Will Investors Ultimately Pay the Price for Enbridge’s Planned Rate Hike?

Description

Recently, **Enbridge** (TSX:ENB)(NYSE:ENB) announced that it will petition the Ontario Energy Board to implement a 40% increase for its two million customers in central and eastern Ontario, and southwestern Quebec. Once taxes are factored in, customers will face a total increase of 50% on their heating bills.

Gas prices in Ontario are set every three months and this increase is a major hike that could be in effect by April 1. Enbridge states that it has exhausted all of its pools of “cheap gas” during this extremely bitter winter. This goes against statements made by Enbridge one month ago, when it predicted that “that its massive storage capacity should mute any price increase”.

This could be the first of many gas providers to line up for rate increases, using this year’s winter as justification. Fellow supplier **Union Gas Ltd** (TSX:UNG.PR.C) has announced that it will seek a 20% increase for its Ontario customers. Suppliers in central Canada such as **TransCanada Corp** may also jump in on the action of raising rates.

This presents a quandary for investors who are invested in any of these gas suppliers — you will see some better revenue numbers, but net profits could be hampered by the higher cost that will be paid to restock supplies. Unless your favorite gas supplier can get its gas from the ground direct to its customers, then it could pocket a substantial return in 2014.

The double-dipped consumer

While gas companies will benefit from these increases and the sheer volume of gas consumed this winter, many other industries could suffer as consumers feel the brunt of the increases. Consumers will not only be hit with higher gas bills, but businesses will undoubtedly pass down these increases to their customers. That creates a double inflation, raising the prices of goods and taking money directly out of consumers pockets.

Just about every Canadian retailer has put the blame for weaker Q4 2013 and Q1 2014 revenues on the cold temperatures keeping customers at home. How much will this compound if the few disposable dollars consumers have left are eaten up by the direct and indirect effects of a 40% (50% after tax) increase in natural gas? Companies such as **Future Shop**, **Canadian Tire** and **Cineplex** could feel the brunt this as consumers are left with fewer loonies for non-essential purchases.

Foolish bottom line

The talk of shortages and escalating prices can be seen by many as baffling in a country with such a large amount of natural gas reserves. This situation could also get even worse if Russia begins to “play games” with its Europe-bound exports, further inflating the cost of natural gas.

Enbridge claims that this will not be a “long-term natural gas event”, but depending on which industry you invest in, the pros and cons will have to be weighed very carefully.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
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cameronconway