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BY EMAIL

May 19, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: 2017 Natural Gas Utilities' Cap and Trade Compliance Plans
OEB Staff Submission
Union Gas Limited – EB-2016-0296
Enbridge Gas Distribution Inc. – EB-2016-0300
Natural Resource Gas Limited – EB-2016-0330**

In accordance with Procedural Order No. 3, please find attached OEB staff's submission on the evidence that forms part of the public record in the above noted proceeding.

The applicants and intervenors have been copied on this filing.

Sincerely,

Original Signed By

Josh Wasylyk
Project Advisor, Application Policy & Climate Change

Attachment



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION May 19, 2017

Natural Gas Utilities' 2017 Cap and Trade Compliance Plans

**Union Gas Limited – EB-2016-0296
Enbridge Gas Distribution Inc. – EB-2016-0300
Natural Resource Gas Limited – EB-2016-0330**

Background

The *Climate Change Mitigation and Low-carbon Economy Act, 2016* (*Climate Change Act*) was passed by the Ontario Legislature and received Royal Assent on May 18, 2016. On May 19, 2016, Ontario Regulation 144/16, *The Cap and Trade program (Cap and Trade Regulation)*, was issued. The *Climate Change Act* and the *Cap and Trade Regulation* set forth the details of a Cap and Trade program for the purpose of reducing greenhouse gas (GHG) emissions in Ontario. The *Climate Change Act* established that the first compliance period for the Cap and Trade program will run from January 1, 2017 until December 31, 2020, with subsequent three-year compliance periods.

Under the *Climate Change Act*, Union Gas Limited (Union), Enbridge Gas Distribution Inc. (Enbridge) and Natural Resource Gas Limited (NRG) (collectively, the Gas Utilities) are required to develop strategies to meet their *Climate Change Act* compliance obligations. New costs will be incurred by the Gas Utilities to comply with the *Climate Change Act*. The Ontario Energy Board (OEB) is responsible for assessing the cost consequences of the Gas Utilities' Cap and Trade Compliance Plans for the purpose of approving cost recovery in rates.

The Gas Utilities each filed an application with the OEB on November 15, 2016 seeking approval of the cost consequences arising from each of their Cap and Trade Compliance Plans for the January 1 to December 31, 2017 time period. The Gas Utilities filed their applications in accordance with the OEB's *Report of the Board – Regulatory Framework for Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities* (Cap and Trade Framework)¹.

On November 26, 2016 the OEB issued a Rate Order approving rates, on an interim basis, that allowed the Gas Utilities to begin to recover the projected costs of each of their Cap and Trade Compliance Plans before the OEB issues its decision on final rates for 2017. The OEB's final rate decision in the current proceeding will include any adjustments taking into account the rates approved on an interim basis.

¹ EB-2015-0363.

Confidentiality

The *Climate Change Act* outlines limitations on the disclosure of certain information. These limitations are reflected in Section 4 of the Cap and Trade Framework.² The Cap and Trade Framework indicates that there are three categories of information which may be included within the Gas Utilities Compliance Plan: public information, confidential information and strictly confidential information.

The Cap and Trade Framework provides for two categories of strictly confidential information which arise out of the *Climate Change Act* and *Cap and Trade Regulation* namely, auction confidential and market sensitive information. Strictly confidential information is subject to review by only OEB staff and the OEB panel assigned to review and decide the application.³

Scope of OEB Staff Submission

This OEB staff submission is related to the Gas Utilities' evidence which is on the public record. OEB staff will subsequently submit a strictly confidential submission to the OEB and each of the respective Gas Utilities related to the strictly confidential portions of their Compliance Plans.

OEB staff provides its submissions on the following issues:

- Cost Consequences (Administrative Costs) – Issue 1
- Volumetric Forecasts – Issue 1.1
- GHG Emissions Forecasts – Issue 1.2
- Carbon Price Forecast – Issue 1.3
- Performance Metrics and Cost Information – Issue 1.6
- Longer-Term Investments – Issue 1.8
- New Business Activities – Issue 1.9
- Greenhouse Gas Abatement Activities – Issue 1.10
- Monitoring and Reporting – Issue 2
- Customer Outreach – Issue 3
- Deferral and Variance Accounts – Issue 4
- Cost Recovery – Issue 5
- Implementation – Issue 6

² *Climate Change Mitigation and Low-carbon Economy Act, 2016*, S.O. 2016, CHAPTER 7 (*Climate Change Act*) and 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).

