

ONTARIO ENERGY BOARD

EB-2016-0296

EB-2016-0300

EB-2016-0330

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

AND IN THE MATTER OF an applications for approval of the cost
consequences of cap and trade compliance plans

SUBMISSIONS OF ENVIRONMENTAL DEFENCE

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Contents

Overview	1
Conservation Provides Lower Bills & <i>Free</i> Carbon Reductions	2
Conservation Mitigates Risks re Carbon Emissions	3
Excluding Conservation in 2017 was Unjustified and Unreasonable	5
The Utilities had over Seven Months to Prepare	5
Allowances Should Not be the “Default” in the face of Uncertainty	5
Excluding Conservation Cost Ontarians At Least \$22 Million	8
The Utilities Fundamentally Breached the Board’s Framework	10
Utility and Ratepayer Interests Must Be Aligned	11
Requested Orders	13

Overview

1. The utilities have submitted cap and trade compliance plans with *no* incremental conservation. As a result, they have failed to develop the most cost-effective plans possible as required by the Cap and Trade Framework. Consumers will be paying hundreds of millions of dollars for carbon allowances instead of investing in conservation programs that would provide lower bills while also achieving *free* greenhouse gas (GHG) emission reductions. Based on very conservative estimates, pursuing modest incremental conservation in 2017 could have saved consumers at least \$22 million (see paras. 33 to 36 below).
2. The justifications put forward by the utilities for excluding incremental conservation are not valid. In terms of timing, the utilities had seven months to prepare plans after the release of the final cap and trade regulations. They did not need to wait for the Board's Cap and Trade Framework to plan for potential incremental conservation.
3. Although uncertainties exist (e.g. re carbon price forecasts), it was unreasonable to treat allowance purchases as the "default" in the face of uncertainties. This resulted in highly sub-optimal plans and a huge and unwarranted bias in favour of allowances. It also contravened the first guiding principle of the Cap and Trade Framework: cost-effectiveness. Uncertainties will always exist. If the utilities continue to default to allowances in the face of uncertainties, they will never invest in incremental conservation.
4. ICF International estimates that natural gas use may need to decline by 40% to meet Ontario's 2030 GHG emission targets (i.e. in just 13 years from now). Conservation needs to be increased much more quickly to meet those targets, which should be a consideration in future compliance plans.
5. As a result, Environmental Defence requests (a) that the Board direct the utilities to address these major deficiencies in future plans and (b) that a portion of the utilities 2017 cap and trade costs be disallowed (see paras. 52 and 53 below for details regarding the requested orders).

Conservation Provides Lower Bills & *Free* Carbon Reductions

6. Conservation should be a major part of any cap and trade compliance plan because it pays for itself many times over through lower energy bills while also achieving *free* GHG emissions reductions.
7. Collectively, the utilities have achieved over **\$5 billion** in net savings for their consumers through conservation programs.¹ These are *net* savings because this figure accounts for all of the equipment and program costs associated with the conservation measures and has already been discounted for those customers who would have implemented the measures even if they had not been given an incentive to do so.² These savings materialize as reduced energy costs reflected on lower energy bills.³ Ontarians overall are \$5 billion richer than they would have been without the utilities' conservation programs.
8. The overall DSM plans of the utilities always have a positive Total Resources Cost (TRC) benefit-cost ratio. In other words, the overall present value of the benefits (i.e. lower energy bills) always outweigh the overall present value of the costs. For example, the TRC ratio of Enbridge's 2017 programs is 3.43, meaning that every \$100 in incremental spending (including both utility and consumer costs) will create \$343 of benefits through reduced energy costs.⁴
9. In addition to these huge savings, these conservation programs have resulted in large reductions in GHG emissions. These emissions reductions are **free** because the efficiency measures pay for themselves many times over by increasing efficiency, decreasing usage, and decreasing energy bills.⁵ The programs are beneficial even if the GHG emissions reductions are ignored. Whereas allowance purchases are a pure cost, conservation is a profitable investment that reduces GHG emissions at no net cost.

¹ Enbridge's cumulative DSM net benefits to date are \$2.484 billion and Union's are \$2.786 billion, for a total of \$5.270 billion. See Exhibit K1.5, p. 6 (EB-2015-0049, Ex. I.T3.EGDI.ED.12, p. 2) & Union Gas, *Final DM 2014 Annual Report*, p. 9 (EB-2015-0276, Ex. B-1).

