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October 30, 2023

OEB Staff Report to the Ontario Energy Board

Review of 2023 Annual Update to Enbridge Gas Inc.
Natural Gas Supply Plan

EB-2023-0072

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1 INTRODUCTION AND SUMMARY

On March 1, 2023, the Ontario Energy Board (OEB) initiated a consultation to review the annual updates to the five-year natural gas supply plans of Enbridge Gas Inc. (Enbridge Gas) in accordance with the gas supply plan assessment process established in the OEB's [Report of the Ontario Energy Board: Framework for the Assessment of Distributor Gas Supply Plans](#) (Gas Supply Framework).¹

In 2019, the OEB initiated a review of the five-year Gas Supply Plans (GSP) of Enbridge Gas Inc. (Enbridge Gas) culminating in an OEB staff report dated March 26, 2020.²

The Gas Supply Framework requires distributors to file an annual update to their five-year GSP. Accordingly, Enbridge Gas filed its fourth annual update to the five-year GSP on March 1, 2023 (2023 Annual Update).

The Gas Supply Framework sets out the OEB's approach for the assessment of the rate-regulated natural gas distributors' (distributors) supply plans. It identified three guiding principles to be used in assessing the distributors' GSPs:

- **Cost-effectiveness** – The GSP will be cost-effective. Cost-effectiveness is achieved by appropriately balancing the principles and in executing the supply plan in an economically efficient manner.
- **Reliability and security of supply** – The GSP will ensure the reliable and secure supply of natural gas. Reliability and security of supply is achieved by ensuring gas supply to various receipt points to meet planned peak day and seasonal gas delivery requirements.
- **Public policy** – The GSP will be developed to ensure that it supports and is aligned with public policy where appropriate.

The OEB clarified that cost-effectiveness does not necessarily mean the “lowest cost,” reliability does not mean “reliable at any cost” and support for public policy does not mean “support at any cost” or “any level of reliability”. Rather, the intent is to strike a balanced approach to the benefit of customers. Distributors are required to demonstrate that their GSPs balance the principles in a way that is prudent and appropriate for

¹ EB-2017-0129, October 25, 2018.

² EB-2019-0137 Final OEB Staff Report to the Ontario Energy Board on Consultation to Review Natural Gas Supply Plans, March 26, 2020.

customers. It is expected that distributors would employ strategies that clearly describe their approach, customer impacts and risks associated with both the options considered and chosen to deliver value to customers.³

Enbridge Gas's five-year GSP included an in-depth description of methodologies and related gas supply processes.⁴ The 2023 Annual Update is the fourth annual update to the five-year GSP. Enbridge Gas's plan covers the legacy Enbridge Gas Distribution (EGD) and Union Gas rate zones (Union North West, Union North East and Union South).⁵ The objective of Enbridge Gas's GSP is to identify an efficient combination of upstream transportation, supply purchases and storage assets to serve sales service and bundled (direct purchase) customers' annual, seasonal and design day natural gas delivery requirements.

As per the Gas Supply Framework, distributors are required to provide an annual GSP update. The update is expected to primarily focus on updates to the Outlook section of the GSP, a description of significant changes from previous updates and a historical comparison of actuals to the Outlook. An in-depth evaluation of the GSP is only expected in the event that the update significantly deviates from the five-year GSP.⁶

In contrast to previous years' reviews of Enbridge Gas's annual updates to its five-year GSP, the review of the 2023 Annual Update is focused on the single issue related to Enbridge Gas's contract with Vector Pipeline.⁷

This report sets out OEB staff's assessment of Enbridge Gas's Vector contracting decision. OEB staff has considered the comments of stakeholders and the reply of Enbridge Gas in formulating its recommendation to the OEB.

While OEB staff is of the view that the Vector contracting decision was prudent, a material prudence question was raised by FPRO in this consultation, which was supported by other stakeholders. The same prudence question has also been raised in other previous consultations and proceedings.⁸ OEB staff notes that material prudence issues are typically determined by a panel of Commissioners and recommends that a

³ EB-2017-0129, Gas Supply Framework, p. 8

⁴ EB-2019-0137

⁵ Effective January 1, 2019, the former Enbridge Gas Distribution and Union Gas Limited amalgamated to form Enbridge Gas Inc. (Enbridge Gas).

