Hamilton 350 Committee
Environment Hamilton

February 26, 2024
Hamilton, ON

Dear Hamilton City Councillors,

We are writing this letter to respond to correspondence from Enbridge Gas Inc. (Enbridge) to council for the meeting on Wed Feb 28th, agenda item 5.9. This letter from Enbridge concerns a motion passed unanimously at the last council meeting which affirms the City of Hamilton supports the decision reached by the Ontario Energy Board regarding Enbridge's rebasing application last fall.

Enbridge has taken issue with any claims submitted by non-governmental organizations opposed to expansion of fossil fuel infrastructure. Enbridge has taken issue with claims submitted by local governments, such as Ottawa, and now Hamilton, in passing motions that oppose expansion of their fossil fuel infrastructure. And Enbridge has also turned on the independent regulator for their utility, the OEB, and taken issue with calling into question the fiscal prudence of continued expansion of fossil fuel infrastructure.

So, in our response here, we will take our evidence from the only source that Enbridge can agree with – documents from Enbridge itself.

The gas utility regulation proceedings are exceedingly convoluted in lay terms, understanding just this single rebasing decision requires combing through hundreds of documents, and we know that elected officials (who are already pressed for time to keep up with local paperwork) are not likely to understand it in detail. Which is why we are concerned when we see letters from Enbridge like this one that essentially assert council is misinformed, when in fact Hamilton City Council is passing motions that are right on the money.

The text of the OEB decision that the City of Hamilton supports, and Enbridge is opposed to, reads as follows:

> *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.*

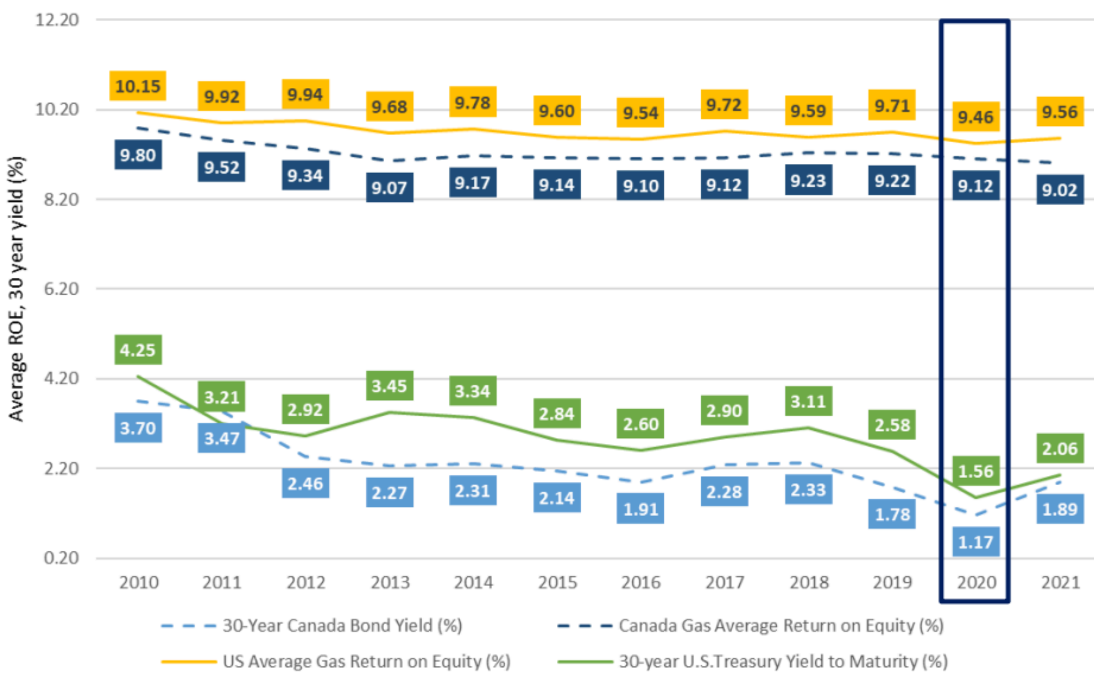
In essence this is a dispute over $250 million dollars (and the future returns on that investment for Enbridge). But it is a case of so much interest because of the precedent that it might set going forward.

