



June 22, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

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

On behalf of the Ontario Energy Association's (OEA) Board of Directors and members, we appreciate the opportunity to provide you with comments on the OEB Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities – EB-2015-0363.

As Ontario's energy voice, the OEA represents Ontario's energy leaders and corporate members that span the full diversity of the energy industry. Such diversity allows us to offer a broad and comprehensive perspective on a cap and trade regulatory framework.

The OEA made a number of submissions as the government developed the legislation and regulations of Bill 172, Climate Change Mitigation and Low-carbon Economy Act, 2016, the Cap and Trade Regulatory Proposal and the Revised Guideline for Greenhouse Gas Emissions Reporting. In addition, the OEA appeared before the Standing Committee on General Government to discuss its views on Bill 172. Throughout its submissions and discussions, the OEA endorsed the intent of Bill 172 and the Regulations and believes that industry and every Ontarian has a role to play in addressing climate change.

In its advice to Government on Bill 172, the OEA espoused five key principles it believes should be taken into consideration for all areas of cap and trade. The five principles are:

1. Recognition of past practices;
2. Role of energy moving forward;
3. Consideration of financial impact to ratepayers;
4. Process/red tape/timeline; and
5. Transparency.

The OEA believes that at least three of these principles are relevant for consideration by the OEB when considering the regulatory framework for cap and trade. The three principles are: consideration of financial impact to ratepayers, timeline, and transparency.

CONSIDERATION OF FINANCIAL IMPACT TO RATEPAYERS

The financial impact of a cap and trade system on Ontario's already stretched energy consumers must not be ignored. Electricity and natural gas ratepayers have already paid for significant upgrades to the province's energy systems on both the production and distribution levels, and thus have limited ability to absorb further cost increases resulting from the cap and trade system. The regulatory framework will have to recognize the prudently realized costs of the regulated utilities as they fulfill their cap and trade obligations while minimizing regulatory and reporting costs and burdens.

TIMELINE

The process used to establish the cap and trade regulatory framework – in conjunction with the broader climate change strategy – and the subsequent implementation of the framework will be an important determinant of the overall success of reducing emissions. Regulatory and other administrative barriers to stakeholder participation in program development and deployment processes must be minimized. In addition, the current timelines are very optimistic given the complexity of what is being proposed, and that complexity also means that there must be ample opportunity for continuous in-depth stakeholder consultation as well as opportunities to learn from previous actions. Quite simply, the OEA is concerned that the proposed timelines are too short given the importance and magnitude of what is being proposed; for comparison, the timelines from California and Quebec are stated at 6+ years and 5+ years in length, respectively, allowing regulatory Commissions to learn as they proceeded.

TRANSPARENCY

For the cap and trade program to be credible it must operate as transparently as possible. It goes without saying that a fair market will be essential to ensuring participant confidence in both the impact and manageability of the program; however, it is also essential that the public at large be clear on what they are being charged for and what is being done with the revenues collected by the market. The intent of the cap and trade program is to modify people's behaviour and raise awareness of the government's actions to address climate change. It is therefore vital that costs charged to energy consumers be clearly visible as a separate bill line item and not simply included in the various other charges present on electricity and natural gas bills (e.g. in the regulatory or delivery charges).

The OEA's members have come together to provide this collective advice to the OEB. We believe that our recommendations would contribute to an OEB framework that is simplified, flexible and transparent in order to ensure prudence, minimize risk, and ensure reasonable program costs for ratepayers. Since a cap and trade system is new for Ontario, we believe that the OEB should develop a framework that enables the industry and the regulator to 'walk before they run'. Cap and trade will be a model that is in effect for many years; it is important to implement it slowly and with sufficient room for improvements as lessons are learned from its operation. In addition, it must be transparent so that the customer sees the cost of carbon and can modify their behaviour accordingly.

RECOMMENDATIONS

In order to incorporate these principles, the OEA would like to provide the following recommendations for consideration. We believe these recommendations, building upon our principles, will ensure an effective regulatory framework that will be an important cornerstone for industry and more importantly its customers.

1. The regulatory framework should focus on 2017 and the beginning of the 2018-20 period.

It is critical that we collectively develop and implement a framework that allows all participants to understand the mechanics of the cap and trade process, gain valuable experience in fulfilling the process and enables all participants to make corrections and adjustments to the process to ensure that ratepayers and industry are not negatively

impacted by the process. When the OEB rolled out the framework to enable direct purchase of natural gas beginning in the late 1980's, the framework allowed for the gradual transition to a fully open market that took many years to finalize. In a similar way, the OEB should allow for a smooth and focused evolution of the cap and trade model in order to minimize harm to the market. This framework will likely evolve beyond the first compliance period. Therefore, the near term focus should be one-year compliance plans initially, with a view to longer-term plans down the road. The Board may also consider an expedited approval of the utilities' 2017 carbon procurement plans to ensure the framework process continues without causing delays in the intended implementation schedule.

2. In order to modify customer behaviour, the cost of cap and trade must be shown as a line item on the utility bill.

The objective of a cap and trade model is to lower carbon emissions by pricing carbon in order to modify customer behaviour. The only means to show customers individually what they are paying for carbon is through a transparent line item on the bill. Incorporating the cost of carbon with other costs is not consistent with the Government's intention to modify behaviour. The OEA strongly recommends that the cost of carbon be shown clearly as a line item on the natural gas utility bill.

The OEA greatly appreciates the opportunity to provide comments on this important file. The OEA, its Board and its members look forward to continuing the dialogue with the OEB on how our recommendations would strengthen the functioning of Ontario's cap and trade program through the regulatory framework. If you have any questions regarding this submission please feel free to contact me or Tina Arvanitis, Vice President, Government Relations and Communications at your convenience at 647.920.3269 or tina@energyontario.ca.

All the best,



Bob Huggard
President & CEO
Ontario Energy Association