

# Elson Advocacy

## BY RESS AND EMAIL

November 4, 2024

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

Dear Ms. Marconi:

**Re: Enbridge Gas Inc. 2024 to 2028 Rates Application  
EB-2024-0111**

I am writing to request an order that Enbridge provide additional detail regarding the possible options to reduce its financial incentive to connect as many customers as possible and to stop customers from leaving its system. This request relates to the unsettled issue of whether Enbridge's revenue should be decoupled from the number of customers that it serves. This information should be provided because: (1) it would have been provided had Enbridge fully and adequately responded to Environmental Defence interrogatory 59 and follow up questions had been possible at the technical conference and (2) having this information available before the hearing will allow the hearing to be more efficient and provide a better record for the OEB to consider when making its decision.

By way of background, Environmental Defence believes it is contrary to the interests of ratepayers for Enbridge to have a strong incentive to connect new customers and to find ways to prevent customers from transitioning away from the gas system. This incentive arises in part from the incremental revenue that Enbridge is able to earn over an IRM term for every additional customer that connects to the system and the corresponding revenue loss that it experiences when a customer leaves the system during the IRM term. Under the rate framework proposed by Enbridge, it is able to earn and retain 100% of the revenue from newly connecting customers and it stands to lose 100% of any revenue declines from customer exits.

This is concerning for a number of reasons:

- First and foremost, new customer connections present a significant risk to existing customers because they involve significant capital outlays amounting to over \$250 million annually, which are added to rate base, which is already too high in light of the energy transition. Unless the new customers remain on the system for a very long time, which is at least uncertain, and in our view is very unlikely, existing customers will end up bearing these high costs.

- Second, residential customers can save a large amount of money by converting to electric heat pumps.<sup>1</sup> Enbridge should not have an incentive to discourage customers from doing so.
- Third, independent studies show that the most cost-effective way to decarbonize buildings is through electric heat pumps.<sup>2</sup> Adding additional gas customers will only serve to increase the overall cost of decarbonization from a societal perspective.

The incentive to connect new customers is huge. Enbridge forecasts connecting tens of thousands of customers each year and the average distribution margin is approximately \$600 a year.<sup>3</sup> Enbridge stands to earn hundreds of millions of dollars in additional revenue during the rate term solely from the revenue from incremental customers. The more housing developers that put in gas, the more Enbridge will earn. Similarly, the fewer customers that are able to save money through electrifying their homes, the more Enbridge will earn. This is a classic example of the utility's interests being opposed to consumer interests.

Environmental Defence intends to pursue this issue at the hearing and in submissions. We provide this background now solely to explain the relevance of the materials that we seek in this motion.

Environmental Defence asks that the OEB direct Enbridge to:

1. Describe a number of options whereby it would be made indifferent to the number of customer connections and customer exits during the IRM term from a revenue perspective, and indicate which option it believes would be the most appropriate should the OEB decide to implement revenue decoupling with respect to customer counts.
2. Comment on the decoupling mechanisms described by the Current Energy Group's response to CCC interrogatory 3.
3. In relation to the Customer Count Variance Account described by the Current Energy Group, provide the average revenue per customer and the average incremental cost per customer for the general service customer classes, and if those figures differ significantly from \$600<sup>4</sup> in average revenue and \$74.89<sup>5</sup> in incremental costs for residential customers, to explain why.
4. Provide Enbridge's latest estimates of customer connections and exits by rate class over the rate term as well as the revenue it forecasts generating over that term from net customer additions by rate class.

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<sup>1</sup> EB-2022-0200, Evidence of Chris Neme, May 11, 2023 (updated May 30th), Ex. M9, p. 23 ([link](#)).

<sup>2</sup> EB-2022-0200, Evidence of Chris Neme, May 11, 2023 (updated May 30th), Ex. M9, p. 11 ([link](#)).

<sup>3</sup> EB-2022-0200, Hearing Transcript, Volume Two, July 14, 2023, p. 22, ln. 14.

<sup>4</sup> EB-2022-0200, Hearing Transcript, Volume Two, July 14, 2023, p. 22, ln. 14.

<sup>5</sup> EB-2023-0201, Exhibit I.ED-23, Page 4, Table 2.

We are not asking Enbridge to agree that revenue decoupling with respect to customer counts is appropriate – instead, we are asking that it speak to the ways in which that could be implemented.

As noted above, this information should be provided pursuant to rule 27. Environmental Defence interrogatory 59 asked Enbridge to discuss options on how to remove Enbridge's incentive to encourage more gas connections. Unfortunately, Enbridge declined to respond. As a result, Environmental Defence was unable to ask any follow up questions during the technical conference. The question is relevant and important and should be answered.

Aside from rule 27, Environmental Defence submits that the requested information should be provided simply as a matter of regulatory efficiency and effectiveness. The question of whether to implement customer count revenue decoupling is one of the few remaining unsettled issues. The OEB and the parties would be assisted by information that only Enbridge can provide relating to the options for implementation in its specific case. It would be far more efficient to have this information available in writing at the time of the hearing rather than provided afterwards in an undertaking response at which point there is no longer an opportunity for questions and clarification.

We ask that this letter be considered to be a notice of motion and a preliminary set of submissions regarding the relief requested above. We propose that this motion be addressed in writing and that Environmental Defence be afforded an opportunity to respond to any submissions from Enbridge regarding the requested relief. As this letter contains details that were covered by settlement privilege, we held back on filing it until the settlement agreement was filed. However, we provided a draft to Enbridge on October 21<sup>st</sup> to ensure that we could move forward as expeditiously as possible. We understand from Enbridge, and have recently confirmed, that it is able to provide responding submissions on the motion by the end of this week.

Yours truly,



Kent Elson

cc: Parties to the above proceeding