

BY COURIER & RESS

May 5, 2017

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

**RE: EB-2016-0296 – Union Gas Limited (“Union”) – Cap-and-Trade 2017
Compliance Plan – Argument in Chief**

Dear Ms. Walli,

Please find enclosed Union’s Argument in Chief in the above-noted proceeding. It will be filed in RESS and copies will be sent to the Ontario Energy Board (“the Board”).

If you have any questions with respect to this submission please contact me at 519-436-4558.

Yours truly,

[Original signed by]

Adam Stiers, MBA
Manager, Regulatory Initiatives
Regulatory Affairs

Encl.

cc: C. Smith, Torys
EB-2016-0296 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Sched. B);

AND IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving rates resulting from the 2017 Cap-and-Trade Compliance Plan.

**ARGUMENT IN CHIEF OF
UNION GAS LIMITED
(PUBLIC)**

A. Overview

1. Through this application, Union requests certain relief arising from its 2017 Cap-and-Trade Compliance Plan, as described in greater detail below.

2. ***Context for the application.*** Ontario's Cap-and-Trade program is new to Ontario, to Union and the other natural gas utilities, and to consumers.¹ It came into effect on January 1, 2017. On February 24, 2016, draft regulations were introduced which provided initial insight on the program design and timing, establishing formal program launch as January 1, 2017 and inviting public comment. The *Climate Change Mitigation and Low-Carbon Economy Act, 2016* was passed in May 2016,² accompanied by final regulations.³ Subsequently, Ontario's Climate Change Action Plan ("CCAP") was issued on June 8, 2016. The Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap-and-Trade Activities ("Framework") was developed by the Ontario Energy Board (the "Board" or the "OEB") and delivered September

¹ Exhibit B.Staff.14

² *Climate Change Mitigation and Low-carbon Economy Act, 2016*, S.O. 2016, (Climate Change Act)

³ Ontario Regulation 144/16, The Cap and Trade Program (Cap and Trade Regulation)

26, 2016.⁴ This Framework required natural gas utilities to file a comprehensive Compliance Plan by November 15, 2016 in order for the Board to set interim rates effective by January 1, 2017 to allow for the recovery of Cap-and-Trade compliance costs. This implementation schedule was more rapid than in any other jurisdiction that has implemented a Cap-and-Trade program, including California and Quebec.⁵

3. ***Requested relief.*** In this application, Union seeks the following relief in connection with its 2017 Cap-and-Trade Compliance Plan, pursuant to section 36 of the *Ontario Energy Board Act, 1998* and the Framework:

- (1) an order or orders approving or fixing just and reasonable final rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2017;
- (2) approval of two new deferral accounts: the Greenhouse Gas Emissions Compliance Obligation – Customer Related deferral account and the Greenhouse Gas Emissions Compliance Obligation – Facility Related Deferral account; and
- (3) approval of the updated wording in the Greenhouse Gas Emissions Impact Deferral Account, to reflect that this deferral account will be used to track Union’s administrative Cap-and-Trade costs.

4. Union submits that the rates it has proposed for 2017 in connection with Cap-and-Trade compliance are just and reasonable, and should be approved. It further submits that the establishment of the two new deferral accounts and the amendment to the existing deferral account are appropriate and should be approved.

5. The purpose of Union’s application was to present a prudent compliance plan for 2017 that complies with applicable regulations, and outlines how Union will meet its obligations, consistent with the Board’s Framework, and considering the guiding principles included in the Framework: cost effectiveness, rate predictability, cost recovery, transparency, flexibility, and

⁴ EB-2015-0363 Report of the Board - Regulatory Framework for Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities (Cap and Trade Framework)

⁵ Volume 2 TR, p. 83, lines 11-15

continuous improvement. Since the Cap-and-Trade program itself is complex and new to Ontario, Union's first priority in developing its 2017 Compliance Plan was to ensure that the program is implemented effectively, efficiently, on time, and in compliance with the regulations and the Framework. It was critical that Union developed the systems, processes, expertise and governance necessary to ensure compliance. Given the nascence of the program, and its complexity, Union submits that it is prudent to approach the program simply at first, taking action based on program elements that are known and documented.⁶

6. ***Strict Confidentiality and bifurcation.*** By its Procedural Order No. 2, the Board directed that written submissions be divided into two streams, with the first stream dealing with evidence that forms part of the public record, and the second stream dealing with evidence on the Strictly Confidential record. Accordingly, this argument is limited to the evidence that forms part of the public record.

