Enbridge Gas
2024 Rebasing and IRM

Stakeholder Presentation

ENBRIDGE
Life Takes Energy

October 20, 2022

Agenda

- Introductions and opening remarks (15 min)
- Re-setting the base/deficiency (30 min)
- Incentive rate mechanism (15 min)

Break (15 min)

- Harmonization (45 min)
- Addressing energy transition (30 min)

Lunch break (60 min)

- Bill impacts (15 min)
- Next steps (5 min)
- Q&A (60 min)

Break (10 min)

- OEB Registrar's Office – process and timing discussion (90 min)

Values Moment: Invisible Disabilities Awareness

- Invisible disability – a physical, mental or neurological condition that is not visible from the outside, yet limit or challenge a person's movements, senses, or activities.
- Invisible symptoms can lead to misunderstandings, false perceptions, and judgements.
- Defining invisible disability can open doors of communication and understanding.

Someone is parking in an accessible parking space with a placard, but they look fine.
I wonder if that driver has an invisible disability.

Source: Invisible Disabilities Association

Introductions

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Opening remarks

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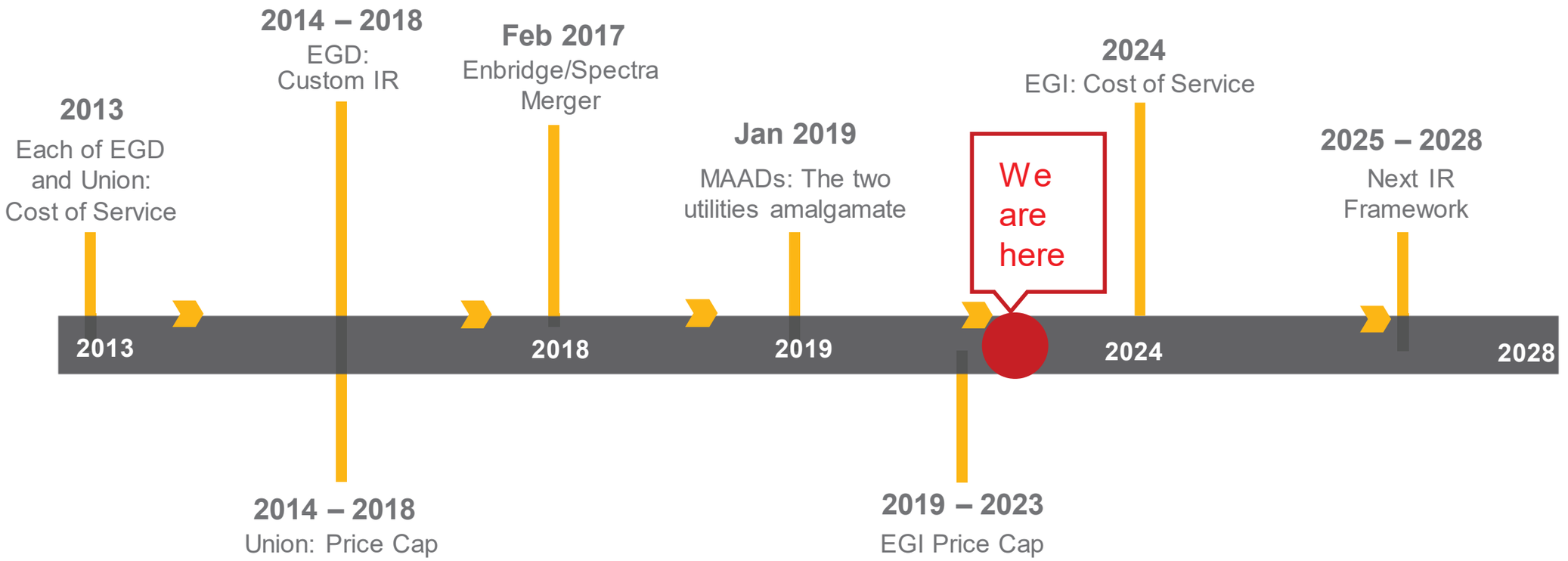
Background


2013
Each of EGD and Union: Cost of Service
2014 – 2018
EGD: Custom IR
2014 – 2018
Union: Price Cap
Feb 2017
Enbridge/Spectra Merger
Jan 2019
MAADs: The two utilities amalgamate
2019 – 2023
EGI Price Cap
We are here
2024
EGI: Cost of Service
2025 – 2028
Next IR Framework
2013
2018
2019
2024
2028

Key Components of Application

- Cost of service components:
  - Capital expenditures
  - Revenue forecast
  - Operating costs
  - Cost of capital
- Harmonization of forecasting methodologies (e.g. demand forecast) and planning assumptions (e.g. system design criteria, average use)
- Alignment and update of depreciation methodologies and depreciation study
- Equity thickness change
- Incentive rate mechanism
- Rates and services harmonization