³ Cap and Trade Framework, pages 9-13

Issue 1 – Cost Consequences (Administrative Costs)

In order to meet their Cap and Trade compliance obligations, the Gas Utilities will incur administrative costs. The forecast administrative costs for each of the Gas Utilities are set out in the Table below:

Table – 2017 Forecast Gas Utility Administrative Costs

	EGD	Union	NRG
IT Billing System Updates	\$ 76,100	\$ 68,000	\$ -
Staffing Resources (Salaries and Wages)	\$ 1,120,000	\$ 2,542,000	\$ -
Custom Care Centre (Salaries and Wages)		\$ 275,000	\$ -
Consulting (Carbon Market Knowledge)	\$ 561,000	\$ 670,000	\$ 80,000
Customer Education and Outreach (Communications & Marketing)	\$ 115,000	\$ -	\$ 5,000
External Legal Counsel	\$ 125,000	\$ -	\$ 10,000
OEB Cap and Trade Framework Regulatory Proceedings	\$ -	\$ -	\$ -
Incremental C+T related GHG Reporting and Verification	\$ 20,000	\$ -	\$ -
Bad Debt Provision	\$ 900,000	\$ 600,000	\$ -
Other	\$ -	\$ 68,000	\$ -
Auditing Services	\$ -	\$ -	\$ 5,000
TOTAL	\$ 2,917,100	\$ 4,223,000	\$ 100,000

Enbridge's Proposal – Administrative Costs

Enbridge estimates its 2017 administrative costs to be \$2.917 million⁴. As part of its pre-filed evidence, Enbridge indicated that it will track its administrative costs incurred from January 1 to December 31, 2017 in the 2017 Greenhouse Gas Emissions Impact Deferral Account (GGEIDA)⁵. The GGEIDA was approved by the OEB in Enbridge's Custom Incentive Regulation (CIR) proceeding⁶ to capture the impact resulting from federal and/or provincial regulations related to greenhouse gas emission requirements.

Enbridge noted that it expects to seek disposition of the GGEIDA on an annual basis, either as part of its deferral and variance account clearance application or in its

⁴ EB-2016-0300, Exhibit C, Tab 3, Schedule 6, Page 13

⁵ EB-2016-0300, Exhibit G, Tab 1, Schedule 1, Page 7, Paragraph 25

⁶ EB-2012-0459

Compliance Plan application in the year following the incurrence of the administrative costs (for example, the 2017 GGEIDA would be filed either as part of its deferral and variance account application for 2017 or as part of its 2019 Compliance Plan to be filed on or before August 1, 2018).

At the oral hearing, Enbridge confirmed that it is not seeking approval of its administrative costs at this time; however, Enbridge indicated that it is seeking the OEB's assessment that the administrative costs are reasonable.⁷

Union's Proposal – Administrative Costs

Union estimated its 2017 administrative costs to be \$4.2 million. Union confirmed that it is not requesting approval of its administrative costs as part of its 2017 Cap and Trade Compliance Plan application and that actual administrative costs will be included in its GGEIDA for future review and recovery.⁸ Union's GGEIDA was approved by the OEB in the EB-2015-0367 proceeding. In response to OEB staff interrogatory #17, Union indicated that it will bring forward the 2017 balances in its 2019 Cap and Trade Compliance Plan proceeding which is expected to be filed in August 2018. However, Union noted that this does not preclude it from filing for disposition at an earlier date as contemplated in the OEB's Cap and Trade Framework.⁹

Since Union is seeking approval to establish two new variance accounts (to capture variances in customer and facility-related compliance costs), Union requested that the OEB approve the updated wording in the GGEIDA to reflect that this account will now be used solely to track Union's administrative costs. This is discussed below under Issue 4 – Deferral and Variance Accounts.

NRG's Proposal – Administrative Costs

NRG has estimated that its 2017 administrative costs to be \$100,000. NRG has requested approval of its 2017 administrative costs as part of this proceeding.¹⁰ NRG further confirmed its request for approval of its 2017 administrative costs during the oral hearing while also indicating that it will seek to recover any variances between its estimated 2017 administrative costs and actual costs as part of a future Compliance Plan proceeding.¹¹

⁷ EB-2016-0296-0300-0330, Cap and Trade Oral Hearing Transcript Volume 1, p. 43, Line 25

⁸ EB-2016-0296-0300-0330, Cap and Trade Oral Hearing Transcript Volume 2, p. 86, Lines 6 - 12

⁹ Cap and Trade Framework, Page 33

¹⁰ EB-2016-0330, Appendices, Page 30 of 34

¹¹ EB-2016-0296-0300-0330, Oral Hearing Transcript Volume 3, Pages 51 (line 23) – 52 (line 14)

OEB Staff Submission – Administrative Costs

OEB staff will address several components related to the information provided by the Gas Utilities with respect to their administrative costs, including:

- Approach and timing of review and approval of administrative costs
- Administrative cost components:
 - Enbridge's marginal abatement cost curve costs
 - Bad debt amounts
 - Customer outreach
 - Staff resources and consulting fees

Approach and Timing of Review and Approval of Administrative Costs

OEB staff submits that the forum in which administrative costs are reviewed and approved should be consistent for all Gas Utilities. A consistent approach would enable comparability across the Gas Utilities and consistency in terms of timing of cost recovery.

