Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

February 18, 2025

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Enbridge Gas Inc. (Enbridge Gas)
2024 Rebasing Application – Phase 2
Ontario Energy Board (OEB) Staff Submission on Unsettled Issues
OEB File Number: EB-2024-0111

In accordance with Procedural Order No. 10 dated December 20, 2024, please find attached OEB staff's submission on the unsettled issues for the above noted proceeding. This document has been sent to Enbridge Gas and to all other registered parties to this proceeding.

Yours truly,

K Viraney

Khalil Viraney
Case Manager EB-2024-0111

Encl.

cc: All parties to EB-2022-0200/EB-2024-0111

ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc.

2024 Rebasing Application – Phase 2

EB-2024-0111

February 18, 2025

Introduction

Enbridge Gas Inc. (Enbridge Gas) filed an application with the Ontario Energy Board (OEB) under section 36 of the *Ontario Energy Board Act*, *1998* (OEB Act) seeking approval for changes to the rates that it charges for natural gas distribution, transportation and storage, beginning January 1, 2024. The application included setting 2024 rates on a cost-of-service basis and approval of an incentive rate-setting mechanism (IRM) for the years 2025 to 2028. The OEB is reviewing the application in three phases; this is Phase 2 of the application.

Enbridge Gas filed its Phase 2 evidence on April 26, 2024. The OEB issued Procedural Order No. 2 on May 30, 2024 setting out the issues list for Phase 2 and procedural steps up to and including the settlement conference.

The parties (intervenors and Enbridge Gas) reached a settlement on most issues. In a decision issued on November 29, 2024, the OEB approved the settlement proposal and an interim rate order effective January 1, 2025.

The issues that remained unsettled include a proposal to change the methodology to calculate the Meter Reading Performance Metric mechanism, decoupling revenue from customer numbers, and the proposed approach to procure lower-carbon energy as part of the gas supply commodity portfolio.

The OEB held an oral hearing between December 17 and 19, 2024, to address the unsettled issues. In Procedural Order No. 10 issued on December 20, 2024 (revised January 13, 2025), the OEB scheduled a process for filing written arguments. Environmental Defence and Green Energy Coalition (GEC) filed their submission on revenue decoupling on January 27, 2025. Enbridge Gas filed its argument-in-chief on February 6, 2025.

A summary of OEB staff's position on the three unsettled issues is provided below. A detailed discussion follows.

- OEB staff does not support Enbridge Gas's proposed approach to exclude inaccessible meters from the Meter Reading Performance Metric calculation. Removing inaccessible meters would reduce Enbridge Gas's incentive to address the issue of improving access to meters. There has been significant improvement in meter access from 2021 and OEB staff sees no reason for granting a blanket exclusion of inaccessible meters from the Meter Reading Performance Metric calculation.

- Environmental Defence and the Green Energy Coalition filed evidence and submitted that the OEB should approve a mechanism to decouple revenue from customer counts as part of Enbridge Gas's IRM framework. OEB staff believes that the evidence on revenue decoupling is insufficient to make an informed decision. The revenue decoupling mechanism aims to (in Environmental Defence's submission) remove incentives for Enbridge Gas to connect new customers in order to reduce the likelihood of stranded assets and address the energy transition risk. OEB staff submits that there is insufficient evidence to support the revenue decoupling proposal in this proceeding, and that revenue decoupling should not be considered in isolation but rather more holistically as part of a proceeding which considers energy transition issues more broadly, such as the next cost of service application. OEB staff further notes that the Ontario government sees a continuing role of natural gas as a vital component of the province's energy mix and a fuel option that should be available to Ontario residents. For these reasons, OEB staff submits that the OEB should not approve a revenue decoupling mechanism in this proceeding – any options to consider economic incentives to address the energy transition risk should be examined at the next rebasing proceeding.
- Enbridge Gas proposed a lower-carbon energy program that aims to purchase renewable natural gas (RNG) for large volume customers. RNG volumes that are not voluntarily purchased by large volume customers will be included in the system gas supply portfolio. Enbridge Gas is seeking approval to purchase a maximum of 2% of the portfolio by 2029 with a maximum bill impact of $4.00 per month. OEB staff supports a scaled-down version of Enbridge Gas's proposal that will limit the total portfolio to 1% of total gas supply by 2029 with a maximum bill impact of $2.00 per month. OEB staff notes that the level of participation by large volume customers is not known and is voluntary. Considering the high cost of RNG and the fact that the risk is being underwritten by system gas customers, it is appropriate to limit the extent of the proposed program for now.

Meter Reading Performance Metric

Background

The Meter Reading Performance Metric (MRPM) is a service quality requirement set out in section 7.3.3 of the Gas Distribution Access Rule (GDAR). It sets the minimum requirement for meter reads by measuring the percentage of meters with no read for four consecutive months. The number of meters with no read for four consecutive months or more as a percentage of all total active meter reads cannot exceed 0.5% on

an annual basis.[1]

In the Phase 1 proceeding, Enbridge Gas noted that it has experienced challenges meeting the MRPM metric since 2019 for several reasons including COVID-19 resulting in closed businesses, increased customer sensitivity to contact with meter readers, access issues during periods of lockdown, staffing issues attributable to quarantine/isolation periods and labour resource shortages.

Accordingly, in Phase 1, Enbridge Gas requested an exemption from the GDAR for the MRPM and for the performance measure to be increased from 0.5% to no more than 2%. In the Phase 1 Decision, the OEB denied the exemption request to change the MRPM target to 2% of meters and maintained the 0.5% target. In its Decision, the OEB noted, "changing the metric to 2% would lock in the adverse performance levels that occurred in unusual circumstances. The OEB finds that there are no unusual circumstances persisting in 2023, beyond Enbridge Gas's control."[2]

In this application, Enbridge Gas noted that the unusual circumstances referred to in the Phase 1 application, are persisting in 2023 and 2024 and are expected to continue into the foreseeable future. Enbridge Gas noted that after COVID, some customers have increased security measures and an increase in break and enters, frauds and thefts have further impacted Enbridge Gas's ability to gain access to the meters. This has and will continue to significantly impact the ability of Enbridge Gas to meet the MRPM target. Enbridge Gas explained that meter access issues are beyond the control of Enbridge Gas where customers do not respond to Enbridge Gas's reasonable attempts to gain access or obtain a reading directly from the customers. Until these customers provide access to the meter or service is discontinued at these premises, these inaccessible meters remain a part of the total number of unread meters. Unless the OEB allows Enbridge Gas to remove these inaccessible meters, Enbridge Gas is of the view that it will continue to be penalized for customer behavior that is beyond the control of Enbridge Gas. Enbridge Gas noted that as of October 2024, 60% of consecutive estimates were caused by inaccessible meters.

Accordingly, Enbridge Gas proposed that "inaccessible" meters be excluded from the MRPM calculation for the entirety of the IRM term. Enbridge Gas acknowledges that in effect, this proposal could be viewed as an exemption request under Section 1.5.1 of the GDAR related to the MRPM. For this purposes, Enbridge Gas defines inaccessible meters as those meters to which it has not been able to obtain access to and read the

[1] Gas Distribution Access Rule, amended March 1, 2020, pp.20-21.
[2] EB-2022-0200, Decision and Order, December 21, 2023, p. 135.

meter for four or more consecutive months because of customer-driven conditions that are beyond Enbridge Gas's control.[3] Under its proposal, Enbridge Gas would determine what is an inaccessible meter because of "customer-driven conditions".

Since 2022, Enbridge Gas has invested over $7.5 million in new technology, process and customer engagement initiatives which have significantly improved the MRPM, from 5.0% in 2021 to 0.97% as of October 2024. Enbridge Gas is also considering the implementation of advance metering infrastructure (AMI) as a long-term solution to automate meter reading. However, Enbridge Gas has noted that full implementation of the AMI solution is at least eight to ten years away. In spite of all the efforts and investments made, Enbridge Gas believes that it is not reasonably possible to meet the MRPM target.

Staff Submission

OEB staff submits that inaccessible meters should not be excluded from the MRPM calculation for the purposes of Enbridge Gas's compliance with section 7.3.3 of the GDAR. OEB staff believes that excluding inaccessible meters from the calculation will remove the primary incentive for Enbridge Gas to address the issue of inaccessible meters.