Cost to Serve in 2024

- Factors reducing costs
  - Synergies realized by establishing integrated organization structures and aligning programs, processes and systems
  - Productivity savings
- Factors increasing costs
  - Safety and reliability
  - Higher technology and information services costs
  - Impact related to ICM and Capital Pass Through projects
  - Depreciation expense and equity thickness

Proposed Deficiency and Drivers

In $ millions

Net sustainable synergies and productivity	(67)
Changes in accounting policy and methodologies	(26)
Impact related to ICM and Capital Pass Through projects	42
Deferred Rebasing Impact	**(51)**
Cost pressures	69
Depreciation	198
Equity thickness	26
Cost of Service Impacts	**293**
Total Delivery Revenue Deficiency	**242**
Gas Supply Deficiency	**23**
Total Deficiency	**265**
Total Revenue Requirement	6,279
Deficiency as a % of Revenue Requirement	4%

Rate Base and Capital Expenditures

- Rate base
  - Consistent with annual ESM filings
  - Reflects depreciated value of all additions from 2013 to 2023
    - Includes ICM, capital pass-through projects and integration projects that continue to support safe and reliable service for customers
- 2024 capital expenditures
  - The amounts needed to support continued safe and reliable service for customers show continuing significant capital requirements
  - Approximately $1.5B in spend forecasted for 2024
  - Informed by the AMP and Enbridge Gas's budget prioritization process
    - While AMP reflects costs of facilities projects, the introduction of IRP may impact the solutions implemented to meet identified asset needs

Depreciation

- Asset groups, plant accounts and depreciation rates
  - Single depreciation rate for each combined asset account
- Depreciation methodologies
  - Equal Life Group procedure
  - Amortization accounting for certain general plant and distribution assets
  - Constant Dollar Net Salvage (CDNS) methodology
- Energy transition considerations
  - No economic planning horizon at this time

Equity thickness

- Risk profile has increased significantly as compared to the risk profile at the time EGD and Union last rebased in 2013
  - Most significant contributing factor is energy transition
- Enbridge Gas' deemed equity ratio currently lowest in North America
- Proposing a common equity ratio of 42%, consistent with Concentric recommendation
  - Proposal includes a phased-in approach starting with 38% in 2024 to help mitigate revenue requirement impacts, increasing by 1% each year from 2025 to 2028

Incentive Rate Mechanism Proposal (2025-2028)

- During the IR term, rates will be set based on a Price Cap using an Annual Rate Adjustment Formula calculated as (I - X) ± Y ± Z + ICM, where:
  - I = inflation factor, weighted 75% GDP IPI FDD and 25% labour for average hourly earnings
  - X = productivity factor of -1.35% and stretch factor of 0%
  - Y = costs that are incremental to the costs subject to Price Cap escalation (i.e. pass-through items or costs approved in other proceedings and implemented as part of the annual rate application)
  - Z = costs associated with unforeseen events outside of management control, materiality threshold of $5.5M
  - ICM = Incremental Capital Module based on materiality of spend relative to base capital threshold
- Earnings sharing mechanism (ESM)
  - Asymmetrical ESM with a dead band of 150 basis points, with 50/50 sharing between ratepayers and shareholders if earnings exceed the threshold

Rate Harmonization Plan

- Rates and services
  - Cost allocation
  - Rate zones
  - Rate classes
  - Rate design
  - Rate handbook
- Gas cost recovery
- Deferral and variance accounts

Rate Harmonization Implementation

RATE HARMONIZATION PLAN IMPLEMENTATION

2024

- **2024 Cost Allocation Study**
  - Current Rate Classes
    Allocation Methodologies
    Rate Zones
- **2024 Proposed Distribution Rates**
  - Current Rate Classes
- **2024 Proposed Gas Cost Rates**
  Gas Supply Commodity Charge
  Gas Supply Transportation Charge
- **Combined Rate Handbook**
  - Current Rate Classes
- **Deferral and Variance Accounts**
  Account Harmonization
  New Account Requests
  Account Closures Requests

2025

- **Proposed Distribution Rates for General Service Rate Classes ***
  - Harmonized Rate Classes
    SFVD Rate Design
- **Harmonized Rate Handbook**
  - General Service Rate Classes

2026

- **Proposed Distribution Rates for Contract Service Rate Classes ***
  - Harmonized Rate Classes
- **Contract Service Harmonization**
  Distribution Services
  Direct Purchase Services
  Ex-Franchise Services
- **Harmonized Rate Handbook**
  - Harmonized Rate Classes

* The proposed rates for the harmonized rate classes are supported by a 2024 cost allocation study prepared using the harmonized rate classes that will be filed with the Application.

