
OEB issues decision on remaining Phase 1 issues in Enbridge Gas Inc.'s 2024-2028 Rates Proceeding

DECISION

Today, the Ontario Energy Board (OEB) issued its [Decision and Order](#) on the remaining Phase 1 issues in Enbridge Gas Inc.'s (Enbridge) application seeking approval for changes to the rates it charges for the sale, distribution, transmission, and storage of gas starting January 1, 2024. These are the Phase 1 issues that were not the subject of the [settlement proposal](#) that was approved by the OEB earlier this year.¹

This is the first cost of service proceeding for the amalgamated utility², and the first OEB proceeding to consider a natural gas rates application in the context of the energy transition.

An oral hearing on most of the unsettled Phase 1 issues was held over 18 hearing days between July 13, 2023 and August 11, 2023, with the remainder going directly to written submissions.

The OEB's Decision and Order is organized into three main sections: Energy Transition, Amalgamation and Harmonization Issues and Other Issues.

KEY FINDINGS

Energy Transition

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

1. The energy transition poses a risk that assets used to serve existing and new Enbridge customers will become stranded because of the energy transition. Enbridge 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's system and its proposals for capital spending on system expansion and system renewal.
2. The OEB reduced the overall proposed capital budget for 2024 by \$250 million. Enbridge is expected to utilize its project prioritization process to accommodate this envelope reduction. The OEB did not accept the current Asset Management Plan as a basis to support the proposed capital investments.
3. For the proposed system expansion capital spending plan, the OEB determined by majority decision that for small volume customer connections, the revenue horizon that Enbridge uses to determine the economic feasibility of new connections is to be reduced from 40 years to zero, thus reducing stranded

¹ [Decision on settlement proposal, August 17, 2023](#)

² Enbridge Gas Distribution Inc. and Union Gas Limited (Union) amalgamated effective January 1, 2019 to become Enbridge Gas Inc.

asset risk to zero, effective January 1, 2025.³ 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 determined that Enbridge 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, for its next rebasing application the OEB requires Enbridge to carry out a risk assessment and to consider a range of risk mitigation measures, including:
 - a. How Enbridge would prune its existing system to avoid the replacement of assets
 - b. What role Enbridge's depreciation policy should play in reducing the stranded asset risk
 - c. How Enbridge 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

See Section 7 in today's Decision and Order for a complete list of the required filings.

6. Given the increased risk for Enbridge's business due to the energy transition, partially offset by other factors resulting from amalgamation, the OEB approved an increase in Enbridge's equity thickness from 36% to 38%.

Amalgamation and Harmonization Issues

Amalgamation issues were another major focus of this proceeding. Enbridge sought approval of harmonization ratemaking proposals, accounting policies and recovery of integration costs. In its key findings, the OEB:

7. Was satisfied that the amalgamation produced savings that will be reflected in 2024 rates. Since Enbridge was able to achieve savings that exceeded its integration capital investments, the OEB denied Enbridge's proposal to add \$119 million of integration capital to its 2024 rate base.
8. Denied Enbridge'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 amortized actuarial gains/losses.
9. Approved the proposed harmonized depreciation methodology, except for the capitalization of indirect overheads.
10. Approved the Average Life Group depreciation procedure, the Traditional Method for net salvage calculations and updated asset life parameters to calculate depreciation expense.
11. Approved the proposed overhead harmonization methodology, except for the capitalization of indirect overheads. The OEB did not approve the proposal to capitalize \$292 million in 2024. Recognizing that a

³ One Commissioner, who did not find support in the evidentiary record for the zero-year revenue horizon, dissented on this point alone, finding that a 20-year revenue horizon is appropriate for Enbridge's small volume expansion customers, effective January 1, 2025. A reduction from the current 40 years to 20 years is a measured, incremental approach to mitigating the risk of stranded asset costs resulting from switching away from natural gas as an energy source, thereby protecting existing customers.

requirement to expense the entire \$292 million in 2024 would have a large impact on 2024 rates, the OEB directed Enbridge to expense \$50 million of the indirect overhead amount in 2024 and capitalize the remainder. In subsequent years during the incentive rate-making term, Enbridge 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-related issues, as detailed in the [approved Issues List](#). In its key findings, the OEB:

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

Enbridge was directed to file a draft rate order with the OEB by February 12, 2024 that, among other things:

- Reflects the OEB's findings in today's Decision and Order, and that rates for 2024 will be interim pending the completion of Phase 2 of this proceeding,
- Includes customer rate impacts
- Proposes the appropriate implementation date

Intervenors and OEB staff will have an opportunity to comment on the draft rate order filing before the OEB issues a final rate order. The OEB's intention is that the interim rates for 2024 should be implemented as soon as possible.

The OEB will provide further guidance on the timing of Phase 2 evidence, as well as on the issues that it expects will be addressed in Phase 2, in due course.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

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Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued today, which is the official OEB document.