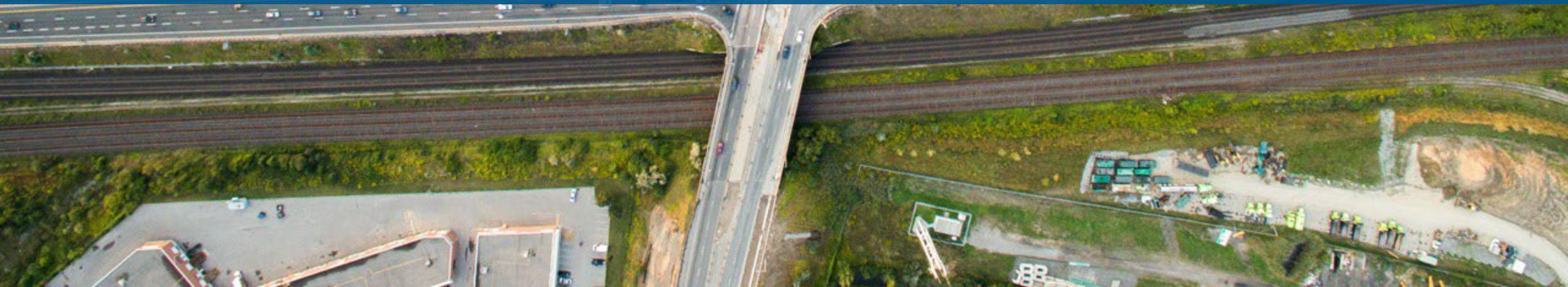
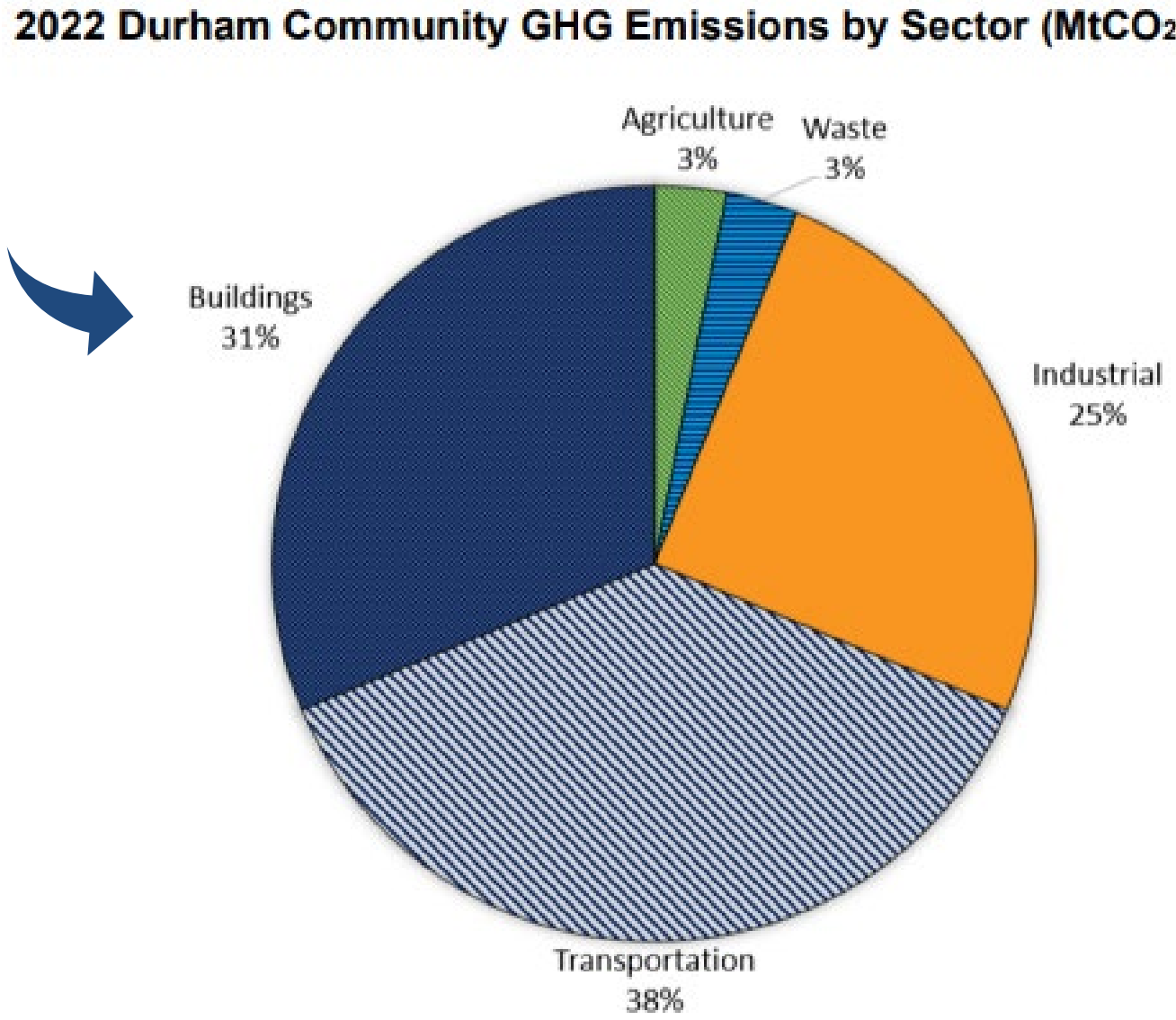
Ontario Energy Board (OEB) Decision on Enbridge Gas 2024 Rate Application, and Bill 165 – Keeping Energy Costs Lower Act (Report 2024-A-7)

