

ONTARIO ENERGY BOARD

EB-2024-0111

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF Phase 2 of an application by Enbridge Gas Inc. to change its natural gas rates and other charges beginning January 1, 2024

**Submissions of Environmental Defence and the Green Energy Coalition
Enbridge Rebasing Phase II – Incentive Ratemaking Mechanisms Reply**

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[I]t is in the interest of the province, for the purpose of customer protection, to ensure that the regulatory mechanisms for the governance of the natural gas grid are aligned with a range of plausible outcomes, notably those that pose the greatest risks to customers.

Final Report of Ontario's Electrification and Energy Transition Panel¹

Overview

Enbridge bears the onus in this case, including the onus to establish that its proposed incentive ratemaking mechanisms are appropriately aligned with customer interests in the context of the energy transition. Enbridge has tried to argue that this burden is flipped in this case, but that is contrary to clear wording in the *Ontario Energy Board Act* (“OEB Act”).² Enbridge has the obligation to establish that its proposals regarding revenue from net customer additions/exits results in appropriate incentives and utility behaviour. It has not done so.

The initial submissions of Environmental Defence and the Green Energy Coalition (“GEC”) opened by noting that no concrete progress has been made to align Enbridge’s incentive ratemaking mechanisms with energy transition risks. No parties have refuted this basic fact. Although most parties do not support the specific revenue decoupling implementation options put forward by Environmental Defence and GEC, most agree that incentive ratemaking mechanisms need to be aligned with energy transition risks and that revenue decoupling is one of the potential ways to do so.

It remains the case that Enbridge’s incentive to discourage all-electric developments and dissuade existing customers from electrifying causes behaviour that is contrary to the interests of customers and interferes with the actions needed to address the energy transition in a cost-effective manner. Although it may be unlikely that the OEB will order that one of the implementation options be pursued now in light of intervenor concerns with those options, Environmental Defence and GEC continue to seek alternative relief that the OEB direct Enbridge to implement revenue decoupling from customer numbers in its next rebasing application.

Most parties advocate for something along the lines of revenue decoupling being “considered” as part of the next rebasing case.³ However, this would lack the clarity that is needed to guide the development of energy transition planning in the coming years. The OEB should at least indicate its expectation that revenue decoupling be implemented in the next rebasing application. If that does not occur, the 2029-2033 capital plan and energy transition proposals will *not* be developed with more aligned incentives in place. This will unduly delay real progress on initiatives that depend on aligned incentives until the 2034-2038 rate term, such as system pruning, integrated resource planning, and network geothermal.

¹ *Ontario's Clean Energy Opportunity: Report Of The Electrification And Energy Transition Panel*, December 2023, p. 94 ([link](#)).

² *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Sched. B, s. 36(6) (“...in an application with respect to rates for the sale, transmission, distribution or storage of gas, the burden of proof is on the applicant.”); See also OEB Handbook for Utility Rate Applications, p. 5 ([link](#)).

³ Argument in Chief of Enbridge Gas, February 6, 2025, para. 132.

Revenue should be decoupled from customer numbers

The primary position of Environmental Defence and GEC is the high-level proposition that revenue should be decoupled from customer numbers. Most of the parties that took a position on this issue agreed with this high-level proposition and/or the concerns underlying it. We have excerpted relevant quotes below from the parties in this regard:

School Energy Coalition

SEC generally agrees with ED/GEC's view that there is a broad misalignment between Enbridge's interests and those of its customers as the energy transition progresses, creating significant financial risks for both existing and new customers. ...

SEC acknowledges that a properly designed customer count revenue decoupling mechanism could be designed to better align the incentives of customers and Enbridge. ...

ED/GEC's concerns about Enbridge's alleged anti-electrification and pro-gas bias, demonstrated through its planning processes, potentially deceptive marketing, or other means to inappropriately discourage customer exits are real.⁴

Minogi and Three Fires Group:

Minogi and Three Fires support the alternative relief sought by Environmental Defence and GEC, being the proposal to decouple EGI's revenue from its customer counts on an implementation timeline coinciding with EGI's next rebasing application. ...

Minogi and Three Fires offer the following comments in support of their position. These comments focus on their view that the Revenue Decoupling Proposal could serve to mitigate the risk of stranded assets as well as improve customer choice in the context of the energy transition, both of which are issues of very high importance to Minogi and Three Fires, as well as the First Nations they represent.⁵

Consumers Council of Canada

CCC is concerned with the long-term implications for consumers of stranded assets and believes that additional mechanisms to address stranded asset risk may be required in the future. ...

It may be that revenue decoupling can be designed in a manner, or implemented along with other mechanisms, that effectively, and in a manner that is fair to the utility and ratepayers, addresses stranded asset risk...⁶

⁴ Submissions of SEC, p. 6, 7, & 9.

