EB-2016-0296 / EB-2016-0300 / EB-2016-0330

Cap-and-Trade Compliance Plan Oral Hearing

Association of Power Producers of Ontario (APPrO)

Compendium for Cross-Examination

of Union Gas Limited ("Union")

and Enbridge Gas Distribution Inc. ("Enbridge")

April 18, 2017

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Ontario

Ontario Energy Board

Report of the Board

Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities

EB-2015-0363

September 26, 2016

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conducted on experience in other jurisdictions, the OEB does not expect these costs to be sufficiently material to justify changing the allocation methodology.

Most stakeholders supported the proposal in the Discussion Paper that administrative costs should be recovered from all customers. Stakeholders representing large gas users commented that a portion of the administrative costs should not be borne by the LFEs or voluntary participants, as they would be incurring their own administrative costs to comply with the Cap and Trade program. These stakeholders also commented that the volume and associated GHG emissions from the LFEs and voluntary participants are not part of a Utility's compliance obligation and that, as a result, their liability for the Utility's administrative costs should be limited to those incurred in meeting facility-related GHG obligations only.

The OEB agrees that administrative costs will be incurred to support both facility-related and customer-related obligations. Based on the expectation that the costs will not likely be material, introducing a new approach to cost allocation would not be warranted. The OEB may revisit this approach in the future, based on experience with the Utilities' implementation of the Cap and Trade program and associated administrative costs.

6.2 Rate Setting

The OEB has decided that the customer-related and facility-related charges will be set based on the annual weighted average cost of the Utilities' proposed compliance options. This approach will align the charges with the costs of the proposed compliance options in the initial years, while mitigating volatility.

The OEB has determined that it will set annual charges to recover the approved costs of compliance for both customer-related obligations and facility-related obligations. To set these charges, the OEB has determined that it will use the Utility's annual weighted average costs of its proposed compliance options. This approach will ensure the matching of the Utilities' forecast costs with the charges to customers during the early years of the Cap and Trade program as the OEB, Utilities and customers gain experience with the program, while also providing stability in the charges. The process of setting the charges should be focused on changes in the forecasts of annual costs, unless the Utility has made material changes to its Compliance Plans.

The Discussion Paper identified two options for setting the annual customer-related and facilitated-rated charges: based on the Utilities' annual forecasts, or based on the Utilities' forecasts for the entire compliance period. Those stakeholders who

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commented on this issue supported establishing charges based on the Utility's annual forecast of costs. Some stakeholders stated their preference for charges to be based on the weighted average cost of the Utility's proposed compliance options as this would provide transparency and would represent the best available forecasts. As discussed in section 5, the Utilities have indicated that they need to gain some experience in the marketplace before they can develop comprehensive and longer term Compliance Plans.

The OEB has determined that it would be premature at this time to adopt an approach where the charges are set based on the Utilities' forecasts for the entire compliance period. Setting the charges for recovery based on the weighted average cost of Utilities' compliance options for the particular rate year will provide for a matching of costs to volumes consumed by the Utilities' customers. This approach, in the OEB's view is appropriate during the early stages of the Cap and Trade program while the OEB, Utilities and stakeholders gain experience.

In the longer-term, a move to a compliance period-based approach to setting the charge will provide more predictability over the period, and support longer-term planning by Utilities. However, without sufficient information about the costs and activities over the compliance period, there would be a greater risk of variances and a need for regular adjustments, thus reducing the value of the approach.

The OEB recognizes that the Utilities may purchase future vintage allowances (these are emissions units that have an effective date in a future year) and other compliance options during the compliance period. For example, a utility could buy future vintage allowances in 2017 for the years 2018 – 2020 and also enter into other types of agreements to meet future GHG obligations. For the purposes of setting the annual charge, it is expected that the Utilities will align their costs with their annual consumption (and associated GHG emissions). This approach will match a Utility's revenue with its annual GHG emissions.

6.2.1 **Re-Calibration and True-Up Processes**

The OEB has decided that the re-calibration of the rates for customer-related and facility-related costs and any required true-ups should be done annually. Annual reviews will provide the opportunity to manage any volatility in the carbon markets and costs for compliance options against the desire for rate predictability.

The OEB is of the view that requiring more than annual reviews at this stage is not warranted given the newness of the Cap and Trade program and in particular the fact that for the initial year the program will be an Ontario only market. The OEB also

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believes that deferral account balances should be apportioned between customer-related and facility-related obligations and, to avoid any market distortions, the balances should be administered on a prospective basis, not a retroactive basis.

