



Meeting Date: February 21, 2024

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Submitted by:

Report No: CAO-3-2024

Subject: Enbridge Gas 2024 Rebasing Application

Recommendation:

THAT Report CAO-3-2024, re; Enbridge Gas 2024 Rebasing Application be received for information.

Purpose:

The purpose of this council report is to report on direction received at the February 7, 2024 council meeting on Correspondence Item 10.5 – Enbridge Rebasing Application.

Background:

Correspondence was placed on the February 7, 2024 council agenda in regards to a decision from the Ontario Energy Board related to an application filed by Enbridge to review rates for 2024.

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 Enbridge Gas charges for natural gas distribution, transportation and storage, beginning January 1, 2024. In its application, Enbridge Gas proposed that the application be reviewed in two phases.

Analysis:

The OEB Decision and Order is organized into three main sections: the energy transition, amalgamation and harmonization issues, and other issues. For reasons that follow, the OEB makes the following key determinations, for the purpose of establishing just and reasonable rates. Below is a breakdown of the three sections as well as the Order – EB-2022-0200 that can be found on the OEB website. A copy of which is appended to this staff report.

Energy Transition:

The intersection of the energy transition and the approvals sought by Enbridge Gas was a major focus of this proceeding. The OEB makes the following key findings:

1. The energy transition poses a risk that assets used to serve existing and new Enbridge Gas customers will become stranded because of the energy transition. Enbridge Gas has not provided an adequate assessment of this risk to demonstrate that its capital spending plan is prudent. The stranded asset risk affects all aspects of Enbridge Gas's system and its proposals for capital spending on system expansion and system renewal.
2. The OEB is reducing the overall proposed capital budget for 2024 by \$250 million. Enbridge Gas is expected to utilize its project prioritization process to accommodate this envelope reduction. The current Asset Management Plan is not accepted as a basis to support the proposed capital investments.
3. For the proposed system expansion capital spending plan, the OEB has determined that for small volume customer connections, the revenue horizon that Enbridge Gas uses to determine the economic feasibility of new connections is to be reduced to zero, thus reducing stranded asset risk to zero, effective January 1, 2025. Projects under the current phase of the Natural Gas Expansion Program are excluded from this requirement.
4. For the proposed system renewal capital spending plan, the OEB has determined that Enbridge Gas needs to put more emphasis on monitoring, repairing and life extension of its system so that replacement projects are only implemented where absolutely necessary in order to address the stranded asset risk in that context.
5. To address the issue of stranded asset risk further, the OEB requires Enbridge Gas to carry out a risk assessment and to consider a range of risk mitigation measures, including:
 - a. How Enbridge Gas would prune its existing system to avoid the replacement of assets

- b. What role Enbridge Gas's depreciation policy should play in reducing the stranded asset risk
 - c. How Enbridge Gas will identify maintenance, repair and life extension alternatives to extend the life of existing assets instead of long-lived replacements that increase the stranded asset risk
6. Given the increased risk for Enbridge Gas's business due to the energy transition, partially offset by other factors resulting from amalgamation, the OEB approves an increase in Enbridge Gas's equity thickness from 36% to 38%.

Amalgamation and Harmonization Issues

Amalgamation issues were another major focus of this proceeding. It has been ten years since the legacy utilities, Union Gas and Enbridge Gas Distribution, last applied for cost of service rates. Approval of harmonization ratemaking proposals, accounting policies and recovery of integration costs was sought by Enbridge Gas. The OEB makes the following key findings:

- 7. The OEB is satisfied that the amalgamation produced savings that will be reflected in 2024 rates. Since Enbridge Gas was able to achieve and retain savings that exceeded its integration capital investments, the OEB denies Enbridge Gas's proposal to add \$119 million of integration capital to its 2024 rate base.
- 8. The OEB denies Enbridge Gas's proposed recovery of \$156 million of Pension and Other Post Employment Benefit expenses recorded in the Accounting Policy Changes Deferral Account related to the pre-2017 Union Gas unamortized actuarial gains/losses.
- 9. The OEB approves the proposed harmonized depreciation methodology, except for the capitalization of indirect overheads.
- 10. The OEB approves the Average Life Group depreciation procedure, the Traditional Method for net salvage calculations and updated asset life parameters to calculate depreciation expense.
- 11. The OEB approves the proposed overhead harmonization methodology, except for the capitalization of indirect overheads. The OEB does not approve the proposal to capitalize \$292 million in 2024. Recognizing that a requirement to expense the entire \$292 million in 2024 would have a large impact on 2024 rates, the OEB directs Enbridge Gas to expense \$50 million of the indirect overhead amount in 2024 and capitalize the remainder. In subsequent years during the IRM term, Enbridge Gas shall reduce the capitalized amount by expensing a further \$50 million in each year.

Other Issues

There were other issues in the proceeding, in addition to the energy transition and amalgamation and harmonization issues, as detailed in the approved Issues List. The OEB makes the following key findings:

12. The OEB approves the proposed levelized treatment for the Panhandle Regional Expansion Project and the establishment of the proposed deferral account.
13. The OEB accepts Enbridge Gas's proposed changes to the Natural Gas Vehicle program provided that it operates as an ancillary business activity on a fully allocated cost basis, and any losses are at Enbridge Gas's risk.
14. The OEB is not making any base rate adjustment related to Parkway Delivery Obligation costs for the 2019 to 2023 period, as some intervenors had proposed.
15. The OEB denies Enbridge Gas's proposed Volume Variance Account. The OEB approves a harmonized average use variance account based on the average use forecast methodology approved as part of the settlement proposal.
16. The OEB is not establishing an International Financial Reporting Standards Deferral Account at this time.
17. The OEB does not require an Earnings Sharing Mechanism for the 2024 Test Year.
18. The OEB approves the requested partial exemption to the Performance Measurement target metric for the Time to Reschedule a Missed Appointment from 100% to 98%. The OEB denies the requested partial exemption to the target metrics for the Call Answering Service Level and the Meter Reading Performance Measurement.
19. The OEB approves January 1, 2024 as the effective date for 2024 rates.

