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May 17, 2018

BY RESS, EMAIL AND COURIER

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

Dear Ms. Walli:

**Re: EB-2017-0255 – Union Gas Limited – 2018 Cap-and-Trade Compliance Plan –
Public Argument-in-Chief**

We are counsel to Union Gas Limited in the above-noted matter. Please find enclosed Union's Public Argument-in-Chief.

The Public Argument-in-Chief will be filed on RESS and a copy served on all parties.

Yours truly,

Original Signed by Myriam Seers

Myriam Seers

MS/lt
Enclosure

cc: Adam Stiers
All Intervenors

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 36(1) of the Ontario Energy Board Act, 1998, for an order or orders approving rates resulting from the 2018 Cap-and-Trade Compliance Plan.

**ARGUMENT IN CHIEF OF
UNION GAS LIMITED**

(PUBLIC)

A. Overview

1. Through this application, Union requests relief arising from its 2018 Cap-and-Trade Compliance Plan, as described in greater detail below.

2. **Context for the application.** The *Climate Change Mitigation and Low-Carbon Economy Act, 2016* was passed in May 2016,¹ accompanied by final regulations (“Cap-and-Trade Regulations”).² Subsequently, Ontario’s Climate Change Action Plan (“CCAP”) was issued on June 8, 2016. The Regulatory Framework for the Assessment of Costs of Natural Gas Utilities’ Cap-and-Trade Activities (“Framework”) was developed by the Ontario Energy Board (the “Board” or the “OEB”) and delivered September 26, 2016.³ This Framework required natural gas utilities to file a comprehensive Compliance Plan by November 15, 2016 to be effective for January 1, 2017, and a separate annual application by August 1 of each year thereafter. The OEB subsequently approved the cost consequences resulting from Union’s 2017 Compliance Plan.⁴ In making this determination, the OEB found that Union’s 2017 Compliance Plan was based on

¹ *Climate Change Mitigation and Low-carbon Economy Act, 2016*, S.O. 2016, (Climate Change Act).

² Ontario Regulation 144/16, The Cap and Trade Program (Cap and Trade Regulation).

³ EB-2015-0363 Report of the Board - Regulatory Framework for Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities (Framework).

⁴ EB-2016-0296 Decision and Order (dated September 21, 2017), p.3.

reasonable option analysis and decision-making, and risk management.⁵ The OEB also found that Union's 2017 administrative cost forecast was "*consistent with the expectations established in the Cap and Trade Framework.*"⁶

3. ***Requested relief.*** In this application, Union seeks the following relief in connection with its 2018 Cap-and-Trade Compliance Plan, pursuant to section 36 of the *Ontario Energy Board Act, 1998* and the Framework:

- (1) an order or orders approving or fixing just and reasonable final rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2018;
- (2) an order or orders approving the final 2016 balance of \$2.232 million in Union's Greenhouse Gas Emissions Impact Deferral Account for collection from ratepayers, and an order or orders of the Board for final disposition of this balance; and,
- (3) a determination from the OEB that the cost consequences of Union's 2018 Compliance Plan are just and reasonable.⁷

4. Union submits that the rates it has proposed for 2018 in connection with Cap-and-Trade compliance are just and reasonable, and should be approved.

5. The purpose of Union's application was to present a prudent Compliance Plan for 2018 that: complies with applicable regulations; outlines how Union will meet its obligations, consistent with the Board's Framework; and, considers the guiding principles included in the Framework (cost effectiveness, rate predictability, cost recovery, transparency, flexibility, and continuous improvement).⁸ Union's 2018 Compliance Plan is expanded in scope and analysis compared to its 2017 Compliance Plan. It reflects both Union's experience and significant new developments that occurred throughout 2017. These include (a) the OEB's Decision and Order

⁵ EB-2016-0296 Decision and Order (dated September 21, 2017), p.6.

⁶ EB-2016-0296 Decision and Order (dated September 21, 2017), p. 16.

⁷ Including up to \$2 million in cost consequences associated with the Low Carbon Initiative Fund to be collected through Union's Greenhouse Gas Emissions Impact Deferral Account (Account No. 179-152).

⁸ Framework, pp. 7-8.

on Union's 2017 Compliance Plan; (b) WCI linkage effective January 1, 2018; (c) consideration of the OEB-issued Marginal Abatement Cost Curve ("MACC") and Long-Term Carbon Price Forecast ("LTCPF"); and, (d) draft Ontario Offset Credits Regulations ("Draft Offset Regulations") and offset protocols. It also reflects continuous improvement in Union's compliance processes and activities, including: (a) development of an Abatement Construct ("AC") and an Initiative Funnel in conjunction with Enbridge Gas Distribution ("EGD"); (b) the proposed Low Carbon Initiative Fund ("LCIF"); (c) a Renewable Natural Gas ("RNG") procurement mechanism; (d) cost-effectiveness assessment of incremental abatement opportunities using the MACC, the LTCPF and the Conservation Potential Study ("CPS"); (e) completion of a facilities abatement study;⁹ (f) [REDACTED] (g) the development of a secondary market Emissions Trading Master Agreement ("ETMA"); and (h) a standardized set of monitoring and reporting templates developed together with EGD.

6. ***Strict Confidentiality.*** In Procedural Order No. 4,¹⁰ the Board directed that written submissions be divided into two streams, with the first stream dealing with evidence that forms part of the public record, and the second stream dealing with evidence on the Strictly Confidential record. This argument in chief contains evidence forming both the Public and the Strictly Confidential record. The Strictly Confidential evidence has been redacted from the Public version of this argument.

7. ***Organization of the argument.*** In this argument in chief, Union first addresses the appropriate scope of this application. The balance of the argument is organized in accordance with the final issues list set out in Procedural Order No. 2,¹¹ as follows:

- (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?

⁹ See Exhibit 3, Tab 4, Section 3; Exhibit 3, Tab 4, Appendix B; Exhibit B.Staff.27; and, Exhibit B.Staff.28.

¹⁰ EB-2017-0255 OEB Procedural Order No. 4 (dated May 1, 2018), p. 2

¹¹ EB-2017-0255 OEB Procedural Order No. 2 (dated February 7, 2018), Schedule A.

- (1.2) Are the GHG emissions forecasts reasonable and appropriate?
- (1.3) Is the carbon price forecast reasonable and appropriate?