Some stakeholders indicated that charges should be re-calibrated quarterly, similar to the QRAM process, to avoid large deferral accounts (e.g., due to rate exchange fluctuations). Other stakeholders supported an annual re-calibration and true-up. Some of these stakeholders suggested that at this time annual processes are appropriate but as experience is gained, the frequency may need to be reviewed. The OEB acknowledges the potential for large deferral account balances in relation to the customer-related obligation costs and will, if necessary, examine more frequent re-calibrations and true-ups in the Regulatory Framework review process. This does not preclude the Utilities or the OEB from determining, based on particular circumstances, that a more frequent review of the rates is needed.

6.3 Bill Presentment

The OEB has determined that costs incurred by the Utilities to meet their customer-related obligations and facility-related obligations will be included as part of the Delivery charge on the customer's bills[8]. This charge will be included for all customers other than LFEs and voluntary participants.

Under the *Climate Change Act*, Utilities are responsible for GHG emissions related to the operation of their equipment and facilities, in the same way any other LFE is required to comply with the legislation. These compliance costs, like the costs incurred by the Utilities to comply with other legislated environmental and health and safety regulations, are part of their on-going business activity and are appropriately reflected in the Delivery charge. Including the charges associated with Cap and Trade compliance in the Delivery charge means that these costs are being treated in the same manner as the OEB treats all other Utility costs of operation. Costs associated with the Cap and Trade program compliance are part of the Utilities' ongoing cost of providing natural gas service.

The Utilities are required by the *Climate Change Act* to be responsible for the GHG emissions related to all natural gas delivered on their distribution systems to

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[8] OEB's early determination regarding billing of cap and trade related costs and customer outreach, issued July 28, 2016.

DEFERRAL AND VARIANCE ACCOUNTS

1. As part of the Company's 2017 Cap and Trade Compliance Plan, Enbridge is proposing the use of two Cap and Trade related deferral accounts: the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"), and the Greenhouse Gas Emissions Customer and Facility Costs Variance Account ("GGECFCVA").

2. The Board approved the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA") in Enbridge's Custom Incentive Regulation ("CIR") proceeding (EB-2012-0459). The account was approved in recognition of the potential for a government program to reduce greenhouse gas ("GHG") emissions. No costs related to any such program were included in the budgets used to set Allowed Revenues under Enbridge's CIR ratemaking model. The Board described the GGEIDA on page 70 of its Decision with Reasons in the CIR proceeding as follows:

> [t]he GGEIDA would be used to record the impacts of provincial and federal regulations related to greenhouse gas emission requirements along with the impacts resulting from the sale of, or other dealings in, earned carbon dioxide offset credits.

3. Enbridge has and will continue to record administrative costs, incurred in relation to the implementation of the Cap and Trade program, in the 2016 GGEIDA, for clearance in 2017.

4. Given the development of Ontario's Cap and Trade program, Enbridge anticipates that it will incur additional administrative costs in 2017, with regards to program implementation, launch, and ongoing administration and compliance requirements. Enbridge proposes to continue to record incremental administrative costs incurred in 2017 in the 2017 GGEIDA. A forecast of these costs has been included in Exhibit C, Tab 3, Schedule 6, Table 2.

Witnesses: R. Craddock
A. Langstaff
J. Murphy
F. Oliver-Glasford
R. Small

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5. Enbridge will seek cost recovery for the 2016 administrative costs in 2017 at the same time as it clears other 2016 deferral and variance accounts or as part of the August 2017 Cap and Trade Compliance Plan filing. Enbridge sees merit in clearing the 2016 GGEIDA at either time and looks for direction from the Board. Administrative costs incurred in 2017 will be recorded in the 2017 GGEIDA and the Company will seek recovery of same in 2018 as part of its 2017 deferral and variance account clearance application or as part of the Company's 2019 Compliance Plan filing in August of 2018.

6. In order to ensure that the Company neither over- or under-recovers its Customer-related obligation costs and Facility-related obligation costs, Enbridge proposes the establishment of a new variance account entitled the Greenhouse Gas Emissions Customer and Facility Costs Variance Account ("GGECFCVA"). This account will allow for recovery or credit of any difference between actual Customer and Facility-related obligation costs incurred in 2017, inclusive of financing charges currently estimated at [redacted] for 2017, and the actual amount which is recovered through rates, being the aggregate of the revenues from the Cap and Trade Unit Rates for Customer-related and Facility-related costs. Enbridge's systems will be able to apportion the amounts collected between Customer-related obligations and Facility-related obligations. Any variance recorded in the 2017 GGECFCVA will be sought for clearance as part of the Company's 2018 True-Up filing, or at the Board's discretion.

