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June 22, 2016

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

Dear Ms. Walli:

Re: IESO Written Submission – OEB Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities
Board File No.: EB-2015-0363

1. Introduction

Under the *Climate Change and Low-carbon Economy Act, 2016*[1] (the "*Climate Change Act*"), natural gas distributors will have the compliance obligation for the greenhouse gas ("GHG") emissions of nearly all natural gas-fired generators in the province. On May 25, 2016, the Ontario Energy Board ("OEB" or "Board") staff ("Board Staff") issued a *Staff Discussion Paper on a Cap and Trade Regulatory Framework for the Natural Gas Utilities* (the "*Staff Discussion Report*") for comment. The resulting OEB framework will, among other things, determine how the costs of this compliance obligation are established, and the mechanisms used for cost recovery. As counterparty to numerous contracts with Ontario's gas-fired generators, the IESO has an interest in the ultimate framework adopted by the OEB.

The IESO's submissions on the *Staff Discussion Paper* are restricted to the following three issues:

- opposition to the recommendation that the customer-related GHG costs be included in the distributors' delivery charge;
- support for a transparent customer-related GHG rate; and,
- the need for an interim customer-related GHG rate as soon as possible.

The IESO's submissions on each of these issues follows immediately below.

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[1] All references herein to the *Climate Change Act* encompass any associated regulations, including *The Cap and Trade Program Regulation* (O. Reg. 144/16) and the *Quantification, Reporting and Verification of Greenhouse Gas Emissions Regulation* (O. Reg. 452/02).

2. Opposition to Inclusion of Customer-Related GHG Costs in Delivery Charge

The IESO does not support Board Staff's recommendation that the customer-related GHG costs be included in the gas distributors' delivery charge. The IESO supports adding a separate line item to the gas distributors' bills specifically for customer-related GHG costs (i.e., the customer-related GHG rate multiplied by the customer's usage in m^3).

The *Staff Discussion Paper* suggests four reasons for including the customer-related GHG costs in the distributors' delivery charge. Each of these is set out below, followed by the IESO's position.

(a) *"Staff notes that all customers are billed by the utility for their delivery charge. This is not the case for the commodity charge. …As a result, if the customer-related obligation costs were included in the commodity charge, these customers would require a separate charge on their bill."*[2]

The suggestion here is that, as between the commodity charge or delivery charge on a distributor's bill to a customer, the customer-related GHG costs must be included in the delivery charge since many large customers do not have commodity supplied by the gas distributor. While true, by the same token, not all customers who are billed for delivery will be billed the customer-related GHG charge (i.e., large final emitters ("LFEs") and voluntary participants). So including the GHG customer-related charge in the delivery charge does not result in a uniform delivery charge – some customers would have a larger delivery charge (because it includes their GHG compliance costs) while others will have a lower delivery charge on their bill. It also will not be clear to the customer whether (and how much) they are paying in GHG compliance costs associated with their use of natural gas.

In addition, Board Staff's rationale does not get to the more fundamental issue of whether it is appropriate to label a customer's GHG compliance costs as gas delivery costs. The IESO's position is that customer-related GHG costs (unlike facility-related GHG costs and the distributors' GHG administrative costs) are not gas distribution charges, and should not be included in the delivery charge.

The facility-related GHG costs and GHG administrative costs are clearly costs associated with owning and operating a gas distribution system. The facility-related GHG costs are related to a distributors' compliance obligations associated with the physical assets it owns. The GHG administrative costs are the internal costs to the utility associated with having to implement government regulation, in the same way that distributors have costs associated with, for example, health and safety regulatory frameworks. Both of these types of costs are akin to the many other costs that utilities incur, and include in their revenue requirement. Board Staff

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[2] *Staff Discussion Paper*, section 5.1.3 Rate Design and Bill Presentment, p.32, first paragraph.

concludes as much by proposing that these costs be recovered from all customers.[3] As part of a distributor's cost of doing business, it is appropriate that these costs be recovered via the delivery charge.

The customer-related GHG costs, however, are clearly different. They are not tied to the distributors' physical assets (e.g., compressor stations, etc.) or the distributors' administration, but rather to the customer's own operations. Similar to commodity costs, the customer-related GHG costs are not part of the distributors' revenue requirement, and should not be included in the delivery charge. For this reason, the IESO believes it is more appropriate to have the customer-related GHG cost set out on a separate line item (distinct from the delivery charge) on a distributor's bill.