Presentation to Regional Council Meeting - April 24th, 2024



Natural gas use in buildings is a major source of climate warming pollution in Durham Region



Energy transition is underway - driven by climate policy at all levels of government

Level of jurisdiction	Key details
International	Paris Agreement – binding international treaty on climate change adopted by 196 signatories. Calls for global carbon neutrality by mid-century to maintain climate stability – especially amongst developed Countries. Net zero pledges now cover more than 90 per cent of global GDP.
Federal	As a signatory to the Paris Agreement, Canada has committed to net zero by 2050, and has established the Canadian Net-Zero Emissions Accountability Act.
Provincial	Ontario Government has committed to achieve a 30 percent reduction in GHGs by 2030, and has documented plans for a clean energy future characterized by electrification and energy efficiency.
Regional / local	Regional and local area municipal councils have endorsed Durham's Low Carbon Pathway which calls for fuel switching from natural gas to heat pumps and district energy systems In endorsing settlement area boundary expansion as part of Envision Durham, Regional Council directed that new areas be served by low-carbon and smart energy systems.

The future of natural gas in Ontario?

Figure 5. Causes and effects of the self-reinforcing negative feedback loop on gas utilities and their ratepayers

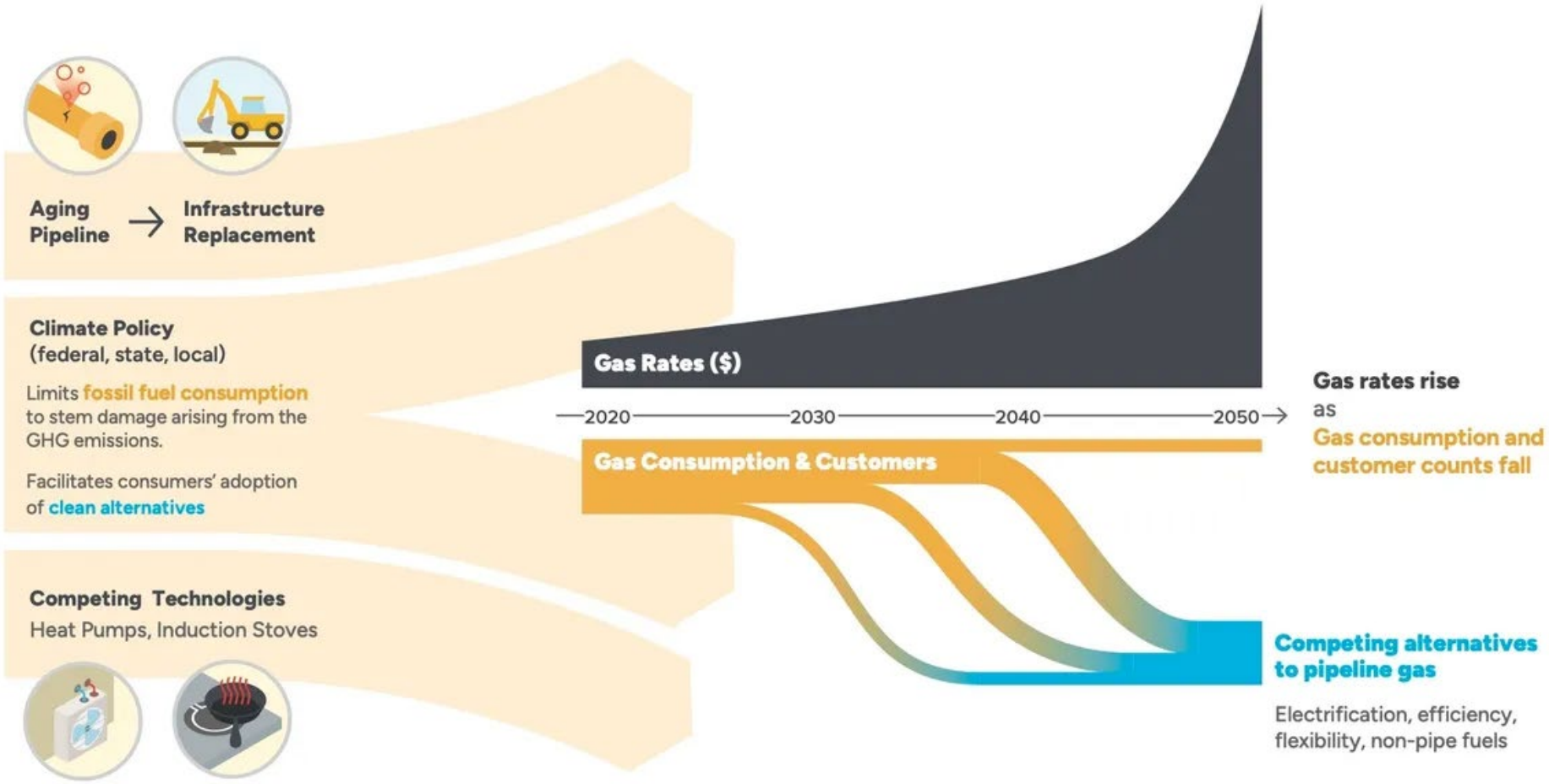


Image source: The Future of Natural Gas in New York State. Building Decarbonization Coalition. March 2023. Available online.

Enbridge rate re-basing application

- Focused on residential and small commercial new natural gas connections (e.g. subdivisions). Does not impact industrial or agricultural gas connections
- First rate re-basing application in 10 years, and first to be considered by the OEB in the context of the energy transition
- Significant and increased capital spend to expand natural gas infrastructure based on a demand forecast that shows a small impact from the energy transition
- Maintains a 40-year depreciation period for new assets, arguing that there is no stranded asset risk for new natural gas distribution infrastructure
- If approved, this capital expansion would be added to Enbridge's asset base, on which it earns a regulated return on investment through rates paid by all customers within a given rate class

OEB decision summary

- Enbridge's proposal would lead to "an overbuilt, underutilized gas system" as the world moves from fossil fuels to renewable energy
- Natural gas customers face a risk of underused natural gas service delivery assets and associated stranded asset costs
