



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

UNION GAS LIMITED

REQUEST FOR GREENHOUSE GAS EMISSIONS IMPACT DEFERRAL ACCOUNT

EB-2015-0367

March 4, 2016

Background

Union Gas Limited (Union) filed an application on December 17, 2015, with the Ontario Energy Board (OEB) seeking approval to establish a deferral account to record the cost impacts of government requirements related to greenhouse gas emissions (the Greenhouse Gas Emissions Impact Deferral Account).

Union stated that all of the costs that it intends to record in the account are outside the base upon which its rates were derived and management's control. Therefore, Union believes that it is appropriate to establish the proposed Greenhouse Gas Emissions Impact Deferral Account during its 2014-2018 IRM term.

Union provided a number of examples of the types of costs that it intends to record in the proposed deferral account and noted that while the magnitude of the costs are unknown, the costs are expected to be material.

Union also filed a draft accounting order with its application.

OEB Staff Submission

OEB staff supports the establishment of the proposed Greenhouse Gas Emissions Impact Deferral Account.

On February 24, 2016, the Ontario Government introduced new legislation on climate change. The proposed *Climate Change Mitigation and Low Carbon Economy Act* builds on Ontario's recent actions to fight climate change. The government's cap and trade program will put a limit on the amount of greenhouse gases that businesses, institutions and households can emit. The objective of the cap and trade program is to cut greenhouse gas emissions in the province and encourage the development of clean technologies.

OEB staff expects that the introduction of a cap and trade program could have significant implications for the natural gas sector. Natural gas utilities may be significantly impacted by the new regulations and may need to incur additional costs to implement the cap and trade program.

Union stated that the costs it expects to record in the deferral account include: emissions reporting compliance costs, billing system changes, external consulting costs, costs associated with participating in OEB cap and trade consultations, and other implementation costs (including additional staffing costs and the purchase of allowances).

OEB staff notes that the OEB approved a similar account for Enbridge Gas Distribution Inc. (Enbridge) in its 2016 rates proceeding (EB-2015-0114).¹

OEB staff submits that costs associated with implementing the cap and trade program are appropriately recorded in the proposed deferral account. These implementation costs are outside the base upon which Union's rates were derived, are beyond management's control, and are expected to be material.

However, Union also seeks to include costs related to participating in OEB consultations in the proposed deferral account. OEB staff submits that a utility's costs to participate in regulatory consultations and to provide input to the Ontario Government on the cap and trade program are more properly considered a part of a utility's regular business activities. In OEB staff's view, this is no different than Union incurring costs to participate in an unforeseen regulatory proceeding or policy forum initiated by the OEB (e.g. the OEB's cost of capital review or the OEB's review of the regulatory treatment of pension and other post-employment benefits costs). Therefore, OEB staff submits that these costs should not be recorded in the proposed deferral account.

For all of the above reasons, OEB staff is of the view that it is appropriate, at this time, to establish a deferral account to record the costs that Union will incur to implement the cap and trade program.

All of the costs recorded in the account will be subject to an OEB review at the time that Union requests disposition of the Greenhouse Gas Emissions Impact Deferral Account. Therefore, the OEB will have an opportunity to review the recorded costs for prudence and can also determine the appropriate allocation at that time.

OEB staff notes that the draft accounting order, as filed, includes a broad description for the Greenhouse Gas Emissions Impact Deferral Account. If the OEB decides to restrict the types of costs that will be eligible to be recorded in the deferral account, the OEB may wish to order Union to revise the description in its draft accounting order.

OEB staff also notes that once the impact on Union of the government's cap and trade regulations are better understood, the accounting (and related accounting order) may need to be amended in the future.

All of which is respectfully submitted.

¹ Decision and Accounting Order, December 10, 2015 at Schedule A / Page 14.