There are other reasons for having a separate line item for customer-related GHG costs (transparency, energy literacy, administrative efficiency, etc.), which are elaborated on below.

(b) *"In terms of whether these costs should be recovered as a separate line item on the bill, consumer research indicates that low-volume customers are concerned with the overall bill impacts."* [4]

The suggestion here is that a separate line item is unnecessary, because research shows that customers are really only concerned about the overall cost. While the IESO acknowledges that a customer's overall gas bill is likely of most interest to customers, the IESO notes that the Board has a statutory mandate to: (a) promote communication within the gas industry and the education of consumers; and (b) promote energy conservation and energy efficiency.[5] These statutory objectives, in the IESO's view, are furthered by having a customer clearly know and understand that there is a carbon cost to their natural gas usage. A separate line item makes this clear, and quantifies that cost for consumers. Burying the customer-related GHG charge in the delivery charge does the opposite. Armed with better information and a clear price signal for the carbon costs associated with their gas usage, a customer should be able to make more informed decisions regarding energy conservation and efficiency measures. This would be consistent with the Board's statutory objectives for the gas sector.

The Board itself, in its recent policy[6] on electricity distribution rate redesign, acknowledged this approach:

> [The OEB] adopted a customer-centric approach a few years ago to enhance understanding about energy matters and the factors that impact electricity bills; this is also known as energy literacy. Our goal is to equip

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[3] *Staff Discussion Paper*, section 5.1.1 Cost Causation, p.29, Table 4. This is consistent with the rate design principle that only customers that cause costs to be incurred should bear those costs.

[4] *Staff Discussion Paper*, section 5.1.3 Rate Design and Bill Presentment, p.32, second paragraph.

[5] See items 5 and 6 in subsection 2(1) of the *Ontario Energy Board Act, 1998* (the "OEB Act").

[6] *Board Policy: A New Distribution Rate Design for Residential Electricity Customers* (EB-2012-0410), April 2, 2015.

> customers with the information and the tools they need to make informed choices about how they use energy. We want to:
>
> - Enable customers to leverage new technologies, including self-generation using renewable resources
> - Help customers manage their bills through conservation
> - Help customers better understand the value of electricity service

The Board reaffirmed these principles in the Staff Discussion Paper on commercial and industrial rate design and included objectives to ensure rate design is linked to cost drivers to better align the interests of distributors and customers.[7] Similarly, the objectives of the Board's review of the Regulated Price Plan ("RPP") is to redesign the RPP to improve its effectiveness for meeting current public policy objectives, to improve system efficiency and enable greater consumer control.[8]

The IESO believes these core principles should also apply in the case of natural gas rates, and that a separate line item that clearly draws attention to the GHG compliance costs incurred by the customer would further these principles. In addition, as GHG compliance costs increase, having these costs clearly transparent for consumers becomes even more important.

The IESO believes its position on this issue is also fully aligned with the primary purpose of the cap and trade regime implemented by the *Climate Change Act*, which is to put a price on carbon. That price should be clear and transparent, so that the objectives of the *Climate Change Act* can be met. These objectives are partly described in subsection 2(2) of the *Climate Change Act*:

> The cap and trade program is a market mechanism established under this Act that is intended to encourage Ontarians to change their behaviour by influencing their economic decisions that directly or indirectly contribute to the emission of greenhouse gas.

The only way that economic decisions can be made by Ontarians is if they are able to understand and quantify the cost of carbon. Not identifying the cost of carbon on a customer bill may neutralize the main social benefit of pricing carbon into the economy.

(c) *"Staff are also concerned that an additional line item on the bill could increase customer confusion and utility call centre activity."*[9]

The IESO disagrees with this proposition for two reasons. First, taken to its logical conclusion, Board Staff's position would suggest that distributors' bills simply contain a single "all-in"

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[7] *Staff Discussion Paper: Rate Design for Commercial and Industrial Electricity Customers* (EB-2015-0043), March 31, 2016, s.A.2. Objectives.

[8] *Report of the Board: Regulated Price Plan Roadmap* (EB-2014-0319), November 16, 2015.

[9] *Staff Discussion Paper*, section 5.1.3 Rate Design and Bill Presentment, p.32, second paragraph.

monthly amount due – but this is not what the Board has sought to achieve through its efforts on energy literacy and better customer information. The province has embarked on a significant policy initiative with the cap and trade regime (and Climate Change Action Plan), and clearly delineating a customer's GHG compliance cost would signal to consumers how that policy is being put into practice. This, in the IESO's view, would not increase customer confusion but rather make the government's policy efforts on climate change more understandable for customers.