Enbridge Gas estimated that there would be 277,321 inaccessible meters in 2024.[4] However, this does not imply that the meters remain permanently inaccessible. At the oral hearing, Enbridge Gas confirmed that a meter read is sometimes obtained for "inaccessible meters" but is not available on a regular basis. OEB staff submits that Enbridge Gas should intensify its efforts to obtain meter reads on a regular basis rather than seeking to exclude inaccessible meters.

In its argument-in-chief, Enbridge Gas noted that if inaccessible meters are excluded from the MRPM calculation, it would continue to report on the number of inaccessible meters and the efforts made to reduce that number. In such a situation, OEB staff submits that it would be difficult to assess how any improvement in access to the meter impacts the overall metric. OEB staff further notes that inaccessible meters have always been included in calculating the metric even before COVID and excluding it now would reduce the comparative value of the metric.

[3] Exhibit 1, Tab 7, Sch.1, p. 6.
[4] Oral Hearing Transcript, Volume 1, December 17, 2024, pp. 33-34.

OEB staff notes that there has been significant improvement in the MRPM, from 5.0% in 2021 to 0.97% as of October 2024. The metric is 0.5%. Enbridge Gas noted that there has been an eighty percent improvement from 2021 in the metric. This demonstrates that Enbridge Gas has succeeded in improving its performance and its current performance is close to meeting the metric. OEB staff submits that Enbridge Gas should be able to achieve the metric in due course and there is no reason to grant Enbridge Gas's request for a blanket exclusion of inaccessible meters from the MRPM.

Revenue Decoupling

Background

In the Phase 1 Decision, the OEB noted, "In Phase 2 of this proceeding, a key issue regarding Enbridge Gas's incentive ratemaking mechanism proposal is to determine how performance-based incentives could be used in the face of the energy transition. Phase 2 will provide an opportunity to examine ways in which Enbridge Gas could be provided with an incentive to implement economic alternatives to gas infrastructure replacement projects, including asset life extensions and system pruning, including replacing gas equipment with electric equipment."[5]

In Phase 2, the OEB added Issue #7, "How should Enbridge Gas be incentivized to implement economic alternatives to gas infrastructure and how should the recovery of its costs be treated?"

Environmental Defence filed a report prepared by Current Energy Group that discussed options aimed at improving capital cost containment and mitigating financial risks to customers arising from the energy transition.[6] Current Energy Group provided a number of recommendations to address the risks related to the energy transition and incentivize Enbridge Gas to move away from expanding rate base and add new customers. The report discussed a number of options including differentiated return on equity, revenue decoupling, efficiency carryover mechanism and sharing of gas supply risk. In the OEB approved settlement proposal, parties agreed that Enbridge Gas will be required to file a study that will provide detailed analysis and options on a mechanism to implement differentiated ROE on different asset types and an efficiency carryover mechanism in its next rebasing application. Parties further agreed that the issue of

[5] EB-2022-0200 Decision and Order, December 21, 2023, p. 51.
[6] Incentive Ratemaking for Capital Cost Containment and Energy Transition Risk Reduction – Current Energy Group, Exhibit M2, August 12, 2024.

whether a revenue decoupling mechanism should be adopted for the current IRM term would proceed to a hearing.

After the completion of the oral hearing, the OEB issued Procedural Order No, 10 that provided a schedule for filing final arguments. Environmental Defence and the Green Energy Coalition (GEC, which also argued in favour of a revenue decoupling mechanism) were required to file their submission on revenue decoupling before the filing of the argument-in-chief by Enbridge Gas.

Environmental Defence and GEC Submission

In its submission, Environmental Defence and GEC submitted that the OEB decouple revenue from customer counts for the IRM term covered by this application, or in the alternative, require that it be implemented in Enbridge Gas's next rate application. The two intervenors argued that the recommended approach is needed to remove Enbridge Gas's incentive to convince as many developers as possible to connect to the gas system and to dissuade existing customers from leaving the gas system.

The two intervenors claimed that Enbridge Gas's incentive ratemaking proposals are business-as-usual and do not meaningfully reflect the risks arising from the energy transition. Environmental Defence and GEC noted that Enbridge Gas's focus on connecting new customers poses a major risk of stranded assets. The assets used to provide service to new connections are long-lived assets that will be depreciated over 60 years under current policies, well past Canada's climate action goals. The two intervenors noted that Enbridge Gas forecasts capital additions of over $1.5 billion for customer connections over the rate term.

In order to address this risk, the two intervenors suggested that Enbridge Gas be made neutral with respect to customer connection/disconnections from a revenue perspective. The two intervenors believe that this is an important early priority because it impacts Enbridge Gas's approach to new connections, which are a particularly large and risky category of capital spending and can spur additional risky upstream investments. According to Environmental Defence and GEC, decoupling revenue from customer numbers would provide several benefits including reducing financial risk for the existing customer base, reducing energy bills, reducing the cost of decarbonization as a whole, enhancing customer choice and supporting regulatory effectiveness and transparency. Decoupling revenue from customer numbers would also turn Enbridge Gas's attention to finding efficiencies during the IRM term rather than relying on revenue from new customers to manage its costs.

Environmental Defence and GEC maintained that steps to align Enbridge Gas's incentives with the energy transition should be done as soon as possible. According to the two intervenors, the incentives will take time to take effect and steps taken now will determine Enbridge Gas's interactions with its customers and developers and how it designs its next rebasing and DSM applications. To this end, Environmental Defence and GEC suggested three timing options:

1. To file concrete decoupling options at the next rebasing application that allow for implementation.

2. Determine a revenue decoupling mechanism to implement at the next rebasing application.

3. Enbridge Gas could be directed to implement revenue decoupling with respect to customer counts in this proceeding or in Phase 3. The decoupling mechanism could be implemented with a variance account that is similar in size and complexity to the average use variance account. Environmental Defence and GEC proposed that the revenue decoupling mechanism should only be implemented with respect to general service customers for now.

Environmental Defence and GEC proposed three mechanisms to achieve decoupling with respect to customer counts:

1. The first option would return all incremental revenue from actual net customer additions/exits to ratepayers through the variance account. The mechanism would require Enbridge Gas to estimate the difference in revenue from actual customer counts in a year against the number of customers in the test year, and return the difference to ratepayers if customer growth occurs, or recover lost revenue from customers if customer counts shrink. Under this option, Enbridge Gas would return the full amount from net customer additions/exits, which amounts to $256 million for the rate term.

2. The second option would allow Enbridge Gas to only retain the incremental revenue it expected to earn from net customer additions/exits. The mechanism would return to customers or recover from customers the difference in revenue from actual customers in a given year against the revenue earned from forecasted customer additions. Under this option, Enbridge Gas would earn the full $256 million it expects from net customer additions, but no more and no less. In other words, Enbridge Gas would not be able to keep any revenues from customer additions that exceed the forecasted connections.

3. The third option is a combination of the two earlier options. It would allow Enbridge Gas to retain a portion of the incremental revenue it anticipates earning from net customer additions/exits. Environmental Defence and GEC have recommended a proportion of 75%, in other words, Enbridge Gas would be able to earn 75% of the $256 million it expects to earn from net customer additions/exits to ratepayers, but no revenues from customer additions that exceed the forecasted connections.

Although the two intervenors have presented three options for the OEB to consider, their preference is option 3, which allows Enbridge Gas to retain a portion of the revenues thereby reducing revenue risk. The two intervenors further recognized that Enbridge Gas may have negotiated the price cap index factors expecting to receive at least some of the incremental revenue from customer growth, and therefore it was appropriate to allow Enbridge Gas to retain a portion of revenues from customer connections during the IRM term.

Finally, Environmental Defence and GEC submitted that decoupling revenue from customer numbers is just one of the changes that are needed and implementing this mechanism for the current IRM term would be an appropriate incremental approach to bring Enbridge Gas's incentives more in line with the protection of ratepayer interests in the context of the energy transition.

Enbridge Gas Argument-in-Chief

In its argument-in-chief, Enbridge Gas submitted that the OEB should not advance Environmental Defence and GEC's proposal for a variety of reasons:

1. The two intervenors have not provided a proposal with sufficient details that can be implemented. Only two of the three options presented in argument were discussed in Current Energy Group's evidence, and not the third option (which was recommended by Environmental Defence and GEC), which recommends 75% sharing of revenues from new customers. Enbridge Gas argued that this was a new and arbitrary concept introduced in Environmental Defence and GEC's submission and there was no basis provided for the use of this number. Enbridge Gas further noted that there was no reference to any other jurisdiction that has adopted some form of revenue decoupling from customer numbers.

2. Enbridge Gas submitted that the OEB already considered the stranded asset risk in its Phase 1 Decision and the OEB should not permit Environmental Defence to litigate and re-litigate its position on customer attachments and stranded assets

in instalments. Enbridge Gas noted that the OEB had already determined Enbridge Gas's capital envelope, mindful of the stranded asset concerns raised by Environmental Defence and other parties. Enbridge Gas argued that Environmental Defence was attempting to effectively reduce the capital envelope through a "revenue decoupling" mechanism and this amounted to a collateral attack on the OEB-approved capital envelope amount.

3. Enbridge Gas submitted that Environmental Defence and GEC's proposal is contrary to Ontario government policy that strongly favours and mandates an important and continuing role for natural gas as a vital component of the province's energy mix.[7] Enbridge Gas further referred to *Keeping Energy Costs Down Act, 2024* (Bill 165) that reversed the OEB's Phase 1 Decision and Order related to a zero-revenue horizon. Enbridge Gas submitted that the reversal demonstrates that the Ontario government supports customer choice and affordable natural gas connections. Enbridge Gas submitted that Environmental Defence's revenue decoupling proposal could result in even more dampening of natural gas connections for new homes than a zero-revenue horizon.

4. Enbridge Gas disputed Environmental Defence's suggestion that implementing a revenue decoupling proposal would enhance customer choice. Enbridge Gas noted that the revenue decoupling proposal would eliminate or greatly reduce the number of new connections and will require new homes to be fully electrified for heating. Enbridge Gas noted that customers want natural gas and developers choose natural gas because the ultimate customer wishes to buy a new home with natural gas service.

5. Enbridge Gas submitted that Environmental Defence and GEC's proposal is contrary to regulatory policy. Enbridge Gas noted that regulatory policy should be shaped by the OEB's statutory objectives which includes the rational expansion of gas distribution systems and facilitating the maintenance of a financially viable gas industry.[8] Enbridge Gas argued that Environmental Defence's proposal limiting new customer connections does not promote rational expansion as it ignores customer choice and government policy. Enbridge Gas believed that the appropriate place to consider changes to the IRM framework is the OEB's recently initiated consultation on "Advanced Performance-based Regulation". Enbridge Gas further submitted that the revenue decoupling proposal is at odds with performance-based regulation of the OEB that provided utilities with

[7] Enbridge Gas argument-in-chief, February 6, 2025, para. 115.
[8] *OEB Act*, section 2(4) and (5.1).

incentives for behaviour that resembles competitive, cost-minimizing, profit motivated companies. Enbridge Gas argued that Environmental Defence's proposal is designed to do the opposite – it posits that the company's profit-maximizing and competitive motivations would lead to customer growth, so mechanisms need to be put in place to reverse that motivation.

6. Enbridge Gas submitted that Environmental Defence's proposal is not consistent with a price cap mechanism. Enbridge Gas noted that its approved price cap mechanism includes a productivity and stretch factor and if a revenue decoupling mechanism is implemented, it will lead to an extra, unanticipated stretch factor. Enbridge Gas argued that it needs the revenues from new customers to fund operations.

7. Enbridge Gas further argued that Environmental Defence's proposal is not consistent with the Fair Return Standard, which entitles it to a reasonable rate of return on its investment. If Enbridge Gas must forfeit the revenues that the utility earns from new customers who require incremental investments to serve, then the company loses the opportunity to earn a fair rate of return on those investments.

At the oral hearing, the Enbridge Gas witness stated that it would not attach new customers if the OEB approved a revenue decoupling mechanism that "confiscates" revenues from new customers, and that the obligation to serve under subsection 42(2) of the OEB Act does not exist in isolation, and is a corollary of its right to have an opportunity to earn a fair return.[9]

For all these reasons, Enbridge Gas submitted that the OEB should not approve a revenue decoupling mechanism. Enbridge Gas further maintained that parties can raise the issue of revenue decoupling at the next rebasing proceeding where other related issues such as stranded assets and ratemaking approaches that address the energy transition are discussed.

Staff Submission

OEB staff submits that the OEB should not approve the revenue decoupling proposal of Environmental Defence and GEC. As set out in further detail below, OEB staff believes that the proposal requires more detail and further review, which (assuming a party wishes to bring it forward) would better take place as part of a broader cost of service or

[9] Enbridge Gas argument-in-chief, February 6, 2025, para. 155.

full IRM review. The current proposal lacks specificity and should not be considered in isolation from other ratemaking approaches.

As stated earlier, the evidence of Current Energy Group lacked sufficient details and analysis. Current Energy Group discussed a number of options to address the energy transition during the IRM term. One of these options is revenue decoupling. The evidence of Current Energy Group discussed the different options at a high level. In fact, the most detailed information on the revenue decoupling proposal has been provided in the recently filed final submissions of Environmental Defence and GEC.

There are several issues that have not been fully explained or addressed in the proceeding. At the oral hearing, the witnesses from Current Energy Group confirmed that the proposed variance account would not include incremental capital costs.[10] Enbridge Gas would need to absorb the capital costs for connecting customers during the rate term but would be able to retain only 75% of the revenues (as per the revenue decoupling option recommended by Environmental Defence and GEC) for connecting the forecasted customers and would not be able to keep any revenues from customers over the forecast. The argument of Environmental Defence and GEC is that the connection costs are already part of the capital budget.

OEB staff submits that there is no basis for Enbridge Gas retaining 75% of the revenues related to attaching forecasted customers under a revenue decoupling mechanism, as opposed to some other number. There was no rationale provided as to why a 75% retention of revenues to Enbridge Gas was appropriate. It is not clear whether retaining 75% of the revenues represents the costs to connect customers or this is an arbitrary number that has been selected to present the proposal.

There is also no evidence on whether all incremental capital costs to connect new customers form part of the capital budget and it is possible that Enbridge Gas is relying on the incremental revenues to recover a portion of the incremental capital costs to connect the forecasted new attachments or additional customers over the forecast.

OEB staff also agrees with Enbridge Gas that it could have relied on revenues from new connections to agree on a productivity and stretch factor. Further adjustments arising from implementing a revenue decoupling mechanism could operate like an unanticipated stretch factor.

[10] Oral Hearing Transcript Volume 1, p. 206.

In its report titled, “Ontario’s Affordable Energy Future”, the Ontario Ministry of Energy and Electrification states, “The OEB should continue to play its role as the natural gas system’s economic regulator to protect consumers, to ensure utilities can invest in their systems and earn a fair return, and to enable the rational expansion and maintenance of the system.” The report further states, “There is a need for an economically viable natural gas network to support a gradual energy transition, to attract industrial investment, to drive economic growth, to maintain customer choice and ensure overall energy system resilience, reliability and affordability.”[11]

Environmental Defence and GEC indicate that the intent of their proposal is to make Enbridge Gas neutral with respect to customer connections. However, it appears that, if implemented at this time without a full understanding of the mechanics and interactions with the already-approved IRM and capital budget, the more likely outcome would be to discourage natural gas connections. OEB staff submits that such an outcome is misaligned with current government policy that contemplates a continued role for natural gas as a reliable energy source that should remain as an available option for customers.

In response to an interrogatory, Current Energy Group was of the opinion that a regulator should view a utility’s risk profile within its regulatory framework in a comprehensive manner, rather than individual mechanisms in isolation.[12] This was reiterated at the oral hearing where the Current Energy Group witness noted that the different approaches should be evaluated holistically.[13] OEB staff agrees with this view. It is recommended that the OEB consider all the different approaches in a single proceeding and select the most appropriate option or options that protect ratepayers, ensure the viability of Enbridge Gas and address the energy transition risk. Furthermore, when asked to rank the different approaches, Current Energy Group selected “Differentiated ROE” as the most important mechanism to be implemented during Enbridge Gas’s 2025-2028 rate term.[14] Differentiated ROE will be examined at the next rebasing. It would not make sense to implement revenue decoupling without first considering “Differentiated ROE” which has been recommended as the most important tool by Environmental Defence and GEC’s own consultant.