Compliance Plan

- (1.4) Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?
- (1.5) Is the gas utility's purchasing strategy reasonable and appropriate?
- (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?
- (1.10)1. Are the gas utility's RNG procurement and funding proposals 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**

- (4.1) Are the proposed deferral and variance accounts reasonable and appropriate?
- (4.2) Are the proposed deferral account balances reasonable and appropriate?
- (4.3) 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?

B. Scope of this Application

8. Union's application, supporting evidence and witness testimony are focused on the 2018 compliance year. Union has avoided any speculation on the future of the program because of the outstanding uncertainties that could influence the carbon market, either by impacting the market for compliance instruments or by affecting the province's ability to abate its greenhouse gas ("GHG") emissions. These uncertainties are described in Exhibit 1, p. 8, and include:

- Release and/or finalization of outstanding Cap-and-Trade Regulations, such as Early Reduction Credits and Compliance Offset Credits Regulations;
- Development and release of outstanding Offset Protocols;
- Full details of CCAP/GreenON funding required to support potential abatement initiatives;
- Definition of the post-2020 Cap-and-Trade program design for Ontario, including the publication of the declining cap and the impact of program changes in California; and,
- Impact of the Pan-Canadian Framework on Clean Growth and Climate Change.

9. Union submits that its DSM program and proposed changes to the 2015-2020 DSM Framework are outside the scope of this proceeding, as are any issues concerning the application filed by Union and EGD requesting approval to amalgamate effective January 1, 2019.¹²

¹² Exhibit B.Staff.14.

C. Issue 1: Cost Consequences – *the cost consequences of Union’s 2018 Compliance Plan are reasonable and appropriate*

10. A final determination as to the reasonableness of the cost consequences associated with Union’s 2018 Compliance Plan will be the subject of future proceedings (see Issue 4 below). Consistent with the approval granted in EB-2016-0296, Union is requesting a determination from the Board that the cost consequences of its 2018 Compliance Plan are just and reasonable, including \$4.0 million in forecasted 2018 administrative costs and up to \$2.0 million in cost consequences associated with the LCIF in Union’s Greenhouse Gas Emissions Impact Deferral Account (“GGEIDA”). Union expects that the actual 2018 cost consequences associated with Union’s GGEIDA would be subject to a final review by the Board as part of a future proceeding when Union applies to dispose of the 2018 balance in its GGEIDA.

11. Consistent with Union’s Reply Argument in EB-2016-0296, Union submits that it would be inappropriate for the Board to determine that the cost consequences of the 2018 Compliance Plan are just and reasonable, only to then disallow those costs at disposition absent a change in circumstances. Thus, Union expects that the nature of the Board’s review at disposition will be to determine: (a) whether the costs sought to be recovered are the consequence of the approved plan, and (b) whether there were any change in circumstances that rendered compliance with the approved plan unreasonable.¹³ Union will propose a disposition methodology for the 2018 deferral account balances at the time the deferral balances are proposed for disposition. Union’s current practice is to dispose of non-commodity deferral account balances prospectively over a six month period for general service customers and as a one-time adjustment for contract rate customers.¹⁴

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

12. Union’s 2018 customer-related and facility-related volume forecast of 7,957,882,556 m³ is reasonable and appropriate. As stated in Union’s 2017 Compliance Plan, Union elected to use Option 1 from the Framework’s two forecasting period options for Compliance Plans during the first compliance period.¹⁵ Option 1 includes a one-year forecast for 2017, a one-year forecast for

¹³ Exhibit J1.2.

¹⁴ Exhibit B.Staff.37.

¹⁵ Exhibit 2, p. 2.

2018, and then a two-year forecast for 2019-2020.¹⁶ Union plans to file its 2019-2020 Compliance Plan in 2018.¹⁷

13. Consistent with the Framework, Union's 2018 volume and emissions forecast excludes the volume forecast for customers that have been identified by the Ministry of the Environment and Climate Change ("MOECC") as capped, mandatory or voluntary participants. Union has also excluded the volume forecast for wholesale customers since these customers are not covered by Union's compliance obligation.¹⁸ The volume forecasting methodology employed is consistent with that approved by the Board in Union's 2013 Cost of Service Proceeding (EB-2011-0210), and in the 2017 Cap-and-Trade Compliance Plan proceeding.¹⁹

14. Further, Union notes that it *"has included both utility and non-utility components of forecasted volumes to ensure that non-utility costs are allocated to those volumes, and removed from regulated rates."*²⁰ Union's volume forecast reflects reductions to volumes related to DSM and the Government of Ontario's Green Investment Fund ("GIF").²¹

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

15. Union's GHG emissions forecasts for 2018 are also reasonable and appropriate. Union's 2018 GHG emissions forecast of 14.93 megatonnes ("Mt") of carbon dioxide equivalent ("CO₂e") (comprising 14.44 Mt for customer-related emissions and 0.49 Mt of facility-related emissions) is lower than Union's 2017 GHG emissions forecast (15.60 Mt).²² Union's customer-related emissions forecast was calculated in accordance with the standard quantification method ("SQM") ON.400 Natural Gas Distribution and Union's facility related emissions forecast was calculated under Natural Gas Distribution (SQM ON.400) and General Stationary Combustion (SQM ON.20) in the Ontario MOECC's "Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions – January 2017."²³ The GHG emission forecast is

¹⁶ Framework, Appendix A: Filing Guidelines, p. iv.

¹⁷ Exhibit B.Staff.14.

¹⁸ Exhibit 2, p. 2.

¹⁹ Exhibit 2, p. 3.

²⁰ Exhibit 2, p. 3.

²¹ See Exhibit 2, pp. 3-4; and, Union's updated forecasted natural gas savings from GIF at Exhibit J2.1.

²² Exhibit 2, p. 8.

²³ Exhibit 2, p. 10.

based on volume forecasts prepared in accordance with the methodology used in prior OEB proceedings as outlined in Issue 1.1 above.

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

16. In accordance with the methodology set out in the Framework, Union’s 2018 carbon price forecast is comprised of the average 21-day strip of ICE daily settlement prices for a California Carbon Allowance (“CCA”).²⁴ As of September 30, 2017, the CCA 21-day strip calculation results in a price of \$18.99 CAD/tonne CO₂e, as calculated in Union’s application at Exhibit 2, Schedule 2, and deemed the “proxy carbon price”. Union submits that this amount is reasonable and appropriate.

