



---

**THE BOARD OF DIRECTORS**

PATRICIA ADAMS  
Chair and President  
ANN CAVOUKIAN  
Executive Director, PBDI, Metropolitan University  
GLENN FOX  
Economist, University of Guelph  
GAIL REGAN  
President, Cara Holdings Inc.

MAX ALLEN  
Producer, CBC Radio  
DAVID CAYLEY  
Writer and Broadcaster  
RICHARD C. OWENS  
Lawyer (retired)  
GEORGE TOMKO  
Expert-in-Residence in IPSI, University of Toronto

August 23, 2024

Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, P.O. Box 2319  
Toronto ON, M4P 1E4

Dear Ms. Marconi,

**RE: EB-2024-0111: Enbridge Gas Rebasing Phase 2  
Energy Probe Interrogatories to the Current Energy Group**

Attached are the interrogatories of Energy Probe on Exhibit M2 evidence by the Current Energy Group filed by Environmental Defense in the EB-2024-0111 Enbridge Gas Rebasing Phase 2 proceeding.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi  
TL Energy Regulatory Consultants Inc.

cc. Patricia Adams (Energy Probe Research Foundation)  
Khalil Viraney (OEB Staff)  
EGI Regulatory Proceedings  
Intervenors of Record

---

Energy Probe Research Foundation 417 Bloor Street West, Suite 202, Toronto, Ontario, M5S 1X6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

**Enbridge Gas Inc. 2024 Rebasing Application Phase II**  
**Energy Probe Interrogatories to the Current Energy Group**

**M2.EP-1**

**Reference:** OEB Rules of Practice and Procedure

**Preamble:** Quote from the OEB Rules of Practice and Procedure:

***13A. Expert Evidence***

*13A.01 Where a party intends to engage one or more experts to give evidence in a proceeding on issues that are relevant to the expert's area of expertise, Rule 13 applies to that evidence.*

*13A.02 An expert shall assist the OEB impartially by giving evidence that is fair and objective.*

*13A.03 An expert's written evidence shall, at a minimum, include the following:*

- (a) the expert's name, business name and address, and general area of expertise;*
- (b) the expert's qualifications, including the expert's relevant educational and professional experience in respect of each issue in the proceeding to which the expert's evidence relates;*
- (c) the instructions provided to the expert in relation to the proceeding and, where applicable, to each issue in the proceeding to which the expert's evidence relates;*
- (d) the specific information upon which the expert's evidence is based, including a description of any factual assumptions made and research conducted, and a list of the documents relied on by the expert in preparing the evidence;*
- (e) in the case of evidence that is provided in response to another expert's evidence, a summary of the points of agreement and disagreement with the other expert's evidence; and*
- (f) an acknowledgement of the expert's duty to the OEB in **Form A** to these Rules, signed by the expert.*

**Question:**

Please explain how Exhibit M2 adheres to the rules for Expert Evidence quoted in the Preamble.

## **M2.EP-2**

**Reference:** Exhibit M2, Page 4

**Preamble:** “Market, technology, and policy changes have made it clear that demand for natural gas can no longer be expected to continue rising. The Canada Energy Regulator forecasts that Ontario’s natural gas demand will annually decline by 1.07% from 2023 to 2030 in a “Current Measures” scenario where Canada takes limited action to reduce its greenhouse gas (GHG) emissions.”

### **Questions:**

- a) Considering that 2023 is over, what was Ontario’s natural gas demand in 2023, and did it decline from 2022?
- b) What is the co-authors’ forecast of Ontario natural gas demand for 2024, and is it different than the forecast of Enbridge Gas in the evidence?

## **M2.EP-3**

**Reference:** Exhibit M2, Page 4

**Preamble:** “There is reason to believe, however, that current long-term projections overestimate gas demand from residential and commercial customers and possibly industrial customers as well, as efficient electric space and water heating technologies such as heat pumps become more widespread.”

### **Questions:**

- a) What was the population growth rate in Ontario in 2023?
- b) Does gas demand correlate with population growth?
- c) Do the co-authors have any evidence from recent OEB rate applications by electricity distributors in Ontario that there is significant increase in customers switching from gas space and water heating to electric space and water heating?

## **M2.EP-4**

**Reference:** Exhibit M2, Pages 4 and 5

**Preamble:** “At Canada’s most recent forecasts, heat pump costs will decline between 7%-15% by 2030, and up to 40% by 2050, representing significant potential cost savings for electrification across both net-zero and “status quo” scenarios.”

### **Questions:**

- a) Have heat pump costs (excluding rebates) declined in Ontario since 2022?