⁶ Gas Supply Framework, October 25, 2018, p.14.

⁷ EB-2023-0072, OEB Letter of Initiation, April 12, 2023

⁸ The previous consultations and proceedings include: the Review of the Enbridge Gas's 2022 Annual Update, the review of recent QRAM proceedings and the 2021 Utility Earnings and Deferral Account Disposition proceeding.

proceeding be initiated to allow a panel of Commissioners to render a determination on Enbridge Gas's Vector contracting decision.

1.1 The Process

On March 1, 2023, Enbridge Gas filed its 2023 Annual Update to its five-year GSP.

On March 15, 2023, the OEB issued a letter, in consideration of Enbridge Gas's request to either forgo its review of the 2023 Annual Update or expedite the process by limiting the review to issues of particular importance, inviting submissions from interested parties with respect to the scope of consultation.

The following parties participated in the consultation:

- Canadian Manufactures & Exporters (CME)
- Federation of Rental-housing Providers of Ontario (FRPO)
- Industrial Gas Users Association (IGUA)
- Pollution Probe
- School Energy Coalition (SEC)
- Six Nations Natural Gas Co. (SNNG)
- TransCanada PipeLines Limited (TCPL)
- Vulnerable Energy Consumers Coalition (VECC)

Pollution Probe, VECC and FRPO filed submissions with respect to the scope of the consultation. Enbridge Gas responded to the comments.

The OEB considered the submissions of Enbridge Gas, VECC, FRPO and Pollution Probe and on April 12, 2023, issued a letter determining that a review of only the Vector Pipeline contracting decision⁹ is appropriate for Enbridge Gas's 2023 Annual GSP review consultation.

On May 10, 2023, Energy Probe, IGUA, FRPO, CME, and OEB staff filed questions regarding the 2023 Annual Update. Enbridge Gas filed responses on June 2, 2023.

On June 12, 2023, FRPO filed a letter asking the OEB to request that Enbridge Gas submit complete responses to certain FRPO interrogatories. On June 27, 2023, the OEB issued a letter requiring Enbridge Gas to provide the information FRPO requested, and on July 12, 2023, Enbridge Gas filed the information requested.

⁹ EB-2017-0129, Gas Supply Framework, p. 8

Stakeholders filed submissions on August 14, 2023 and Enbridge Gas responded on August 28, 2023.

All material related to this consultation is available on the [OEB's website](#).

2 VECTOR CONTRACT AND STAKEHOLDER COMMENTS

In 2021, Enbridge Gas contracted with Vector Pipeline to provide upstream capacity from Chicago to Dawn on the basis that it provides a competitively priced, reliable and flexible option that offers supply diversity at Chicago, and that other available options would reduce supply diversity.

In the review of Enbridge Gas's 2022 Annual Update,¹⁰ a number of intervenors raised concerns with the Vector contract, arguing that Enbridge Gas did not provide all the information relied upon to make the contracting decision. FRPO in particular noted the higher cost of landed supply from Chicago on the Vector pipeline relative to purchasing gas at Dawn. In response to OEB staff's recommendations in its report on the 2022 Annual Update and Enbridge Gas's commitments within the settlement agreement for the 2021 Utility Earnings Sharing and Disposition of Deferral & Variance Accounts proceeding,¹¹ Enbridge Gas agreed to provide additional information on the Vector contracting decision in the 2023 Annual Update to its GSP.