7. Simple interest will be calculated on the opening monthly balances of the GGEIDA and GGECFCVA using the Board Approved EB-2006-0117 interest rate methodology. Any interest due or payable in relation to the 2017 GGEIDA and GGECFCVA balances will be sought for clearance at the time that the Board considers the balance in the account, or at the Board's discretion.

Witnesses: R. Craddock
A. Langstaff
J. Murphy
F. Oliver-Glasford
R. Small

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BOARD INTERROGATORY #24

INTERROGATORY

Issue 4 – Deferral and Variance Accounts - Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

Exhibit 6 – Deferral and Variance Accounts

Topic: Deferral and Variance Accounts

Ref: Exhibit F, Tab 1, Schedule 1, pp. 1-2 Preamble:

Enbridge proposes to bring forward its 2016 administrative costs either at the time it seeks clearance of other 2016 deferral and variance accounts or as part of its 2018 Compliance Plan filing (in August 2017).

Further, Enbridge proposes to establish a new variance account entitled the Greenhouse Gas Emissions Customer and Facility Costs Variance Account ("GGECFCVA") to track any over or under recovery between actual and forecast customer and facility-related obligation costs incurred in 2017. Enbridge has proposed to clear any variance in the GGECFCVA as part of its 2018 True-up filing or at the OEB's discretion.

Questions:

a) How does Enbridge propose to dispose of any balances? For example, would this be as a one-time adjustment or would the balances be spread over time? If so, over what period of time? Would the recovery of these balances be included in the Delivery Charge or presented as a separate line item?

RESPONSE

With regards to the 2016 Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"), which has been used to record administrative costs incurred (through the end of 2016) in preparation for the implementation of Cap and Trade, where no corresponding compliance plan was approved or required, the Company plans to seek approval for disposition through the 2016 ESM and Deferral and Variance Accounts Clearance proceeding to be filed in the spring of 2017.

Witnesses: A. Kacicnik
R. Small

With regards to 2017 Cap and Trade related deferral and variance accounts (GGEIDA and GGECFCVA) to be approved within this compliance plan proceeding, the Company proposal for disposition is as follows.

In the Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities the Board directed that any required true-ups should be done annually[1], and that deferral and variance account balances sought for disposition must be included as part of the annual compliance plan filings[2].

Accordingly, the Company plans / expects to file a proposed disposition of the 2017 GGECFCVA balance as part of the 2018 True-up filing, which would occur as part of the 2019 Compliance Plan in August 2018.

While the most suitable approach / manner in which to dispose a variance account balance is best determined / devised once the magnitude of the account balance and the disposition timing are known, the Company anticipates that the proposed disposition of the 2017 GGECFCVA balance would be similar to the Board-approved methodology for disposition of the Company's other / existing Deferral and Variance account balances to customers.

Following the current Board-approved methodology for disposition of deferral and variance account balances, the 2017 GGECFCVA balance would be cleared as a one-time credit or debit and would be administered to customers as a one-time billing adjustment (note that the 2017 GGECFCVA balance would be apportioned between customer-related and facility-related obligations. The amount of credit or debit each customer would be allocated would be a function of the total 2017 GGECFCVA balance, each customer's responsibility for customer and facility-related costs, and each customer's 2017 actual volumes). The one-time adjustment would appear as a separate line item on customer's bills. As is the case with its current methodology for disposing of clearing deferral and variance account balances, if the one-time billing adjustment is considered too large to be administered in a single installment, the Company would propose to clear the balance over multiple installments (i.e., over multiple months).

The Company will seek to clear and recover the administrative cost amounts recorded in the 2017 GGEIDA at the same time and in a similar manner as the 2017 GGECFCVA.

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[1] Report of the Board, Regulatory Framework for the Assessment of Costs of Natural Gas Utilities Cap & Trade Activities, (EB-2015-0363), September 26, 2016, s 6.2.1
[2] Ibid, Appendix A: Filing Guidelines, Exhibit 6

Witnesses: A. Kacicnik
R. Small

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The same annual process would be followed with respect to approved Cap and Trade related deferral and variance accounts for 2018 and beyond. Further, should timing allow, the Company's preference would be to administer the one-time billing adjustment from the disposition of Cap and Trade related deferral and variance account balances in conjunction with the disposition of its other deferral and variance account balances approved for clearance within the respective year (i.e., account balances approved for clearance through ESM and Deferral and Variance Accounts Clearance proceedings). Such an approach would be most efficient from billing and customer communication perspectives.

