EB-2016-0300

Cap and Trade Compliance Plan Oral Hearing – Enbridge Gas Distribution Inc.

COMPENDIUM OF INDUSTRIAL GAS USERS ASSOCIATION

April 18, 2017

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TAB 1

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

3 Guiding Principles for Assessment of Costs

The OEB expects Utilities to develop Compliance Plans that outline how they will meet their obligations under Ontario's *Climate Change Act* and *Cap and Trade Regulation*. The OEB will review these Plans for prudence and reasonableness in meeting Cap and Trade obligations with a view to determining the appropriate costs to be recovered from natural gas customers in rates.

The OEB will not approve the Utilities' Compliance Plans. Utilities are responsible for deciding on the exact makeup of activities to be included in their Plans, how best to prioritize and pace investments in Cap and Trade compliance options and abatement activities, and how and when to participate in the market.

The Regulatory Framework describes how the OEB intends to assess the Utilities' Compliance Plans for cost-effectiveness and reasonableness and describes the information to be included in a Plan to assist the OEB in assessing and monitoring the Plans for prudence and protecting the interests of customers.

The OEB review of Utility Compliance Plans will be informed by a number of guiding principles intended to encourage optimal decision-making by Utilities and appropriate rate protection for customers. This principle-based approach will provide the Utilities the flexibility to develop compliance strategies that are responsive to changing market and volume conditions and that best suit their operations and customer base.

3.1 The Guiding Principles

The OEB's assessment of the reasonableness of Compliance Plan costs for recovery in rates will be guided by the following principles:

- **Cost-effectiveness**: cap and trade activities are optimized for economic efficiency and risk management
- **Rate Predictability**: customers have just and reasonable, and predictable rates resulting from the impact of the Utilities' cap and trade activities
- **Cost Recovery**: prudently incurred costs related to cap and trade activities are recovered from customers as a cost pass-through

- **Transparency**: cap and trade activities and costs related to them are transparent and well documented to inform the OEB's assessment, while maintaining market integrity

- **Flexibility**: cap and trade strategies are flexible and can adapt to changing market conditions and utility-specific characteristics; the Regulatory Framework may evolve as the market matures and experience is gained

- **Continuous Improvement**: Utilities demonstrate continuous improvement in the processes and practices they use to meet their compliance obligations cost effectively

The OEB is of the view that a principle-based framework will provide Utilities and customers with consistency and predictability in the OEB's assessment of the cost consequences of the Utilities' Compliance Plans. Consumer groups and one environmental group generally supported the proposed guiding principles. Two natural gas utilities suggested that the guiding principles should align with their natural gas supply principles. The utilities stated that the most important principle should be compliance with the *Climate Change Act* as that is the obligation they have to adhere to through their Compliance Plans and drives the costs.

As stated previously, the Utilities will be expected to develop Compliance Plans that describe how they intend to meet their obligations under the *Climate Change Act*. The OEB's role is to assess the Plans for reasonableness and cost-effectiveness in order to approve the cost consequences of those Plans. Assessing a plan based on simply meeting the Utility's GHG compliance obligation alone is too low a threshold in the OEB's view. Greater rigour is required to ensure customer protection. The OEB is of the view that all rate-regulated natural gas utilities should be treated in the same way and as such the Regulatory Framework does not provide for any difference in treatment between the Utilities.

The guiding principles outlined above will ensure that the Utilities develop Compliance Plans that support the government's policy in a cost-effective manner. The principles will also encourage flexibility and optimal decision making when the Utilities are developing a portfolio of cap and trade compliance activities. It is expected that the Utilities' Plans will continuously improve over time as experience is gained. The OEB believes that ongoing monitoring will promote superior performance by the Utilities, and afford appropriate consumer protection.

competitive position and its customers. If a Utility seeks confidential treatment for information which it views as sensitive or strategic commercial information, it should make the request in accordance with the OEB's existing Rules and Practice Direction.[vii]

4.4 Public Information

A considerable amount of information will be publicly available, including the aggregated information filed by the Utilities on their Cap and Trade activities, the Minister's report on conclusion of an auction, as well as carbon price forecasts which will be derived from a public exchange for short-term pricing and the longer-term pricing which will be provided by the OEB.

With the exception of the Auction Confidential and Market Sensitive and any commercial information that is determined to be confidential, as discussed above, other information pertaining to the Utilities' Cap and Trade costs should be provided in public filings, in aggregated form where appropriate. Such information would include, for example:

- Volume forecasts for facility-related obligations, customer-related obligations, LFEs and voluntary participants;
- Forecasts of GHG emissions;
- Forecasted costs per tonne of GHG;
- Total cost of the compliance portfolio over the compliance period and cost per year;
- Administrative costs over the compliance period and cost per year;
- Financing costs;
- Cost of abatement activities, per customer and / or per tonne of GHG;
- Proposed capital investments; and
- Information that is otherwise publicly available and reported by the Utilities in a non-confidential context.