Service Harmonization

- Consistent set of service offerings available to customers
  - Distribution services
  - Direct purchase services
    - Bundled
    - Semi-Unbundled
    - Unbundled
  - Ex-franchise services
- Timing of implementation planned for April 1, 2026

Cost Allocation Harmonization

- Integrated cost allocation study for 2024 that incorporates rate classes from the EGD and Union rate zones
  - Prepared based on four utility functions: Gas Supply, Storage, Transmission, Distribution
  - Allocation factors have been harmonized incorporating EGD and Union methodologies where possible
- Cost allocation study prepared based on one rate zone
  - Alternative approaches to rate zones considered included in evidence
- 2024 cost allocation study supports rates for the proposed harmonized rate classes

Rate Class Harmonization

- Rate harmonization plan includes a proposal to harmonize rate classes

Service Description	Harmonized Rate Class	Current Rate Classes		
		EGD	Union South	Union North
General Service	E01 – Small General E02 – General	1/6	M1/M2	01/10
Firm Contract	E10 – Firm Bundled	100/110/115	M4/M7	20/100
Large Firm Contract	E20 – Semi-Unbundled E22 – Unbundled E24 – Extra Large Unbundled	300 125	T1/T2 T2	20/100
Other Contract Services	E30 – Interruptible E34 – Seasonal Firm E38 – Unbundled Storage	145 170 135 315 316	M4/M5 M7	25
Wholesale	E60 – Wholesale Transportation E62 – Bundled E64 – Semi-Unbundled	200	M17 M9 T3	
Ex-franchise Transportation	E70 – Transportation E72 – Transportation for Embedded Storage Pools	331/332	M12/C1 M16	
Ex-franchise Other	E80 – Producer Injection and Transportation Service E82 – Renewable Natural Gas Injection Service	401	M13/GPA	
Proposed for Elimination		9 320 325 330	M10 U2	30

Rate Design Harmonization

- Proposed harmonized rates set for recovery of fixed costs through fixed charges
  - Customer and demand related costs recovered in monthly fixed charges and demand rates
  - Commodity related costs recovered based on use
- General service rate design
  - Rate classes definition based on customer size rather than type of premise
  - Proposal for Straight Fixed Variable with Demand (SFVD) rate design for harmonized general service rate classes

Gas Cost Recovery Harmonization

- Proposal for common reference price, effective January 1, 2024, based on the forecast weighted average price for gas supply
  - Used to calculate components of the revenue requirement including gas in storage, UFG, company use, and compressor fuel
  - Used to derive the gas supply commodity charge for sales service customers
- Rate design for gas cost recovery proposed for implementation on January 1, 2024 to align rates with the common reference price, gas supply plan, and harmonized gas cost deferral and variance accounts

Deferral and Variance Account Harmonization

- Enbridge Gas proposes to harmonize and align deferral and variance accounts(D&VAs) effective January 1, 2024
  - Consolidate similar accounts of EGD and Union into EGI accounts
    - Administrative and regulatory efficiency
    - Consistency
    - Simplification
- Establishment of New Deferral and Variance Accounts
- Deferral and Variance Account Closures

Disposition of Deferral and Variance Accounts

- Proposal to dispose of interim balances forecast to December 31, 2023 for certain deferral and variance account balances
- Total balance proposed for clearance of $101.6 million refund customers
- Disposed of in 2024

Energy Transition (ET) in Rebasing

- Enbridge Gas will present the following ET aspects in rebasing
  1. Role of natural gas in meeting Ontario's energy demand on an annual and peak basis during the rebasing period relative to the capabilities of the Ontario electricity sector
  2. How Enbridge Gas is mitigating future natural gas demand uncertainty during the rebasing and AMP planning horizons via the:
     - Integration of ET considerations into the application, with a focus on impacts to the AMP, finance and regulatory approaches
     - Maintenance of the gas system with consideration of natural gas demand uncertainty at the forefront
  3. Work undertaken to understand potential future pathways and their impacts on Enbridge Gas
     - Scan of government policies, plans and strategies
     - Customer engagement
     - Scenario analysis and pathways studies; a diversified pathway was found to achieve net-zero in Ontario more affordably, and with greater reliability, resiliency, consumer choice and industrial competitiveness.

