VIA RESS and EMAIL

July 17, 2024

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

Dear Nancy Marconi:

Re: Enbridge Gas Inc. (Enbridge Gas) – 2024 Annual Update to Gas Supply Plan
Consumers Council of Canada (CCC) Written Comments
OEB File No. EB-2024-0067

In accordance with the OEB's letter dated April 22, 2024, please find attached CCC's written comments with respect to Enbridge Gas's 2024 Annual Update to its Gas Supply Plan.

Yours truly,

Lawrie Gluck

Lawrie Gluck
Consultant for the Consumers Council of Canada

cc: Enbridge Gas Inc.

Enbridge Gas Inc. – 2024 Annual Update to Gas Supply Plan

Consumers Council of Canada

Written Comments

July 17, 2024

Enbridge Gas Inc. (Enbridge Gas) filed its 2024 Annual Update to its 5-year Gas Supply Plan on March 26, 2024 (2024 Annual Update). On June 27, 2024, Enbridge Gas filed certain corrections to its 2024 Annual Update and a compendium of materials that included its presentation for the Stakeholder Conference. The Stakeholder Conference was held on July 2, 2024.

The Consumers Council of Canada (CCC) appreciates the comprehensive responses to its written questions provided as part of Enbridge Gas's presentation at the Stakeholder Conference.

CCC focused its comments, as set out in detail below, on Enbridge Gas's planned implementation of the gas supply-related changes resulting from the 2024 rebasing proceeding[1] and the transportation contracting changes presented as part of the 2024 Annual Update. Overall, CCC has no significant concerns with Enbridge Gas's 2024 rebasing-related implementation plan nor its transportation contracting changes. However, CCC has general comments about the cost premium paid for the 2024 Vector capacity renewal and seeks information related to the cost effectiveness of future Vector contracting (as there are a number of Vector contracts expiring in the near term) to be filed as part of Enbridge Gas's next five-year gas supply plan.

CCC notes that there are many gas supply issues in scope for Phase 2 of Enbridge Gas's 2024 rebasing proceeding. These issues include storage-related matters, load balancing-related matters, and a proposed significant expansion of Enbridge Gas's procurement of renewable natural gas (RNG) on behalf of its customers.[2] CCC will address these issues in Phase 2 of Enbridge Gas's 2024 rebasing proceeding.

CCC Comments on the 2024 Annual Update

Planned Implementation of Changes Resulting from the 2024 Rebasing Proceeding

[1] EB-2022-0200 and EB-2024-0111
[2] See EB-2024-0111 Decision on Issues List and Procedural Order No. 2.

Enbridge Gas stated that it intends to reflect the impacts on gas supply planning resulting from the Phase 1 Decision on Settlement Proposal (i.e., volume forecast, harmonized design day demand methodology and UFG volumes/costs) in its next five-year gas supply plan (to be filed on March 1, 2025). Any other changes resulting from the Phase 2 and 3 Decisions will be implemented in the next available Annual Updates.[3]

Enbridge Gas also, where applicable, considered transitory implications from Phase 1 of the 2024 Rebasing proceeding in its 2024 Annual Update. For example, Enbridge Gas determined that it is appropriate to manage shortfalls that exceed 2% of design day demand in the Union North rate zones in 2024 using peaking services. The use of peaking service for shortfalls in excess of 2% is above Enbridge Gas's typical threshold. The decision to use incremental peaking services was made based on the forecast filed in Phase 1 of the 2024 Rebasing proceeding whereby demands for these rate zones are expected to decrease once the new approved demand forecasting methodology is implemented. By using incremental peaking services relative to the 2% threshold, Enbridge Gas was able to avoid longer-term transportation contracting for the Union North rate zones, which may not be required in the future.[4]

CCC submits that Enbridge Gas's implementation plan for 2024 rebasing-related changes is appropriate as it is aligned with the Phase 1 Settlement Proposal[5] and, as a practical matter, allows for these changes to be implemented in Enbridge Gas's gas supply planning process after the OEB has granted the necessary approvals for any changes. CCC also submits that Enbridge Gas's consideration of known changes resulting from the Phase 1 proceeding, as described above, was appropriate and is beneficial to ratepayers in terms of avoiding longer-term transportation contracting for the Union North rate zones.