As outlined above, the Gas Utilities have each requested a different process for the OEB's consideration and approval of its administrative costs:

- While Enbridge will be seeking approval of its 2017 actual administrative costs in a future proceeding, Enbridge requested that the OEB make an assessment on the reasonability of its forecast 2017 administrative costs in this proceeding. Enbridge has proposed that any approval be made as part of either its deferral and variance account application or a future Compliance Plan application.
- Union provided its forecast 2017 administrative costs for information purposes only and will seek approval for disposition of its 2017 actual administrative costs in its 2019 Compliance Plan application.
- NRG has requested approval of its administrative costs as part of this application. Further, NRG has requested the ability to recover or refund the difference between forecast and actual 2017 administrative costs as part of a future Compliance Plan application.

OEB staff submits that, consistent with the recovery of most other administrative costs, the OEB should review and approve the forecast administrative costs related to the Gas Utilities' Compliance Plans with no variance accounts. This would provide an incentive for the Gas Utilities to efficiently and effectively forecast and manage their

administrative costs throughout the year as they would be operating under a fixed budget.

However, OEB staff acknowledges the Gas Utilities' lack experience with the Cap and Trade program. The Gas Utilities will need a period of time to become familiar with this new aspect of their business. Therefore, OEB staff recommends that consistent with the Cap and Trade Framework, the OEB allow for a two-year transition period. OEB staff submits that deferral treatment be afforded for the first two years of the current Cap and Trade compliance period (i.e., for 2017 and 2018 administrative costs). Following that two-year transition period, the Gas Utilities should apply to recover their forecast administrative costs in rates with no deferral or variance account treatment. This approach would align with the manner in which other administrative costs are reviewed and approved by the OEB.

With respect to whether the administrative costs should be reviewed and approved in a deferral and variance account application or as part of a future Compliance Plan application, OEB staff submits that all costs related to meeting their respective Cap and Trade compliance obligations, including administrative costs, should be dealt with in a Cap and Trade Compliance Plan proceeding. This approach is consistent with the approach contemplated in the Cap and Trade Filing Guidelines. It would also promote regulatory efficiency where all Cap and Trade related costs are dealt with in a single regulatory proceeding.

As previously indicated, while Enbridge is not seeking approval of its 2017 forecast administrative costs in this proceeding; it is seeking an assessment on the reasonableness of the costs. OEB staff submits that the OEB should not make any findings as to the reasonableness of Enbridge's 2017 administrative costs because a determination by this panel would not be binding on any future panel. Therefore, based on the submission above, this determination should be made by the panel assigned to the 2019 Cap and Trade Compliance proceeding.

With respect to NRG's request for approval of its 2017 administrative costs as part of this proceeding, OEB staff submits that the same treatment should be applied consistently for all Gas Utilities. OEB staff submits that the OEB should approve the establishment of a GGEIDA to allow NRG to track actual administrative costs. Consistent with the submissions above, the deferred amount would be dealt with as part of NRG's 2019 Compliance Plan.

However, in the event that the OEB panel determines that it would be useful to comment on the Gas Utilities' 2017 forecast administrative costs, OEB staff offers the following comments.

Enbridge's Marginal Abatement Cost Curve amounts

As part of its 2017 forecast administrative costs of \$561,000 for consulting support, Enbridge indicated that \$150,000 has been identified for ongoing Cap and Trade regulation support, inclusive of the development of its own Marginal Abatement Cost Curve (MACC).¹² In response to OEB staff IR #7, Enbridge noted that it has not undertaken or completed its own MACC as it has been included as a stakeholder in the OEB's process for developing a MACC.

Enbridge noted that if it becomes necessary to undertake additional work incremental to the OEB's MACC, Enbridge may request approval of amounts for this expenditure in the future.

OEB staff submits that it would not be prudent or necessary for Enbridge to develop its own company-specific MACC. As indicated in Section 5.2.4 of the Cap and Trade Framework, the OEB is undertaking the development of a generic province-wide MACC to be used by all Gas Utilities.

Bad Debt Amounts

Enbridge (\$900,000) and Union (\$600,000) have included bad debt amounts as part of their 2017 forecast administrative costs. They have devised the bad debt amount by multiplying the respective utilities' total forecast bad debt amount underpinning rates by 10% to correspond with the general 10% increase to customers' bills due to Cap and Trade charges.¹³ OEB staff understands that incremental bad debt amount over and above what currently underpins rates would be recorded in the GGEIDA.

OEB staff submits that Enbridge and Union's proposal to include any incremental bad debt amount as part of its administrative costs is reasonable since additional bad debt related to the costs of the Cap and Trade program was not considered as part of the Gas Utilities' rate case proceedings.

However, OEB staff submits that any incremental bad debt amount should be normalized for weather and adjusted for fluctuations in natural gas commodity prices and any other relevant factor. This approach is consistent with how the Gas Utilities develop the amount of bad debt underpinning rates. By not implementing these adjustments, the amounts recorded in the GGEIDA could include incremental amounts that are not related to the Cap and Trade program.