The Company, however, recognizes that given the August 1st timing of the annual compliance plan filings, it may not be possible to achieve clearance approval in time to allow for disposition in conjunction with other deferral and variance accounts approved for clearance through the annual ESM and Deferral and Variance Accounts Clearance proceeding.

Therefore, the Company would be amenable to the possibility of altering the process/timing for the review of Cap and Trade related deferral and variance account balances, such that the return or recovery of approved amounts would either occur in conjunction with the disposition of its other deferral and variance account balances approved for clearance within the respective year or in a more expeditious / timely fashion.

Witnesses: A. Kacicnik
R. Small

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APPrO INTERROGATORY #5

INTERROGATORY

ISSUE 4 – DEFERRAL AND VARIANCE ACCOUNTS

Reference: Exhibit F, Tab 1, Schedule 1.

Questions:

(a) Is one practical consequence of the GGEIDA and the GGECFCVA that Enbridge will be held harmless from any cost consequences associated with its GHG compliance efforts?

(b) Did Enbridge consider any mechanisms that might serve to financially incent Enbridge to minimize the net cost consequences of its compliance efforts on ratepayers? If no, why not. If yes, please elaborate on each of these mechanisms.

RESPONSE

a) The GGEIDA and the GCECFCVA are regulatory financial accounts which are intended to keep ratepayers and the Company whole while it meets the statutorily imposed obligations under the *Climate Change Act.* Ratepayers benefit from the fact that the Board has included in this proceeding, as an issue, the reasonableness of the cost consequences of the Company's Compliance Plan. Ratepayers are further protected by the fact that where costs actually incurred differ from amounts recovered in rates, the difference will be reviewed and approved for clearance by the Board. The implication in the question asked that these accounts are one sided is inaccurate.

b) Enbridge has been statutorily tasked to comply with the requirements of the *Climate Change Act* which will necessarily require it to undertake the activities identified in its Compliance Plan. This plan has been developed in response to the Board's Regulatory Framework for Cap & Trade (EB-2015-0363) and the guiding principles stated in the Framework. The first of these guiding principles is: "Cost-Effectiveness: cap and trade activities are optimized for economic efficiency and risk

Witnesses: A. Langstaff
J. Murphy
F. Oliver-Glasford

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management"[1]. Enbridge believes that its Compliance Plan fully accomplishes this objective.

The question posed on the other hand asks whether Enbridge has considered any mechanisms whereby it would be financially rewarded to minimize the net cost consequences of its compliance efforts. This question and the application of a financial incentive must be considered in the context of Cap and Trade activities where the vast majority of forecast costs in 2017 will be incurred purchasing allowances, credits and/or other financial instruments. These costs, unlike traditional gas distribution activities, cannot be reduced simply by being more efficient and lowering Operations, Maintenance and Administrative costs. Unlike gas and electricity distribution activities, which operate in incentive regulation ("IR") environments, the Company is unaware of any jurisdiction or proposal that is being seriously considered whereby a formulaic IR type approach is being used or is under consideration for the regulation of Cap and Trade activities.

Leaving aside the many practical concerns that would arise, the question is really asking whether the Utilities should be getting into the business of speculating in the Cap and Trade market. Such a strategy would necessarily require an assumption of risk by the Company and ratepayers. Enbridge does not believe that such a strategy or the acceptance of risk associated with market speculation is contemplated by the Framework. Certainly such risks have not been considered from the perspective of Enbridge's approved return on equity.

[1] Report of the Board – Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities (EB-2016-0363), pg. 7

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IGUA INTERROGATORY #6

INTERROGATORY

Issue: Deferral and Variance Accounts – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

Reference: Exhibit F, Tab 1, Schedule 1, Page 1.

Preamble: EGD proposes to use two Cap and Trade related deferral accounts: the Greenhouse Gas Emissions Impact Deferral Account and the Greenhouse Gas Emissions Customer and Facility Costs Variance Account.

Questions:

(a) Why has EGD chosen to combine the customer-related and facility-related costs variances into a single deferral account?

(b) Does EGD consider it advantageous to have a single combined deferral account for customer-related and facility-related costs variances instead of two separate accounts? Please explain the rationale for EGD's answer.

RESPONSE

a) and b)

In the Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities the Board stated / concluded (at page 29) that for emissions units procurement, the utilities will be indifferent as to whether they are purchasing emissions units for their customers, their facilities, or both. Consequently, the Board will expect that the emissions units procurement costs will be a total cost that includes both customer-related and facility-related obligations. The Company agrees with the Board's conclusion. In other words, the Company will procure emissions units to meet its total emissions obligations. The Company will not procure emissions units specifically for customer-related or facility-related obligations.

