Ontario Energy Board
Commission de l’énergie de l’Ontario

DECISION AND ORDER

EB-2016-0296 / EB-2016-0300 / EB-2016-0330

UNION GAS LIMITED AND

ENBRIDGE GAS DISTRIBUTION INC. AND

NATURAL RESOURCE GAS LIMITED

Applications for approval of 2017 Cap and Trade Compliance Plan cost consequences.

BEFORE: **Ken Quesnelle**
Presiding Member and Vice Chair

Victoria Christie
Member

September 21, 2017

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1 INTRODUCTION AND SUMMARY

Union Gas Limited (Union), Enbridge Gas Distribution Inc. (Enbridge) and Natural Resource Gas Limited (NRG) each filed applications with the Ontario Energy Board (OEB) to change their natural gas distribution rates effective January 1, 2017. Union, Enbridge and NRG (collectively, the Gas Utilities) made these applications to recover through rates, the costs associated with complying with their obligations under the *Climate Change Mitigation and Low-carbon Economy Act, 2016* (the Climate Change Act) for the period January 1 to December 31, 2017. Under the *Ontario Energy Board Act, 1998* (the OEB Act), distributors must apply to the OEB to change the rates they charge customers.

Union and Enbridge are both natural gas storage, transmission and distribution companies based in Ontario. Union serves about 1.4 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario. Enbridge serves approximately 2 million customers in more than 100 communities in central, eastern and the Niagara regions of Ontario. NRG is a natural gas distributor to over 8,000 residential, commercial and industrial customers throughout Elgin, Middlesex, Oxford and Norfolk counties in Ontario.

The 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 Cap and Trade Regulation establishes the details of the program to reduce greenhouse gas (GHG) emissions in Ontario. 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, the Gas Utilities have the following compliance obligations:

- Facility-related obligations for facilities they own or operate; and
- Customer-related obligations for natural gas-fired generators, and residential, commercial and industrial customers who are not Large Final Emitters (LFEs) or voluntary participants.[1]

[1] Large Final Emitters are defined as mandatory participants that emit >25,000 tonnes of CO_2e per year. Voluntary participants are defined as customers who have chosen to participate in the cap and trade program (“opt in”). These customers emit between 10,000 and 25,000 tonnes of CO_2e per year

Each of the Gas Utilities is required to develop a Cap and Trade Compliance Plan (Compliance Plan) that outlines its strategy to meet its Climate Change Act compliance obligations. The Compliance Plan costs incurred by the Gas Utilities will be recovered from customers.

The OEB is responsible for assessing the cost consequences of the Gas Utilities' Compliance Plans for the purpose of approving cost recovery from customers through rates. The OEB outlined this process in its *Report of the Board – Regulatory Framework for Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities* (the Cap and Trade Framework)[2].

Consistent with the Climate Change Act, the Cap and Trade Framework stipulates that the Gas Utilities may classify the information underpinning their plans as public, confidential and/or strictly confidential.[3] This Decision and Order (for the Gas Utilities) addresses the public portion of the Compliance Plans dealing with: cost consequences; forecasts; performance metrics; longer term investments; new business activity; greenhouse gas abatement activities; monitoring and reporting; customer outreach; deferral and variance accounts; as well as cost recovery and implementation. These topics are set out in the Issues List in Appendix A of this Decision and Order. Separate Decisions on the strictly confidential portions of the Compliance Plans will be issued to each of the Gas Utilities separately.

The Gas Utilities' total Compliance Plan Costs consist of Customer-Related Obligation Costs, Facility-related Obligation Costs, and Administrative Costs. Union, Enbridge and NRG have applied to recover the following 2017 Customer- and Facility-Related Obligation Costs through interim rates:

Table 1: Gas Utilities' Customer- and Facility-Related Obligation Costs

	Enbridge	Union	NRG
2017 Customer-Related Obligation Costs	$370,064,899	$265,377,000	$1,028,391
2017 Facility-Related Obligation Costs	$4,055,870	$9,926,000	$28,727
Total 2017 Cost	**$374,120,769**	**$275,303,000**	**$1,057,118**

http://www.rds.ontarioenergyboard.ca/rdsutil/(S(0h05kbz2ptjvoa3sfsiyjfmj))/wdsearch.aspx
[2] EB-2015-0363
[3] Cap and Trade Framework, p. 2

The OEB approved the recovery of the customer-related and facility-related obligation costs on an interim basis effective January 1, 2017. The interim approval was consistent with the OEB's expectations outlined in the Cap and Trade Framework and allowed the Gas Utilities to start implementing their 2017 Compliance Plans as of January 1, 2017. The interim rates also reduce the variances in the rates charged to customers following the OEB's review of the Gas Utilities' Compliance Plans and final approvals outlined within this Decision and Order.

The 2017 Compliance Plan related administrative costs will be tracked in a deferral account by each of the Gas Utilities and the actuals amounts will be reviewed for approval during the 2019 Compliance Plan application process.

In this proceeding, the OEB considered the evidence filed by Union, Enbridge and NRG, and the submissions of a broad spectrum of stakeholder representatives, and OEB staff.

The OEB approves the Gas Utilities' Customer-Related Obligation, and Facility-Related Obligation cost consequences as submitted, including the updated rates table provided by NRG.[4] The OEB finds that the administrative costs proposed by each of the Gas Utilities are consistent with the expectations established in the Cap and Trade Framework. The OEB also finds that Union should allocate its facility-related obligation costs on a volumetric basis as contemplated in the Cap and Trade Framework, and that all the Gas Utilities should use the Ontario auction reserve price (in an unlinked market) for their carbon price forecast in their next Compliance Plans.

The approved 2017 Compliance Plan costs will continue to be recovered from Union, Enbridge and NRG's customers through distribution rates. Customer-related costs are allocated and recovered based on a customer's (excluding LFE's and voluntary participants) consumption through a volumetric charge ($\$/m^3$). Facility-related obligation costs are recovered from all customers and also allocated to rate classes based on consumption and recovered through a volumetric charge ($\$/m^3$).

Enbridge, Union and NRG shall file draft Rate Orders confirming the rate schedules reflecting this Decision and Order for approval and implementation as final rates in the January 1, 2018 QRAM process.

[4] NRG's costs, volumetric forecasts and GHG Emissions Forecasts in this Decision and Order reflect the updated rates table NRG provided in response to OEB staff's IR-3.

2 THE PROCESS

Each of the Gas Utilities filed an application with the OEB on November 15, 2016 seeking approval to recover through rates the costs arising from their respective Compliance Plans for the January 1 to December 31, 2017 time period. The Gas Utilities filed their applications in accordance with the process outlined in the Cap and Trade Framework.

On November 24, 2016 the OEB issued a combined Notice of Hearing (Notice) to review the Union, Enbridge and NRG Compliance Plans.

On November 26, 2016 the OEB issued a Rate Order that approved interim rates to allow the Gas Utilities to begin recovering the projected costs of each of their Compliance Plans before the OEB issues its Decision and Order on final rates for 2017.

On January 27, 2017 the OEB issued Procedural Order No. 1 and granted intervenor status to the following parties (* Intervenors granted cost award eligibility):

- Association of Power Producers of Ontario (APPrO)*
- Building Owners and Managers Association, Greater Toronto (BOMA)*
- City of Kitchener
- Consumer Council of Canada (CCC)*
- Canadian Manufacturers & Exporters (CME)*
- Environmental Defence*
- Federation of Rental-housing Providers of Ontario (FRPO)*
- Independent Electricity System Operator (IESO)
- Industrial Gas Users Association (IGUA)*
- Low-Income Energy Network (LIEN)*
- London Property Management Association (LPMA)*
- Ontario Association of Physical Plant Administrators (OAPPA)*
- Ontario Greenhouse Vegetable Growers (OGVG)*
- Ontario Sustainable Energy Association (OSEA)*
- School Energy Coalition (SEC)*
- Shell Energy North America (Canada) Inc.
- Six Nations Natural Gas Company Limited (SNNG)
- TransCanada PipeLines Limited (TransCanada)
- Mr. Zeljko Zidaric

Procedural Order No. 1 outlined that the portions of the Gas Utilities' applications dealing with information that was filed on the public record of the proceeding would be heard through a combined public hearing. The OEB also stipulated that the strictly confidential sections of the applications would be addressed through individual, *in camera*, hearings held with each utility separately and OEB staff. Procedural Order No. 1 also included a draft Issues List and an invitation for parties to provide comments and provided for interrogatories on the public as well as strictly confidential portions of the pre-filed evidence.