17. The Framework specifies that rates will be set using “*the annual weighted average cost of the Utilities’ proposed compliance options*” (“WACC”).²⁵ However, as set out in Union’s application at Exhibit 7, Tab 1, Union has proposed to set rates based on the “proxy carbon price” (annual carbon price forecast) identified above. This proposed deviation from the Framework avoids possible breach of the *Climate Change Act* that would otherwise occur through disclosure of Union’s Strictly Confidential WACC. As Ms. Newbury stated at the hearing, “*There is a lot of information in our filing that’s public, that if we combined it with our forecasted WACC ... there could be an opportunity for market participants to identify our strategy...*”²⁶ The proposed minor deviation from the Framework avoids this result.

G. Issue 1.4: Compliance Plan²⁷ – *Union has reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making*

18. Union’s 2018 Compliance Plan is focused on achieving compliance with Cap-and-Trade regulations at a reasonable and prudently incurred cost for ratepayers. This approach recognizes the balance between cost effectiveness and risk, as well as compliance and flexibility,²⁸ and is consistent with the guiding principles the Board has identified to assess the reasonableness of the

²⁴ Framework, Appendix A: Filing Guidelines, p. v.

²⁵ Framework, p. 31.

²⁶ Tr. 2, pp. 183-184, lines 26-28 & 1-3.

²⁷ As noted in Procedural Order No. 2, aspects of Issue 1.4 relate to Strictly Confidential information contained within Union’s 2018 Compliance Plan. As such, the Strictly Confidential portions of Union’s Argument-in-Chief have been redacted and will only be reviewed by the OEB and OEB Staff.

²⁸ Exhibit 3, Tab 1, pp. 5-9.

Compliance Plan costs for recovery in rates.²⁹ The 2018 Compliance Plan was developed based on the tools and market information available as of November 2017.

19. Union's 2018 Compliance Plan for customer and facility-related obligations is largely based on purchasing compliance instruments; [REDACTED]

[REDACTED].³⁰ However, in accordance with the requirement in the Framework that the Utilities assess whether incremental abatement opportunities exist, Union's 2018 Compliance Plan has expanded consideration of customer and facility-related abatement. Union used the OEB's MACC and LTCPF as a principal tool, along with the CPS as a secondary tool, to evaluate potential incremental energy efficiency opportunities, facility abatement initiatives, and new technologies.

20. Applying the Board's MACC, Union concluded that there are no incremental cost-effective opportunities that are appropriate to pursue in 2018 beyond Union's 2015-2020 DSM Plan programs.³¹ As Ms. Flaman testified:

*"It's early days for the cap-and-trade framework, and so the cap-and-trade framework acknowledges that and points us to a principal tool called the marginal abatement cost curve or the MACC. We have used the MACC to do our assessment of energy conservation abatement and I can say that based on our use of the MACC, DSM has more than met the opportunity identified by the MACC, which is a realistic assessment of energy conservation potential in the market."*³²

Mr. Ginis went on to state:

"[The] MACC was made available to us last year and, as noted, it is the principal tool to be used for abatement assessment in this framework. When we did our assessment...[c]omparing our DSM framework to the abatement opportunity identified in the MACC, our DSM program surpassed that abatement amount overall, and I think that goes to show that our DSM framework is quite large. We've been doing it for over 20

²⁹ Framework, pp. 7-8.

³⁰ Exhibit 3, Tab 1, p. 2.

³¹ See Exhibit B.Staff.31; and, Exhibit B.ED.37.

³² Tr. 1, p. 143, lines 20-28.

years now, and the 2015-2020 DSM framework itself has OEB-approved budget over six years of approximately \$700 million. So it's true we haven't had an incremental abatement, and that is because we are already pursuing the abatement that has been identified in the MACC through our DSM programs.”³³

Union continues to reflect the OEB-approved DSM impacts, and the government of Ontario's GIF program, as reductions to its emission forecast as noted in Union's application at Exhibit 2, Schedule 1.³⁴

21. In order to address the cost-effectiveness barrier to advancement of incremental energy efficiency, facility abatement and new technology opportunities, Union has proposed (a) the AC jointly with EGD to guide the practical evaluation and incorporation of abatement opportunities into the utilities' Compliance Plans, (b) the LCIF to identify, explore and develop abatement ideas to the point of commercialization, and (c) to utilize government funding (i.e. CCAP, GreenON, and federal programs) to advance programs that otherwise would not proceed.

22. Complimentary to the guiding principles contained within the Framework,³⁵ Union's proposed abatement investments are to be guided by its Abatement Guiding Principles. These include: funding; timely advancement of technology; support of government targets; efficient and rational development; and, respect for applicable regulatory constructs.³⁶ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

23. Union is pursuing RNG in 2018, subject to the availability of government funding, and has been working jointly with EGD, the Ministry of Energy (“MOE”) and the MOECC to secure provincial government support and funding to proceed.³⁸ Union has identified a number of other

³³ Tr. 1, pp. 146-147, lines 17-28 & 1-3.

³⁴ For additional detail see the responses at Exhibit B.LPMA.25 and at Exhibit J2.1.

³⁵ Framework, pp. 7-8.

³⁶ See Exhibit 3, Tab 4, pp. 6-8; and, Exhibit B.Staff.18.

³⁸ Exhibit B. Energy Probe.2.

abatement initiatives actively being pursued that could impact future Compliance Plans as described in its application.³⁹

24. Consistent with its 2017 Compliance Plan, Union has completed extensive analysis on the various compliance options available and engaged ClearBlue Markets (“ClearBlue”) to support the development of its 2018 compliance instrument procurement strategy. This analysis has been classified as Strictly Confidential.

H. Issue 1.5: Compliance Plan⁴⁰ – *Union’s purchasing strategy is reasonable and appropriate*

25. Union’s 2018 compliance instrument procurement plan builds upon the 2017 approach, which was found to be reasonable by the OEB.⁴¹ Union utilized the following general criteria to assess compliance instruments for use in its 2018 Compliance Plan:⁴²

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Further, Union engaged ClearBlue to provide recommendations on its targeted compliance instrument mix and in support of the development of Union’s 2018 Compliance Plan.⁴⁴

³⁹ Exhibit 3, Tab 4.

⁴⁰ As noted in Procedural Order No. 2, aspects of Issue 1.5 relate to Strictly Confidential information contained within Union’s 2018 Compliance Plan. As such, the Strictly Confidential portions of Union’s Argument-in-Chief have been redacted and will only be reviewed by the OEB and OEB Staff.

⁴¹ EB-2016-0296 Decision and Order (dated September 21, 2017), p.6.