Second, the IESO believes it is more confusing to combine two unrelated costs in a utility line item (i.e., mixing the customer's GHG compliance costs for its facilities with the utility's GHG compliance costs associated with the utility's operations) rather than keeping them separate. In this regard, having the gas delivery charge increase without explanation may actually cause more confusion and utility call centre activity than the addition of a clearly identified customer GHG charge.

> *(d) "Enbridge and Union have indicated that they plan to update their billing systems to accommodate cap and trade costs over a six-month period. Staff believes that establishing charges that make use of the current billing format will likely facilitate implementation and that this billing change can be accommodated in that time."*[10]

The suggestion is that Ontario's natural gas utilities may be able to more quickly and/or easily implement the *Climate Change Act* by adding the customer-related GHG costs to an existing line item (i.e., the delivery charge) rather than adding a separate line item. The IESO, however, understands that the utilities are able to accommodate adding a separate line item for customer-related GHG costs (and indeed, prefer this approach).[11]

3. Support for a Transparent Customer-Related GHG Rate on the Tariff Sheets

The IESO is supportive of Board Staff's recommendation[12] that the customer-related GHG rate (per m^3 of natural gas consumed) be determined by the OEB and disclosed as a discrete volumetric rate. As Board Staff correctly points out, providing a separate customer-related GHG rate will assist gas-fired generators in their offer strategy into the electricity market. The IESO's position is that this rate should be disclosed in a readily available manner and akin to the commodity charge, but as a separate item given that it is not inherently a distribution charge (see section 2).

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[10] *Staff Discussion Paper*, section 5.1.3 Rate Design and Bill Presentment, p.32, third paragraph.
[11] Letter from Union Gas to OEB dated April 15, 2016 (http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2015-0363/Union_cap_and_trade_framework_20160525.pdf)
[12] *Staff Discussion Paper*, section 5.1.3 Rate Design and Bill Presentment, p.31.

Furthermore, to ensure the published rate is relevant to all stakeholders, if the GHG rate is to be published in units of $/m³, the IESO suggests that the OEB also publish a conversion factor in units of m³/GJ to allow conversion to units of $/GJ.

4. Need for an Interim Customer-Related GHG Rate as Soon as Possible

Prior to release of the *Staff Discussion Paper*, both Union Gas Limited ("Union") and Enbridge Gas Distribution Inc. ("Enbridge") requested that the OEB approve a customer-related GHG rate as soon as possible, given the short time frame for implementation (i.e., January 1, 2017). It is the IESO's understanding from the Union and Enbridge requests that an interim rate is required as soon as possible in order to enable the requisite billing system changes to ensure Union and Enbridge can charge customers the customer-related GHG rate as of January 1, 2017. The IESO supports the Union and Enbridge requests.

The *Staff Discussion Paper* does not directly address the Union and Enbridge requests. It does indicate that the distributors' GHG compliance cost forecasting be undertaken as part of the distributors' Compliance Plans, and that for 2017, a one-year Compliance Plan should be filed. However, the *Staff Discussion Paper* does not set out the process and timing for the OEB's processing and disposition of the 2017 Compliance Plans. Given the limited time between now and January 1, 2017, the IESO is concerned about the possibility that the preparation and assessment of 2017 Compliance Plans will make it difficult for Union and Enbridge to be ready to implement the customer-related GHG charge on January 1, 2017.

The implementation of the *Climate Change Act* will have implications for the IESO's contracts with some gas-fired generators as of January 1, 2017. As a result, it is important (to both the IESO and generators) that the gas distributors are able to implement their obligations under the *Climate Change Act*, including the customer-related GHG rate, as of that date.

Finally, having an early indication of the customer-related GHG rate would be consistent with principle of rate predictability – which would be of benefit to all Ontario gas customers.

The IESO welcomes the opportunity to comment on this important initiative and invites Board Staff to review any of the positions herein directly with IESO staff.

All of which is respectfully submitted,

Nancy Marconi

Nancy Marconi
Senior Manager, Regulatory Affairs

cc: Laurie Klein, Policy Advisor, Rates & Pricing, OEB
Rachele Levin, Policy Advisor, OEB