On February 17, 2017 the OEB issued Procedural Order No. 2 and Decision on the Issues List. Procedural Order No. 2 also included some revisions to Procedural Order No. 1, including the dates on which: the parties were to file interrogatories; the applicants were to file responses to interrogatories; and the date on which the oral hearing would start.

On April 18, 2017 the OEB commenced its oral hearing related to the Gas Utilities' evidence on the public record. The public portion of the oral hearing concluded on Friday, April 21, 2017. The OEB subsequently held *in camera* sessions with each applicant related to their respective strictly confidential evidence. The oral hearing concluded on April 24, 2017.

2.1 Confidential Information

The Climate Change Act outlines limitations on the disclosure of certain information which are reflected in section 4 of the Cap and Trade Framework.[5] The Cap and Trade Framework details the three categories of information which may be included within the Gas Utilities' Compliance Plans: public information, confidential information and strictly confidential information.

The Cap and Trade Framework provides for two categories of strictly confidential information: namely, auction confidential and market sensitive information. Strictly confidential information is reviewed only by OEB staff and the OEB panel assigned to review and decide the application.[6]

The Gas Utilities sought strictly confidential treatment of certain documents or portions of documents contained in their pre-filed evidence. OEB staff reviewed the pre-filed

[5] Climate Change Act, sections 29 and 32
[6] Cap and Trade Framework, pp. 9-13

evidence and identified information that could be placed on the public record. The Gas Utilities agreed and placed additional evidence on the public record.

As noted above, this Decision and Order addresses the public evidence included within the Gas Utilities' 2017 Compliance Plans. The issues that are addressed in this Decision and Order include: cost consequences; forecasts; performance metrics; longer term investments; new business activities; greenhouse gas abatement activities; monitoring and reporting; customer outreach; deferral and variance accounts; as well as cost recovery and implementation.

The strictly confidential OEB Decisions address issues related to each of the Gas Utilities' Compliance Plan development, including option analysis and optimization of decision making, and risk management. Information contained in these areas of the Compliance Plans was designated as strictly confidential due to the restrictions set out in the Climate Change Act. The Decisions on the strictly confidential elements of the plans are issued separately, in confidence, to each of Union, Enbridge and NRG

Through interrogatories on the strictly confidential portions of the pre-filed evidence and the *in camera* hearings with each of the Gas Utilities, OEB staff inquired into each of the Gas Utilities': annual carbon forecasts and carbon strategy reports; Compliance Plan instrument purchasing strategies; compliance instrument costs; proprietary aspects of certain abatement activities; and risk management strategies. In the strictly confidential Decisions, the OEB panel made findings on these issues and concluded that each gas utility's Compliance Plan was based on reasonable option analysis and optimized decision-making and risk management processes and analysis.

The OEB notes that the strictly confidential information filed by the Gas Utilities underpins the information filed in the public forum. The costs approved for rate recovery in this public Decision and Order, are therefore reflective of both the public and strictly confidential decisions.

3 STRUCTURE OF THE DECISION

This Decision and Order is structured into the following sections: Introduction and Summary, Process, Structure, Cap and Trade Framework Overview; Decisions on the Issues; Implementation; and Order. The Decision on the Issues section is organized into chapters consistent with the approved Issues List, including:

- **Issue 1 - Cost Consequences** - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

  Forecasts
    - **Issue 1.1** - Are the volume forecasts used reasonable and appropriate?
    - **Issue 1.2** - Are the GHG emissions forecasts reasonable and appropriate?
    - **Issue 1.3** - Is the carbon price forecast reasonable and appropriate?

  Compliance Plan
    - **Issue 1.4** - Is the gas utility's Compliance Plan overview reasonable and appropriate?
    - **Issue 1.6** - Are the proposed performance metrics and cost information reasonable and appropriate?
    - **Issue 1.8** - Are the gas utility's proposed longer term investments reasonable and appropriate?
    - **Issue 1.9** - Are the gas utility's proposed new business activities reasonable and appropriate?
    - **Issue 1.10** - Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

- **Issue 2 - Monitoring and Reporting** – Are the proposed monitoring and reporting processes reasonable and appropriate?

- **Issue 3 - Customer Outreach** – Are the proposed customer outreach processes and methods reasonable and appropriate?

- **Issue 4 - Deferral and Variance Accounts** – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

- **Issue 5 - Cost Recovery**
    - **Issue 5.1** - Is the proposed manner to recover costs reasonable and appropriate?
    - **Issue 5.2** - Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

- **Issue 6 - Implementation** – What is the implementation date of the final rates and how will the final rates be implemented?

Issues 1.5 and 1.7 are addressed in the confidential proceedings.

Each Decision chapter covers the evidence, submissions, and OEB findings for certain aspects of the applications.

4 CAP AND TRADE FRAMEWORK OVERVIEW

The Cap and Trade Framework outlines how the OEB will assess the Gas Utilities' Compliance Plans as summarised below.

The OEB expects the Gas Utilities to develop Compliance Plans that outline how they will meet their obligations under Ontario's Climate Change Act and Cap and Trade Regulation. The OEB will review these Plans for cost-effectiveness, reasonableness and optimisation in meeting cap and trade compliance obligations to determine the appropriate associated costs to be recovered from natural gas customers in rates.

The OEB will not approve the Gas Utilities' Compliance Plans. The Gas Utilities are responsible for deciding on the exact makeup of activities to be included in their Compliance Plans: activity mix; priority and pacing of investments; and how and when to participate in the market.[7]

As set out in the Cap and Trade Framework, the OEB's assessment of the reasonableness of Compliance Plan costs for recovery in rates will be guided by the following principles:

- **Cost-effectiveness**: cap and trade activities are optimized for economic efficiency and risk management

- **Rate Predictability**: customers have just and reasonable, and predictable rates resulting from the impact of the Gas Utilities' cap and trade activities

- **Cost Recovery**: prudently incurred costs related to cap and trade activities are recovered from customers as a cost pass-through

- **Transparency**: cap and trade activities and costs related to them are transparent and well documented to inform the OEB's assessment, while maintaining market integrity

- **Flexibility**: cap and trade strategies are flexible and can adapt to changing market conditions and utility-specific characteristics; the Cap and Trade Framework may evolve as the market matures and experience is gained

[7] Cap and Trade Framework, p. 7

- **Continuous Improvement**: Gas Utilities demonstrate continuous improvement in the processes and practices they use to meet their compliance obligations cost effectively

Consistent with the six guiding principles outlined above, in determining whether the cost consequences of the Gas Utilities' Compliance Plans are cost-effective, optimized and reasonable, the Cap and Trade Framework also indicates that the OEB will consider the following:

1. whether a utility has engaged in strategic decision-making and risk mitigation, resulting in a Compliance Plan that is as cost-effective as possible in reducing its facility-related and customer-related GHG emissions, and whether the utility has considered a diversity (portfolio) of compliance options;

2. whether a utility has selected GHG abatement activities and investments that, to the extent possible, align with other broad investment requirements and priorities of the utility in order to extract the maximum value from the activity or investment; and,

3. whether the Compliance Plans are sufficiently flexible to adapt to variability in volume, changes in market prices, market dynamics and other sources of risk thereby providing for greater rate predictability as well as mitigating the risk to customers of changes in the cap and trade market.

The OEB believes that assessing the Gas Utilities' Compliance Plans through this lens will lead to cost-effectiveness and greater rate predictability, and will reduce the costs and risk to customers.

5 DECISIONS ON THE ISSUES

5.1 Cost Consequences

Issue 1 - Cost Consequences - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

The Compliance Plans include compliance strategies / activities that the Gas Utilities will use to meet their GHG compliance obligations. These compliance obligations have costs associated with them, namely:

- Facility-related obligations for facilities owned or operated by the Gas Utilities
- Customer-related obligations for natural gas-fired generators and residential, commercial and industrial customers who are not LFEs or voluntary participants
- Administrative costs to meet their compliance obligations

5.1.1 Evidence

Total Cost Consequences

The Gas Utilities' total Compliance Plan costs consist of Customer-Related Obligation Costs, Facility-related Obligation Costs, and Administrative Costs. Union, Enbridge and NRG received approval to recover the following 2017 Customer- and Facility-Related Obligation Costs through interim rates.

The table below shows the Gas Utilities' forecast total 2017 Compliance Plan costs.