6.1 Cost Causation, Cost Allocation and Rate Design

The OEB has determined that customer-related obligation costs will be recovered from all customers except LFEs and voluntary participants, who are responsible for managing their own compliance obligation[7].

Customer-related costs are driven by gas consumption and therefore should be allocated and recovered based on a customer's consumption. The OEB has determined that customer-related costs will be recovered through a volumetric ($\$/m^3$) charge to applicable customers based on their consumption.

This charge will be separately identified on the Utility tariff sheet. Given that the costs will not be recovered from LFEs and voluntary participants, the tariff sheet will indicate it should be applied "as applicable" similar to other charges which are not uniformly applied to all customers in a given rate class.

A separate customer-related charge on the tariff sheet will assist natural gas-fired generators who bid into the market. It will also provide the information necessary for large gas users who may qualify as voluntary participants to make decisions as to whether they wish to become voluntary participants.

The OEB has determined that facility-related obligation costs will be recovered from all customers, as they are directly related to the delivery of natural gas to customers.

Facility-related costs will be allocated to rate classes based on consumption, given that the driver of GHG emissions is gas consumption. These costs will be recovered through a volumetric ($\$/m^3$) charge based on consumption.

The charge for facility-related costs will also be separately identified on the Utility tariff sheet so that customers may easily identify these costs, and to facilitate tracking and updating as needed.

The OEB has determined that administrative costs relating to 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. While the exact quantum of the administrative costs is not known at this time, based on research

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

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

TAB 2

6. At the time of this filing, the Board's 10-year filing was not available.

7. In Appendix A, Exhibit 2 of the Framework, the Board states that:

> The applicant must include: The forecast, which will be set using the average of the Intercontinental Exchange ("ICE") daily settlement prices of a California Carbon Allowance for each day of the forecast period for each month of the forecast year. The forecast period shall be 21 business days and should be as close as possible to the forecast year.

[redacted]

[redacted]

ICE Forecast Price

10. In response to the Board's direction, Enbridge has calculated a carbon forecast price using the ICE settlement prices.

11. Enbridge has obtained daily settlement prices from October 2 to October 31, 2016 for delivery in each month of 2017. The resulting price is $13.04 USD or $16.90 CAD. This currency conversion assumes a USD/CAD exchange rate of 1.2959 as submitted in Enbridge's 2017 Rate Adjustment case[1].

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[1] The exchange rate of 1.2959 was used in Enbridge's 2017 Rate Adjustment case for gas supply purposes. Refer to EB-2016-0215, Exhibit D1, Tab 2, Schedule 10.

account clearance application or when filing the next Compliance Plan application by August 1, 2017. Similarly, the Company will seek recovery of the 2017 GGEIDA 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.

5. Recognizing that a Cap and Trade program is incremental to the Company's current business, but also recognizing that some costs around GHG reporting are already in place and captured through the existing rates, Enbridge is seeking to take a systematic approach to reviewing costs to determine if they are currently captured in existing rates.

6. Enbridge has applied a key criterion for the purpose of determining the appropriateness of including costs in the GGEIDA. The criterion is that all costs included in the GGEIDA be incremental to the Company's current business and required for the purposes of the Company meeting its Cap and Trade requirements.

7. At the time of this filing, Enbridge recognizes that it has and will incur administrative costs for both 2016 and 2017. Enbridge seeks to be as transparent as possible in identifying incremental Cap and Trade costs in this Exhibit. Section A below identifies the administrative costs that will be incurred or have been incurred in 2016. Section B outlines the estimated administrative costs that will be incurred in 2017.

A. 2016 Administrative Costs

8. Costs undertaken to date and through to the end of 2016 associated with business readiness include: IT billing system updates, resourcing for implementation, carbon

Witnesses: A. Langstaff
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market knowledge, customer education and outreach, consulting support on carbon strategy development, and external counsel and regulatory support.

<u>IT Billing System</u>

9. In order to be business ready for January 1, 2017, Enbridge required an update to its IT billing systems for mass market, unbundled and bundled customers. The work involved development, coding and testing. The capital cost of the updates is forecasted to be $516,000 in 2016, with an in-service date of January 1, 2017. The capital costs incurred in 2016 will not be sought for recovery through the 2016 GGEIDA. The annual revenue requirement associated with the IT billing system update will be captured and sought for recovery through the GGEIDA, until the impact can be incorporated into Enbridge's delivery rates, which is expected in 2019. The 2017 revenue requirement is further articulated in Section B: 2017 Administrative Costs.

