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Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario
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Attention: Kirsten Walli, Board Secretary

Dear Kirsten Walli:

Comments of TransAlta on Ontario Energy Board Staff Discussion Paper on a Cap and Trade Regulatory Framework for the Natural Gas Utilities (EB-2015-0363)

TransAlta is pleased to provide comments to the Ontario Energy Board (OEB) on its Staff Discussion Paper on a Cap and Trade Regulatory Framework.

TransAlta is Canada's largest publically traded power generator and marketer of electricity and renewable energy. In Ontario, TransAlta has four gas-fired generating assets: Sarnia, Windsor, Mississauga, and Ottawa. These facilities represent almost 800 MW of electricity production. Gas service for these facilities is provided by either Union Gas or Enbridge Distribution. TransAlta and its customers are directly impacted by the Ontario Cap and Trade legislation.

1. Clear Separation of Cap and Trade Costs From Other Billing Items is Essential

The OEB notes that there are three categories of costs associated with GHG compliance obligations for gas-fired generators:

- Facility-related obligations for facilities owned or operated by the utility
- Customer-related obligations for natural gas-fired generators
- Administrative costs to meet the utility's administrative costs to meet its compliance obligations. The administrative cost is further broken down into administrative cost for monitoring, reporting and verification of emissions, purchasing/trading emission units to manage the utility's portfolio, and IT/CIS billing systems.

In the Bill Presentment section, OEB staff recommends including all three costs in the customer delivery charge. TransAlta disagrees with this recommendation. TransAlta's customers are sophisticated customers who require transparency of all cost items on their bill. It is essential to

discern which costs are associated with energy delivery and which costs are associated with Cap and Trade costs. The Cap and Trade components that comprise part of the bill should be easily found and verifiable. TransAlta therefore proposes that sophisticated (large volume) customers have two Cap and Trade line items on their bill, one line item for charges for allowances and the other line item for charges related to utility-owned facilities and administrative costs.

TransAlta views the proposal to have the Cap and Trade costs on the Tariff Sheet as ineffective in providing clarity and verifiability as compared to charges being laid out transparently on the utility bill. Should the OEB determine that it does not want to include Cap and Trade costs in separate billing line items, TransAlta requests the gas utilities provide an automated on-line query tool such that companies can obtain a break-down of the monthly bill into its Cap and Trade components.

On Page 31 of the submission, the OEB staff recognizes the importance of identifying customer-related costs: *"In particular, the gas-fired generators require the ability to identify the customer-related obligations costs for bidding strategy purposes ..."* The capability to separate customer flow-through costs from those remaining with the generator is a necessity.

2. The Cap and Trade Deferral Account Represents Risk for Gas-Fired Generators

The deferral account will accumulate the difference between the amount the utility actually paid for in terms of compliance instruments and what it actually recovered in rates. The deferral account will be "trued-up" through the OEB approved adjustments to the customer's cost of allowances. On Page 34 of the submission, the risk of the deferral account to gas-fired generators is identified. (*e.g. electricity customers may be impacted to large variances after they have supplied power into the market*).

TransAlta seeks confirmation that the deferral account will be administered on a prospective versus a retroactive basis. The OEB should approve rates for the future period rather than apply a charge to a past period, as is standard regulatory treatment of deferral accounts.

As the magnitude of the changes to the deferral account from one period to the next are unknown, they present a risk to gas-fired generators that cannot be mitigated. The risk increases with the magnitude of the deferral account balance.

TransAlta respectively suggests that the true-up period of the deferral account be performed quarterly, at least in the early years of the Cap and Trade program. TransAlta does not support a one year true-up period

The quantum of the deferral account imbalance is seen by TransAlta as occurring most likely in the early years of the Cap and Trade program. TransAlta supports a "trigger mechanism" such that should a large imbalance be accumulated, the OEB and stakeholders would discuss how to best to deal with the imbalance. Until such a "trigger mechanism" is developed and demonstrated to be effective, it would be prudent for the true-up period to be quarterly.

The OEB has appeared to open the door to utilities undertaking Cap and Trade risk management activities. TransAlta requests the OEB and the gas utilities examine the possibility of the utilities offering a premium service to gas generators, such that they are no longer exposed to deferral account risk. This would support the OEB guiding principle of Rate Predictability: consumers should have just and reasonable and *predictable* (emphasis added)

rates regarding the impact of the utilities' cap and trade activities.

3. Gas-Fired Generators are Best Able to Purchase Their Own Allowances

The current Cap and Trade legislation requires gas utilities to be responsible for procuring allowances for gas-fired generators. In terms of load, generators present a large uncertainty for the gas utilities in terms of their ability to forecast production. Gas-fired generators are best able to forecast their own production and purchase their own required allowances. If allowed to do so, all customers would benefit through reduced deferral account volatility.

TransAlta respectfully suggests that the legislation at some point be amended to allow gas-fired generators to purchase their own allowances, or alternatively, permission be given for gas utilities and gas-fired generators to work together to develop an acceptable mechanism such that gas generators could acquire and transfer allowance costs to the gas utility.

Having the gas generators acquire their own allowances would support the OEB guiding principle of Cost-effectiveness: Compliance Plans are optimized for economic efficiency and risk management.

4. On-going Discussions Between the Government, OEB, and Stakeholders are Essential

Cap and Trade in Ontario is a very large, immensely intricate and evolving program that will undoubtedly have to be revisited in the future to accommodate acquired learnings. For this reason, on-going discussions between government, the OEB and stakeholders is necessary to progress Cap and Trade forward. This would also support the OEB's guiding principle of continuous improvement.

TransAlta seeks confirmation that the OEB's concerns over controlling messaging is directed towards small volume customers and is not mean to preclude future discussions.

5. Term of First Compliance Period

TransAlta supports the utilities filing only a one-year compliance plan for first year (2017). As noted, this would allow the utilities to gain experience before undertaking a longer-term compliance plan. Rather than automatically transition to a three-year compliance plan, TransAlta suggests waiting to make this determination until late in 2017, the status of linkages with other jurisdictions are known.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

TRANSALTA CORPORATION



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