Table 2: Gas Utility Compliance Plan Cost Forecast Summary Table[8]

	Enbridge	Union	NRG
2017 Customer-Related Obligation Costs	$370,064,899	$265,377,000	$745,096
2017 Facility-Related Obligation Costs	$4,055,870	$9,926,000	$21,977
2017 Administrative Costs	$2,917,100	$4,223,000	$100,000
Total 2017 Cost	**$377,037,869**	**$279,526,000**	**$867,073**

[8] NRG's costs reflect the updated rates table NRG provided in response to OEB staff's IR-3.

Customer-Related Obligation Costs

Customer-related costs are the compliance obligation costs related to the GHG emissions from natural gas delivered to, and used by, natural gas-fired generators and residential, commercial and industrial customers who are not LFEs or voluntary participants in the Cap and Trade program.

Customer-related costs are calculated by multiplying these GHG emissions by the annual carbon forecast price.

Enbridge and Union used an annual carbon price forecast of \$17.70/tCO_2e,[9] to estimate the costs of customer-related activities. NRG used an annual carbon price forecast of \$17.41/tCO_2e to estimate the costs of customer-related activities.

Facility-Related Obligation Costs

Facility-related costs are the compliance obligation costs related to the GHG emissions from facilities that are owned or operated by the Gas Utilities for the purpose of distribution, transmission and storage of natural gas. Facility-related obligations may include: unaccounted for gas (UFG); compressor fuel and blowdowns; natural gas used for boilers; building and line heating; and natural gas fleet vehicles fuel.

These costs are calculated by multiplying these GHG emissions by the annual carbon forecast price.

Enbridge and Union used an annual carbon price forecast of \$17.70/tCO_2e to estimate the costs of facility-related activities. NRG used an annual carbon price forecast of \$17.41/tCO_2e to estimate the costs of facility-related activities.

Administrative Costs

The Gas Utilities will incur administrative costs to meet their cap and trade compliance obligations. In contrast to customer- and facility-related obligation costs, which are directly proportional to forecast GHG emissions, administrative costs relate to each of the activities that the Gas Utilities will need to undertake to meet their compliance obligations. The Gas Utilities administrative costs forecasts are summarised in Table 3 below:

[9] Costs per tonne throughout this Decision are in CAD (\$) per tonne of CO_2 equivalent (tCO_2e).

Table 3: 2017 Forecast Gas Utility Administrative Costs

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

Enbridge's Proposal – Administrative Costs

Enbridge estimated its total 2017 administrative costs to be $2.917 million.[10] Enbridge submitted in pre-filed evidence 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).[11] The GGEIDA was approved by the OEB in Enbridge's Custom Incentive Regulation proceeding[12] to capture the costs associated with meeting federal and/or provincial greenhouse gas emissions requirements.

Enbridge 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 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.

[10] Enbridge's Public Evidence, Exhibit C, Tab 3, Schedule 6, p. 13
[11] Enbridge's Public Evidence, Exhibit G, Tab 1, Schedule 1, p. 7, paragraph 25
[12] EB-2012-0459

At the oral hearing, Enbridge confirmed that it is not seeking approval of its administrative costs at this time, but is seeking the OEB's assessment that the administrative costs are reasonable.[13]

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 Compliance Plan application and that actual administrative costs will be included in its GGEIDA for future review and recovery.[14] Union's GGEIDA was approved by the OEB as part of a separate proceeding.[15] In response to OEB staff interrogatory #17, Union indicated that it will bring forward the 2017 balances in its 2019 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 Cap and Trade Framework.[16]

Union sought approval to establish two new variance accounts (to capture variances in customer-related and facility-related compliance costs). Union therefore requested that the OEB approve proposed 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 section 5.10 Deferral and Variance Accounts.

NRG's Proposal – Administrative Costs

NRG estimated its total 2017 administrative costs to be $100,000. NRG requested approval of its 2017 administrative costs as part of this proceeding.[17] NRG confirmed this request during the oral hearing and indicated that it will seek to recover any variances between its estimated and actual administrative costs as part of a future Compliance Plan proceeding.[18]

5.1.2 Submissions

Parties generally supported the Gas Utilities' administrative costs, but suggested that the OEB not make any findings with respect to these costs at this time. Parties

[13] Transcript of Cap and Trade Public Oral Hearing, Volume 1, p. 43, Line 25
[14] Transcript of Cap and Trade Public Oral Hearing, Volume 2, p. 86, Lines 6 - 12
[15] EB-2015-0367
[16] Cap and Trade Framework, p. 33
[17] NRG's Public Evidence, Appendices, p. 30
[18] Transcript of Cap and Trade Public Oral Hearing, Volume 3, pp. 51 (line 23) – 52 (line 14)

submitted that the Gas Utilities should bring forward actual administrative costs for OEB approval in future Compliance Plan applications.

Parties agreed that the OEB should not provide any presumption of reasonableness with respect to Enbridge's proposed 2017 administrative costs, but should instead make a determination of prudence after they have occurred and all factors are understood.

OEB staff suggested that the Gas Utilities track their administrative costs in a deferral account for a two-year transition period, after which the OEB should review and approve the Gas Utilities' forecast administrative costs with no variance account. OEB staff submitted that the resulting "fixed budget" would incentivise the Gas Utilities to forecast and manage their administrative costs efficiently and effectively throughout the year. Most other administrative costs are managed in a similar manner.

The Gas Utilities did not object to OEB staff's suggestion that future administrative costs should be recovered in rates rather than deferred. Both Enbridge and Union submitted, however, that it is premature to make a determination on the treatment of administrative costs given current uncertainties and the nascence of the market. Enbridge indicated they would be prepared to consider this approach in the future, after the market has evolved.

OEB staff also provided submissions on other administrative cost components. In particular, OEB staff submitted that it would not be prudent or necessary for Enbridge to develop its own company-specific marginal abatement cost curve (MACC) as the OEB will be providing a province-wide generic MACC for the Gas Utilities to use. Enbridge noted that its forecast MACC costs were included out of an abundance of caution and that it will only incur such costs if necessary.

OEB staff and some intervenors submitted that the Gas Utilities should consult with their customers prior to embarking on any marketing and/or education campaign to validate whether incremental efforts and costs are needed. OEB staff also submitted 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. Parties raised issues concerning further customer outreach. Enbridge responded that it will consult with customers prior to embarking on various outreach activities where reasonable and coordinate with Union where possible. Union noted that its customer outreach costs of $8,000 for 2018 are reasonable.

OEB staff also noted some concerns regarding the proposed approach to estimate incremental bad debt resulting from the cap and trade program. Enbridge replied to OEB staff's concerns indicating that its bad debt amounts, approved through its broader Custom Incentive Rate Regulation Plan, are fixed and not subject to adjustment for weather or commodity prices. Union noted that its 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. Further, Union indicated that because the deferral balances will be based on actual costs, weather normalization is not required as the costs are driven by actual customer activity.

5.1.3 OEB Findings

The OEB accepts the Gas Utilities' proposed Customer-Related Obligation Costs and Facility-Related Obligation Costs for the purposes of finalising the 2017 rates. The OEB finds that the administrative costs proposed by the each of the Gas Utilities to meet their 2017 cap and trade compliance obligations are consistent with the expectations established in the Cap and Trade Framework.

The actual costs for each of the Gas Utilities to meet their cap and trade compliance obligations will be assessed for cost-effectiveness and reasonableness when they are filed as part of the 2019 Compliance Plan proceeding. Decisions around disposition of any variance accounts will be made in that proceeding and not as part of a Deferral and Variance Account application (see section 5.10.2 for variance account clearance discussion).

The OEB recognises that the cap and trade program is new and that the Gas Utilities will be able to refine their cost estimates over time with experience.

5.2 Volumetric Forecasts

Issue 1.1 - Are the volume forecasts used reasonable and appropriate?

In section 5.2.1 of the Cap and Trade Framework the OEB states that the volume forecasts are a key input to estimating GHG emissions. The Gas Utilities have to prepare volume forecasts for both customer-related usage as well as the natural gas consumed in operating their own facilities, in order to calculate total natural gas consumption and associated emissions. The Gas Utilities should use these forecasts to inform the development of their Compliance Plans (in terms of the forecasting of GHG emissions) and for the purpose of cost allocation and rate-setting.

Further, the Framework outlines an expectation that the Gas Utilities would use their existing OEB-approved volume forecast methodology for the purpose of the Compliance Plans. These volume forecasts are to exclude LFEs and voluntary participants.