<u>Staffing Resources</u>

10. Enbridge has devoted a significant amount of staff and managerial time and effort to ensure the business is ready on January 1, 2017. In 2016, Enbridge assembled a Cap and Trade focused team of four employees at a forecasted cost of $750,000 which will be sought for recovery through the 2016 GGEIDA. The aforementioned costs cover governance development, Compliance Instrument Tracking System Service registration, overall portfolio development, business readiness, stakeholder relations and communications, regulation review and translation relative to Cap and Trade, and carbon procurement related accounting research.

11. Other employees from within the organization have provided part-time Cap and Trade readiness assistance. Additional assistance cannot be precisely quantified

but is estimated at approximately two to three FTEs, spread out between a number of employees in Regulatory, Finance, Gas Supply, Legal, IT, Public and Government Affairs and Customer Care. The Company is not seeking cost recovery in relation to the additional assistance through the GGEIDA but reserves the right to articulate the additional work absorbed by non-incremental employees as productivity gains.

Market Intelligence and Consulting Support

12. To assist Enbridge in the development of its Compliance Plan, inclusive of its procurement strategy, Enbridge has retained an expert third party Procurement Consultant (the "Consultant"). The Consultant provided the following: a Carbon Market Report and a Carbon Strategy Report. Enbridge will also be provided with one year of GHG Market and Regulatory Monitoring Services and expert witness support, as necessary. These costs will amount to $84,000 USD, plus any relevant costs associated with expert witness support prior to December 31, 2016.

13. ICF International ("ICF") was retained to provide Enbridge assistance in the analysis and review of the Ontario government's Climate Change Mitigation and Low-carbon Economy Act, 2016 and related Cap and Trade Regulation. These services were retained to ensure that Enbridge had a strong foundational understanding and interpretation of the Ontario government's Climate Change Policy and Cap and Trade Regulation. The total cost for ICF's support is $187,000.

14. In order to effectively implement a Cap and Trade program, Enbridge has developed a Cap and Trade market intelligence which will allow it to remain abreast of market and policy activity that impact both the Ontario and other Cap and Trade markets. To this end, Enbridge joined the International Emissions Trading

Association ("IETA") in early 2016 in order to gain broad and market specific intelligence on carbon trading, offsets and related policy developments. These areas of knowledge will allow Enbridge to provide thoughtful input into the development of its Compliance Plan. Enbridge negotiated a prorated amount for its 2016 membership that took account of the March 1 start date at a cost of $20,000 CAD. This membership is effective until December 31, 2016. Enbridge has taken full advantage of this membership in gaining market and offset insight through attendance at working group meetings and their recent conference, "Ontario's Carbon Opportunity".

15. Enbridge has also subscribed to a market intelligence service platform provided by Californiacarbon.info ("CC"). CC is a web based information platform that provides up to date information on California's over-the-counter market, offsets, price forecasts, and carbon and environmental policy related news. Currently, the service focuses on the California market; however, in discussion with CC, it intends to incorporate Ontario-specific information once available. The prorated cost of this service in 2016 is $4,500 USD.

16. As this new market in Ontario develops, Enbridge must remain current on carbon market and environmental related information as well as regulatory and legislative changes. The Company acknowledges that this market is complex and will continue to develop. Enbridge believes that CC and IETA will help the Company remain at the leading edge of the carbon market. This market knowledge will further lend to the development of a cost effective and flexible Compliance Plan.

17. Enbridge estimates an amount of $16,000 for participation in educational events pertaining to the Ontario and other jurisdiction's Cap and Trade programs. These

funds were/will be used to allow employees to attend conferences and trade shows, inclusive of incidental fees. Ontario's Cap and Trade program is new. It is important for Enbridge to remain current with industry information. Such trade shows and conferences will provide this avenue. Armed with most current information, Enbridge will be able to make informed decisions based on the current and future outlook of Ontario's Cap and Trade market.

Customer Education and Outreach

18. Enbridge has incurred approximately $46,000 associated with its customer outreach and education activities in 2016. This cost is comprised of two components: 1) customer focus groups; and 2) design and printing of customer bill inserts. Focus groups were completed to gain knowledge regarding utility-specific Cap and Trade messaging. Such knowledge was used to help craft and communicate messages prior to implementation of the Ontario government's Cap and Trade program. The standalone Cap and Trade bill insert was provided with November bills to educate all customers about Cap and Trade.

External Legal Counsel

19. Enbridge estimates that it will incur approximately $125,000 in external legal counsel fees in 2016. Services provided to Enbridge include: assistance with its Regulatory submissions and detailed analysis of all Cap and Trade regulatory documents.

