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Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Enbridge Gas Distribution Inc. (Enbridge) – 2017 Cap and Trade Application
OEB File Nos. EB-2016-0296 / EB-2016-0300 / EB-2016-0330
TransCanada PipeLines Limited (TransCanada) Written Submission

Enclosed is the Written Submission of TransCanada PipeLines Limited. Should you have any questions, please contact the undersigned.

Yours truly,
TransCanada PipeLines Limited

Original signed by

Matthew D. Ducharme
Counsel
Law, Canadian Pipelines

cc: All Parties in EB-2016-0296 / EB-2016-0300 / EB-2016-0330

Enclosure

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998 c. 15, Sched. B., as amended;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an order or orders approving and/or accepting its Cap and Trade Compliance Plan and approving or fixing rates and/or charges to recover the costs incurred undertaking its Cap and Trade Compliance Plan.

TRANSCANADA PIPELINES LIMITED
WRITTEN SUBMISSION

May 18, 2017

To: Ms. Kirsten Walli
Board Secretary
Ontario Energy Board

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I. PROCEDURAL CONTEXT AND SUMMARY OF TRANSCANADA'S SUBMISSION

Union Gas Limited (Union), Enbridge Gas Distribution Inc. (Enbridge), and Natural Resource Gas Limited (NRG) each filed an application with the Ontario Energy Board (OEB or Board) November 15, 2016 for approval of the cost consequences from their Cap and Trade Compliance Plans for January 1 to December 31, 2017 period (Compliance Period). The OEB assigned these submissions file numbers EB-2016-0296 (Union), EB-2016-0300 (Enbridge) and EB-2016-0330 (NRG), and elected to proceed by combined public hearing (Hearing). By Procedural Order No. 3, the OEB ordered that intervenors wishing to file submissions related to the public evidence of these local distribution companies (LDCs) were to file by Friday, May 19, 2017. These are TransCanada's submissions. They pertain only to the evidence of Enbridge, and can be succinctly summarized.

Enbridge's proposal to allocate company use costs on a volumetric basis[1] does not accord with appropriate cost recovery as defined by the OEB. In the Compliance Period, TransCanada has contracted for Rate 332 service on the Enbridge System, representing approximately 50 percent of system volumes. TransCanada does **not** drive 50 percent of Enbridge company use costs, but under Enbridge's proposed cost allocation method could bear approximately 50 percent of those costs.

Enbridge's proposal for cost recovery, if approved, could result in TransCanada being charged on the order of $100,000 annually[2]**.**

This deviation from cost causation can be avoided, by allocating company use costs on actual cost incidence by distribution and transmission function. Union has proposed to do this by allocating company use costs in the same proportion as administrative and general (A&G) costs.[3]

TransCanada requests that the OEB direct Enbridge to allocate company use costs in a manner consistent with that proposed by Union. Doing so would accord with cost-causation, and there is assertion, but no evidence from any party that applying such a method would be an undue administrative burden. There is no reason to depart from principle, these costs are sensitive to carbon price, and carbon prices may reasonably be expected to rise.

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1 Enbridge Application, Exhibit B, Tab 2, Schedule 1, page 1 of 7.
2 This calculation is based on the assumption that TransCanada uses Rate 332 at 100% load factor.
3 EB-2016-0296, Union Updated Application, Exhibit 7, Page 3 of 6, Lines 11-14.

II. APPLICABLE GUIDING PRINCIPLE: COST RECOVERY FOR FACILITY AND CUSTOMER OBLIGATIONS ACCORDING TO CONSUMPTION OR USE

For this proceeding the OEB has determined, as a guiding principle, that "prudently incurred costs related to cap and trade activities are recovered from customers as a cost pass through",[4] and that rates designed to recover facility and customer related costs are to be consistent with cost causation.[5]

The Board has made clear with respect to facility related obligation costs:

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

Facility-related costs will be allocated to rate classes based on consumption, given that the driver of GHG emissions is gas consumption. These costs will be recovered through a volumetric ($/m3) <u>charge based on consumption</u>." [6] [emphasis added]

The Board made the same determination with respect to customer related costs:

Customer related costs are driven by gas consumption and therefore should be allocated and recovered based on a customer's consumption.[7]

Enbridge agrees that the methodology set out by the Board aligns with the fundamental principle of cost causation, stating that "[…] the Board outlines cost causality as a guiding principle for recovery of Cap and Trade costs from customers."[8] However, Enbridge proposes the principle of cost causation not be applied to customer-related obligations. This does not accord with OEB direction. Consequently, the OEB should reject Enbridge's proposed treatment in favor of actual cost incidence by rate class, which accords with cost causation.

