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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
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2300 Yonge Street
Toronto, ON
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DELIVERED BY EMAIL

Dear Ms. Walli,

RE: Consultation to Develop a Regulatory Framework for Natural Gas Distributors' Cap and Trade Compliance Plans

Board File No. EB-2015-0363

On behalf of the Ontario Greenhouse Vegetable Growers (OGVG) we are writing to provide our comments on the Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities.

Generally speaking OGVG supports the proposals by OEB Staff, in the context of their recommendation that, while distributors should be required to file Compliance Plans with a term that mirrors the applicable Compliance Period, the first Compliance Plan to be filed by distributors should cover only the first year on the compliance period (2017) on the understanding that the companies will use that first year to gain experience with respect to their compliance activities in order to better inform a Compliance Plan that will span the remaining years of the Compliance Period. OGVG presumes that to the extent some specific mechanic of the framework appears to require reconsideration that the distributors and intervenors will be able to address any concerns on the review of the longer term Compliance Plan.

To the extent that OGVG has comments with respect to the OEB Staff paper, particularly with respect to those proposals that the Board has requested input on, OGVG has, below, cited the text from the OEB Staff proposal (in italics), followed by OGVG's comments concerning the proposal.

Cost Causation

To meet its compliance obligations discussed above, the utility will incur *administrative costs for monitoring, reporting and verification of emissions (MRV), purchasing/trading emissions units to manage its portfolio, and IT/CIS/billing systems. Staff recognizes that the LFEs and voluntary participants are responsible for managing their own GHG compliance obligation, and as such, they would be incurring their own administrative costs to comply with the Cap and Trade program. As a result, these stakeholders may suggest that they should not be responsible for the utility's administrative costs.*

However, administrative costs will be incurred to support both facility- and customer-related obligations and these costs will be a cost of doing business. Staff notes that administrative costs are not expected to be material. In California, the 2015 administrative and outreach costs were approximately $4 Million (ranging across utilities from 0.1% to 2.7% of total compliance costs). Therefore, staff is proposing that administrative costs should be borne by all customers including LFEs and voluntary participants. This approach is consistent with how these costs are dealt with in California and Québec.

OGVG agrees in principle that some level of administrative cost will be incurred to support both facility- and customer-related obligations, and that accordingly there is a cost causality link between LFEs/voluntary participants and administrative costs insofar as LFEs/voluntary participants should be responsible for an allocation of the facility-related obligation costs.

However OGVG does not agree that all administrative costs should be allocated across all customers (which appears to OGVG to be implicit in OEB Staff's proposal). OGVG respectfully submits that administrative costs should first be allocated between facility-related obligations and customer-related obligations on a volumetric basis and then only the amount allocated to facility-related obligations allocated across all rate classes.

In OGVG's view the administrative effort to meet the customer related obligations will be far in excess of the administrative effort to meet the facility related obligations based on the relative magnitude of the emissions each set of obligations relate to, such that allocating the administrative costs to all classes without first accounting for that disparity in effort results in an over-allocation of administrative costs to LFEs and voluntary participants.

Cost Allocation

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 because the cost driver is load (and associated GHG emissions). This approach is consistent with California and Québec.

Since administrative costs will form part of the utility's on-going business, staff suggests they be allocated in the same manner as similar existing administrative costs. For example, incremental billing costs should be allocated consistent with the OEB approved cost allocation methodology for billing costs. Furthermore, separation of CIS system costs between cap and trade activities and other types of activities *may raise accounting concerns. OEB staff sees no reasons to track these costs separately from similar costs.*

OGVG has no objection to OEB Staff's Cost Allocation proposal, other than to reiterate that only administrative costs that have been allocated to facility-related obligations should in turn be allocated across all classes as proposed. Administrative costs that have been allocated to customer-related obligations should only be allocated across all rate classes after excluding LFEs and voluntary participants from the allocation exercise.