Enbridge operates as a regulated monopoly in Ontario. And as a regulated monopoly their Return On Equity (ROE) is set by the OEB, and it is currently approximately 9%, as it has been for several years. See the figure below showing the return on equity for gas utilities compared to government bonds, from a consultant report submitted by Enbridge for this OEB application.

Guidehouse   Investor Expectations on North American Natural Gas Utilities

increase their prime lending rates from 2.45% to 2.7%[16] as additional mechanisms to address inflation.

Figure 2-6: Comparison of US and Canada gas ROE and 30-year bond yield from 2010-2021



Source: S&P Capital IQ

Meeting this mandated 9% return on equity is included in Enbridge's accounting which outlines a projected shortfall (deficiency) of $294 million, which is why they applied for rebasing (see image below).

Updated: 2023-03-08
EB-2022-0200
Exhibit 6
Tab 1
Schedule 1
Plus Attachments
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Table 1
Summary of Revenue (Deficiency)/Sufficiency - EGI

Line No.	Particulars ($ millions)	2019 Actual	2020 Actual	2021 Actual	2022 Estimate	2023 Bridge Year	2024 Test Year	
	Revenue at Existing Rates							
1	Gas Sales, Transportation, and Storage	4,779.7	4,266.7	4,628.6	5,095.3	5,810.1	6,016.3	/u
2	Gas Costs	(2,265.3)	(1,781.3)	(2,110.5)	(2,440.1)	(3,047.3)	(3,228.0)	
3	Impact of (colder)/warmer weather (1)	(67.0)	33.0	55.0	(28.0)	-	-	
4	Revenue, weather normalized, net of Gas Costs	2,447.4	2,518.4	2,573.1	2,627.2	2,762.8	2,788.3	/u
	Revenue Requirement							
5	Operating Costs	3,907.7	3,477.8	3,794.2	4,231.8	4,920.8	5,297.2	/u
6	Cost of Capital (2)	789.2	792.3	800.2	869.8	901.5	955.7	/u
7	Other Operating Revenues	(47.8)	(52.2)	(50.0)	(60.0)	(63.2)	(64.3)	
8	Income Taxes	59.9	39.2	41.8	33.7	42.1	43.8	/u
9	Taxes on Deficiency/(Sufficiency)	(25.5)	(3.5)	(15.3)	(7.2)	(3.2)	77.9	/u
10	Total Revenue Requirement	4,683.5	4,253.6	4,570.9	5,068.1	5,798.0	6,310.4	/u
11	Gas Costs	(2,265.3)	(1,781.3)	(2,110.5)	(2,440.1)	(3,047.3)	(3,228.0)	
12	Revenue Requirement, excluding Gas Costs	2,418.2	2,472.3	2,460.4	2,628.0	2,750.7	3,082.4	/u
	(Deficiency)/Sufficiency							
13	(Deficiency)/Sufficiency, gross	96.2	13.1	57.7	27.2	12.1	(294.1)	/u
14	(Deficiency)/Sufficiency, weather normalized	29.2	46.1	112.7	(0.8)	12.1	(294.1)	/u
15	2024 Deficiency as % of 2024 Revenue Forecast (line 14/line 1)						4.9%	/u
	Average Annual Growth 2019 to 2023							
16	Revenue, weather normalized, net of gas costs (line 4)						3.1%	
17	Revenue Requirement, excluding gas costs (line 12)						2.7%	

Notes:
(1) Financial impact of colder/warmer than normal weather. 2023 and 2024 forecasts are based on normal weather.
(2) Cost of Capital amounts reflect the annual OEB-formula return on equity %'s. 2023 and 2024 amounts reflect the 2022 OEB-formula equity %.