¹² EB-2016-0300, Exhibit I.1.EGDI.STAFF.7(b), Page 2 of 2

¹³ Enbridge - EB-2016-0296-0300-0330, Oral Hearing Transcript, Volume 1, Pages 126 (Line 15) to 127 (line 6)
Union – EB-2016-0296-0300-0330, Oral Hearing Transcript, Volume 2, Pages 104 (Line 7-28)

Customer Outreach

OEB staff notes that the Gas Utilities implemented an extensive customer outreach strategy in 2016 that included multiple touch points with customers. The strategies included customer education and outreach to ensure that customers are aware of the Cap and Trade program and the charges they are required to pay to the Gas Utilities for compliance with that program.

OEB staff submits that the 2017 forecast incremental costs for Enbridge's customer outreach efforts of \$115,000 (in comparison to about \$45,000 in 2016) and Union's customer care centre costs of \$275,000 appear excessive. A majority of the communications with customers was presumably done in 2016, during the lead up to the start of the Cap and Trade program and the various government announcements. As highlighted in the submission from a consumer, Mr. Zeljko Zidaric, "How many people needed information in 2016? How many people are expected to require information about the new "carbon tax" in 2017 and for how long?"¹⁴

OEB staff submits that the Gas Utilities should consult with their customers prior to embarking on any marketing and/or education campaign to validate whether the incremental efforts and costs are actually needed.

Staffing Resources and Consulting Fees

Enbridge and Union have included substantial forecast 2017 staff resource and consulting fee budgets in their total administrative costs. Enbridge has included a forecast of \$1.12 million for 7 full-time equivalent (FTEs) staff members for 2017¹⁵ as well as \$561,000 for consulting fees. Union has included a forecast of \$2.542 million for 13.5 FTEs in 2017¹⁶ as well as \$670,000 for consulting fees.

Enbridge and Union's parent companies, Enbridge Inc. and Spectra Energy Corp., have recently been involved in a business transaction whereby Enbridge Inc. has purchased Spectra Energy. Enbridge indicated that for 2017, the two utilities were operating as entirely separate entities with regard to their respective Cap and Trade activities.¹⁷

OEB staff submits that flexibility should be built into internal and external resources such that future budgets can be adjusted to reflect cost savings in the event that Enbridge and Union combine their Cap and Trade activities.

¹⁴ Submission from Zeljko Zidaric, April 18, 2017

¹⁵ EB-2016-0300, Exhibit I.1.EGDI.STAFF.3

¹⁶ EB-2016-0296, Exhibit B.Staff.1

¹⁷ EB-2016-0296-0300-0330 Oral Hearing Transcript Volume 1, Pages 111-112

Issue 1.1 - Volumetric Forecasts

The Cap and Trade Framework indicated in Section 5.2.1 that the OEB expects the Gas Utilities to use their existing OEB-approved methodology when preparing forecasts for the purpose of the Compliance Plans. The Gas Utilities were also to exclude volume forecasts of Large Final Emitters (LFEs) and voluntary participants from their volume forecasts in their Compliance Plans.

Enbridge's proposed customer-related and facility-related volumetric forecasts are consistent with the OEB-approved methodology used by Enbridge in its 2017 Rate application (EB-2016-0215).

Union's proposed customer-related and facility-related volumetric forecasts are consistent with the OEB-approved methodologies in Union's 2013 Cost of Service application (EB-2011-0210).

NRG's proposed customer-related and facility-related volumetric forecasts are consistent with those submitted as part of its 2017 Cost of Service application (EB-2016-0236) and are based on a methodology previously approved by the OEB.

OEB Staff Submission

OEB staff submits that the Gas Utilities' volume forecasts are consistent with the OEB's Cap and Trade Framework and appropriately use volume forecast methodologies that have been accepted by the OEB. Further, the Gas Utilities have appropriately excluded the volume forecasts of LFEs and voluntary participants.

Issue 1.2 – GHG Emissions Forecasts

The Gas Utilities estimated GHG emissions following the Ontario government-approved methodologies (O. Reg. 143/16), outlined in the Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions.

OEB Staff Submission

OEB staff submits that the Gas Utilities have appropriately estimated GHG emissions forecasts using the proper government-approved methodology as set out in the Cap and Trade Framework.

Issue 1.3 - Carbon Price Forecast

Enbridge¹⁸ and Union¹⁹ used an annual carbon price forecast of \$17.70 CAD per tonne of CO₂ equivalent for 2017. This forecast was derived using the Ontario allowance floor price as the proxy carbon price forecast rather than the California Carbon Allowance ICE 21-day forward strip price outlined in the Cap and Trade Framework.²⁰ Enbridge and Union stated that using the Ontario allowance floor price was reasonable and appropriate as it is more representative of the Ontario market for 2017 and will also provide greater rate predictability for customers.²¹

NRG followed the direction included in the Cap and Trade Framework and used the average ICE settlement price of \$17.41 CAD.²²

The Ontario March 2017 auction reserve price was \$18.07. Enbridge and Union indicated at the oral hearing that they did not intend to update their evidence to reflect the March 2017 auction reserve price.