⁴² Exhibit 3, Tab 3, p. 2.

■ [REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
[REDACTED]
- [REDACTED]

⁴⁴ Exhibit 3, Tab 3, p. 2.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- [REDACTED]
- [REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED]

[illegible][illegible]

-
- | Response | Percentage |
|---|------------|
| Yes, the current administration is responsible | 85% |
| No, the current administration is not responsible | 15% |

[illegible]

-
- | Government | Percentage |
|---------------------|------------|
| Current government | 75% |
| Previous government | 25% |

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

I. Issue 1.6: Compliance Plan⁶⁵ – *the proposed performance metrics and cost information are reasonable and appropriate*

35. The Framework identifies performance metrics and cost information that utilities are to include in their Compliance Plans.⁶⁶ Consistent with these requirements, within its application at Exhibit 3, Tab 5, Union has set out the costs and expected timing of its compliance activities, including forecast 2018 administration costs of \$4.0 million and forecast LCIF costs of up to \$2.0 million (\$6.0 million combined within Union’s forecast 2018 GGEIDA).

36. Exhibit 3, Tab 5, Schedule 1, describes the total expected volume, forecast cost per tonne, total expected cost, and the weighted average cost per tonne of GHG emissions for Union’s 2018 Compliance Plan. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

⁶⁵ As noted in Procedural Order No. 2, aspects of Issue 1.6 relate to Strictly Confidential information contained within Union’s 2018 Compliance Plan. As such, the Strictly Confidential portions of Union’s Argument-in-Chief have been redacted and will only be reviewed by the OEB and OEB Staff.

⁶⁶ Framework, Section 5.3.1.2.

[REDACTED]

37. Consistent with the Framework, Union proposes to work with the other utilities through the Board's working group to develop a standardized set of monitoring and reporting templates that would be included in future Compliance Plans.⁶⁸

38. Union submits, as it did in its 2017 Compliance Plan, that already-established OEB processes (i.e. Compliance Plan review and deferral disposition), and metrics and monitoring forms provide sufficient oversight to assess performance. Therefore, Union does not support an additional performance assessment process.⁶⁹

J. Issue 1.7: Compliance Plan⁷⁰ – *Union reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis*

39. Union's Compliance Plan takes a deliberate and proactive approach to risk management through risk identification, assessment and mitigation in the following areas:

- Emission volume and purchase variability;⁷¹
- Price and foreign exchange;⁷²
- Liquidity;
- WCI linkage;
- Purchase and holding limits;
- Credit and counterparties;
- Project execution;
- Non-compliance; and

⁶⁸ Framework, p. 24.

⁶⁹ EB-2016-0296 Exhibit B.APPrO.5 a-c).

⁷⁰ As noted in Procedural Order No. 2, aspects of Issue 1.7 relate to Strictly Confidential information contained within Union's 2018 Compliance Plan. As such, the Strictly Confidential portions of Union's Argument-in-Chief have been redacted and will only be reviewed by the OEB and OEB Staff.

⁷¹ Exhibit B.Staff.49 a)-d).

⁷² Exhibit B.Staff.49 a)-d).

- Government and legislation.⁷³

40. Union's risk management, in relation to its 2018 Compliance Plan, is coordinated centrally through its governance structures and is subject to executive oversight and corporate risk management practices. Union expanded the scope of the Cap-and-Trade Compliance Governance Committee established in 2017. This expanded scope increases overall oversight of compliance.⁷⁴ [REDACTED]

K. Issues 1.8, 1.9 & 1.10: Compliance Plan – *Union's proposed longer-term investments, proposed new business activities and proposed greenhouse gas abatement activities*

41. Union's 2018 Compliance Plan does not include any long-term investments or new business activities that will impact its 2018 compliance obligation. However, Union recognizes the important role of abatement across the province in order to meet GHG emission reduction targets.⁷⁶ Further, Union recognizes the important role that it plays in supporting the achievement of GHG reduction targets.⁷⁷ While Union is focused on prudence and cost-effectiveness, it recognizes that some progressive abatement measures required to achieve the low-carbon economy are not necessarily cost-effective at their outset.⁷⁸

Development of future greenhouse gas abatement opportunities through the LCIF

42. To support the investigation, evaluation and development of innovative abatement initiatives and new technologies over the long-term, Union has developed the AC and proposed the LCIF. The AC provides a means to achieve the GHG reduction targets set out by the province and for Union to satisfy its obligations under Cap-and-Trade Regulations and the Framework, by leveraging alternative funding models to advance initiatives that would not be considered cost-effective within existing regulatory mechanisms.⁷⁹ Union has approached

⁷³ Exhibit 3, Tab 6, pp. 3-25.

⁷⁴ Exhibit B.CME.7.

⁷⁶ Exhibit 3, Tab 4.

⁷⁷ Exhibit B.Staff.18 c)-d).

⁷⁸ Exhibit 3, Tab 4, p. 6.

⁷⁹ Exhibit 3, Tab 1, p. 3.

government in relation to other abatement alternatives that may require funding to proceed if they are not cost effective on a stand-alone basis.⁸⁰ The LCIF is proposed to support the development of new technologies aimed at facilitating future abatement opportunities. As proposed, the LCIF will ensure that a consistent and predictable level of funding is available to support the steady flow of initiatives through the AC and related Initiative Funnel to commercialization.⁸¹

43. Union proposes that it be permitted to spend up to \$2.0 million for 2018 on the initiatives that form part of the LCIF, with actual costs being recorded in the GGEIDA.⁸² In 2017, Union consulted its customers and received support for significant investment in new technologies that provide reliable energy while lowering greenhouse gas emissions.⁸³

44. At the hearing, Mr. Trofim-Breuer highlighted the opportunity the LCIF would provide, stating,

*“...the LCIF part is focused on technologies that are ... pre-commercial, so they require a level of understanding, assessment, and demonstration in order to be able to determine whether they can be deployed...”*⁸⁴ [...]

*“[The LCIF] is really an opportunity for the ratepayers to invest now in future technologies that will help them in the future...”*⁸⁵

45. Further, the LCIF will also put Union in a position to increase the number and the diversity of abatement projects it pursues and will accelerate the transition to the low-carbon economy.⁸⁶ As stated by Ms. Flaman, the LCIF will “*contribute to reducing greenhouse gases*

⁸⁰ See Exhibit 3, Tab 4, pp. 41-42; Exhibit B.Staff.1 e); and, Exhibit B.Staff.17.