Transportation Contracting Changes

Enbridge Gas's transportation contracting changes are summarized in the 2024 Annual Update at pages 32 to 33.

Overall, CCC has no significant concerns with respect to any of the contracting changes made by Enbridge Gas as presented in the 2024 Annual Update. However, CCC has general comments about the cost premium paid for the 2024 Vector capacity renewal and seeks information related to the cost effectiveness of future Vector contracting (as

[3] Likely the 2026 Annual Update for Phase 2 changes and the 2027 Annual Update for Phase 3 changes (subject to timing of those decisions). See p. 22 of Stakeholder Conference Transcript.
[4] Stakeholder Conference Transcript, pp. 63-64
[5] EB-2022-0200, Settlement Proposal, p. 40

there are a number of Vector contracts set to expire in the near term) to be filed as part of Enbridge Gas's next five-year gas supply plan.

Enbridge Gas renewed 68,578 GJ/d of capacity from Chicago to Dawn for a 3-year term with Vector effective November 1, 2024 (2024 Vector Capacity Renewal). Enbridge Gas noted that the 2024 Vector Capacity Renewal provides a competitively priced, reliable and flexible transportation option that offers supply diversity at Chicago as well as along the Vector pipeline route, and also provides an important secondary benefit of maintaining Enbridge Gas's ability to serve the Sarnia Industrial Line, which is used to support gas deliveries to both general service and contract customers across the Sarnia region.[6]

The 2024 Vector Capacity Renewal is forecast to cost approximately $7.5 million more than Dawn supply over the three-year term of the contract. This reflects a forecast three-year average $0.10/GJ landed cost premium relative to Dawn supply (or approximately 1.9%) based on the ICF's price forecast. [7]

In a recent decision on a different Vector contract, which had a forecast cost premium relative to Dawn supply of $0.09/GJ (or approximately 2.4%) over the term of the contract, the OEB determined that Enbridge Gas's contracting decision was prudent based on the information available at the time that that decision was made. More specifically, the OEB stated that, "although the Vector contract option was not the least cost alternative, Enbridge Gas's decision entailed the examination of several factors including reliability, flexibility, supply diversity and cost effectiveness. The OEB finds that Enbridge Gas adequately considered and balanced these factors, consistent with the Guiding Principles in the Gas Supply Framework."[8]

CCC submits that the ICF market fundamental analysis is the best available information to establish the forecast cost premium as between the 2024 Vector Capacity Renewal and Dawn supply. Therefore, in alignment with the OEB's recent finding on a very similar contracting decision, as described above, CCC is of the view that the 2024 Vector Capacity Renewal is reasonable as it reflects a modest forecast premium to pay for supply diversity (as the lowest cost available alternative is to increase reliance on Dawn supply).

While ICF supports the continued use of its market fundamentals-based price forecasting for use in landed cost analysis (and related Vector transportation

[6] 2024 Annual Update, p. 38
[7] 2024 Annual Update, Appendix K, p. 2
[8] EB-2023-0326, Decision and Order, pp. 9-10

contracting), the report acknowledges that the futures market forecasts natural gas prices at Chicago to be at a significant premium to Dawn, which is divergent from its market fundamentals analysis.[9] CCC notes that Enbridge Gas, in some situations, locks in premiums on the futures market for Chicago supply that it flows on its Vector transportation capacity.[10] And in other circumstances, when buying on the day ahead market[11], it is possible that, on an actual basis, the premium at Chicago will be significantly higher than the forecast resulting from ICF's market fundamentals approach (as shown in the ICF report for the recent historical period).[12] This means that Enbridge Gas, and its ratepayers, may pay premiums well in excess of the forecasted premiums resulting from ICF's market fundamental pricing forecast.

