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June 22, 2016

VIA RESS, E-MAIL and COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Ontario Energy Board ("Board") – Consultation to Develop a Regulatory Framework for Natural Gas Distributors' Cap and Trade Compliance Plans EB-2015-0363 – Staff Discussion Paper
Comments of Enbridge Gas Distribution Inc. ("Enbridge")

By letter dated May 25, 2016, the Board invited stakeholders to comment on the Staff Discussion Paper in the above noted proceeding.

Attached please find Enbridge's comments on the Discussion Paper.

The submission has been filed through the Board's Regulatory Electronic Submission System.

Please contact the undersigned if you have any questions.

Sincerely,

[original signed]

Shari Lynn Spratt
Supervisor Regulatory Proceedings

Attachment

cc: Laurie Klein – OEB, via email
Rachele Levin – OEB, via email

CAP AND TRADE:

BUILDING A CARBON COMPLIANCE STRATEGY

ENBRIDGE GAS DISTRIBUTION INC. RESPONSE TO THE ONTARIO ENERGY BOARD STAFF DISCUSSION PAPER ON A CAP AND TRADE REGULATORY FRAMEWORK FOR THE NATURAL GAS UTILITIES

EB-2015-0363

JUNE 22, 2016

PURPOSE

Ontario Energy Board staff initiated stakeholder consultation about cap and trade and the natural gas utilities' related carbon procurement compliance requirements. Enbridge Gas Distribution Inc. was invited to be part of a Natural Gas Stakeholder Day focused on cap and trade on April 5, 2016. On May 25, 2016, Board Staff issued a discussion paper on aspects to be considered in the Board's cap and trade regulatory Framework and invited submissions by June 22, 2016. This paper provides Enbridge's response to the *Staff Discussion Paper on a Cap and Trade Regulatory Framework for the Natural Gas Utilities*. Enbridge has sought to follow the topic format utilized in the discussion paper as closely as possible.

The comments and discussion provided are based on the information available as of May 25, 2016. Enbridge reserves the right to modify or alter any of the positions below as more information becomes available.

1.0 INTRODUCTION

This document presents the response of Enbridge Gas Distribution Inc. ("Enbridge" or the "Company") to the Ontario Energy Board (the "Board") *Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities - EB-2015-0363* (the "discussion paper").

Enbridge appreciates the extensive and thoughtful contemplation of the natural gas distribution sector's compliance requirements and approach to cap and trade in the discussion paper. The staff paper is thorough and identifies a number of key areas that require careful consideration for development of a cap and trade regulatory framework (the "Framework").

Context

From a regulatory accounting perspective, the Board approved Enbridge's Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA") through EB-2012-0459 (the 2014-2018 proceeding) in recognition of future costs related to cap and trade. Subsequently, Enbridge provided additional details regarding these anticipated costs in its 2016 rates proceeding EB-2015-0114. The Board again reaffirmed the importance of this topic in its 2015 Natural Gas Market Review and is currently considering a related April 2016 natural gas utility request for an Interim Rate Order with Respect to Cap and Trade Emission Allowance Costs.

From a government perspective, in April 2015, the Ontario government announced that it would implement a cap and trade program as a foundational pillar of its climate change strategy. Later in the year, cap and trade design options were released by the government and these were followed by a draft cap and trade Regulation in early 2016.

Enbridge recognizes the government of Ontario's efforts to reduce greenhouse gas ("GHG") emissions and is cognizant of the passage of the *Climate Change Mitigation and Clean Economy Act, 2016* (the "Climate Change Act") in the Ontario legislature and the posting of the final cap and trade Regulation ("Regulation") followed in May 2016. The Ministry of the Environment and Climate Change ("MOECC") will launch the cap and trade program on January 1, 2017.

While the pace of cap and trade implementation in Ontario is aggressive, Enbridge recognizes the government's proactive desire to reduce GHG emissions and the Company is committed to helping the Province meets its GHG reduction targets.

As one of only a few cap and trade participants subject to a rate regulation process, and one of the largest procurers of carbon allowances in the province, this response is intended to offer solutions that address tight logistical requirements with utility customers' interests in mind.

Key Enbridge Recommendations

1) A two-phased approach is in the best interests of Ontario and Enbridge's ratepayers.

With just over six months remaining until the implementation of cap and trade in Ontario, the Board and regulated natural gas utilities have a limited amount of time to both prepare and implement new systems and understand a new financial market. Given the challenging timelines, Enbridge proposes in section 3.0 of this response that the Board implement cap and trade using a two-phased approach.

During the first year of the program (2017), the Company proposes a simplified and mechanistic approach to reviewing and approving a 2017 carbon procurement plan separate and in parallel to the continued process to develop a comprehensive and longer-term cap and trade Framework. The first phase would focus more on preparedness and incremental implementation than on financial risk management and the more complex compliance instruments contemplated in the discussion paper. This would also help to ensure that utilities are prepared to implement the cap and trade program by January 1, 2017. As Enbridge and other regulated utilities gain a greater breadth of understanding regarding the cap and trade markets, the implementation of a greater variety of compliance instruments and strategies may be considered.

This approach would align with the light-handed regulatory approach taken in Québec for the first year of that province's cap and trade program. It would also be appropriate given the straightforward approach the utility must take in 2017 given the compliance obligations it has, the limitations imposed by the Regulation on the amount of allowances that can be purchased and held and the lack of liquidity in a pre-linked Ontario-only market.

2) **Enbridge is strongly opposed to the concept of financial risk management related to carbon allowance purchases as it has a cap and trade compliance obligation.**

Enbridge's role in cap and trade is one of compliance. Enbridge does not have a goal of outperforming the market for financial gain. Enbridge also views involvement in financial tools as being neither appropriate nor necessary to prudently meet its compliance obligation. Also, risk mitigation and hedging was a role that the utility was asked to leave with respect to gas supply procurement in the recent past given it was deemed to have little value for customers.

3) **A separate line item on customer bills supports government objectives including transparency and price signals to drive greenhouse gas reductions. A separate line item is also strongly supported by customers.**

Enbridge's customers convincingly told Enbridge that they would like to see a line item on the bill specific to carbon allowance costs. Research also tells us by having this information, customers will be more likely to undertake measures and actions to reduce their GHG emissions.

4) **Enbridge supports a quarterly rate adjustment process for carbon costs to help ensure customers are provided rate predictability as well as a good sightline to carbon cost changes.**

2.0 CAP AND TRADE MARKETS

Significant differences between jurisdictions must be considered

The Board has correctly acknowledged that more natural gas is used in Ontario and for longer periods of time for space heating, water heating and other applications necessary by the residential sector and small businesses as compared to California and Québec.

Enbridge notes the Board's references to practices and approaches to cap and trade in other jurisdictions, particularly California. While many of Ontario's market rules align with the California-Québec market under the Western Climate Initiative ("WCI"), there are also significant differences across all three jurisdictions. Ontario is not proposing to fully mirror either the California or Québec cap and trade models for several fundamental structural differences in relation to natural gas and cap and trade in this province.

It is therefore important to note several fundamental structural differences in relation to natural gas utilities as illustrated by the following examples:

- In California, natural gas utilities received (90+ % at the outset) and are still receiving free allocations for customers while Ontario's natural gas utilities will receive zero.
- In Québec and California, natural gas utilities were given a one-year and two-year grace period, respectively, after the implementation of cap and trade and before becoming mandatory participants while Ontario's natural gas utilities will be required to participate from day one.
- Differences exist between California and Ontario in the timelines around policy and regulatory Framework development and implementation. This has implications on the approach and priorities placed on various aspects associated with the cap and trade program, such as surety of cap and trade rates, timelines for customer communication, the development of carbon compliance strategies and business system readiness including but not limited to administration related to participating in the market and billing system updates.
- In both California and Québec, natural gas power producers either are, or are provided the ability to be the point of regulation for their emissions. As such, natural gas power producers in other jurisdictions are buying their own allowances. This may have implications on forecasting and carbon procurement strategy development that need to be kept in mind.
- Differences exist in how the other jurisdictions communicate cap and trade costs on the energy bills as compared to the method recommended in the discussion paper. For example, Québec utilities list cap and trade related charges separately on the natural gas bill.
- Although California's electric utilities do not include a separate line item for cap and trade per se, they do have an additional credit line item for the sale of allowances back to the market.

