

COMPLIANCE OPTION ANALYSIS AND OPTIMIZATION OF DECISION-MAKING

1. Enbridge provided an overview of its Compliance Plan in the previous exhibit (Exhibit C, Tab 1, Schedule 1). However, this exhibit provides more in-depth discussion and analysis on why the Company landed on its particular proposed strategy for 2017.

DESCRIPTION OF COMPLIANCE OPTIONS

2. AI provides descriptions of the compliance instruments available to Enbridge in the Carbon Market Report, which is included at Exhibit C, Tab 1, Schedule 1, Appendix A, on page 6 in the section titled “Compliance Instruments Under Ontario Cap and Trade”.
3. Detailed discussion of the compliance instruments included in this 2017 Compliance Plan is provided in the sections below.

Allowances

4. An allowance represents the authorization for a capped participant – which includes large final emitters, natural gas and transportation fuel distributors and electricity importers – to emit one tonne of carbon dioxide equivalent (“tCO₂e”). The total volume of allowances in the Cap and Trade market, made available by the Ministry of the Environment and Climate Change (“MOECC”), is equal to the annual greenhouse gas (“GHG”) emissions cap for 2017. The Ontario cap is reduced by approximately 4% annually. Allowances can be obtained through i) submitting applications to the MOECC for free distribution, ii) purchase at quarterly auctions

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administered by the MOECC, iii) purchase from the MOECC through strategic reserve sales, which operate similar to the quarterly allowance auctions, iv) purchase on the secondary market, and v) purchase from other Cap and Trade participants. In the Regulation it is outlined that the natural gas utilities would not be eligible for free distributions, and therefore all allowances required by Enbridge to meet its compliance obligation must be purchased from one of the sources outlined above.

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Table 1: [REDACTED]

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Allowances – Secondary Market

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17. AI discusses ICE at length⁴, defining the exchange as “an electronic trading platform that offers access to regulated future exchanges, global OTC markets and clearinghouses in North America and Europe.” AI also identifies ICE as “the most successful and liquid exchange platform for California Carbon Allowances (“CCA”), including futures and options.” Enbridge frequently accesses ICE in its day-to-day natural gas trading activities and is investigating its carbon market interface.

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Offsets

19. An offset credit is similar to an allowance in that it can be retired to satisfy obligations under the Regulation. Similarly, one offset credit is equal to one tCO₂e. Offset credits are created through a verified reduction or absorption of GHG emissions in a sector of the economy not covered by the Cap and Trade program. The reduction must demonstrate “additionality”, the concept that the GHG reductions would not have occurred without the payment for the offset and would not have occurred under a business-as-usual scenario.

⁴ Exhibit C, Tab 1, Schedule 1, Appendix A, AI Market Report, page 16

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20. The need for verification of offset credits presents an “invalidation risk”, non-existent in the use of allowances. This represents the risk that offset projects may at some point after they are issued be found to have not reduced the stated GHG emissions, and offset credits may be rescinded by the issuing body. Invalidation risk for Ontario offset credits is dependent on how the compliance instruments are defined in the Ontario offset regulation. At the time of preparing this evidence, the MOECC has not released the regulations regarding offsets and offset protocols.

21. Under the Ontario Cap and Trade Regulation, Enbridge is permitted to use offsets to cover a maximum of 8% of its annual compliance obligation. Given the uncertainty around Ontario’s offset regulation, the potential availability of offsets is difficult to approximate as it remains unclear if any offset credits will be available in Ontario in 2017.

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APPLICATION OF GUIDING PRINCIPLES AND RATIONALE FOR STRATEGY

[REDACTED]

Table 3: [REDACTED]

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MARGINAL ABATEMENT COST CURVE

33. Enbridge understands that the Board will provide a ten-year marginal abatement cost curve (“MACC”) to the utilities in mid-2017, which will be updated at the beginning of each three-year compliance period. As the MACC is not yet available to Enbridge, it was not used in consideration of abatement opportunities for the 2017 Compliance Plan. Enbridge may seek to establish its own MACC or similar analysis for its unique facility-related or customer-related abatement initiatives as appropriate.

ABATEMENT ACTIVITIES

34. On page 6 of the Framework the Board lists a number of Potential GHG Abatement Measures that the utilities may undertake to meet their compliance obligations, as captured in Table 4 below.

Table 4 – Customer and facility-related emission abatement opportunities

Measure	Applicability to Utilities
Customer abatement activities	Customer emissions
Renewable energy and fuel switching	Facility and customer emissions
New technologies	Facility and customer emissions
Building retrofits	Facility and customer emissions
Measures to mitigate and reduce fugitive emissions	Facility emissions
Biogas, renewable natural gas	Facility and customer emissions

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35. Enbridge is committed to a diverse portfolio of compliance options which will in due course include both customer and facility related abatement initiatives.

Customer-Related Abatement

36. In 2017, Enbridge's sole customer-related abatement activity is driven by home energy retrofits which are incremental to currently approved DSM programming and which were funded by the government through the Green Investment Fund ("GIF"). By considering this activity in this Compliance Plan, Enbridge is recognizing and maximizing the value of the GIF investment for ratepayers. The related emissions savings will be documented in the annual monitoring report upon verification. Enbridge agrees with the Board's conclusion that the DSM Framework and related mid-term review provision provide the appropriate opportunity to assess if and how demand side management ("DSM") interacts with future Cap and Trade Compliance Plans. This is discussed in more detail in Exhibit C, Tab 3, Schedule 4.
37. A number of the customer-related emission abatement opportunities are anticipated to be assessed and where appropriate included in future Compliance Plans, but as discussed in the New Business section of the evidence, Exhibit C, Tab 6, Schedule 1, will do so under separate applications or within leave to construct applications.

Facility-Related Abatement

38. In 2017 Enbridge does not intend to pursue any facility-related abatement projects with the specific intent of reducing GHG emissions.

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39. Enbridge will however leverage ongoing asset management projects to maximize the existing investment that is already built into the Company's Custom Incentive Regulation.
40. Facility-related emission abatement opportunities are anticipated to be assessed and where appropriate included in future Compliance Plans. Enbridge will identify these opportunities is discussed in Exhibit C, Tab 3, Schedule 5.

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