7. ***Organization of the argument.*** In this argument in chief, Union first addresses the appropriate scope of this application. The balance of the argument is organized in accordance with the issues list set out in Procedural Order No. 2, as follows:

- (1) **Cost Consequences** – Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

Forecasts

- (1.1) Are the volume forecasts used reasonable and appropriate?
- (1.2) Are the GHG emissions forecasts reasonable and appropriate?
- (1.3) Is the carbon price forecast reasonable and appropriate?

Compliance Plan

- (1.4) Is the gas utility's Compliance Plan overview reasonable and appropriate?
- (1.5) Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

⁶ Exhibit B.Staff.14

- (1.6) Are the proposed performance metrics and cost information reasonable and appropriate?
- (1.7) Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?
- (1.8) Are the gas utility's proposed longer term investments reasonable and appropriate?
- (1.9) Are the gas utility's proposed new business activities reasonable and appropriate?
- (1.10) Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?
- (2) **Monitoring and Reporting** – Are the proposed monitoring and reporting processes reasonable and appropriate?
- (3) **Customer Outreach** – Are the proposed customer outreach processes and methods reasonable and appropriate?
- (4) **Deferral and Variance Accounts** – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?
- (5) **Cost Recovery**
 - (5.1) Is the proposed manner to recover costs reasonable and appropriate?
 - (5.2) Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?
- (6) **Implementation** – What is the implementation date of the final rates and how will the final rates be implemented?

B. Scope of this Application

8. In light of questions raised in interrogatories and during the hearing, Union emphasizes at the outset that this application is limited to the 2017 compliance year and has appropriately

excluded analysis of its Demand Side Management (“DSM”) Program, which the Framework explicitly stated will be part of the DSM Mid-Term Review⁷.

9. First, Union’s application and witness testimony are focused on the 2017 compliance year. Union has avoided any speculation on the future of the program because of its nascence and the outstanding uncertainties surrounding the program. These uncertainties are outlined in Exhibit B.Staff.14, and include:

- (a) the fact that outstanding Cap-and-Trade regulations remain to be developed, including offset regulations and protocols;
- (b) the possibility that Ontario’s Cap-and-Trade program will be linked with the Western Climate Initiative (“WCI”) in the future;
- (c) the allocation of funds related to the CCAP;
- (d) full details on Ontario Climate Change Solutions Deployment Corporation (aka “Green Bank”);
- (e) post-2020 Cap-and-Trade program design, both for Ontario as well as California and Québec;
- (f) the OEB’s development of a Long-term Carbon Price Forecast; and
- (g) the OEB’s development of Marginal Abatement Cost Curves (“MACC”)

10. Second, Union submits that its DSM Program and the related Framework is out-of-scope for the purpose of assessing this application. The Board panel recognized this in rejecting the request by Environmental Defence, that Union make available a witness who could speak to issues relating to Union’s DSM Program.⁸

11. Union’s position on DSM and Cap-and-Trade integration is explained in detail in Exhibit B.BOMA.4:

Given the infancy of the Cap-and-Trade program and the significant uncertainties that remain, (i.e. WCI linking, offsets) it is pre-mature to deviate from established Frameworks. Utilities,

⁷ EB-2015-0363 Report of the Board - Regulatory Framework for Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities (Cap and Trade Framework), p.28

⁸ Volume 2 TR, pp. 56-57, lines 14-28 & 1

together with the OEB and Intervenors all contributed to multi-year Frameworks for DSM and Cap-and-Trade via public review and/or hearing. These Frameworks are set to expire in 2020 and further review should be undertaken closer to that time. Parties will have more experience with how the two Frameworks have co-existed, the nascent components of the Cap-and-Trade program will have had adequate time to mature and current uncertainties may be resolved.

With two decades of successful execution of DSM programs, a clear delineation made by the Board between DSM and Abatement and a mandate that the programs co-exist, Union will continue its focus on successfully delivering DSM programs. Union will do this while working within the OEB's Cap-and-Trade Framework including participation in consultations associated with the development of the Marginal Abatement Cost Curve ("MACC") and Long-term Carbon Price Forecast ("LTCPF").