Québec's Régie de l'énergie went forward with a process for reviewing and approving a carbon procurement plan that did not require a comprehensive Framework. When considering cap and trade processes related to Ontario's natural gas utilities, Enbridge respectfully submits that care must be taken to consider that Ontario's cap and trade program will result in a more significant immediate impact on Ontario ratepayers than those in California or Québec. This reality for natural gas ratepayers must be central to decisions about the regulatory policy approach, particularly as it relates to customer communication strategies, cost recovery, bill impacts, carbon procurement strategies and reporting. In taking on this task, Enbridge has no doubt that the Board, and its Staff, are well aware of the tight timelines and necessity of having the utilities "market ready" for January 1, 2017 as well as ensuring that there is no disadvantage to the utilities in relation to other market participants for carbon procurement. To do otherwise may disadvantage of natural gas customers.

Linking with California and Québec

Enbridge recognizes that Ontario intends to link to WCI in 2018; however, such linkage is not confirmed. At this time, 2017 is confirmed as an 'Ontario-only' year. It is also important to recognize that a linkage with California and Québec must also be approved by California and Québec. Enbridge also notes that the California market has experienced recent volatility with only 11% uptake of available allowances at the latest auction pushing secondary market prices well below the auction floor. This lack of confidence is in part resulting from a legal battle in California questioning whether state law allows cap and trade policy and uncertainty after 2020. As a result, Enbridge believes it would be premature to base decisions and, in particular, carbon Compliance Plans which are discussed more fully later in this response, on a confirmed link to the WCI.

Holding Limits and Purchasing Limits

In Enbridge's submission to the MOECC, the Company proposed that a company's holding limit be the greater of its one-year compliance requirement or the formula proposed in the Cap and Trade Regulation. Further holding limit alternatives were also proposed. The submission also included information on the unintended consequences (i.e. lack of flexibility) that results from the adoption of the holding limit methodologies used in the California-Québec market.

Based on literature shared with Enbridge, it was identified that this holding limit was imposed in California to prevent market manipulation. Assuming an 'Ontario-only' market with fewer available allowances than would be available as part of WCI, the formula in the final Regulation effectively imposes a lower purchasing limit. This limits purchasing flexibility and may have negative cost consequences for natural gas customers.

California natural gas utilities have not yet fully transitioned into the market and natural gas use is lower in Québec than Ontario, creating a unique 'Ontario-only' market. Given the fact that Ontario's natural gas utilities are rate regulated and Board approval is required, Enbridge submits that any concerns about market manipulation are, as a practical reality, unfounded. Furthermore, it is worth noting that Enbridge, as well as all other mandatory and voluntary opt-in participants, are limited to purchasing a maximum of 25% of the available allowances at each auction. Enbridge believes the purchasing and holding limits imposed on natural gas utilities are unnecessary and inappropriately constrain purchasing strategies.

Purchasing and holding limits are not an item for revision in the Board processes, nor are they open for change in the government regulatory process any longer. However, the implications of the decision to keep the purchasing limits and more importantly the holding limits formula consistent with California, presumably for easier acceptance of WCI linkage, needs to be understood as a point of reference in the development of a cap and trade Framework and ultimately reflected upon during the review of Enbridge's compliance strategy.

Offset Credits

Ontario's cap and trade Regulation allows up to 8% of a participant's compliance obligation to be met through the purchase of approved offset credits. At the time of this submission the government has not yet announced the consultant selected to develop offset protocols and draft offset regulation. Based on this timing, offsets may not be available in the market until the end of 2017 or later. This situation limits local compliance options particularly in the first year of cap and trade, which may be characterized by reduced liquidity.

3.0 PHASED APPROACH AND GUIDING PRINCIPLES OF FRAMEWORK

A two-phased approach is in the best interests of Ontario and Enbridge customers

Ontario's cap and trade program begins on January 1, 2017 merely six months from the time of this submission. As a result, Enbridge's primary recommendation is for the Board to treat 2017 as a transitional year and request that the utilities submit to the Board a 2017 carbon procurement plan by

November 1, 2016 or a date as determined by the Board. This process would not preclude the continuation of the comprehensive framework development, and would in fact occur as parallel work streams. In addition to achieving the Board and the utilities' joint objective of being market ready before the first auction in 2017, the Company believes that other characteristics of the government's cap and trade program warrant this approach in 2017.

Outside of rate regulation, the first year of the program (2017) is already intended to be a transitional year, where Ontario entities participate in a new and 'Ontario-only' cap and trade market – a market that will have little liquidity until several quarters pass, or until Ontario is linked with the WCI jurisdictions. This reality combined with the rules identified in the regulation should provide significant confidence to the Board that the utilities have a narrow range of options for a carbon procurement plan for 2017. Given Enbridge's willingness to provide quarterly reporting on the previous quarter's activities vis-à-vis the 2017 carbon procurement plan and outline any intended adjustments to the procurement plan for the next quarter, the Board should feel a high degree of comfort and sightline and commit to an expedited approach for approving a 2017 carbon procurement plan.

In the Company's view, the government itself has recognized the importance of a phased and smooth transition toward a cap and trade program, and the Board would be well within the intent of government to do the same for the first year of the program. At the core of this proposal is Enbridge's firm belief that a two-phased approach will be the most prudent course of action for its customers. This proposal not only allows for short-term decision making, but also allows ample time for consideration of the range of matters identified in the staff discussion paper as part of a framework. To ensure the important work of developing the Framework does not get cut short simply to ensure a compliance plan can be submitted, Enbridge urges the Board to complete the Framework process in parallel (versus in sequence) with an expedited process to review and approval of the utilities' 2017 carbon procurement plans.

Table 1 details what Enbridge anticipates would be submitted as part of the suggested phased approached.

Table 1: Phased Approach

Proposed Phase 1 – Transitional Year (2017)	Proposed Phase 2 – 2018 to 2020
One-year carbon procurement plan	Full three-year compliance plan, including a detailed procurement strategy (assuming linked market beginning 2018)
Utility offers to submit to the Board quarterly monitoring and reporting – Enbridge proposes to provide a review of its compliance activities and an overview of any updates to the procurement tactics for the upcoming auction, all of which would be consistent with the one-year carbon procurement plan	Utility to submit reviews of its compliance activities and an overview of any changes to the strategy for the upcoming auction as required by the Board
One-year Intercontinental ("ICE") carbon pricing forecast for 2017	Longer-term carbon pricing forecast as developed by the Board, in addition to an ICE carbon pricing forecast
GHG emissions forecast for 2017	GHG emissions forecast for the full compliance period

Guiding Principles of Framework

Enbridge supports the view that a principle-based Framework will aid the utility in setting its compliance plan, including an allowance procurement plan. Given the short time prior to implementation, Enbridge notes the focus on cost-effectiveness and related discussion of risk management. Enbridge submits that compliance should be the most important criteria in the development of the Company's Compliance Plans. Given that carbon pricing is not within the utility's control, optimization of cost will be undertaken but should not be viewed as the same as getting the lowest price. Given the effectiveness of the long established gas supply methodology, Enbridge respectfully suggests aligning the carbon compliance principles with the gas supply planning principles as outlined in Table 2 below.