For these reasons, OEB staff submits that the OEB should not consider a revenue decoupling mechanism in this proceeding. Parties will get an opportunity to discuss all

[11] Ontario Ministry of Energy and Electrification, Ontario’s Affordable Energy Future: The Pressing Case For More Power, October 2024, pp. 22-23.
[12] M2-SEC-2.
[13] Oral Hearing Transcript, Volume 1, p. 215.
[14] M2-CCC-1.

options that address the energy transition and stranded asset risk at the next rebasing proceeding.

Obligation to Serve

During the oral hearing, Enbridge Gas indicated that if a revenue decoupling mechanism like the one proposed by Environmental Defence were ordered by the OEB, Enbridge Gas would cease to connect any new customers to its gas distribution system. As stated by Mr. Kitchen, "[An approval of the proposed revenue decoupling mechanism] is certainly going to mean that Enbridge won't be connecting any customers. And the reason I say that is that without the revenue stream from those customers there is no incentive for us to connect. […] If you take away the ability to collect the revenue, then from my perspective the obligation to connect is not there."[15]

Enbridge Gas repeated this position in its argument in chief, where it stated:

It is important to appreciate that the obligation to serve does not exist in isolation. It is a corollary to the utility's privilege of having a franchise or natural monopoly to serve a community, and it is a corollary to the utility's right to have the opportunity to earn a fair return on the assets used to serve customers. This is referred to as the regulatory compact. […] The regulatory compact dictates that where the utility is no longer able to recover rate revenues from attaching customers (which rates are designed to recover costs and earn a fair return on assets), then the utility should not be required to add customers. The quid pro quo underlying the regulatory compact would be defeated if the right to a fair return was removed."[16]

Enbridge Gas's position appears to be that, if Environmental Defence's decoupling proposal is ordered by the OEB, it will cease all new connections, including both connections to existing distribution lines and connections that require some manner of system expansion (i.e. connections of customers that do not lie along an existing distribution line). Enbridge Gas does acknowledge that "it would potentially have to seek relief from the OEB (or even a Court) from the forced application of section 42(2) of the OEB Act, either proactively (perhaps as a GDAR exemption application) or in response to a complaint from a customer." Enbridge Gas states that this "is an issue for another day, but it can be expected that Enbridge Gas would raise (among other things) the arguments set out above."[17]

[15] Oral Hearing Transcript, Volume 2, December 18, 2024, p. 52.
[16] Enbridge AIC, paras. 155-156.
[17] Enbridge Gas argument-in-chief, February 6, 2025, para. 157.

As set out above, OEB staff does not support Environmental Defence's revenue decoupling proposal, and if the OEB rejects the proposal then the obligation to serve issue is moot. However, to assist the Panel, OEB staff provides the following submissions in response to the arguments made by Enbridge Gas respecting the obligation to serve.

Subsection 42(2) of the OEB Act creates an obligation for Enbridge Gas to serve certain customers: "Subject to the *Public Utilities Act*[18]… a gas distributor shall provide gas distribution services to any building along the line of any of the gas distributor's distribution pipe lines upon the request in writing of the owner, occupant or other person in charge of the building." Section 2.2.1 of the GDAR repeats this obligation: "A gas distributor shall connect a building to its gas distribution system in accordance with subsubsection 42(2) of the Act." Subsection 42(2) of the OEB Act and the GDAR are both "enforceable provisions" and subject to compliance action under Part VII.1 of the OEB Act.

OEB staff agrees with Enbridge Gas that subsection 42(2) only applies to potential customers that are along the line of any of its distribution pipelines, and not to customer connections that would require a system expansion.

OEB staff does not agree, however, that the approval of a revenue decoupling mechanism as proposed by Environmental Defence would relieve Enbridge Gas from the obligation under s. 42(2) to serve potential customers that are along the line of any of its distribution pipelines, where they request natural gas distribution service in writing.

Enbridge Gas argues that the proposed revenue decoupling mechanism would not allow them to recover their costs associated with connecting new customers and would therefore be a breach of both the regulatory compact and the fair return standard. As such they believe that if it were imposed by the OEB they should no longer be required to connect any new customers. Enbridge Gas goes on to acknowledge that it would potentially need relief from the "forced application" of section 42(2) of the OEB Act.

The OEB must approve rates that are "just and reasonable", and in order for rates to be just and reasonable they must be consistent with the regulatory compact and meet the fair return standard, which permits a utility the opportunity to earn a fair return on its

[18] Subsection 42(2) makes the obligation to serve subject to the *Public Utilities Act* and certain other legislation. OEB staff does not believe that this other legislation is directly relevant to the issue at hand.

invested capital.[19] The regulatory compact and the fair return standard are in fact components of a rate that is "just and reasonable."

Revenue decoupling mechanisms on their own do not amount to a breach of the regulatory compact or the fair return standard. In fact, all IRM plans, to one extent or another, decouple costs from revenues: that is one of the main purposes of IRM. Over any given IRM term it can be expected that a utility will incur costs that may not be covered by their rates. Similarly, some costs that are covered through rates will not actually be incurred. The fact that there is no dollar for dollar matching of revenues and costs is not on its own a breach of the regulatory compact or the fair return standard (nor does it automatically result in rates that are not just and reasonable); if it were the OEB (and other regulators) would have to cease setting rates through IRM plans entirely.

Without commenting on the specific Environmental Defence proposal before the OEB, OEB staff accepts that, in theory, there are revenue decoupling mechanisms that could result in rates that were not just and reasonable and could run afoul of the fair return standard or the regulatory compact. However, even if such a mechanism were ever approved by the OEB, it would not impact Enbridge Gas's obligations under subsection 42(2) of the OEB Act. Nothing in the legislation suggests that the application of subsection 42(2) is conditional on adhering to the fair return standard, the regulatory compact, or any other regulatory principle. In the event that Enbridge Gas believes that a rate order issued by the OEB is not just and reasonable (whether related to the fair return standard, the regulatory compact, or for any other reason), Enbridge Gas's remedy would be to seek redress from the OEB (through a motion to review, or possibly a request to end or amend the IRM term early if earnings are seriously impaired), or through the courts by way of an appeal under s. 33 of the OEB Act.

In acknowledging that it "would potentially have to seek relief from the OEB (or even a Court) from the forced application of subsection 42(2)", Enbridge Gas also notes that this would be an issue for "another day". It is not known at this point whether the OEB will order a revenue decoupling mechanism related to customer connections at all and perhaps addressing the issue of the path for relief from the obligation to serve is premature at this stage. For now, OEB staff submits that Enbridge Gas would (not "would potentially") require some relief from the statutory and regulatory obligation to serve; it would not be open to a distributor to decide on its own that it may cease

[19] *Northwestern Utilities Limited v. City of Edmonton* [1929] S.C.R. 186

complying with a provision of the OEB Act (or the GDAR) nor would these requirements simply fall away even in the face of rates that are not just and reasonable. OEB staff also observes that it is not clear whether the OEB has the power to relieve a distributor of its obligations under subsection 42(2).[20]

Lower-Carbon Energy Program

Background

Enbridge Gas requested approval for a proposed Lower-Carbon Energy Program (Program) to procure lower-carbon energy as part of the gas supply commodity portfolio and recover the associated incremental costs. The Program encompasses both:

- A Lower-Carbon Voluntary Program (LCVP) for large volume customers
- Inclusion of lower-carbon energy in the cost of gas supply commodity, for lower-carbon energy volumes procured by Enbridge Gas but not voluntarily purchased by customers through the LCVP.

Initially, the lower-carbon energy would be exclusively in the form of renewable natural gas (RNG).[21] RNG is produced from decomposing organic matter (e.g., food waste, human and animal wastes), which creates biogas that can be upgraded to pipeline quality methane. RNG procured by Enbridge Gas would align with the definition of "biomethane" in the federal *Greenhouse Gas Pollution Pricing Act* (GGPPA),[22] which is exempt from federal carbon pricing obligations under this Act, including the Federal Carbon Charge.