OEB Staff Submission

OEB staff submits that until the Ontario Cap and Trade program is linked with the Western Climate Initiative (WCI), the Gas Utilities should use the Ontario auction reserve (floor) price when calculating the total cost of their Compliance Plans. OEB staff agrees with Union and Enbridge that the Ontario floor price is more representative of the Ontario market and provides greater rate predictability as it would minimize balances that would otherwise be captured in the variance accounts for customer-related and facility-related compliance obligations. OEB staff also notes that in response to OEB staff interrogatory #7b, NRG agreed to use the higher of the auction floor price or the ICE settlement price. OEB staff submits that the OEB should direct NRG to use the Ontario auction floor price to establish their final rates relative to NRG's 2017 Compliance Plan.

OEB staff agrees that it is not necessary for the Gas Utilities to update their annual proxy carbon price to reflect the March 2017 auction reserve price of \$18.07. First, the difference between the annual proxy carbon price and the Ontario auction reserve price for March 2017 is not material (for Enbridge and Union the increase in customer-related obligation costs would range from about by \$1.55 to \$1.70 per year for a typical

¹⁸ EB-2016-0300, Exhibit A, Tab 1, Schedule 2, Page 4 of 5

¹⁹ EB-2016-0296, Exhibit 1, Page 6 of 12

²⁰ Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities, EB-2015-0363, Appendix A: Section 4, Annual Carbon Price Forecasts

²¹ EB-2016-0296-0300-0330, Oral Hearing Transcript Volume 2, Page 86, Lines 19-21

²² EB-2016-0330, Exhibit 2, Pages 11-12 of 34

residential customer)²³. Second, the auction reserve price will be subject to change for the remaining auctions in 2017 due to changes in foreign exchange rates.

Issue 1.6 – Performance Metrics

The Cap and Trade Framework discusses how the OEB will use performance benchmarks to assess the forecast costs of Compliance Plans. The Cap and Trade Framework indicates that the OEB will require the Gas Utilities to calculate and provide key performance metrics, including cost per tonne (\$/tonne) of each compliance instrument or activity and a comparison of costs of investing in GHG abatement activities versus procuring emissions units. The OEB also noted that it intends to establish a working group that will consider, among other things, the need for and design of potential new metrics for evaluating the Gas Utilities' Compliance Plans and performance.

Union proposed to work with the Gas Utilities through the OEB's working group to potentially include new metrics. Enbridge submitted that although the Cap and Trade Framework indicates that the OEB will use the ICE annual price forecast as one benchmark; this should be reconsidered given the uncertainty and current lack of market liquidity relative to the magnitude of the Gas Utilities' compliance obligations.²⁴ Enbridge also proposed adding the Ontario strategic reserve, or "soft ceiling" price of \$63.81 CAD as a new benchmark. Enbridge noted that this soft ceiling should represent the maximum auction clearing price during 2017 and therefore be used as a further benchmark.

OEB Staff Submission

OEB staff submits that the performance metrics set out in Section 8 of the Cap and Trade Framework should continue to be relied on until such time that the OEB has an opportunity to consider any new recommendations for additional metrics provided by the working group.

²³ EB-2016-0296, Exhibit J2.5 & EB-2016-0300, Exhibit J1.1

²⁴ EB-2016-0300, Enbridge Argument In-Chief, Paragraph 53

Issue 1.8 – Longer Term Investments

Issue 1.9 – New Business Activities

Issue 1.10 – Customer Abatement

Section 5.4 – Longer Term Investments, Section 5.5 – New Business Activities and Section 5.6 – Customer Abatement of the Cap and Trade Framework outline the OEB's guidance related to the Gas Utilities developing new proposals to respond to the Cap and Trade program.

The Cap and Trade Framework indicates that, due to provisions in the *Climate Change Act* and *Cap and Trade Regulation* which provide for a declining cap and increasing cost of allowances over time, the OEB considers longer-term planning to be a prudent and reasonable activity that the Gas Utilities should consider. The OEB noted that it expects the Gas Utilities' Compliance Plans will reflect long-term planning for GHG abatement beyond a single year or a single compliance period. The OEB further stated its expectation that the Gas Utilities, Compliance Plans will include a description of their longer-term strategy.

The Cap and Trade Framework indicated that the OEB is prepared to consider applications for approval to undertake new business activities on a case-by-case basis.

The Cap and Trade Framework made a number of references to the role that abatement programs will likely play as part of the Gas Utilities Compliance Plans. In Section 5.3.1.1 – Compliance option analysis and optimization of decision-making - the OEB noted that it expects Gas Utilities to provide an overview of their compliance strategy, including an outline of the activities that they propose to take to meet their compliance obligations, and the rationale behind their selection of compliance actions and activities.

As part of their 2017 Compliance Plans, none of the Gas Utilities proposed any longer-term investments, new business activities or abatement activities²⁵, for the reasons set out below.