OEB Cap and Trade Framework Regulatory Proceedings

20. No proceedings have taken place or are anticipated for the Cap and Trade file in 2016. As such, Enbridge has not anticipated any application of costs by the Board in the 2016 budget below.

Witnesses: A. Langstaff
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21. Table 1 below outlines each cost element and the forecasted amount.

Table 1: 2016 Cost Elements and Forecasted Amounts[1]

Cost Element	Forecasted Amount
IT billing system	$516,000
Staffing resources	$750,000
Market Intelligence, and Consulting Support	$335,000
Customer Education and Outreach	$46,000
External Legal Counsel	$125,000
OEB Cap and Trade Framework Regulatory Proceedings	$0
TOTAL	$1,772,000

B. 2017 Administrative Costs

22. Enbridge is proposing to record administrative costs incurred, commencing January 1, 2017, in the 2017 GGEIDA. While certain costs are unknown at this time (for example, costs payable in respect of this Cap and Trade Compliance Plan proceeding), the Company is in a position to estimate certain administrative costs that will be incurred in 2017. Given that there are certain costs which cannot be identified or fully known, Enbridge is proposing the continuance of the GGEIDA, which is appropriate as Enbridge's CIR did not include any administrative costs in respect of Cap and Trade. As stated above, the Company will seek approval for disposition of all 2017 GGEIDA costs in 2018 as part of its 2017 deferral and

[1] Where costs have been converted from USD to CAD, a 1.2959 exchange rate has been applied.

variance account clearance application or as part of the Company's 2019 Compliance Plan filing in August of 2018.

Revenue Requirement Implication of IT Billing System Upgrades and Potential Future Changes

23. As outlined in respect of 2016 administrative costs, Enbridge incurred costs to reconfigure its IT billing systems to be business ready for January 1, 2017. It is proposed that Enbridge record in the 2017 GGEIDA, the 2017 revenue requirement implications of these 2016 capital upgrades, which has been estimated at $76,100. Consistent with other IT billing system upgrades, these costs will be depreciated over approximately five years, beginning January 1, 2017. The Company notes that additional IT system changes may be required in 2017. At this time, the extent of these costs is unknown. Any revenue requirement implications of any eligible spending would also be recorded in the 2017 GGEIDA.

24. Following the implementation of the IT billing system on January 1, 2017, the Company will enter the warranty period. The costs associated with this warranty period are not included in Table 1. Warranty costs cannot be estimated.

Staff Resources

25. As noted in respect of 2016 administrative costs, the Company has a team dedicated to the Cap and Trade program. Although some activity will start to evolve as Enbridge moves from business readiness activity to implementation and sustainment, Cap and Trade devoted staff are still necessary to maintain statutory compliance and there will be a requirement to hire additional staff.

Witnesses: A. Langstaff
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26. Enbridge estimates that it will require seven full time equivalents ("FTEs"). Most of these staff were in place in 2016 and their ongoing effort will be needed in 2017 and beyond. The salary and benefits of these staff to ensure statutory compliance will be added to the 2017 GGEIDA. This staff will have responsibility of overall portfolio management and monitoring, customer outreach and communication, Cap and Trade related policy engagement, incremental GHG reporting and verification, development and continuous improvement of an emission allowance procurement strategies, Board required monitoring and reporting activity, related accounting, and administrative functions. This will also include future Board regulatory filings and proceedings that require Cap and Trade intelligence. The Company notes that these positions are critical to the sustainment of Enbridge's Cap and Trade program. The launch of the Cap and Trade program represents a new complex financial market. In order for Enbridge to continue to develop and maintain an effective portfolio for its customers, the Company must maintain diligent and dedicated oversight of the developing carbon market and any associated regulation. Enbridge maintains that this can only be completed provided that a dedicated team is assigned to the Cap and Trade program.

Implementation, Market Intelligence and Consulting Support

27. Enbridge recognizes that it will incur implementation, market intelligence and consulting support for the continued evolution of its carbon strategy in 2017. It is important to note that these activities have been estimated, based on experience in 2016, and the anticipation of future costs in 2017, at $561,000. In 2017, the Company will continue all market intelligence and monitoring services initiated in 2016. Additionally, Enbridge has identified implementation components that include development of a Company specific marginal abatement cost curve, brokerage services, assistance with offset regulations and implementation, administrative

support including additional IT upgrades for carbon procurement tracking, attendance at applicable Cap and Trade conferences, and consulting support in the development of a procurement strategy for its 2018 Compliance Plan. Enbridge acknowledges that administrative costs will be captured in the 2017 GGEIDA and will be sought for clearance to rates 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.