5.2.1 Evidence

Enbridge's proposed 2017 customer-related and facility-related volumetric forecasts are consistent with the OEB-approved methodology used by Enbridge in its 2017 Rate Adjustment application.[19]

Union's proposed 2017 customer-related and facility-related volumetric forecasts are consistent with the OEB-approved methodology used by Union in its 2013 Cost of Service application.[20]

In its original application, NRG noted that its proposed 2017 customer-related and facility-related volumetric forecasts are consistent with those submitted as part of its 2017 Cost of Service application[21] and are based on a methodology previously approved by the OEB. NRG subsequently updated the rates tables to correct for certain errors.

Table 4: The Gas Utilities' 2017 Volumetric Forecasts[22]

	Enbridge	Union	NRG
Customer-Related (m^3)	11,152,950,000	7,997,879,152	22,348,302
Facility-Related (m^3)	122,407,000	312,469,716	659,176
Total	**11,275,357,000**	**8,310,348,868**	**23,007,478**

Union and Enbridge are both delivering Green Investment Fund (GIF) home retrofit abatement programs (NRG does not have an approved demand-side management plan). Union has adjusted its volumetric forecast to account for the related reduction in customer natural gas use but Enbridge has not. Enbridge has argued that it has

[19] EB-2016-0215
[20] EB-2011-0210
[21] EB-2016-0236
[22] NRG's volume forecast reflects the updated rates table NRG provided in response to OEB staff's IR-3.

excluded the GIF program results as the related reductions in customer gas consumption is small and have not yet been verified.

5.2.2 Submissions

Parties were generally supportive of the Gas Utilities' proposed volumetric forecasts. LPMA suggested that Enbridge be directed to include the potential results from its GIF activities in its volumetric and subsequent GHG emissions forecasts to be consistent with the approach Union has proposed.

Enbridge replied that it did not include any GIF activity in its forecasts as the resulting volume forecast reductions are very small and have not yet been verified. Enbridge submitted that making the adjustments at this time simply adds administrative burden with no perceivable impact on resulting rates.

5.2.3 OEB Findings

The OEB approves each of the Gas Utilities' customer- and facility-related volumetric forecasts. The forecasts are consistent with the OEB-approved methodology and recent Rate Adjustment (Enbridge) and Cost of Service (Union) applications. The OEB accepts the corrected volumes from NRG.

The OEB finds that Enbridge shall include the GIF related reductions in its 2018 customer-related natural gas volume forecasts. While the OEB agrees that the GIF related volume forecast reductions and resulting rate impacts would likely be relatively very small, Enbridge should include the GIF program results in its forecasts in the 2018 Compliance Plan and beyond for completeness, and consistency with Union.

5.3 Greenhouse Gas (GHG) Emissions Forecasts

Issue 1.2 - Are the GHG emissions forecasts reasonable and appropriate?

Section 5.2.2 of the Cap and Trade Framework states that the Gas Utilities will have to calculate GHG emissions forecasts for:

- Emissions related to customers' natural gas usage for customers that are not LFEs or voluntary participants (i.e., customer-related GHG obligations), and
- Emissions related to the distribution, transmission and storage of natural gas, including process emissions, emissions from fugitive and leaked gas, and

emissions from the Gas Utilities' facilities and operations (i.e., facility-related GHG obligations).

The Cap and Trade Framework further indicates that these forecasts should be prepared in accordance with the methodologies set out in Ontario Regulation 452/09 *Greenhouse Gas Emissions Reporting* issued December 2015 and the *Guideline for Greenhouse Gas Emissions Reporting*, issued May 19, 2016.

5.3.1 Evidence

Each of the Gas Utilities estimated GHG emissions following the Ontario government-approved methodologies outlined in the *Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions*.[23]

Table 5: 2017 The Gas Utilities' GHG Emissions Forecasts[24]

	Enbridge	Union	NRG
Customer-Related (tCO_2e)	20,907,621	14,993,040	42,797
Facility-Related (tCO_2e)	230,055	604,189	1,262
Total	**21,137,676**	**15,597,229**	**44,059**

5.3.2 Submissions

OEB staff and LPMA supported the GHG forecasts proposed by the Gas Utilities. No party objected.

5.3.3 OEB Findings

The OEB approves each of the Gas Utilities' GHG emissions forecasts for their customer- and facility-related compliance obligations. The Gas Utilities have estimated their GHG emissions following the Ontario government-approved methodologies discussed above.

[23] Ontario Regulation 143/16 is the updated version of GHG Emissions Reporting Guidelines referenced in the Cap and Trade Framework
[24] NRG's GHG Emissions forecast reflects the updated rates table NRG provided in response to OEB staff's IR-3.

5.4 Carbon Price Forecast

Issue 1.3 - Is the carbon price forecast reasonable and appropriate?

The Cap and Trade Framework states that the Gas Utilities should use the forward Intercontinental Exchange (ICE) average daily settlement price of a California Carbon Allowance for the purpose of forecasting the annual carbon price used in their Compliance Plans and any other regulatory filings.[25]

The Cap and Trade Framework notes that using a consistent benchmark like the ICE will facilitate the OEB's review of costs and ensure consistency across Gas Utilities.

5.4.1 Evidence

Enbridge[26] and Union[27] used the Ontario auction reserve (floor) price of $17.70/t$CO_2$e for 2017 as their annual carbon price forecast. This forecast was based on the August 2016 Western Climate Initiative (WCI) auction reserve price of $12.73 USD or $16.45 CAD and using a U.S. Consumer Price Index of 2.3% and an exchange rate of 1.2959. This proxy carbon price forecast was used rather than the ICE average daily settlement price of a California Carbon Allowance.

Enbridge and Union proposed that the carbon price forecast should be based on an Ontario price, not a California market price, for 2017, as Ontario will not yet be linked to the WCI market. Using the California market price would reflect costs lower than the Ontario floor price, resulting in a potentially large balance to be recovered from customers. They stated that using the Ontario auction reserve (floor) price was reasonable and appropriate as it better represents the Ontario market for 2017 and will provide greater rate predictability for customers.[28]

NRG followed the Cap and Trade Framework and used the ICE average daily settlement price of $17.41/t$CO_2$e.[29]

The Ontario March 2017 auction reserve price was $18.07/t$CO_2$e. 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.

[25] Cap and Trade Framework, Appendix A: Section 4, Annual Carbon Price Forecasts
[26] Enbridge's Public Evidence, Exhibit A, Tab 1, Schedule 2, p. 4
[27] Union's Public Evidence, Exhibit 1, p. 6
[28] Transcript of Cap and Trade Public Oral Hearing, Volume 2, p. 86, Lines 19-21
[29] NRG's Public Evidence, Exhibit 2, pp. 11-12

5.4.2 Submissions

OEB staff supported Union and Enbridge's use of the Ontario auction reserve (floor) price of \$17.70/tCO_2e, noting that it better represents the Ontario market, provides greater rate predictability, and minimises variance account balances.

OEB staff also submitted that the OEB should direct NRG to use the Ontario auction reserve (floor) price to establish their final 2017 rates, noting that NRG agreed to use the higher of the auction reserve (floor) price or the ICE settlement price in response to OEB staff interrogatory #7b.

LPMA and CCC submitted that the OEB should direct Union and Enbridge to update costs using the \$18.08/tCO_2e March 2017 auction settlement price to avoid large future variances.

Union and Enbridge did not support the proposal to adjust the proxy carbon price. Enbridge submitted that further changes to the proxy carbon price could cause customer confusion, would be administratively burdensome, and might fail to achieve the intended variance account minimization. Union agreed with the OEB staff submission that it is not necessary to update the annual proxy carbon price to reflect the March 2017 auction reserve price as the prices for future auctions will vary based on market conditions.

5.4.3 OEB Findings

The OEB finds the 2017 carbon price forecasts by Enbridge and Union based on the use of the estimated Ontario auction reserve (floor) price of \$17.70/tCO_2e to be reasonable. As of January 1, 2018, all three Gas Utilities shall use the Ontario auction reserve price for the purpose of carbon price forecasting in the absence of linkage to the WCI.

The difference between actual and forecast customer- and facility-related obligation costs for 2017 will be captured in the Gas Utilities' variance accounts.

Although the Cap and Trade Framework states that the Gas Utilities are to use the average ICE settlement price of \$17.41/tCO_2e, the OEB agrees that the estimated Ontario auction reserve price is a better proxy value for the 2017 Compliance Plans, particularly in light of the fact that Ontario is not yet linked to the California market.