Enbridge

Enbridge indicated that it has assessed the viability of longer-term investments, new business activities and abatement activities and expects that there will be a better opportunity to provide an expanded view as part of future Compliance Plans. Going

²⁵ Enbridge and Union referenced energy efficiency programs supported by the Government of Ontario through the Green Investment Fund, but have not included proposals for the OEB's consideration.

forward, it expects to have more experience and information, including the OEB's MACC and Long-term Carbon Price Forecast (LTCPF). Enbridge outlined a list of long-term compliance options that it may pursue, including renewable natural gas, demand side management (DSM) and low-carbon technologies, fuel switching and fugitive/venting emission reductions.²⁶

Enbridge noted that it has not included any new business activities in its 2017 Compliance Plan, but that it has started to investigate potential longer-term GHG emission mitigation strategies. Enbridge noted that future Compliance Plans may include such proposals.

Union

Union indicated that it has not included such costs due to the infancy of the Cap and Trade program, the number of uncertainties that still remain, and insufficient time to develop long-term investment options, new business activities and abatement activities. Union also noted that assurance of cost recovery is required; otherwise, it will be absorbing the cost of such investments, while customers realize the benefits of lower compliance costs.²⁷

Union indicated its commitment to address abatement and long-term investments more fully in future Compliance Plans.²⁸

NRG

NRG indicated that although it has not proposed any longer-term investments or new business activities as part of its 2017 Compliance Plan, it will use the OEB's MACC to identify the financial feasibility of future investment opportunities as part of future Compliance Plans.²⁹

NRG indicated that although it has been working with Natural Resources Canada and Union to promote residential abatement programs, its 2017 Compliance Plan does not include any abatement.

OEB Staff Submission

OEB staff accepts that due to time constraints, uncertainties related to the use of Climate Change Action Plan revenues, as well as the availability of the OEB's MACC

²⁶ EB-2016-0300, Exhibit C, Tab 5, Schedule 1, Pages 1-4

²⁷ EB-2016-0296, Exhibit 3, Page 46

²⁸ EB-2016-0296, Union Argument In-Chief, Page 11

²⁹ EB-2016-0330, Exhibit 3, Page 24

and LTCPF, it was not unreasonable for the Gas Utilities' to exclude abatement activities at this time.

OEB staff notes that the Gas Utilities' indicated that they will consider longer-term investments, new business activities and abatement proposals as part of their 2018 Compliance Plans.

Issue 2 - Monitoring and Reporting

As per the Cap and Trade Framework, the OEB requires annual monitoring and reporting by the Gas Utilities on the results of their Cap and Trade activities and any changes to their Compliance Plans.

Enbridge³⁰ and Union³¹ filed proposed templates for their annual monitoring reporting as part of their applications. NRG³² stated that it has no concerns with Enbridge's and Union's proposed reporting templates. Union³³ and Enbridge³⁴ generally agreed with each other's proposed templates and noted the similarities.

OEB Staff Submission

OEB staff's view is that the annual monitoring reports should be consistent across the Gas Utilities to allow the OEB and stakeholders to compare each of the Compliance Plans over time. OEB staff has reviewed each of the templates and recommends that for completeness (i.e., a combination of summary and detailed reports), the Gas Utilities file the following annual monitoring reports:

- Compliance Instrument Transaction Ledger as per Enbridge's Ex D, T1, S1, page 3 of 5, table #1
- Compliance Instrument Summary as per Enbridge's Ex D, T1, S1, page 4 of 5, table #2
- Compliance Plan – Forecast vs. Actual as per Enbridge's Ex D, T1, S1, page 5 of 5, table #3 with an additional column that shows the variance (between plan and actual)

³⁰ EB-2016-0300, Exhibit D, Tab 1, Schedule 5, Pages 3-5

³¹ EB-2016-0296, Exhibit 4, Schedules 1 and 2

³² EB-2016-0330, Staff IR-9

³³ EB-2016-0296, ExB.Staff 15

³⁴ EB-2016-0300, Ex1.2EGDI.STAFF 21

- Summary Table as per Union's Actual vs. Forecasted Compliance Cost, Ex 4, S1
- Auction Transaction Summary as per Union's Ex 4, S2

In addition, Enbridge in Exhibit K1.1, proposed additional reporting to the OEB that includes notifying the OEB should one of the following thresholds be triggered:

- 25% increase in actual weighted average cost of an allowance
- 25% change in forecasted volumes
- Significant market changes

OEB staff agrees with the proposed reporting requirements and recommends that Union and NRG also be subject to these additional reporting requirements identified by Enbridge in K1.1. It is also expected that the annual reports will be accompanied by qualitative analysis and discussion, including all supporting documentation and any material changes to the Compliance Plan with rationale, as this will provide greater context and explanation as to the information reported.

Enbridge³⁵ and Union³⁶ raised concerns about the types of information in the annual reports that should be in the public domain. OEB staff understands that the default position for Union and Enbridge is that only the aggregated weighted average of costs of Cap and Trade activities should be on the public record. Enbridge and Union commented that, for example, public disclosure of abatement activities should be decided on a case-by-case basis.