⁸¹ Exhibit 3, Tab 4, pp. 13-14.

⁸² Exhibit 3, Tab 5, pp. 12-13.

⁸³ Exhibit B.Staff.22.

⁸⁴ Tr. 2, p. 189, lines 9-13.

⁸⁵ Tr. 1, p. 38, lines 9-11.

⁸⁶ Exhibit B.Staff.21.

*emissions in Ontario, while making commercially viable technology choices available for Ontarians.”*⁸⁷

46. Absent the proposed LCIF funding, “...all the activities associated with the work that could be achieved in terms of abatement opportunities with the LCIF is going to significantly slow down at a minimum.”⁸⁸

47. Union supports the need for a combined LCIF total, including funds allocated to EGD, of \$4.0 million given the number of customers served by the two utilities and the broad range of customer characteristics (e.g. EGD’s customers are primarily residential while Union’s customers include a greater proportion of commercial and industrial; and, there is significant geographic diversity across the Union and EGD franchise areas).⁸⁹ Union expects that the actual cost consequences associated with the LCIF would be subject to a final review by the Board in a future proceeding when Union applies to dispose of the resulting balance in its GGEIDA.⁹⁰

48. Union is currently investigating several customer and facility abatement initiatives that are at various stages within the Initiative Funnel. Union has identified the proposed initiatives for evaluation in Stages 1 and 2 of the Initiative Funnel using the selection and project management approach described at Exhibit B.Staff.21 a) and at Exhibit J2.8A.⁹¹ The LCIF funding of up to \$2.0 million is required to further advance initiatives in a timely manner through the various Stages of the Initiative Funnel.⁹²

49. One such initiative proposed as part of Union’s 2018 Compliance Plan is Union’s RNG mechanism (or Procurement and Funding model) which consists of three components (1) a gas cost forecast; (2) a carbon cost forecast; and (3) an RNG premium funded by government.⁹³ Union proposed to enter into 10-year fixed price contracts for RNG that ensured that ratepayers pay the same amount for RNG as they would for conventional natural gas (inclusive of carbon

⁸⁷ Tr. 1, p. 21, lines 12-15.

⁸⁸ Tr. 2, p. 163, lines 18-21.

⁸⁹ Exhibit B.APPrO.5.

⁹⁰ Exhibit J1.2.

⁹¹ See Exhibit 3, Tab 4, Table 1; and, Exhibit JT1.17 for additional insight on initiatives within the Initiative Funnel including spend to date, task, work plan deliverables and schedules.

⁹² Exhibit B.Staff.21.

⁹³ Exhibit B.Staff.6; and, Exhibit JT1.9 (Updated April 20, 2018).

costs) on a forecast basis. The OEB determined that the RNG Procurement and Funding model does not require approval through this proceeding.⁹⁴

Assessment of incremental greenhouse gas abatement opportunities in 2018 using the MACC

50. Union's existing DSM programs pursue the most cost-effective abatement opportunity from a Total Resource Cost ("TRC")/Societal Benefit perspective.⁹⁵ Union assessed the cost-effectiveness of investing in incremental energy efficiency programs using the OEB's LTCPF and MACC as a principal tool, as well as the CPS as a secondary tool. Applying this analysis mandated by the Board, Union determined that there is no cost-effective incremental energy efficiency that is prudent to pursue in 2018.⁹⁶

51. At the hearing, there were a number of questions directed to whether Union should have used the CPS instead of the MACC in assessing the availability of incremental abatement, as Mr. Chris Neme has done on behalf of ED and GEC. This would have been inappropriate. As Mr. Ginis testified:

*"We used the MACC, and we also used the CPS. The MACC was identified in the Board's framework as the principal tool to be used in this proceeding. The CPS was developed in advance of the cap-and-trade framework, and it was developed specifically for the DSM Framework."*⁹⁷

52. Unlike the CPS, the MACC was developed at the OEB's direction specifically for the purpose of assessing incremental abatement opportunities for the purpose of the Cap-and-Trade program, as distinct from the DSM program. In its Cap-and-Trade Framework, the OEB stated:⁹⁸

(1) *"The OEB has determined that it will develop a province-wide, generic MACC for the Utilities to use as an input into the development of their Compliance Plans and as a **key input** to the OEB's assessment of the cost consequences of the Plans."*

⁹⁴ EB-2017-0255 OEB Procedural Order No. 2 (dated February 7, 2018), p. 4.

⁹⁵ Exhibit 3, Tab 4, Appendix A.

⁹⁶ See Exhibit 3, Tab 4; and, Exhibit 3, Tab 4, Appendix A.

⁹⁷ Tr. 2, pp. 19-20, lines 28-5.

⁹⁸ Framework, p. 20.

- (2) *“The MACC will provide the Utilities and the OEB with the range of all possible compliance options along a spectrum of costs. **It is an essential input that the OEB expects all Utilities to use in developing their Compliance Plans.** A single, generic province-wide MACC (OEB MACC), used by all Utilities, will ensure a standard description of compliance costs for the purpose of the OEB’s assessment of the Compliance Plans.”*
- (3) *“The OEB MACC and the Utilities’ description of their compliance strategy and activities will allow the OEB to assess the Compliance Plans for evidence of the Utilities’ cost-effective optimization of compliance instruments.”*
- (4) *“The OEB understands that a Utility may choose to develop its own, company-specific MACC to inform the development of its Compliance Plan **however, the OEB will rely on the OEB MACC as its principal tool for assessing Utilities’ selection of compliance options and resulting costs consequences.**” [Emphasis added.]*

53. The MACC was developed by ICF at the direction of the OEB, and was adopted by the OEB. In its letter of July 20, 2017, the OEB stated:

*“The [OEB] is issuing a report developed by ICF Consulting Canada Inc. which provides a Marginal Abatement Cost Curve (MACC) for natural gas abatement activities in Ontario. The MACC provides a basis for comparison of the relative cost-effectiveness of a range of GHG abatement activities. **The OEB adopts the MACC for its stated purpose.**”⁹⁹ [Emphasis added]*

54. Union used the OEB-approved MACC as the primary tool in assessing whether any prudent incremental abatement opportunities were available to be pursued through the Cap-and-Trade Framework. Applying the MACC, Union concluded that there were no such opportunities.