Program Rationale

Enbridge Gas stated that RNG and low-carbon fuels will play an important role in the energy transition and help enable the energy system's path to net zero greenhouse gas emissions.

[20] The OEB can exempt a distributor from the requirements of section 2.2.1 of the GDAR, however that on its own would not eliminate the need to comply with the same requirement under subsection 42(2)) of the OEB Act.
[21] Enbridge Gas indicated it would consider hydrogen procurement in the Program when further certainty on the inclusion of hydrogen in the distribution system is available, following the completion of its Hydrogen Blending Grid Study, and may seek approval for hydrogen inclusion as part of a future application.
[22] S.3: "biomethane means (a) a substance that is derived entirely from biological matter available on a renewable or recurring basis and that is primarily methane; or (b) a prescribed substance, material or thing"

Enbridge Gas described three energy transition-related benefits that would be achieved by increasing the amount of RNG in the gas supply through the proposed Program:

- Supports an immediate opportunity to reduce greenhouse gas (GHG) emissions within Ontario's building, transportation, industrial and electricity generation sectors
- Develops an Ontario-based RNG market to supply RNG to the difficult-to-decarbonize sectors such as industrial processes and heavy transportation
- Provides customers with RNG as an option to achieve GHG emission reduction goals as the energy transition unfolds.

Program Scale

Enbridge Gas sought approval to procure up to 0.25% of the planned gas supply commodity portfolio as lower-carbon energy beginning in 2026, increasing to a maximum of 2% of the portfolio by 2029,[23] and (in the absence of any further direction from the OEB), continuing at that level in subsequent years.

The requested maximum percentages of RNG in Enbridge Gas's gas supply commodity portfolio are significantly reduced (by 50% in 2029), relative to Enbridge Gas's original application.[24] Enbridge Gas indicated that the reduction in target percentages acknowledges the nascent supply and demand markets for RNG, but still provides the opportunity for Enbridge Gas to enter the RNG market, offer RNG as a supply option for large volume customers, and balance the overall impact to customers.

Enbridge Gas indicated that, in order to secure meaningful quantities of RNG and compete with purchasers in other jurisdictions, it expects to procure lower-carbon energy commodity purchases primarily through long-term contracts of five years or greater. Enbridge Gas requested that the cost recovery consequences be approved for the duration of the lower-carbon energy contract term.

Enbridge Gas's' proposed cost recovery approach for the Program would include selling RNG to customers on a voluntary basis through the LCVP. The LCVP would be offered to commercial and industrial sales service customers served by contract, and large volume general service customers with a sales service supply option and annual consumption greater than 15,000 m^3. Enbridge Gas indicated that there was interest from customers in this group in obtaining larger volumes of RNG to achieve their desired emissions reductions and reduce their Federal Carbon Charge. Participants in

[23] The maximum amounts in the intermediate years would be 0.75% of supply in 2027 and 1.25% in 2028.
[24] The original proposed maximum amount was 1% of supply in 2026, increasing to 4% by 2029.

the LCVP would elect to receive a specified portion of their supply as lower-carbon energy and pay the associated premium cost of lower-carbon energy above the gas commodity cost through a rate rider. LCVP participants would be required to make a commitment for one year with automatic renewal in subsequent years until a time in which the customer elects a change.

If there is not sufficient demand from the LCVP to purchase the full amount of Enbridge Gas's RNG purchases, then remaining costs would be included in the cost of gas supply commodity (i.e., recovered from all customers that purchase gas supply commodity from Enbridge Gas). Enbridge Gas indicated that the LCVP could not be launched until 2027; therefore in 2026, all costs of RNG would be included in the cost of gas supply commodity.

Enbridge Gas is already offering a voluntary RNG pilot program. This pilot differs from Enbridge Gas's proposed Program, in that the voluntary RNG pilot is focused on general service customers, procures RNG only on a short-term basis for the volumes elected by voluntary participants, and has the cost fully recovered from these voluntary participants (i.e., there are no cost consequences for customers that choose not to participate). Enbridge Gas indicated that, should the OEB approve Enbridge Gas's proposed Program, the voluntary RNG pilot would be discontinued.

Bill Impact

Lower-carbon energy that is not elected by customers voluntarily participating in the LCVP would be included in the planned gas supply portfolio commodity purchases for all sales service customers. To mitigate the potential bill impact, Enbridge Gas proposed establishing a maximum forecast bill impact for customers, of 50 cents per month for residential customers at a target percentage of 0.25% lower-carbon energy, increasing to $4 per month at a target percentage of 2% lower-carbon energy (forecast bill impacts for non-residential customers would scale in proportion to their relative consumption volumes). The maximum bill impact would be calculated net of any customer bill savings due to the reduction in the Federal Carbon Charge (described further in the subsection "Greenhouse gas emissions reporting and reductions from RNG"). However, should a future government modify or remove the Federal Carbon Charge, Enbridge Gas would revise its calculation to ensure that the maximum bill impact remained within the proposed limit.[25]

Should Enbridge Gas reach this maximum forecast bill impact (based on the costs of its

[25] Exhibit I.4.2-CCC-43

lower-carbon energy procurements), it would stop procuring lower-carbon energy for the program year, even if its target percentage of lower-carbon energy had not been reached.

Indigenous Participation Proposal

The partial settlement reached in this proceeding and approved by the OEB did not reach agreement on Enbridge Gas's proposed Program. However, the partial settlement did include a clause stating that, if procurement of low-carbon energy (or RNG) is approved, then any approval should include consideration of how the approved program can contribute to advancing economic reconciliation with First Nations, which could potentially include procurement targets for First Nation-owned businesses in Ontario and/or discount pricing advantages for bids from First Nation-owned businesses as potential measures to help stimulate related First Nations business activity.[26]

Following the OEB's approval of the partial settlement proposal, Enbridge Gas and two intervenors (Three Fires Group and Minogi Corporation) jointly proposed a framework to accommodate Indigenous participation in RNG procurement.[27]

Under this proposed framework, Enbridge Gas would provide RNG offers from qualifying Indigenous-owned businesses in Ontario (defined as requiring Indigenous ownership or equivalent participation of 25% or more) with a bid advantage (a 10% implied discount to the offer price). The bid advantage would no longer be applicable once either: (1) Enbridge Gas had procured 5% of the total RNG procurement volume approved under any OEB approved program from qualifying Indigenous-owned businesses, or (2) the approved program term ended.

Enbridge Gas stated that it believes that the framework for Indigenous participation for RNG procurement will promote Indigenous economic participation in the energy sector that will have positive economic impacts to Indigenous communities and further the call to action for reconciliation.

Greenhouse Gas Emissions Reporting and Emissions Reductions

While combustion of either conventional natural gas or RNG releases GHG emissions, federal and Ontario carbon pricing policy does not apply a carbon price on combustion emissions from RNG, on the basis that RNG is produced from biogenic sources and the emissions released to the atmosphere during its combustion are matched by uptake of

[26] Partial Settlement Proposal, November 4, 2024, p. 29
[27] Enbridge Gas, Lower-Carbon Energy Program presentation, December 13, 2024

CO_2 from the atmosphere earlier by the source material from which the RNG was produced.

GHG emissions related to the combustion of natural gas by Enbridge Gas's end-use customers are subject to the Federal Carbon Charge under the GGPPA. The GGPPA does not apply the Federal Carbon Charge to RNG. Therefore, Enbridge Gas would reduce the Federal Carbon Charge on the bill of customers (for both voluntary participants in the LCVP and sales service customers, in proportion to the respective percentages of RNG in their gas supply). Enbridge Gas noted that due to timing differences between when the lower-carbon energy is delivered into the distribution system and when Enbridge Gas rebates the Federal Carbon Charge, variances between actual customer Federal Carbon Charges and Federal Carbon Charges collected through rates may arise. Enbridge Gas proposed to record these variances in the existing Customer Carbon Charge Variance Account, with balances to be disposed of through the annual Federal Carbon Pricing Program application.