III. ENBRIDGE COMPANY USE COSTS ARE FACILITY-RELATED OBLIGATIONS

Enbridge has divided its facility-related obligation costs for cap and trade in to three categories: (1) company use; (2) unaccounted for gas (UFG); and (3) compressor fuel.[9]

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4 EB-2015-0363 Report of the Board, at page 7.
5 *Ibid*, page 30.
6 OEB EB-2015-0363 Report of the Board, Page 30.
7 *Ibid*.
8 Exhibit I.5.EGDI.Staff.25 a).
9 Enbridge Application, Exhibit G, Tab 1, Schedule 1, Appendix A, Page 3 of 10.

A. Company Use Costs are Facility-Related Obligations

TransCanada's submissions are only in relation to the first item, company use, which consists of emissions associated with boilers at distribution gate stations, building heating costs, and natural gas fleet vehicle costs.[10] Each of these is a facility-related obligation, as each is either a cost of a facility itself or the cost of a vehicle used in support of maintaining a facility.

B. Company Use Costs are Not Directly Related to TransCanada Volumes

Enbridge proposes to allocate $229,087 of company use costs on a volumetric basis, but the record, detailed below, is that these costs are not driven by volume.

IV. TRANSCANADA VOLUMES, RATE 332

A. Rate 332 Volumes Are Not Directly Related to Facility Costs

Rate 332 service is an Enbridge service contracted for solely by TransCanada. At the contracted volume, it could represent approximately 50 percent of Enbridge system volumes in the Compliance Period,[11] but Enbridge has not included it in its volume forecast. Enbridge based its cap and trade unit rate calculations on a total system forecast volume of 1,282 TJ/d (12,383,529 $10^3 m^3$ / year).[12] This forecast did not include Rate 332 volumes.[13] TransCanada is the only customer for Rate 332 service and holds a contract to flow up to 1,200 TJ/d (11,587,290 $10^3 m^3$ / year) on Enbridge's Albion Pipeline.[14] At full utilization this would account for approximately 48.4% of Enbridge system flows.[15]

Under Enbridge's proposed volumetric methodology, TransCanada would be assessed approximately $114,500 per year with Rate 332 at the contracted volume.[16]

But Enbridge's evidence is that TransCanada's use of Rate 332 service will not in fact drive these costs. If TransCanada flows at its contracted Rate 332 volume, representing approximately 50 percent of Enbridge system volumes, Enbridge's testimony is that

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[10] Enbridge Application, Exhibit B, Tab 2, Schedule 1, Page 5 of 7, Paragraph 15.
[11] Transcript Volume 01, page 88, lines 4 to 8; and, page 94, lines 16-28; and page 95, lines 1 and 2.
[12] Enbridge Application, Exhibit G, Tab 1, Schedule 1, Appendix A, Page 1 of 10.
[13] Exhibit I.1.EGDI.TCPL.1 c) iv).
[14] EB-2016-0028, Application, Exhibit B, Page 5 of 13, Transcript Volume 01, page 88, lines 4-8.
[15] (1,200 TJ/d) / (1,282 TJ/d EGD Distribution + 1,200 TJ Rate 332) = 48.35.
[16] In Exhibit I.5.EGDI.TCPL.3 c), Enbridge illustrated the application of its volumetric methodology to company use costs, stating if the actual 2017 costs were $229,086 and Rate 332 delivery represented approximately 10 percent of volume, then Rate 332 would be assess approximately $23,000 in costs. It follows that where Rate 332 represents 50 percent of volume, and the actual costs are the same, TransCanada would be assessed approximately $114,500.

