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Via RESS and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, Ontario
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Dear Ms. Walli:

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

Comments of the Ontario Association of Physical Plant Administrators (OAPPA)

Aegent Energy Advisors is submitting this letter on behalf of the Ontario Association of Physical Plant Administrators. The comments which follow first provide general information about OAPPA as well as its specific interests in this consultation. OAPPA then provides its comments on certain of the proposals in the discussion paper. The comments are organized by the main topics addressed in OEB staff's paper. OAPPA has provided comments on only those items in the paper that are of key importance to its members. OAPPA's comments have been written in consultation with Mr. Paul Martin, Director of Business Operations – Facilities Management, Western University. Mr. Martin is the current Chair of the OAPPA Energy Committee.

About OAPPA and Its Interests in This Consultation

OAPPA is a not-for-profit organization whose membership includes physical plant administrators for Ontario universities. The main objective of OAPPA is to promote cooperation among physical plant administrators of the provincially-assisted universities on matters including planning, construction, and operations and maintenance of facilities. Its work on energy regulatory matters is one of a number of activities undertaken by OAPPA.

The majority of universities are customers of either Enbridge Gas Distribution or Union Gas. With respect to Ontario's cap and trade program, most OAPPA members emit less than 25,000 tonnes of CO₂e per year. Some of these anticipate being voluntary participants. There are 7 members who are large final emitters (LFEs). Both LFE and non-LFE members have a direct interest in the regulatory framework for the natural gas distributors' cap and trade compliance plans. For all members, it is imperative that the utilities' costs of complying with their cap and trade obligations be transparent to customers, including billing transparency, so there is a clear understanding of the costs being charged. Only with an open accounting of the costs can customers assess any options they may have to reduce bill impacts.

Comments on OEB Staff's Discussion Paper

Compliance Plans

OAPPA has general comments on the development of utility compliance plans for OEB approval. The utilities should have the responsibility for deciding on the make-up of their portfolio of cap and trade instruments within the parameters established by the framework. OAPPA supports the proposal that the utilities' initial compliance plans should cover 2017 only. This is a practical approach given the challenging implementation timeline and it allows the utilities to gain some experience in meeting their obligations before having to develop more comprehensive plans. Following the initial year, the terms of the compliance plans should align with the compliance periods. Carbon price forecasts and performance metrics should be consistent across the utilities as this will aid in customer education and understanding.

Cost Recovery

Cost Apportionment and Allocation: The element of staff's proposal regarding the apportionment and allocation of compliance costs which OAPPA does not support is the proposed treatment of administrative costs. As staff notes, LFEs and voluntary participants will be incurring their own administrative costs to comply with their cap and trade obligations; they will not be the cause of the utility incurring costs to meet its customer-related obligations including related administrative costs. Therefore, even though staff indicates administrative costs are expected to be modest, it is OAPPA's position that LFEs and voluntary participants should not be responsible for the administrative costs associated with the utility meeting its customer-related obligations. Rather the total of administrative costs should be separated into customer-related and facilities-related costs, with the former then built into the volumetric charge to recover customer-related compliance costs and the latter incorporated into the volumetric charge for facilities-related compliance costs.

Rate Design and Bill Presentment: OAPPA agrees with the use of volumetric charges applied to consumption volumes to recover the customer-related and facilities-related compliance costs (including the appropriate administrative costs as noted above). OAPPA also agrees that the rates should be shown separately in the utilities' OEB-approved rate schedules. However, OAPPA does not agree with the charges for compliance costs being blended in with the delivery charges to customers for billing purposes.

In line with the transparency principle, it is imperative that there be a separate line item on bills for cap and trade related costs being passed through to customers. Customers for whom the utilities have compliance obligations need to understand the impact of cap and trade on their natural gas bill if they are to understand actions they could take to reduce that impact. LFEs and voluntary participants need to see explicitly that the facilities-related charges are the only charges they are being assessed and the quantum of those charges to understand the incremental impact of cap and trade on their gas utility bills. A separate line item on the bill facilitates customer understanding more effectively than a separate rate in a utility rate schedule since it will display the customer-specific dollar impact. OAPPA notes that customers are familiar with separate line items on bills for certain gas utility costs in addition to the regular delivery, transportation and commodity costs (e.g. line items for the ongoing clearance of utility gas cost variances and for the annual disposition of other deferral account balances).

Re-calibration and True-up Process: Staff has proposed an annual re-calibration of the utilities' customer-related and facilities-related rates and an annual true-up for the difference between what is recovered in rates for compliance costs and actual costs. In OAPPA's view, an annual process for updating the rates and trueing up costs is appropriate as an initial frequency. However as experience is gained, it will be important to reassess whether an annual review remains sufficient or if a more frequent, regular review is

warranted. OAPPA agrees that the re-calibration of charges and true-up for compliance costs be the subject of a separate application. This supports the goal of ensuring compliance costs are transparent to promote customer understanding of cap and trade.

Monitoring and Reporting

Generally, OEB staff's proposed approach to monitoring and reporting seems reasonable with one possible exception. At page 37 of the paper, staff proposes that the OEB "use the latest settlement price from the quarterly auctions to benchmark utility costs." This seems to suggest that the utilities' costs would be benchmarked to a price at a single point in time. Assuming this is the correct interpretation of staff's proposal, this would be similar to comparing a utility's average cost of gas over a period of time to a single market price at a single point in time, rather than the forward looking reference price as is done now in the Quarterly Rate Adjustment Mechanisms. It seems that for plan monitoring and reporting, it would be more appropriate to use the forward carbon price forecast on which the plan was based as a reference price.

Customer Outreach and Education

The utilities are in the best position to undertake communications with their customers on cap and trade. They understand the make-up of their customer base and have the mechanisms in place to communicate with their customers. The OEB can review the utilities' communication plans to ensure the messaging is consistent across the utilities. Communications by the utilities will be complemented by information that the OEB provides on cap and trade by for example, postings on its web site. OAPPA notes that it is likely advisable that the utility communications with customers begin well before the cap and trade implementation date.

Confidentiality of Cap and Trade Information

OAPPA supports the proposal for the staff person with inspector designation to review the confidential auction and market sensitive information, and provide a non-confidential report on the reasonableness and prudence of the costs. At this time, it seems to be a reasonable and pragmatic approach.

Concluding Comments

OAPPA is of the view that it is important for the utilities, their customers, and other participants in Ontario's cap and trade program to gain experience with the program to better understand their obligations and the costs of compliance. Experience and an improved understanding may lead to the need for adjustments to the requirements set out in the OEB's framework and so it will be important to make reasonable adjustments at the first appropriate opportunity.

It is also important to reiterate OAPPA's view that the utilities' charges for passing through cap and trade costs must appear separately on customers' bills.

OAPPA appreciates the opportunity to provide its input. Should you have any questions, please contact me at 416.622.9449, X104 or by e-mail at vyoung@aegent.ca.

Yours truly,



Valerie Young
Director, Research and Analysis

cc. Paul Martin, OAPPA / Western University (e-mail)
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