

INTRODUCTION

Procedural Order No. 1 dated January 27, 2017 laid out restrictions on the publishing of information in respect of limitations on disclosure in the Climate Change Act. We respect that these restrictions are essential legally and protect the interests of ratepayers. However, the inability to view or understand the features of the utilities compliance plans inhibits the opportunity for specific and potentially helpful intervenor input. As such, the following submissions of the Federation of Rental-housing Providers of Ontario are limited; trusting that the Board and staff will protect the interests of our members and Ontario ratepayers in the Strictly Confidential segment of the hearing.

STAFFING COSTS – IRM and GAS SUPPLY

A number of interrogatories explored the forecasted cost of Enbridge¹ and Union² staffing and the reporting of and recovery of those costs by the utilities. While the utilities responses were somewhat helpful, we would encourage the Board to direct suitable reporting to ensure the Board and intervenors can see that reported costs for staffing of Carbon Cap Compliance are not also being additionally recovered in Incentive Rates or Gas Supply programs.

USE OF DERIVATIVE - FINANCIAL INSTRUMENTS

Under the government's new Carbon Cap & Trade ("CC&T) legislation³, the government is establishing incentives to reduce carbon emissions. The stated objective is to change people's behaviour through their economic decisions to reduce greenhouse gas.

"A key purpose of this Act is to establish a broad carbon price through a cap and trade program that will change the behaviour of everyone across the Province... In addition to the carbon price signal and to further support the reduction of greenhouse gas", (Preamble).

¹ Exhibit I.1.EGDI.FRPO.6, Exhibit I.1.EGDI.STAFF.3, Exhibit I.1.EGDI.CME.1, Exhibit I.1.EGDI.IGUA.1

² Exhibit B.Staff.1, Exhibit B.FRPO.7

³ Bill 172 Climate Change Mitigation and Low-carbon Economy Act, 2016

“The cap and trade program is a market mechanism established under this Act that is intended to encourage Ontarians to change their behaviour by influencing their economic decisions that directly or indirectly contribute to the emission of greenhouse gas.” (Section 2 Purpose (2))

As regulations and Ontario Energy Board priorities have evolved with government policy over time, Ontario natural gas utilities have become the de facto collectors of the cost of carbon emissions on behalf of the Government of Ontario. While from a pragmatic perspective, this approach makes economic sense, it depends on the Board’s view of the role of the utility in giving effect to these requirements. The issue comes down to: is it the utilities’ responsibility to mitigate the cost of carbon to its customers by devising complex financial strategies that minimize the cost of carbon to Ontario residents or to prudently purchase allowances and invest in offsets which contribute to lowering of the cost of emissions? Said differently, is it good public policy to expect utilities to take on risk in the financial markets to somehow mitigate the same cost that government is trying to use to alter energy consumers’ behaviour. In our view, we believe the use of financial derivatives are inappropriate and yet, we cannot be in a position to argue against any particular utility action due to confidentiality around the specific plans.

Utilities do not want to put their shareholders at risk when there is no opportunity for return on that risk. Ratepayers do not want to have that risk shifted to them. However, we are not in a position to speak specifically for or against the utilities plans due to the confidentiality requirements.⁴ The Board has previously ruled against utilities in the use of financial products to mitigate risk⁵. We respectfully urge the Board to send a clear message to the utilities that they will not be required to nor will they be incented to use financial products.

⁴ Transcript Volume 1, April 18, 2017, pages 104-110.

⁵ EB-2007-0606

We support Union Gas' position advanced in the Framework proceeding⁶ as put to Union's witnesses⁷:

bullet 2 states:

"Union strongly believes the focus should be on prudence, not cost effectiveness. Prudence is consistent with Union's obligations when purchasing gas supply within the framework of an open and liquid North American market and would reflect execution of a sound, low-risk plan that achieves compliance. The theme articulated by the Board Staff in the guiding principles, and indeed throughout the entire discussion paper, is the concept of cost effectiveness or the pursuit of lowest cost. In Union's view, this is not appropriate, particularly in an emissions market that is in its infancy and is not yet a broad liquid market."

Stopping there, is that still Union's position in this matter?

MS. BYNG: Union does still believe the cost prudence is a critical part of coming up with our plans, and has been reflected in the 2017 compliance plan as such.

We believe that prudence by the utilities in sound forecasting, purchasing and investments in abatement should be the paramount objective. Further, we believe that any consideration of financial instruments should be discarded. While we did not get the same clear response from Union in the hearing⁸ in understanding Union's position on this issue, we emphatically support their submission in the Framework proceeding⁹:

"The references to "optimization" and "risk management" cause Union serious concern. Union does not expect to take optimization positions with the emissions allowances portfolio through the use of sophisticated financial hedging transactions, nor does Union believe this approach is prudent. It is inconsistent with the Board directive to cease these activities for natural gas purchases, and does not recognize that experience in the carbon market needs to be gained before there can be any contemplation of financial risk management."

⁶ EB-2015-0363 Union Gas Ltd. Submission on Discussion Paper, June 22, 2016, page 4 of 17

⁷ Volume Transcript 2, April 20, 2017, page 125, lines 1-20

⁸ Volume Transcript 2, April 20, 2017, page 125

⁹ EB-2015-0363 Union Gas Ltd. Submission on Discussion Paper, June 22, 2016, page 4 of 17

CONCLUSION

We respect that the Board is in a challenging position as are ratepayers in a proceeding that is some bifurcated in respect of the confidentiality requirements of the new Carbon Allowances market in Ontario. At the same time, as ratepayers, we believe that it is fundamentally important to establish clear messages to the utilities in terms of expectations the Board has of them in managing this new obligation. We respectfully submit that the Board has an obligation to sound economic policy as the independent regulator and that the logical extension of that responsibility is to serve the public interest in these changing times.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON BEHALF OF FRPO,



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