TransCanada would not drive 50 percent of fleet costs,[17] building related emissions,[18] or boiler-related emissions.[19] In fact, Enbridge agrees that there is no direct link between Rate 332 volume and these types of costs. When asked whether there was a material difference to these types of costs if TransCanada flowed either a tenth of its contracted volume or the full volume, Enbridge's response was no.[20]

There is no evidence on the record of any link between Rate 332 volumes and company use costs. Given that, and the admission by Enbridge that the two are not necessarily linked, Enbridge's proposed methodology does not accord with cost causation and should be rejected.

B. Union's Method is a Viable Alternative

Enbridge must be assumed to have sufficient tools and data to analyze or estimate what costs would in fact be caused by Rate 332 volumes. As a sophisticated and prudent operator, Enbridge must track A&G costs.

While TransCanada does not drive gas consumption on the Enbridge System,[21] as a customer on that System it is reasonable to expect that TransCanada drives some company use costs. Company use costs could be allocated to Rate 332 in the same proportion as A&G costs, or as an alternative, Operating and Maintenance costs.

A&G costs are a reasonable metric to determine company use emissions. For example, if Enbridge hired staff to support Rate 332, the staff would occupy a known or unitized amount of office space, and consequently could be allocated a known and logically linked amount of building heating costs.

Using a unit rate that reflects the proportion of A&G costs allocated to each function relative to Enbridge's total A&G cost would more closely align with the principle of cost causation compared to using volume as a metric when it is known that volume and company use costs have no direct link.

Union has proposed to allocate company use costs using a direct link, specifically by allocating such costs to rate classes based on OEB-approved A&G cost.[22]

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17 Transcript Volume 01, page 95, lines 9 to 14.
18 Transcript Volume 01, page 96, lines 11 to 18.
19 *Ibid.*
20 Transcript Volume 01, page 97, lines 2 to 9.
21 Oral Hearing, Transcript volume 1, Page 93, Lines 6-11
22 EB-2016-0296, Union Updated Application, Exhibit 7, Page 3 of 6, Lines 11-14

Table 1: Proposed Facility-Use Obligation Cost Allocation Methodology

Facility-use Cost	Enbridge Application	Union Application	TransCanada Proposed
Compressor Fuel	Volumetric	Volumetric	Volumetric
UFG	Volumetric	Volumetric	Volumetric
Company Use	Volumetric	Proportional based on Admin & General	Proportional based on Admin & General

C. Administrative Efficiency

Enbridge has stated that it attempted to balance the principle of cost causation with the objective of administrative simplicity.[23] In defense of its proposed methodology, Enbridge analogized allocation of facility-related costs to large customer final emitter and voluntary participant responsibility for administrative costs,[24,25] but the cases are quite different. Administrative costs are not carbon-price sensitive, but facility related costs are. The intent of the OEB direction to effect cost recovery by pass-through costs is to allocate costs according to the customer's contribution to emissions. This can be done for facility related costs consistent with Union's methodology, but not Enbridge's. Consequently, Enbridge's methodology should be rejected in favor of one that reflects actual cost incidence by function, in proportion to the allocation of A&G costs on the Enbridge system.

There is no evidence on the record that Union finds its proposed methodology to be administratively burdensome, and Enbridge, as a similarly situated operator, must be presumed to have similar capacity to implement that method. There is no reason in principle or fact for the OEB to approve a clear departure from its direction regarding the application of the cost causation principle, when it is clear a similarly situated LDC can implement without undue burden a method that accords with OEB direction.

TransCanada is aware of the magnitude of customer use costs in the compliance period. However, this charge is carbon sensitive and could increase significantly in the future. This makes it important that allocation of these costs reflect cost causation from the outset of carbon pricing.

V. CONCLUSION

TransCanada submits that the Board should reject Enbridge's proposed volumetric allocation methodology for company use costs in favor of a method similar to Union's.

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[23] Oral Hearing, Transcript Volume 1, Page 95, Lines 13-16
[24] Oral Hearing, Transcript Volume 1, Page 95, Lines 13-24
[25] OEB EB-2015-0363 Report of the Board, Page 31

It is an accepted principle that cost recovery should reflect cost-causation. The Union model shows it is possible for a similarly situated LDC to allocate the same types of costs in accordance with cost-causation, and there is no evidence that it is an administrative burden to apply that method in accordance with governing principles set by the OEB.

All of which is respectfully submitted,
TransCanada PipeLines Limited

Original signed by

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