OEB staff notes that in response to its commitments described above, Enbridge Gas provided the following information in its 2023 Annual Update:

1. The information on the Vector contracting decision described in the OEB Staff Report to the OEB in the Review of Enbridge Gas's 2022 Annual Update
2. Forward market pricing data at Chicago and Dawn available to Enbridge Gas at time of final decision to extend existing Vector contract and enter into new Vector contract
3. Landed cost of supply to date under new/renewed Vector capacity compared to market price at Dawn
4. Information about utilization/assignment of new/renewed Vector capacity to date

FRPO filed a detailed argument with respect to Enbridge Gas's Vector contracting decision. FRPO submitted that OEB staff should recommend to the OEB that a hearing be initiated to review the prudence of the contracting decision and the allocation of costs and benefits derived from the contract. FRPO also submitted that the OEB should consider revisions to the GSP review process to direct the provision of appropriate quantifiable evidence to ensure that the original intent of the Gas Supply Framework is met. FRPO's submission was supported by IGUA and SEC. CME submitted that the

¹⁰ EB-2022-0072

¹¹ Settlement Proposal of Enbridge Gas Inc., EB-2022-0110, Exhibit N1, Tab 1, Schedule 1, p. 12

issues were adequately canvassed by the existing submissions, and therefore it would not be making additional submissions.

Enbridge Gas responded that the 2021 Vector contracting decision was prudent and has provided customers with gas supply diversity and reliability since the contracts became effective in November 2021. The decision to purchase and renew Vector supply was guided by the principles of diversity, reliability, flexibility, and cost-effectiveness. Enbridge Gas submitted that no further review of this contracting decision is warranted.

Below is a summary of the key issues raised by FRPO and Enbridge Gas's response.

2.1 Reliability

FRPO submitted that the contracted Vector capacity does not increase reliability in the gas supply portfolio, arguing that reliability should be measured by the proximity of the receipt point to the market demand.¹² Enbridge Gas countered in its reply argument that FRPO's definition of reliability does not come from the Gas Supply Framework, and that this definition has not been accepted by Enbridge Gas or the OEB.¹³ Enbridge Gas further argued that the Framework defines reliability as ensuring gas supply to various receipt points.¹⁴

The OEB's Gas Supply Framework states that:

“Gas supply planning should also minimize risk by diversifying contract terms, supply basins and upstream pipelines, and other strategies designed to maintain a viable gas industry in Ontario.”¹⁵

Enbridge Gas stated that the Vector capacity contracted also provides firm and reliable transportation capacity that is integral to meet design requirements for Enbridge Gas's Sarnia Industrial Line (SIL).¹⁶ Enbridge Gas further argued that in the absence of this capacity it would require incremental facilities to meet system needs.

FRPO submitted that Enbridge Gas could have met Sarnia area demands by utilizing the existing Vector capacity it already held prior to increasing its position on the Vector

¹² FRPO Submission, p.3.

¹³ Reply Argument of Enbridge Gas Inc., p. 10

¹⁴ Reply Argument of Enbridge Gas Inc., p. 10

¹⁵ EB-2017-0129, Report of the OEB, Framework for the Assessment of Distributor Gas Supply Plans, October 25, 2018, p.10.

¹⁶ Reply Argument of Enbridge Gas Inc., pp, 10-11.

pipeline.¹⁷ Enbridge Gas disagreed with that assessment, arguing that it requires all of its upstream transportation contracts on NEXUS, Vector, and Great Lakes to flow on the SIL on design day in order to meet Sarnia system market demands.¹⁸ Enbridge Gas further argued that if Vector capacity had not been renewed, it would need to either acquire more expensive capacity along an alternative path or add infrastructure between the SIL and Dawn in order to ensure reliability to this market on design day.¹⁹

Enbridge Gas submitted that its Vector transportation contracts are fully utilized in the GSP (i.e., the capacity has a planned load factor of 100%). Despite this, due to customer demand and market conditions at the time, there were periods where a portion of the contracted deliveries from Vector to Dawn were not needed to meet customer demands and scenarios where part of the contracted path was unnecessary to achieve the required firm deliveries of supply. Temporary surplus capacity is then created, which Enbridge Gas optimized for the benefit of ratepayers.²⁰