OEB staff believes that the information filed in the annual monitoring reports should generally be filed on the public record unless a gas utility can demonstrate that the information is confidential as per the OEB's *Rules of Practice and Procedures* and *Practice Direction on Confidential Filings* and/or strictly confidential as per the *Climate Change Act*.

In 2017, the Cap and Trade market is an Ontario-only market. However, linkage to the WCI market is expected to be announced later this year. In a WCI-linked market, the Gas Utilities will have more compliance options and sources in the primary and secondary markets to consider. Therefore, in OEB staff's view, in a WCI-linked market, even if information about a utility's volume and associated compliance obligation was

³⁵ EB-2016-0296-0300-0330, Oral Hearing Transcript: Vol 2, page 58

³⁶ EB-2016-0296-0300-0330, Oral Hearing Transcript: Vol 2, pages 95-97

publicly available, other participants in the Cap and Trade market would not be able to determine: 1) the exact quantity of any compliance instrument(s) that a utility plans to procure, 2) which compliance instrument(s) would be procured and 3) where any compliance instrument(s) would be procured from (i.e., primary and/or secondary market).

The Ministry of Environment and Climate Change's (MOECC) *Quantification, Reporting, and Verification of Greenhouse Gas Emissions* Regulation O. Reg. 143/16 made under the *Climate Change Act* requires the Gas Utilities to report their customer-related and facility-related GHGs and this information will be in the public domain. This regulation came into effect on January 1, 2017.

OEB staff submits that the onus is on the Gas Utilities to demonstrate that the information included in the monitoring reports should be treated as confidential relative to the *OEB's Rules of Practice and Procedure* and/or strictly confidential as per *Climate Change Act*. OEB staff submits that the information disclosed in these reports will need to evolve based on developments in the Cap and Trade market. Therefore, the monitoring reports will need to be reviewed periodically to assess whether information should be in the public domain, confidential or strictly confidential.

Issue 3 – Customer Outreach

Section 7 of the Cap and Trade Framework provides the OEB's expectations related to customer outreach. The OEB indicated that customer outreach and information is essential as customers need to understand the Cap and Trade program and the way in which the program will affect their bills.

Each of the Gas Utilities have provided a comprehensive customer outreach strategy that aims to provide clear messaging related to the Cap and Trade program. The Gas Utilities have proposed to deliver messaging through a wide variety of mediums, including bill inserts, call centre, website updates, newsletters, bill envelope messaging and direct contact with larger customers.

OEB Staff Submission

OEB staff submits that as previously discussed, the Gas Utilities should consult with their customers prior to embarking on any new marketing and/or education campaign to validate whether the incremental efforts and costs are actually needed.

Issue 4 – Deferral and Variance Accounts

The Cap and Trade Framework indicates that variance account balances should be apportioned between customer-related and facility-related obligations and that the re-calibration of rates and any required true-ups should be done annually.³⁷ Further, the Filing Guidelines to the Cap and Trade Framework outlines the information that the Gas Utilities must include related to deferral and variance accounts when filing a Compliance Plan.

OEB staff makes submissions in the following areas related to deferral and variance accounts:

- Customer-related and Facility-related Obligation Variance Accounts
- Greenhouse Gas Emissions Impact Deferral Account (GGEIDA)

Customer-related and Facility-related Obligation Variance accounts

The Gas Utilities requested the following approvals with respect to the establishment of new Cap and Trade variance account(s):

- Enbridge requested approval of a single 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-related and facility-related obligation costs.³⁸
- Union requested the approval of two new variance accounts to separately track customer-related and facility-related obligation costs:
 - The Greenhouse Gas Emissions Compliance Obligation – Customer-related variance account; and,
 - The Greenhouse Gas Emissions Compliance Obligation – Facility-related variance account.

Union has included Draft Accounting Orders Nos. 179-154 (customer-related) and 179-155 (facility-related).³⁹

Cap and Trade Framework, Section 6.2.1, Pages 32-33

³⁸ EB-2016-0300, Exhibit F, Tab 1, Schedule 1, Page 2 of 2

³⁹ EB-2016-0296, Exhibit 6, Appendix A

- NRG, similar to Union, has requested the approval of two new variance accounts to separately track customer-related and facility-related obligation costs.⁴⁰

Union, consistent with the Cap and Trade Framework, proposed to dispose of the 2017 variance account balances as part of its 2019 Cap and Trade Compliance application. In response to OEB staff interrogatory #24, Enbridge stated its expectation to do the same but stated that should timing allow, Enbridge's preference would be to dispose of these account balances in conjunction with the disposition of other deferral and variance account balances.

The Gas Utilities all stated their expectation that the disposition methodology would be similar to the OEB-approved methodology for all other deferral and variance accounts. In response to OEB staff interrogatory #24, Enbridge stated that the most suitable approach for disposition would be best determined once the magnitude of the account balances are known.