External Legal Counsel & OEB Cap and Trade Framework and Other Regulatory Proceedings

28. Enbridge acknowledges that it will incur external legal costs in respect of the Cap and Trade Framework proceeding. This amount has been estimated at $125,000 based on forecasted 2016 costs and will be recorded in the 2017 GGEIDA when realized. Additional external legal costs may be incurred in respect of the Cap and Trade Framework proceeding as well as costs payable to the Board and other participating parties. These additional costs are unknown and hence not forecasted at this time.

Incremental Cap and Trade related GHG Reporting and Verification

29. *Ontario Regulation 143/16, Quantification, Reporting and Verification of Greenhouse Gas Emissions* require that natural gas distribution companies begin quantifying, verifying and reporting customer-related and operational GHG emissions. In 2017, Enbridge will report emission associated with combustion (ON.20), emissions from venting/flaring/fugitive (ON.350) and customer-related emissions (ON.400). The Ministry only requires that combustion emissions (ON.20) are verified in 2017; however, Enbridge intends to complete a pre-assurance verification audit of customer-related emissions to ensure readiness for subsequent

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years' third party verification audits. To enable this pre-assurance audit, Enbridge forecasts to incur an additional cost of $20,000 in 2017.

Customer Education and Outreach

30. As detailed in Exhibit E, Tab 1, Schedule 1, Enbridge will continue to communicate with its customers regarding the impacts of Cap and Trade in 2017. In order to assist customers in reducing their GHG footprint and ultimately assist in achieving the Province's GHG reduction goal, Enbridge will continue to inform customers about energy efficiency programs and opportunities. A communication plan is available at Appendix B, to Exhibit E, Tab 1, Schedule 1.

31. The Company estimates that it will incur approximately $115,000 in customer outreach and education costs during 2017. This forecast amount includes call centre training, bill inserts and/or messaging, customer research including focus groups around Cap and Trade messaging, and miscellaneous outreach activity (e.g., printing materials for trade shows, etc.). The continuation of Enbridge's customer outreach and education initiatives will help ensure that customers are kept informed about the program and its greater impacts.

Bad Debt Provision

32. In Enbridge's 2014-2018 CIR proceeding (EB-2012-0459), the Company did not anticipate or forecast any bad debt expense that will arise due to the Cap and Trade regime. Given the material impact that customer and facility-related costs will necessarily have on customer bills, Enbridge has estimated the forecast impact on the bad debt expense at $900,000. This estimate is based upon a 10% increase in billed revenue as a result of Cap and Trade, and then applying that 10% increase to the Company's forecasted bad debt for 2017 of $9.796 million as filed in

EB-2012-0459. Enbridge proposes that incremental bad debt amounts be recorded in the 2017 GGEIDA.

Income Tax Implication

33. Enbridge recognizes that there may be income tax implications associated with the Company's Cap and Trade program. To the extent that any income tax implications are realized that need to be reflected through the rate-setting process, Enbridge will seek to address such amounts through a future Compliance Plan filing. In effect, Enbridge will seek to address any required income tax implications associated with its 2017 Cap and Trade activities, through its 2019 Compliance Plan filing, in August 2018.With respect to the 2017 administrative costs the following elements are anticipated: revenue requirements for billing system changes, staff resources, market intelligence and consulting support, conference, trade shows and incidental fees, external legal counsel, regulatory proceedings, customer education and outreach, bad debt and income tax implications. Table 2 summarizes the most current estimate of such costs, recognizing that there are still costs that are unknown and subject to change.

Table 2: 2017 Forecasted Cost Elements and Amounts[2]

Cost Element	Forecasted Amount
Revenue requirement implications of IT billing system upgrades and potential future changes	$76,100
Staffing Resources	$1,120,000
Implementation, Market Intelligence, and Consulting Support[3]	$561,000
External Legal Counsel	$125,000
OEB Cap and Trade Framework and Other Regulatory Proceedings	Unknown at this time
Incremental Cap and Trade related GHG Reporting and Verification	$20,000
Customer Education and Outreach	$115,000
Bad Debt Provision	$900,000
Income Tax Implication	Unknown at this time
TOTAL	$2,917,100

[2] Where costs have been converted from USD to CAD, a 1.2959 exchange rate has been applied.
[3] Implementation, Market Intelligence and Consulting Support have been provided on a best guess basis, recognizing that the Company does not have experience with implementing Cap and Trade and thus may have under or over forecasted at this time.