The OEB agrees with Enbridge, Union and OEB staff that the estimated Ontario auction reserve (floor) price of \$17.70/tCO_2e should be used as the annual carbon proxy price for the 2017 Compliance Plans. This proxy price does not need to be updated to reflect the actual March 2017 auction reserve price of \$18.07/tCO_2e or the March 2017 auction settlement price of \$18.08/tCO_2e. This approach is consistent with the Cap and Trade Framework as the Gas Utilities are to use a carbon price forecast established closest to the application filing date.

5.5 Compliance Plan Overview

Issue 1.4 – Is the gas utility's Compliance Plan overview reasonable and appropriate?

The evidence and findings related to this Issue have been subsumed under the other Issue areas in this Decision and Order.

5.6 Performance Metrics

Issue 1.6 - Are the proposed performance metrics and cost information reasonable and appropriate?

The Cap and Trade Framework discusses the use of performance benchmarks by the OEB to assess the forecast costs of the Compliance Plans. The Cap and Trade Framework indicates that the OEB requires the Gas Utilities to calculate and provide the following key performance metrics: cost per tonne (\$ per tCO_2e) of each compliance instrument or activity and a comparison of the costs of investing in GHG abatement activities versus procuring emissions units.

The OEB's Marginal Abatement Cost Curve (MACC) will show a range of GHG abatement options along a spectrum of costs (\$ per tCO_2e). The OEB expects the Gas Utilities to demonstrate that they have undertaken an analysis which supports their choice of compliance options, including the use of the MACC to prioritize investments.

The Cap and Trade Framework indicates that the OEB intends to establish a Monitoring and Reporting Working Group (Working Group) to: further refine the performance metrics, facilitate the monitoring and reporting of the Gas Utilities' compliance activities and support the OEB's review of the Cap and Trade Framework during the initial cap and trade compliance period.

5.6.2 Evidence

Union proposed to work with the other Gas Utilities and the OEB's Working Group to potentially develop and include new metrics. Enbridge submitted that the OEB should reconsider the use of the ICE annual price forecast as a benchmark given the uncertainty and current lack of market liquidity relative to the magnitude of the Gas Utilities' compliance obligations.[30] Enbridge also proposed adding the Ontario strategic reserve, or "soft ceiling" price of \$63.81/tCO_2e as a new benchmark. Enbridge noted that this soft ceiling should represent the maximum auction clearing price during 2017.

5.6.3 Submissions

OEB staff submitted that the performance metrics set out in section 8 of the Cap and Trade Framework should be used until the OEB has an opportunity to consider recommendations from the Working Group.

LPMA submitted that the Gas Utilities' Compliance Plans and results should be benchmarked against one another and to their forecasts.

Enbridge submitted that it has no objection to filing various metrics with the OEB, but that it opposed the OEB measuring Enbridge's performance against any metric with the benefit of hindsight. Enbridge also noted that it will be difficult to benchmark one utility against another as confidentiality requirements prohibits the Gas Utilities from seeing each other's Compliance Plans.

5.6.4 OEB Findings

The OEB approves the use, by the Gas Utilities, of the metrics outlined in the Cap and Trade Framework to measure their performance with respect to their 2017 Compliance Plans. The OEB finds that these metrics shall remain in use until such time as a revised set of metrics are developed and agreed upon by the parties. (See Section 5.8 for the related OEB Findings on Monitoring and Reporting)

5.7 Longer Term Investments, New Business Activities & Greenhouse Gas Abatement Activities

Issue 1.8 - Are the gas utility's proposed longer term investments reasonable and appropriate?

[30] Enbridge's Argument In-Chief, p. 17, paragraph 53

Issue 1.9 - Are the gas utility's proposed new business activities reasonable and appropriate?
Issue 1.10 - Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

The Cap and Trade Framework outlines the OEB's guidance with respect to the Gas Utilities' use of new and longer-term compliance measures to meet their obligations.[31]

The Climate Change Act and the Cap and Trade Regulation provide for a declining cap and increasing costs of allowances over time. The Cap and Trade Framework considers longer-term planning to be a prudent and reasonable activity that the Gas Utilities should consider. The Gas Utilities' Compliance Plans should describe and reflect a long-term planning strategy for GHG abatement beyond a single year or a single compliance period. Longer term investments refer to investments and activities related to GHG mitigation that span three years or longer (i.e., at least as long as a single compliance period). This type of investment might include new technologies, new business activities and new infrastructure. For example, abatement activities will in some cases require longer-term investments in order to achieve anticipated emissions reductions.

OEB has grouped these three areas together in the Decision and Order as they all require longer term planning.

The Cap and Trade Framework indicates that the OEB will consider applications to undertake new business activities on a case-by-case basis.

The Cap and Trade Framework makes a number of references to the importance of considering abatement programs (GHG emissions reduction activities) in the Gas Utilities' compliance option analysis and decision making process.[32] The OEB expects the 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.

[31] Cap and Trade Framework Section 5.4 – Longer Term Investments, Section 5.5 – New Business Activities and Section 5.6 – Customer Abatement
[32] Cap and Trade Framework Section 5.3.1.1 – Compliance option analysis and optimization of decision-making

5.7.1 Evidence

None of the Gas Utilities proposed any longer-term investments, new business activities or abatement activities[33] in their 2017 Compliance Plans for the reasons set out below.

Enbridge

Enbridge noted that it has not included any longer-term investments, new business activities, or abatement activities in its 2017 Compliance Plan. Enbridge indicated that it has assessed the viability of such options and expects that there will be a better opportunity to provide an expanded view as part of future Compliance Plans. Enbridge is delivering GIF home retrofit programming but has not included the volume reductions in its forecasts as the numbers are small and not yet verified. Going 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 compliance options that it may pursue over the longer-term, including renewable natural gas, demand side management (DSM) and low-carbon technologies, fuel switching and fugitive/venting emissions reductions.[34]

Union

Union indicated that it has not included long-term investment options and new business activities in its Compliance Plan due to the infancy of the Cap and Trade program, the number of uncertainties that still remain, and the lack of time to develop them. While Union has included the impacts of its GIF abatement programming in its volume forecast it has not considered other DSM programs for the reasons outlined above. Union also noted that assurance of cost recovery is required; otherwise, it might have to absorb the cost of such investments.[35]

Union indicated its commitment to address abatement and long-term investments more fully in future Compliance Plans.[36]

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

[33] Enbridge and Union referenced energy efficiency programs supported by the Government of Ontario through the GIF, but have not included proposals for the OEB's consideration.
[34] Enbridge's Public Evidence, Exhibit C, Tab 5, Schedule 1, pp. 1-4
[35] Union's Public Evidence, Exhibit 3, p .46
[36] Union's Public Argument In-Chief, p. 11

identify the financial feasibility of investment opportunities as part of future Compliance Plans.[37]

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.

5.7.2 Submissions

Several intervenors and OEB staff accepted the Gas Utilities' position that it was not feasible for the Gas Utilities to make proposals related to longer term investments, new business activities or abatement activities as part of the 2017 Compliance Plans due to time constraints, uncertainties in the market and the lack of the OEB's MACC and LTCPF. SEC noted that the OEB should consider abatement opportunities as part of its DSM mid-term review.

Several intervenors however, submitted that the lack of abatement activities in the 2017 Compliance Plans prohibited the appropriate and necessary cost comparison between compliance options. Environmental Defence submitted that excluding abatement opportunities, including incremental conservation, was unjustified and unreasonable and that as a result the Compliance Plans would not be as cost-effective as possible. Environmental Defence requested that a certain amount of Enbridge's and Union's 2017 Compliance Plan costs be disallowed as being unreasonable for this reason and a lack of compliance with the Cap and Trade Framework. Environmental Defence indicated that the OEB could disallow up to $22 million in 2017 costs; its conservative estimate of the resultant unrealised reduction in customer cost savings. Environmental Defence reduced the suggested cost disallowance to $500,000 for each Enbridge and Union considering this is the first Compliance Plan, and that there may be some relevant developments over time. Similarly, BOMA submitted that because of the Gas Utilities' lack of abatement activities the OEB would be unable to conclude that the proposed Compliance Plans, taken as a whole, are cost-effective, reasonable and optimized.

In its reply, Enbridge submitted that Environmental Defence's submission that the Gas Utilities have "fundamentally breached the OEB's Framework" is wholly without support or merit. Enbridge noted that advocating that a material amount of incremental DSM should have been added to Enbridge's 2017 Compliance Plan is inappropriate as it is effectively arguing that the OEB's DSM Decision and Order on the Enbridge and Union's 2015-2020 DSM Plans[38] should be disregarded and that the 2017 Compliance

[37] NRG's Public Evidence, Exhibit 3, p. 24
[38] EB-2015-0029 / EB-2015-0049, OEB Decision and Order on Enbridge and Union 2015-2020 DSM Plans, January 20, 2016

Plan proceeding should have reconsidered DSM budgets, cost effectiveness, targets and scorecards. Enbridge submitted that it would have been premature to propose incremental DSM as part of its Compliance Plan until the Government of Ontario's intentions under its *Climate Change Action Plan* are fully known.