² OEB, *Filing Guidelines to the 2015-2020 DSM Framework*, p. 26-31; Transcript, vol. 1, p. 133, lns. 17-22.

³ OEB, *Filing Guidelines to the 2015-2020 DSM Framework*, p. 34; Transcript, vol. 1, p. 131, lns. 18-23.

⁴ Transcript, vol. 1, p. 130, lns. 12-17.

⁵ Transcript, vol. 1, p. 134, lns. 13-17 & p. 136, lns. 1-8.

Conservation Mitigates Risks re Carbon Emissions

10. The first guiding principle of the Cap and Trade Framework is that “cap and trade activities are optimized for economic efficiency and *risk management*” (emphasis added).⁶ There are very significant risks to ratepayers of continuing with the status quo and failing to aggressively increase conservation efforts to implement all cost-effective conservation. This is another reason why the utilities should have included incremental conservation in their 2017 plans and should do so in future plans.
11. These risks are discussed in an ICF study filed by Enbridge in this proceeding.⁷ ICF assessed the impact of Ontario’s greenhouse gas (GHG) reduction targets on the natural gas industry based on the assumption that reductions from the natural gas sector will be proportionate to the contribution of natural gas to Ontario’s GHG emissions.⁸ Natural gas currently accounts for approximately 1/3 of Ontario’s emissions and so the study assumed that natural gas would need to contribute roughly 1/3 of the reductions required to achieve Ontario’s reduction targets.⁹
12. ICF found that natural gas consumption “will need to decline by 40% - 50% by 2030.”¹⁰ The best way address this reality and protect ratepayers is through the implementation of all cost-effective conservation as this would reduce consumption, emissions, *and* energy costs through improved efficiency.
13. Renewable natural gas (RNG) cannot address this issue alone. RNG initially seems promising because it is generally considered to be carbon neutral.¹¹ However, ICF already assumed the maximum increase in RNG that it believed possible in the above

⁶ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities*, September 26, 2016, p. 7.

⁷ ICF, *Impacts of Ontario’s Proposed Climate Policy*, July 7, 2015 (EB-2016-0300, Ex. I.1.EGDI.SEC.4, Attachment 1 also in Exhibit K1.5, p. 66).

⁸ Transcript, vol. 1, p. 175, lns. 7-11.

⁹ *Ibid.*; Transcript, vol. 2, p. 184, ln. 28 to p. 185, ln. 8.

¹⁰ ICF, *Impacts of Ontario’s Proposed Climate Policy*, July 7, 2015, p. 33 (EB-2016-0300, Ex. I.1.EGDI.SEC.4, Attachment 1 also in Ex. K1.5, p. 67).

¹¹ Generally speaking, that is because the carbon emissions of burning RNG are roughly offset by the carbon absorbed by the biomass used to create the RNG.

scenario.¹² In other words, the 40% to 50% reductions in gas consumption would be necessary even after assuming that RNG is increased up to its forecast potential.

14. Using natural gas as a transportation fuel will not address this issue either. It may help reduce emissions from the transportation sector, but it does not contribute to the reductions that are needed in relation to the utilities' current residential, commercial, and industrial customers. In other words, it does not impact the potential need to make 40 to 50% reductions in natural gas usage.
15. No other potential solutions have been identified – aside from conservation.
16. Increases in efficiency directly reduce gas use and emissions. If consumption needs to decline by 40%, that could be achieved by a 40% increase in efficiency (see paras. 37 and 38 below re conservation potential) or a smaller increase in conservation plus other measures. As discussed above, conservation is a particularly good solution because it is cost-effective and ultimately lowers energy bills. In other words, this can be dealt with while also *lowering total energy costs*.
17. The risks and dangers to consumers arise only if conservation is *not* increased aggressively. ICF international found that “stranded pipe/storage assets” and “economy wide demand destruction” are distinct possibilities.¹³ These risks can be avoided, but only if all cost-effective conservation is included in future compliance plans.
18. If the utilities do not aggressively pursue conservation, the risks to ratepayers are huge in the 2030 timeframe (just 13 years away) and in the longer-term 2050 timeframe.¹⁴ The utilities need to focus on this as major priority. In particular, they should assess the likely magnitude of reductions that are needed from the natural gas sector and should develop plans to meet those targets. This will need to include significant incremental conservation as part of their cap and trade compliance plans.

¹² Transcript, vol. 1, p. 175, ln. 26 to p. 176, ln. 2.