Witnesses: A. Langstaff
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[redacted]

[redacted]

[redacted]

31. The Ontario Cap and Trade market is complex, requiring participants to stay abreast of the many informational inputs that impact the demand/supply dynamics. Enbridge will monitor the WCI market as well as all changes proposed or made to Cap and Trade regulations in Ontario, California and Québec. To enable this,

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[redacted]

Enbridge will mitigate the risk of inadequate information through a number of activities, which may include, but are not limited to, attending conferences, establishing relationships with market players, seeking consulting or legal support where regulation/regulatory interpretations are required, subscribing to carbon market intelligence platforms, involvement in Cap and Trade associations and/or committees in various energy industry associations, reading relevant Cap and Trade market articles, and lobby work where necessary to support the interests of our ratepayers. Understanding market behavior and the impact of regulatory changes will assist the Company in making appropriate and timely risk-based decisions on changes to its purchasing strategy.

32. Flexibility in the Company's Compliance Plan strategy and closely monitoring the carbon regulations and markets will ensure Enbridge obtains its compliance obligations and achieves the Board's guiding principles. A focus on market intelligence and involvement results in: 1) cost effectiveness is met by staying on top of the supply/demand dynamics and optimizing procurement opportunities; [redacted]; 3) cost recovery is met as the Company is able to show it has been diligent in understanding and responding to market information; 4) flexibility is met by Enbridge being knowledgeable of market conditions and regulatory changes to adapt its procurement strategy; and, 5) continuous improvement is met through an increasingly expert group of resources inside the Company around carbon markets and Cap and Trade implementation.

[redacted]

Witnesses: M. Kirk
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availability of emission allowances at auction. This may however increase liquidity on the secondary market.

Emission Unit Availability – Analysis of Risk

65. AI has completed an analysis of the supply and demand economics of the Ontario-only Cap and Trade market. Refer to pages 35 to 37 in Appendix A available at Exhibit C, Tab 1, Schedule 1.

Emission Unit Availability – Mitigation Measures

66. Enbridge will monitor the Ontario and WCI Cap and Trade markets and adjust its compliance strategy as necessary [redacted]. Various means to gain market intelligence will be critical to the Company's ongoing monitoring.

[redacted]

[redacted]

[redacted]

Witnesses: M. Kirk
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A. Welburn

Financial Transaction Risks – Analysis of Risk

[redacted]

Financial Transaction Risks – Mitigation Measures

98. Through its experience with natural gas procurement, Enbridge has developed relevant procedures that will be used in the event of counterparty allowance procurement. These procedures will minimize counterparty credit risk.

[redacted]

[redacted]

[redacted]

Witnesses: M. Kirk
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A. Welburn

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
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R. Small

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
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R. Small

18. As set out in Appendix A, Table A2, which is included at Exhibit G, Tab 1, Schedule 1, Enbridge's forecast Facility-related obligation costs in 2017 total \$4,055,870 (229,145 tCO_2e * \$17.70/t CO_2e).

(ii) Cap and Trade Unit Rates

19. The derivation of the Cap and Trade Unit Rates for customer-related and facility-related obligations is based on several sets of information and is organized in the following manner:

    (a) Appendix A, Table A1, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by rate class, the 2017 forecast gas volumes for Customer-related obligations and shows the derivation of CO_2e emission costs as well as the Cap and Trade Unit Rate for Customer-related obligations based on an Enbridge's estimated 2017 auction reserve price for carbon emission allowances and net CO_2e emissions.

    (b) Appendix A, Table A2, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by component, the 2017 forecast gas volume for Facility-related obligations and presents the derivation of CO_2e emission costs as well as the Cap and Trade Unit Rates for Facility-related obligations based on Enbridge's estimated 2017 auction reserve price for carbon emission allowances and CO_2e emissions.

    (c) Appendix A, Table A3, which is found at Exhibit G, Tab 1, Schedule 1, summarizes the Cap and Trade Unit Rates for Customer-related and Facility-related obligations.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

(d) Appendix A, Table A4, which is found at Exhibit G, Tab 1, Schedule 1, is a summary of the 2017 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.

(e) Appendix A, Table A5, which is found at Exhibit G, Tab 1, Schedule 1 details the breakdown of the 2017 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.

20. As directed by the Board in the Early Determination in EB-2015-0363, "the customer-related costs will be recovered through a volumetric (m^3) rate charged to each customer based on their consumption. This rate will be separately identified on the Utility tariff sheet." The Board has also determined that "the rate for facility-related costs will also be separately identified on the Utility tariff sheet."

21. Accordingly, the Cap and Trade Unit Rates for customer-related and facility-related costs are separately identified in the Company's Rate Schedules as follows: Cap and Trade Customer-Related Charge (if applicable) and Cap and Trade Facility-Related Charge. Both of these charges are shown on the Rate Schedules for each rate class. Refer to Appendix B, found at Exhibit 1, Tab 1, Schedule 1.