12. Further, as Ms. Byng explained at the hearing, Union considered whether to include customer abatement in the 2017 Compliance Plan, but determined that it would be neither prudent nor practical to do so in light of timing concerns and the great number of uncertainties associated with Cap-and-Trade.⁹

13. Third, in response to questions raised related to the merger transaction that has resulted in Union and Enbridge Gas Distribution sharing a parent company, Union confirms that this transaction has no impact on Union's 2017 Compliance Plan.¹⁰ Indeed, Union and Enbridge are treated under O. Reg 144/16 as separate registered participants that are not related persons, and are not permitted to share information related to purchase strategies or bidding strategies or other non-public information related to their respective compliance plans. Any collaboration in subsequent years would depend on the expiry of that regulation,¹¹ and is not relevant for the purpose of this application.

⁹ Volume 2 TR, p. 158, lines 6-10

¹⁰ Exhibit B.CCC.1

¹¹ Volume 2 TR, p. 120, lines 7-23

C. Issue 1: Cost Consequences – the cost consequences of Union’s 2017 compliance plan are reasonable and appropriate

14. The reasonability of the cost consequences associated with Union’s 2017 Compliance Plan will be the subject of future proceedings (see Issues 1.4 and 4 below).

D. Issue 1.1: Forecasts – The volume forecasts used are reasonable and appropriate

15. Union’s 2017 customer-related and facility-related volume forecast of 8,310,348,868 m³ is reasonable and appropriate. Consistent with the Framework¹² Union: has committed to file a one-year forecast for 2017, a one-year forecast for 2018, and then a two-year forecast for 2019-2020; and has excluded the volume forecast for customers that have been identified by the Ministry of the Environment and Climate Change (“MOECC”) as mandatory or voluntary participants. Union has also excluded the volume forecast for wholesale customers since these customers are not covered by Union’s compliance obligation.¹³ The methodology employed is consistent with that approved by the Board in Union’s 2013 Cost of Service Proceeding (EB-2011-0210).¹⁴

16. Further, Union notes that it “has included both utility and non-utility components of forecasted volumes to ensure that non-utility costs are allocated to those volumes, and removed from regulated rates.”¹⁵ Additional detail explaining Union’s Volume Forecast is set out in Union’s responses to interrogatories at Exhibit B.BOMA.2, Exhibit B.LPMA.4 and Exhibit B.LPMA.5.

E. Issue 1.2: Forecasts – The GHG emissions forecasts are reasonable and appropriate

17. Union’s greenhouse gas (“GHG”) emissions forecast for 2017 is also reasonable and appropriate. Union’s 2017 GHG emissions forecast of 15.6 megatonnes (“Mt”) of carbon dioxide equivalent (“CO₂”) (comprising 15 MT for customer-related emissions and 0.6 Mt of facility-related emissions) was calculated in accordance with the methodologies identified in the Ontario MOECC’s “Guideline for Quantification, Reporting and Verification for GHG

¹² Framework Appendix A: Filing Guidelines, p. iv

¹³ Exhibit 2, pp. 1-2

¹⁴ Exhibit 2, pp. 1-2

¹⁵ Exhibit 2, pp. 1-2

Emissions – January 2017.”¹⁶ The GHG emission forecast is based on volume forecasts prepared in accordance with the existing OEB-approved methodology as outlined in Issue 1.1 above.

F. Issue 1.3: Forecasts – The carbon price forecast is reasonable and appropriate

18. Union’s carbon price forecast represents a deviation from the Framework. For 2017, Union has used the Ontario allowance floor price as the proxy carbon forecast rather than the California allowance ICE 21-day strip forward price. Union has forecasted an Ontario carbon price of \$17.70 per tonne, as explained at Exhibit 2, pp. 8-10 and Schedule 2. Union submits that this amount is reasonable and appropriate.¹⁷ As Ms. Byng testified at the hearing, “Union believes this forecast is more representative of the Ontario market for 2017 and will also provide greater rate predictability for customers”¹⁸ compared to using a California carbon price for 2017.

19. Using a California allowance ICE 21-day strip forward price would have resulted in a price lower than the expected Ontario minimum auction reserve price for 2017, and therefore would not be appropriate.¹⁹ Union believes that its proposal to use the estimated Ontario minimum auction reserve price to set rates for the 2017 Compliance Plan is necessary to align costs in rates to the expected cost of Ontario compliance instruments in 2017.²⁰

G. Issue 1.4: Compliance Plan – Union’s Compliance Plan overview is reasonable and appropriate

20. Union has focused on creating a Compliance Plan that is simple, minimizes risk and achieves compliance while at the same time is aimed at achieving a reasonable cost. Union has also developed a plan which is flexible to evolve as 2017 unfolds and the market develops. This approach recognizes the balance between cost effectiveness and risk as well as compliance and flexibility, and is consistent with the guiding principles the Board has identified to assess the reasonableness of the Compliance Plan costs for recovery in rates.²¹

