

**Sinopa Energy Inc.**  
496 Tweedsmuir Avenue West  
Chatham, ON N7M 0K9  
Phone: 519-397-0613



June 20, 2016

Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto, Ontario M4P 1E4

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

---

Sinopa Energy Inc. (Sinopa) reviewed the staff discussion paper of May 25, 2016 and provides the following comments.

**1) Guiding Principles of Framework**

*The staff discussion paper suggests that the framework be guided by OEB's statutory objectives and well as six principles.*

**Sinopa Comment:** Sinopa is supportive of the recommendations presented in the staff discussion paper. In addition, Sinopa recommends a contemplative and staged approach in the adoption of the framework. It is essential that a province-wide program is adopted to ensure that Ontario's economy remains vibrant. During the implementation stage, the OEB should provide leniency on compliance penalties to ensure that the process does not interfere with the utilities' and end-users' viability.

**2) Forecasting Period**

*The forecasting period must align with the duration of the Compliance Plans. Therefore, staff proposes that the utility should prepare an annual forecast (of load, GHG emissions and carbon prices) for the first year (2017) of Cap and Trade, followed by three-year forecasts that would span the length of the following compliance periods (e.g., 2016-2020, 2021-2023, etc.).*

**Sinopa Comment:** Sinopa recommends three one-year forecasting periods, followed by three-year forecasts that would span the length of the compliance periods. This approach provides more flexibility initially for the natural gas utilities while protecting the interests of the rate payers.

### **3) Load Forecasts**

*Staff notes that the utilities already prepare load forecasts for the purpose of rate-setting. Staff proposes that the utility use its existing OEB approved methodology when preparing these forecasts for the purposes of Compliance Plans. As discussed above, it is expected that the utility would prepare load forecasts for the first year (2017) of the Compliance Plan, followed by three-year load forecasts (2018-2020 and beyond).*

**Sinopa Comment:** Sinopa recommends three one-year forecasting periods, followed by three-year forecasts that would span the length of the compliance periods.

### **4) GHG Emissions Forecasts**

*It is expected that the utility would prepare GHG emissions forecasts for its initial one-year (2017) Compliance Plan, followed by three-year GHG emissions forecasts (for 2018-2020 and beyond).*

**Sinopa Comment:** Sinopa recommends three one-year forecasting periods, followed by three-year forecasts that would span the length of the compliance periods.

### **5) Carbon Price Forecasts**

*Staff suggests that two carbon forecasts be prepared: an annual carbon price forecast and a long term (10-yr forecast). These forecasts will be needed for the utility to calculate the costs of its Compliance Plan.*

**Sinopa Comment:** Sinopa recommends a short, mid-term and long-term forecasting perspective for adoption. The mid-term would be a five-year carbon price forecast that would include both carbon forecasts.

### **6) Intercontinental Exchange**

*Staff proposes that the utility also use ICE for its annual carbon price forecast.*

**Sinopa Comment:** Sinopa is supportive of the use of the Intercontinental Exchange (ICE) for the annual carbon price forecast.

### **7) Longer term Carbon Price Forecast**

*The OEB currently purchases forecasts for the cost of capital and short-term debt rates to produce a consensus forecast. Staff sees merit in the OEB procuring forecasts from a number of different sources to develop a consensus forecast of long-term carbon prices that would be used by the natural gas utilities. Staff recommends that the OEB issue a 10-year carbon price forecast and that it should be updated annually.*

**Sinopa Comment:** Sinopa recommends a short, mid-term and long-term forecasting perspective for adoption. The mid-term would be a five-year carbon price forecast. This aligns itself better with the nature of business within Ontario.

## **8) Marginal Abatement Cost Curve (MACC)**

*Staff proposes that the OEB use a MACC to determine optimization and prioritization. A MACC would include all potential options that could be used for compliance. Staff also proposes that the timeframe for the MACC be 10 years to align with the long-term carbon price forecast.*

**Sinopa Comment:** The development of a single consistent MACC that outlines all general, non-utility-specific abatement activities that are largely available in the market is essential to Ontario. The preparation of the MACC to determine optimization and prioritization should be conducted by the OEB. The timeframe of the MACC should align with the mid-term and long-term carbon price forecast.