- b) Please confirm that many older homes in Ontario do not have air ducts and are not well insulated which may make switching from gas boiler or electric baseboard heating to electric heat pump more expensive.

### **M2.EP-5**

**Reference:** Exhibit M2, Pages 5 and 6

**Preamble:** “The current trajectory of market transformation trends holds real import for Enbridge Gas and remains starkly at odds with forecasts suggesting increasing customer demand and an ever-expanding distribution network. This long-term decline of Ontario’s gas utility customer base is primarily based on three exogenous risks that Enbridge will struggle to forecast, let alone control:

1. The growth of public and market actors mandating the reduction of greenhouse gas (GHG) emissions and fossil fuel use to combat climate change and reduce local health and environmental hazards.
2. The interconnected risks of geopolitical instability, such as the ongoing war in Ukraine, that shock natural gas prices with immediate and long-term impacts.
3. The clean energy transition makes electric water and space heating more cost-effective options relative to natural gas appliances and infrastructure.”

### **Questions:**

- a) Do the co-authors have any numerical evidence of the “trajectory of market transformation trends” in Ontario? If the answer is yes, please file it. If the answer is no, please explain why not.
- b) Considering that most heat pumps available in Ontario are manufactured in China using electricity from coal fired power plants, and that electrification will require large amounts of copper that will need to be mined, smelted, and rolled into wire, all of which will increase GHG emissions, is it possible that switching from gas space and water heating will increase GHG emissions for many years?
- c) What has been the percentage impact of the war in Ukraine on the natural gas that Enbridge Gas is charging its customers?
- d) Over the last 10 years what has been the percentage increase in the price of electricity in Ontario compared to that of natural gas?

### **M2.EP-6**

**Reference:** Exhibit M2, Page 6

**Preamble:** “This report highlights some specific opportunities to improve the proposed elements of Enbridge Gas’s Price Cap Incentive Rate-Setting Mechanism (Issue #2) to better align Enbridge Gas’s financial incentives with customers’ interests in an era of flat or declining gas sales.”

**Questions:**

- a) What are “customers’ interests” that the co-authors are referring to?
- b) Do all customers have identical interests?
- c) When did the era of flat or declining gas sales start for Enbridge Gas?
- d) Please confirm that Enbridge Gas’s financial incentives are already aligned with customers’ interests but could have better alignment.

**M2.EP-7**

**Reference:** Exhibit M2, page 9

**Preamble:** “By reducing the ROE for gas system expansion, the OEB would facilitate the following effects: better aligning the financial incentives extended to Enbridge Gas and more effectively deploying finite capital resources in a manner consistent with the public interest.”

**Questions:**

- a) What is the “public interest” that the co-authors are referring to.
- b) Who decides what is in public interest?
- c) Does public interest change over time?

**M2.EP-8**

**Reference:** Exhibit M2, page 10

**Preamble:** “As the example shows, Enbridge can earn additional income based on its performance, in addition to the near-guaranteed return they receive from operational investments. This dynamic incentivizes Enbridge to invest in operational investments to acquire the higher relative return on those investments, and to make those operations as efficient as possible so that their programmatic benefits – and the rewards from those benefits – are maximized.”

**Questions:**

- a) What example are the co-authors referring to?
- b) What are “operational investments” and do the co-authors have evidence that Enbridge Gas is not making them?
- c) What is the “additional income”, and would ratepayers have to pay for it through higher rates?

## **M2.EP-9**

**Reference:** Exhibit M2, page 11

**Preamble:** “If the OEB desires a more gradual approach to ROE differentiation, then a system expansion investment ROE that is 1% to 3% lower than Enbridge Gas’s overall ROE would be a motivating incentive to discourage further system growth and exacerbate stranded asset risk.”

### **Questions:**

- a) Please confirm that Enbridge is not forcing customers to use gas and that system growth by Enbridge Gas is in response to demand by customers for gas service.
  
- b) Do the co-authors believe that new gas customers who just installed new gas fired appliances are likely to switch to electric space and water heating?

## **M2.EP-10**

**Reference:** Exhibit M2, page 12

**Preamble:** “The primary objective of revenue decoupling is to weaken the link between utility earnings and sales volume. Revenue decoupling is designed to enable greater energy efficiency improvements by reducing the “throughput incentive” – the inherent financial incentive that utilities have to sell more therms of gas.”

### **Questions:**

- a) Are the co-authors aware that Canada uses the Metric system, and that “therm” is not a Metric unit?
  
- b) When the co-authors refer to “revenue decoupling” are they referring to the separation of fixed and variable costs in rates charged to customers?
  