⁵ Submissions of Minogi and Three Fires Group, p. 23.

⁶ Submissions of CCC, p. 25.

Pollution Probe

Pollution Probe supports OEB actions that reduce Enbridge's over-incentive to retain or grow natural gas customers and invest excess Capital that will become underutilized or stranded. One single action will not achieve that full objective, but revenue decoupling is one tool to help move in the right direction over the current rate term.

Enbridge's proposed status quo approach is not aligned with true consumer choice or the needs in Ontario as the Energy Transition continues to accelerate. Over-incentivizing natural gas connections and related Capital expenditures is not sustainable, prudent or in the public interest today or for the future.⁷

Industrial Gas Users Association

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).⁸

London Property Management Association

LPMA submits that the OEB should direct EGI, in consultation with ratepayer groups, OEB Staff and other interested parties to investigate the impacts of the ED/GEC proposal and/or other similar measures of the impact on ratepayers and on EGI and part of the broader review due at the next rebasing application.

Further, LPMA submits that the OEB may want to consider directing EGI to provide the studies and reports that it has been directed to complete with respect to mitigating stranded asset risks *prior to the filing* of the rebasing application. (emphasis in original)

Quinte Manufacturers Association

The QMA recognises that revenue decoupling has been used as a regulatory tool in certain jurisdictions in the United States to break the link between utility revenue and adding end use customers through expansion of a gas distribution network.⁹

It is important to recognise that most parties agree that incentive ratemaking mechanisms need to be aligned with energy transition risks and that revenue decoupling is one of the potential ways to do so.

Two intervenors argue against the need for any kind of decoupling of revenue from customer counts (EP and VECC). However, their arguments are almost entirely focused on

⁷ Submissions of Pollution Probe, pp. 19 & 21.

⁸ Submissions of IGUA, p. 5.

⁹ Submissions of the QMA, p. 4.

implementation details and on a suggestion that ED and GEC have not established the need for decoupling. These points were anticipated in our initial submissions of January 27, 2025. Rather than repeat those submissions here, we ask that the OEB panel review our submissions of January 27, 2025 after reviewing the submissions of the other parties.

Similar comments can be made of Enbridge's strong objections to the proposals of Environmental Defence and GEC. Enbridge opposes the specific implementation options proposed by Environmental Defence and GEC. It also raises a variety of procedural objections and argues against implementing revenue decoupling from customer counts in this rate term. However, Enbridge does not state that it opposes any kind of revenue decoupling being implemented at some point in the future. Indeed, it is open to this being considered as part of an overall response to energy transition and stranded asset risks identified in a future rebasing proceeding.¹⁰

Other jurisdictions decouple revenue from customer numbers and do so while keeping utilities whole. This has been done for traditional ratemaking reasons (e.g. in Hawaii) and also as a reaction to the energy transition, as ordered by the Massachusetts regulator in its future of gas proceeding.¹¹ This could be implemented in Ontario as it has elsewhere and it is critical that this occur for the reasons outlined on our January 27, 2025 submissions.

Decoupling needs to be directed, not merely considered

It is not sufficient that mechanisms to decouple revenue from customer numbers merely be "considered" as part of the next rebasing case as some parties have suggested. Although that is better than nothing, it would delay progress on aligning gas system investments and planning with the energy transition and thus risk significantly raising the cost of the energy transition. If revenue decoupling is not implemented in this rate term, the OEB should at least indicate its expectation that it be included in Enbridge's 2029-2033 rebasing application.

The OEB's expectations for the next rebasing case need to be clear now because they will impact how Enbridge develops its next capital plan and rebasing application for 2029-2033, including its energy transition proposals. If Enbridge is not directed to implement decoupling, its next capital plan will involve a continued reliance on maximizing customer connections and minimizing customer electrification. It will also *not* include any energy transition actions that run counter to this interest.

Network geothermal provides a good example of a diversification strategy that will likely not be proposed by Enbridge under the current incentive framework. Network geothermal provides heating and cooling to a collection of buildings and often involves electric heat pumps. It is an intriguing diversification strategy for gas utilities because it involves putting pipes in the ground

¹⁰ Argument in Chief of Enbridge Gas, February 6, 2025, para. 132.

¹¹ Massachusetts Department of Public Utilities, Decision and Order: Future of Gas Proceeding, December 6, 2023, p. 2 & 46 ([link](#), PDF p. 119 & 163).

(their speciality) and large up-front capital outlays (on which a return can be earned). It was the main diversification strategy approved in the Massachusetts Future of Gas proceeding.¹²

Although Enbridge could earn a return on network geothermal investments, the overall profitability of network geothermal for Enbridge is undermined by its proposed treatment of revenue from net customer connections/exits. This is true regardless of whether network geothermal is used for existing gas customers or in new developments.