- The current practice of providing no-cost natural gas service connections (e.g. to home builders) which shifts the risk of stranded assets to homeowners and future natural gas consumers is no longer appropriate
- Existing ratepayers in Durham can be protected from stranded asset risks by encouraging home builders to consider the cost of new natural gas service connections and associated heating equipment (e.g., furnaces and boilers) against alternatives like high efficiency cold climate heat pumps that use already-required electrical connections

OEB decision summary continued…

- The OEB decided that the cost of new natural gas service connections should be paid upfront, rather than over 40 years. In making this decision, the OEB considered key pieces of evidence:
  - The impact of a home builder choosing to include natural gas service and paying the connection charge up front would increase the cost of new build housing units by approximately $4,400. However, the operating cost of the house would be reduced through lower natural gas rates (i.e., rates that do not include the cross-subsidization of new natural gas infrastructure)
  - Electrifying home heating through high efficiency cold climate heat pumps is expected to result in significantly lower energy use and operating costs over the useful life of the equipment
  - Requiring new connection costs to be paid upfront is expected to reduce Enbridge's capital costs and eliminate stranded asset risk, thus reducing natural gas delivery rates for all ratepayers into the future

But what about RNG or hydrogen?

- Gas utilities are moving aggressively on renewable natural gas and hydrogen as alternatives to fossil methane gas
- At most, RNG could displace around 16 percent of current fossil gas consumption, according to industry-supported research. Other studies suggest the share is much smaller
- Municipalities will be a key RNG supplier through waste and wastewater management
- Hydrogen can only be accommodated at low-blend concentrations using existing pipeline materials and appliances
- Both fuels are more valuable in hard-to-electrify sectors like heavy industry, agriculture, and long-haul freight transport

Staff analysis of OEB's Enbridge decision

- Decision is consistent with Regional Council direction as reflected in adoption of Durham's low carbon pathway, climate emergency declaration, and Envision Durham Official Plan
- Decision aligns with affordability agenda – if upheld it will minimize cost increases for existing residential gas ratepayers, and incentivize developers to consider efficient alternatives for new homes being built across Durham Region
- Stranded asset risk is significant, and if unmanaged will lead to significant cost escalation for gas customers which will impact low-income households the most

Questions?

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