55. Contrary to the clear direction in the OEB’s Cap-and-Trade Framework that the Utilities are to use the MACC in assessing incremental abatement opportunities, the analysis of incremental abatement potential put forward by Mr. Neme does not use the MACC at all, but

⁹⁹ OEB Letter dated July 20, 2017, Exhibit KT1.3.

rather uses the CPS exclusively.¹⁰⁰ The analysis set out by Mr. Neme is contrary to the direction in the OEB's Cap-and-Trade Framework.

56. In response to questions at the hearing, Mr. Ginis made clear that it would not have been appropriate for Union to use a tool other than the MACC (such as the CPS) as the primary tool to assess whether any incremental abatement opportunities could be prudently pursued:

*"the MACC was developed merely months in advance of us filing this plan. It was developed specifically for this framework, so to not use it...would not be appropriate. We can use other things. However, what we're saying is that it would be most appropriate to use the MACC. And an assessment that doesn't use the MACC, I think would be difficult to say complies with the framework."*¹⁰¹ [...]

*"I think it would have been very difficult for us to justify adding incremental abatement programs when the MACC showed that we are surpassing that with our DSM Framework."*¹⁰²

57. Specifically, Union used the MACC report to compare the total cost-effective abatement identified within the MACC between 2018 and 2020 to the abatement opportunity that is forecasted to be achieved through Union's DSM programs over the same term; and the CPS to compare the cost of pursuing aggressive incremental abatement opportunities identified in the CPS to the cost of purchasing compliance instruments based on the LTCPF. Mr. Ginis went on to explain that the CPS:

"was developed to inform the natural gas DSM program design, to inform the 2015-2020 DSM Framework, and et cetera. It also discusses how cap-and-trade initiatives were not included in this assessment, as it was obviously before that [Ontario's Cap-and-Trade Program] was created. There are certain things, I think, with the CPS that render it not the most appropriate tool for this framework. For one, the Board had a consultant create the MACC based on the data from the CPS, but not from the results of the CPS. So a significant amount of work went into create the CPS with the utilities, with the

¹⁰⁰ Tr. 4, pp. 76-78.

¹⁰¹ Tr. 2, p. 77, lines 1-9.

¹⁰² Tr. 2, p. 128, lines 13-16.

stakeholder group; I believe it was back in 2015. And rather than replicate that, the Board and Board Staff and a consultant – actually the same consultant that created the CPS – took that data and developed a tool specifically for this framework, which was the MACC...But for one, the CPS uses TRC to screen for potential...We know that in the Board's framework, it said that **TRC was not an appropriate tool to be used and the MACC does not use TRC**; it uses UCTs, as Mr. Neme's evidence has identified. The other item with the CPS that is important to understand is that because it was created for a different framework, it uses a different – what I would consider risk profile to achieving savings...There's the business as usual and then there's an aggressive case...In the MACC, it does not consider the aggressive case...So when the Board's consultant had taken the data from the CPS and translated it to a tool specifically for this framework, they took an approach that didn't include those best case participation and high assumptions of program activity...So for energy conservation programs, obviously it [program success] hinges on the customer actually taking up the technology. And so the savings that you pointed to in the CPS include those higher assumptions, which, in our opinion, are not appropriate for a compliance plan because if the customer does not uptake the program using these assumptions, you could result in a less cost effective compliance plan, and that's because **you would have sunk costs to deliver the program. If it doesn't come to fruition using these aggressive results, you'd have to purchase compliance instruments**, otherwise, perhaps later in the year, and therefore using that type of approach we don't think is appropriate for a compliance plan. **What is appropriate is to use the approach that the MACC does, which, they use realistic adoption rates** to identify what are the approaches that are appropriate for this type of plan, and that's what we compared to our DSM Framework, to show that our DSM Framework – and I think it's because it is such a robust framework that has existed for 20 years, and as I mentioned yesterday, we have between the two utilities approximately \$700 million of funding over six years for that. That approach surpasses overall the approach taken in the MACC. ”¹⁰³ [Emphasis Added]

58. Regarding Union's use of the CPS, Mr. Ginis explained:

¹⁰³ Tr. 2, pp. 20-22, lines 11-28

*“to see that if you did take that aggressive approach...we compared the cost to take that approach to the cost of purchasing compliance instruments, and you will see for that example in the bottom right it’s \$119 per tonne...Essentially what we did is we compared that to the long-term carbon price forecast to show that that approach specifically would not be more cost-effective than purchasing compliance instruments.”*¹⁰⁴

59. Union did not include the avoided cost of gas in its application of the CPS because, as Mr. Ginis stated:

*“I think in a round about way if that occurred, you would essentially be replicating the MACC in a certain way, because the MACC includes the cost of gas and the cost of carbon, to your point. That wasn’t our intention here. It wasn’t to recreate the MACC using a different assessment. And I think it goes back to what we were talking about earlier this morning about the difference between the MACC and the CPS, and that is that the CPS uses much more aggressive adoption rates that weren’t necessarily considered appropriate for this framework. Otherwise, I think we would have not had to create the MACC. And so again, our intention on that was not to assess – or rather to replicate the MACC. It was simply to see, at those really high adoption rates, compared simply to the cost of carbon which is more cost effective to approach it.”*¹⁰⁵

60. Union did not apply the TRC or SCT, consistent with the Framework which states that *“Given the newness of the Cap and Trade program the OEB considers it premature to apply the TRC or SCT to the Utilities’ Compliance Plans at this time”*.¹⁰⁶ As Mr. Ginis noted regarding the MACC’s use of UCT, *“I would just make it clear that that was the consultant’s work that created that, and that the Board’s framework itself didn’t say UCT, it said use the MACC.”*¹⁰⁷

61. Union’s application explains that abatement programs should balance customer cost impacts by leveraging existing infrastructure (particularly utility infrastructure, including physical, brand, billing, program delivery) where appropriate and by not duplicating existing

¹⁰⁴ Tr. 2, pp. 23-24, lines 22-6.

¹⁰⁵ Tr. 2, pp. 118-119, lines 18-5.

¹⁰⁶ Exhibit B.GEC.1; and Framework, p. 22.