- **Existing customer use case:** Network geothermal could potentially be used to implement system pruning as is occurring in Massachusetts (i.e. retrofitting a neighbourhood with network geothermal to avoid the cost of gas distribution repairs or replacements that would otherwise be needed). Enbridge will have a disincentive to do this because it will bear 100% of the lost revenue from gas customers leaving the system in the rate term through this initiative.
- **Residential development use case:** Network geothermal could also be deployed as an alternative to gas in new developments, including under a heating-as-a-service model where the cost is recouped through monthly payments from homebuyers (not developers), either through an affiliate now or by seeking approval to explore this under a rate regulated model. This could reduce the risk of new gas connection infrastructure spending and diversify Enbridge Inc.'s assets. However, this use case is also undermined by the current regulated incentive structure. Enbridge or its affiliates could earn a return on its network geothermal investments but that would be more than offset by foregone return on the gas distribution connections capital investments *and* by the loss of gas distribution revenue.

The disincentive exists regardless of whether network geothermal would be implemented as part of Enbridge's regulated business (with appropriate approvals) or as part of Enbridge Sustain. As noted in our earlier submissions, Enbridge is very focused on the gas distribution revenue arising from net customer connections/exits even with respect to the operations of Enbridge Sustain (see page 5 of our submissions of January 27, 2025). Enbridge Sustain will not pursue network geothermal projects where that will reduce distribution revenue of its regulated sister company, such as in a development that would otherwise connect to the gas system.

We are *not* asking the OEB to opine on the merits of network geothermal as a diversification strategy for the gas system. The discussion of network geothermal is intended only as a concrete example of an option that is effectively ruled out by the existing incentive structure because Enbridge has a disincentive to pursue it in any capacity.

System pruning provides another example. System pruning involves helping customers leave the system in order to avoid specific repair or replacement costs in the local pipes that are serving them. This could be done with incentives to implement air-source heat pumps. The challenge is that Enbridge shareholders bear 100% of the foregone revenue from customers leaving the

¹² Massachusetts Department of Public Utilities, *Decision and Order: Future of Gas Proceeding*, December 6, 2023, p. 72 & 79 ([link](#), PDF p. 189 & 196).

system through a system pruning project, and therefore Enbridge has an incentive not to pursue this at any meaningful scale or to pursue it ineffectively.

Enbridge is now required to implement system pruning pilots, but they certainly do not have an incentive to work hard to make system pruning work. They have the opposite incentive. System pruning has significant challenges and will require new and creative thinking on the part of the utility. It is not reasonable to expect Enbridge to engage in the hard work to overcome those challenges while we are simultaneously giving it the incentive to do the very opposite of that.

Like network geothermal, a meaningfully impactful system pruning program will take time to develop. In the very least, it will involve the development and implementation of a *good* pilot. It may also require more pilots and other regulatory approvals and changes. In the best-case scenario, delaying revenue decoupling will delay progress on this long road. But it is just as likely that delaying revenue decoupling will result in *poor* system pruning pilot projects and lack-lustre performance that causes system pruning to be shelved as an idea altogether.

The financial impact of in-term revenue gains and losses from customer connections and exits are sufficient to cause the outcomes described above. Again, Enbridge expects to earn \$256 million from net customer additions/exits over the rate term.¹³

If the OEB only suggests that Enbridge “consider” revenue decoupling for its next rebasing application, Enbridge will do that but is likely to propose the status quo approach that it is familiar with. Without more clarity around the incentive model, its capital plan and energy transition proposals will avoid any actions that could undermine forecast growth revenue from net customer connections/disconnections. In particular, without the clarity from a direction on revenue decoupling, the 2029-2033 capital plan and energy transition proposals will likely *not* include meaningful system pruning proposals, stronger integrated resource planning proposals, or network geothermal proposals. Nor will affiliates make investments in these areas.

Delaying additional clarity on revenue decoupling will mean that progress on the items that are currently disincentivized will only start in earnest starting in the 2034-2038 rate period. Delaying progress on items from today until 2034 will mean a loss of 8 of the 25 years that we have until 2050, which is 30% of the time that Ontario has to align the gas system with the energy transition.

Furthermore, aligning Enbridge’s incentives with customer interests is only the *first* step. More time is needed for those incentives to change corporate attitudes, impact proposals that are put forward, generate strong pilot projects, result in regulatory/legislative changes where needed, and evolve into concrete actions and programs that are up to the difficult task of aligning the gas system with the energy transition while also maintaining energy affordability. This, and the factors set out in our submissions of January 27, 2025, are why a direction that this matter be considered will not be sufficient and could result in costly lost time.

¹³ Response to ED Question #4 ([link](#), PDF p. 73).