Table 2: Comparison of Carbon Compliance and Gas Supply Planning Principles

Proposed Carbon Compliance Strategy	Gas Supply Planning Strategy
1 Objectives	
"The objective of the carbon allowance procurement strategy is to develop a plan to ensure the compliance period carbon allowance obligation is met on a reliable and cost efficient basis."	"The objective of gas supply planning is to develop a portfolio of natural gas supply, transportation, and storage assets that provide for the safe, reliable, and cost effective delivery of natural gas to customers throughout the calendar year. A gas supply portfolio is structured first and foremost to meet demand for natural gas on peak day (i.e. the day of highest demand) along with seasonal demand for natural gas throughout the winter and summer months."
2 Guiding Principles	
1. **Compliance** – Carbon allowances must be submitted as part of the MOECC's regulation. Enbridge must ensure that sufficient carbon allowances are purchased to meet its compliance obligations.	1. **Reliability** – Enbridge is the "supplier of last resort" and as a result supplies are sourced from established liquid hubs and transported to the markets served by Enbridge via firm transportation contracts in order to mitigate delivery interruption.
2. **Diversity** – Mitigates non-compliance and cost risks through the purchase of carbon allowances from various parties and platforms: auction (current and future vintage) and spot market; including offsets as applicable and spreading procurement within calendar years and within compliance periods. Diversity will also assist in ensuring customer rate predictability.	2. **Diversity** – Mitigates reliability and cost risks by procuring supplies from multiple procurement points and transporting supplies to market and/or storage through several different paths.
3. **Flexibility** – Maintaining the ability to adjust purchases in response to factors impacting compliance requirements within a compliance period such as: fluctuating natural gas demand resulting from varying weather as compared to forecast, variation in power generation from natural gas fired generators, demand side management (DSM) and other carbon reduction program effectiveness, etc.	3. **Flexibility** – Manages shifting demand requirements through differentiated supply procurement patterns and provides operational flexibility through service attributes and contract parameters.
4. **Prudent Costs** – Balance costs with above-mentioned principles to ensure that the compliance obligations are met at a prudent and reasonable cost. Ensure costs are transparent for ratepayers.	4. **Landed Cost** – Balances gas supply costs with the other principles and ensures low cost natural gas supply for customers.

Recommendation (Board Staff)	Enbridge Response
"OEB staff suggests that the Framework be guided by OEB's statutory objectives as well as the following principles to ensure consumer protection"	• Enbridge strongly supports a principled approach to developing a cap and trade Framework that is premised on compliance. Enbridge believes a carbon compliance strategy aligned with its long established gas supply strategy should be considered in order to decrease uncertainty around the interpretation of the strategy given the short implementation period. Furthermore, Enbridge encourages a Framework guided by the broad Ontario climate change and cap and trade program goals and approaches which include transparency and choice.
"Cost-effectiveness: Compliance Plans are optimized for economic efficiency and risk management"	• Enbridge disagrees that cost effectiveness and risk management be the only items considered in the optimization of its compliance portfolio. Achieving compliance is the primary purpose of cap and trade for the utility and as such should be added as a primary guiding principle. Given the realities of the current market for carbon allowances in Ontario and the utilities' purchasing limitations, as well as the past experience and decisions related to risk management related to gas supply, Enbridge submits that risk management is neither helpful nor appropriate.
"Rate predictability: consumers should have just and reasonable, and predictable rates regarding the impact of the utilities' cap and trade activities"	• Enbridge agrees that customers should have predictable cap and trade rates. However, Enbridge disagrees with the notion that consumers should be insulated from the market dynamics of cap and trade given the primary goal of cap and trade is to provide market signals to encourage customers to minimize GHG emissions. Provided the carbon allowance costs are updated on a quarterly basis and in a transparent way, the customer will be well served on this front.
"Cost Recovery: prudently incurred costs related to cap and trade would be recoverable as a cost pass-through (similar to natural gas supply procurement)"	• Enbridge agrees that prudently incurred cap and trade costs should be a pass through to rates. Enbridge requests a timely and predictable process for recovery of costs.
"Transparency: investment/buying strategies and optimization processes are transparent and well documented to facilitate the OEB's assessment of the plans and costs, while ensuring market integrity"	• Enbridge agrees that transparency is a key component of this program, both with the regulator and ratepayer. Enbridge supports transparency, provided that confidential information is not divulged.

"Flexibility: plans are flexible and can adapt to changing market conditions and utility-specific characteristics; potential for Framework to evolve as market matures and experience is gained"	• Enbridge agrees that its compliance plan must be flexible as possible to adjust for changes in markets, related carbon policies and changing load forecasts that may impact our carbon procurement such as demand due to weather or fluctuating natural gas power generation.
"Continuous Improvement: plans demonstrate continuous improvement of processes and practices, including the use of existing systems"	• Enbridge's compliance plan will be continually improved as a greater grasp of the market is obtained. Quarterly and annual monitoring and reporting may help to identify opportunities to adjust the plan.

4.0 COMPLIANCE PLANS

4.1.1 Regulatory Approach to Compliance Plans

As a mandatory cap and trade participant, Enbridge will be a point of regulation for natural gas distribution within its franchise area. Enbridge will be responsible for the procurement of allowances related to:

- operation of its facilities (i.e. compressors, boilers and building heating system) ("facility-related obligations");
- customers who emit less than 10,000 tonnes of CO_2e annually ("tCO_2e");
- customers who emit less than 25,000 tCO_2e but greater than 10,000 tCO_2e and do not to 'opt-in' as voluntary participants; and
- natural gas fired power generators supplied by Enbridge.

The last three points above are collectively referred to as 'customer-related obligations.' Enbridge will not be required to purchase emission allowances for Large Final Emitters (LFEs) who emit greater than 25,000 tCO_2e, and those who 'opt-in'.

Enbridge agrees with the suggested compliance approach, whereby the Board would identify basic parameters and each utility would then be responsible for the development of a compliance portfolio. It is assumed that these parameters would be aligned with the guiding principles and be focused on compliance and prudence.

In complying with cap and trade requirements, Enbridge will purchase offset credits and allowances or abate emissions through capital investments or procedural modifications. It is necessary to note that in the first year of the program, the number of compliance instruments will be limited. For example, offset credits will not likely be ready for the first year or two of the first compliance period given that related processes still need to unfold. The MOECC expects to release a draft offset regulation later this year as well as announce a contract for the development of thirteen offset protocols. It is only once the protocols are finalized which may be mid-to-late 2017, that offset credits can be developed and sourced.

4.1.2 Duration of Compliance Plans

Enbridge recognizes the need for longer-term planning horizons to create investment certainty; however, at this time it seems premature to file a long-term strategy. Given the newness of the market, Enbridge urges that for 2017 a one-year compliance plan be filed by no later than November 1, 2016. Starting in 2018, Enbridge believes the Board Staff's suggestion of a one-year as well as a longer term strategic view would be well suited to creating the right mix of forecasting accuracy, and longer-term horizons for abatement investments which require certainty for a longer than one-year term.

In addition to the market uncertainties in 2017, a one-year carbon procurement plan recognizes the short implementation timeframe and the lack of experience in the market. The utilities will require flexibility and a conservatively minded approach at the onset of the program to gain experience, ensure compliance, and minimize risks to the ratepayers. This suggested approach recognizes the short implementation timeframe and lack of liquidity in a pre-WCI linked market, and provides an opportunity to gain a greater understanding of the complex cap and trade program and market. Ensuring that the utilities have ample time to develop expertise and flexibility required to revise plans on the basis of significant new information such as a change in linkage status or timing with WCI for example, is critical.