¹³ ICF, *Impacts of Ontario's Proposed Climate Policy*, July 7, 2015, p. 34 (EB-2016-0300, Ex. I.1.EGDI.SEC.4, Attachment 1 also in Ex. K1.5, p. 68).

¹⁴ Ontario's GHG emissions reduction targets decline from 150 MT in 2020, to 110 MT in 2030, to 35 MT in 2050.

Environmental Defence respectfully requests that the Board direct the utilities to take these steps to address to protect consumers.

Excluding Conservation in 2017 was Unjustified and Unreasonable

19. The utilities rationales for completely excluding incremental conservation in the 2017 plans – tight timing and uncertainty – are invalid and unreasonable.

The Utilities had over Seven Months to Prepare

20. The utilities first purported justification is timing.¹⁵ The utilities argue that they did not have sufficient time after the release of the Board’s Cap and Trade Framework to plan for incremental conservation. However, the utilities received the final cap and trade regulations in May of 2016, **seven months** before their plans were submitted.¹⁶ For at least seven months they knew that they were responsible for their own and most of their customers’ emissions.¹⁷ Furthermore, they received the draft regulations in February – a full **ten months** before submitting their plans.¹⁸
21. The utilities did not need to wait for the release of the Board’s Cap and Trade Framework to begin *planning* for potential incremental conservation. They should have done this knowing that the 2017 start date for cap and trade was quickly approaching. This would have been the prudent thing to do.
22. Although timing would have been a legitimate justification for the utilities to have put forward more circumspect conservation options for the 2017 plans, it is not a valid justification for completely failing to incorporate *any* incremental conservation.

Allowances Should Not be the “Default” in the face of Uncertainty

23. The second purported justification by the utilities is uncertainty. However, it was unreasonable to treat allowance purchases as the “default” in the face of uncertainty.

¹⁵ Transcript, vol. 2, p. 136, ln. 20 to 137, ln. 9.

¹⁶ Transcript, vol. 2, p. 137, ln. 28.

¹⁷ Transcript, vol. 2, p. 138, lns. 4-9.

¹⁸ Transcript, vol. 2, p. 138, lns. 10-15.

This represents a huge bias in favour of allowances and is contrary to the Board's Cap and Trade Framework, which requires that plans be optimized for cost effectiveness.¹⁹

24. Many of the uncertainties cited by the utilities relate to the future price of carbon, such as additional government regulations, offset protocols, joining the Western Climate Initiative (WCI), and the Board's long-term carbon forecast.²⁰ A balancing of allowance purchases and conservation may depend in part on the future price of carbon. However, this uncertainty does not benefit one option over the other. In other words, the risk created by uncertain future carbon prices applies to both options. Although lower future carbon prices could favour more allowance purchases versus conservation, the opposite is also true. Higher future carbon prices would make it all that much important that the utilities invest in conservation now.
25. For example, carbon prices could be as much as 4 to 9 times higher if Ontario does not join the WCI.²¹ This risk is a reason to pursue *more* not less conservation. If carbon prices will be far higher in the future, the savings arising from 2017 conservation programs will be even higher (because 2017 programs will reduce gas usage and compliance costs in future years).
26. Furthermore, the utilities *had* a carbon price forecast in February of 2016.²² They could have used that forecast in their planning. Alternatively, they could have used very conservatively low prices in their assessment, which would have biased allowances, but not so much so as completely ruling out conservation.
27. Furthermore, incremental 2017 conservation would likely be cost-effective regardless of future carbon prices. Again, conservation programs provide net savings *and* "free" emission reductions (see paras. 6 to 9 above) – they would be cost-effective regardless of the price of carbon. The magnitude of conservation in a 2017 plan would likely

¹⁹ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities*, September 26, 2016, p. 7.

²⁰ Transcript, vol. 2, p. 141, lns. 2-6 (regarding the outstanding regulations: "to the extent there are more options put out on to the market to be able to take advantage of, that impact the price of carbon"); p. 141, lns. 24-27 (re offset protocols: "offsets could be decreasing the price of carbon... That's right").

²¹ EnviroEconomics (Commissioned by the Government of Ontario), *Impact Modelling and Analysis of Ontario Cap and Trade Program*, May 17, 2016, p. 3 (Exhibit K2.1).

²² Transcript, vol. 2, lns. 17-25.

have been limited by the ability of the utilities to ramp up quickly enough, not by any cost-effectiveness cut-off.