Union responded to Environmental Defence's proposal and stated that there is no evidentiary basis for Union's cap and trade compliance costs to be disallowed. Union re-iterated that it was not feasible to include incremental abatement as part of its 2017 Compliance Plan, but that it is continuing to investigate opportunities for possible inclusion in future Compliance Plans.

5.7.3 OEB Findings

The OEB finds that each of the Gas Utilities' approaches to longer term investments, new business activities and abatement strategies as outlined in their respective 2017 Compliance Plans are reasonable and appropriate, given the lack of time between the announcement of the program and submission of the Compliance Plans, and the nascence of the cap and trade program.

The OEB is responsible for reviewing the Compliance Plans, that outline how the Gas Utilities will meet their GHG compliance obligations, for prudence and reasonableness to determine the appropriate costs to be recovered from natural gas customers in rates. The OEB does not dictate what elements should be contained in the Compliance Plans. The OEB agrees with the Gas Utilities' argument, supported by some parties, that the lack of Compliance Plan preparation time and the lack of the MACC and LTCPF during that development timeframe made it difficult to include these elements in their 2017 Compliance Plans. The OEB will not, therefore, disallow any of the Gas Utilities' cost requests on the basis that they did not include substantive abatement activities in their 2017 Compliance Plans.

Gas Utilities are encouraged to give further consideration to these options for inclusion in future Compliance Plans with the benefit of time, availability of the MACC and LTCPF, as well as new information and regulations/policies regarding other options such as offsets.

5.8 Monitoring and Reporting

Issue 2 - Monitoring and Reporting – Are the proposed monitoring and reporting processes reasonable and appropriate?

The Cap and Trade Framework states that 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. Ongoing monitoring of the Gas Utilities' costs and performance is essential to achieving the OEB's guiding principles for the Cap and Trade Framework. Monitoring will support the OEB's assessment of future plans for cost-effectiveness and identify whether the Gas Utilities are improving their planning and delivering greater value to customers.

The performance metrics used to monitor the Gas Utilities' Compliance Plans will be the same as the performance metrics used to assess those Plans:

- Costs per tonne ($\$//tCO_2e$) of each compliance instrument or activity
- Cost comparisons of investing in GHG abatement activities versus procuring emissions units over the short-term and long-term
- Comparisons of actuals with forecasts

The OEB will also use the latest settlement price from the quarterly auctions to benchmark Compliance Plan costs. It is important that the metrics used to monitor the Compliance Plans are consistent for all Gas Utilities as this will allow the OEB, ratepayer groups and other stakeholders to compare the Gas Utilities' Compliance Plans to each other and over time.

The Gas Utilities will file annual monitoring reports to align with the annual review of Compliance Plans. The first annual monitoring reports that outline the actual costs pertaining to the 2017 Compliance Plans will be filed as part of the 2018 Compliance Plan. The OEB expects the Gas Utilities to provide supporting documentation (including auction transactions, summaries of offsets and secondary market transactions, etc.) to allow the OEB to review the execution and performance of the Compliance Plans with regard to cost recovery.

As per the Cap and Trade Framework, the OEB intends to establish a Monitoring and Reporting Working Group to: further refine the metrics, facilitate the monitoring and review of the Gas Utilities' compliance activities; and to support the OEB's review of the Cap and Trade Framework during the initial cap and trade compliance period.

5.8.1 Evidence

Enbridge[39] and Union[40] filed proposed templates for their annual monitoring and reporting as part of their applications. NRG[41] stated that it has no concerns with Enbridge's and Union's proposed reporting templates. Union[42] and Enbridge[43] generally agreed with each other's proposed templates and noted the similarities.

Enbridge[44] proposed additional reporting to 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

Enbridge and Union raised concerns about what annual report information should be in the public domain. Enbridge stated that deciding which treatment should apply (i.e., public disclosure, confidential or strictly confidential), would require that each element of an activity be considered on a case by case basis.[45] Union indicated that while certain summary information could be made public,[46] disclosure of detailed information should be made on a case by case basis. Both expressed their preference to be conservative with respect to public disclosure in the early stages of the cap and trade program's development.

5.8.2 Submissions

Several intervenors suggested that the monitoring reports should be in the public domain to allow parties to evaluate and compare costs amongst the Gas Utilities. It was further suggested that the OEB benchmark the Gas Utilities against one another and against their respective forecasts on the total/weighted average volume, price and total cost of emissions units. Further, one intervenor argued that historical Compliance Plan execution information should not be strictly confidential, as statutory requirements under the Climate Change Act would not apply, and its release would no longer be harmful.

[39] Enbridge's Public Evidence, Exhibit D, Tab 1, Schedule 5, pp. 3-5
[40] Union's Public Evidence, Exhibit 4, Schedules 1 & 2
[41] NRG's Public IRRs, Staff IR-9
[42] Union's Public IRRs, Exhibit B.Staff.15
[43] Enbridge's Public IRRs, Exhibit1.2EGDI.Staff.21
[44] Enbridge's Public Presentation, Exhibit K1.1
[45] Enbridge's Public IRRs, ExhibitI.1.EGDI.STAFF.9 a & b, p. 2
[46] Union's Public IRRs, Exhibit B.LPMA.15, Attachment 1

CME submitted that the OEB should establish a mechanism for intervenors to have greater access to the Gas Utilities' cap and trade program cost information.

Several ratepayer groups and an industry association were concerned that Enbridge's proposed 25% threshold was too high as it would allow large deferral and variance accounts balances to accumulate. These intervenors would prefer a symmetrical threshold of 10%.

OEB staff submitted that the annual monitoring reports should be consistent across the Gas Utilities and that the information contained in them should generally be filed on the public record unless demonstrated to be confidential as per the *OEB's Rules of Practice and Procedure* and *Practice Direction on Confidential Filings* and/or strictly confidential as per the Climate Change Act. OEB staff also recommended that the Gas Utilities file specific annual monitoring reports (e.g., summary of compliance instruments, detailed cost information for each compliance instrument, etc.) and supported Enbridge's proposed additional threshold reporting.

Enbridge and Union replied that the OEB staff's annual monitoring report recommendations may have some redundancies and proposed to work together to create a standard set of initial Monitoring and Reporting forms to be presented as part of their 2018 Compliance Plan applications. Enbridge and Union reiterated that the annual monitoring reports should generally be filed as strictly confidential as per the Climate Change Act.

Enbridge also replied that it did not support a 10% threshold as it would not result in a material impact on rates and may result in Enbridge giving notice to the OEB on several occasions in a given year. Union stated that it did not oppose the establishment of a threshold, but did not see evidence that one is needed. Union further noted that this matter was not identified on the Issues List by the OEB for proper consideration by parties during the proceeding.

5.8.3 OEB Findings

The OEB finds that monitoring and reporting filings should be adopted consistently across the Gas Utilities. In their applications Union and Enbridge provided examples of the types of reports they could provide.

The OEB finds that Gas Utilities should work with each other and the OEB to develop a consistent set of monitoring and reporting protocols for use in future Compliance Plans. Pursuant to the Cap and Trade Framework, the OEB will establish a Monitoring and Reporting Working Group that will coordinate this process. The Working Group would further refine metrics, facilitate the monitoring and review of the Gas Utilities compliance activities and support the OEB's review of the Cap and Trade Framework during the initial cap and trade compliance period.

The OEB will defer the decision on reporting thresholds until the Working Group has the opportunity to review the issue in full. Enbridge proposed a 25% variance threshold for reporting on a number of metrics. The OEB finds that the threshold issue was not introduced early enough in the process to allow for a robust review. There were mixed responses by the parties to the use of a threshold, and what the appropriate value should be if one was established.

The OEB finds that the disclosure of certain information in the monitoring and reporting filings as part of the 2018 Compliance Plans shall be limited as outlined in the Climate Change Act[47] and reflected in section 4 of the Cap and Trade Framework. The OEB suggests that the Monitoring and Reporting Working Group examine this issue for future Compliance Plans.

5.9 Customer Outreach

Issue 3 - Customer Outreach – Are the proposed customer outreach processes and methods reasonable and appropriate?