Alternatively, concrete options are needed

If the OEB does not require the implementation of revenue decoupling within this rate term or direct that it be implemented in the 2029-2033 rebasing application, and is only open to directing that it be “considered” for the next rebasing term, we ask that it provide additional directions regarding the development of concrete options that could be implemented if so approved by the OEB. If revenue decoupling is merely considered, the panel hearing the 2029-2033 application may find that some parties are continuing to argue that there are not sufficiently concrete options available for revenue decoupling from customer counts to occur. This would delay progress even further beyond 2034.

This possibility can be avoided with wording similar to the following term in the settlement agreement:

(a) Enbridge Gas shall study in its next rebasing application (i) a mechanism to implement differentiated ROEs on different asset types, and (ii) an Efficiency Carryover Mechanism (ECM) with a capital efficiency sharing mechanism. (b) Enbridge Gas shall file its analysis and materials outlining a number of options for implementing each item noted above. If Enbridge Gas does not propose implementing an item, it shall nevertheless present an option for the OEB’s consideration for that item that is sufficiently detailed to allow it to be implemented in the next rebasing proceeding without further study.¹⁴

Instead of merely directing that revenue decoupling be considered, the OEB could require that Enbridge study decoupling revenue from customer counts and file analysis and materials outlining a number of implementation options in its next rebasing application, including an option that is sufficiently detailed to allow it to be implemented without further study. That said, it would be considerably more effective if the OEB were to simply direct Enbridge to implement revenue decoupling from customer numbers in its next rebasing application.

Responses to detailed-oriented comments

The submissions detailed above constitute the primary and most important response to the submissions of the other parties on revenue decoupling. We say this because we do not want the high-level points about the need to decouple revenue from customer numbers as soon as possible to be conflated with the more detailed points around the specific options presented by CEG and the somewhat unusual circumstances of this specific case. Again, the primary submission of Environmental Defence and GEC is that this change in incentives needs to occur as soon as possible and, if that does not occur during this rate term, it should occur by way of a direction to implement it in some form in the next rebasing application.

The following bullets provide responses to more detail-oriented comments from the parties:

- **Jurisdictional examples:** Enbridge suggests that no jurisdictions have adopted revenue decoupling for reasons relating to the energy transition.¹⁵ That is incorrect. The regulator

¹⁴ Exhibit N, Tab 1, Schedule 1, p 20 ([link](#)).

¹⁵ Argument in Chief of Enbridge Gas, February 6, 2025, para. 99.

in Massachusetts ordered its gas utilities to decouple revenue from customer numbers to remove the incentive to connect new customers.¹⁶ Although we are not aware of other examples at this time, that is because we did not ask CEG to conduct a jurisdictional scan.

- **Enbridge tries to dissuade developers from electrifying:** Enbridge states that it “does not dissuade developers from deciding to fully electrify new homes – there is no evidence whatsoever that this is the case.”¹⁷ This is not true. Although Enbridge’s Director of Residential Developers testified that they do not dissuade, she also said that they “encourage the use of natural gas to reach our connection targets.”¹⁸ With respect, encouraging developers to use natural gas to reach connection targets is functionally the same as trying to dissuade them from fully electrifying homes.
- **Issue was appropriately raised:** Enbridge incorrectly argues that Environmental Defence is improperly attempting to “re-litigate” phase 1 issues and that this constitutes a “collateral attack”.¹⁹ There is no basis for this submission. Environmental Defence’s position in phase 2 is focused entirely on the phase 2 incentive ratemaking issues. The energy transition is relevant for both phase 1 issues (e.g. the capital budget) and the phase 2 issues (e.g. incentive mechanisms). The OEB acknowledged this when it ordered that phase 1 evidence could be referred to in phase 2.²⁰ Making arguments relating to the energy transition in phase 2 is not improper re-litigation or a collateral attack.

Furthermore, Enbridge’s status quo position also implicitly involves arguments related to the energy transition. Enbridge’s position is that no changes are needed to its incentive ratemaking mechanisms to address energy transition risks. If any position is inconsistent with the phase 1 findings, it is Enbridge’s.

- **Issue fits within issues list:** Enbridge argues that revenue decoupling “does not fit with” the issues list.²¹ Enbridge describes revenue decoupling as relating only to issue 7 when it in fact relates also to issues 1 and 2. Those issues ask whether the incentive rate-setting mechanisms are appropriate. Those issues were settled, but with the explicit caveat stated in the issue 1 section of the agreement that “nothing in the settlement of any issues precludes an OEB decision implementing an appropriate mechanism that would operate in conjunction with this IRM framework, to decouple revenue from customer numbers.”²² Any attempt to argue that revenue decoupling does not fit with the issues list is a breach of the settlement agreement.

