain - Reporting and Billing Process for Regulated Services

Enbridge Gas Inc.

Enbridge Sustain – Reporting and Billing Process for Regulated Services

Regulated Compliance



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1 of 5

Issue Date: 2023-06



Enbridge Gas Inc.

Enbridge Sustain – Reporting and Billing Process for Regulated Services

Regulated Compliance

Enbridge Sustain – Reporting and Billing Process for Regulated Services Overview

Background

Enbridge Sustain (“Sustain” or the “unregulated business”) is a low-carbon business which is an unregulated operation within **Enbridge Gas Inc. (“EGI”)**. The regulated business within EGI is required to follow the Ontario Energy Board’s **Affiliate Relationships Code (“ARC”)** which sets out how EGI can work with its affiliates. For the purpose of sharing services between Sustain and the regulated business, EGI has decided to follow the principles of the ARC.

Process Outcomes

This process ensures **Sustain** as part of **EGI** is managed in a manner that is consistent with the **ARC** and EGI can demonstrate that it has processes in place to ensure that the regulated portion of EGI is not subsidizing the unregulated low-carbon business.

Success is measured by the timely maintenance of time tracking records for services provided from regulated departments and the ability for Finance to allocate costs accurately and in a timely fashion.

Process Scope

This activity and time keeping process applies to **all regulated EGI employees (and if applicable, contractors)**, who are providing services directly to Sustain.

Refer to [Appendix A](#) for a listing of regulated departments.

Process Safety Hazards and Controls

Safety Hazards / Risks	No.	Controls / Treatment Description
There is a financial risk to not charging the Unregulated business for services provided by the regulated business. The OEB could audit EGI regarding the unregulated business, and if non-compliant the OEB could issue a penalty.	1	<ol style="list-style-type: none"> 1) Training and Certification - On a three-year basis all EGI employees are required to complete ARC training to ensure EGI’s compliance. Regulatory Affairs tracks completion of ARC training certification for the company, and training is rolled out on a three-year basis. Direction from leadership will advise employees on when they need to complete the training, and all new employees will be required to complete the training upon employment with EGI. 2) Process Established and Department Training - The department is informed and trained on the established Enbridge Sustain Department Service Reporting and Billing Process for Regulated Services. At the end of each month, reminders are sent to the department with instructions to update the Sustain “Low Carbon” Timesheet on the Sustain OneDrive. 3) Finance and Department Leader Review – Finance oversees the Enbridge Sustain Reporting and Billing Process and Sustain monitors the work performed and the number of hours billed.

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2 of 5

Issue Date: 2023-06



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Enbridge Sustain – Reporting and Billing Process for Regulated Services

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References

Definitions and Terms

Regulated business	The majority of EGI's business consists of regulated utility activities – i.e. gas distribution, transmission and storage. Generally, these activities are regulated by the OEB, requiring rate, construction and other regulatory compliance and approvals.
Unregulated business	EGI is also permitted by the OEB and the Government of Ontario to conduct certain unregulated activities, such as ownership and operation of renewable electricity regulation facilities, renewable natural gas upgrading and non-DSM energy conservation related services.

Enbridge Sustain Reporting and Billing Process – Roles & Responsibilities

Management Role (*Director, Product Development*):

The Director of the Department is required to sign an ARC Confirmation Notice annually in the 1st Quarter. The Director therefore must:

- recognize which regulated departments or groups that Sustain is receiving services from;
- be aware of Sustain's Reporting and Billing Process for Regulated Services;
- review Sustain's billing (from the regulated business); and
- ensure that all Sustain employees are up to date on the ARC training.

Regulatory Affairs and Law Role (*Specialist Regulatory Applications*):

- Regulatory Affairs works with the Sustain Director to ensure the annual ARC confirmation is signed-off.
- Regulatory Affairs (*Advisor Regulatory Applications*) tracks completion of ARC training certification for EGI and training is rolled out every three years.

Enbridge Sustain (*Advisor Customer Experience & Systems*):

- There is one person assigned within Sustain as the "Advisor".
- The Sustain Advisor will establish the process for the unregulated business to record time worked, with descriptions of the work performed for Sustain.
- The Sustain Advisor will create and maintain the "Low Carbon Timesheet" for Sustain to input the required information pertaining to the request (e.g. service performed, number of hours worked, regulated employee performing the work).
- The Sustain Advisor will provide instructions to the department as to how and where time worked is to be received, which is currently monthly by email.