2.2 Flexibility

FRPO noted that while the Vector pipeline has become a bi-directional pipeline, and thus increases flexibility, a shipper must hold capacity that provides for delivery in each direction, which Enbridge Gas does not hold.²¹ FRPO argued that Enbridge Gas has committed ratepayers to a fixed, one-way path from Chicago to Dawn which carries a fixed demand charge whether the gas is required or not. Enbridge Gas replied that FRPO misunderstood the separate Canadian and U.S. portions of the contracted capacity, as well as secondary receipt and delivery points, which provide flexibility.²² Enbridge Gas further stated that the utilization of this flexibility to receive and purchase supply at St. Clair instead of Chicago, rendered savings for ratepayers while simultaneously meeting the design day requirements of the SIL.²³

FRPO proposed that if Enbridge Gas was seeking flexibility, Enbridge Gas's best option would have been to contract at Dawn for deliveries.²⁴ By conducting a sensitivity analysis, Enbridge Gas could contract for firm delivery at Dawn for the minimum amounts forecasted to be required for winter demand. Enbridge Gas replied that the

¹⁷ FRPO Submission, p. 3

¹⁸ Reply Argument of Enbridge Gas Inc., p. 11.

¹⁹ Reply Argument of Enbridge Gas Inc., p. 11

²⁰ Enbridge Gas noted that any margins that it earns through optimization of temporarily surplus capacity on its Vector transportation contracts are shared 90/10 in favour of ratepayers.

²¹ FRPO Submission, p.3

²² Reply Argument of Enbridge Gas Inc., p. 14

²³ Reply Argument of Enbridge Gas Inc., p. 14

²⁴ FRPO Submission, pp. 4-5

Vector contract is used to meet the average day supply needs of the GSP.²⁵ Deliveries from the Vector pipeline support the design day demand of the SIL, which results in Vector capacity being forecasted to flow 100% for each day of the year. Enbridge Gas stated that it does not plan for the Vector contract, or any other upstream pipeline contract flowing directly into Dawn, to be used to manage seasonal load balancing requirements.²⁶ Enbridge Gas suggested that FRPO's submissions in this regard are unrelated to the Vector contracting decision, but rather are issues related to the use of storage and commodity load balancing purchases at Dawn that will be heard in Phase 2 of Enbridge Gas's 2024 Rebasing proceeding.²⁷

2.3 Prudence and Cost Effectiveness

FRPO argued that Enbridge Gas's Transport Contracting Analysis highlights that Vector deliveries to Dawn were at a \$0.09/GJ premium relative to simply buying at Dawn.²⁸ FRPO further argued that this analysis was flawed in that it assumed Chicago would be trading at a discount to Dawn for the entire five years of the analysis. FRPO stated that at the time of the analysis, it was the consensus of forward commodity markets that the prices at Chicago and Dawn would be comparable, with Dawn being slightly lower.²⁹

Enbridge Gas replied that the forecasted landed cost premium relative to Dawn for the 2021 Vector contracting decision was the lowest of any available alternative at the time and was lower than the forecasted landed cost premium over Dawn for other upstream transportation transactions Enbridge had previously completed to increase diversity of supply and support the SIL.³⁰ Enbridge Gas further argued that forward commodity market prices are not forecasts, and that throughout the 2022 Annual Update and this consultation it had provided detailed evidence on why it utilized fundamentals-based forecasts over in-the-moment forward market settlement prices when making long-term contracting decisions.³¹

FRPO stated that the information provided in the 2023 Annual Update, using forward market pricing available at the time of the contracting decision, showed that the premium paid for Vector relative to purchasing gas at Dawn was forecast to be

²⁵ Reply Argument of Enbridge Gas Inc., p. 15

²⁶ Reply Argument of Enbridge Gas Inc., p. 15

²⁷ EB-2023-0200

²⁸ FRPO Submission, p. 5

²⁹ FRPO Submission, p. 5

³⁰ Reply Argument of Enbridge Gas Inc., p. 15

³¹ Reply Argument of Enbridge Gas Inc., p. 16

\$0.23/GJ.³² FRPO also noted that Enbridge Gas in its responses to interrogatories increased that premium to \$0.26/GJ without explanation of the revised premium.³³

Enbridge Gas stated that the form and methodology of the ICF landed-cost analysis is not new and has been used over a long period of time.³⁴ Enbridge Gas further stated that it is inappropriate to make long-term contracting decisions based on short-term conditions.³⁵

