

June 22, 2016

BY COURIER (2 COPIES) AND RESS

Ms. Kirsten Walli

Board Secretary

Ontario Energy Board

2300 Yonge Street, Suite 2700, P.O. Box 2319

Toronto, Ontario M4P 1E4

Dear Ms. Walli:

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

We are writing to provide Environmental Defence's comments on Board Staff's discussion paper on a cap and trade framework for the natural gas utilities, dated May 25, 2016.

Overview of Environmental Defence Comments

Environmental Defence believes that the discussion paper is based on sound guiding principles and is very well thought out. The primary comments of Environmental Defence are aimed at fleshing out and clarifying those principles so as to ensure that utilities undertake a robust assessment of compliance options and select the optimal, most cost-effective alternative. To that end, Environmental Defence recommends that the final framework:

1. Eliminate the demand side management ("DSM") budget cap so that the utilities can undertake additional conservation measures if they are more cost-effective than other compliance options;
2. Require that the utilities weigh and select compliance options based on an assessment of the costs and benefits of each option for society as a whole; and
3. Explicitly require that the utilities undertake all feasible abatement measures, such as conservation, where doing so would be less expensive than purchasing allowances.

These and other recommendations are discussed below.

Section 3: Guiding Principles

Section 3 of the discussion paper proposes six guiding principles for Board's cap and trade regulatory framework: cost-effectiveness, rate predictability, cost recovery, transparency, flexibility and continuous improvement.

Environmental Defence supports these principles. In particular, Environmental Defence agrees with Board Staff that the plans should be "optimized for economic efficiency and risk management" and that "prudently incurred costs related to cap and trade would be recoverable as a cost pass through (similar to natural gas supply procurement)".

Section 4: Compliance Options

According to page 11 of Board Staff's discussion paper, in addition to the purchase of greenhouse gas emission ("GHG") allowances, the gas utilities' compliance options should include: DSM programs, fuel switching from natural gas to renewable energy, measures to reduce the GHG emissions of Enbridge's and Union's natural gas distribution systems, and the procurement of biogas and renewable natural gas. Environmental Defence agrees with Board Staff that the gas utilities' compliance plans should include the pursuit of all of the above-noted compliance options that are cost-effective.

DSM Budgets

Environmental Defence submits that the caps on the utilities' DSM budgets should be eliminated so that the utilities can undertake conservation measures that are more cost-effective than other compliance options. Conservation programs are very cost-effective options to help enable the gas utilities to achieve compliance with their GHG emission targets. Conservation can achieve GHG reductions at **no net cost** because a dollar invested in conservation results in more than a dollar of savings for customers, largely through reduced gas usage. The budget caps need to be removed so that the utilities can pursue further conservation measures where that is more cost effective than other options.

Unfortunately, two recent Ontario Energy Board decisions have capped Enbridge's and Union's 2015 to 2020 DSM budgets.¹ Specifically, Enbridge's DSM budget has been capped at approximately \$56 to \$67 million per year between 2016 and 2020. Union's DSM budget is capped at approximately \$57 to \$64 million during the same time period.² If these caps remain, the utilities may be forced to undertake compliance options that are more expensive than conservation. The need to eliminate the budget caps is also bolstered by the recent passing of the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, including the setting of Ontario's very ambitious GHG emission reduction targets.

¹ EB-2014-0134 *Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020)*; and EB-2015-0029/EB-2015-0049: *Decision and Order: Union Gas Limited and Enbridge Gas Distribution Inc. Applications for approval of 2015-2020 demand side management plans.*

² EB-2015-0029/EB-2015-0049: *Decision and Order: Union Gas Limited and Enbridge Gas Distribution Inc. Applications for approval of 2015-2020 demand side management plans*, page 1.

Removing the DSM budget cap will allow the utilities to undertake the most cost-effective option to achieve their emissions targets.

Social Costs and Benefits

Environmental Defence submits that the utilities should be required to weight and select compliance options based on an evaluation of the costs and benefits accruing to society as a whole due to the various options. This is necessary in order to properly assess cost-effectiveness and ensure that all relevant factors are taken into account. For example, it is necessary in order to ensure that the energy cost savings that arise from conservation are taken into account in the analysis.