4.1.3. Forecasting

GHG Forecasting

Enbridge agrees that the existing Board-approved methodology for load forecasting should be used for the purposes of preparing GHG emission forecasts and thus Compliance Plans. GHG emission forecasts will be provided as it relates to Enbridge's compliance obligation. These calculations will be completed as per the methodology defined in the "Guidelines for Quantification, Reporting and Verification of Greenhouse Gas Emissions" under Regulation 143/16.

GHG emission forecasts will be calculated based on forecasted natural gas throughput volumes, which will include emissions related to customers' natural gas use as well as emissions related to the distribution of natural gas, such as combustion emissions and unaccounted for gas. It should be noted that Enbridge will apply default factors (as per the methodology detailed in ON.400 of the "Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions", 2016) for the calculation of carbon dioxide, methane and nitrous oxide.

Carbon Price Forecast

Enbridge supports the Board's position that a carbon forecasts be prepared for purposes of utility planning. For an annual carbon price forecast Enbridge is amenable to using the ICE provided it is the same carbon price forecast that the Board is using as its benchmark for annual planning. Enbridge agrees with the development of a long-term forecast by the Board and provided to the utilities. Enbridge respectfully suggests that the underpinning behind the development of the aggregated forecast be made available to the utilities, and that the carbon price forecast be confidential. Market pricing and signals about possible procurement strategies may be gleaned by other market participants should the Board's carbon pricing forecast be known to all.

4.1.4.1 Objectives of Compliance Plan Assessment

Compliance plans should be assessed on the guiding principles identified in Section 3.0. The four guiding principles are: 1) Compliance; 2) Diversity; 3) Flexibility and 4) Prudent Costs.

These cornerstones will guide Enbridge in ensuring that first and foremost its compliance obligations are met, while minimizing risk and providing ratepayers with cost prudency and transparency. A focus on lowest cost is not reasonable, nor appropriate. Enbridge has little ability to impact the costs of carbon allowances in the market. Furthermore, Enbridge is naturally incented to keep the costs to its customers low to maintain the fuel's competitive advantage and meet the needs of customers. Enbridge intends to use every means to develop a prudent and appropriate compliance plan with its customers' needs in mind. The Plan, ultimately approved by the Board, will be followed by Enbridge.

4.1.4.2 Optimized Portfolio

Enbridge understands and recognizes that there are various means of meeting its compliance obligations. It is the Company's intent to seek prudent and appropriate strategies to meet its compliance obligations with customers' needs in mind.

In the discussion paper, Board Staff recommends the use of a single general Marginal Abatement Cost Curve (MACC) for the regulated natural gas utilities' long-term planning purposes. Board Staff has also recognized that each utility may wish to complete a utility-specific MACC.

Enbridge agrees with the Board Staff that the development of a "detailed" MACC for 2017 may not be possible given current timelines and the significant amount of research and time required to develop a meaningful MACC. However, Enbridge is amenable to developing a high-level "best efforts" MACC for submission with the 2017 carbon procurement plan should it be helpful to the Board. The company sees MACCs as a useful tool for longer-term planning and as such supports development and use of MACCs for 2018 and beyond. MACC curves would be best developed by the utilities, and should be treated as confidential given they may include activities which may not reside within the utilities' regulated business.

4.1.4.3 Risk Management

Enbridge is strongly opposed to the concept of financial risk management related to carbon allowance purchases and believes its customers and the company should not bear incremental risk as a result of the introduction of cap and trade. The discussion paper notes that, "…trading and hedging strategies could result in more cost effective compliance for gas utilities, and thus reduce costs for customers." Enbridge is opposed, given what is known today, to include financial mechanism risk management approaches. Enbridge has a large compliance obligation and the holding and purchasing limits imposed render it difficult for Enbridge to trade carbon allowances. In a linked market, some additional market liquidity may be available; however, Enbridge recognizes this program as a compliance obligation not a source of revenue.

Due to the complexity of this program, Enbridge recognizes the need for the development of a governance system, which will include a system of approval and accountabilities. These would be completed ahead of 2017 and filed with Enbridge's 2017 carbon procurement plan in the fall.

Enbridge proposes to incorporate a variety of measures into its portfolio design in order to meet compliance obligations and develop an appropriate compliance portfolio on behalf of ratepayers. Purchases may be composed of current and future vintage carbon allowances may take place via government auction, through mutual agreement with other participants and on the carbon exchange market. Enbridge will also consider the purchase of offset credits as part of its compliance obligation. A determination must be made regarding what discussions about portfolio composition including compliance instruments are confidential.

Enbridge views allowance futures, allowance forwards and offset futures as presenting additional risk as they will not guarantee the acquisition of allowances. Derivative strategies could put Enbridge's compliance obligations at risk leading to increased compliance costs. As such, it is Enbridge's position that hedging activities should not be implemented.

It is worth noting that Enbridge previously used forward strategies to hedge its natural gas prices. In EB-2005-001, February 2006, it was decided that Enbridge should cease its hedging strategy. The decision states:

> The question that remains is the extent to which Enbridge's risk management program is redundant or represents a useful and cost effective tool to reduce consumer price volatility in a fair and reasonable way… No evidence has been provided that demonstrates whether the hedging activity had a material effect on the volatility experienced by customers, given the effects of the quarterly rate adjustment mechanism ("QRAM"), the PGVA (Purchased Gas Variance Account) and equal billing programs over the same period.

Enbridge notes that the procurement of cap and trade allowances should be akin to the procurement of natural gas. The most significant disadvantage in the comparison of the two markets is the anticipated limited liquidity of the cap and trade market. As such, Enbridge asserts that it should not be involved in complex and risky hedging and/or derivative strategies for the cap and trade market.

4.1.5 Treatment of longer-term investments

Enbridge recognizes the need to invest in technologies to abate GHG emissions. As carbon pricing rises, Enbridge may be able to implement abatement projects that become more feasible. A project's viability will be assessed through the use of MACCs and possibly other indicators as appropriate.

For a further discussion of longer-term investments, refer to Section 9.0.

RESPONSE TO BOARD STAFF

Recommendation (Board Staff)	Enbridge Response
"Staff is proposing that the OEB follow a light-handed approach that would require the utility to have a cost-effective portfolio of Cap and Trade instruments."	• Enbridge agrees that a light-handed approach that effectively deals with risk is appropriate. Enbridge is concerned by the dominant focus on cost-effectiveness. Cap and trade is an obligation for the utility and, as such, compliance is the priority with an aim of doing so in a prudent manner. Enbridge recommends that the procurement of cap and trade allowances mirror Enbridge's gas supply planning strategy.
"Staff's preferred approach is that Compliance Plans span the entire compliance period. Staff proposed that if this approach is used, an exception should be made for the first year of the Cap and Trade. For that year (2017), the utility would submit a one-year compliance plan."	• The Company proposes to file a one-year transitional plan in 2017, followed by a more comprehensive plan in 2018, which will address the remaining years of the first compliance period.

"Staff proposes that after the first year, the utility would file three-year Compliance Plans to align with the compliance period set out by government."	• Enbridge agrees with this position, provided that the Company is given the opportunity to update the three-year compliance plan on an annual basis.
"Staff notes that the utility already prepare a load forecasts for the purposes of rate setting. Staff proposes that the utility use its existing OEB approved methodology when preparing these forecasts for the purpose of Compliance Plans."	• Enbridge agrees with this position.
"Staff proposes that the utility also use ICE for its annual carbon price forecast."	• Enbridge agrees with this position.
"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."	• Enbridge agrees. Enbridge proposes it have an ability to gain insights into the underpinning any aggregated long-term forecast.
"Staff invite comments regarding the MACC approach and the development of the single general MACC."	• Enbridge is amenable to this proposal for 2018 and beyond. It further notes that this general MACC should not be used as the sole determination of project viability and should be kept confidential.
"Staff invites comments on the approach described above as well as suggestions for any other approaches, documentation, descriptions, criteria or analyses, if any the OEB needs to assess the cost-effectiveness of utility's Compliance Plans."	• Enbridge submits that the Compliance Plans should be assessed on the guiding principles noted in Section 3.0.
"Staff suggests that part of risk management includes the utilities having robust governance systems in place to ensure that its strategic objectives reflect its obligation under the Cap and Trade program."	• Enbridge will develop a governance system in relation to the cap and trade program for purposes of compliance. This will ensure that the many administrative related items relevant to implementing cap and trade are identified and completed.
"Staff invite comments on 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."	• Enbridge does not favour the notion of risk management in relation to the cap and trade program.