22. In the Early Determination, the Board also determined how Cap and Trade charges should be reflected on customers' natural gas bills. The Board has directed that "charges related to the recovery of Cap and Trade Program costs will be included in the Delivery charge on the bill."

23. The Company confirms that Cap and Trade charges will be included in the Delivery charges on customers' bills.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

TABLE A4

TABLE 4: 2017 CAP AND TRADE UNIT RATE SUMMARY BY RATE CLASS

Rate Class	Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 1	3.3518	0.0337
Rate 6	3.3518	0.0337
Rate 9	3.3518	0.0337
Rate 100	3.3518	0.0337
Rate 110	3.3518	0.0337
Rate 115	3.3518	0.0337
Rate 125	3.3471	0.0290
Rate 125 Dedicated	3.3199	0.0018
Rate 135	3.3518	0.0337
Rate 145	3.3518	0.0337
Rate 170	3.3518	0.0337
Rate 200	0.0337	0.0337
Rate 300	3.3471	0.0290
Rate 300 Interruptible	3.3471	0.0290
Rate 315	0.0048	0.0048
Rate 316	0.0048	0.0048
Rate 320	0.0000	0.0000
Rate 325	0.0066	0.0066
Rate 330	0.0066	0.0066
Rate 331	0.0018	0.0018
Rate 332	0.0018	0.0018

(1) Includes Voluntary Participants and Other Exempt Gas Volumes

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 1	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 6	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 9	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 100	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 110	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 115	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 125	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel		
	Facility-Related	0.0290	0.0290
	Total	3.3471	0.0290
Rate 125 Dedicated	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0000	0.0000
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0018	0.0018
	Total	3.3199	0.0018

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 135	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 145	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 170	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	3.3518	0.0337
Rate 200	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0337	0.0337
	Total	0.0337	0.0337

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 300	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0290	0.0290
	Total	3.3471	0.0290
Rate 300 Interruptible	Customer-Related	3.3181	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0271	0.0271
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0290	0.0290
	Total	3.3471	0.0290
Rate 315	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0000	0.0000
	UAF	0.0000	0.0000
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0048	0.0048
	Total	0.0048	0.0048
Rate 316	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0000	0.0000
	UAF	0.0000	0.0000
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0048	0.0048
	Total	0.0048	0.0048

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 320	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0000	0.0000
	UAF	0.0000	0.0000
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0000	0.0000
	Total	0.0000	0.0000
Rate 325	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0000	0.0000
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0066	0.0066
	Total	0.0066	0.0066
Rate 330	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0000	0.0000
	Compressor Fuel	0.0048	0.0048
	Facility-Related	0.0066	0.0066
	Total	0.0066	0.0066
Rate 331	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0000	0.0000
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0018	0.0018
	Total	0.0018	0.0018

TABLE A5

TABLE 5: 2017 CAP AND TRADE UNIT RATE BREAKDOWN BY RATE CLASS

Rate Class		Non-Large Final Emitter (¢/m³)	Large Final Emitter[1] (¢/m³)
Rate 332	Customer-Related	0.0000	
	Facility-Related:		
	Company Use	0.0018	0.0018
	UAF	0.0000	0.0000
	Compressor Fuel	0.0000	0.0000
	Facility-Related	0.0018	0.0018
	Total	0.0018	0.0018

(1) Includes Voluntary Participants and Other Exempt Gas Volumes

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

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

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

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

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

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

BOARD INTERROGATORY #25

INTERROGATORY

Issue 5 - Cost Recovery

5.1 Is the proposed manner to recover costs reasonable and appropriate?

5.2 Have the customer-related and facility-related charges been presented separately in the tariffs?

Topic: Cost Recovery Statements

Ref: Exhibit G, Tab 1, Schedule 1, App A, pp. 4 - 10

Preamble:

In Tables A4 and A5, Enbridge provides an outline of the proposed facility-related charges (in ¢/m3) by rate class:

- Rates 1, 6, 9, 100, 110, 115 – have a facility-related charge of 0.0337
- Rate 125 – has a facility-related charge of 0.0290
- Rate 125 Dedicated – has a facility-related charge of 0.00018
- Rates 135, 145, 170 – have a facility-related charge of 0.0337
- Rate 200 – has a facility-related charge of 0.0337
- Rate 300, 300 Interruptible – have a facility-related charge of 0.0290
- Rates 315, 316 – have a facility-related charge of 0.0048
- Rate 320 – does not have a facility-related charge
- Rates 325, 330 – have a facility-related charge of 0.0066
- Rates 331, 332 – have a facility-related charge of 0.0018

Questions:

a) Please explain in detail why the above rates have different facility-related charges.

b) Please explain in detail why Rate 320 does not have a facility-related charge.