Larger industrial emitters are subject to Ontario's Emissions Performance Standard (EPS) instead of the Federal Carbon Charge. The EPS allows participants to subtract the emissions from combustion of RNG from their reportable GHG emissions.

Enbridge Gas noted that the Federal Carbon Charge and the EPS, account for direct emissions released from the combustion of natural gas and are not based on a lifecycle carbon intensity (CI) approach. Therefore, all sources of RNG are treated as being equal in terms of how they affect a user's carbon pricing obligations.

The CI approach also considers upstream and indirect emissions in the production of RNG. Different sources of RNG have different CI values, although all have lower CI than conventional natural gas.[28] Enbridge Gas provided an estimate of the CI scores of RNG from different sources.[29] These range from -14.15 g carbon dioxide equivalent (CO_2e)/m^3 for RNG from manure (i.e., negative life-cycle emissions, primarily due to the benefit of avoiding methane emissions that would otherwise be released to the atmosphere) to 51 g CO_2e/m^3 for RNG from landfill gas.

Enbridge Gas indicated that the CI score of RNG would not be a primary consideration when procuring RNG; however, it would take into consideration the financial value of credits under the federal Clean Fuel Regulations (CFR). CFR credits can be created through the production of RNG, and the CFR accounts for the differing CI values of different sources of renewable natural gas – a lower CI score will produce more credits

[28] Exhibit I.4.2-PP-49, Attachment 1, p.41
[29] Exhibit I.4.2-GEC-22, Attachment 1

per GJ of RNG than a higher CI score.

The CFR requires liquid fossil fuel primary suppliers (i.e., producers and importers) to reduce the carbon intensity of the gasoline and diesel that they produce and sell for use in Canada. The CFR includes a credit market whereby these regulated parties must create or buy credits to comply with the reduction requirements. Enbridge Gas has no obligations under the CFR but could participate by selling CFR credits to the regulated parties.

Enbridge Gas indicated that it has not determined at this time if RNG will be purchased with CFR credits but would consider doing so if the benefits, less expenses, generated from CFR credit sales would reduce the incremental cost of RNG.

Intervenor Evidence – Energy Futures Group

The Green Energy Coalition and Environmental Defence sponsored expert evidence by Energy Futures Group, which included a review of Enbridge Gas's proposed Program.[30]

Energy Futures Group recommended that Enbridge Gas reduce the Program procurement targets by a factor of two (0.25% of supply in 2026, increasing by 0.25% per year to 1% in 2029),[31] cap the unit procurement price of RNG at $25.58/GJ, and redirect the savings to expanded energy efficiency.

This recommendation is based upon Energy Futures Group's conclusion that RNG is likely to play a relatively smaller role in the energy transition compared to other emissions reductions strategies such as energy efficiency and electrification, for both technical reasons (primarily, supply limits on the feedstocks required to produce RNG) and economic reasons (high cost of emissions reduction). This conclusion drew on evidence from Energy Futures Group in phase 1 of this proceeding.[32]

The estimated cost of emissions reductions from RNG is much higher than from energy efficiency programs. Enbridge Gas confirmed that its energy efficiency programs (also known as demand-side management or DSM) had delivered GHG emissions reductions at a unit cost of $42.41/tonne CO_2e (based on 2023 results); while the cost of GHG emissions reductions from Enbridge Gas's purchases of RNG, based on its estimates of RNG prices between $15.98/GJ (low estimate) and $30.00/GJ (high estimate), is between $96.40/tonne CO_2e and $420.80/tonne CO_2e, even after accounting for the

[30] Exhibit M1, chapter 4
[31] Energy Futures Group's recommendation was a reduction by a factor of four from Enbridge Gas's original proposal – this equates to a reduction by a factor of two from Enbridge Gas's updated proposal.
[32] EB-2022-0200, Exhibit M9-GEC-ED

cost savings from the reduction in the Federal Carbon Charge.[33]

Energy Futures Group noted that there was uncertainty regarding future procurement costs for RNG and made the recommendation to cap the (net) price of RNG procurements at $25.58/GJ.[34] This unit cost was calculated by assuming that Enbridge Gas exactly reaches both its RNG procurement target and its maximum bill impact. Under this circumstance, the unit cost of GHG emissions reductions from RNG procurement would be $511.60/tonne CO_2e.

While Energy Futures Group recommended that funds not spent on RNG (as a result of reducing Enbridge Gas's RNG procurement targets) should ideally be redirected to expanded energy efficiency spending, it agreed that energy efficiency spending was not an issue that the OEB would determine in this proceeding.[35] Energy Futures Group also confirmed that its recommendation to reduce the Program procurement targets stands, recognizing there is uncertainty as to whether a determination on the Program (and its related bill impact) in this proceeding might have any impact on a future OEB decision on energy efficiency spending.[36]

Energy Futures Group made two additional recommendations. These recommendations attempt to ensure that the Program is effective in delivering long-term GHG emissions reductions:

- The Program should exclusively procure new RNG supply (not recontract for existing supply) and heavily prioritize the development of Ontario-based RNG sources to increase overall supply and maximize long-term benefits.
- The Program should procure RNG based on the cost per tonne of avoided lifecycle GHG emissions (using CI values) to reflect the major variance in carbon intensity of different RNG sources and to minimize the cost of carbon emissions reductions.

Energy Futures Group submitted that if the Program does not require new sources of RNG, it may simply be shifting emissions reductions from a prior user of RNG to Enbridge Gas's customers, with no net increase in RNG supply or overall reductions in GHG emissions. Energy Futures Group also submitted that, at least in the near term, it makes sense to focus on developing Ontario-based new sources of supply and

[33] Exhibit I.4.2-ED-48; Oral Hearing Transcript Volume 2, p.138
[34]
[35] The budget for Enbridge Gas's energy efficiency programs in future years will be considered in Enbridge Gas's recently filed DSM application (EB-2024-0198), which requests approval of a new DSM plan for the years 2026-2030.
[36] Oral Hearing Transcript Volume 3, pp. 109-113

suggested that this would likely result in procurement of RNG focusing on new Ontario manure anaerobic digestion systems at large farms where the direct atmospheric emissions of methane would be reduced.[37]

Energy Futures Group argued that "the only reason RNG can be considered emission reducing is because it provides some offsetting emission reductions elsewhere. Thus, the actual magnitude of such other emission reductions – and the net impact relative to emissions from displaced fossil gas consumption – is what really matters."[38] Energy Futures Group submitted that measuring lifecycle emissions through the use of CI values and prioritizing low CI sources of RNG would more accurately account for and maximize the emissions reductions from the Program.

Staff Submission

The future role of RNG and low-carbon fuels under the energy transition was considered extensively in Phase 1 of this proceeding. OEB staff submitted that it found Energy Futures Group's Phase 1 evidence[39] on the practical limits to decarbonization of the gas network compelling, including the likely constraints on the supply of RNG. However, OEB staff also submitted that RNG proposals should be judged on their own merits and may be of value even if the eventual role played by RNG in the energy transition ends up being smaller than their role in Enbridge Gas's energy transition vision.[40]

OEB staff notes that the recent report from the Ontario Ministry of Energy and Electrification envisions a role for the natural gas network in the transition to a clean energy economy and references the potential for the natural gas network to support the integration of clean fuels to reduce emissions, including renewable natural gas (RNG) and low-carbon hydrogen.[41]

OEB staff sees several benefits of the proposed Program:

- There are hard-to-electrify customers (particularly those using process heat) who will need low-carbon options. Increasing the level of RNG and low-carbon energy in Enbridge Gas's distribution system can make the gas system more resilient to future energy transition policies that could potentially require deep cuts in

[37] M1-CCC-9 (c)
[38] Exhibit M1, p.19
[39] EB-2022-0200, Exhibit M9-GEC-ED, chapter 4
[40] EB-2022-0200, OEB Staff Submission, September 12, 2023, pp. 16-17
[41] Ontario Ministry of Energy and Electrification, Ontario's Affordable Energy Future: The Pressing Case For More Power, October 2024, pp. 22-23

greenhouse gas emissions (e.g. net zero commitments) and therefore has the potential to reduce the likelihood of stranded assets.