"Staff is of the view that these [government identified GHG emission reporting regulations] should be used to forecast GHG emissions."	• Enbridge agrees and will provide GHG emission forecasts related to its compliance obligation as per the calculation and methodology defined in the "Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions" under Regulation 143/16. This forecast will exclude all mandatory and voluntary opt-in participants located with Enbridge's franchise area.
"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."	• Enbridge is not opposed to Board Staff purchasing a long-term price forecast. Enbridge proposes it has the ability to gain insights into the intelligence underpinning any aggregated long-term forecast. • Enbridge owns the compliance obligation on behalf of its customers and as such would want to be certain that information related to developing a strategy be shared in a timely manner.
Consistent with the six principles, Compliance Plans should be optimized, integrated and adaptable.	• Enbridge is supportive of a principle-based approach. To this end it is important that utilities have a full understanding of the Board's meaning and intent regarding risk management. As well, the Board should consider what options are available to the utility under unlinked and, when applicable, linked market rules. The compliance plan assessment should relate back to the guiding principles which recognize compliance and carbon abatement as the overarching aim.
"…in staff's view it is important to have one single consistent MACC that outlines all general, non-utility-specific abatement activities that are broadly available in the market. Staff recommends this approach, as it would ensure a standard description of costs of Cap and Trade and GHG abatement activities for the purpose of assessment."	• Enbridge supports the development of detailed and confidential MACCs for use in 2018 and beyond.

5.0 COST RECOVERY

5.1.1 Cost Causation

Enbridge agrees that the costs associated with the cap and trade program should be divided across the following cost causation components: customer-related obligations, facility-related obligations and administrative costs. The customer-related obligations will be derived directly from the volume of natural gas supplied to applicable customers. Facility-related obligations will be those that are required for

Enbridge to transport, store and distribute natural gas. The administration costs will include all of Enbridge's costs that are incremental to its regular course of business for the purposes of having cap and trade ready for implementation. This may include for example, cap and trade staff and updates to existing business systems (i.e. billing system), among others.

Enbridge agrees with the proposal that administration costs related to the cap and trade program will be allocated among all customers. Cap and trade charges associated with Enbridge's facility-related obligations are allocated into the following components: company use, compressor fuel and unaccounted for gas. These components cover all of the possible areas for allocation of Enbridge's reportable GHG emissions. Based on an internal review of Enbridge's rate classes, Enbridge notes that all rate classes may not be responsible for all components of the facility-related obligation. It is Enbridge's intent to include a rate tariff sheet for the charges associated with cap and trade. All customers who emit less than 10,000 tCO_2e annually and those who do not 'opt in' to the cap and trade program as voluntary participants will be assessed customer-related obligations based on the volume of gas delivered.

5.1.2 Cost Allocation

Consistent with California and Québec, cap and trade charges will be assessed on a volumetric basis.

Enbridge agrees with the Board Staff's suggestion that the cap and trade administration fees be treated as part of the Company's ongoing administration costs.

5.1.3 Rate Design and Bill Presentment

Enbridge is of the view that the presentation of the cap and trade charge as a single and separate line item on the bill is important. The intent of this program is to alter consumer behavior, encourage consumers to pursue energy efficiency and recognize the impact of their energy usage. The charge must be presented as a separate line item in order to encourage customer change. If this charge is rolled into an existing line item, customers are unlikely to be aware of this charge. By combining the charge with the delivery charge, there will be nothing demonstrably "new" on the bill which would alter energy usage and incent conservation efforts. Presenting the charge as a separate line item could also generate savings for ratepayers, because on-bill-presentment can form a larger portion of Enbridge's customer education strategy. In the absence of a separate line item, more resources will need to be used on other means of customer education.

In May, Enbridge hired a third-party researcher to ask residential customers about the cap and trade program as it relates to their natural gas use. The results indicate a strong majority of customers want to see the costs associated with the cap and trade program listed as a separate line item on their natural gas bills. The findings were that 86% of customers want to see a separate line item on their Enbridge bill detailing the costs associated with cap and trade (63% rated this item a 10 on a 1-10 scale, where 10 is 'very important' while 13% and 10% rated a separate line item as an 8 and 9, respectively.)

Enbridge notes that some of its business customers are not billed on a volumetric basis but rather on a contractual demand basis. As such, there is no charge item on their bill that is based on their monthly volumetric consumption. Only with great difficulty can Enbridge administer the cap and trade charge under an existing line item for its demand customers. Therefore, to effect the simplest and most cost effective change, it is recommended that the cap and trade charges be presented as a separate line item.

Finally, some customers, including mass market customers may choose to purchase varying proportions of their supply in the form of renewable natural gas at a premium over natural gas. Incorporating cap and trade charges in delivery charges would restrict customer choice or create significant confusion with the bill presentment consisting of a series of charges and credits to adjust for renewable or carbon neutral supply.

5.1.4 Rate Setting Approach

Enbridge agrees that it will gain experience throughout the first year of the cap and trade program. This experience will allow for improved modelling and carbon price forecasting ability. Enbridge believes that the re-calibration process should be completed on a quarterly basis as opposed to annually. This re-calibration process would align with the QRAM and further support rate predictability and smoothing. Enbridge will begin to collect fees associated with the cap and trade program, prior to the first auction. In order to establish a carbon allowance rate for the first quarter of the program, Enbridge will use ICE's one-year forecast price. Enbridge requests the ability to refresh subsequent quarter's cap and trade rates based on the most recent auction results from the last quarter through the QRAM process.

As noted in the discussion paper, settlement prices from recent quarterly auctions, namely 2015, have been stable; however, the currency exchange rate has fluctuated during this period. As per the final Cap and Trade Regulation, the minimum price will be "…the higher of the annual auction reserve prices most recently established, as of the day of the auction, for each of Québec and California." It should be noted that both auctions settle at the same price, as a result of the exchange rate. If an annual calibration period was implemented from the year of 2015, assuming an annual refresh is implemented, approximately $52M would have been recorded in the cap and trade variance account to be collected from customers – a material amount. This variance would have been composed of: $9M due to pricing being higher than anticipated and $43M due to exchange rate fluctuation. This would represent an increase (vs. forecast) in the cap and trade costs of approximately 16%, which is composed of an exchange rate increase of 13% and carbon allowance price increase of 3%.

Carbon allowance prices have not always been stable year-over-year. If an annual rate mechanism was implemented for 2013, a variance account balance of about $60M would have been realized and needed to be collected from customers. In comparison to 2015, the 2013 variance is primarily attributable to the fluctuation in carbon allowance pricing (+$48M). The difference in exchange rate further impacts the amount of the variance, although to a lesser degree (+$12M).

Appendix A contains analysis to fully illustrate the above two scenarios.

Based on the above discussion, a quarterly rate setting approach would serve to mitigate pricing volatility while still providing meaningful market signals to customers.