28. Carbon price uncertainty is certainly not a valid justification for excluding incremental conservation from the 2017 plans.
29. Other uncertainties relate to other potential future government conservation programs (e.g. the green bank and spending under the Climate Change Action Plan) and future regulatory changes to the cap and trade program.²³ These are not reasons to completely exclude incremental conservation. They do not impact what the utilities could have done in 2017. Furthermore, this uncertainty will always exist. If the prospect of future government programs is considered to be a valid justification to completely exclude incremental conservation, this could be the case for all future plans.
30. The utilities both acknowledged during the hearing that potential overlap with DSM is not an impediment to including incremental conservation in their 2017 plans.²⁴ Therefore, it is not necessary to wait for the mid-term DSM review to put forward incremental conservation. Indeed, the Board's Cap and Trade Framework expressly states that any overlap "can be appropriately addressed through the robust EM&V process of the DSM framework."²⁵ Although the 2018 mid-term DSM review will "assess the DSM framework in light of the Cap and Trade program," the Board did *not* suggest that incremental abatement would have to wait until after that review is complete.²⁶ That would be an absurd reading of the Board's Framework. It would mean that at least half of the years covered by the Cap and Trade Framework would include no incremental customer abatement.
31. Indeed, potential overlap with DSM cannot be an impediment to incremental conservation because the utilities are already dealing with that overlap in relation to their Green Investment Fund ("GIF") programs. The utilities developed and are

²³ Exhibit B.Staff.14, p. 2.

²⁴ Transcript, vol. 1, p. 152, lns. 15-19; Transcript, vol. 2, p. 157, lns. 7-10.

²⁵ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities*, September 26, 2016, p. 28.

²⁶ *Ibid.*

currently implementing an attribution methodology to address potential overlap between the GIF and their DSM programs.²⁷

32. Finally, it is important to note that the Green Investment Fund is not *incremental* conservation nor *ratepayer-funded* conservation. The GIF pre-dated the utilities' cap and trade plans and is not funded via those plans.²⁸ It is a government program that the utilities are delivering – not a cap and trade compliance option arrived at through an optimization process.

Excluding Conservation Cost Ontarians At Least \$22 Million

33. Based on the below estimates, the utilities could have saved Ontarians at least \$22 million in cap and trade compliance costs by including a modest amount of incremental conservation in their 2017 plans. In other words, Ontarians will be at least \$22 million poorer because the utilities completely excluded incremental conservation from their plans. The calculation of this figure is described below.
34. The utilities expect that their 2017 DSM programs will collectively achieve reduce carbon emissions by over 6 million tonnes (cumulative CO2 equivalent).²⁹ Reductions in gas volume and emissions directly translate into reductions in cap and trade compliance costs.³⁰ At the 2017 carbon price assumed by the utilities (\$17.70/tonne), the emissions reductions from their 2017 DSM plans are worth over \$112 million.³¹ That means that customers will ultimately save at least \$112 million in cap and trade compliance costs because of those emissions reductions. The actual savings will likely be higher if carbon prices increase because the emissions reductions persist for the duration of each conservation measure.
35. The utilities did not assess how much additional cost effective conservation they could have implemented in 2017. A precise figure is unknown. However, Enbridge acknowledged that it “ramped up” its DSM program by 30% from 2015 to 2016 in

²⁷ Transcript, vol. 2, p. 158, ln. 17 to p. 159, ln. 3.

²⁸ Transcript, vol. 2, p. 8, lns. 19-28.

²⁹ The precise figure is 6,337,421 tonnes CO2e, which consists of 1,959,720 tonnes CO2e for Enbridge (EB-2016-0300, I.5.EGDI.ED.1, p. 4) plus 4,377,701 tonnes CO2e for Union (EB-2016-0296, Exhibit B.ED.1, p. 2).

³⁰ Transcript, vol. 1, p. 138, lns. 6-16; Transcript, vol. 2, p. 169, lns. 1-7.

³¹ The precise figure is \$112,172,351.70, which is 6,337,421 tonnes CO2e multiplied by \$17.70/tonne.

terms of gas savings.³² Even a more modest increase of 20% would result in an additional **\$22 million** in reduced compliance costs.³³ This is a reasonable estimate of the approximate magnitude of savings that have been lost by failing to implement incremental conservation in the 2017 compliance plans.