Witness: A. Kacicnik

RESPONSE

a) In the Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities the Board outlines cost causality as a guiding principle for recovery of Cap and Trade costs from customers. For example, customer-related costs are driven by gas consumption and facility-related costs are directly related to the delivery of natural gas to customers. The Board determined that facility-related obligation costs will be recovered from all customers. The Board further determined that both sets of Cap and Trade costs will be recovered from customers through volumetric charges.

   While customer-related costs are strictly a function of customers' gas consumption, facility-related costs (at Enbridge) are a function of Company use volumes, unaccounted for gas volumes and compressor fuel volumes.

   In light of the above, the Company determined facility-related charges for each rate class based on cost causation which vary from one rate class to another (for example, not all rate classes cause the Company to incur costs for compressor fuel volumes). Therefore, based on cost causality and depending on the type of service applicable to customers, some customers are not charged for certain components of facility-related costs (i.e., Company Use, UAF and Compressor Fuel). For example, the Company does not provide any compression services to Rate 125, Rate 300, Rate 331 or Rate 332, therefore those customers are not charged for Compressor Fuel in their rates and are not charged for Compressor Fuel in facility-related Cap and Trade charges.

   In this manner, cost causality is maintained between the design of the customers' rates and the design of facility-related Cap and Trade charges.

   As a result, different facility-related charges are shown in Tables A4 and A5.

b) Rate 320: Backstopping Service is a companion service to the Company's other services (i.e., other rates such as Rate 1, Rate 6, and so on). The service is applicable to the Company's direct purchase customers whose delivery of natural gas to the Company for transportation to a Terminal Location (i.e., the customer's location) has been interrupted prior to the delivery of such gas to the Company. In other words, should gas supply arrangement for a direct purchase customer be interrupted upstream of the Company's gas distribution network, the Company can supply (i.e., backstop) the amount of natural gas to the customer whose supply was interrupted (i.e., the supply did not show up).

Witness: A. Kacicnik

Since these customers are already charged for facility-related costs in the rates under which they take service (such as Rate 1, Rate 6, and so on), Rate 320 does not need to have a facility-related charge (if it did, the customer would be charged twice for facility related costs).

Witness: A. Kacicnik

CCC INTERROGATORY #4

INTERROGATORY

COMPLIANCE PLAN:

Reference: Ex. C/T4/S1/p. 1

Enbridge has set out a list of risks inherent to Ontario's Cap and Trade market:

- Allowance price variability
- Volume variability
- Emission unit availability
- Market risk
- Non-compliance
- Financial transaction risks
- Risk of data dissemination to market participants

For each of the risks identified, please explain who will bear that risk. Will it be Enbridge's ratepayers or its shareholders?

RESPONSE

It should be recalled that the Province has tasked Enbridge with the statutory obligation of acquiring the necessary GHG allowances and credits which reflect the natural gas usage of its customers excluding LFE and voluntary compliant customers. The Board in response issued its Framework for the Assessment of such costs and the Compliance Plans developed by the Utilities.

On November 15, 2016, Enbridge submitted an application requesting approval of its 2017 Compliance Plan and tariffs to recover the costs of meeting the Company's compliance obligations related to its GHG emissions from relevant customers and Company facilities. The Compliance Plan includes a risk management policy, which is intended to mitigate and address the abovementioned risks. While this policy will mitigate risk to the extent reasonable, in some instances to little or no risk, it cannot eliminate all risks.

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

Interim rates associated with this application, incumbent of its risks, were subsequently approved through the Board's Interim Rate Order dated November 24, 2016. In this proceeding the Board is reviewing for reasonableness Enbridge's Compliance Plan. This includes its risk management policy and strategies. At the conclusion of this proceeding, should the Board determine and find Enbridge's Compliance Plan to be reasonable and approve just and reasonable tariffs, its approval will necessarily extend to the risk management policy. This approval will also necessarily recognize that the above risks exist and that while some risks can be mitigated they cannot be eliminated and accordingly, there is need for a mechanism to adjust for the impact of such risks on costs, whether the impacts increase or decrease actual costs.

The Company is therefore looking for approval not only for final tariffs but also for the proposed variance and deferral accounts which will allow any differences between forecast amounts used to develop the final tariffs and actual costs to be credited to or recovered from ratepayers. These accounts will insure that there is a straight pass through to ratepayers of the actual costs of Enbridge acquiring the necessary GHG allowances and credits that are required by reason of the natural gas usage of relevant customers.

The Company will file future Compliance Plans on a prescribed basis. These filings will similarly request approval for new Tarriffs, along with details about known risks and other aspects of Enbridge's Compliance Plan.

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