¹⁶ Massachusetts Department of Public Utilities, Decision and Order: Future of Gas Proceeding, December 6, 2023, p. 2 & 46 ([link](#), PDF p. 119 & 163).

¹⁷ Argument in Chief of Enbridge Gas, February 6, 2025, para. 143.

¹⁸ Transcript Volume 2, December 18, 2024, p. 82, lns. 13-14 ([link](#)).

¹⁹ Argument in Chief of Enbridge Gas, February 6, 2025, para. 110.

²⁰ *Procedural Order #1*, April 26, 2024, p. 1.

²¹ Argument in Chief of Enbridge Gas, February 6, 2025, para. 113.

²² Exhibit N, Tab 1, Schedule 1, p. 20 ([link](#)).

- **Heat pumps are cost effective:** Enbridge argues against Mr. Neme’s heat pump evidence.²³ However, its arguments (e.g. the need to include costs for a panel upgrade) are made with absolutely no evidentiary foundation (as shown by the lack of footnotes to the relevant sentences in Enbridge argument) and are contrary to Mr. Neme’s expert evidence. Enbridge had an opportunity to submit evidence in this lengthy proceeding on this issue and it chose not to.

Furthermore, its assertions about the impacts of removing the carbon tax are incorrect and cannot be verified because they are merely stated without the underlying spreadsheet calculations. Enbridge also ignores the over 25% increase in gas prices that Enbridge just notified the OEB of, and the likely additional increases resulting from the ongoing trade war.²⁴ But even if circumstances change and the savings from heat pumps versus gas equipment decline, that is no reason for Enbridge to continue to have such a strong incentive to maximize customer numbers and connection infrastructure spending.

- **Electrification will accelerate:** Enbridge argues that its incentives need not be adjusted because electrification is proceeding slowly. It notes that only a very small portion of the 80,000 customers who have adopted heat pumps have disconnected their gas supply.²⁵ However, this is to be expected because it takes time for customers who wish to exit the gas system to replace other equipment in their home (e.g. when their gas water heater breaks down) and it takes time for customers to realize the potential savings of disconnecting by avoiding fixed monthly charges. Although there is no doubt that awareness and adoption of heat pumps has hugely increased in the past five years, it is still just beginning to have impacts and will certainly have more impacts in the 60-year lifetime of connection assets.
- **Fair return standard:** Enbridge argues that Environmental Defence’s proposals are “contrary to the fair return standard.”²⁶ That argument is entirely untenable in relation to option 2 proposed by Environmental Defence, which would allow Enbridge to earn its full \$256 million in forecast revenue. We also adopt and agree with the submissions of OEB Staff with respect to the fair return standard.

Most importantly, Enbridge’s objections are focused on the specific options proposed by Environmental Defence and GEC, and do not relate to decoupling revenue from customer numbers more generally.²⁷

- **Cease connecting new customers:** Enbridge argues that it will cease connecting new customers if the proposals of Environmental Defence are implemented.²⁸ This threat is entirely unjustified. The second of the two options would allow Enbridge to earn its forecast \$256 million from net customer connections/exits regardless of the number of connections. It is absurd to call this a breach of the regulatory compact just because

²³ Argument in Chief of Enbridge Gas, February 6, 2025, para. 128.

²⁴ EB-2025-0078, Notice of Commodity-Related Price Increase Estimate for April 2025, February 28, 2025.

²⁵ Argument in Chief of Enbridge Gas, February 6, 2025, para. 105.

²⁶ Argument in Chief of Enbridge Gas, February 6, 2025, para. 138.

²⁷ Argument in Chief of Enbridge Gas, February 6, 2025, para. 132.

²⁸ Argument in Chief of Enbridge Gas, February 6, 2025, para. 122.

Enbridge may connect more customers than forecast and therefore spend more on connections capital. This should be treated like all other capital expenditures that vary from forecasted amounts by managing such expenditures within its overall capital envelope, as proposed by CEG.

Again, Enbridge's objection is focused on the specific options put forward, and do not relate to decoupling revenue from customer numbers more generally.²⁹

- **Revenue decoupling will empower customers:** Enbridge says that Environmental Defence is “patronizing” because it is trying to eliminate the option for customers to connect to the gas system.³⁰ That is untrue. Environmental Defence merely wishes to remove the incentive to connect as many developments as possible and dissuade customers from electrifying. This will not remove options.
- **Interplay with IRM approach:** Enbridge complains that the proposed revenue decoupling approaches would be “appended onto Enbridge Gas’s OEB-approved IRM.”³¹ Although that may not be the ideal approach, it was the one that all parties agreed to in order to allow for the settlement of most IRM issues.

Furthermore, this approach would not apply if Enbridge were directed to implement revenue decoupling in its next rebasing case.