36. In addition, the utilities have caused significant indirect costs to consumers by purchasing allowances instead of pursuing abatement. Doing so will drive up the cost of allowances, increasing the cost of compliance across the province in other sectors. For example, gasoline will be more expensive due to the increased price of carbon caused by the utilities. This impact is significant seeing as the utilities are the largest purchasers in the province.
37. According to a recent study prepared for the Board, there is a very large amount of conservation potential available above and beyond the current amounts provided for under the Board's DSM Framework.³⁴ Based on the "achievable potential," overall natural gas consumption could be reduced in the province by **17 percent** by 2030 versus the base case.³⁵ The "economic potential," which includes all cost-effective measures, would provide a **26.5 percent** reduction.³⁶ The report also recommends deeper examination in the next conservation potential study, which could identify additional opportunities.
38. Another way to assess the potential for increased conservation is to compare Ontario with other jurisdictions. In EB-2015-0049, Enbridge retained Navigant to do just that.³⁷ According to that study, Enbridge spent **4 times less** on conservation compared to other utilities that are subject to a mandate to implement all cost-effective conservation.³⁸
39. The potential for increased cost-effective conservation in 2017 and beyond is large.

³² Transcript, vol. 1, p. 143, lns. 7-11.

³³ 20% of \$112,172,351.70 is \$22,434,470.34.

³⁴ ICF, *Natural Gas Conservation Potential Study*, Submitted to the Ontario Energy Board, June 30, 2016, p. iv (Exhibit K1.5, p. 35); Transcript, vol. 1, p. 140, ln. 14 to p. 141, ln. 9.

³⁵ *Ibid.*

³⁶ *Ibid.*

³⁷ Exhibit K1.5, p. 40 (EB-2015-0049, Exhibit JT1.34).

³⁸ *Ibid.*; Enbridge spent 1.6% of revenue whereas the comparators spent over 7%.

The Utilities Fundamentally Breached the Board’s Framework

40. By failing to include any incremental conservation, the utilities fundamentally breached the Board’s Cap and Trade Framework.
41. The first guiding principle of the Framework is cost-effectiveness.³⁹ Utilities are required to optimize their plans to ensure that they are “as cost-effective as possible.”⁴⁰ The utilities did not do this. Their plans are far from meeting this standard because the utilities could have saved customers tens of millions of dollars by including incremental conservation, as discussed above, but did not do so.
42. As noted above, the utilities hugely biased allowances as a compliance option, making it the default in the face of any uncertainty. This is contrary to the optimization process envisioned in the Framework. Allowances and abatement are on equal footing in the Framework – both must be considered and the choice between each is to be based on cost-effectiveness and risk minimization.⁴¹
43. Furthermore, conservation under the Cap and Trade Framework is clearly incremental to conservation under the DSM Framework. The Board explicitly and unambiguously stated this four times in the Cap and Trade Framework and Filing Guidelines.⁴²
44. In addition, the Cap and Trade Framework states that conservation can be excluded only if “the utility has determined that this is the most cost-effective and reasonable approach.”⁴³ Both criteria must be present – cost-effectiveness *and* reasonableness.⁴⁴ The utilities have not established this criteria – they did not even examine the respective cost-effectiveness of abatement versus allowances.⁴⁵ Similarly, the utilities did not provide a “comparison of costs of investing in GHG abatement activities

³⁹ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities*, September 26, 2016, p. 7.

⁴⁰ *Ibid.*, p. 21.

⁴¹ *Ibid.*, p. 22.

⁴² *Ibid.*, p. 23, appendix A: v, and vii.

⁴³ *Ibid.*, p. 23.

⁴⁴ Transcript, vol. 2, p. 11, ln. 13 to p. 13, ln. 7; p. 176, lns. 1-19; & p. 177, lns. 5-10.

⁴⁵ *Ibid.*

versus procuring emissions units over the short-term and long-term,” which is required by the filing guidelines.⁴⁶

45. The Framework clearly contemplates, at its core, an exercise of maximizing cost-effectiveness for ratepayers by balancing spending on abatement activities and allowances. This fundamental exercise was not undertaken in 2017.

