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VIA RESS

Ms. Nancy Marconi
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
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Dear Ms. Marconi:

Re: EB-2024-0111 – Enbridge Gas Inc. (EGI) 2024 Rebasing and IRM (Phase 2)

Industrial Gas Users Association (IGUA) – Submissions

These brief submissions are provided on behalf of IGUA, and comment on two Phase 2 topics:

1. EGI's proposed Voluntary RNG Program (VRNG); and
2. ED/GEC's proposed customer number/revenue decoupling.

Voluntary RNG Program

IGUA supports economically rational measures to increase the supply of RNG.

As Ontario's large industrials continue their decarbonization efforts, for those whose processes require large volumes of methane gas for heat and/or chemical input RNG presents a carbon reduction option. These gas customers are not, however, generally in a position to enter into very long term (i.e. 10 or 15 year) supply contracts. With regulatory support, regulated utilities could be in a position to offer longer term RNG procurement commitments, which in turn would support financing and development of new RNG production facilities. To this extent IGUA supports utility RNG procurement programs. IGUA does not, however, advocate gas customer subsidies to RNG producers.

IGUA has long advocated that regulated gas costs should not include social welfare subsidies. In particular in respect of carbon costs, our elected governments have already determined the appropriate cost to ascribe to GHG emissions and thus the appropriate price to pay for reductions thereof. That value is reflected in the legislated price of carbon. EGI's proposal would add an additional cost for customers – both voluntary and non-voluntary – arising from RNG procurement at a premium to the cost of conventional gas plus the carbon charge.

Decarbonization aspirations or commitments might have value to some customers which justifies, in the minds of those customers, paying a premium for RNG above the carbon loaded cost of conventional gas. That is the "voluntary" part of EGI's proposal, and is conceptually appropriate. Such premiums should not, however, be forced upon all customers through the regulated price of gas supply and/or services.

Mr. Neme addresses this, and his rationale therefore, in his oral testimony[1]:

> *The company will be acquiring resources that reduce the collective carbon footprint, or greenhouse gas footprint, of its customers. That may include, as you have noted, socializing some of that cost across all customers, rather than just customers who want to take up RNG on a voluntary basis.*
>
> *Yes, that is the more expensive emission reduction than some other emission reduction options that the company has in front of it. But I think we are supportive of some level of that because we don't believe that there is a single magic bullet to reducing or offsetting the company's emissions of greenhouse gasses that this is appropriate to be a part of that mix. And that you can't instantaneously, very difficult to, instantaneously for any one of the resource options reducing greenhouse gas emissions to go from zero to 100 percent.*
>
> *And so, some level of growth in this area is probably reasonable, even it if is more expensive than other emission reduction options, as long as the recognition that there are other emission reduction options that are less expensive, and so the kind of level of effort across the different choices is skewed more towards those options that have lower cost, with this one being a higher cost. Which is the reason why we proposed in our report that they proceed, but with kind of a more measured level of effort.*

The exchange continued as follows[2]:

MR. MONDROW:	*… In this case there is a premium being paid, and if we assume that not all of the RNG will be taken up by customers voluntarily … there is a subsidy from regulated system supply customers in their regulated gas price in order to kickstart the market. I am just trying to determine whether you endorse that subsidy as appropriate…*
MR. NEME:	*Yes, some modest level of that kind of subsidy to get started down this path, on this one resource, I think we think is reasonable given where the company would need to be with all of the options efficiency, electrification, district heating, RNG, whatever other kind of combination of solutions are going to need to be cobbled together to decarbonize the system over the next 25 years, some amount of*

[1] Transcript, December 19, 2024, page 95, line 7 through page 96, line 4.
[2] Transcript, December 19, 2024, page 96, line 11 through page 97, line 2.

> *subsidy to make that happen on RNG, as long as it is reasonable in scale compared to the level of focus and effort on the other lower cost options, seem reasonable.*

IGUA has also, in the past, endorsed modest levels of research and development type funding through regulated rates to support continuing evolution and advancement in the provision of regulated energy services.

EGI's current proposal is to recover from system gas customers any premium paid for RNG above the carbon loaded cost of methane gas. As IGUA members buy very little system gas, this proposal would have minimal impact on them, and IGUA defers to the views put forward on behalf of those customers who would be absorbing the bulk of any resulting subsidy funding as to whether the proposed level of subsidies is appropriate.

We do note the following:

1. Dr. Hill of The Energy Futures Group was quite clear in his view that, right now, the demand for RNG exceeds its supply.[3] This seems to indicate that there may not be a need to subsidize RNG producers *per se* in order to "kickstart" the RNG market.

2. Dr. Hill further spoke of agricultural manure projects which he explained *"tend to have the highest benefit in terms of emissions reductions"* but which are relatively expensive sources to develop.[4] In this context, Mr. Neme emphasized that, in his view, *"the most important reason for Enbridge to procure RNG would be to lower the greenhouse-gas emissions footprint of its customers collectively"*.[5]

3. If the Board is persuaded that some level of modest RNG procurement by EGI is warranted in order to support lower carbon intensity RNG in particular, then it seems appropriate to embed carbon intensity considerations in any OEB sanctioned RNG procurement program, as the Energy Futures Group has recommended.[6]

Customer Number and Revenue Decoupling

ED and GEC have indicated in their January 27th submissions that a mechanism to decouple EGI revenue from customer numbers *"should only be implemented with respect to general service customers for now"*.[7] While the Current Energy Group (CEG) witnesses suggested that a variation of their decoupling proposal might apply to contract customers, including Ontario's large industrial gas consumers, they also acknowledged that *"further analysis would be useful in evaluating impacts across classes"*.[8] CEG was consistent, and more categorial, in this respect in response to an EGI

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[3] Transcript, December 19, 2024, page 88, lines 7-8.
[4] Transcript, December 19, 2024, page 88, lines 8-23 and page 90, lines 13-18.
[5] Transcript, December 19, 2024, page 89, lines 1-3.
[6] Transcript, December 19, 2024, page 94, lines 6-9.
[7] ED/GEC January 27, 2025 Submissions, page 17, top.
[8] Transcript, December 17, 2024, page 144, lines 14-15.

interrogatory wherein CEG stated; *"… CEG would need to conduct further analysis to determine whether it may be appropriate to limit the decoupling mechanism design proposed to in-franchise low-volume rate classes."*[9] No such analysis has been done.