¹⁰⁷ Tr. 2, pp. 99, lines 17-20.

frameworks (e.g. DSM).¹⁰⁸ Duplication will result in a lack of efficiency with respect to energy conservation programming in Ontario, the consequences of which include regulatory inefficiency, market uncertainty, increased cost burden for customers, and customer confusion.¹⁰⁹ Although Union did not identify any cost-effective incremental energy efficiency that is prudent to pursue in 2018, Union stated that it “...believes that any cost-effective opportunity identified through the CPS and/or MACC analysis should not be pursued via the 2018 Compliance Plan but that it should, instead be pursued within the DSM Framework”,¹¹⁰ as the existing approved DSM Framework:

- Allows the utility to propose and deliver energy conservation programs which meet principles established through a public regulatory process;
- Allows the OEB and interested stakeholders the opportunity to assess and provide comments on the utility’s proposed energy conservation programs;
- Facilitates oversight by the regulator (as the OEB can approve or reject the utility’s proposed energy conservation programs); and,
- Ensures continued monitoring and verification of results (as the OEB and interested stakeholders can assess the results of a utility’s OEB-approved natural gas conservation programs).¹¹¹

62. The robust and effective DSM Framework should be enhanced to ensure that any energy conservation opportunity that is cost-effective relative to the cost of carbon is included for assessment within the DSM Framework. Such enhancements could include:

- Adding the LTCPF to the DSM Framework cost-effectiveness test (i.e. the TRC-Plus test) to ensure the benefits of the avoided cost of carbon is captured within the DSM Framework cost-effectiveness test.
- Adding the cost-effectiveness test from the Cap-and-Trade Framework (i.e. comparing the cost of energy conservation programs to the avoided cost of carbon) to the DSM

¹⁰⁸ Exhibit 3, Tab 4, p.7.

¹⁰⁹ Exhibit B.GEC.15.

¹¹⁰ Exhibit 3, Tab 4, p. 41.

¹¹¹ Exhibit B.GEC.22, p. 1.

Framework to ensure opportunities that are cost-effective within the Cap-and-Trade Framework are included for assessment within the DSM Framework.

Further details and assessments of the specific enhancements to the DSM Framework should be part of the OEB's development of the next DSM Framework (effective beginning in 2021), should include stakeholder and utility input, and should begin as soon as possible.¹¹²

63. Union is committed to continuing to address abatement and long-term investments in future Compliance Plans, in a manner consistent with its 2018 Compliance Plan application and supporting evidence/testimony as summarized above. This will allow Union to assess these items as the market matures, uncertainties resolve, and mechanisms to ensure cost recovery are determined. Union believes this measured, prudent approach is in the best interest of ratepayers, and is also consistent with the Framework's guiding principle of continuous improvement.

L. Issue 2: Monitoring and Reporting¹¹³ – *the monitoring and reporting processes proposed by Union are reasonable and appropriate*

64. In support of the OEB's Decision on Union's 2017 Compliance Plan,¹¹⁴ Union provided partial-year monitoring and reporting for its 2017 activity as part of its application at Exhibit 4 and subsequently updated this information through various responses to interrogatories and undertakings for informational purposes only. The schedules provided by Union were developed collaboratively with EGD and are intended to be used as templates for the purpose of reporting partial year data for this proceeding and in support of the OEB's working group. Union's 2018 Compliance Plan includes a summary of compliance instrument purchases that compares:¹¹⁵

- Volumes procured, cost per tonne CO₂e, transaction and financing costs, and total cost;
- Abatement activity, including volumes of GHG emission reductions, price per tonne CO₂e, and total cost; and,

¹¹² Exhibit B.GEC.22, p. 2.

¹¹³ As noted in Procedural Order No. 2, aspects of Issue 2 relate to Strictly Confidential information contained within Union's 2018 Compliance Plan. As such, the Strictly Confidential portions of Union's Argument-in-Chief have been redacted and will only be reviewed by the OEB and OEB Staff.

¹¹⁴ EB-2016-0296 OEB Decision and Order (September 21, 2017), pp. 27-31.

¹¹⁵ Exhibit 4, Schedule 1.

- The total weighted average cost of compliance.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

66. Union notes that it is not seeking recovery of 2017 compliance costs as part of this proceeding. Instead, Union expects that its 2019-2020 Compliance Plan will be filed in 2018 and will include complete and final monitoring and reporting for 2017 data in support of requested approval of recovery of 2017 Cap-and-Trade deferral account balances.

M. Issue 3: Customer Outreach – *the customer outreach processes and methods proposed by Union are reasonable and appropriate*

67. Union submits that its proposed approach to customer outreach is reasonable and appropriate and ensures that the OEB's four objectives are achieved in a clear and understandable manner.¹¹⁹ Union has placed a strong emphasis on customer outreach and information, as these are essential to ensuring that customers fully understand: the provincial Cap-and-Trade program; the impact of the program on their bills; and how customers can manage their GHG emissions and resulting bill impacts.¹²⁰ Union's 2018 Communications Plan and its key messages have been informed by customer insight and feedback received through

[REDACTED]

¹¹⁹ Framework, p. 35.

¹²⁰ Exhibit 5, p. 1.

Union's contact centre, customer meetings, direct discussion with sales representatives, and ongoing customer surveys.¹²¹

68. Union's 2018 Communications Plan has transitioned Cap-and-Trade outreach from program awareness and general education to communication focused on Cap-and-Trade rates as a component of customers' bills using multiple targeted activities.¹²² Union's Cap-and-Trade messaging for 2018 is tailored according to the target audience and is aligned with EGD in order to achieve consistency in related communications.

69. As set out in the Framework, the OEB working group will provide an opportunity to provide input and advice on the ongoing approach to customer outreach.¹²³ Union looks forward to actively participating in this working group.

N. Issue 4: Deferral and Variance Accounts – *the proposed deferral and variance accounts, balances and disposition methodologies are reasonable and appropriate*

70. Union had not yet incurred a full year of revenue and costs to determine deferral account balances for 2017 in any of its GGEIDA,¹²⁴ Greenhouse Gas Emissions Compliance Obligation – Customer-Related or Facility-Related Deferral Accounts, by the time it filed its 2018 Compliance Plan application. Therefore, Union is not seeking approval of the 2017 balances in these respective accounts. As the Framework specifies that deferral accounts will be disposed of on an annual basis,¹²⁵ Union expects to bring forward 2017 balances for disposition in these accounts as part of its 2019-2020 Compliance Plan proceeding.

71. Union is requesting approval to dispose of the 2016 balance in its GGEIDA amounting to a debit from ratepayers of \$2.232 million.¹²⁶ This balance is composed of administrative costs incurred related to the Ontario Government's Cap-and-Trade program, the Climate Change Act and the initial implementation of Union's Cap-and-Trade program. In accordance with the

¹²¹ Exhibit 5, p. 2.

¹²² See Exhibit 5, Table 3; and, Exhibit B.Staff.32.