The cap and trade market is analogous to the gas commodity market in some respects. Part III, Gas Regulation, Section 4.1 of the Ontario Energy Board Act, 1998, notes: "If a gas distributor has a deferral or variance account that relates to the commodity of gas, the Board shall, at least once every three months, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates." The deferral account that Enbridge will maintain for the purchasing of these allowances relates to a commodity. On this basis, Enbridge requests that the Board implement a quarterly rate setting approach to determine how the amounts recorded in this account shall be reflected and collected through rates.

Recommendation (Board Staff)	Enbridge Response
“Staff proposes that the customer-related obligation costs incurred on behalf of customers be borne by all customers except LFEs and voluntary participants, who are responsible for managing their own compliance obligation.”	Enbridge agrees with this position.
“Staff proposes that these costs [for its owned or operated facilities] will be a cost of doing business and as a result, should be borne by all customers.”	Enbridge agrees with this position.
“…Staff is proposing that administrative costs be borne by all customers including LFEs and voluntary participants.”	Enbridge agrees with this position.
“OEB staff suggests that from a cost causality standpoint, customer-related and facility-related obligation costs should be allocated on a volumetric basis to each rate class.”	Enbridge agrees with this position.
“Staff suggests they [administrative costs] be allocated in the same manner as similar existing administrative costs.”	Enbridge agrees with this position.
“Staff suggests that both of these rates [customer-related and facility-related] should be included on the utility’s OEB approved tariff sheets.”	Enbridge agrees. Cap and trade rates will be provided to customers through Enbridge’s approved utility tariff sheet. These rates will be contained in Enbridge’s rate handbook.
“Staff is of the view that the per-cubic meter charge for facility-related obligation costs should be included in the delivery charge of the customer’s bill.”	Enbridge disagrees. The company is of the view that the best approach is to display the total cap and trade charge (the sum of facility-related and customer-related obligations) as a separate line item on the bill.
“Staff recommends that the per-cubic-meter charge for customer-related obligation costs should also be included in the delivery charge.”	Enbridge disagrees. The company is of the view that the best approach is to display the total cap and trade charge (the sum of facility-related and customer-related obligations) as a separate line item on the bill.
“Staff therefore suggests that rates be set based on: 1) the annual weighted average price of the utility’s proposed compliance options or 2) the annual carbon price forecast based on ICE.”	Enbridge agrees that the rates may be set based on the options listed by the Board. Given the current volatility in the WCI market and the fluctuations in the exchange rate between Canadian and US dollars, the rate would be best served by a quarterly update.
“…Staff is proposing that the re-calibration be done annually.”	Enbridge disagrees. To minimize rate variability, Enbridge respectfully submits that the Board implement a quarterly rate re-calibration process.

"Staff invites comments on how the OEB should set the threshold level (e.g. should it be based on dollar amount, a percentage) including any necessary criteria."	Enbridge does not support the use of a threshold.

6.0 MONITORING AND REPORTING

Enbridge agrees with transparent reporting on cap and trade for the purpose of ensuring compliance is achieved. Enbridge has taken the necessary steps to understand the Climate Change Act and the Cap and Trade Regulation. It is in the process of undertaking appropriate preparations for the cap and trade program coming into force on January 1, 2017. Ultimately, the Board will approve a Framework that will guide Enbridge's compliance plan, including its procurement strategy.

RESPONSE TO BOARD STAFF

Recommendation (Board Staff)	Enbridge Response
"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."	Enbridge agrees that the principle of monitoring actual performance in a consistent manner with how the metrics are struck is important. It is also important to consider that additional metrics or the relevance of certain metrics may change over time and it may be appropriate to adjust accordingly. In addition, Enbridge respectfully submits that Compliance Plans should not be assessed only on the basis of cost, but also its ability to achieve its compliance obligation. Enbridge also believes that the guiding principles are a key component in compliance plan assessment.
"Staff believes that it is important that the metrics used to monitor the plans should be consistent for all utilities as this will allow the OEB, ratepayer groups and other stakeholders to compare plans between the utilities over time."	Enbridge does not object to standardized metrics when and where it is appropriate to do so. However, the information may not be useful in comparing the plans. There could be very legitimate reasons for variation given the different characteristics of the natural gas utilities. In addition, the Compliance Plans will contain confidential information, which should remain confidential as discussed in section 8.0.
"Staff is proposing that the utility file annual monitoring reports to align with the utility's cap and trade annual rate application."	Enbridge agrees with this proposal.

7.0 CUSTOMER OUTREACH AND EDUCATION

The Board has recognized that the natural gas utilities, including Enbridge, are a trusted source of information for their customers. Customers have directly requested information from Enbridge regarding the implementation and effects of the cap and trade program on their natural gas bills and Enbridge has communicated information to its customers since the release of the draft cap and trade Regulation.

Enbridge takes pride in ensuring that its customers are up to date and have the most current information. This is a component of daily operations. An important goal of Enbridge's regular communications is to advise customers about their natural gas costs and total bill impacts. As part of the Board's QRAM process, updated rate information is provided to customers each quarter through the bill insert program. Enbridge recognizes the need to keep customers informed and advise them of changes. For example, Enbridge communicated with customers in advance of the implementation of the harmonized sales tax ("HST") to help ensure that they understood why and how their bill was impacted to minimize customer concerns when HST was implemented. Enbridge plans to implement a similar communication methodology in advance of the launch of cap and trade.

Third party research conducted with residential customers indicates that 77% of customers want information about cap and trade and what they can do to prepare as soon as possible.

Enbridge plans to continue its current efforts to communicate the impacts of the cap and trade program to its customers. Enbridge will endeavor to provide communication material to the Board in advance. However, with just over six months until the launch of cap and trade Enbridge does not believe that it is necessary for the Board to approve communications and is concerned that an additional approval process could delay timely information to customers. Enbridge maintains strong customer relationships and its intention is to communicate factual information. Links to the MOECC will be provided should additional information be required. Enbridge respectfully submits that the approvals regarding cap and trade messages for natural gas customers are the responsibility of the natural gas utility. Enbridge routinely engages in research activities to identify new and optimal changes and timing to communicate with its customers and uses this customer insight when developing messages.

Enbridge plans to continue this proactive approach to the cap and trade program information to minimize customer confusion and calls to Enbridge's or the Regulator's call centres while maintaining customer satisfaction levels. Additionally, communicating the impact as soon as possible will allow customers an opportunity to implement energy savings initiatives and reduce the overall bill impacts of cap and trade while reducing GHG emissions.

Finally, some of Enbridge communication channels, such as bill inserts require lead time as part of the print production cycle and billing processes.

Enbridge respectfully submits that it should manage its communications strategy. However, Enbridge would be open to keeping the Board Staff and Board apprised of bill insert communications about cap and trade.

Recommendation (Board Staff)	Enbridge Response
“Staff recommends that the OEB review the utility’s messaging in its proposed communication plan/strategy.”	Enbridge does not agree. Enbridge respectfully submits that approvals regarding messaging related to natural gas, timing and channels be the responsibility of the utility. Communication with customers is a core facet of Enbridge’s business. Delivering up-to date information about cost impacts is a key communication priority. Enbridge’s role in communicating on a regular basis with its customers combined with the realities of the timelines are jointly faced in ensuring implementation of Ontario’s cap and trade regime, make the suggested review process and timelines inappropriate. Enbridge would be open to keeping the Board Staff and Board apprised of bill communications around cap and trade.

8.0 CONFIDENTIALITY OF CAP AND TRADE INFORMATION

In addition to the OEB Rules of Practice and Procedure and Practice Direction on Confidential Filings, Enbridge encourages Board Staff to ensure that steps are taken to consider the possible applicability of requirements found in the Ontario securities markets. In particular, the Board should recognize that the carbon market is a financial market and therefore, it may be prudent to consider the rules and policies relevant to confidentiality and market manipulation avoidance used by the Ontario Securities Commission.