The projected deficiency was later updated to $268 million, after some initial correspondence as part of the rebasing process, as shown in the image below:

Updated: 2023-07-06
EB-2022-0200
Exhibit 2
Tab 5
Schedule 4
Plus Attachments
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Table 3
Capital Update Revenue Deficiency Impacts

Line No.	Particulars ($ millions)	2024 Deficiency
1	March Filing Deficiency	(294.1)
2	Capital Updates	22.4
3	PREP – Remove 2024 revenue requirement impact	(14.4)
4	D2C – Remove 2024 revenue requirement impact	22.5
5	Depreciation Updates	3.1
6	DSM – Inflation update	(8.0)
8	Updated Deficiency	(268.5)

The job of the OEB was to decide whether or not to pass on increasing fees to ratepayers to compensate Enbridge for the projected shortfall. As part of this process, the OEB reviewed the capital asset management plan proposed by Enbridge, which has a high level summary (see image below) in their primary argument document. The value of the proposed investments in new growth and expansion of the gas network for 2024, $400 million, far exceeds the proposed shortfall of $268 million. And with those new investments they propose to hook up 40,000 new customers each year, or roughly 0.67% of Ontario's 6 million combined households and small businesses.

In fact, based on the high-level breakdown, new growth of Enbridge's infrastructure accounts for 30.7% – almost a third – of their capital budget.

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sustainment (with only 3% of the replacements focused on long-term planning) and 28% relates to growth demands arising out of customer connections and system reinforcements.

417. By main asset categories, the bulk of the 2024 capital budget comprises the following:

a) $592.9 million for Distribution Operations (i.e., distribution pipe, distribution stations, and utilization assets);
b) $400.5 for Growth Projects (i.e., customer connections, system reinforcements including hydrogen blending, and community expansion);
c) $115.5 million for Storage and Transmission Operations (i.e., compression stations, transmission pipelines and underground storage assets);[479]
d) $102.4 million for TIS;
e) $63.0 million for REWS; and
f) $31.5 million for Fleet and Equipment.

It is in the best interest of Enbridge to expand their infrastructure, they are guaranteed at least 9% return on all equity assets. But the job of the OEB is to determine if it is in the best interest of the people of Ontario, and they found that it is not.

In Enbridge's letter to council today, they argue that Hamilton is misinformed, and insist that the amortization of the costs of these expanded networks won't be spatially distributed (e.g. charging all customers elsewhere today to cover them immediately) but rather temporally distributed – it is future customers who will be on the hook to pay them back for this infrastructure.

Specifically, it will be the ratepayer base (i.e. customers hooked up to Enbridge, which again operates as a monopoly and supplies over 99% of gas utility customers in Ontario) for the next 40 years.

The 40 year timeline was established by an outdated decision E.B.O. 188 which was passed in 1998, and which government policies around the world no longer reflect as the effects of climate change become more apparent with each passing year. And even Enbridge admits that 40 years could be too long (although they insist that the regulator not consider going below 30 years of amortization).

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276. Enbridge Gas submits that no change is required from the Company's proposal. However, should the OEB take a different view, Enbridge Gas submits that maximum extent of such a change should be to reduce the revenue horizon from the current E.B.O. 188 approach of 40 years to 30 years. Any further reduction is not supported by the evidence or current Government of Ontario policy.

277. If the OEB decides that a different revenue horizon is appropriate, a change to a 30-year revenue horizon would be supportable in that would include a high-level assumption that around half of the newly attached customers will maintain gas appliances at the time that their furnace reaches end of life. This is a balanced assumption, based on limited information known now and taking into account the continued prospects for hybrid heating.

In the hypothetical “future residents” sounds like the cost could be borne out by somebody else. But the reality is unchanged: the costs for all these capital investments in expanding their network will be recouped by Enbridge and they will be paid by Ontarians who are required to do so by virtue of still (unfortunately) having a gas line hooked up to their house.

In conclusion, we want to commend Hamilton City Council for passing a motion that hit on the heart of the matter: expanding natural gas infrastructure is neither ecologically or fiscally sound, and it is not Enbridge that will bear the cost but everyday citizens. No semantic arguments from Enbridge change the substance of the issue.

OEB asked them to exercise $250 million of restraint in new infrastructure spending, and Enbrige has been intensely opposed to this decision. But the people of Ontario do not deserve to be on the hook to pay for new revenue-generating assets for Enbridge.

And again, we applaud Hamilton City Council, especially Councillors Craig Cassar and Maureen Wilson, for making Hamilton a leader in advocating for the best interest of residents.

Sincerely,

Hamilton 350 Committee
Environment Hamilton