FRPO argued that the Vector contracting decision was not cost-effective, referencing the calculated premiums in the first year of the new contracts and the theoretical total premium of Chicago gas purchased and transported to Dawn over the life of the contracts. The result is a cost premium of \$6.2 million over the 2021-2022 gas year and a forecast cost premium of \$44.9 million over a five-year period.³⁶ Enbridge Gas replied that it is not appropriate to assess the prudence of a contracting decision by using actual cost information available after the decision is made.³⁷ Enbridge Gas also disputes FRPO's calculation of the total premium of Chicago over Dawn using old market settlement prices instead of an expert natural gas market forecast (i.e., the ICF analysis), as it is based on an incorrect assumption that Vector pipeline capacity must be filled every day with purchases made at Chicago.³⁸

Enbridge Gas submitted that the appropriate way to assess the cost-effectiveness of the Vector contracting decision is to use the landed-cost analysis filed in support of the contracting decision in 2021. Enbridge Gas noted that several parties in the 2022 Annual Update consultation, including OEB staff, submitted that the Vector contracting decision was prudent.³⁹

2.4 Value to Ratepayers

FRPO argued that the assignment of Vector capacity does not provide value to ratepayers, but rather only to shareholders, as developing a sound GSP requires the consideration of both the peak day and annual demands of the system.⁴⁰ At times where transport is higher than system demand, FRPO stated that a utility can mitigate

³² FRPO Submission, p. 6

³³ FRPO Submission, p. 6

³⁴ Reply Argument of Enbridge Gas Inc., pp. 16-17

³⁵ Reply Argument of Enbridge Gas Inc., p. 17

³⁶ FRPO Submission, pp. 6-7

³⁷ Reply Argument of Enbridge Gas Inc., p. 18

³⁸ Reply Argument of Enbridge Gas Inc., p. 19

³⁹ EB-2022-0072, OEB Staff Report to the Ontario Energy Board, September 7, 2022, p.40

⁴⁰ FRPO Submission, pp. 7-8

the cost through releasing that transport capacity to the market. Depending on the time period where that capacity is not needed, a utility can release an entire month to mitigate Unabsorbed Demand Costs (UDC), or temporarily available capacity can be used to optimize using transactional services, including capacity releases.⁴¹

FRPO further argued that the assignment of Vector capacity to third parties does not meet the requirement to be considered transactional services, or, in the Union rate zone, optimization of upstream transportation.⁴² FRPO noted that Enbridge Gas classified a large number of assignments as Upstream Transportation Optimization, despite the assignments being 6-24 months.⁴³ FRPO argued that these assignment terms do not meet the criteria of “temporarily surplus” and do not constitute “unplanned”.⁴⁴ FRPO submitted that these transactions are a planned part of the gas supply portfolio and thus should at least be allocated, in full, back to gas costs and not result in a shareholder payment of 10%.

Enbridge Gas replied that its decisions to assign pipeline capacity to third parties is independent of the decision to contract for the capacity, and is therefore not relevant to a prudence review of the contracting decision.⁴⁵ Enbridge Gas stated that it plans its gas supply portfolio to meet the annual and design day needs of customers while adhering to the OEB’s gas supply planning principles,⁴⁶ meaning that assignment decisions are made independently after any contracting analysis and decisions in the 2022 Annual Update.⁴⁷ Enbridge submitted that these assignments also had no impact on Enbridge Gas’s 2021 Vector contracting decision itself. Enbridge Gas suggested that the proper venue for questions related to the assignment of transportation capacity is the 2022 Enbridge Gas Utility Earnings Sharing and Disposition of Deferral & Variance Accounts proceeding.⁴⁸

2.5 Benefits to Enbridge Gas

FRPO stated that Enbridge Gas’s contractual commitment provides benefit to Vector, which is 60% owned by Enbridge Inc., through demand charges and flow.⁴⁹ FRPO

⁴¹ FRPO Submission, pp. 7

⁴² FRPO Submission, pp. 8-9

⁴³ FRPO Submission, p. 1

⁴⁴ FRPO Submission, p. 1

⁴⁵ Reply Argument of Enbridge Gas Inc., pp. 19-20

⁴⁶ Reply Argument of Enbridge Gas Inc., p. 20

⁴⁷ EB-2022-0072.