Utility and Ratepayer Interests Must Be Aligned

46. The utilities might have been more likely to propose conservation activities in 2017 if there were clear structures in place to remove potential disincentives associated with investments in conservation. This is an incredibly important structural issue that needs to be addressed in the 2018 compliance plans in order to ensure that utilities have an incentive to put forward optimized plans as required by the Framework. Although this is a forward-looking issue, it is relevant to this 2017 application and to potential conditions that the Board could include in its order as it is empowered to do under s. 36(4) of the *Ontario Energy Board Act*.⁴⁷
47. There are two kinds of disincentives to investing in conservation. The first relates to gas volumes.⁴⁸ Rates are set based on a volume forecast. If volumes are lower than forecast, utilities will earn less revenue. Because conservation reduces volumes, it will reduce revenues. An adjustment mechanism is required to prevent this.⁴⁹
48. Under the DSM Framework, there are two mechanisms to address this.⁵⁰ First, rates are based on volume forecasts that take into account the forecast impact of planned DSM.⁵¹ Second, the Lost Revenue Adjustment Mechanism trues up the actual impact

⁴⁶ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities*, September 26, 2016, Appendix A, p. vii.

⁴⁷ *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Sched. B, p. 36(4) (This section, which relates to orders approving rates for gas transmitters and distributors, states that “An order under this section may include conditions, classifications or practices applicable to the sale, transmission, distribution or storage of gas, including rules respecting the calculation of rates.”).

⁴⁸ Transcript, vol. 1, p. 161, lns. 2-12; OEB, *Demand Side Management Guidelines for Natural Gas Utilities*, June 30, 2011, p. 32-33.

⁴⁹ *Ibid.*

⁵⁰ OEB, *Demand Side Management Guidelines for Natural Gas Utilities*, June 30, 2011, p. 32-33.

⁵¹ *Ibid.*

and forecast impact of DSM activities, so that utilities will not lose revenue as a result of beating planned DSM results.⁵²

49. The second disincentive arises because utilities earn a return on supply-side investments but conservation reduces the need to make supply-side investments.⁵³ Under the DSM Framework, this is partly dealt with via incentive payments that utilities can earn. Unfortunately, those incentives do not increase based on the overall gas savings achieved by DSM plans.⁵⁴ Instead, they focus on the achievement of targets proposed by utilities and set by the Board.⁵⁵ Therefore, utilities do not have an incentive to propose programs that are as ambitious as possible – they have an incentive to propose programs with targets that can be easily reached and exceeded.
50. Under the Cap and Trade Framework, it is up to the utilities to propose mechanisms to address these issues. Although the Framework does not speak to the issue of eliminating disincentives, one of the guiding principles is cost recovery, which would presumably include mechanisms to ensure that distribution revenue and rate of return on shareholder equity is not lost as a result of conservation under the Framework.⁵⁶
51. This is a critical issue that needs to be addressed in the utilities' 2018 plans. Without appropriate shareholder incentives, the utilities' profits will fall if they invest in conservation. This will cause a fundamental misalignment of the interests of the utilities and consumers. In particular, it will lead to underinvestment in conservation, suboptimal compliance plans, and non-compliance with the government's policy of Conservation First – as has occurred with respect to the 2017 plans. Utilities should be given an incentive to invest in all cost-effective conservation that is in the best interest of consumers.

⁵² *Ibid.*

⁵³ Transcript, vol. 1, p. 161, ln. 13 to p. 162, ln. 9; Transcript, vol. 2, p. 175, lns. 10-23.

⁵⁴ OEB, *2015-2020 Natural Gas DSM Framework*, December 22, 2014, p. 22-25.

⁵⁵ *Ibid.*

⁵⁶ OEB, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities*, September 26, 2016, p. 7 & 29-33.

Requested Orders

52. In light of the above, Environmental Defence requests that a certain amount of Enbridge's and Union's cap and trade costs be disallowed as being unreasonable. As discussed above, the plans do not maximize cost-effectiveness and to not comply with the Framework. It is open to the Board to disallow \$22 million in costs as this represents a conservative estimate of the savings lost to consumers because the plans were not optimized. However, some leeway is reasonable seeing as this is the first cap and trade compliance period, and therefore Environmental Defence proposes a disallowance of \$500,000 per utility, which is less than 5% of the foregone savings.
53. Environmental Defence also requests that the Board include conditions in its order as it is empowered to do under s. 36(4) of the *Ontario Energy Board Act*.⁵⁷ In particular, Environmental Defences asks that the utilities be directed to:
- a. Include incremental abatement in their 2018 compliance plans based on a robust assessment of the costs, benefits, and risks of allowances versus abatement; and
 - b. Assess the likely magnitude of GHG emissions reductions that will be needed in the natural gas sector to meet Ontario's GHG emissions reduction targets, develop a strategy to meet those targets, and incorporate that strategy in to future compliance plans.

All of which is respectfully submitted this 19 day of May, 2017.



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⁵⁷ *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Sched. B, p. 36(4).