Order

The Energy Board Orders that:

1. Enbridge Gas shall file with the OEB, and forward to all intervenors a draft rate order attaching a proposed Rate Handbook reflecting the OEB's findings in this Decision and Order by February 12, 2024. The draft rate order shall include customer rate impacts and detailed supporting information showing the calculation of interim 2024 rates and the associated rate adjustment rider for the period from January 1, 2024 to the implementation date. Enbridge Gas should also propose the appropriate implementation date in its draft rate order.
2. The draft rate order shall also include draft accounting orders related to the deferral accounts established, revised or approved by the OEB in this proceeding which were not included in the settlement proposal of June 28, 2023 (as updated on July 14, 2023) and that are related to Phase 1 of this proceeding.
3. Enbridge Gas shall inform the OEB of its intent to expand the NGV program as proposed, as an ancillary activity operated on a fully allocated cost basis, and provide a forecast of the fully allocated costs for 2024 as part of the draft rate order.
4. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB and forward them to Enbridge Gas on or before February 26, 2024.
5. Enbridge Gas shall file with the OEB and forward to the intervenors responses to any comments on its draft rate order on or before March 11, 2024.
6. Enbridge Gas's current approved rates as established in EB-2023-0330201 will continue to apply on and after January 1, 2024, on an interim basis, until the rates approved in Phase 1 of this proceeding are implemented.
7. Enbridge Gas is exempted from section 2.2.2 of the Gas Distribution Access Rule to the extent necessary to give effect to the findings on the revenue horizon.
8. Enbridge Gas is granted a partial exemption from section 7.3.4.2 of the Gas Distribution Access Rule with respect to the Time to Reschedule a Missed Appointment service quality requirement. The target metric shall be 98% rather than 100%.
9. For Phase 2 of this proceeding, Enbridge Gas shall:

- a. File an updated customer connection policy, applicable to projects connecting to the gas system after December 31, 2024, that is consistent with the OEB's findings in this Decision and Order.
- b. File a proposal that will address the need to ensure that where a contribution in aid of construction has been paid for connection facilities to serve small volume customers for a new connection made on or after January 1, 2025, the new connecting customers do not pay for the connection facilities a second time through postage stamp rates.
- c. File a proposal for a modified approach for connection charges for infill customers, consistent with the OEB's findings in this Decision and Order, to take effect January 1, 2025.
- d. Review the energy comparison information in its informational and marketing materials, including its website,
 - i. to determine whether it fully discloses what is being compared and on what basis, and what assumptions are being used for the comparison
 - ii. make any necessary corrections to the information, or remove it, and
 - iii. file a report on the review it undertook and the actions it took as a result of the review.
- e. File a proposal on how the reduction to the capital budget will be implemented during the proposed IRM term to address the change to the revenue horizon.
- f. File a proposal to reduce the capitalized indirect overheads balance by \$50 million in each year of the proposed IRM term and expense it as O&M, consistent with the OEB's findings in this Decision and Order.
- g. File evidence indicating how the annual amount for site restoration costs is calculated and to provide a long-term forecast of the total funds required to pay for site restoration costs.

10. For its next rebasing application, Enbridge Gas shall:

- a. File an Asset Management Plan that provides clear linkages between capital spending and energy transition risk. The Asset Management Plan should address scenarios associated with the risk of under-utilized or stranded assets and identify mitigating measures.
- b. File a report examining options to ensure its depreciation policy addresses the risk of stranded asset costs appropriately. These options must encompass all reasonable alternative approaches, including the Units of Production approach

- c. Track and study the ten accounts proposed by InterGroup with respect to net salvage and file a report on the results.
- d. File a proposal to reduce any remaining capitalized indirect overheads to zero.
- e. File an independent third-party expert study that assesses its overhead capitalization methodology.
- f. Perform a risk assessment and develop a plan to reduce the stranded asset risk in the context of system renewal.

11. Enbridge Gas is required to provide an update on the Advanced Metering Infrastructure pilot project in Phase 3 of this proceeding.

Review of Correspondence and Board Order

The correspondence from Enbridge references that the OEB decision put future access to natural gas in doubt, there are some concerning comments with these statements.

The findings that are noted in the Board Order provide a framework to enable Enbridge to recover their costs that will be done as a fair rate adjustment for Ontarians. It also recognizes that the application will be done in Phases at which time any rate adjustments/impacts will be taken into consideration through the Phase 2 proceedings.

Seeing that this matter is still under review before the OEB, staff are recommending that no action be taken and when further information is provided by the OEB, this information will be listed for council information

Financial Implications:

N/A

Strategic Plan:

This matter aligns with following strategic priorities:

- Sustainable Infrastructure and Services
- Balanced Growth

Keeping council and the public informed about the status of energy, including Natural Gas, is part of ensuring that there is a sustainable framework for infrastructure as we continue to grow and develop.

Attachments:

Appendix 1 – Correspondence from Enbridge dated January 24, 2024

Appendix 2 – OEB Decision and Order dated December 21, 2023