CCC notes that Enbridge Gas has Vector contracts with capacity totaling 126.6 TJ/d expiring by October 31, 2026.[13] In the context of ICF's acknowledged disconnect between market fundamentals and futures pricing, and previously experienced day-ahead pricing volatility at Chicago, continued monitoring of the Chicago market is prudent. In that regard, Enbridge Gas should provide an updated Chicago Natural Gas Price Analysis, which highlights any changes relative to the October 20, 2023 report, and information regarding the actual prices paid for Chicago supply that is shipped on Vector in the next gas supply plan review. In the circumstance that the actual landed cost premium paid for Vector supply is significantly higher than forecast (or the updated Chicago Natural Gas Price Analysis continues to show a large disconnect in futures pricing), Enbridge Gas should discuss whether it remains appropriate to rely only on the market fundamental-based price forecasting for landed cost comparisons.

Enbridge Gas stated that it is unable to provide actual premiums paid compared to the forecast premium over the term of its transportation contracts as was directed by the OEB.[14] However, it was able to provide this type of information with respect to the 2021 Vector contracting decision, which was the subject of a previous proceeding, as it was one-time request for one contract.[15] CCC submits that the same type of analysis should

[9] 2024 Annual Update, Appendix G, pp. 3-4
[10] Stakeholder Conference Transcript, pp. 163-167. In summary, Enbridge Gas stated that it is reluctant to contract using a daily price index in January and February of a given year. Instead, Enbridge Gas would contract using monthly settlements and customers would be exposed to the forward-market premium on only the basis differential component of the contracts for those months (i.e., customers would be locked into (and therefore exposed) to the forward market premium between Chicago and Dawn for the peak winter months and the NYMEX portion of the price would float).
[11] Stakeholder Conference Transcript, pp. 162-163. Enbridge Gas stated that it partially contracts in the day ahead market for Chicago supply (with the exception of peak winter months).
[12] 2024 Annual Update, Appendix G, pp. 8-9
[13] Stakeholder Conference Presentation p. 39. More specifically, 84.4 TJ/d expires on October 31, 2025, and 42.2 TJ/d expires on October 31, 2026.
[14] EB-2023-0326, Decision and Order, p. 11
[15] 2024 Annual Update, Appendix K, pp. 2-3.

be provided again with respect to the actual premiums paid for Chicago supply shipped on Vector relative to the forecast premiums (both for the 2021 Vector contracting decision and the 2024 Vector Capacity Renewal) in the next gas supply plan review. CCC is concerned that the Chicago prices may continue to diverge from the market fundamental-based pricing forecast resulting in customers paying significantly more than the forecasted premiums (and making other potential alternatives more attractive in the future). CCC does not believe that it is appropriate to use this post-contracting actual information to measure the prudence of the 2024 Vector Capacity Renewal (or any other previous Vector contracting decisions). Instead, this information would be used to facilitate a more comprehensive consideration of whether potential Vector contract renewals in the coming years continue to appropriately balance cost effectiveness and supply diversity.

In addition, Enbridge Gas has described the ability to serve the Sarnia market as a secondary benefit of Vector contracting.[16] However, Enbridge Gas is now in a surplus position for the Sarnia market design day[17] and has an incremental 127 TJ/d of backup supply available to serve the Sarnia Industrial Line.[18] Therefore, in the next gas supply plan review process, if the premium for Chicago supply increases relative to Dawn supply, Enbridge Gas should substantiate this secondary benefit and why it would support continued Vector contracting in the circumstance of a surplus position for the Sarnia market design day (with additional backup supply available).

~ All of which is respectfully submitted ~

[16] 2024 Annual Update, p. 38

[17] Stakeholder Conference Presentation p. 39. For the 2023/2024 design day, Enbridge Gas has a 44 TJ/d surplus in the Sarnia market.

[18] Stakeholder Conference Presentation p. 34. The Bluewater River Crossing provides 127 TJ/d of backup capacity that can be used for the Sarnia market.