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3 of 5

Issue Date: 2023-06



Enbridge Gas Inc.

Enbridge Sustain – Reporting and Billing Process for Regulated Services

Regulated Compliance

Regulated EGI Employees – Service Performer Role (Regulated EGI Employees):

1. Any EGI employee within the regulated business ("Request Performer") who receives a request or is assigned to complete a service from or on behalf of Sustain should receive the request for service in writing (and preferably in electric email file format).
2. The Request Performer is responsible for tracking their time and recording it in the Low Carbon Timesheet on a monthly basis, when notified by the Sustain Advisor.

Finance Role (Finance System Support Analyst IV):

1. Upon receipt each quarter of Sustain's Low Carbon Timesheet Finance will transfer cost to Sustain for regulated services.
2. Oversee Sustain's billing process and provide the Sustain Director with current costs on a quarterly basis, and annually for assurance during the ARC Confirmation Notice certification process (Q1).

Document Control and Maintenance

For document control and maintenance purposes, the following table captures important information related to this document.

Category	Value
Owned by:	Enbridge Sustain
Review interval:	Annual

Revision History

Date	Summary of Changes	Prepared by:	Approved by:
2023-06	Initial version using this new GDS process template	Advisor Customer Experience & Systems	

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4 of 5

Issue Date: 2023-06



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Enbridge Sustain – Reporting and Billing Process for Regulated Services

Regulated Compliance

Appendix A – Listing of Regulated Departments

The following regulated departments provide services to Enbridge Sustain:

Enbridge Regulated Departments

Business Development Executive and Administrative Central Functions (including Finance, HR, Law, TIS*) Marketing & Energy Conservation Public Affairs & Ombudsman Regulatory Affairs

*TIS services (employee services and system licenses) are being charged directly from TIS to Sustain's LOB/cost centre, therefore monthly emails are not required.

Enbridge Sustain – Reporting and Billing Process for Regulated Services

Finance Process

Managing Enbridge Sustain (Sustain) Costs
Ensuring EGI Utility Results are Free of Sustain Costs