¹⁶ Exhibit 2, pp. 6-7, Exhibit B.BOMA.2 a), Exhibit B.Staff.6, Exhibit B.Staff.8

¹⁷ Exhibit B.BOMA.2 b)

¹⁸ Volume 2 TR, p. 86, lines 19-21

¹⁹ Exhibit B.BOMA.8

²⁰ Exhibit B.BOMA.8

²¹ Exhibit 1, p. 2

H. Issue 1.5: Compliance Plan – Union has reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making

21. Union's 2017 Compliance Plan is designed to achieve compliance, and demonstrates consideration of the principles set out by the Board in the Framework. The development of the 2017 Compliance Plan was based on the then-available market information and tools and recognized that the Ontario Cap-and-Trade market is in the early stages of development.²²

22. A detailed quantitative assessment of each compliance option was not possible, as reliable price forecasts for Ontario compliance options such as offsets or the secondary market are not yet developed. In addition, Union was unable to incorporate the Board's MACC and the Long-term Carbon Price Forecast into the development of its 2017 Compliance Plan as these are not yet available.²³ Despite this, Union completed extensive analysis on the various compliance options available and engaged its consultant, ClearBlue, to support this work. This analysis has been classified as Strictly Confidential and as such has only been provided to the Board and Board Staff.

I. Issue 1.6: Compliance Plan – The proposed performance metrics and cost information are reasonable and appropriate

23. The OEB's Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap-and-Trade Activities (EB-2015-0363) outlines performance metrics and cost information that utilities are to include in compliance plans.²⁴ Union's 2017 Compliance Plan does not include actual monitoring and reporting in Exhibit 4 since Union had not yet executed its Compliance Plan. Exhibit 1 Updated, outlines the lack of actual monitoring and reporting as a transitional issue for 2017²⁵. However, Union filed two sample monitoring and reporting forms to be used as a starting point for developing standardized reporting forms. These sample forms were developed based on an analysis of monitoring forms from other jurisdictions. However, Union proposes to work with the other utilities through the Board's working group to develop a

²² Exhibit 3, pp. 12-16

²³ Exhibit 3, pp. 12-16

²⁴ Exhibit B.APPrO.5 a-c)

²⁵ Exhibit 1, p. 7

standardized set of monitoring and reporting templates that would be included in the 2018 Compliance Plan.²⁶

24. Union submits that already-established OEB processes (i.e. Compliance Plan review and deferral disposition), metrics and monitoring forms provide sufficient oversight to assess performance, and therefore does not support an additional performance assessment process.²⁷

J. Issue 1.7: Compliance Plan – Union reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis

25. Union's Compliance Plan risk management analysis included risk identification and mitigation in the following areas: Forecast volume and auction purchase variability; Price and foreign exchange risk; Liquidity risk; Project execution risk; Credit and counterparty risk; Non-compliance risk; and Government and legislation risk.²⁸

26. Union relied on long-standing principles applied in the procurement of gas supply assets as well as the overall Framework objectives defined by the Board to develop principles for its Compliance Plan. As a result, Union's Cap-and-Trade and gas supply procurement principles, procurement processes and procurement governance are aligned.²⁹ Union's proposed deferral accounts will be used to capture price and volume variances between the compliance instruments and the GHG emission amounts collected in rates during the calendar year.³⁰

K. Issue 1.8 & 1.9: Compliance Plan – Union's proposed longer-term investments and proposed new business activities are reasonable and appropriate

27. Union has not included any long-term investments in its 2017 Compliance Plan. As Union explained in Exhibit B.Staff.14, in addition to the considerations set out above, Union considers that it is not appropriate to include any long-term investments in the Compliance Plan until cost recovery is assured. This is consistent with how the Framework describes that cost recovery for these types of investments will be dealt with (Framework, p.27). Even if Union had been able to address all of the outstanding information and uncertainties noted above, it would

²⁶ Exhibit 1, p. 7; Exhibit 4, Schedules 1 & 2

²⁷ Exhibit B.APPrO.5 a-c)

²⁸ Exhibit 3, pp. 39-45

²⁹ Exhibit 3, Appendix A, Exhibit 3 Appendix B, Exhibit B.Staff.11

³⁰ Exhibit B.BOMA.34

not have been possible to present these investments for review and have their cost recovery assured before the 2017 Compliance Plan was filed in November 2016.³¹