¹²³ Framework, Section 7, p. 36.

¹²⁴ See Exhibit B.Staff.11 for detail on Union's 2017 forecast and actual administrative costs recorded in Union's GGEIDA.

¹²⁵ Framework, Section 6.2.1, p. 32.

¹²⁶ Exhibit 6, Section 2.1.

Framework, Union is proposing to allocate the 2016 GGEIDA balance to rate classes in proportion to Union's 2013 OEB-approved Administrative and General O&M expense.¹²⁷ Union also proposes to dispose of the approved 2016 GGEIDA balance with the disposition of the 2017 non-commodity deferral account balances in order to reduce the number of rate changes for customers and administrative ease.¹²⁸

72. Union's forecasted 2018 GGEIDA costs total \$6.0 million including forecasted administration costs of \$4.0 million and forecasted LCIF costs of up to \$2.0 million.¹²⁹ While Union is not seeking recovery of its 2018 GGEIDA costs in this proceeding it notes in its application that its forecasted 2018 administrative costs represent approximately 1.4% of the total forecast cost of compliance for 2018, which is within the range of administrative costs reported by California utilities for 2015 of up to 2.7%.¹³⁰ Further, Union's forecasted 2018 administrative costs are built upon Union's 2017 administrative costs which the OEB determined to be consistent with the expectations established in the Framework.¹³¹ Union will propose an allocation methodology for the 2018 GGEIDA balance (including the LCIF) at the time the deferral balance is proposed for disposition.¹³²

73. Union's updated 2018 forecast administration costs of \$3.734 million include:¹³³ \$2.328 million for salaries and wages related to 11.25 FTEs;¹³⁴ \$0.670 million for consulting services in support of the development and execution of Union's 2018 Compliance Plan;¹³⁵ \$0.425 million in bad debt; \$0.193 million in revenue requirement related to capital costs for billing system changes; \$0.05 million in OEB costs related to the annual LTCPF and working groups; and, \$0.068 million for travel, market research, and communications expenses.¹³⁶

¹²⁷ See Exhibit B. Staff. 34 a); Exhibit JT1.30; and Exhibit B.APPRO.10.

¹²⁸ See Exhibit 7, Tab 2, p. 2.

¹²⁹ Exhibit 3, Tab 5, p. 4.

¹³⁰ Exhibit 3, Tab 5, p. 5.

¹³¹ EB-2016-0296 OEB Decision (dated September 21, 2017), p. 16.

¹³² Exhibit B.APPRO.5 f).

¹³³ Updated for reduced FTEs from 12.5 to 11.25. See Exhibit J1.1.

¹³⁴ Exhibit J1.1.

¹³⁵ See Exhibit B.Staff.12 for additional detail on Union's forecasted 2018 consulting services costs.

¹³⁶ See Exhibit B.Staff.11 for all values except the updated total and Salaries and Wages related to 11.25 FTE.

74. As set out above, consistent with the approval granted in EB-2016-0296, Union is requesting a determination from the Board that the cost consequences of its 2018 Compliance Plan are just and reasonable, including \$4.0 million in forecasted 2018 administrative costs and up to \$2.0 million in cost consequences associated with the LCIF in Union's GGEIDA. Union expects that the actual 2018 cost consequences associated with Union's GGEIDA would be subject to a final review by the Board as part of a future proceeding when Union applies to dispose of the resulting 2018 balance in its GGEIDA. However, consistent with Union's Reply Argument in EB-2016-0296, Union submits that it would be inappropriate for the Board to determine that the cost consequences of the 2018 Compliance Plan are just and reasonable, only to then disallow those costs at disposition absent a change in circumstances. Thus, Union expects that the nature of the Board's review at disposition will be to determine: (a) whether the costs sought to be recovered are the consequence of the approved plan, and (b) whether there were any change in circumstances that rendered compliance with the approved plan unreasonable.¹³⁷ Union will propose a disposition methodology for the 2018 deferral account balances at the time the deferral balances are proposed for disposition. Union's current practice is to dispose of non-commodity deferral account balances prospectively over a six month period for general service customers and as a one-time adjustment for contract rate customers.¹³⁸

75. Union expects that going forward, disposition for all three Cap-and-Trade deferral accounts will be part of Union's annual Cap-and-Trade Compliance applications, in accordance with the Filing Guidelines for Natural Gas Utility Cap-and-Trade Compliance Plans. However, this does not preclude Union from filing for disposition at an earlier time.¹³⁹

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

76. Cost recovery is one of the Cap-and-Trade guiding principles, along with cost effectiveness and continuous improvement.¹⁴⁰ Since the focus of the 2018 Compliance Plan is on compliance and prudence, all costs/risks are expected to be passed-through to customers.

¹³⁷ Exhibit J1.2.

¹³⁸ Exhibit B.Staff.37.

¹³⁹ Framework, p. 33.

¹⁴⁰ Framework, pp. 7-8.

77. As set out above, the focus of Union's 2018 Compliance Plan was compliance and prudence. More specifically, Union submits that the OEB-established practices (i.e. Compliance Plan review, deferral disposition), metrics and monitoring forms provide sufficient oversight to assess performance and overall prudence.

78. In its Decision and Order dated November 30, 2017 the OEB denied Union's request for interim approval of its proposed 2018 Cap-and-Trade charges because the rate impacts for customers and incremental costs proposed to be incurred by Union were not significant enough to warrant an increase effective January 1, 2018.¹⁴¹ The Board directed that the final 2017 OEB-approved Cap-and-Trade charges should continue until such time as the OEB completes its review and makes a determination of the approved 2018 Cap-and-Trade charges. Accordingly, Union will prepare a final rate order following the Board's decision in this proceeding.

P. Issue 6: Implementation – *implementation date and manner of implementing final rates*

79. Union proposes to update rates as part of the next available QRAM application following the date of the Decision and Final Rate Order in this proceeding. Union will include any variance between the final 2017 rates and final 2018 rates in the established Greenhouse Gas Emissions Compliance Obligation – Customer-Related and Greenhouse Gas Emissions Compliance Obligation – Facility-Related deferral accounts.¹⁴²

* * *

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

All of which is respectfully submitted this 17th day of May, 2018

Original signed by Myriam Seers

Torys LLP
Lawyers for Union Gas Limited

¹⁴¹ EB-2017-0255 OEB Decision and Order (November 30, 2017), p.3.

¹⁴² Exhibit B.Staff.37.