Document Versions/Revisions

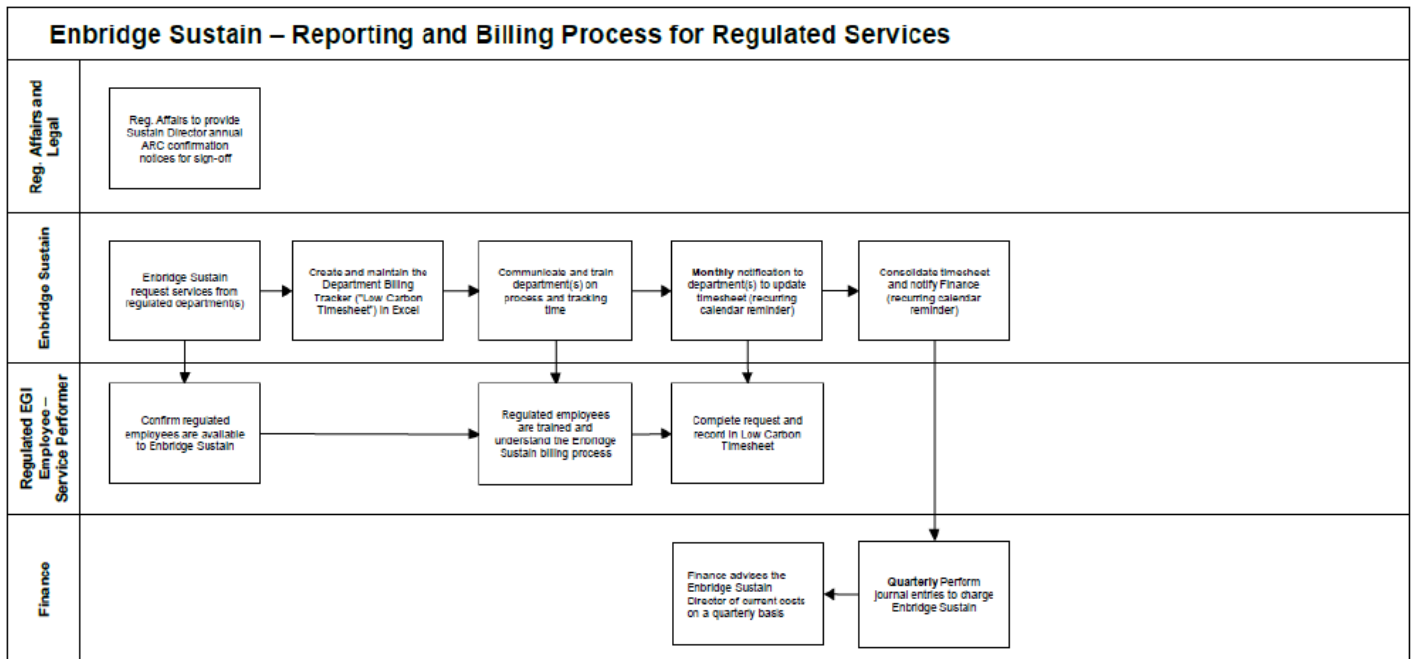
Created : July 2023

Document Purpose

This document was created to provide guidance to the Enbridge Finance team that supports Sustain OM&A cost tracking. Its purpose is to provide direction regarding where Sustain costs should reside in Enbridge Gas Inc.'s (EGI) cost model and what actions need to be taken to ensure EGI utility results are free of Sustain costs.

Background

With the Sustain business operating as part of EGI's unregulated line of business (ULOB), the procedures and entries listed below must be completed by Finance. This ensures that EGI's regulated line of business (RLOB) contains no OM&A costs related to Sustain, that EGI rate payers are not subsidizing Sustain and that EGI is compliant with the Affiliate Relationship Code (ARC).



Quarterly Finance Process

As noted above, Finance on a quarterly basis will ensure that the following entries are completed ensuring Sustain costs are recorded in the ULOB and therefore are not included in regulated utility results:

Compensation & Benefits Expenses

All employees working full time on Sustain will have their salary & wage costs expensed directly to the ULOB. To ensure that all Compensation and Benefits expenses are managed appropriately for these employees, the following additional entry will be completed.

1. Direct HR Loadings (Pension & Benefits) for full time Sustain employees will be charged to EGI's ULOB on a monthly basis. A corresponding credit will then be applied to EGI's RLOB to remove these costs from EGI regulated OM&A and utility results.

For employees that work part time on Sustain and are considered EGI regulated employees, the following entry will be completed.

2. All employees will track their hours they worked for Sustain and provide to Finance on a monthly or quarterly basis. The ARC Fully Allocated Rates (FACs) will then be applied to their hours worked and charged to EGI's ULOB. A corresponding credit will be applied to EGI's RLOB to remove these costs from EGI regulated OM&A.

Non-Compensation & Benefits Expenses

All non-compensation & benefits expenses must be coded directly to EGI's ULOB for Sustain. For those expenses that cannot be coded directly (for example, when there are system limitations that prevent coding to EGI's ULOB), the following entry will be completed.

3. A record of all applicable expenses will be provided to the EI Finance team on a monthly or quarterly basis so that the expenses are charged to EGI's ULOB. A corresponding credit will be applied to EGI's RLOB to remove these costs from EGI regulated OM&A.

Central Functions Allocation Model CFCAM Expenses

EI's Central Functions services provided to Sustain (i.e. TIS, Finance, HR, REWS) will be handled through CFCAM allocations to EGI's ULOB.

May 27, 2024

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-2024-0111 – 2024 Rebasing and IRM– Phase 2 – Enbridge Sustain

This is further to our May 17, 2024, letter to the OEB providing reply submissions on the Issues List (Reply) in which the Company stated that Enbridge Sustain is operating as an ancillary business, as permitted by the undertakings governing Enbridge Gas's business activities. Since filing the Reply, Enbridge Gas has completed its assessment of logistics required to move the Enbridge Sustain line of business into an affiliate entity of Enbridge Gas and has decided to move ahead with this transition, with completion targeted for the end of 2024.

In the Reply, the Company also stated that the Affiliate Relationships Code (ARC) does not strictly apply to ancillary activities, but that Enbridge Gas conducts itself in relation to Enbridge Sustain as if the ARC principles apply. This will remain the case throughout the transition of Enbridge Sustain into an affiliate entity and thereafter. All other statements in the Reply remain unaltered.

Should you have any questions, please let us know.

Sincerely,

Vanessa Innis Digitally signed by Vanessa Innis
Date: 2024.05.27 16:27:59 -04'00'

Vanessa Innis
Program Director, Strategic Regulatory Applications - Rebasing