With respect to the disposition of the greenhouse gas emissions costs variance account balance the Board also stated (at page 33) that deferral (or variance) account balances should be apportioned between customer-related and facility-related obligations. The Company agrees with the Board's statement.

Witness: A. Kacicnik

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In light of the above, as well as, considering the Board Staff Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities (at page 34) the most simple, transparent and efficient way to manage and administer such a variance account is to record in it a balance that reflects the difference between the cost / amount the utility actually paid for compliance instruments (such as emissions allowances) and the amount the utility actually recovered from customers through Cap and Trade charges. Once the account balance is known, it needs to be apportioned between customer-related and facility- related obligations.

The Company's proposed 2017 Greenhouse Gas Emissions Customer and Facility Costs Variance Account (GGECFCVA) is set up to operate as discussed above and will ensure that the Company neither over or under recovers its customer-related and facility related emissions obligation costs (said differently, both the customers and the Company will be kept whole with respect to emissions obligation costs).

The 2017 GGECFCVA will record the difference between actual customer-related and facility related emissions obligations costs incurred in 2017 and the actual amount recovered in 2017 through Cap and Trade charges from customers.

Further, to apportion the account balance between customer-related and facility-related obligations, Enbridge will track / determine actual customer-related and facility-related emissions and the Company's billing and financial reporting system will be able to track the Cap and Trade amounts collected from customers for customer-related and facility-related obligations. Consequently, the Company will be able to readily apportion the account balance between customer-related and facility-related obligations and appropriately clear the balance to customers.

Witness: A. Kacicnik

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TCPL INTERROGATORY #2

INTERROGATORY

Issue 4 – Deferral and Variance Accounts

Reference:
1) EB-2016-0300, Application, Exhibit C, Tab 3, Schedule 6, Page 1 and 7 of 13
2) EB-2015-0363, Report of the Board, Section 6.1, Page 30
3) EB-2016-0215, Application, Exhibit G2, Tab 1, Schedule 1, Page 9 of 28

Preamble: In Reference 1, Enbridge states that administrative costs incurred until January 1, 2017 will be recorded in the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"). Enbridge Gas forecasts 2016 Cap and Trade administrative costs of $1,772,000.

In Reference 2, the Ontario Energy Board states that "[...] administrative costs relating the implementation and ongoing operation of the Cap and Trade program will be allocated and recovered from all customers in the same manner as existing administrative costs."

In Reference 3, Enbridge states that "Administration and general costs are functionalized on the basis of the proportion of operating and maintenance costs forecast for each operating function."

TransCanada requests additional information on the Cap and Trade administrative costs that it may be expected to pay in 2017.

Request:
a) Please provide the balance as of January 1, 2017 for the deferral account noted in Reference 1.
b) Please confirm that Enbridge intends to recover Cap and Trade administrative costs in the same manner as existing utility administrative costs.
c) Does Enbridge expect to recover Cap and Trade administrative costs through a commodity charge or an increase to the demand charge?

Witnesses: A. Kacicnik
A. Langstaff
R. Small

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d) Please provide the percentage of total utility O&M costs allocated to Rate 332 customers in 2017.

e) Please confirm that Cap and Trade administrative costs will be allocated to Rate 332 in the same proportion as c). If not, please explain on what basis Enbridge will allocate Cap and Trade administrative costs to Rate 332 customers.

f) Using the updated deferral account balance provided in a), please provide the estimated amount expected to be allocated to Rate 332 customers, as well as the resulting unit rate impact. If an updated deferral account balance is unavailable, please utilize the balance noted in Reference 1.

RESPONSE

a) The balance recorded in the 2016 GGEIDA, as of January 1, 2017, was $939,800. The balance reflects incremental operating and maintenance administrative costs incurred through December 31, 2016, as a result of preparing for the implementation of Cap and Trade. In addition, $564,200 in capital costs related to billing system updates, for which annual revenue requirement recovery will be sought through the GGEIDA (as discussed in Exhibit C, Tab 3, Schedule 6), were also incurred as of December 31, 2016.

b) through f)

The Company plans to recover Cap and Trade administrative costs in the same manner as it currently recovers similar administrative costs from customers. Such administrative costs are currently recovered from the various customer classes based on the number of customers in each rate class. The Company serves more than 2 million customers. Hence, the proposed allocation of administrative costs to Rate 332 service will be negligible.