Energy Transition (ET) in Rebasing

- Enbridge Gas will present the following ET aspects in rebasing - Continued

4. Enbridge Gas's ET Plan (ETP), which focuses on "safe bet" actions that Enbridge Gas is exploring, pursuing or proposing; these are actions that:
   - Support Ontario's near term GHG emissions reductions, including achievement of the 2030 target, and/or
   - are required, regardless of whether a diversified or an electrification pathway unfolds in Ontario, and/or
   - Maintains consumer choice, pathway optionality, and/or a safe and reliable gas system in a manner that considers pathway uncertainty

5. Enbridge Gas's ET safe bet rebasing specific proposals that, if approved, can drive continued GHG emissions reductions over the rebasing period while Ontario's Electrification and Energy Transition Panel completes their Pathways Report and next steps.

Safe Bet Actions and Related Proposals

Safe-Bet Actions	Rebasing Proposals
1. Maximizing energy efficiency 2. Increasing the amount of renewable natural gas (RNG) in the gas supply 3. Reducing emissions in the industrial and transportation sectors 4. Integrating gas and electric system planning 5. Supporting consumer choices and the energy transition journey	• New low-carbon voluntary program (replacing existing VRNG program) will add RNG equal to 1% of system supply each year starting in 2025 • Changes to compressed natural gas (CNG) vehicle program • Phase II of the Low-Carbon Energy Project (hydrogen blending in Markham) • Hydrogen blending grid study • Energy Transition Technology Fund • AMP includes strategies to support investments for RNG injection stations, CNG stations and to enable industrial fuel switching

Integrated Resource Planning (IRP)

Non-Pipe Alternative Evaluation / Implementation Process

Enbridge Gas is incorporating IRP into the Rebasing application in the following ways:

- Inclusion of an IRP Appendix in the 2023-2032 Asset Management Plan (AMP) that includes:
  - Planned projects for the next 10 years that have had a binary screen, including each project's details (project name, description, cost, etc.)
  - The status of the IRP screening and evaluation process for each project, including status of binary screen, technical and economic evaluation and IRP Plan
- Post the rebasing filing, Enbridge will continue to evolve the IRP Appendix, including continuing the IRPA evaluation process and IRPA plan creation, where applicable, with input from:
  - The IRP Technical Working Group
  - Regional stakeholder engagement sessions, which will include municipalities, customers, indigenous communities, electric sector etc.

Bill impacts

- 2024 bill impacts are a function of
  - Revenue requirement deficiency
  - Cost allocation harmonization
  - Gas cost recovery implementation
- Rate class harmonization bill impacts
  - Planned for 2025 for general service rate classes and 2026 for contract rate classes
- Rate mitigation plan
  - Limited use to minimize rate volatility

Total Bill Impacts – General Service

Rate Zone Rate Class	Total Bill Impact 2024	Total Bill Impact Rate Class/Design Harmonization
EGD		
Rate 1	2% to 4%	0% to 2%
Rate 6	1% to 3%	2% to 4%
Union North West		
Rate 01	-4% to -2%	0% to 2%
Rate 10	-2% to 0%	-2% to 0%
Union North East		
Rate 01	-12% to -10%	0% to 2%
Rate 10	-12% to -10%	-2% to 0%
Union South		
Rate M1	8% to 10%	0% to 2%
Rate M2	5% to 7%	0% to 2%

- Bill impacts are preliminary estimates
- Total bill impact representative of a typical customer profile in each rate class
- Total bill impact assumes the total bill of a sales service customer
- 2024 total bill impact includes impact of disposition of deferral and variance accounts in 2024

Total Bill Impacts – Contract Service

Rate Zone Rate Class	Total Bill Impact 2024	Total Bill Impact Rate Class Harmonization
EGD		
Rate 100	3% to 5%	7% to 9%
Rate 110	2% to 4%	3% to 5%
Rate 115	0% to 2%	2% to 4%
Rate 125	0% to -2%	0% to 2%
Rate 135	6% to 8%	-4% to -2%
Rate 145	-15% to -13%	0% to 2%
Rate 170	2% to 4%	1% to 3%
Rate 200	-1% to 1%	1% to 3%
Union North		
Rate 20	-1% to 1%	4% to 6%
Rate 25	-5% to -3%	-4% to -2%
Rate 100	-1% to 1%	0% to 2%
Union South		
Rate M4	2% to 4%	0% to -2%
Rate M5	-1% to 1%	-4% to -2%
Rate M7	6% to 8%	4% to 6%
Rate M9	7% to 9%	2% to 4%
Rate T1	1% to 3%	-2% to 0%
Rate T2	1% to 3%	0% to 2%
Rate T3	2% to 4%	0% to 2%

- Bill impacts are preliminary estimates
- Total bill impact representative of a typical customer profile in each rate class
- Total bill impact assumes the total bill of a direct purchase customer including a cost for the commodity

Next steps

- Revenue requirement and IRM target filing October 31, cost allocation & rate design November 30
- Implementation – new rates effective January 1, 2024, with proposed harmonization of general service rate classes in 2025 and contract rate classes in 2026

Q&A

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