

April 15, 2016

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: EB-2015-0363 – Consultation to Develop a Regulatory Framework for Natural Gas Distributors’ Cap and Trade Compliance Plans – Union Gas Limited Interim Rate Order**

Pursuant to section 19 of the Ontario Energy Board Act, Union Gas Limited is writing to the Ontario Energy Board (“Board”), to request that the Board commence, on its motion, an expedited proceeding, to permit Union to make the changes necessary to its billing system to enable it to implement the Cap and Trade program effective January 1, 2017. A copy of a draft interim Rate Order setting out the orders Union requires to make changes to its billing systems is attached to this letter. The interim rate will allow Union to begin recovering Cap and Trade customer emission allowance costs from applicable customers effective January 1, 2017 in order to align the recovery from customers with the time period in which the costs are incurred.

On February 24, 2016, the Ontario government proposed Bill 172, the *Climate Change Mitigation and Low-carbon Economy Act, 2016*. The government also released draft regulation, *The Cap and Trade Program*, on February 25, 2016, which provides details about the proposed Cap and Trade program.

On March 10, 2016 the Board initiated a consultation to develop a natural gas regulatory framework to support the implementation of Ontario’s Cap and Trade program (“Framework”). While the proposed legislation has not been passed and the regulation is under consultation at this time, the Board determined that given the January 2017 timeline for implementation, the development of the regulatory framework must begin immediately. For the purposes of this consultation, the OEB will be relying on the proposed legislation and draft regulation. The Framework will reflect the final legislation and regulation. Union supports the Cap and Trade Framework, and is actively participating in the consultation.

Union wants to meet the January 1, 2017 implementation date to: meet the Ontario government’s objective, permit customer billing during the high volume winter season, and allow Union to enter into the Q1 2017 allowance auction. Union and its third-party billing system service provider for require six months’ notice to implement the required changes. As such, an interim Rate Order is required no later than July 1, 2016.

As part of the changes, Union requires a separate line for the interim charge in order to:

- Distinguish customers for whom Union must purchase allowances and pass through the related costs from those who: receive free allowances/direct allocation, are large final emitters, or are voluntary participants,
- Support the Board's objectives of transparency and energy literacy to drive changes in customer behavior; seeing their share of the customer allowance acquisition costs clearly identified on their bills allows them to make informed decisions in respect of that price signal, and
- Separately track revenue for deferral account disposition.

The approach of a single line item most effectively achieves the objectives noted above and is also consistent with:

- OEB's prior treatment of electricity bill adjustments (ie. Debt retirement charge, Ontario Clean Energy Benefit and Time of Use Pricing segregation)
- Gaz Metro's Cap and Trade Emission Allowances Service as approved by Québec's Régie de l'énergie.

The interim rate of \$0.026/m<sup>3</sup> is calculated using the auction floor price of \$13.66/tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) and emission conversion factor of 0.00192667 tCO<sub>2</sub>e/m<sup>3</sup>. The floor price assumes a change in Consumer Price Impact of 1.58%, over the 12 months period ending February 2016. A change in the assumed carbon price will not significantly change the unit rate (\$/m<sup>3</sup>). For instance, at a carbon price range of \$15/tCO<sub>2</sub>e to \$18/tCO<sub>2</sub>e the unit rate ranges from \$0.029/m<sup>3</sup> to \$0.035/m<sup>3</sup>.

The variance between revenue generated by the Cap and Trade customer emission allowance rate and the actual Cap and Trade customer emission allowance cost will be included in Union's Board-approved Greenhouse Gas Emissions Impact Deferral Account.

If you have any questions concerning this submission please contact me at 519-436-5334.

Yours truly,

*[Original Signed by]*

Vanessa Innis  
Manager, Regulatory Initiatives

c.c.: Crawford Smith (Torys)  
EB-2015-0363 Participants

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c.15 (Schedule B);

**AND IN THE MATTER OF** a Consultation by the  
Ontario Energy Board to Develop a Regulatory  
Framework for Natural Gas Distributors' Cap and Trade  
Compliance Plans pursuant to Section 36(1) of the  
*Ontario Energy Board Act, 1998*

**BEFORE:**

xx  
Presiding Member

xx  
Member

xx  
Member

**DRAFT DECISION AND ORDER**  
**(for rates effective January 1, 2017)**

On March 10, 2016 the Ontario Energy Board (“Board”) initiated a consultation to develop a natural gas regulatory framework to support the implementation of Ontario’s Cap and Trade program. While the proposed legislation has not been passed and the regulation is under consultation at this time, the Board determined that given the January 2017 timeline for implementation, the development of the regulatory framework must begin immediately. For the purposes of this consultation, the OEB will be relying on the proposed legislation and draft regulation. The framework will reflect the final legislation and regulation.

On April XX, 2016, pursuant to section 19 of the Ontario Energy Board Act, the Board commenced this proceeding.

To allow Union to begin recovering Cap and Trade customer emission allowance costs from applicable customers effective January 1, 2017 this Rate Order represents the implementation of an interim rate. The interim rate (\$0.026/m<sup>3</sup>) is calculated using the auction floor price of \$13.66/tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) and emission conversion factor of 0.00192667

tCO<sub>2</sub>e/m<sup>3</sup>. The floor price assumes a change in Consumer Price Impact of 1.58%, over the 12 months period ending February 2016.

**THE BOARD THEREFORE ORDERS THAT:**

1. The interim rate of \$0.026/m<sup>3</sup> for the Cap and Trade customer emission allowance rate is approved effective January 1, 2017. Union shall implement this rate on the first billing cycle on or after January 1, 2017.
2. The interim rate will be added as a separate line item on applicable customers' bills.
3. The variance between revenue generated by the Cap and Trade customer emission allowance rate and the actual Cap and Trade customer emission allowance cost will be included in Union's Board-approved Greenhouse Gas Emissions Impact Deferral Account.

DATED at Toronto \_\_\_\_\_, 2016.

ONTARIO ENERGY BOARD

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Kirsten Walli  
Board Secretary