Witnesses: A. Kacicnik
A. Langstaff
R. Small

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BOARD INTERROGATORY #26

INTERROGATORY

Issue 6 - Implementation – What is the implementation date of the final rates and how will the final rates be implemented?

Topic: Implementation of Final Rates

Questions:

a) Please discuss how Enbridge proposes to recover any variance between the OEB's Interim Decision issued on November 25, 2016 and the Decision and Final Rate Order for this proceeding. In your response, please also discuss if Enbridge proposes to clearly indicate any difference between the Interim Rates and Final Rates on a customer's bill.

b) Please indicate how Enbridge proposes to reconcile the HST related to any differences between Interim Rates and Final Rates.

RESPONSE

a) While the most suitable approach / manner in which to recover any variance between interim and final Cap and Trade rates is best determined / devised once the magnitude of the difference and the timing of the implementation of the final rates are known, the most common approach to recover any variance (credit or debit) between interim and final Cap and Trade rates would be through a rate adjustment rider.

   The rate adjustment rider would be designed to recover (i.e., true up) the variance between interim and final Cap and Trade rates for the period between January 1, 2017 and the implementation (i.e., effective) date of the final rates. For example, should the effective date for the final Cap and Trade rates be July 1, 2017, the rate adjustment rider would be designed to capture the difference between interim and final rates for the January 1st to July 1st time period.

   The rate adjustment rider would be administered (i.e., billed) to customers on a prospective basis as a volumetric charge. Depending on the magnitude of the difference between interim and final rates, the rate adjustment rider could be administered over a single month or, if needed, over multiple months.

Witnesses: A. Kacicnik
R. Small
E. Vangelova

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The rate adjustment rider amount billed in a certain month would be included in the Delivery to You Charge on customers' bills (i.e., the rate adjustment rider amount billed would not be shown or indicated separately on customers' bills). However, the customer rate notices (bill insert and on the Company's website) would clearly show / indicate the rate adjustment rider unit rates, the dollar impact for a typical customer, the need for the rate adjustment rider, and that the adjustment amount is included in the Delivery to You Charge on the bill.

An alternative approach to a rate adjustment rider would be to record any difference between (EB-2016-0300) interim and final rates in the 2017 GGECFCVA and then dispose it to customers as discussed in response to Board Staff Interrogatory #24 filed at I.4.EGDI.STAFF.24.

b) HST is determined / calculated on the total balance of customer's bills. To the extent that there is a debit/credit adjustment on the customer bill, the adjustment becomes part of the total bill and the appropriate amount HST would be charged. Hence, no reconciliation of the HST would be needed for the difference between interim and final rates.

Witnesses: A. Kacicnik
R. Small
E. Vangelova

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UNION GAS LIMITED 2017 CAP-AND-TRADE COMPLIANCE PLAN

DEFERRAL AND VARIANCE ACCOUNTS

Existing Deferral and Variance Accounts

Union has an existing deferral account, the Greenhouse Gas Emissions Impact Deferral Account (Account No. 179-152). It was approved by the Board on April 7, 2016 in EB-2015-0367. The account enables Union to record costs that it incurs related to the Ontario Government's Cap-and-Trade program.

Deferral and Variance Account Balances

Union will bring forward the 2016 balance in Account No. 179-152 for disposition with its 2016 non-commodity deferral account disposition proceeding in 2017. As of October 31, 2016 the balance in the account was approximately $1.3 million of costs to prepare for cap-and-trade implementation.

New Deferral and Variance Account Request

Union requests approval of the following deferral accounts to separately track the variance between the actual costs incurred related to the customer-related GHG obligation cost and the facility-related GHG obligation cost and the amount collected through rates:

- Greenhouse Gas Emissions Compliance Obligation – Customer-Related Deferral Account (Account No. 179-154)

- Greenhouse Gas Emissions Compliance Obligation – Facility-Related Deferral Account (Account No. 179-155)

Please see Exhibit 6, Appendix A, for the new draft accounting orders.

Union is requesting the new deferral accounts in addition to the Greenhouse Gas Emissions Impact Deferral Account. At the time of Union's initial deferral account request, the details of the cap-and-trade regulations were not known. Since receiving Board approval for the deferral account, the cap-and-trade regulations have been finalized and the Board has provided its July 28, 2016 determination of the treatment of customer-related and facility-related costs as well as the Framework. Accordingly, Union is requesting the new deferral accounts to independently track the customer-related and facility-related obligation costs, of which the balances will be subject to different allocation methodologies. Union will continue to use the existing account to record administrative costs associated with cap-and-trade until such time as those costs are incorporated into rates and the updated Greenhouse Gas Emissions Impact Deferral Account accounting order in Exhibit 6, Appendix A, reflects this.