⁴⁸ Reply Argument of Enbridge Gas Inc., p. 20

⁴⁹ FRPO Submission, p. 1

argued that the Chicago to Milford Junction capacity on the Vector pipeline for years.⁵⁰ In committing ratepayers to the Vector contracts, Enbridge Gas has been assigning the contracts to third parties who provide some revenue to Enbridge Gas, but that revenue is substantially lower than the cost.⁵¹ Enbridge Gas replied that FRPO has only referenced one benefit arising from the company's 60% ownership of Vector, and that FRPO has not provided evidence beyond a reference to an August 2023 daily unsubscribed capacity report on the Vector website.⁵²

Enbridge Gas argued that the report referenced by FRPO is a daily snapshot of the unsubscribed amounts at each individual meter location along the Vector system, which is not intended to provide information about the availability of long-term capacity along any contractual path.⁵³ Enbridge Gas further argued that the availability of capacity from Chicago to Milford Junction is not helpful, as Enbridge Gas requires gas delivered to St. Clair and Dawn. As the capacity to provide deliveries from the Vector system into Enbridge Gas's system has been sold out for years, the capacity which was made available through the Vector Open Season in February 2021 represented an opportunity to acquire incremental capacity without an infrastructure expansion.⁵⁴ Enbridge Gas noted that it is paying the same rate on the new Chicago to Dawn capacity as it does for the Milford Junction to Dawn contract it acquired as part of its Nexus path.⁵⁵

Enbridge Gas submitted that the Chicago to Dawn path provides significantly more supply diversity and flexibility than contracting from Milford Junction, given that Enbridge Gas is able to receive gas from any point on Vector's system.⁵⁶

⁵⁰ FRPO Submission, p. 7.

⁵¹ FRPO Submission, p. 1

⁵² Reply Argument of Enbridge Gas Inc., p. 22

⁵³ Reply Argument of Enbridge Gas Inc., p. 22

⁵⁴ Reply Argument of Enbridge Gas Inc., p. 23

⁵⁵ Reply Argument of Enbridge Gas Inc., p. 23, and EB-2022-0072, Enbridge Gas Reply Submission, June 9, 2022, p.16.

⁵⁶ Reply Argument of Enbridge Gas Inc., p. 23

3 OEB STAFF ANALYSIS AND RECOMMENDATIONS

For the reasons that follow, OEB staff is of the view that the Vector contracting decision was prudent. However, regardless of OEB staff's view on the prudence of the contracting decision, a material prudence question was raised by FPRO in this consultation, which was supported by other stakeholders. The same prudence question has also been raised in other previous consultations and proceedings.⁵⁷ OEB staff notes that material prudence issues are typically determined by a panel of Commissioners and recommends that a proceeding be initiated to allow a panel of Commissioners to render a determination on Enbridge Gas's Vector contracting decision.

As set out in OEB staff's report with respect to the Review of Enbridge Gas's 2022 Annual update to the GSP, OEB staff believes that the Vector contracting decision may result in higher costs relative to purchases at Dawn. However, the Vector pipeline contracting decision results in incremental supply diversity relative to Dawn purchased gas. The OEB's Gas Supply Framework is clear that there are multiple objectives that a GSP must balance and purchasing more gas at Dawn will impact diversity of supply. Accordingly, OEB staff's view is that the Vector contracting decision was prudent, based on information available to Enbridge Gas at the time that the decision was made.⁵⁸

The additional evidence filed with respect to the Vector contract (e.g., forward market pricing data at Chicago and Dawn available to Enbridge Gas at time of final decision, landed cost analysis of Vector supply to date relative to market price at Dawn, utilization/assignment of Vector capacity, etc.) in the current consultation does not change OEB staff's position as described in its report with respect to the Review of Enbridge Gas's 2022 Annual update to the GSP.