Enbridge appreciates the Board’s recognition of the need to have special confidentiality protocols in relation to cap and trade information, especially in the light of disclosure prohibitions contained in the legislation. Enbridge is generally in agreement with the Board’s proposed categories of confidentiality and protocols. However, Enbridge notes that the specific details of how to present the required cap and trade information to the Board in the utility filings are a work in progress and will be determined in due course. Enbridge may find it necessary to segregate cap and trade information in a certain manner to ensure that Auction Confidential Information and Market Sensitive Information remain confidential. Also, Enbridge may need to request revised definitions for categories of confidential information as it gains experience with the new cap and trade regime.

Overall, Enbridge requests that the Board be very clear in its guidelines and expectations of what constitutes confidential information, as uncertainty may be met with challenges and unnecessary delays in regulatory proceedings. At this early stage of the cap and trade regime, Enbridge is proposing a wide net be cast for confidentiality given the broad legislative requirements and heavy penalties to maintaining confidentiality.

Board Staff recommends that load forecasts for customer related obligations, LFEs and voluntary participants be filed as public information. Enbridge notes that the Gas Distribution Access Rule (GDAR) requires that customer information not be disclosed without the customer's written consent. Enbridge would therefore propose to file any such information in aggregate form. If the Board requires customer specific information, it must provide a clear directive in this regard.

Response to Board Staff

Recommendation (Board Staff)	Enbridge Response
Therefore, with the exception of the Auction Confidential and Market Sensitive Information staff proposes that other information pertaining to a utility's cap and trade costs is provided in public filings including, for example, information pertaining to: • Load forecasts for customer related obligations, LFEs and voluntary participants; • Forecasts of GHG emissions; • Forecasted costs per tonne of GHG; • Total cost of the compliance portfolio over the compliance period and cost per year; • Administrative costs over the compliance period and cost per year; • Financing costs; • Cost of abatement activities, per customer and / or per tonne of GHG; • MACC (marginal abatement cost curves) indicating comparisons of emissions reductions costs and compliance costs; • Proposed capital investments (as part of Leave to Construct and / or Cost of Service proceedings; and Trading where undisclosed change (5) No person shall purchase, sell, trade or otherwise deal with emission allowances or credits if the person has knowledge of information that has not been generally disclosed and that could reasonably be expected to have a significant effect on the price or value of an allowance or credit. Tipping (6) No person shall, other than in the necessary course of business, inform another person of information that has not generally been disclosed and that could reasonably be expected to have a significant effect on the price or value of an emission allowance or credit. Paper – Cap and Trade - 48 - May 25, 2016 • Information that is otherwise publicly available and reported by utilities in a non-confidential context.	• Enbridge urges the Board to ensure that information leading to possible understanding of Enbridge's (and LFEs) purchasing strategies remain strictly confidential. • Disclosure rules will be required. Since the cap and trade market is a financial market, Enbridge recommends that the Board look to Ontario's securities regulator for potential guidance on information handling and disclosure. Any inadvertent disclosure of information that leads to other carbon procurement parties knowing the utility's carbon procurement strategy may negatively impact the utility and its customers.

9.0 OTHER ISSUES

Customer Abatement Options and OEB's Demand Side Management Framework

DSM has been a topic of active discussion, review and debate ultimately culminating in a Board Framework issued on December 22, 2014 (EB-2014-0134), and a subsequent decision in January 2016 around a six-year plan (EB-2015-0049) for Enbridge as well as for Union Gas Limited ("Union") (EB-2015-0029). The area of conservation was and continues to be a prominent discussion in the province's climate change policy development. Enbridge believes this recognition of the importance of DSM to be positive given that it is an important lever for customers in managing their GHG footprint and related costs. To this end, Enbridge takes pride in the success it has had in designing and delivery DSM programming for its 2.1 million customers since 1995. As per the Board Framework (EB-2014-0134) the topic of carbon policy and related implications is an incremental topic for the mid-term review scheduled to take place no later than June 1, 2018[1]. The basis of the DSM Framework does not fundamentally change and to do so would jeopardize programming available to the market and thereby also jeopardize important energy and GHG saving opportunities. Cap and trade will be taken into account during the development of load forecasts in the Integrated Resource Planning Study and in the development of a Transition Plan. In the interim, the existing DSM Framework need not be revisited in the cap and trade proceeding. Any clear impacts of cap and trade are the proper subject in the mid-term review and can be addressed in an incremental fashion on the existing multi-year plan as approved by the Board.

Treatment of New Business Activities

The Government of Ontario's GHG emission reductions targets are aggressive and will require the involvement of all industrial sectors. It is critical that the province's gas utilities be able to transition and effectively participate in a lower-carbon economy if these targets are to be achieved. In this respect, Enbridge aims to undertake new utility businesses which help the province achieve its GHG emission reduction targets since Enbridge desires and is uniquely positioned to play its part.

It is clear that for the province to meet emissions reduction targets, the planning and execution of abatement initiatives is critical and must take place on an expedited timetable. Initiatives of the size, scale and level of consumer participation necessitates the involvement of entities with both the inherent expertise and capabilities to complete such projects and a proven record of raising the required capital. Such projects are important not only from the perspective of meeting emissions reduction targets but also in meeting the province's overall objectives of energy conservation and improving the environment. These initiatives will benefit natural gas ratepayers and the residents of the province generally.

Few companies are in a position to credibly state that they are ready, willing and able to begin the planning necessary and to execute in a short time frame the steps necessary to turn initiatives such as renewable natural gas, power-to-gas, district energy, geothermal loops, etc. into operational realities. Enbridge has a long history of successfully completing large complicated projects on a timely and cost effective basis.

Enbridge acknowledges that historically, for it to undertake any business other than the distribution, transmission and storage of natural gas, questions could arise about the consistency of such projects with the Undertakings given by Enbridge to the Lieutenant Governor dated December 7, 1998 ("Undertakings"). To avoid such questioning and to ensure that the Board exercised its jurisdiction to

[1] Ontario Energy Board (Jan 20, 2016), *EB-2015-0049 Decision and Order*, s.13 Mid-Term Review, p.85

dispense with all or portions of the Undertakings pursuant to section 6.1 for the purposes of encouraging Enbridge's involvement in initiatives that would be supportive of the Government's objectives and the Green Energy and Green Economy Act, the Minister of Energy issued a directive dated September 8, 2009 ("Directive") to the Board. This Directive required the Board to dispense with those provisions in the Undertakings which would have prohibited or limited Enbridge's ownership and operation of certain generation, energy storage, solar-thermal water and ground-source heat pump facilities.

Enbridge notes that many of these facilities would not only assist in meeting the province's conservation objectives, they would also result in GHG emissions reductions and are therefore supportive of the goals of the Climate Change Act. The Government has identified a long list of GHG reduction initiatives in Schedule 1 to this Act. Many of these initiatives are of a project type that Enbridge is best suited to build and operate.

Enbridge submits that the full participation of natural gas utilities is a practical, reliable and cost-effective pathway for the province to achieve emissions reduction targets. It is Enbridge's view that some of the abatement initiatives that it is considering are clearly consistent with the Directive and may be commenced as soon as is reasonable.

However, to avoid any concerns being raised in future about compliance with the Undertakings, possibly after Enbridge has already expended significant time and incurred considerable costs planning and developing various abatement initiatives, Enbridge is seeking confirmation from the Board that it is prepared to consider dispensing with the Undertakings pursuant to section 6.1 in respect of GHG emissions reductions and abatement projects such as those identified in Schedule 1 to the Act. Stated differently, before Enbridge devotes the considerable effort and incurs the associated expense in respect of the development of an abatement initiative which is supportive of the Government of Ontario's climate change strategy, Enbridge is requesting an acknowledgement by the Board that it will reasonably consider using the dispensation subsection of the Undertakings for the purposes of allowing Enbridge to undertake abatement initiatives within the regulated utility.