Section 7 of the Cap and Trade Framework provides the OEB's expectations related to customer outreach. The OEB indicates 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.

In particular, the OEB expects that the Gas Utilities provide information to customers that will achieve the following objectives:

- Improve customer awareness of the government's climate change actions including the cap and trade program
- Provide an explanation of the Gas Utilities' role in relation to emissions reduction, and the two types of emissions – facility-related and customer-related
- Provide an understanding of the regulatory review and approval of utility costs of compliance that will occur before customers will be charged
- Provide customers with information on how to manage their GHG emissions and reduce their bills by reducing gas consumption

[47] Climate Change Act, sections 29 and 32

The OEB also states that the Gas Utilities should communicate this information through, at a minimum, their website, their call centre and via bill inserts.

5.9.1 Evidence

Each of the Gas Utilities provided detailed customer outreach strategies that aimed to provide clear messaging related to the cap and trade program. The Gas Utilities consistently 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.

5.9.2 Submissions

OEB staff and LPMA submitted that the Gas Utilities should be mindful of future customer outreach spending.

LIEN submitted that Enbridge and Union should align outreach strategies to engage directly with social services agencies and other low-income representatives.

Enbridge noted that to the extent possible, they will consult with customers prior to embarking on various outreach activities and will coordinate with each other where possible.

In its reply, Union reiterated its willingness to consider collaboration with social service agencies to enhance low-income customers' access to information about DSM, how to manage bills and energy consumption, as well as their GHG emissions.

5.9.3 OEB Findings

The OEB finds that each of the proposed customer outreach strategies is reasonable and appropriate. The strategies align with the Cap and Trade Framework's objectives to improve customer awareness of: the cap and trade program; the utility's role; the regulatory process; and the role the utility may play in managing its own emissions. The OEB encourages the Gas Utilities to consult with customers prior to embarking on new programs in the future.

5.10 Deferral and Variance Accounts

Issue 4 - Deferral and Variance Accounts – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

The Cap and Trade Framework indicates that the related 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.[48] Further, the Filing Guidelines to the Cap and Trade Framework outline the information related to the deferral and variance accounts that the Gas Utilities must include in their Compliance Plans.

5.10.1 Deferral and Variance Account Establishment

5.10.1.1 Evidence

Both Enbridge and Union currently track administrative costs in the Greenhouse Gas Emissions Impact Deferral Account (GGEIDA). NRG does not have a GGEIDA nor has it proposed to establish a GGEIDA as part of its 2017 Compliance Plan application.

The Gas Utilities requested approvals for the establishment of the following 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 differences between actual and forecast customer-related and facility-related obligation costs.[49]

- 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.

[48] Cap and Trade Framework, Section 6.2.1, pp. 32-33
[49] Enbridge’s Public Evidence, Exhibit F, Tab 1, Schedule 1, p. 2

Union has included Draft Accounting Orders Nos. 179-154 (customer-related) and 179-155 (facility-related) in support of this request.[50]

- Union requested the approval of the updated wording for its GGEIDA to only capture the administrative costs associated with Union's compliance obligation activities.

NRG, similar to Union, has requested the approval of two new variance accounts to separately track customer-related and facility-related obligation costs.[51]

5.10.1.2 Submissions

Parties generally supported Union and NRG's requests for two new variance accounts to separately track customer-related and facility-related obligation costs. OEB staff noted that 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 recommended that the OEB direct Enbridge to also establish two separate variance accounts, similar to those proposed by the other utilities.

Parties also supported the Draft Accounting Orders provided by Union. OEB staff recommended that both Enbridge and NRG use similar account descriptions and provide Draft Accounting Orders for the two proposed variance accounts.

Enbridge submitted that it did not believe it was necessary to have a separate variance account for customer-related versus facility-related GHG costs as it did not believe that it will add any greater transparency. Enbridge submitted that a single account is the most simple, transparent and efficient way to manage and administer such a variance account.

OEB staff supported the Union's updated wording for its GGEIDA, and also recommended the establishment of a GGEIDA for NRG for 2017.

5.10.1.3 OEB Findings

The OEB finds that each of the Gas Utilities should establish two variance accounts to separately track the customer-related and facility-related obligation costs to be consistent with the Cap and Trade Framework, effective January 1, 2017. The two

[50] Union's Public Evidence, Exhibit 6, Appendix A
[51] NRG's Public Evidence, Staff IR-11, p. 16-17

accounts are deemed necessary for tracking and assessment purposes and because the cost allocation methodology differs between the two. The terminology and accounting orders for the two accounts should be consistent for all Gas Utilities.

The OEB directs the Gas Utilities to adopt the terminology for the two variance accounts proposed by Union:

- o The Greenhouse Gas Emissions Compliance Obligation – Customer-related variance account (GHG-Customer VA); and,
- o The Greenhouse Gas Emissions Compliance Obligation – Facility-related variance account. (GHG-Facility VA)

Each of the Gas Utilities shall establish accounting orders, consistent with the Draft Accounting Orders Nos. 179-154 (customer-related) and 179-155 (facility-related) suggested by Union.[52]

Consistent with Enbridge and Union, the OEB directs NRG to establish a GGEIDA to track administrative costs, effective January 1, 2017. The OEB also directs Enbridge and NRG to use the GGEIDA description as proposed by Union in this proceeding.

5.10.2 Clearance of Variance Accounts

5.10.2.1 Evidence

Union, consistent with the Cap and Trade Framework, proposed to dispose of the 2017 variance account balances as part of its 2019 Compliance Plan application. In response to OEB staff interrogatory #24, Enbridge stated it expects to do the same but that should timing allow, it would prefer to dispose of these account balances in conjunction with the disposition of other deferral and variance account balances as part of a separate application which is typically filed in the spring of each year.

The Gas Utilities stated that they expect the disposition methodology to 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.

[52] Union's Public Evidence, Exhibit 6, Appendix A

5.10.2.2 Submissions

Parties generally took two positions with respect to the disposition methodology. Several parties, including OEB staff, LPMA and BOMA submitted that the disposition methodology (i.e., the disposition period and timing for recovery or refund) should be decided at the time the account balances are brought forward in future Compliance Plan proceedings.

Several other parties, mainly those representing large customers, such as APPrO, CME, IGUA and the IESO submitted that the OEB should determine the basic parameters of how the GHG variance accounts will be disposed as part of this proceeding to ensure rate predictability and avoid unanticipated adverse impacts on Ontario’s electricity markets. The IESO submitted that the GHG variance accounts should be disposed of on a volumetric basis, over a prospective period of a number of months, rather than the initial proposal of a retroactive one-time adjustment made by Enbridge and Union. The IESO submitted that delaying a determination on the disposition methodology of the deferral and variance accounts would create unnecessary cost uncertainty and adversely impact Ontario’s electricity markets. APPrO made a similar submission to that of the IESO, while also noting that the Gas Utilities are held harmless in any scenario and that the proposal for a prospective disposition is similar to the manner in which the gas commodity variances are treated. IGUA submitted that the OEB should ensure it has sufficient flexibility to dispose of the account balances over a period of months, where the balances are significant.

LIEN submitted that the annual cost increases for customers, particularly low-income customers, can be significant and trigger the need for the OEB and the Gas Utilities to implement measures to pace and prioritize these impacts. LIEN further submitted that the deferral costs should be applied over the warmest six months of the year, if possible, to mitigate the impacts of low-income customers’ bills.

In Enbridge’s reply submission, it stated that it takes no position in respect of how account balances should be recovered and indicated its willingness to be as administratively flexible as is reasonable. Enbridge can accommodate a number of disposition approaches depending on the magnitude of the account balance. Union commented that the methodology for disposal of the deferral account balances is not before the OEB in this proceeding and as such should be the subject of a future proceeding once the accounts have accumulated balances.

5.10.2.3 OEB Findings

The OEB finds that the disposition amounts and methods will be determined in the 2019 Compliance Plan proceeding where the accounts will be examined in the context of the cap and trade program, and not through the utility DVA applications. This disposition decision is deferred to allow the OEB to have more time and information to consider the issues.

5.11 Cost Recovery

The Cap and Trade Framework provides that the Gas Utilities are to recover customer-related obligation costs from all customers except LFEs and voluntary participants, who are responsible for managing their own compliance obligation. The Cap and Trade Framework also notes 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 ($/m^3).
- Facility-related obligation costs should be recovered from all customers, as they are directly related to the delivery of natural gas to customers. Similar to customer-related charges, facility-related charges should also be allocated to rate classes based on consumption and recovered through a volumetric charge ($/m^3).