DRAFT

UNION GAS LIMITED

Accounting Entries for
Greenhouse Gas Emissions Compliance Obligation – Customer-Related
Deferral Account No. 179-154

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No.179-154 Other Deferred Charges – Greenhouse Gas Emissions Compliance Obligation – Customer-Related
Credit	-	Account No. 579 Miscellaneous Operating Revenue

To record, as a debit (credit) in Deferral Account No. 179-154, the variance between actual customer-related obligation costs and customer-related obligation costs recovered in rates as approved by the Board.

Debit	-	Account No.179-154 Other Deferred Charges – Greenhouse Gas Emissions Compliance Obligation – Customer-Related
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-154, interest on the balance in Deferral Account No. 179-154. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

UNION GAS LIMITED

Accounting Entries for Greenhouse Gas Emissions Compliance Obligation – Facility-Related Deferral Account No. 179-155

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No.179-155 Other Deferred Charges – Greenhouse Gas Emissions Compliance Obligation – Facility-Related
Credit	-	Account No. 579 Miscellaneous Operating Revenue

To record, as a debit (credit) in Deferral Account No. 179-155, the variance between actual facility-related obligation costs and facility-related obligation costs recovered in rates as approved by the Board.

Debit	-	Account No.179-155 Other Deferred Charges – Greenhouse Gas Emissions Compliance Obligation – Facility-Related
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-155, interest on the balance in Deferral Account No. 179-155. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

UNION GAS LIMITED

Accounting Entries for
Greenhouse Gas Emissions Impact Deferral Account
Deferral Account No. 179-152

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No.179-152 Other Deferred Charges – Greenhouse Gas Emissions Impact Deferral Account
Credit	-	Account No. 728 General Expense

To record, as a debit (credit) in Deferral Account No. 179-152, the administrative costs associated with the impacts of provincial and federal regulations related to greenhouse gas emission requirements.

Debit	-	Account No.179-152 Other Deferred Charges – Greenhouse Gas Emissions Impact Deferral Account
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-152, interest on the balance in Deferral Account No. 179-152. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

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UNION GAS LIMITED

Answer to Interrogatory from
Association of Power Producers of Ontario ("APPrO")

Reference: Exhibit 6, pp. 1 - 2

a) Is one practical consequence of Accounts 179-152, 179-154 and 179-155 that Union will be held harmless from any cost consequences associated with its GHG compliance efforts?

b) Did Union consider any mechanisms that might serve to financially incent Union to minimize the net cost consequences of its compliance efforts on ratepayers? If no, why not. If yes, please elaborate on each of these mechanisms.

Response:

a) The purpose of Union's Cap-and-Trade deferral accounts is to record the variance between the actual costs of the Cap-and-Trade program and the amounts recovered in rates, if applicable. The deferral accounts will only include actual costs of the Cap-and-Trade program associated with the utility operations. Costs associated with the non-utility operations will not be recorded in the deferral accounts.

   The allocation of Cap-and-Trade program costs results in an allocation to services that do not have a cost-based rate. For example, the rate for Union's C1 interruptible and short-term firm transportation service is a negotiated market-based rate to a maximum amount defined by the rate schedule. Accordingly, the Cap-and-Trade program costs associated with the C1 interruptible and short-term firm transportation service do not result in an increased rate for recovery of the costs (i.e. the market-based rate negotiated with a customer effectively includes any Cap-and-Trade program costs).

   Please see Exhibit B.FRPO.8 for additional information.

b) Union did not consider incentive mechanisms that might serve to financially incent Union to minimize the net cost consequences of compliance efforts on ratepayers within its 2017 Compliance Plan. Due to the nascence of Ontario's Cap-and-Trade Program and Union's 2017 Compliance Plan, Union's focus has remained on compliance with the OEB Cap-and-Trade Framework[1] and overall prudence in order to achieve reasonable costs for customers. This focus is echoed in the guiding principles outlined in Union's 2017 Compliance Plan (Exhibit 3, p.4):

[1] Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap-and-Trade Activities (EB-2015-0363)

1. Compliance – ensure compliance with legislative and regulatory obligations for natural gas utilities.
2. Diversification – minimize risk through diversification within the compliance portfolio.
3. Flexibility – adapt to evolving market conditions and fluctuations in the compliance obligation.