- By procuring RNG in significant volumes and under longer-term contracts, Enbridge Gas's actions can deliver incremental greenhouse gas emissions reductions in the near term and grow the overall supply of RNG that will be available for hard-to-electrify customers served by Enbridge Gas over the longer term.

These benefits needed to be balanced against the high cost of RNG, both in comparison with conventional natural gas, and with other emissions reductions options.

OEB staff's overall view is similar to that expressed by Energy Futures Group's expert Chris Neme during the proceeding:

> *RNG is not going to be the primary answer, most studies suggest that it needs to be part of the answer. And so, while it is more expensive than some of the other solutions to reducing greenhouse-gas emissions, if it needs to be part of the answer, then getting started on that part of the answer is a good thing […] just let's be careful about the relative emphasis on RNG compared to other things that might be a lot less expensive.*[42]

OEB staff therefore supports a scaled-down version of Enbridge Gas's proposal and makes recommendations below related to:

- Minimizing the bill impact on customers other than LCVP participants (including OEB staff's position on the Indigenous Participation proposal)
- Increasing the long-term greenhouse gas emissions reductions benefits

Minimizing Bill Impact on Customers Other Than LCVP Participants

The bill impact of RNG on Enbridge Gas customers depends on several unknowns - the level of participation in the LCVP, and the future cost of RNG. While Enbridge Gas has provided evidence that large volumes sales service customers have expressed general interest in RNG and the LCVP, it does not have a forecast for the level of voluntary participation, and acknowledges that true customer demand patterns are currently unknown.[43] Voluntary participants would be paying a substantial premium over the cost of conventional natural gas, even after realizing a reduction in their Federal Carbon

[42] Oral Hearing Transcript Volume 3, p.89
[43] Exhibit I.4.2-SEC-32; Enbridge Gas Argument in Chief, p. 19

Charge. Based on a range of estimates of the cost of RNG, its unit cost could exceed that of conventional natural gas plus the Federal Carbon Charge by 30% to 170%.[44] It is unclear how many customers would be willing to pay such a premium. Also relevant is the low level of participation and RNG volumes that have resulted from Enbridge Gas's current voluntary RNG pilot program for general service customers. Enbridge Gas indicated that 4,102 customers had enrolled in this program by the end of Q1 2024. Enbridge Gas's target volume of RNG of 2% of the gas supply commodity portfolio in 2029 is roughly 4,000 times the RNG volume that Enbridge Gas procured to meet demand from the voluntary RNG pilot program in 2022/23 (the last year of data provided).[45] OEB staff agrees with Enbridge Gas that the LCVP is likely to result in greater volumes of voluntary uptake than the voluntary RNG pilot, but a leap of several orders of magnitude is required in order to account for a non-negligible portion of Enbridge Gas's RNG procurement targets.

Given these factors, the logical assumption at this time (prior to actual results of the LCVP) is that most costs of RNG procurement will need to be recovered not from voluntary participants in the LCVP, but from all sales service customers. It is likely therefore that the actual bill impact of the proposed program could be close to the maximum allowed.

OEB staff believes a $4.00 maximum bill impact is too high and supports Energy Futures Group's recommendation to revise Enbridge Gas's RNG targets and maximum bill impacts as shown in Table 1:

[44] Exhibit I.4.2-ED-48, Table 1. The low estimate of a 30% premium assumes an RNG price of $15.98/GJ, and the high estimate of a 170% premium assumes an RNG price of $30.00/GJ. Both estimates assume a conventional natural gas price of $3.60/GJ and a Federal Carbon Charge (in 2029) of $7.56/GJ. Should there be changes to federal carbon pricing that would remove the Federal Carbon Charge, the price premium for RNG would be even higher.

[45] Exhibit I.4.2-Staff-32(e). RNG represented 0.00046% of the gas supply commodity portfolio in 2022/23.

Table 1: Scale of Enbridge Gas's RNG Program

Year	Enbridge Gas Proposal		Energy Futures Group Proposal (Supported by OEB Staff)	
	RNG Procurement Target (% of Gas Supply Portfolio)	Maximum Monthly Bill Impact on Residential Customers	RNG Procurement Target (% of Gas Supply Portfolio)	Maximum Monthly Bill Impact on Residential Customers
2026	0.25	$0.50	0.25	$0.50
2027	0.75	$1.50	0.5	$1.00
2028	1.25	$2.50	0.75	$1.50
2029	2	$4.00	1	$2.00

This represents a 50% reduction in scale (in 2029) from Enbridge Gas's proposed Program. Energy Futures Group indicated that this level was a judgement call, based on the value it sees for RNG as an energy transition strategy, relative to other options.[46]

In OEB staff's view, Enbridge Gas should not be spending more on RNG than on energy efficiency as an energy transition strategy. In a previous decision, the OEB established a $2 bill impact per month for a typical residential customer to establish DSM budgets for gas distributors.[47] Enbridge Gas's currently active DSM application proposes higher bill impacts for DSM ($3.24 per month in 2026, increasing to $6.10 per month in 2030).[48] While the parallels between RNG and DSM are not exact, OEB staff submits that a $2 monthly bill impact on residential customers would be a reasonable maximum for Enbridge Gas's RNG program at this time.

Given that Enbridge Gas's proposed Program has already been reduced in scale by 50% from its original application, a further reduction in scale may seem unduly restrictive. However, this still represents a large investment in RNG in absolute terms. A $4 maximum monthly bill impact (Enbridge Gas's proposal) translates into a maximum annual incremental cost to ratepayers of $270 million,[49] so a $2 maximum monthly bill impact would translate into a maximum annual incremental cost of $135 million. This budget should provide sufficient scale for Enbridge Gas to have a meaningful influence

[46] Oral Hearing Transcript Volume 3, pp. 101-102
[47] EB-2014-0134, Report of the Board, December 22, 2014, p. 17
[48] EB-2024-0198, Application and Evidence, p.3
[49] CCC Oral Hearing Compendium, p. 50; Oral Hearing Transcript Volume 2, pp. 145-146

on the RNG market.

The reduction in overall scale of the proposed Program is the primary measure OEB staff suggests should be taken to control costs. The OEB could also consider the following additional measures to address concerns around cost and bill impacts.[50]

- **Tying the year-to-year RNG procurement target increases to a specified level of participation in the LCVP in earlier years**. The OEB could consider tying the RNG procurement target increases in 2028 and 2029 to LCVP results in 2027 (e.g., perhaps the RNG procurement target would only increase if 50% of a previous year's RNG volumes were purchased voluntarily through the LCVP).
- **Capping the unit cost ($/GJ) of RNG, on a weighted average basis for Enbridge Gas's RNG portfolio.** While Enbridge Gas established the maximum bill impact based on the estimated cost of RNG procurement to acquire its target RNG volumes (assuming no LCVP participation), the two thresholds (maximum bill impact and maximum RNG volume) are uncoupled.[51] It is unknown how the market cost of RNG will change following Enbridge Gas's entry into the market, and Enbridge Gas could end up spending much more on a unit cost basis to acquire RNG than expected. At some cost threshold, it would not make sense for Enbridge Gas to continue RNG procurement, at least without further OEB review of whether the program is still justified at a higher cost.

  Energy Futures Group's recommendation is to cap the unit cost of RNG at $25.58/GJ (incremental to the cost of the Federal Carbon Charge and the cost of conventional natural gas). OEB staff believes this value is reasonable and notes that it is higher than the range of RNG costs estimated by Enbridge Gas.[52] Energy Futures Group recommended that this cap apply to all RNG purchases.[53]However, OEB staff recommends establishing this cap on a portfolio basis, to be assessed at the end of the rebasing term. Establishing the cap on a portfolio basis provides Enbridge Gas with more flexibility to build its portfolio from different RNG sources, some of which may have a price premium (e.g., due to Indigenous participation or lower carbon intensity, as discussed further below).