- **Role of the Advancing Performance-based Regulation (“APBR”) consultation:** Enbridge argues that revenue decoupling should be addressed in the APBR consultation. However, there are no efficiencies to be gained by addressing the issue in a broader consultation because there is only one major gas utility in the province. It would be more efficient for this Panel to direct Enbridge to include revenue decoupling in its next rebasing application and for any final decisions to be adjudicated in that future proceeding. Furthermore, the consultation is currently scoped to only address the electricity sector.
- **Specifics of the three options:** A number of intervenors expressed concerns with the three implementation options proposed in our initial submissions. Those concerns may be moot as it may be unlikely that the OEB will require that revenue decoupling be adopted now with one of these options in light of intervenor concerns. We have nevertheless addressed those comments in Appendix 1 below.

Also, none of those concerns would apply to decoupling revenue from customer counts more generally, nor are they reasons to refrain from directing Enbridge to implement revenue decoupling in its next rebasing application.

²⁹ Argument in Chief of Enbridge Gas, February 6, 2025, para. 132.

³⁰ Argument in Chief of Enbridge Gas, February 6, 2025, para. 126.

³¹ Argument in Chief of Enbridge Gas, February 6, 2025, para. 95.

- **Issue is important to explore:** Enbridge argues that “the process to consider a revenue decoupling mechanism has been a waste of time and resources.”³² Enbridge justifies this with a list of 8 assertions that contain multiple misrepresentations about the process. Enbridge’s submissions on this point are not relevant to the merits of the issue and therefore we have only briefly addressed them and have done so in Appendix 2. Overall, Enbridge’s accusations are based on its incorrect assumption that its status quo approach to incentive ratemaking need not be justified and that Environmental Defence and the GEC have the onus to prove that that status quo approach does not appropriately address energy transition risks. In reality, it is Enbridge that has the onus to establish that its approach is appropriate, including with respect to energy transition risks.

Environmental Defence has been clear throughout that it seeks to establish that Enbridge’s proposed incentive ratemaking approaches are inappropriate with respect to the incentives described above. Although Enbridge focuses on implementation details, Environmental Defence’s main contention is that it is necessary to decouple revenue from customer numbers.

- **Impact on trade-exposed customers:** The CME argues that the proposed mechanism proposed by CEG could harm trade-exposed customers. The CME is referring to the CEG implementation option that Environmental Defence and GEC are *not* proposing. However, we agree that the CME raises an issue that has not been considered in the evidence and would warrant further consideration.³³
- **Holistic approach to aligning incentives with energy transition risks:** Several intervenors noted that it would be best for revenue decoupling from customer numbers to be designed alongside other changes to Enbridge’s incentive mechanisms driven by energy transition considerations. We agree that there would be significant benefits to designing these elements in tandem. However, a countervailing consideration is the importance of making process as soon as possible, as outlined above.

Furthermore, a directive that Enbridge implement revenue decoupling in its next rebasing case would be entirely consistent with a holistic approach. Indeed, it would be much more supportive of a holistic approach in comparison to a mere direction to “consider” this issue as it would provide the additional clarity to allow Enbridge to construct a detailed proposal to address energy transition risks via revised incentive mechanisms.

- **The timing of energy transition risks:** Energy Probe and VECC seem to suggest that it is unlikely that the gas system will be substantially decarbonized by 2050, such that steps need not be taken now to address that potential future scenario. Although the future is uncertain, climate change is a scientific certainty and progress to address it cannot be delayed forever. Even if buildings are not decarbonized until, say, 2060, that does not mean we can continue with the status quo gas regulation approaches today. Most connection assets put in the ground during this rate period will not be depreciated until

³² Argument in Chief of Enbridge Gas, February 6, 2025, para. 162.

³³ If the OEB were to order that revenue be decoupled from customer counts in this rate term it could address the CME’s concerns by applying this only to residential customer classes.

the late 2080s.³⁴ There are no reasonable energy transition timing scenarios that do not require changes as soon as possible to align incentives with energy transition risks.

- **Enbridge does what it is incented to do:** VECC argues that Environmental Defence and GEC are attempting to establish that Enbridge is a “bad company,” an “evil empire,” and “the enemy.”³⁵ That is entirely contrary to our submissions, which are that Enbridge does what it is incented to do. It is not a question of good or evil.

The suggestion Environmental Defence and the GEC are stating that Enbridge acts contrary to the interest of customers because it is “evil” is contrary to our January 27, 2025 submissions, including the following passage: “Although convincing as many developers to connect to gas as possible has negative impacts on financial risks to ratepayers and energy affordability for new homebuyers as described below, Enbridge cannot be blamed for that. It is simply doing what it is incented to do.”