Analyzing the cost only from the perspective of the utility could produce skewed results. For example, conservation programs will require significant investments by the utilities. However, the bulk of the savings accrue to consumers in avoided energy costs. If the savings to customers are not included, this analysis would be very much skewed to the detriment of conservation.

This kind of analysis would be consistent with other Board guidelines. For example, the Total Resource Cost (“TRC”) test mandated by the DSM filing guidelines includes the net present value of the cost and benefits accruing to society as a whole.³ That is also the case for the Societal Cost Test (“SCT”) mandated under EBO 188 for assessing and reporting on natural gas system expansion in Ontario.⁴

Optimization and Cost-Effectiveness

Environmental Defence submits that the Board should explicitly require that the utilities undertake all feasible abatement measures, such as conservation, where doing so would be less expensive than purchasing allowances. We believe that this requirement is implicit in the principle requiring that the compliance plans be optimized for economic efficiency and that the costs be prudently incurred. However, an explicit requirement to undertake feasible abatement measures when they are the most cost-effective option could provide additional helpful guidance to the utilities.

Section 4.1.3: GHG Emissions Forecasts

According to page 15 of the Board Staff discussion paper, the gas utilities’ GHG emission forecasts should have the same time horizon as their compliance plans, namely, one year for the first compliance period and three years for the subsequent compliance periods.

³ Ontario Energy Board, Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), EB-2014-0134, s. 9.0.

⁴ Ontario Energy Board, EBO 188 Guidelines, s. 3.1(d).

Environmental Defence submits that the gas utilities should also prepare longer term forecasts to 2030, 2040 and 2050 so that the Board can determine if their three year compliance plans will also lead to the achievement of the much larger reductions in Ontario's natural gas-related GHG emissions that will be necessary to achieve Ontario's goal of reducing its total GHG emissions by 80% by 2050.

Section 4.1.4.2: Optimized Portfolio - Marginal Abatement Cost Curve

According to pages 18 and 19 of the Board Staff discussion paper, marginal abatement cost curves ("MACC"), which show the costs of all the potential compliance options (e.g., allowance purchases, DSM, renewable natural gas), should be developed to help determine optimization and prioritization. Environmental Defence submits that the gas utilities, not the Board, should be responsible for preparing the marginal abatement cost curves. The utilities have the knowledge, expertise, and customer data necessary to undertake this exercise. The cost curves compiled by the utilities can then be tested through the normal Board processes.

Section 5.1.3: Rate Design

Environmental Defence supports Board Staff's proposal (page 30-32) that the utilities' costs relating to cap and trade should be recovered through their volumetric distribution charges.

Environmental Defence also agrees with Board Staff that these costs should not appear on a separate line item on the bill as this "could increase customer confusion and utility call centre activity."

Environmental Defence submits that the rates relating to cap and trade costs should only be expressly included in Board approved tariff sheets if the bill reduction benefits flowing from conservation programs (i.e. the avoided costs, particularly from gas savings) are also indicated on the tariff sheets. Again, conservation results in overall net savings for consumers. Customers would likely be misled if they are shown the costs associated with cap and trade without also being shown the bill reduction benefits flowing from the conservation component of the cap and trade costs. If the costs are broken out and specifically indicated, so should the resulting savings.

Section 7: Customer Messaging

According to the Board Staff discussion paper, the OEB should review the messages that the gas utilities send to their customers with respect to their GHG reduction programs:

"...it is expected that the utility would develop a communication strategy/plan, including proposed messaging. Staff recommends that the OEB review the utility's messaging in its proposed communication plan/strategy. This approach provides the utility the flexibility to develop a communication plan that best responds to its customers, while ensuring consistent messaging to all natural gas consumers within Ontario." [pages 39 & 40]

Environmental Defence agrees with this proposal.

Environmental Defence appreciates the opportunity to provide comments on this important process. Please do not hesitate to contact me should you have any questions.

Yours truly,

A handwritten signature in blue ink, appearing to read 'K. Elson', with a stylized flourish at the end.

Kent Elson