Further, these principles were included in Union's June 22, 2016 submission to the Board as part of its Consultation to Develop a Regulatory Framework for Natural Gas Distributors' Cap-and-Trade Compliance Plans (EB-2015-0363). Within that submission Union explained:

"The goal should not be to 'beat the market' and assume risk for purposes of trying to 'optimize' costs. Union has a time-tested framework related to the purchase of natural gas for the customers it serves including the associated prudence test. In Union's view, there should not be an over-emphasis on cost optimization, especially at the outset of the cap-and–trade program when the market for allowances is in its infancy and is not liquid."[2]

[2] EB-2015-0363 Union Submission Filed: 2016-06-22 page 2 of 17.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit 6, pp. 1-2

Preamble: Union proposes to bring forward its 2016 balance in Account No. 179-152 for disposition with its 2016 non-commodity deferral account disposition proceeding in 2017.

a) Please explain Union's proposal with respect to the disposition of the new deferral and variance accounts that deal with customer and facility related obligations (i.e., Account No. 179-154 and 179-155). For example, is Union proposing that they would be dealt with as part of the Cap and Trade Compliance applications or non-commodity deferral account disposition proceeding?

b) How does Union propose to dispose of any balances? For example, would this be as a one-time adjustment or would the balances be spread over time? If so, over what period of time? Would the recovery of these balances be included in the Delivery Charge or presented as a separate line item?

c) What is the expected timing of disposition for Accounts No. 179-152, 179-154 and 179-155?

Response:

a) Union expects to file for disposition of the Greenhouse Gas Emissions Compliance Obligation Customer and Facility-Related Deferral Account balances (Accounts No. 179-154 and 179-155) as part of its annual Cap-and-Trade Compliance application, in accordance with the Filing Guidelines for Natural Gas Utility Cap-and-Trade Compliance Plans.

b) In accordance with past practice, Union will propose to dispose of deferral account balances over a six-month period for general service customers and as a one-time adjustment for contract rate classes.

   The disposition of deferral account balances for general service customers is included in the delivery price adjustment line item on the bill. The disposition of deferral account balances for contract rate classes is included as a separate line item on the bill along with an explanation of the one-time adjustment.

c) Union will bring forward the 2016 balance in the Greenhouse Gas Emissions Impact Deferral Account (No. 179-152) as part of its 2016 deferral account disposition proceeding which is

b) Union's communication strategy has been continually updated based on customer insight and feedback and it will continue to evolve as the Cap-and-Trade program progresses. Union has, and continues to use, multiple targeted activities to reach unique customer groups.

A Cap-and-Trade communications' team holds monthly meetings to share feedback from Union's customers/stakeholders so that communications can be adjusted. In addition, Union will be completing wave 3 of the Cap-and-Trade communications survey in March 2017 and will consider adjusting its communications plans accordingly. Union is also continually reviewing and updating customer representative training material as customer feedback is received.

Moving forward, due to its popularity, Union will continue to use the website as a main source of information on Cap-and-Trade for mass-market customers. The use of bill inserts will decline after March 2017.

Contract customers will continue to be supported directly by their account manager. The focus of Union's messaging will see a shift from general awareness about the Cap-and-Trade program, to what customers can do to reduce their Cap-and-Trade costs and how Union's Demand Side Management program can continue to assist customers to reduce their natural gas consumption and energy costs.

c) Union has two specific tools that customers may use to quantify their Cap-and-Trade costs related to their natural gas consumption.

i. Website Calculator:
On November 23, 2016 Union added a calculator on its website for customers to easily estimate the approximate Cap-and-Trade costs on their bill. As of February 3, 2017 there have been over 26,000 calculations completed.

ii. MyAccount:
Customers can log into MyAccount and use the "Download My Data" function. Within this information download customers will see how much they have paid per month for customer-related Cap-and-Trade charges.

No other tools are being considered at this time.

Large volume customers have been provided reference materials according to their applicable rate class, as well as formal rates specific communications. This information provides the data required to determine the impact related to their natural gas consumption only.

expected to be filed in April 2017. Union expects to begin disposition of the balance beginning October 2017.

Union will bring forward the 2017 balance in deferral accounts No. 179-152, 179-154 and 179-155 with its 2019 Cap-and-Trade Compliance Plan which is expected to be filed in August 2018. Union expects to begin disposition of the balances beginning January 2019. However, this does not preclude Union from filing for disposition at an earlier time as contemplated by the Board at p. 33 of the Framework "*This does not preclude the Utilities or the OEB from determining, based on particular circumstances, that a more frequent review of the rates is needed.*"