The onus is on Enbridge

Enbridge has the onus in this case, including the onus to establish that its proposed incentive ratemaking mechanisms are appropriately aligned with customer interests in the context of the energy transition.³⁶ Enbridge has tried to argue that this burden is flipped in this case, but that is contrary to the *OEB Act*.³⁷ Enbridge has the obligation to establish that its proposal regarding revenue from net customer additions/exits results in appropriate incentives and appropriate utility behaviour. It has not done so.

In its Phase 1 decision, the OEB held as follows: “In the face of the energy transition, Enbridge Gas bears the onus to demonstrate that its proposed capital spending plan, reflected in its Asset Management Plan, is prudent, having accounted appropriately for the risk arising from the energy transition.”³⁸ The same is true with respect to Enbridge’s incentive ratemaking approaches. Enbridge Gas bears the onus to demonstrate that they are prudent, having accounted appropriately for the risk arising from the energy transition.

If the OEB agrees that Enbridge has not met its onus, the more challenging decision is what remedies should be ordered. We acknowledge that most intervenors are concerned with the specific alternatives proposed by Environmental Defence and GEC. Also, Enbridge has not presented any alternatives itself. Assuming that none of the options put forward by Environmental Defence and GEC will be implemented in this rate term, the other reasonable alternative is to direct Enbridge to present a proposal to decouple revenue from customer

³⁴ EB-2022-0200, Exhibit I.4.5-ED-138 (The depreciation periods for new mains and services are between 55 and 60 years.) ([link](#), PDF p. 1529).

³⁵ VECC Submissions, paras. 16 & 25.

³⁶ *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, s. 36(6) (“...in an application with respect to rates for the sale, transmission, distribution or storage of gas, the burden of proof is on the applicant.”); See also OEB Handbook for Utility Rate Applications, p. 5 (“For all regulated utilities, the onus is on the utility to demonstrate that its rate (or payment amount) proposals are just and reasonable.”) ([link](#)).

³⁷ *Ibid.*

³⁸ EB-2022-0200, Decision and Order, December 21, 2023, p. 21 ([link](#)).

numbers in its next rebasing application. Anything short of that would be an insufficient remedy for Enbridge failing to meet its burden on this aspect of this case.

Conclusion

As noted above, Ontario's Electrification and Energy Transition Panel concluded that "it is in the interest of the province, for the purpose of customer protection, to ensure that the regulatory mechanisms for the governance of the natural gas grid are aligned with a range of plausible outcomes, notably those that pose the greatest risks to customers."³⁹ This is critical when it comes to incentive ratemaking mechanisms because those mechanisms determine how the utility will act and the proposals it will put forward. It is clearly not in the interests of customers for Enbridge to continue to have an incentive to maximize capital spending on customer growth when the medium and long-term prospects for those customers remaining on the system are uncertain at best.

Decoupling revenue from customer counts is only one of the changes that are needed, but it is an important one. As noted above, it is necessary to remove disincentives to develop and potentially propose a variety of potential energy transition strategies, such as system pruning, integrated resource planning, and network geothermal. It is also necessary as part of an effort to stop the harmful actions described in our phase 1 submissions.

In light of all the important factors that hinge on this, and the very short runway we have until 2050, it is critical that revenue be decoupled from customer counts as soon as possible. If it cannot occur in this rate term due to the concerns with specific implementation options, the OEB can and should direct that it be implemented in the next rebasing application. That will ensure that the 2029-2033 capital plan and the energy transition proposals are more aligned with customer interests in the context of the energy transition.

³⁹ *Ontario's Clean Energy Opportunity: Report Of The Electrification And Energy Transition Panel*, December 2023, p. 94 ([link](#)).

Appendix 1: Responses to specific concerns re the three implementation options

The following bullets provide responses to specific concerns raised regarding the three implementation options put forward by Environmental Defence and GEC:

- Some parties questioned how options 2 and 3 would remove Enbridge's net customer connections/exits revenue incentive. This may have arisen because of a typo in the description of those options in our initial submissions. The calculation of the variance account amounts for options two and three should have been as follows. Option 2: (forecast customers) X (average revenue per customer) minus (actual customers) X (average revenue per customer). Option 3: (forecast customers) X (average revenue per customer) X (0.75) minus (actual customers) X (average revenue per customer) X (0.75).

These options remove the net customer connections/exits revenue incentive because the utility will earn the same amount regardless of the number of connections/exits. If the actual revenue from net customer connections/exits is the same as the forecast, the variance account is 0 and no true up occurs. If the revenue is higher than forecast, there is a true-up to return the difference to ratepayers and *vice versa*.