[50] Oral Hearing Transcript Volume 3, pp. 13-21
[51] Exhibit I.4.2-Staff-33
[52] Enbridge Gas assumed a range of RNG costs between $15.98/GJ to $30.00/GJ. Energy Futures Group's recommendation of a maximum RNG unit cost of $25.58/GJ is net of the cost of conventional natural gas and the reduction in the Federal Carbon Charge, so the actual allowable procurement price of RNG would be somewhat higher (e.g., $35.54/GJ in 2026, based on an estimated cost of $3.60/GJ for conventional natural gas, and a Federal Carbon Charge reduction of $5.36/GJ). Exhibit I.4.2-ED-48.
[53] Exhibit M1.Staff-3(b)

It also reduces (although perhaps does not entirely eliminate) concerns expressed by Enbridge Gas around a price cap negatively impacting its competitive position in procurements or price negotiations with RNG producers.[54]

OEB staff also considered the idea of a maximum RNG contract length, to minimize long-term financial risk to ratepayers. The concern is that the time period for customers to make voluntary commitments in the LCVP (one year) is much shorter than the potential RNG contract lengths. Enbridge Gas indicated that most contracts in the market have been between 10 and 15 years, and that Enbridge Gas did not expect term length to be greater than 20 years. Should customers exit the LCVP (or should participation in the LCVP never take off), sales service customers would still be responsible for paying the incremental cost of RNG for this longer period.

Imposing a maximum contract length would place a guardrail on the length of this cost burden, however, it could also restrict opportunities for Enbridge Gas to bring new sources of RNG supply online and deliver incremental greenhouse gas emissions, if a longer-term contract may be necessary to support the investment in a new facility. For this reason, OEB staff is not recommending a strict limit on RNG contract length but expects that Enbridge Gas will use its judgement in RNG procurements, assessing whether the risk of a longer-term contract is justified by other benefits (e.g., unit price discount or ability to make new sources of RNG viable).

Indigenous Participation Proposal

Enbridge Gas stated that it believes that the framework for Indigenous participation for RNG procurement will promote Indigenous economic participation in the energy sector that will have positive economic impacts to Indigenous communities and further the call to action for reconciliation. OEB staff notes that the Indigenous Participation proposal was developed jointly with the intervenors representing Indigenous interests in this proceeding, in response to the relevant provision referencing consideration of economic reconciliation in the approved Settlement. OEB staff also notes that the Government of Ontario has made a general commitment to fostering economic reconciliation with Indigenous People, including providing supporting funding to Indigenous businesses, communities, and organizations for economic development initiatives.[55]

The OEB must also take into consideration the potential impact of the Indigenous Participation proposal on the cost of RNG procured by Enbridge Gas. OEB staff notes

[54] Technical Conference Transcript Volume 2, p. 162
[55] Ministry of Indigenous Affairs and First Nations Economic Reconciliation, News Release, "Ontario Supporting Indigenous Economic Development", October 8, 2024.

that the overall impact of the Indigenous Participation proposal on the cost of RNG procured by Enbridge Gas will be very small (a maximum impact of 0.5% on the overall forecast cost of RNG procured).[56] Should the OEB agree that the public policy and energy transition considerations applicable to RNG in general warrant some degree of RNG procurement despite its much higher cost relative to conventional natural gas, the very minor incremental price impact of the Indigenous Participation proposal is essentially immaterial.

OEB staff observes that there is limited information on the record regarding how much (if indeed any) RNG Indigenous owned businesses will be able to provide, where these businesses may be located, or any other details regarding these businesses (other than that they will be Indigenous owned). Given the limited nature of the proposal, OEB staff is of the view that the OEB can make a determination without this information. However to the extent there is a future proposal for an expanded or otherwise amended program, these details could be more important.

For these reasons, and based on the evidence that is before the OEB in this proceeding, OEB staff does not oppose the Indigenous Participation proposal.

Greenhouse Gas Emissions Reporting and Emissions Reductions

OEB staff supports the intent of Energy Futures Group's recommendations to maximize long-term greenhouse gas emissions reductions by prioritizing new sources of supply and considering the differing CI values of RNG. However, while these recommendations may best achieve overall greenhouse gas emissions reductions, it is not clear that they are always in the best interests of Enbridge Gas's customers.

With regard to prioritizing low-CI sources of RNG, estimated production costs of low-CI sources of RNG such as manure and food waste are generally higher than for higher-CI sources such as landfill gas and wastewater treatment,[57] which would translate into higher costs of RNG for Enbridge Gas customers. In addition, all sources of RNG are treated equally in terms of how they reduce a customer's carbon pricing obligations, so customers receive no direct financial benefit from Enbridge Gas procuring lower-CI sources of RNG (with the exception of CFR credits, discussed further below). It is possible that future carbon pricing policy could make use of CI values, but this is speculative.

With regards to Energy Futures Group's recommendation to prioritize new sources of

[56] A 10% premium, applied to a maximum of 5% of RNG supply.
[57] Exhibit I.4.2-GEC-22, Attachment 1

supply, OEB staff agrees that developing new sources of RNG supply is needed to reduce emissions for the economy as a whole. However, if Enbridge Gas procures RNG from an existing source that had previously been sold to another buyer (e.g., a utility in another jurisdiction), it has still achieved one of the goals of the LCVP by reducing the emissions of Enbridge Gas's customers and making Enbridge Gas's system more resilient to future energy transition policies.

Taking these points into consideration, OEB staff recommends that Enbridge Gas:

- Record and report on the CI associated with its RNG purchases;
- In its RNG procurements, give some preference to low-CI RNG sources and new sources of RNG supply (e.g., price adder or target % of supply), but balance these considerations against the overall cost of RNG

A question raised by the OEB Panel of Commissioners during this proceeding was whether the greenhouse gas emissions reductions from Enbridge Gas's RNG purchases could be double-counted (i.e., two entities might claim a reduction in emissions from the same unit of renewable natural gas).[58]

Enbridge Gas noted that it would clearly define in purchase and sale contracts the ownership of distinct environmental attributes (e.g., CFR credits, the ability to claim direct GHG emission reductions from the displacement of natural gas) to prevent double-counting.

Enbridge Gas indicated that, where CFR credits have been sold separately from their associated RNG supply, the purchaser of the CFR credits is not entitled to any reduction of their on-site facility GHG emissions (e.g., Scope 1 emissions), which are used to calculate a customer's Federal Carbon Charge and EPS obligations. Only the final receiver of RNG end-user may claim a reduction of on-site GHG emissions and, therefore, the claiming of a Scope 1 emission reduction by both parties (CFR credit buyer/user and RNG end-user) cannot occur.[59]

However, it still remains the case that an Enbridge Gas customer could claim a reduction of its on-site GHG emissions for the purposes of the federal carbon pricing obligations, while the CFR credits from the same unit of RNG are used elsewhere by obligated parties (liquid fossil fuel primary suppliers) to meet their CFR obligations. Under the regulatory design of the CFR, credits can be created even when the action that generates the CFR credit is also used to comply with federal, provincial or territorial

[58] Oral Hearing Transcript Volume 3, pp. 30-40, Undertaking J3.1, J3.2
[59] Exhibit I.4.2-STAFF-37

carbon pricing systems.[60] This is a CFR compliance mechanism, which could be seen as a loophole enabling double-counting, that exists whether or not Enbridge Gas is a participant in the RNG market.

In OEB staff's view, Enbridge Gas's overall approach to address double-counting concerns is sufficient, given the existing greenhouse gas emissions regulatory frameworks. If the OEB is concerned about the specific issue of CFR credits, it could require Enbridge Gas to purchase the CFR credits as part of its RNG purchases (and then not resell these credits). However, this approach would lead to a higher cost for RNG procured by Enbridge Gas, and the "loophole" in the CFR obligations would still exist for any RNG imports or production that are not purchased by Enbridge Gas.

OEB staff makes one additional recommendation related to reporting on emissions reductions from RNG. Should the Program be approved, it is likely that Enbridge Gas's marketing materials may reference the inclusion of RNG in the gas supply. OEB staff submits that any such references should note the estimated percentage of RNG in the gas supply, or equivalently, the percentage reduction in GHG emissions achieved relative to conventional natural gas, something that Enbridge Gas indicated it was not willing to do.[61] This requirement would ensure that customers are provided with accurate information regarding the emissions reductions benefits achieved by the Program.

\- All of which is respectfully submitted -

[60] Exhibit I.4.2-STAFF-37
[61] Exhibit I.4.2-ED-47