On the basis of that evidence, and ED/GEC's submissions, we are proceeding on the assumption that the application of a customer number/revenue decoupling mechanism to non-general service customers is not being advocated by any party and is not under consideration at this time.

Still, based on discussions that we have had amongst a number of intervenors in preparation of our respective submissions, it is clear to us that there is a marked lack of understanding of precisely what the various iterations of customer number/revenue decoupling proposals would entail in practice (as distinct from in concept). This in itself commends caution in directing any immediate implementation of such a proposal. In this respect we further note the following testimony of Mr. McDonnell of CEG[10] (our emphasis):

> *I think that, within the ratemaking mechanism itself, all that is attempted to be offered here is that there is less of an acute financial incentive extended to disincenting customers should they wish to choose to depart the system from the perspective of Enbridge Gas as well as too strong of an incentive to allow for distorted behaviour when it comes to new customer additions.*
>
> *The term "indifference" was used as a way to express near-term neutrality. <u>In practice, that is a complicated calculation, and there is nuance present there, and indifference is difficult to achieve with a level of mathematical precision in light of the entire regulatory framework.</u> So use of the word "indifference," [audio dropout] if it was confusing in this context.*

The importance of considering such a revenue decoupling proposal together with the balance of the regulatory framework within which such a proposal is being advanced was further underscored in the following passage from Mr. McDonnell's oral testimony[11] (our emphasis):

> *<u>I think the gas utility will remain interested in adding new customers to the gas network even with a revenue decoupling mechanism</u> that trues up actual collective revenues against a target. What this does do however is guard against a disincentive to customers departing the system and it also creates more balance within an approach towards new customer additions as well. <u>The interest to add customers will remain, yes.</u>*

This testimony indicates that, under the CEG conceptual proposal, near term incentives and longer term incentives would be <u>mis</u>aligned. This inconsistency has led EGI to characterize, not completely unfairly, the proposal as in effect primarily aimed at further reducing EGI's capital spending, rather than being more obviously directed at addressing stranded cost risk. In other words, such a mechanism, implemented in isolation, could be a rather over-blunt instrument for addressing energy transition risks while maintaining the financial integrity of the regulated gas utility.

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[9] Exhibit M2.EGI-10, response part (e).
[10] Transcript, December 17, 2024, page 148, lines 9-23.
[11] Transcript, December 17, 2024, page 148, lines 1-8.

Further, as Mr. McDonnell acknowledged, CEG's conceptual proposal entails shifting of the risk associated with customer attrition during the rate plan term to remaining customers. Mr. McDonnell indicated this could include shifting risk from affluent customers departing the system in larger numbers to low-income customers, and (to the extent applied to contract rate classes) large industrial customers bearing the risk of departure of other rate class members.[12]

In this context, IGUA agrees with EGI's position that, as directed by the Phase 1 Decision, EGI's next rebasing case is the appropriate venue for consideration of broader questions and issues related to stranded assets, in the context of more complete consideration of the overall regulatory construct.[13]

IGUA does agree with ED/GEC, and EGI appears to as well, that the regulatory framework applicable to rate regulated gas utilities is ripe for re-examination. IGUA further agrees with ED/GEC, and EGI seems to have acknowledged, that steps to mitigate stranded cost risks are important. IGUA has some sympathy for the view that these considerations are somewhat time sensitive (i.e. sooner would be better than later).

At the same time, IGUA disagrees with ED/GEC that Ontario government policy on the future role of methane gas in Ontario's energy mix is clear. As explored during oral testimony by EGI's witness panel, that policy as currently articulated is in some respects internally inconsistent, and the hope is that greater clarity will be forthcoming.[14]

All things considered, IGUA agrees with, Mr. Kitchen's acknowledgement on behalf of EGI as captured in the following exchange at the hearing[15]:

MR. MONDROW:	*And so again, if one accepts the premise put forward by Current and Environmental Defence that the incentive to connect new customers needs to be revisited in order to protect customers to avoid stranded assets, I think you have agreed with me through these questions and answers that implementing that direction to the regulatory framework involves some balancing and some mutually inconsistent objectives, and requires or at least commends proper and integrated thought, and that rebasing is an appropriate time to undertake that.*
MR. KITCHEN:	*Yes.*

[12] Transcript, December 17, 2024, page 150, line 20 through page 151, line 1; and page 151, lines 21-27.
[13] EGI Argument in Chief, paragraph 10(iii)c. (page 3, bottom through page 4, top); see also EGI AIC, paragraph 132.
[14] Transcript, December 18, 2024, pages 74 through 79.
[15] Transcript, December 18, 2024, page 79, lines 4 through 14.

We understand EGI to have acknowledged through its Argument in Chief that it would be appropriate for the OEB to recognize that revenue decoupling from customer numbers is something that ED, or others, can raise and advance as part of the next rebasing proceeding, with more complete evidence, and in the context of more complete consideration of other questions and issues related to stranded assets and an overall regulatory construct for methane gas in Ontario.[16] IGUA agrees with this approach to the topic.

Yours truly,

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[16] EGI Argument in Chief, paragraph 160.