28. However, Union has begun investigative work on both Renewable Natural Gas (“RNG”) and Compressed Natural Gas (“CNG”) initiatives. Union has dedicated resources working on these opportunities which are currently in the early stages of development. Union is working to gain more endorsement from the Ontario government, including development of a grant structure under CCAP, and alignment with other stakeholders to see these programs move forward. However, it is premature to include these in the scope of Union’s 2017 Compliance Plan as the CCAP programs are not defined and are not expected to be implemented until later in 2017 or 2018. Union is unable to proceed further until the government announces program design and advances specific CCAP funding commitments. In addition, further detail yet to be released by the OEB on the MACC and Long-term Carbon Price Forecast are also critical factors in assessing long-term investments such as these.³²

29. Consistent with the Framework, Union will seek approval of the costs of these types of programs in a separate leave to construct or rates application as appropriate, and then will subsequently address them in future Compliance Plans.³³ Union expects significant uncertainties will persist through filing of its 2018 Compliance Plan, including linkage to the WCI, CCAP program development, etc. Items that may become known over the coming months, such as offset regulations, the MAC curve and Long-term Carbon Price Forecast will be relatively new information at the time of Union’s 2018 filing. In addition, the market itself (both government auction and the secondary market) for compliance instruments will remain in its infancy with little history to gauge trends. This is consistent with a recent OEB decision that noted “...the market has not had time to react and data is not available. The OEB agrees that such unknowns add uncertainty”.³⁴

30. Union is committed to addressing abatement and long-term investments more fully in future Compliance Plans. This will allow Union to assess these items as the market matures, the

³¹ Exhibit B.Staff.14

³² Exhibit 3, pp.26-27; Exhibit B.Staff.14

³³ Framework, p.27

³⁴ EB-2016-0186 Decision and Order, p 6

uncertainties resolve, and the mechanisms to ensure cost recovery are determined. Union believes this measured, prudent approach is in the best interest of ratepayers, and is also consistent with the Framework's guiding principle of continuous improvement.

L. Issue 1.10: Compliance Plan - Union's proposed greenhouse gas abatement activities are reasonable and appropriate

31. Union recognizes the value of abatement as part of the overall Cap-and-Trade program and the critical role that abatement will play in enabling the province to meet its emission reduction targets. Union currently provides a comprehensive portfolio of customer abatement programs through DSM. In addition to the aggressive timelines and significant program uncertainties noted above, Union recognizes that the integration between Cap-and-Trade and DSM still needs to be addressed. Union is aware that the OEB will be initiating a DSM Mid-Term review process this spring that may begin to address this issue.³⁵

32. Regarding facilities abatement, Union has begun work on a study to evaluate potential facilities abatement projects, and intends to provide the outcomes of this study in its 2018 Compliance Plan. The initiation of any abatement activities coming out of this study will be dependent on the resolution of a number of uncertainties noted above, particularly the Long-term Carbon Price Forecast and MACC, and assurance of cost recovery. These elements will be required to prioritize which projects should be developed.³⁶

33. Union believes that it is important that future abatement programs and long-term investments are thoroughly and appropriately evaluated in order to uphold the program's guiding principles, specifically cost effectiveness, cost recovery, and continuous improvement.³⁷ This is consistent with the Framework which requires a thorough analysis of the costs, risks and alternatives to accompany the inclusion of a proposal in the plan.³⁸

34. Given the insufficient time, the fact that key aspects of the Cap-and-Trade program remain in development, and the significant uncertainties that remain, this thorough and informed

³⁵ Exhibit B.Staff.14

³⁶ Exhibit B.Staff.14

³⁷ Framework, pp. 7-8

³⁸ Exhibit B.Staff.14

review was not feasible for the 2017 Compliance Plan.³⁹ As Ms. Byng explained at the hearing, it would not have been possible in the six weeks available to complete the 2017 Compliance Plan to design an abatement program, get cost approval for that program, get it implemented and quantify the impact for the 2017 plan. It would not have been practical or feasible to do so within that short period of time.⁴⁰

M. Issue 2: Monitoring and Reporting – the monitoring and reporting processes proposed by Union are reasonable and appropriate