OEB staff notes that based on the information available in the 2022 Annual Update, the Vector contracting decision was expected to result in higher landed costs relative to purchases at Dawn. This landed cost analysis was completed based on Enbridge Gas's typical approach that uses a five-year forecast of natural gas market prices from ICF.

In the current consultation, FRPO showed that using forward market pricing that was available at the time of the contracting decision, the premium paid for Vector relative to

⁵⁷ The previous consultations and proceedings include: the Review of the Enbridge Gas's 2022 Annual Update, the review of recent QRAM proceedings and the 2021 Utility Earnings and Deferral Account Disposition proceeding.

⁵⁸ EB-2022-0072, OEB Staff Report, Review of the Enbridge Gas's 2022 Annual Update.

purchasing gas at Dawn would be significantly higher than the premium calculated using the typical landed cost analysis that Enbridge Gas applied.⁵⁹

OEB staff agrees with Enbridge Gas also that it is inappropriate to make long-term contracting decisions based on short-term market conditions (which is the result of using forward market settlement pricing as suggested by FRPO). For this reason, OEB staff is of the view that the cost effectiveness of the contracting decisions is properly evaluated based on the landed cost analysis originally undertaken by Enbridge Gas. Therefore, nothing has changed in the current consultation, and the same premium for Vector supply is expected to be paid as was the case in the 2022 Annual Update.

Similarly, OEB staff's view of the benefits provided by the Vector contract with respect to reliability and security of supply is unchanged. OEB staff stated in its report with respect to the Review of Enbridge Gas's 2022 Annual update to the GSP that increased purchases from Dawn, as suggested by FRPO, may not be the most appropriate option. While it may reduce costs, it may not be in line with the other objectives set out in the Gas Supply Framework (reliability, flexibility and diversity) and therefore might expose the supply portfolio to increased risk. Enbridge Gas's evidence in the current consultation, as described in its reply argument (and summarized above, supports the notion that the Vector contract supports reliability and security of supply. Therefore, nothing has changed in the current consultation; the cost premium paid for Vector supply must be balanced against achieving reliability, flexibility and diversity benefits.

OEB staff notes that FRPO made arguments regarding the assignment of Vector capacity to third parties and the relationship between the assignments and the prudence of the Vector contracting decision. OEB staff agrees with Enbridge Gas that any decisions to assign pipeline capacity to third parties is independent of the decision to contract for the capacity in the first instance and is not relevant to a prudence review of the contracting decision.

While OEB staff continues to believe that the Vector contracting decision was prudent, OEB staff notes that a material prudence issue regarding a contract with an affiliated company has been raised by FPRO (and supported by other stakeholders) in this consultation, and other previous consultations and proceedings. OEB staff notes that material prudence issues are typically determined by a panel of Commissioners rather than by OEB staff. OEB staff recommends that a proceeding be initiated to allow a

⁵⁹ FRPO Submission, p. 6

panel of Commissioners to render a determination on Enbridge Gas's Vector contracting decision.

OEB staff recommends that the proceeding be limited to only the issue of the prudence of Enbridge Gas's Vector contracting decision. With respect to FRPO's argument regarding the appropriate allocation of the revenue resulting from the assignment of Vector capacity (i.e., treated as transactional service revenues (with 10% paid to Enbridge Gas) or as offsets to gas supply costs), OEB staff recommends that this issue is appropriately addressed in the utility earnings and deferral account disposition proceeding that follows the OEB's issuance of its decision on the prudence of the Vector contracting decision. The issue of prudence of the underlying contract is best addressed before the issue of the allocation of any resulting revenues associated with that contract is considered.

In addition, OEB staff does not agree with FRPO's assertion that revisions to the GSP review process are necessary to direct the provision of appropriate quantifiable evidence to ensure that the original intent of the Gas Supply Framework is met. OEB staff is of the view that all necessary information with respect to the Vector contracting decision was provided by Enbridge Gas throughout the course of this consultation. Therefore, this issue does not need to proceed to a hearing.