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May 31, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli

Re: Union Gas Limited and Enbridge Gas Distribution Inc.
Application for the Approval of the Cost Consequences of Cap and Trade Compliance Plans
Board File No.: EB-2017-0224 / EB-2017-0255

These are the submissions of Canadian Manufacturers & Exporters ("CME") with respect to Union Gas Limited ("Union") and Enbridge Gas Distribution Inc.'s ("EGD") (collectively, the "Applicants") 2018 cap and trade compliance plan applications.

CME represents 1,400 Ontario-based member companies. Natural gas is a significant source of energy for the manufacturing sector, and the price of natural gas has a significant and direct impact on CME's constituents' ability to remain competitive in the marketplace. The cost consequences arising from the cap and trade compliance plans are therefore of significant interest to CME's members.

CME does not oppose the bulk of the Applicants' application, including:

(a) the clearance of the amounts recorded in the 2016 Greenhouse Gas Emissions Impact Deferral Account;

(b) funding for the Low Carbon Initiative Fund ("LCIF"); and

(c) In EGD's case, the cost of two incremental employees related to supporting abatement activities.

CME trusts that the utilities will continue to ensure that their LCIF activities are complementary rather than duplicative,[1] and will try to find efficiencies and rationalize cap and trade costs to the extent possible regardless of the outcome of their merger application in EB-2017-0306 and EB-2017-0307.

Nevertheless, CME submits that the Applicants' RNG procurement and funding proposals are not reasonable and appropriate, as they expose ratepayers to significant forecast risk, and could have unintended effects on rates given the significant uncertainty around the future cost of carbon.

As part of their applications, the Applicants propose to enter into 10 year fixed contracts with RNG producers to procure a renewable and more carbon friendly supply of natural gas. These long term contracts will be partially paid for by ratepayers, and partially paid for by money from the provincial government.

In order to determine the ratepayer funded portion of the cost of RNG, the Applicants will use the long term carbon price forecast ("LTCPF") to determine the cost of carbon for the duration of the contract, and a 10 year forward price forecast to determine the cost of gas.

Critically, the Applicants propose to forecast all 10 years' worth of ratepayer cost at the time they enter into the contract.[2] In other words, the actual ratepayer funded cost will be fixed at the forecast price at the time of contract execution, whereas ratepayers' payment obligations will stretch until approximately 2028-2029.[3]

<u>The RNG Proposal Subjects Ratepayers to Significant Forecast Risk</u>

The proposed contractual arrangement subjects ratepayers to the risk that the forecast cost will vary from the actual cost of gas and carbon in the marketplace. The following discussion on cross-examination illustrates the potential problem:

> *MR. POLLOCK: So if you forecasted that it would cost 3.50 per gJ and the actual market was 3, then the actual is going to be the forecast and ratepayers would will pay the 3.50?*
>
> *MS. NEWBURY: That's correct.*[4]

CME submits that the risk of inaccurate forecasting regarding the cost of gas will increase over time. Given the length of the proposed contract term, CME agrees with the representative from Union who acknowledged that the actual market costs would "likely" vary from the forecast amount.[5]

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1 Transcript Volume 1, pp.116-117. See also Transcript Volume 3, pp.13-14.
2 Transcript Volume 1, pp.59-60.
3 Depending on when the 10 year contracts were entered into.
4 Transcript Volume 1, p.62.
5 Transcript Volume 1, p.61.

Furthermore, the Applicants confirmed that they did not intend to negotiate any contractual mechanisms into the RNG contract which might mitigate that risk, such as the ability to reforecast the cost of gas or carbon, or the ability to terminate the contract early if forecasted amounts varied too much from the actual costs of traditional natural gas or carbon.[6]

During cross-examination, the Applicants stressed the idea that while there was likely to be a variance between the forecast costs and the actual market cost of gas and carbon, that the forecast could be lower or higher than the actual cost.[7] While CME agrees with this notion, due to the QRAM mechanism, under most circumstances, neither ratepayers nor the utility is exposed to any price risk of under or over collecting for the commodity.

Accordingly, while CME acknowledges that actual costs may be higher or lower than those forecast by the Applicants, it submits that it is inappropriate to enter into contracts with such long durations while ratepayers fully bear the risk of an inaccurate forecast.

There is Uncertainty around the Cost of Carbon

In addition to the risk of inaccurate forecasts, there is uncertainty around the future of the cap and trade program, and therefore the cost of carbon, a fact which is underscored by the Ontario Government's decision to suspend discussions of RNG funding with the Applicants until the end of the next provincial election.[8]

As part of the RNG contracts, ratepayers are locked into paying the cost of carbon as determined by the LTCPF. The forecast prices included in the LTCPF are based on Ontario's forecast carbon prices which result from the existing cap and trade program.[9] Changes to the cap and trade program after the RNG contracts are signed could produce a scenario where ratepayers are significantly overpaying for natural gas then they would be, absent the RNG contracts. For example:

(a) The cap and trade program could be cancelled and replaced with a carbon tax or other provincially regulated form of carbon cost.[10] Depending on the nature and scope of the new program, the price of carbon in this scenario could be higher or lower than the forecast cost of carbon outlined in the LTCPF;

(b) The cap and trade program could be cancelled without a replacement. In this scenario, the cost of carbon could then be derived by reference to the Federal Carbon Pricing

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6 Transcript Volume 1, pp.62-63. See also Transcript Volume 3, p.20.

7 For instance, see Transcript Volume 1, pp.62-63.

8 Transcript Volume 3, pp.15-16.

9 The Long Term Carbon Price Forecast was designed by ICF using specific inputs from Ontario's Cap and Trade Regulation. See ICF Consulting Canada Inc., *Long Term Carbon Price Forecast Report*, dated May 31, 2017, updated on July 19, 2017 at p.8, section 1.2. Available online at: https://www.oeb.ca/sites/default/files/uploads/OEB-LTCPF-Report-20170531.pdf

10 Transcript Volume 3, p.22.

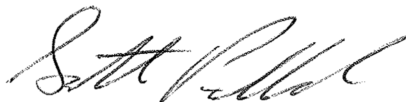
Backstop;[11] however, CME notes that even the Federal Carbon Pricing Backstop is currently subject to a constitutional challenge.[12]

Accordingly, given how dramatically the cost of carbon may change throughout the proposed term of the contract, CME submits that it is inappropriate and unreasonable for the utilities to enter into 10 year RNG contracts using forecasts that may be wholly inaccurate for some or most of the contract term unless the risks outlined above are shifted away from rate payers.

CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

Yours very truly

Borden Ladner Gervais LLP



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Adam Stiers (Union)
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Intervenors in EB-2017-0224 and EB-2017-0255
Alex Greco (CME)

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[11] Transcript Volume 3, pp. 148-150.

[12] There is currently a reference case before the Saskatchewan Court of Appeal to determine if the Greenhouse Gas Pollution Pricing Act is unconstitutional.