Rate Design

OEB staff is proposing annual volumetric charges for the recovery of both customer-related and facility-related obligations costs. This means that costs would be recovered on an equal (m_3) basis for each of these costs. This will link GHG emission costs with a customer's natural gas consumption. Staff notes that this approach is consistent with California and Québec.

OGVG supports the use of a volumetric charge for the reasons put forward by OEB Staff. OGVG is not sure what OEB Staff means when it says the costs would be recovered on an "equal" basis; presumably the volumetric charge to be applied to each class will be individually calculated based on the costs allocated to each class.

Bill Presentment

Facility-related Obligation Costs and Administrative Costs

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

OGVG does not oppose OEB Staff's proposal to include Facility-related Obligation Costs and <u>Facility-related</u> Administrative Costs in the delivery charge on the basis that such charges relate specifically to the utilities' costs to provide delivery service. In OGVG's view Customer-related Administrative Costs should be recovered in conjunction with the Customer-related Obligation Costs.

Customer-related Obligation Costs

Staff notes that all customers are billed by the utility for their delivery charge. This is not the case for the commodity charge. For example, large gas users that purchase their gas directly from a wholesaler or producer are not billed by the utility for their commodity costs; either are low-volume consumers that purchase natural gas from gas marketers.

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. 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. Staff is also concerned that an additional line item on the bill could increase customer confusion and utility call centre activity.*

Staff recommends that the per-cubic-meter charge for customer-related obligation costs should also be included in the delivery charge. This will ensure uniform bill presentment for all consumers, regardless of the utility. The LFEs and voluntary participants will not be required to pay the customer-related charge, therefore, this charge will need to be differentiated between LFEs (and voluntary participants) and all other customers. Applying the customer-related charge on a customer-specific, "as applicable" basis will provide the necessary flexibility to accommodate LFEs and voluntary participants that may be in several utility rate classes. 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.

First, as noted above, OGVG submits that the Customer-related Administrative Costs should be combined and recovered with the Customer-related Obligation Costs.

Second, OGVG does not agree that Customer-related Obligation and Administration Costs ("Customer Costs") should be included in the delivery charge. In OGVG's view the Customer Costs are not costs incurred by the utility for the purposes of distributing natural gas, such that subsuming those costs within the delivery charge inappropriately characterizes the costs for the purpose of bill presentment. In OGVG's view there should be a separate line item on the bill for the Customer Costs, in recognition that this is a new cost being imposed on customers that is not directly connected to either the cost of delivering natural gas or the cost of natural gas itself.

OGVG notes that both EGD and Union, in their respective letters to the Board seeking an early determination with respect to billing, specifically requested that the charge be presented as a separate line item on the bill.[1] Accordingly it would seem that neither utility shares OEB Staff's concern that an additional line item may increase customer confusion and utility call centre activity. In OGVG's view appropriate customer communication prior to the addition of the new charge should adequately address issues concerning customer confusion; in fact, OGVG suggests, it will be less confusing to customers and easier to explain a separate, new charge on the bill as the driver for an increase in the total bill effective January 1, 2017 then it will be to explain a substantial increase in the delivery charge based on a new cost subsumed within that existing line item.

Customer Outreach and Key Messaging

Based on the objectives listed above, it is expected that the utility would develop a communication strategy/plan, including proposed messaging. Staff recommends that the OEB review the utility's messaging in its proposed communication plan/strategy.

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[1] EB-2015-0363, EGD letter dated April 21, 2016 page 4, Union letter dated April 22, 2016 pages 8-9.

This approach provides the utility the flexibility to develop a communication plan that bests responds to its customers, while ensuring consistent messaging to all natural gas consumers within Ontario. This is consistent with California.

OGVG supports the proposal by OEB Staff that each utility would develop a communication strategy/plan and submit the strategy/plan to the OEB for approval. Since one of the stated goals of the proposal is to ensure consistent messaging between utilities in would by OGVG's expectation that the utilities will likely consult with one other to ensure consistent submissions to the OEB for review.

Yours very truly,

Michael R. Buonaguro