The Cap and Trade Framework states that these charges should be included in the delivery charge, but shown separately on the Gas Utilities' tariff schedules.

It also indicates that cap and trade charges should 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.

5.11.1 Evidence

Each of the Gas Utilities, pursuant to the Cap and Trade Framework, proposed to allocate customer-related obligation costs based on consumption, and recover these costs through a volumetric charge.

Enbridge and NRG also proposed to allocate facility-related obligation costs based on consumption and recover these costs through a volumetric charge, as specified in the Cap and Trade Framework. Union, however, proposed to allocate facility-related obligation costs for unaccounted for gas and compressor fuel based on the 2013 OEB approved forecast (updated for compressor fuel changes associated with the Parkway Delivery Obligation Settlement Agreement[53]). Union also proposed to allocate facility-related obligation costs for company use based on the 2013 OEB-approved administrative and general costs. Union did, however, propose to recover all facility-related obligation costs on a volumetric basis.

On November 25, 2016, 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.

5.11.2 Submissions

Tariffs and Charges

OEB staff submitted that the Gas Utilities followed the Cap and Trade Framework when developing their proposed cap and trade charges.

OEB staff stated that the facility-related charges appropriately reflect the customer rate classes' responsibility for costs such as company use, unaccounted for gas and compressor fuel.

LPMA submitted that it supports the recovery of costs proposed by Union as they are reasonable and appropriate. LPMA noted that Union has appropriately allocated the facility-related obligation costs to the different rate classes, which recognises the fact that they incur costs differently.

LPMA submitted that the OEB should direct the Gas Utilities to use the same approach as Enbridge and NRG (i.e. showing the charges as separate line items) to identify the cap and trade related charges in their rate schedules.

In its reply submission, Union noted that it does not oppose LPMA's recommendations to adjust its rate schedules to the same format as Enbridge and NRG. Union indicated that upon OEB confirmation that the recommended presentation format is in compliance with the Cap and Trade Framework, it will prepare its rates schedules in the proposed format for its 2018 Compliance Plan.

Facility-Related Costs Allocation

TransCanada submitted that Enbridge should allocate its company use facility-related greenhouse gas emissions costs in the same proportion as its administrative and general costs, similar to Union's approach. TransCanada submitted that Enbridge's

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proposal to allocate company use costs on a volumetric basis does not align with appropriate cost recovery set out in the Cap and Trade Framework. TransCanada noted that during the first compliance period, it has contracted for Rate 332 service on the Enbridge system, representing approximately 50 percent of system volumes. TransCanada argued that it does not, however, drive 50 percent of Enbridge company use costs. TransCanada notes that under Enbridge's proposed cost allocation method, it could bear approximately 50 percent of those costs, which if approved by the OEB, could amount to $100,000 annually.

Enbridge agreed with the OEB's determination that facility-related obligation costs be recovered from all customers as they are directly related to the natural gas delivery. Enbridge noted that each customer's obligation to a share of actual company use emissions will not be a function of their contract demand, but rather actual delivered volume. Enbridge did not agree that allocating facility-related costs on a similar basis as administrative and general costs is correct. Enbridge does not currently have an administrative and general costs allocator and would need to develop one. Enbridge argues that administrative and general costs consist of functions such as finance and regulatory and represent only a part of the operating and maintenance expenses Enbridge incurs to provide reliable service to customers. Enbridge submitted that introducing another cost element and allocator into cap and trade compliance filings is not warranted or necessary and that the OEB should maintain its determination that facility-related obligation costs be recovered from all customers based on delivered volumes.

5.11.3 OEB Findings

The OEB finds that the Gas Utilities should each allocate compliance obligation costs in a manner consistent with the Cap and Trade Framework. The OEB confirms that as customer-related obligation costs and facility-related obligation costs are driven by gas consumption, they should be allocated based on consumption and recovered through a volumetric charge ($/m^3).

The OEB also agrees that Union should, consistent with the approach used by Enbridge and NRG, should show customer- and facility-related compliance obligation charges as separate line items in Union's 2017 rates schedules.

6 IMPLEMENTATION

6.1.1 Evidence

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 an Interim Rate Order setting out cap and trade rates, on an interim basis, beginning January 1, 2017.

Union proposed to update rates as part of the next available QRAM application following the issuance of the Decision and Final Order in this proceeding. Union proposed to 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.

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

6.1.2 Submissions

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

LPMA submitted that the final rates should be implemented as quickly as possible following the OEB's Decision and Order, effective with the next QRAM rate change. If the OEB makes no changes to the interim rates, the implementation date of final rates could be the same date as the Decision and Order.

Enbridge and Union both agreed with the suggestions to update rates, if necessary, following the OEB's Decision and Order as part of the next available QRAM application.

6.1.3 OEB Findings

Enbridge shall file a draft Rate Order to confirm the final tariff schedule reflecting the OEB's findings in this Decision.

Union and NRG shall file their respective draft Rate Orders reflecting this Decision and Order and record the impact of any differences between the interim approvals and the final approvals in the established variance accounts, by rate class, for the January 1 to December 31, 2017 period.

The interim rates approved effective January 1, 2017 shall remain in effect for the balance of 2017.

7 ORDER

THE OEB ORDERS THAT:

1. Enbridge, NRG and Union shall each file a draft Rate Order, including all supporting documentation that reflects this Decision and Order, and forward to the intervenors, no later than **October 5, 2017.**
2. Enbridge, NRG, and Union shall each establish two new variance accounts to separately track variances in customer-related and facility-related obligation costs. NRG shall also establish a GGEIDA to capture the difference between forecast and actual administrative costs. Each of the Gas Utilities shall file their respective draft accounting orders in a manner that is consistent with the draft accounting order proposed by Union in this proceeding. The draft accounting orders shall also include the revised description of the GGEIDA for Enbridge and Union in a manner consistent with the changes proposed by Union. Each of the Gas Utilities shall file their draft accounting orders with the OEB, and forward to the intervenors, no later than **October 5, 2017.**
3. OEB staff and intervenors shall file any comments on the draft Rate Orders and accounting orders for each of the Gas Utilities with the OEB, and forward to each of the Gas Utilities no later than **October 19, 2017.**
4. Each of the Gas Utilities shall file with the OEB, and forward to intervenors, any comments in response to OEB staff and intervenors' comments on the draft Rate Orders and accounting orders for each of the Gas Utilities no later than **November 2, 2017.**
5. Eligible parties shall submit their cost claims no later than **November 16, 2017.**
6. Enbridge, NRG, and Union shall file with the OEB, and forward to all parties, any objections to the claimed costs no later than **November 30, 2017.**
7. Parties shall file with the OEB, and forward to Enbridge, NRG, and Union, any responses to any objections for cost claims no later than **December 7, 2017.**
8. Enbridge, NRG, and Union shall pay the OEB's costs incidental to his proceeding upon receipt of the OEB's invoice.

All filings to the OEB must quote the file number, **EB-2016-0296 / EB-2016-0300 / EB-2016-0330** and be made electronically in searchable / unrestricted PDF format through the OEB's web portal at www.pes.ontarioenergyboard.ca/eservice/ . Two paper copies must also be filed. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.ca/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

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

E-mail: boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto September 21, 2017

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX A

2017 Cap and Trade Compliance Plans

Issues List

Union Gas Limited

EB-2016-0296

Enbridge Gas Distribution Inc.

EB-2016-0300

Natural Resource Gas Limited

EB-2016-0330

2017 Cap and Trade Compliance Plans

Issues List

1. **Cost Consequences** - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

Forecasts

1.1 Are the volume forecasts used reasonable and appropriate?
1.2 Are the GHG emissions forecasts reasonable and appropriate?
1.3 Is the carbon price forecast reasonable and appropriate?

Compliance Plan

1.4 Is the gas utility's Compliance Plan overview reasonable and appropriate?
1.5 Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?
1.6 Are the proposed performance metrics and cost information reasonable and appropriate?
1.7 Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?
1.8 Are the gas utility's proposed longer term investments reasonable and appropriate?
1.9 Are the gas utility's proposed new business activities reasonable and appropriate?
1.10 Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

2. **Monitoring and Reporting** – Are the proposed monitoring and reporting processes reasonable and appropriate?

3. **Customer Outreach** – Are the proposed customer outreach processes and methods reasonable and appropriate?

4. **Deferral and Variance Accounts** – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

5. **Cost Recovery**

5.1 Is the proposed manner to recover costs reasonable and appropriate?

5.2 Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

6. Implementation – What is the implementation date of the final rates and how will the final rates be implemented?