- c) Considering that Enbridge Gas has specific rates for applicable to each customer class, and that the recovery of fixed and volumetric costs is not the same for each rate, which rates do the co-authors believe should be decoupled?

## **M2.EP-11**

**Reference:** Exhibit M2, page 11

**Preamble:** “Revenue decoupling is a tool that addresses the throughput incentive. When variable rates are used to recover costs that are fixed in the short term, the utility can increase its revenues by selling more energy without a corresponding increase in its costs. This creates a powerful incentive to grow sales and oppose measures that reduce energy usage. However, revising the rate structure to collect a greater share of revenues via fixed rates is not an appropriate solution. A high fixed charge approach to addressing the throughput incentive would undermine customers’ incentive to conserve energy and impose greater costs on low-usage (and often low-income) customers.”

**Question:**

It is not clear from the quoted paragraph what the co-authors are recommending. Are the co-authors recommending that less fixed costs should be recovered through the fixed monthly charge and more fixed cost should be recovered through the volumetric charge than is now the case? If the answer is yes, please explain why that is de-coupling. If the answer is no, please explain in detail what the co-authors are recommending.

**M2.EP-12**

**Reference:** Exhibit M2, page 13

**Preamble:** “Under revenue decoupling, most, if not all, variations between a utility’s expected revenue and actual revenue are “trued up” annually. If the utility sells less gas than expected, rates will increase the following year to make up for the shortfall, and vice versa if it sells more gas than expected.

A Well-Designed Partial Revenue Decoupling Mechanism Should Leave the Utility Indifferent to Customer Additions or Reductions in the Near-Term.”

**Questions:**

- a) What is partial revenue decoupling and how is it different from revenue decoupling.
- b) Please describe in detail the mechanics of partial revenue decoupling.
- c) Are the co-authors recommending revenue decoupling or partial revenue decoupling?

**M2.EP-13**

**Reference:** Exhibit M2, pages 13 and 14

**Preamble:** “In lieu of an average use variance account, the OEB should consider an alternative approach – revenue per customer class. Like revenue per customer, revenue per customer class determines the appropriate revenue to be collected regardless of the level of demand from customers. Revenue per customer class, on the other hand, is indifferent to the number of customers on the system or to average customer use.”

**Question:**

Please explain in detail the mechanics of revenue per customer class and how it is different from the current cost allocation method used by Enbridge Gas.

**M2.EP-14**

**Reference:** Exhibit M2, page 14

**Preamble:** “To address the OEB’s expectation of declining sales from small-volume customers, the OEB should explore a harmonized revenue balancing account that allows for truing up collected revenues against allowed revenues in a manner that is not tied to customer counts or customer average use.”

**Question:**

Please explain in detail the mechanics of a harmonized revenue balancing account.

## **M2.EP-15**

**Reference:** Exhibit M2, page 16 and 17

**Preamble:** “This bias can be eliminated or reduced by allowing Enbridge to earn a margin on CIACs in certain circumstances. In particular, Enbridge should be eligible to earn a margin on CIACs only if the 40-year horizon is lowered or if Enbridge applies a lower horizon for a customer-specific reason. This would reduce the incentive for Enbridge to oppose a lowering the horizon by counterbalancing a reduction in rate-based connection costs with an additional return derived from the CIAC margin. This would also increase the incentive for Enbridge to be cautious when calculating the appropriate CIAC for certain risky connection requests. It would also address a potential argument that it is unfair to Enbridge to require it to undertake a large amount of work without any return if connections are increasingly funded through CIACs as opposed to rates.”

### **Questions:**

- a) Please confirm that CIACs stands for *contributions in aid of construction* from new customers to the utility to make an unfeasible project feasible in order to minimize or eliminate cross-subsidies from existing customers.
- b) Please confirm that if the 40-year horizon is lowered, projects would be less feasible and CIAC’s would be higher.
- c) Would it be fair for Enbridge shareholders to earn a return on investments that they did not make but were paid for by new customers through CIACs?

## **M2.EP-16**

**Reference:** Exhibit M2, page 19

**Preamble:** “The OEB should consider revising the QRAM to share gas supply-cost risk more fairly between Enbridge Gas and its customers.”

### **Questions:**

- a) Do the co-authors know when the QRAM mechanism was first approved by the OEB and the mechanism that was in place prior to its approval.
- b) Are the co-authors aware of the problems with gas supply hedging and risk sharing that existed before QRAM was adopted by the OEB.
- c) Would the co-authors support a higher equity thickness for Enbridge Gas to compensate it for taking greater commodity risk?