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**BY EMAIL**

October 20, 2017

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

Dear Ms. Walli:

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

In accordance with the Decision and Order dated September 21, 2017, please find attached OEB staff's submission on the draft Accounting and Rate Orders in the above noted proceeding.

The applicants and intervenors have been copied on this filing.

Sincerely,

*Original Signed By*

Laurie Klein  
Project Advisor, Application Policy & Climate Change

Attachment



## **ONTARIO ENERGY BOARD**

### **OEB STAFF SUBMISSION on DRAFT ACCOUNTING AND RATE ORDERS October 20, 2017**

#### **Natural Gas Utilities' 2017 Cap and Trade Compliance Plans**

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

## Background

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

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

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

On November 26, 2016 the OEB issued a Rate Order approving rates, on an interim basis, that allowed the Gas Utilities to begin to recover the projected costs of each of their Cap and Trade Compliance Plans before the OEB issues its decision on final rates for 2017.

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.

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<sup>1</sup> EB-2015-0363.

The OEB's Decision and Order for the public portions of the Compliance Plans was issued on September 21, 2017. Also, on September 21, 2017, separate Decisions on the strictly confidential portions of the Compliance Plans were issued to each of the Gas Utilities separately.

### **Scope of OEB Staff Submission**

In response to the OEB's Decision and Order, the Gas Utilities filed draft Accounting and Rate Orders with the OEB on October 5, 2017 and October 18, 2017<sup>2</sup>. This OEB staff submission is related to these filings.

The Gas Utilities' draft Accounting and Rate Orders are to reflect the OEB's Decision and Order for the public portions of the Compliance Plans:

- Each of the Gas Utilities are to establish two new variance accounts to separately track variances in customer-related and facility-related obligation costs (p 34)
- The Gas Utilities are to file their respective draft Accounting Orders in a manner that is consistent with the draft Accounting Order proposed by Union in this proceeding (p 35)
- NRG is to establish a Greenhouse Gas Emissions Impact Deferral Account (GGEIDA) to capture the difference between forecast and actual administrative costs (p 35)
- The Gas Utilities' draft Accounting Orders are to include the description of the GGEIDA that is consistent with what was proposed by Union (p 35)
- The Gas Utilities are to allocate obligation costs in a manner consistent with the Cap and Trade Framework where customer-related obligation costs and facility-related obligation costs are to be allocated based on consumption and recovered through a volumetric charge (\$/m<sup>3</sup>) (p 39)
- Union is to show customer- and facility-related compliance obligation charges as separate line items in its 2017 rates schedules, which is the approach used by Enbridge and NRG (p 39)
- Final approved rates are to be implemented in the January 1, 2018 Quarterly Rate Adjustment Mechanism (QRAM) process (p 3)

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<sup>2</sup> Enbridge filed its draft Accounting and Rate Orders on October 5, 2017 and updated Rate Schedules on October 18, 2017. NRG filed its Accounting and Rate Orders on October 18, 2017. Union filed its draft Accounting and Rate Orders on October 5, 2017 and an updated Rate Order on October 18, 2017.

- The interim rates approved effective January 1, 2017 are to remain in effect for the balance of 2017 (p 41)

## **Draft Accounting Orders**

### OEB Staff Submission

OEB staff submits that the Gas Utilities' draft Accounting Orders are consistent with the OEB's Decision and Order as:

- Each of the Gas Utilities established two new variance accounts to separately track variances in customer-related and facility-related obligation costs
- Enbridge's and NRG's draft Accounting Orders are consistent with the draft Accounting Order proposed by Union in this proceeding
- NRG established a Greenhouse Gas Emissions Impact Deferral Account (GGEIDA) to capture the difference between forecast and actual administrative costs and the description is consistent with what was proposed by Union in this proceeding
- Enbridge's draft Accounting Order included a description of the GGEIDA which is consistent with what was proposed by Union in this proceeding

## **Draft Rate Orders**

### Enbridge's Proposal

Enbridge filed a draft Rate Order on October 5, 2017. The proposed rate handbook rate schedules are based on the Decision and Order for the October 1, 2017 QRAM<sup>3</sup> and the 2017 rate proceeding<sup>4</sup>, and reflect an effective and implementation date of October 1, 2017.

On October 18, 2017, Enbridge filed updated rate handbook rate schedules which includes an annotation that the cap and trade charges became effective January 1, 2017. Enbridge noted that there is no change between the previously approved interim and final proposed cap and trade charges.

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<sup>3</sup> EB-2017-0218

<sup>4</sup> EB-2016-0215

### OEB Staff Submission on Enbridge's Proposal

OEB staff submits that Enbridge's updated draft Rate Order is consistent with the OEB's Decision and Order. OEB staff agrees with Enbridge's approach to clearly identify, in its rate schedules, that the cap and trade charges are effective as of January 1, 2017. While Enbridge has not identified an implementation date of January 1, 2018 (the next available QRAM), OEB staff notes that the cap and trade charges already implemented as part of the 2017 QRAMs to date reflect the Decision and Order in this proceeding.

### NRG's Proposal

NRG filed a draft Rate Order on October 18, 2017. NRG's rate schedules are based on the Decision and Order in the October 1, 2017 QRAM<sup>5</sup> adjusted to reflect the revised customer-related and facility-related charges<sup>6</sup>. The rate schedules state that the effective date is January 1, 2017 and the implementation date is January 1, 2018.

### OEB Staff Submission on NRG's Proposal

OEB staff submits that NRG's draft Rate Order is consistent with the OEB's Decision and Order. OEB staff however requests that NRG comment on whether an annotation that the cap and trade charges are effective January 1, 2017, similar to the approach proposed by Enbridge, would be more appropriate.

OEB staff submits that NRG, pursuant to the Decision and Order, is to record the impact of any difference between the interim approvals and the final approvals in the established variance accounts for the January 1 to December 31, 2017 period.

### Union's Proposal

Union filed a draft Rate Order on October 5, 2017. The proposed rate schedules are based on the Decision and Order in the October 1, 2017 QRAM<sup>7</sup> adjusted to show the cap and trade interim charges as separate line items pursuant to the Decision and Order in this proceeding. The proposed effective date was October 1, 2017.

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<sup>5</sup> EB-2017-0293

<sup>6</sup> EB-2016-0330, Staff IR-12, Schedule 1: New Rates Table

<sup>7</sup> EB-2017-0278

On October 18, 2017, Union filed an updated draft Rate Order with an effective date of January 1, 2017. The updated draft Rate Order also includes a change to facility-related obligation charges to reflect the Decision and Order in this proceeding that facility-related obligations costs should be allocated volumetrically. Union proposed to update rates as part of the next available QRAM application (January 1, 2018 QRAM) and to record the impact of any difference between the interim approvals and the final approvals in the established variance accounts for the January 1 to December 31, 2017 period.

#### OEB Staff Submission on Union's Proposal

OEB staff submits that Union's updated draft Rate Order (dated October 18, 2017) is consistent with the OEB's Decision and Order.

This Rate Order reflects both the cap and trade charges as separate line items and the revision to Union's facility-related charges as per the Decision and Order<sup>8</sup>. OEB staff submits that these updated facility-related charges should be approved by the OEB in this proceeding for implementation in the January 1, 2018 QRAM proceeding as per the Decision and Order.

In addition, OEB staff submits that Union should use the approach proposed by Enbridge and clearly indicate that the effective date of January 1, 2017 only applies to the cap and trade charges.

- All of which is respectfully submitted -

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<sup>8</sup> Decision and Order, p 39