- OEB Staff argued that the third option, where Enbridge earns 75% of the forecast revenue from net customer connections/exits is arbitrary. We agree that this figure is not the result of a formula. However, it is not entirely arbitrary. It is more than the amount of revenue from new customers needed to cover incremental O&M costs from customer additions, which is roughly 20%,⁴⁰ while still well below 100%.
- The SEC expressed a concern about relying on forecasted customer counts that have not been tested in detail. This is addressed in the third option wherein Enbridge would earn 75% of its forecast revenue. This 25% buffer decreases the chances that ratepayers may end up being worse off.

⁴⁰ Response to ED Question #3, Page 2 ([link](#), PDF p. 65).

Appendix 2: Responses re Enbridge allegation of wasted time

Enbridge argues that “the process to consider a revenue decoupling mechanism has been a waste of time and resources.” The factual assertions underlying that allegation are listed in the left column of the table below and responses to those assertions are listed in the right column.

Enbridge Assertion	Response
a. ED initially filed very brief evidence from CEG proposing revenue decoupling from customer numbers.	<p>Environmental Defence's evidence in support of revenue decoupling included CEG's report, but also its Phase 1 evidence, which underpins the need to change Enbridge's incentives and related energy transition facts.</p> <p>Furthermore, as noted above, the onus is on Enbridge in this proceeding, not Environmental Defence. Environmental Defence has been clear throughout that it seeks to establish that Enbridge's proposed incentive ratemaking approaches are inappropriate with respect to the incentives described above. Although Enbridge focuses on implementation details, Environmental Defence's main contention is that it is necessary to decouple revenue from customer numbers. CEG's evidence is sufficient to explain why this is needed.</p>
b. ED did not pursue this topic in any detail in interrogatories or the technical conference. One interrogatory was asked, with no follow-ups at the technical conference.	<p>This is incorrect. Environmental Defence asked 4 questions by way of interrogatories. Environmental Defence would have asked a follow-up question at the technical conference had it not run out of time. Usually Enbridge is criticizing Environmental Defence for asking too many questions. There is nothing improper about the number or type of questions asked in this case.</p>
c. ED decided to pursue that item as a contested issue at the Oral Hearing.	<p>Enbridge decided to pursue this item as a contested issue at the Oral Hearing. It is unreasonable to fault Environmental Defence for this matter not settling.</p>
d. ED brought an unsuccessful motion to have Enbridge Gas develop a revenue decoupling proposal for consideration. ¹³⁴	<p>Environmental Defence's motion was partially successful in obtaining some information from Enbridge voluntarily. Although some aspects of</p>

Enbridge Assertion	Response
	the motion were not successful, the motion was entirely appropriate.
e. ED required Enbridge Gas to do substantial work to answer supplementary interrogatories responding to the CEG evidence and then complained that one of the answers was incomplete, requiring Enbridge Gas to provide a lengthy further answer before the Oral Hearing. ¹³⁵	Environmental Defence did rely on Enbridge's responses. Furthermore, Environmental Defence would have relied on those responses to a greater degree if they were accurate, but they were not. Some key omissions in that evidence are described in the CCC submissions:
f. Having gone to these great lengths, ED then made virtually no mention of Enbridge Gas's responses in the ED Submissions. ¹³⁶	<p>“Enbridge Gas has provided evidence regarding the costs associated with incremental customer attachments. The evidence shows that the total costs of customer connections are larger than the revenues during the IR term. CCC does not agree that Enbridge Gas has properly accounted for all the funding that is provided through the Price Cap IR framework for capital investments... Enbridge Gas's analysis of the distribution margin (Table 5) does not include some capital funding that is implicitly provided under Price Cap IR. Enbridge Gas agreed that there are assets that form part of rate base in the test year for which revenue requirement is provided and those assets become fully depreciated during the IR term (but are still attracting revenues through rates as if they are not fully depreciated). CCC believes that the revenue shortfall shown by Enbridge Gas related to customer attachments is likely overstated due to this omission.”</p> <p>Some of the responses from Enbridge were ultimately not helpful. That does not render the original questions somehow improper.</p>
g. ED put forward an expert on this revenue decoupling topic and then did not rely on that expert. None of ED's options are fully comparable to those proposed by CEG, and none are even versions of CEG's preferred	CEG put forward two implementation options. Environmental Defence and GEC proposed CEG's second option, plus two variants of that option. CEG's first option was not put forward by Environmental Defence and GEC because it

Enbridge Assertion	Response
option of revenue decoupling per customer class. ¹³⁷	would have required alterations to existing mechanisms as it would have replaced the existing average use variance account. Environmental Defence and GEC support all of the options proposed by CEG, including revenue decoupling by customer class.
h. The ED Submissions mention the CEG evidence only twice, with no reference whatsoever being made to CEG's testimony. Indeed, ED implicitly disagreed with its expert by proposing solutions different from CEG's first choice (revenue decoupling by customer class).	