

# **ENBRIDGE GAS INC. 2024 REBASING APPLICATION**

**EB-2024-0111**

## **ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON EVIDENCE OF CURRENT ENERGY GROUP (EXHIBIT M2)**

**AUGUST 23, 2024**

### **M2.Staff-1**

**Ref:** Exhibit 10, Tab 1, Schedule 1, pp. 4-5; Exhibit M2, pp. 2-3

Enbridge Gas has proposed that rates for 2025 to 2028 be set using a Price Cap Incentive Rate-Setting Mechanism (Price Cap IR), based on the rates set through cost of service for 2024. The Current Energy Group provides an overview of its recommendations to better align Enbridge Gas's financial incentives with customer interests.

- a) If the OEB accepts Enbridge Gas's proposal to use a Price Cap IR approach to set rates for the 2025 to 2028 period, does the Current Energy Group believe that all its recommendations could be incorporated into the proposed Price Cap IR approach? Please identify any recommendations that may not be feasible to implement within a Price Cap IR approach, and any changes that Current Energy Group would propose in order to implement its recommendations within the Price Cap IR approach for the term starting in 2025.
- b) Are there examples of jurisdictions that have implemented one or more of the Current Energy Group's recommendations and could potentially serve as useful models for the OEB to consider? Please identify the specific recommendations that were implemented.

### **M2.Staff-2**

**Ref:** Exhibit M2, pp. 8-11

One approach for rebalancing gas utility incentives is through a differentiated return on equity (ROE), where capital expenditures in growth-related investments earn a lower return than capital expenditures in things like safety and mandatory relocations. The evidence recommends a 1% decrease in the ROE for growth capital as a reasonable start.

Please confirm that the 1% reduction would apply to the OEB-approved ROE.

### **M2.Staff-3**

**Ref:** Exhibit M2, p.11; Exhibit I.1.17-Staff-10; Exhibit I.1.17-ED-26(a)

The Current Energy Group states that “another option to maintain a fair return for the utility and achieve balance with a lower return on growth capital is to allow Enbridge Gas to capitalize certain operating and maintenance expenses related to pipeline repair.”

- a) Would the Current Energy Group recommend that all of the activities Enbridge Gas identifies as O&M in the referenced interrogatory responses be eligible to be capitalized?
- b) Should the OEB adopt the Current Energy Group’s recommendation on this issue, are there any concerns regarding consistency with policy on asset capitalization in the accounting standards Enbridge Gas follows (US GAAP)?

### **M2.Staff-4**

**Ref:** Exhibit 10, Tab 1, Schedule 1, p.14; Exhibit M2, pp.12-13

Enbridge Gas’s IRM proposal includes Y factors for Lost Revenue Adjustment Mechanism volumes to capture the impact of DSM activities, and a Normalized Average Use Adjustment. The Current Energy Group notes that “under traditional regulation, utilities can retain any additional revenue they receive when their sales exceed the forecast that was used to set their revenue requirement, creating a clear incentive for a gas utility to oppose energy efficiency and DSM initiatives that would result in reduced sales.” The Current Energy Group proposes a variance account based on revenue per customer class, as opposed to average use per customer.

Do the Lost Revenue Adjustment Mechanism and Normalized Average Use Adjustment adequately address the Current Energy Group’s concerns regarding disincentives to energy efficiency and DSM, and also any concerns regarding disincentives to partial electrification?; i.e. is it only the revenue risk associated with change in number of customers that the Current Energy Group believes is not addressed by Enbridge Gas’s proposed rate-setting approach?

### **M2.Staff-5**

**Ref:** Exhibit M2, pp.16-17

The evidence states that Enbridge Gas currently has an incentive to include connection costs in rate base instead of having them covered by Contribution in Aid of Construction

(CIAC). Enbridge Gas earns a profit on the former, but not the latter. The evidence suggests that the bias can be eliminated or reduced by allowing Enbridge Gas to earn a margin on CIACs in certain circumstances. In particular, Enbridge Gas should be eligible to earn a margin on CIACs only if the 40-year horizon is lowered or if Enbridge Gas applies a lower horizon for a customer-specific reason. This would reduce the incentive for Enbridge Gas to oppose a lowering of the horizon by counterbalancing a reduction in rate-based connection costs with an additional return derived from the CIAC margin.

- a) The evidence states, “or if Enbridge applies a lower horizon for a customer-specific reason”. Please explain what is meant by “a customer-specific reason”.
- b) Please confirm that the recommended approach is for Enbridge Gas to earn a return on the CIAC margin although the costs are paid for by the connecting customer. In other words, would Enbridge Gas earn a return on amounts that it has not invested?

## **M2.Staff-6**

Ref: Exhibit M2, pp. 18-19

The evidence notes that Enbridge Gas’s gas supply costs are a pass-through and therefore Enbridge Gas has little incentive to manage its gas supply costs carefully. The report further states that regulators often find it difficult to determine whether the utility’s gas supply expenditures were, in fact, the best use of ratepayer funds. The report further concludes that Enbridge Gas currently has little or no incentive to reduce or control gas supply costs. A modification to the Quarterly Rate Adjustment Mechanism (QRAM) that exposes Enbridge Gas to some amount of risk related to gas supply cost volatility may well be appropriate and induce the company to take more care in guarding against gas supply cost increases.

- a) Please explain why the process of reviewing gas supply costs in the QRAM, assessment of annual gas supply plans and benchmarking natural gas costs against market prices are not sufficient to determine reasonableness of Enbridge Gas’s gas supply related costs.
- b) Since gas supply costs are a pass-through and the utility does not earn a return on gas supply costs, why should Enbridge Gas assume the risk for gas supply cost volatility?
- c) Considering that there are several factors that impact the price of natural gas (weather, demand, geopolitical uncertainty, transportation capacity etc.) why is it reasonable for Enbridge Gas to assume risks that are beyond its control?