OEB Staff Submission

OEB staff supports Union and NRG's requests for two new variance accounts to separately track customer-related and facility-related obligation costs. The use of two separate accounts is consistent with the Cap and Trade Framework which indicates that variance account balances should be apportioned between customer-related and facility-related obligations because the cost allocation methodology differs. In order to promote consistent treatment across the Gas Utilities, OEB staff recommends that the OEB directs Enbridge to also establish two separate variance accounts— one for customer-related obligation costs and one for facility-related obligation costs.

OEB staff supports the Draft Accounting Orders provided by Union. OEB staff recommends that both Enbridge and NRG each use similar account descriptions and provide Draft Accounting Orders for their customer-related and facility-related obligation variance accounts.

With respect to the disposition methodology, OEB staff agrees with Enbridge that the most suitable approach for disposition would be best determined once the magnitude of the account balances is known. OEB staff submits that both the disposition period over which the Gas Utilities' recover any Cap and Trade deferral and variance account balances and the timing for which any recovery or refund should begin be determined at the time of disposition.

⁴⁰ EB-2016-0330, Staff IR-11

OEB staff submits that the Gas Utilities should each bring forward the balances in their respective Cap and Trade deferral and variance accounts on an annual basis and as part of their future Compliance Plan applications. For example, 2017 Cap and Trade account balances should be filed with the 2019 Compliance Plans in August 2018.

Greenhouse Gas Emissions Impact Deferral Account

Both Enbridge and Union have proposed to track administrative costs in the Greenhouse Gas Emissions Impact Deferral Account (GGEIDA).

Union has requested the approval of the updated wording for its GGEIDA. The updated wording Union seeks approval of states:

“To record, as a debit (credit) in Deferral Account No. 179-152, the administrative costs associated with the impacts of provincial and federal regulations related to greenhouse gas emission requirements.”⁴¹

NRG does not have a GGEIDA nor has it proposed to establish a GGEIDA as part of its 2017 Compliance Plan application.

OEB Staff Submission

OEB staff supports Union’s updated wording for its GGEIDA. OEB staff notes that although Enbridge has not similarly requested approval of any updated wording for its GGEIDA, the OEB should direct Enbridge to update the wording of its GGEIDA to match the updated proposal submitted by Union above. The updated wording will ensure that the account only captures the administrative costs associated with the Gas Utilities’ greenhouse gas obligation activities.

As NRG does not currently have an approved GGEIDA, OEB staff submits that NRG should use the updated wording proposed by Union above.

Issue 5 – Cost Recovery

As part of the Cap and Trade Framework, the OEB 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.

⁴¹ EB-2016-0296, Exhibit 6, Appendix A, Page 3 of 3

The OEB determined that as customer-related costs are driven by gas consumption, they should be allocated and recovered based on a customer's consumption through a volumetric charge (\$/m³).

The OEB 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. Similar to customer-related charges, facility-related charges will also be allocated to rate classes based on consumption and recovered through a volumetric charge (\$/m³).

The OEB also indicated that customer-related and facility-related charges should be shown separately on the Gas Utilities' tariffs.

The OEB indicated that Cap and Trade charges would be based on the weighted average cost of the Gas Utilities' compliance options for the particular rate year to provide for a matching of costs and volumes consumed by the Gas Utilities' customers.

On November 25, 2015 the OEB approved the proposed Cap and Trade charges, on an interim basis. Each of the Gas Utilities requested the final approval of the Cap and Trade charges that were originally approved on an interim basis.

OEB Staff Submission

OEB staff submits that the Gas Utilities have followed the direction outlined in the Cap and Trade Framework when developing their proposed Cap and Trade charges.

OEB staff has reviewed the Gas Utilities' tariffs and is satisfied that the facility-related charges appropriately reflect the customer rate classes' responsibility for costs such as company use, unaccounted for gas and compressor fuel.

Issue 6 - Implementation

In accordance with the Cap and Trade Framework, the Gas Utilities filed their 2017 Compliance Plans by November 15, 2016 enabling the OEB to issue a decision setting out new Cap and Trade rates, on an interim basis, beginning January 1, 2017.

Union has proposed to update rates as part of the next available QRAM application following the date of the Decision and Final Order in this proceeding. Union noted that it will include any variance between the interim 2017 Cap and Trade rates and the final

2017 Cap and Trade rates in the proposed customer-related and facility-related variance accounts.⁴²

NRG has proposed to treat final rates similar to a foregone revenue calculation and charge the difference to its customers by way of a rate rider.⁴³

OEB Staff Submission

OEB staff submits that the treatment of any differences between interim and final rates should be consistent across the Gas Utilities. OEB staff further submits that the Gas Utilities should follow the process proposed by Union and update rates as part of the next available QRAM application following the date of the Decision and Final Order in this proceeding. As the difference between interim and final rates are not expected to be material, OEB staff agrees that any variances can be included in customer-related and facility-related variance accounts.

- All of which is respectfully submitted -

⁴² EB-2016-0296, Union Argument In-chief, Page 15

⁴³ EB-2016-0330, NRG Argument In-chief, Page 10