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BY E-MAIL AND WEB POSTING

May 25, 2016

**TO: All Participants in EB-2015-0363
All Other Interested Stakeholders**

**RE: Staff Discussion Paper on a Cap and Trade Regulatory Framework for
Natural Gas Utilities - EB-2015-0363**

Today the Ontario Energy Board (OEB) issued a Staff Discussion Paper regarding the development of a cap and trade framework for OEB rate-regulated natural gas utilities for comment.

Background

On May 18, 2016, the *Climate Change and Low-carbon Economy Act, 2016* (“*Climate Change Act*”) received Royal Assent. On May 19, 2016, *Ontario Regulation 144/16 The Cap and Trade Program* (“*Cap and Trade Regulation*”) was issued which provides details about the Cap and Trade program. The *Climate Change Act* and the *Cap and Trade Regulation* establish the details of a cap and trade program for the purposes of reducing green house gas (“GHG”) emissions in Ontario. The Cap and Trade program will begin on January 1, 2017. The first compliance period will run from January 1, 2017 until December 31, 2020, with subsequent three year compliance periods.

Under the *Climate Change Act*, natural gas distributors (both rate-regulated and non-rate regulated) will have the compliance obligations regarding their facility-related GHG emissions and the emissions of most of their customers. As a result, the natural gas utilities will need to develop Compliance Plans to describe how they will meet their customer-related and facility-related compliance obligations.

The OEB is developing a framework to support the successful implementation of the provincial government's Cap and Trade program by Enbridge Gas Distribution Inc. (Enbridge), Natural Resource Gas Limited (NRG), and Union Gas Limited (Union) (the utilities). The framework will outline OEB's approach for assessing the cost consequences of the utilities' plans for complying with the Cap and Trade program and establishing a mechanism for recovery of these costs in rates.

Staff Discussion Paper

This Discussion Paper sets out OEB staff's initial thoughts on the key elements, issues and options, as well as proposals for the cap and trade regulatory framework for the natural gas utilities. The Discussion Paper was informed by:

- The provisions of the *Climate Change Act* and *Cap and Trade Regulation*
- A review of the cap and trade programs in Québec and California
- Research on cap and trade systems
- Information gathered through a series of meetings with stakeholders. Material from these meetings is posted on the same website page as the Discussion Paper.

The OEB is inviting stakeholders to comment on all of the issues, options and proposals set out in the Discussion Paper. **Comments are due on June 22, 2016.**

Following receipt of comments, the OEB will determine the next steps in the development of the regulatory framework.

Early Framework Determinations

Two issues regarding the framework have been identified which require early determinations. The OEB will rely on comments received on staff's proposals on these issues for the purpose of providing the natural gas utilities the guidance they need in order to make changes to systems and to undertake other early activities needed to implement cap and trade by January 1, 2017.

Billing Systems

Enbridge and Union have identified that in order to prepare billing systems to accommodate cap and trade costs they will need about six months to implement IT billing system changes due to the complexity of the required changes. Consequently,

Enbridge and Union have asked the OEB to provide the following guidance by July 1, 2016:

- How the cap and trade charge will be recovered, i.e. will it be a volumetric charge; and,
- How cap and trade costs will appear on the natural gas bill and whether these costs will appear differently depending on the rate class

The Discussion Paper sets out proposals for addressing both of these questions. The OEB will make its determination with respect to these questions based on the comments received from stakeholders on the proposals set out in the Discussion Paper. Stakeholders may present alternatives to the staff proposals for the OEB's consideration. The OEB is taking this expedited approach given the importance of achieving the legislated date for implementation of the Cap and Trade Program.

Customer Outreach and Key Messaging

The OEB is also requesting stakeholder input on the specific proposal set out by staff in the Discussion paper relating to customer outreach. In the Discussion Paper staff proposes, for the reasons set out, that the OEB review and approve any customer messaging by the natural gas utilities relating to cap and trade. If this proposal is to be adopted the natural gas utilities would need to file their proposed communications in the fall of 2016 in order for the approved communications to be provided to customers prior to the implementation of cap and trade at January 1, 2017. Therefore, the OEB needs to make an early determination regarding the proposal and will therefore consider the comments and input of stakeholders on staff's proposal as well as alternatives presented as a basis for providing guidance to the natural gas utilities.

Filing Instructions

Please submit electronic copies of filings in searchable/unrestricted Adobe Acrobat (PDF) format through the OEB's web portal at www.pes.ontarioenergyboard.ca/service and also file three paper copies at the address below. You will need a user ID to make filings through the OEB's web portal. If you do not have a user ID, visit the "e-filings services" webpage on the OEB's website at www.ontarioenergyboard.ca and fill out a user ID password request.

Please use the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also

found on the e-filing services webpage. If the OEB's web portal is not available, electronic copies of filings may be filed by e-mail to BoardSec@ontarioenergyboard.ca. If you do not have internet access, please provide a CD containing your filing in PDF format as described above to the Board Secretary at the following address:

Board Secretary,
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
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All filings to the OEB must be received by the Board Secretary by **4:45 p.m.** on June **22, 2016**. Filings must quote file number **EB-2015-0363** and include your name, address, telephone number and, where available, your e-mail address and fax number. All filings received by the OEB in relation to this consultation will be available for viewing at the OEB's offices and will be placed on the OEB's website.

Questions about this consultation process should be directed to Laurie Klein at laurie.klein@ontarioenergyboard.ca or at 416-440-7661 or Rachele Levin at rachele.levin@ontarioenergyboard.ca or at 416-440-7673. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary