

ONTARIO ENERGY BOARD

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

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

**WRITTEN REPLY SUBMISSION OF
UNION GAS LIMITED
(PUBLIC)**

A. Overview

1. This is the reply argument of Union Gas Limited. It should be read in conjunction with Union's Argument in Chief ("AIC").
2. ***Context for the application.*** Ontario's Cap-and-Trade program is new to Ontario, to Union and the other natural gas utilities, and to consumers.¹ The Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap-and-Trade Activities ("Framework") was developed by the Ontario Energy Board (the "Board" or the "OEB") and delivered September 26, 2016. This Framework required natural gas utilities to file a comprehensive Compliance Plan by November 15, 2016 in order for the Board to set interim rates effective by January 1, 2017 to allow for the recovery of Cap-and-Trade compliance costs. As detailed in Union's AIC, a number of uncertainties regarding the future of the program exist including:² outstanding regulations (i.e. offset regulations and protocols); WCI linkage; allocation of Climate Change Action Plan ("CCAP") funds; Green Bank details; post 2020 Cap-and-Trade

¹ Exhibit B.Staff.14

² Argument in Chief of Union Gas Limited, p. 5, Exhibit B.Staff.14

program design; Long-term Carbon Price Forecast; and the Marginal Abatement Cost Curves (“MACC”).

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

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

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

5. ***Organization of the argument.*** In this reply, Union first addresses the appropriate scope of this application. The balance of the submission is organized in accordance with the issues list set out in Procedural Order No. 2 and intervenor submissions made to Union.

B. Scope of this Application

6. This application is focused on Union’s 2017 Compliance Plan and the associated relief requested above for approval of final rates, approval of two new deferral and variance accounts and approval of updated wording for its existing deferral and variance account. As such, Union submits that the following matters are out-of-scope: intervenor

requests for analysis of changes to the Board established Cap-and-Trade Framework; topics that will be the subject of future Cap-and-Trade Compliance Plan proceedings; Union's Unaccounted For Gas ("UFG") methodology; Union's Demand Side Management ("DSM") Program, and the merger transaction resulting in Union and Enbridge Gas Distribution sharing a parent company. Similarly, where intervenors have inappropriately submitted presumptions of fact related to the content of Union's Compliance Instrument Procurement Plan, which is Strictly Confidential, Union also declines to respond. The presumptions may not be accurate.

7. As detailed in the remainder of this submission and summarized below, Union received significant support (and stated lack of opposition) from Ontario Energy Board Staff and intervenors for the relief requested (see paragraph 3 above), including components of its:

- Volume, Greenhouse Gas ("GHG") Emissions and Carbon Price Forecasts;³
- Longer Term Investments, New Business Activities and Abatement;⁴
- Deferral and Variance Accounts;⁵
- Cost Recovery;⁶
- Tariffs;⁷ and
- Implementation Plan.⁸

8. Union submits that its Board-approved UFG methodology is out-of-scope for the purposes of assessing Union's 2017 Cap-and-Trade Compliance Plan application. Union established that its Board-approved UFG performance as a volume percentage of throughput is 0.219% (three year historical weighted average) and provided an updated

³ Board Staff, London Property Management Association and the Consumers Council of Canada

⁴ Board Staff, London Property Management Association, School Energy Coalition, and Industrial Gas Users Association

⁵ Board Staff, Consumers Council of Canada, Integrated Electricity System Operator, London Property Management Association, Industrial Gas Users Association and Canadian Manufacturers and Exporters

⁶ Building Owners and Managers Association, London Property Management Association, Industrial Gas Users Association and Canadian Manufacturers and Exporters

⁷ Board Staff

⁸ Board Staff and London Property Management Association

figure for 2017 of 0.247% based on actuals.⁹ Further, Union provided an Executive Summary of efforts to reduce UFG and consideration of Union's UFG performance as a percentage of throughput relative to other distribution and transmission companies (including a description of baseline contributors to UFG and historical UFG as a percentage of throughput).¹⁰ Despite performing above the industry average historically, Union strives for continuous improvement in this regard and is planning to include the results of its work to identify facilities abatement projects that will improve future performance in its 2018 Compliance Plan.¹¹

9. Union submits that its DSM Program and the related Framework is out-of-scope for the purpose of assessing this application. The Board panel recognized this in rejecting the request by Environmental Defence ("ED"), that Union make available a witness who could speak to issues relating to Union's DSM Program.¹²

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

Given the infancy of the Cap-and-Trade program and the significant uncertainties that remain, (i.e. WCI linking, offsets) it is pre-mature to deviate from established Frameworks. Utilities, together with the OEB and Intervenor all contributed to multi-year Frameworks for DSM and Cap-and-Trade via public review and/or hearing. These Frameworks are set to expire in 2020 and further review should be undertaken closer to that time. Parties will have more experience with how the two Frameworks have co-existed, the nascent components of the Cap-and-Trade program will have had adequate time to mature and current uncertainties may be resolved.

With two decades of successful execution of DSM programs, a clear delineation made by the Board between DSM and Abatement and a mandate that the programs co-exist, Union will continue its focus on successfully delivering DSM programs. Union will do this while working within the OEB's Cap-and-Trade Framework

⁹ Exhibit B.LPMA.7

¹⁰ Exhibit B.FRPO.3, Attachment 1

¹¹ Exhibit B.Staff.14

¹² Volume 2 TR, pp. 56-57, lines 14-28 & 1

including participation in consultations associated with the development of the Marginal Abatement Cost Curve (“MACC”) and Long-term Carbon Price Forecast (“LTCPF”).

11. In response to questions raised related to the merger transaction that has resulted in Union and Enbridge Gas Distribution sharing a parent company, Union confirms that this transaction has no impact on Union’s 2017 Compliance Plan.¹³ Indeed, Union and Enbridge are treated under O. Reg 144/16 as separate registered participants. Therefore, collaboration is not relevant for the purpose of this application.

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

12. The reasonability of the actual cost consequences associated with Union’s 2017 Compliance Plan will be the subject of future proceedings (see Issue 4 below). This includes variances from the forecasted 2017 customer, facility and administrative costs. At issue for this proceeding is the approval of the 2017 forecasted customer and facility costs which are included in Board-approved interim rates. As noted in paragraph 3 above, Union is requesting that the Board approve these interim rates as final.

13. The Building Owners and Managers Association (“BOMA”) stated that “it is not clear from Union’s evidence whether Union, particularly in its Argument-in-Chief, is asking that the Board decide in advance, that is in this proceeding, whether expenditures not yet made are prudent.”¹⁴ The relief that Union request, set out in paragraph 3 above, has not changed. Additionally, as stated in paragraph 12 above and in more detail in Issue 4 below, the actual cost consequences associated with Union’s 2017 Compliance Plan will be the subject of a future proceeding. However, Union has reviewed the argument of Enbridge Gas Distribution Inc. and supports the argument that it would be inappropriate for the Board to approve the reasonability of a Utility’s Compliance Plan and then subsequently disallow costs resulting from the prudent execution of that same Compliance Plan on the basis of hindsight in that subsequent proceeding.

¹³ Exhibit B.CCC.1

¹⁴ Submission of the Building Owners and Managers Association, p. 8

14. Union asserts that any determination made by the Board in support of Enbridge's argument above should apply to all Utilities consistent with the Framework:

The OEB is of the view that all rate-regulated natural gas utilities should be treated in the same way and as such the Regulatory Framework does not provide for any difference in treatment between the Utilities.¹⁵

15. The Association of Power Producers of Ontario ("APPrO") submitted that Union did not produce adequate evidence to explain why Union's 2017 FTE and administrative costs were higher than those of Enbridge.¹⁶ As established during the oral hearing by Ms. Byng, Union cannot speak to the costs submitted by Enbridge, but with regard to Union "...the 2017 costs are forecast. So, on an actual basis they may be different and it would only be the actual costs that we would seek recovery of."¹⁷ Additionally, within Exhibit B.Staff.1 d), Union explained the methodology and guidelines used to ensure that incremental administrative costs are properly accounted for and established that such costs are subject to regular review to ensure their appropriateness. Ms. Byng stated during the hearing that Union is "taking the information that is known and reasonable and incorporating those into our plans in a very prudent manner."¹⁸ Further, the prudence of actual costs incurred throughout 2017 is subject to review as part of a future proceeding and is out-of-scope for Union's 2017 Compliance Plan proceeding.

16. Union's position on bad debt inclusion as part of administrative costs was supported by Board Staff. Union established that only actual costs will be captured in the administration deferral account for future disposition.¹⁹ Union's billing system is configured to isolate Cap-and-Trade unit rates (including bad debt) to ensure that only incremental revenues flow through to the deferral account.²⁰ Further, because these deferral balances will be based on actual costs, weather normalization is not required as

¹⁵ Framework, p.8

¹⁶ Submissions of the Association of Power Producers of Ontario, p. 8

¹⁷ Volume 2 TR, p. 102, lines 12-14

¹⁸ Volume 2 TR, p. 163, lines 20-22

¹⁹ Exhibit B.FRPO.1

²⁰ Exhibit B.Staff.3b)

the costs are driven by actual customer activity. Similarly, because these bad debt costs are comprised of actual Cap-and-Trade compliance costs, there is no natural gas commodity cost component and therefore no need to adjust for natural gas commodity fluctuations as suggested by Board Staff.²¹

17. In its submission, the Federation of Rental-housing Providers of Ontario (“FRPO”) requested that the Board establish suitable reporting to ensure that staffing costs related to compliance instrument procurement are not already being recovered through incentive rates or gas supply administrative fees.²² Union established in Exhibit B.FRPO.7 that “Execution of the CIPP is being managed with the use of an incremental resource which is included in Union’s 2017 Compliance Plan (see Exhibit 3, p.7). There is no impact to the administration cost of the Gas Supply program nor is there any impact on the utility’s profitability during the current incentive regulation (“IRM”) period.

18. Board Staff recommended that Union should consult with its customers prior to embarking on any new marketing and/or education campaign to validate whether the incremental efforts and costs are actually needed.²³ As detailed in Issue 3 below, Union’s forecasted Customer Outreach costs of \$8,000 are reasonable for 2017.²⁴ These costs could be increased if Union is directed to include formal customer consultation as outlined above. Union recommends that a cost-benefit consideration should pre-empt any such incremental consultation to ensure it is cost-effective.

19. As established during the oral hearing, Union’s forecasted costs associated with its customer call center in 2017 are expected to be lower than originally estimated: approximately \$100,000 vs. \$275,000.²⁵ Only actual costs incurred will accumulate in a deferral account for review in a future proceeding.

²¹ OEB Staff Submission, p. 8

²² Submissions of the Federation of Rental-housing Providers of Ontario, p. 1

²³ OEB Staff Submission, p. 17

²⁴ Exhibit B.CCC.8

²⁵ Volume 2 TR, p. 122 lines 2-3, Exhibit B.CME.2

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

20. Union's 2017 customer-related and facility-related volume forecast of 8,310,348,868 m³ is reasonable and appropriate. Union's 2017 customer-related and facility-related volume forecast was supported in intervenor submissions made by Board Staff,²⁶ London Property Management Association ("LPMA"),²⁷ and the Consumers Council of Canada ("CCC").²⁸

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

21. Union's GHG emissions forecast of 15.6 megatonnes ("Mt") of carbon dioxide equivalent ("CO₂") for 2017 is also reasonable and appropriate. Union's GHG emissions forecast for 2017 was supported in intervenor submissions made by Board Staff,²⁹ LPMA³⁰ and the CCC.³¹

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

22. Union's carbon price forecast represents a deviation from the Framework. For 2017, Union has used the Ontario allowance floor price as the proxy carbon forecast rather than the California allowance ICE 21-day strip forward price. Union has forecasted an Ontario carbon price of \$17.70 per tonne, as explained at Exhibit 2, pp. 8-10 and Schedule 2. Union submits that this amount is reasonable and appropriate.³² As Ms. Byng testified at the hearing, "Union believes this forecast is more representative of the Ontario market for 2017 and will also provide greater rate predictability for customers"³³ compared to using a California carbon price for 2017. In its submission Board Staff supported Union's Ontario allowance floor price:

OEB staff submits that until the Ontario Cap and Trade program is linked with the Western Climate Initiative (WCI), the Gas Utilities

²⁶ OEB Staff Submission, p. 10

²⁷ Submissions of London Property Management Association, p. 3

²⁸ Submissions of the Consumers Council of Canada, p. 3

²⁹ OEB Staff Submission, p. 10

³⁰ Submissions of London Property Management Association, p. 4

³¹ Submissions of the Consumers Council of Canada, p. 3

³² Exhibit B.BOMA.2 b)

³³ Volume 2 TR, p. 86, lines 19-21

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.³⁴

23. In their respective submissions, LPMA³⁵ and CCC³⁶ recommended that Union update its carbon price forecast to reflect the March 2017 auction reserve price in order to avoid the accumulation of deferral account balances. This opinion is speculative. Union agrees with Board Staff 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”, as settlement prices for future auctions will vary based on market conditions.³⁷

G. Issue 1.8, 1.9 & 1.10: Compliance Plan – Union’s proposed longer-term investments, new business activities and greenhouse gas abatement activities are reasonable and appropriate

24. Union considers that it is not appropriate to include any longer-term investments, new business or abatement in the Compliance Plan until cost recovery is assured. This is consistent with how the Framework describes the manner in which cost recovery for these types of investments will be dealt with (Framework, p.27). Union recognizes the value of abatement as part of the overall Cap-and-Trade program and the critical role that abatement will play in enabling the province to meet its emission reduction targets. Union currently provides a comprehensive portfolio of customer abatement programs through DSM.

25. Regarding facilities abatement, Union has begun work on a study to evaluate potential facilities abatement projects, and intends to provide the outcomes of this study in its 2018 Compliance Plan. The initiation of any abatement activities coming out of this study will depend on the resolution of a number of uncertainties (mentioned above

³⁴ OEB Staff Submission, p. 11

³⁵ Submissions of London Property Management Association, p. 4

³⁶ Submissions of the Consumers Council of Canada, p. 3

³⁷ OEB Staff Submission, p. 11

and detailed in Union's AIC).³⁸ Including in particular the Long-term Carbon Price Forecast, the MACC, CCAP funding and assurance of cost recovery. These elements will be required to prioritize which projects should be developed.

26. In the Framework, the Board established that "In addition to procuring allowances and offset credits, Utilities can undertake GHG abatement measures to meet their compliance obligations."³⁹ The Framework goes on to explain that as part of its Compliance Plan, the utility must include:

An explanation of whether the utility's approach considers long-term (5-10 years) strategies for GHG abatement, and if so how these are considered. If not, the utility is to explain why it did not consider long-term abatement strategies.⁴⁰

As Ms. Byng explained at the hearing, Union considered whether to include customer abatement in the 2017 Compliance Plan, but determined that it would be neither prudent nor practical to do so in light of timing concerns and the great number of uncertainties associated with Cap-and-Trade.⁴¹ Union's position was supported by a number of intervenors, including Board Staff, LPMA,⁴² School Energy Coalition ("SEC")⁴³ and Industrial Gas Users Association ("IGUA").⁴⁴ Board Staff, stated:

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 and LTCPF, it was not unreasonable for the Gas Utilities' to exclude abatement activities at this time.⁴⁵

27. ED claims that omission of abatement programs within Union's 2017 Compliance Plan represents a breach of the Framework.⁴⁶ Union believes that it is

³⁸ Argument in Chief of Union Gas Limited, p. 5

³⁹ Framework, p. 6

⁴⁰ Framework, Appendix A: Filing Guidelines, p. vii

⁴¹ Volume 2 TR, p. 158, lines 6-10

⁴² Submissions of London Property Management Association, p. 6

⁴³ School Energy Coalition Submissions, pp. 3-4

⁴⁴ Industrial Gas Users Association Submissions, p. 3

⁴⁵ OEB Staff Submission, pp. 14-15

⁴⁶ Submissions of Environmental Defence, pp. 10-11

important that future abatement programs and longer-term investments are thoroughly and appropriately evaluated in order to uphold the program's guiding principles, specifically cost effectiveness, cost recovery, and continuous improvement.⁴⁷ This is consistent with the Framework which requires a thorough analysis of the costs, risks and alternatives to accompany the inclusion of a proposal in the plan.⁴⁸ Further, the Framework clearly establishes that the MACC and Long-term Carbon Price Forecast are essential components of assessing the costs of Compliance Plans:

The OEB will rely on performance benchmarks for the purpose of assessing forecast costs of Compliance Plans... The OEB MACC will establish benchmarks for the cost per tonne, as will the results of the allowance auctions, the annual and long-term carbon price forecasts and other carbon market information.⁴⁹

In the absence of these essential means of assessing costs, it was not feasible to analyze potential abatement programs. Therefore, it was reasonable not to include incremental abatement in its 2017 Compliance Plan.

28. BOMA,⁵⁰ Ontario Sustainable Energy Association ("OSEA")⁵¹ and ED⁵² claim that Union has not made adequate progress with regard to long-term investments, new business and/or abatement. Union established in evidence and through interrogatory responses that it has dedicated resources to the development of natural gas solutions such as CNG, RNG and CHP.⁵³ Union's investment in the development of the CNG Market pre-dates the initiation of Union's Cap-and-Trade program.⁵⁴ In addition, Union has dedicated resources within its Technology and Innovation department to the assessment of emerging technologies and innovations for other technologies such as

⁴⁷ Framework, pp. 7-8

⁴⁸ Exhibit B.Staff.14

⁴⁹ Framework, p. 24

⁵⁰ Submissions of BOMA, pp. 23-25

⁵¹ Ontario Sustainable Energy Association Submission, pp. 13-14

⁵² Submissions of Environmental Defence, pp. 5-8

⁵³ Exhibit B.OSEA.1, Exhibit B.OSEA.2

⁵⁴ Exhibit B.OSEA.2

hydrogen power-to-gas, and micro CHP.⁵⁵ Union is dependent upon government funds and program design in order to continue to advance these initiatives.⁵⁶

29. ED⁵⁷ submitted that Union had over seven months to prepare for inclusion of incremental conservation/abatement within its 2017 Compliance Plan. The basis for this assertion is that final Cap-and-Trade regulations were received in May 2016. On the contrary, these regulations did not address utility abatement for customers and facilities specifically. Further, despite the fact that the Board established the Cap-and-Trade Framework in September 2016, investment in incremental abatement programs remains dependent upon the resolution of uncertainties (identified in paragraph 25 above), including the Long-term Carbon Price Forecast, the MACC, CCAP funding and assurance of cost recovery. In the interest of promoting incremental conservation to the benefit of its ratepayers, and consistent with the mandate for expanded DSM established by the Board as part of its Decision and Order regarding Union's 2015-2020 DSM Plan,⁵⁸ Union dedicated resources to RNG, CNG, CHP and technological innovation in related fields as outlined above. It also implemented expanded DSM programs, including the Home Reno Rebate program funded in part through GIF.⁵⁹

30. There is no evidentiary basis for the Requested Order for ED's request that Union's Cap-and-Trade costs be disallowed.⁶⁰ As established by Union (and further detailed in paragraph 26 above) and supported by Board Staff and intervenors it was not feasible for Union's 2017 Compliance Plan to include incremental abatement. In any event, final determination of the prudence of the actual costs of Union's 2017 Compliance Plan is out-of-scope for the purpose of this proceeding.

⁵⁵ Volume 2 TR, pp. 187-188

⁵⁶ Exhibit B.Staff.14

⁵⁷ Submissions of Environmental Defence, p. 5

⁵⁸ EB-2015-0029/EB-2015-0049 Union Gas Limited and Enbridge Gas Distribution Inc. Decision and Order – Applications for approval of 2015-2020 demand side management plans, pp. 1-2

⁵⁹ Exhibit 3 (Updated), p. 25

⁶⁰ Submissions of Environmental Defence, p. 13

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

31. Union filed sample monitoring and reporting forms as a starting point for developing standardized reporting forms in the future.⁶¹ Board Staff provided the Board with a recommendation on the adoption of specific forms “to allow the OEB and stakeholders to compare each of the Compliance Plans over time.”⁶² Union does not oppose Board Staff’s recommendations surrounding these annual monitoring reports. Union does not have any issue with the sample forms proposed by Enbridge.⁶³ However, completing both Union and Enbridge’s templates as suggested by Board Staff in its submission will result in redundant reporting. Union and Enbridge are working together to create a standard set of initial Monitoring and Reporting forms to be presented as part of their respective 2018 Compliance Plan applications. These forms will eliminate the redundancies mentioned above and will be subject to Continuous Improvement as noted within the Framework:

With experience reviewing Compliance Plans, and through the monitoring process, there will be an opportunity to identify new metrics that may be useful in the assessment of Utilities’ requests for cost recovery. As discussed in Section 8, the OEB intends to establish a working group that will consider, among other things, the need for and design of potential new metrics for evaluating the Utilities’ Plans and performance.⁶⁴

32. Board Staff submitted that the information filed in the annual monitoring reports should be generally filed on the public record unless a gas utility can demonstrate that the information is confidential and/or Strictly Confidential.⁶⁵ Union respects and reflects the principle of transparency in its Compliance Plan and in its proposed reporting.⁶⁶ However, based on the confidentiality requirements in the Climate Change Act, Union submits that annual monitoring reports should be generally filed Strictly

⁶¹ Exhibit 4; Exhibit B.Staff.15 and Exhibit B.LPMA.15

⁶² OEB Staff Submission, pp. 15-16

⁶³ Exhibit B.Staff.15 b)

⁶⁴ Framework, p. 24

⁶⁵ OEB Staff Submission, p. 16

⁶⁶ Exhibit B.LPMA.15

Confidential in order to avoid damaging market integrity and creating a competitive disadvantage resulting in higher costs for ratepayers. On a case-by-case basis and for summary information Union can foresee circumstances where certain information could be made confidential or public.⁶⁷ This is consistent with the Framework:

in the early stages of the market's development the appropriate approach must not only comply with the Climate Change Act and associated regulations, it should also be cautious and have regard to market integrity in order to protect customers from undue costs while still making appropriate information publicly available where possible.⁶⁸

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

33. Union submits that its proposed approach to customer outreach is reasonable and appropriate. Union has placed a strong emphasis on customer outreach and information within its Cap-and-Trade communications plan⁶⁹ in alignment with the Board's four communications objectives.⁷⁰ The Communication Plan was focused on helping customers to understand the provincial Cap-and-Trade program, the impact of the program on their bills and how they can personally manage their GHG emissions and resulting bill impacts.⁷¹ As set out in the Framework, the working group (which is yet to be established) will provide an opportunity to provide input and advice on the ongoing approach to customer outreach.⁷²

34. During the hearing Union emphasized its willingness to consider collaboration with social service agencies as part of its customer outreach efforts in order to enhance low-income customers' access to information about DSM, how customers can manage their bills and energy consumption, as well as their GHG emissions.⁷³

⁶⁷ Exhibit B.Staff.7

⁶⁸ Framework, p. 9

⁶⁹ Exhibit 5, p. 1

⁷⁰ Exhibit 5, pp. 2-6, Framework, section 7, p. 35

⁷¹ Exhibit 5, Exhibit B.Staff.16

⁷² Framework, section 7, p. 36, Exhibit B.IGUA.6

⁷³ Volume 2 TR, pp. 192-193

35. As noted in Issue 1 above, Board Staff recommended that Union should consult with its customers prior to embarking on any new marketing and/or education campaign to validate whether the incremental efforts and costs are actually needed.⁷⁴ Union submits that its customer outreach efforts leveraged existing low-cost, mass-market communication vehicles in order to maximize education and minimize incremental costs. They were forecasted to be \$8,000 for 2017.⁷⁵

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

36. The establishment of the proposed customer-related and facility-related deferral and variance accounts is reasonable and appropriate, as is Union's proposed amendment to the existing account. The methodology for disposal of the deferral account balances is not before the Board in this proceeding.⁷⁶ Going forward, disposition for all three Cap-and-Trade deferral accounts will be part of Union's annual Cap-and-Trade Compliance application, in accordance with the Filing Guidelines for Natural Gas Utility Cap-and-Trade Compliance Plans. This does not preclude Union from filing for disposition at an earlier time.⁷⁷ Board Staff⁷⁸ and intervenors IESO,⁷⁹ LPMA,⁸⁰ IGUA,⁸¹ CME⁸² and CCC⁸³ all supported the establishment and modification of the deferral accounts as requested by Union.

37. Union submits that disposition methodology and allocation of deferral balances should be the subject of a future proceeding once the accounts have accumulated balances.⁸⁴ LPMA⁸⁵ and Board Staff support this proposal. As Board Staff stated:

⁷⁴ OEB Staff Submission, p. 17

⁷⁵ Exhibit B.CCC.8

⁷⁶ Volume 2 TR, p. 116 lines 21-26

⁷⁷ Exhibit B.Staff.17

⁷⁸ OEB Staff Submission, p. 19

⁷⁹ Submissions of the Independent Electricity System Operator, p. 2

⁸⁰ Submissions of London Property Management Association, pp. 8-10

⁸¹ Industrial Gas Users Association, pp. 2-3

⁸² Argument of Canadian Manufacturers and Exporters, p. 1

⁸³ Submissions of the Consumers Council of Canada, p. 4

⁸⁴ Volume 2 TR, p. 117 lines 6-21

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.

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 2018.⁸⁶

Further, there has been no evidence in this proceeding to suggest that future account balances will be significant enough to warrant deviation from Union's position.

38. Despite this, IESO,⁸⁷ APPrO,⁸⁸ IGUA⁸⁹ and CME⁹⁰ resisted Union's proposal to dispose of Cap-and-Trade deferral and variance account balances in accordance with past practice as a one-time adjustment to contract rate customers. These parties submit that the account balances should be disposed of prospectively on a volumetric basis.

39. In response, and for consideration by the Board when methodology is appropriately established in a future proceeding, Union submits that contract customer volumes can vary significantly over time and a prospective recovery mechanism will create misalignment between cost responsibility and customer charges (cost causality). This will be particularly evident in the case of a new customer or a customer who chooses to become a voluntary participant. Under a prospective recovery mechanism, a new customer will unfairly bear the burden or benefit of deferral and variance account balances from a prior year despite not having contributed to the

⁸⁵ Submissions of London Property Management Association, pp. 8-10

⁸⁶ OEB Staff Submission, pp. 19-20

⁸⁷ Submissions of the Independent Electricity System Operator, pp. 5-11

⁸⁸ Submissions of the Association of Power Producers of Ontario, p. 5

⁸⁹ Industrial Gas Users Association Submissions, p. 3

⁹⁰ Argument of Canadian Manufacturers and Exporters, p. 5

account balance. Similarly, under a prospective recovery mechanism, a customer who elects to become a voluntary participant in a future year will not be responsible for their actual contribution to deferral and variance account balances from the prior year upon disposition. However, a one-time adjustment to contract customers, as proposed by Union,⁹¹ will appropriately allocate the account balances to customers whose activity contributed to deferral and variance account balances upon disposition. Upon request by customers to their respective account managers, alternate payment arrangements can be made.⁹²

40. Union does not oppose the recommendation made by Board Staff that following a two-year transition period (2017-2018), Union should apply to recover forecast administrative costs in rates.⁹³ However, Union believes it is premature within this proceeding given the uncertainties established and the nascence of the market to make a determination on whether or not any future administrative costs will warrant deferral or variance account treatment.

41. Union does not oppose the establishment of a threshold to provide notice to the Board of material events resulting in significant balance accumulation in Union's deferral and variance account(s). The establishment of a threshold was proposed by Enbridge during the oral hearing and supported by LPMA,⁹⁴ SEC,⁹⁵ APPrO⁹⁶ and CCC.⁹⁷ Union is familiar with the concept of such thresholds as it adheres to one related to its QRAM process. As established by the Board in its August 14, 2014 Decision and Order on the QRAM process, gas distributors that anticipate an increase or decrease of 25% or more on the commodity portion of a customer's bill must provide advance notification to the Board and customers of the drivers and amount of the anticipated change.⁹⁸ However, this matter was not identified on the Issues List by the

⁹¹ Exhibit B.Staff.17 b)

⁹² Volume 2 TR, pp. 114-115

⁹³ OEB Staff Submission, p. 7

⁹⁴ Submissions of London Property Management Association, pp. 10-11

⁹⁵ School Energy Coalition Submissions, p. 5

⁹⁶ Submissions of the Association of Power Producers of Ontario, p. 8

⁹⁷ Submissions of the Consumers Council of Canada, pp. 3-4

⁹⁸ EB-2014-0199 Decision and Order August 14, 2014, p. 6

Board for proper consideration by parties during this proceeding. There is no evidence that such a threshold is needed. Union recommends that both the establishment of a threshold and the expectations for notification be identified as formal issues for comment as part of the 2018 Compliance Plan proceeding, in order to allow for the issue to be determined based on an evidentiary foundation and through argument.

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

42. Cost recovery is one of the Cap-and-Trade guiding principles, along with cost effectiveness and continuous improvement.⁹⁹ Since the focus of the 2017 Compliance Plan is on compliance and prudence, all costs/risks are expected to be passed-through to customers.¹⁰⁰ LPMA¹⁰¹ supported Union's proposed manner for cost recovery.

43. Regarding Union's request for approval of final rates, IGUA¹⁰² supported the approval and CME¹⁰³ did not oppose.

44. Board Staff supported Union's request for tariff approval:

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.¹⁰⁴

45. Union does not oppose the recommendation made by LPMA¹⁰⁵ that the Board should direct Union to adjust its rate schedules to reflect Cap-and-Trade charges in the same format used by both Enbridge and NRG. Upon receipt of direction from the

⁹⁹ Framework, pp. 7-8; Exhibit B.Staff.14

¹⁰⁰ Exhibit B.FRPO.8

¹⁰¹ Submissions of London Property Management Association, p. 10

¹⁰² Industrial Gas Users Association Submissions, p. 4

¹⁰³ Argument of Canadian Manufacturers and Exporters, p. 1

¹⁰⁴ OEB Staff Submission, p. 21

¹⁰⁵ Submissions of London Property Management Association, p. 12

Board that the recommended presentation format is in compliance with the intentions of the Framework, Union will prepare its rates schedules in this format for its 2018 Compliance Plan.

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

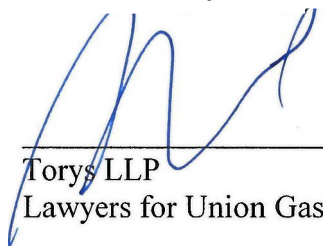
46. LPMA¹⁰⁶ and Board Staff supported Union's proposal for the implementation of final rates. Board Staff stated:

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.¹⁰⁷

* * *

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

All of which is respectfully submitted this 2nd day of June, 2017



Torys LLP
Lawyers for Union Gas Limited

¹⁰⁶ Submissions of London Property Management Association, p. 13

¹⁰⁷ OEB Staff Submission, p. 22