## **9) Risk Management**

*Staff invites comments of strategies for the OEB to assess risk mitigation as well as input on different approaches to risk management, including the potential use of risk management strategies such as Value at Risk.*

**Sinopa Comment:** Natural gas utilities should not be engaged in financial risk management of carbon allowances.

## **10) Treatment of longer term investments**

*While descriptions of these investments would be included in the Compliance Plans, forecast capital expenditures would be dealt with in rates application.*

**Sinopa Comment:** All long-term investments should be dealt as forecasted capital expenditures and a subset of the utilities rate application. This approach ensures that the usual evaluation is provided by the OEB and also ensures a smoothing of rates rather than creating potentially erratic rate impacts to the end-users.

## **11) Cost Allocation**

*OEB staff suggests that from a cost causality standpoint, customer-related and facility-related obligations costs should be allocated on a volumetric basis to each rate class because that cost driver is load (and associated GHG emissions). This approach is consistent with California and Quebec.*

**Sinopa Comment:** Associated costs should be passed through in the same manner as gas costs (ie, QRAM process) in order to strike a balance of market signals and volatility management projected cost.

## **12) Bill Presentment**

*Staff is of the view that the per-cubic meter charge for facility-related obligations costs should be included in the delivery charge on the customer's bill. Staff also sees the merit of including the administrative costs in the delivery charge as both of these costs will be a cost of doing business.*

**Sinopa Comment:** To minimize customer confusion, there should be transparency of all Cap and Trade costs with the related amounts shown as a separate line item on the bill.



### **13) Monitoring and Reporting**

*Monitoring would include the usual tests of prudence (e.g., whether the utility followed its compliance strategies). Staff suggests that the performance metrics used to monitor the utility's Compliance Plans should be the same as the performance metrics used to assess these plans.*

**Sinopa Comments:** Sinopa supports the performance metrics and frequency recommendations provided by the OEB staff.

### **14) Customer outreach and education**

*Staff has identified two possible roles for the OEB to ensure a consistent message for customer of Enbridge, NRG and Union. The OEB could provide messaging to the utility, or the OEB could review messaging proposed by the utility.*

**Sinopa Comments:** The OEB should develop core communication themes that would be used by the utilities for their communication to the end-users. The OEB should ensure a province wide, consistent communication and education to the end-users. The utilities should not be required to have OEB approval of communications.

### **15) Confidentiality of Information**

*Staff has identified two (2) categories of confidential Cap and Trade Information that it expects will be filed in OEG proceedings and therefore should be given special consideration. OEB staff is proposing confidentiality protocols that would supplement the existing OEB Rules of Practice and Procedure and Practice Direction on Confidential Filings.*

**Sinopa Comments:** Sinopa recommends that any customer specific information collected and communicated by the utilities and provided to the OEB be guarded under strict accordance of PIPEDA and protected to ensure that end-users maintain their anonymity and competitive advantage.

### **Sinopa General Comments:**

### **16) Unintended Consequences**

The OEB and utilities should ensure that unintended consequences do not occur as a result of the implementation of the Cap and Trade system. Both the rate and the application of the rate should reflect the end-users use of natural gas and its by-products. Some industries and agricultural operations utilize the CO<sub>2</sub> that is created through the combustion of natural gas, and therefore; such parties should not be arbitrarily penalized through rates. For example, a greenhouse that produces tomatoes and utilizes CO<sub>2</sub> in the process may emit 50% less CO<sub>2</sub> than another end-user. Therefore, the greenhouse should not be penalized for such actions through arbitrary rate design.

**17) Additional Process for Brokers and Agents**

It appears that the current guidelines remain silent on the role of Brokers and Agents in the roll out of Cap and Trade in the province. Process guidelines and administrative financial considerations need to be established to ensure end-users are not negatively impacted.

We appreciate the opportunity to provide comments and commend the OEB and staff on its efforts in the formation of an effective and efficient process.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'Ron Collins', with a long horizontal flourish extending to the right.

Ron Collins  
President & CEO  
Sinopa Energy Inc.

Phone: 519-397-0613  
Email: [rcollins@sinopa.ca](mailto:rcollins@sinopa.ca)