It is important to understand that absent this acknowledgement by the Board, Enbridge will be hesitant to proceed on a timely basis to propose innovative and effective abatement initiatives. There can be little question that if such initiatives are left solely to non-regulated entities that there will be a significant delay in the implementation of such initiatives if they occur at all. One reason for this is the difficulty many entities will experience raising capital for innovative technologies and processes. Another reason that such projects would be subject to delay (or are not proposed at all) is the lack of the necessary experience and expertise.

Enbridge has unparalleled expertise in its franchise areas in respect of many of the deliverables that will be required to make abatement initiatives successful. This includes the planning and execution of large, complex and costly projects and the ability to raise sufficient capital at attractive rates to support such projects. Enbridge also has the proven track record to maintain and operate such facilities. These are all qualifications which it can bring to bear and which it submits should make it a material player achieving the goals of the province and, at the same time, providing information, value and service to its customers to further promote GHG emission reductions.

Recommendation (Board Staff)	Enbridge Response
"The DSM framework also includes a mid-term review provision (June 1, 2018). In light of the government's Cap and Trade program, the OEB may assess the appropriateness of this Framework at that time.	• Enbridge does not support a complete reopening of the DSM Framework currently in place until the end of 2020 as a part of this cap and trade proceeding. It was articulated by the Board that cap and trade was to be an item of incremental consideration at the mid-term review, but that it would likely not change the fundamentals of determining cost effectiveness of DSM. *"While cost-effectiveness screening and avoided costs are important considerations in pursuing all cost effective DSM, the OEB does not expect that there will be sufficient experience with cap-and-trade at the mid-term review to set a new direction for screening DSM programs.*[2]" • The existing DSM Framework and Plan do not need to start from a blank slate but instead have cap and trade and related GHG implications layered on top of our existing elements. This would allow for a balance of program consistency in the market to ensure customer savings and emission reductions are not jeopardized and adaptiveness to the new carbon policy and corresponding market (still not yet commenced). • Enbridge has been designing and delivering successful DSM initiatives to its 2.1 million customers since 1995. Enbridge recognizes the importance of continuous improvement and sees ensuring that future DSM programs drive GHG emission reductions consistent with the MOECC's goals.
With respect to new business activities, staff notes that the OEB decides on a case-by-case basis whether the utility can undertake these activities (e.g., the OEB would decide whether a utility could enter into the business of developing renewable natural gas to sell in the marketplace). Also, staff proposes to use existing OEB accounting policies for non-utility activities and affiliate	• Enbridge urges the Board to promote initiatives that are consistent and support the province's GHG emission reduction objectives. This may include but is not limited to natural gas for transportation, energy conservation and renewable natural gas. As Ontario moves to a lower-carbon economy such measures will ultimately benefit Enbridge's customers. These benefits can be achieved by the Board confirming that it is prepared to dispense

[2] Ontario Energy Board (Jan 20, 2016), *EB-2015-0049 Decision and Order*, s.13 Mid-Term Review, p.85

relationships as well as the natural gas undertakings.	with the Undertakings pursuant to section 6.1 in respect of GHG emission reductions and abatement investments and activities such as those identified in Schedule 1 to the Act. • With respect to Board Staff's comment concerning use of existing OEB accounting policies for non-utility activities; if by this statement Board Staff is referring to the Board's *G-2010-0030 Guidelines: Regulatory and Accounting Treatments for Natural Gas Utility-Owned Qualifying Facilities or Assets, dated February 25, 2010* Enbridge anticipates that many investments related to the reduction of natural gas related GHG emissions will pertain to long-serving utility assets and be properly included in the determination of the Company's rate regulated rates. The costs associated with these investments and activities should not be accounted for as non-utility costs. Rate regulated pricing applied to these assets and activities will result in lower costs for customers than would be achieved in a market pricing model and serve to transition the market to low or no carbon technologies for space and water heating.

EGD simulated 2015 emission allowance Analysis based on 2015 auction data

Rate		Consumption Volume 103m3	CO2e Emissions tonnes
1		4,997,039.58	9,369,449.21
6		5,006,600.93	9,387,376.75
9		328.28	615.52
100		-	-
110		667,950.07	1,252,406.38
115		512,238.60	960,447.38
125	*	630,978.69	1,183,085.05
135		68,664.95	128,746.78
145		77,495.98	145,304.96
170		394,777.92	740,208.61
200		176,403.19	330,755.97
300 (including Landfil gas)	*	35,440.43	66,450.80
		12,567,918.62	23,564,847.42

* 2017 volume as proxy (2015 volume not available)

Allowance bought

Date	**Cdn Dollar Per Gazifere actual purchase price**										
	Cdn $			Cdn Unit Price	US$ Unit P		FX		Cdn Unit Price at $1.13		Cdn $
Nov-15	$	89,216,883.47	$	17.00	12.73	$	1.34	$	14.40	$	84,849,858.46
Aug-15	$	88,427,089.94	$	16.39	12.52	$	1.31	$	14.17	$	83,450,135.74
May-15	$	96,556,962.30	$	15.01	12.29	$	1.22	$	13.90	$	81,917,106.09
Feb-15	$	100,140,992.96	$	15.14	12.21	$	1.24	$	13.81	$	81,383,878.39
	$	374,341,928.68								$	331,600,978.68

Budget Allowance

Budget Cdn Dollar	$	322,487,293.41	$	13.69	12.1	$	1.13
Amount captured by variance account (Including Price and FX fluctuation)	$	51,854,635.26					
		16%					
Amount captured by variance account (Price fluctuation Only)	$	9,113,685.26					
		3%					
Amount captured by variance account (FX fluctuation Only)	$	42,740,950.00					
		13%					

EGD simulated 2013 emission allowance Analysis based on 2013 auction data

Rate		Consumption Volume 103m3	CO2e Emissions tonnes
1		4,785,564.37	8,972,933.18
6		4,739,870.03	8,887,256.31
9		711.29	1,333.68
100		-	-
110		522,326.44	979,362.08
115		568,678.52	1,066,272.23
125	*	630,978.69	1,183,085.05
135		55,455.90	103,979.81
145		166,467.34	312,126.26
170		496,776.04	931,455.08
200		184,331.97	345,622.43
300 (including Landfil gas)	*	35,440.43	66,450.80
		12,186,601.02	22,849,876.91

* 2017 volume as proxy (2013 volume not available)

Allowance bought

Date	**Cdn Dollar Per 2013 actual auction price**					
	Cdn $	Cdn Unit Price	US$ Unit Price	FX	Cdn Unit Price	Cdn $
Nov-13	$ 68,807,608.12	$ 12.05	11.48	$ 1.05	$ 11.36	$ 64,895,052.61
Aug-13	$ 73,200,290.05	$ 12.81	12.22	$ 1.05	$ 12.09	$ 69,078,183.18
May-13	$ 81,562,791.34	$ 14.28	14.00	$ 1.02	$ 13.85	$ 79,140,308.06
Feb-13	$ 78,569,993.98	$ 13.75	13.62	$ 1.01	$ 13.48	$ 76,992,213.98
	$ 302,140,683.49					$ 290,105,757.83

Budget Allowance

Budget Cdn Dollar	$ 242,169,342.66	$ 10.60	10.71	$ 0.99
Amount captured by variance account (Including Price and FX fluctuation)	$ 59,971,340.82			
	25%			
Amount captured by variance account (Price fluctuation Only)	$ 47,936,415.17			
	20%			
Amount captured by variance account (FX fluctuation Only)	$ 12,034,925.66			
	5%			