35. As set out above, Union filed sample monitoring and reporting forms as a starting point for developing standardized reporting forms in the future.⁴¹ Recognizing that for 2017 there are no actuals to report and considering the nascence of the Cap-and-Trade market, Union submits that one of the mandates of the OEB's working group should be to define reporting requirements and establish performance metrics used to monitor the Utilities' Compliance Plans.⁴²

N. Issue 3: Customer Outreach – the customer outreach processes and methods proposed by Union are reasonable and appropriate

36. Union submits that its proposed approach to customer outreach is reasonable and appropriate. Union has placed a strong emphasis on customer outreach and information, as these are essential to ensuring customers fully understand the provincial Cap-and-Trade program, the impact of the program on their bills and how they can personally manage their GHG emissions and resulting bill impacts.⁴³ As set out in the Framework, the working group (which is yet to be established) will provide an opportunity to provide input and advice on the ongoing approach to customer outreach.⁴⁴

O. Issue 4: Deferral and Variance Accounts – the proposed deferral and variance accounts are reasonable and appropriate

37. The establishment of the proposed deferral and variance accounts is reasonable and appropriate. As stated at Exhibit 6, p.2, since the introduction of its existing Greenhouse Gas

³⁹ Exhibit B.Staff.14

⁴⁰ Volume 2 TR, p. 149, lines 10-18

⁴¹ Exhibit 4; Exhibit B.Staff.15 and Exhibit B.LPMA.15

⁴² Volume 3 TR, p. 24, lines 1-9; Exhibit B.Staff.15 and Exhibit B.APPrO.5

⁴³ Exhibit 5, Exhibit B.Staff.16

⁴⁴ Framework, section 7, p. 36; Exhibit B.IGUA.6

Emissions Impact Deferral Account (No. 179-152), Cap-and-Trade regulations have been finalized and the Board has determined its treatment of customer-related and facility-related costs. Accordingly, Union is seeking approval of two new deferral accounts to separately track the variance between the actual costs incurred specific to customer-related and facility-related obligation costs, of which the balances will be subject to different allocation methodologies. Union is also seeking approval of an amendment to existing deferral account No. 179-152 which today collects all Cap-and-Trade costs. The proposed amendment reflects how Union intends to recover Cap-and-Trade administration costs going forward.

38. The methodology for disposal of the deferral account balances is not before the Board in this proceeding.⁴⁵ Union has filed for disposition of 2016 Cap-and-Trade Administrative costs as part of its 2016 Non-Commodity Deferral Disposition proceeding (EB-2017-0091 Application filed April 21, 2017). Going forward, disposition for all three Cap-and-Trade deferral accounts will be part of Union's annual Cap-and-Trade Compliance application, in accordance with the Filing Guidelines for Natural Gas Utility Cap-and-Trade Compliance Plans. This does not preclude Union from filing for disposition at an earlier time.⁴⁶

P. Issue 5: Cost Recovery – the proposed manner to recover costs is reasonable and appropriate, and the tariffs are just and reasonable

39. Cost recovery is one of the Cap-and-Trade guiding principles, along with cost effectiveness and continuous improvement.⁴⁷ Since the focus of the 2017 Compliance Plan is on compliance and prudence, all costs/risks are expected to be passed-through to customers.⁴⁸

40. As set out above, the focus of Union's 2017 Compliance Plan was compliance and prudence. More specifically, Union submits Board-established practices (ie. Compliance Plan review, deferral disposition), metrics and monitoring forms provide sufficient oversight to assess performance and overall prudence.⁴⁹

⁴⁵ Volume 2 TR, p. 116 lines 21-26

⁴⁶ Exhibit B.Staff.17

⁴⁷ Framework, pp. 7-8; Exhibit B.Staff.14

⁴⁸ Exhibit B.FRPO.8

⁴⁹ Exhibit B.APPrO.5

Q. Issue 6: Implementation – implementation date and manner of implementing final rates

41. Union proposes to update rates as part of the next available QRAM application following the date of the Decision and Final Rate Order in this proceeding. Union will include any variance between the interim 2017 rates and final 2017 rates in the proposed Greenhouse Gas Emissions Compliance Obligation – Customer-Related and Greenhouse Gas Emissions Compliance Obligation – Facility-Related deferral accounts.⁵⁰

* * *

42. Union therefore respectfully requests that the relief it seeks in this application be granted.

All of which is respectfully submitted this 5th day of May, 2017



Torys LLP
Lawyers for Union Gas Limited

⁵⁰ Exhibit B.Staff.20 and Exhibit B.LPMA.20