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May 22, 2018

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Sent By Electronic Mail, Courier and RESS Electronic Filing

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

Dear Ms. Walli:

EB-2017-0275: Applications for approval of cost consequences of 2018 cap and trade compliance plans

Re: EPCOR Argument-in-Chief

Please find enclosed EPCOR Natural Gas Limited Partnership's ("**EPCOR**") Public Argument-in-Chief in the above proceeding. Passages containing strictly confidential or market sensitive information have been redacted in the public version. A strictly confidential version has been filed separately with the Ontario Energy Board.

Please do not hesitate to contact me if you have any questions.

Yours very truly,

Patrick G. Welsh

PW:vs

c (email only): Service List
Richard King, *Osler, Hoskin & Harcourt LLP*
Brian Lippold, *EPCOR Natural Gas Canada*
Ken Poon, *Blackstone Energy Services*

EB-2017-0275

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by EPCOR Natural Gas Limited Partnership for approval of the cost consequences of 2018 cap and trade compliance plan.

WRITTEN ARGUMENT-IN-CHIEF OF EPCOR NATURAL GAS LIMITED PARTNERSHIP (PUBLIC)

Background

1. On November 30, 2017, EPCOR Natural Gas Limited Partnership ("**EPCOR**") filed its 2018 Cap and Trade Compliance Plan (the "**Plan**") with the Ontario Energy Board (the "**Board**") and sought approval from the Board to recover the estimated costs of complying with the Plan (the "**Application**").

2. On November 30, 2017, the Board issued a Decision and Order denying each of the gas utilities' (including EPCOR) requests for the interim approval of the proposed 2018 cap and trade charges. Consequently, the Board noted that the final 2017 Board-approved cap and trade charges will continue to apply until the Board completes its review of the 2018 cap and trade compliance plans.

3. On December 1, 2017, the Board issued a Notice of Hearing to review the Plan and consider EPCOR's Application.

4. On December 28, 2017, the Board issued Procedural Order No. 1, requesting comments on the draft Issues List and setting procedural steps for this proceeding.

5. On February 7, 2018, the Board issued Procedural Order No. 3, which, among other things, finalized an issues list (the "**Issues List**") to be used in the Board's review of the Plan and Application.

6. Specifically, the Issues List was confirmed 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?

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** – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

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?

7. On February 28, 2018, the Board issued Procedural Order No. 3 which, among other things, established further procedural elements of the Board's review.

8. On April 23, 2018, the Board commenced its oral hearing related to the gas utilities' public evidence. EPCOR appeared before the Board on April 27, 2018 and presented both public and strictly confidential evidence. Specifically, EPCOR filed a public slide presentation marked as Exhibit No. K4.2, a copy of which is included for convenience as Appendix 1 of this written Argument-in-Chief. [redacted]

9. On May 1, 2018, the Board issued Procedural Order No. 4 which, among other things, directed EPCOR and the other gas utilities to prepare a written argument-in-chief related to their strictly confidential and public evidence..

Argument

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

10. EPCOR submits that the cost consequences of the Plan are reasonable and appropriate. The bill impact, estimated to be between 3.2 and 4.5 cents per cubic metre of natural gas, will be applied equally to EPCOR's residential and commercial customers, other than one LFE customer.

11. EPCOR Natural Gas Limited Partnership completed its purchase of the natural gas distribution assets from Natural Resource Gas Limited in August 2017, and has since been in a process of integration with EPCOR.[1] This is a process of continuous improvement that is expected to mirror the development of future Cap-and-Trade Compliance Plans.

1.1 – Forecasts: Are the volume forecasts used reasonable and appropriate?

12. As outlined further in the Plan,[2] EPCOR followed the Ontario Ministry of the Environment and Climate Change's ("MOECC") *Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emission* in order to convert natural gas consumption volume into GHG emissions. EPCOR used the Higher Heating Value (HHV) of 0.03881 GJ / m^3 provided by Union Gas, as EPCOR receives its natural gas from Union Gas's distribution network.

13. EPCOR expects a 16.1% year-to-year increase in natural gas consumption compared to 2017 due to the following:

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[1] Transcript of the Hearing held at 2300 Yonge Street, Toronto, Ontario on Friday April 27, 2018, Volume 4 (the "**Transcript**"), pp. 102-104.

[2] Plan, pp. 7-8.

(a) 3% increase due to growth residential and small business already incorporated in the forecast provided in the rate filing EB2016-0236 currently placed In abeyance by the OEB awaiting refilling by EPCOR Natural Gas Limited Partnership

(b) 10% increase due to expected 10% colder season

(c) Projected 750,000 m3 increase to the industrial load.[3]

EPCOR submits that the above volume forecasting assumptions, methodology, and estimates are both reasonable and appropriate.

1.2 – Forecasts: Are the GHG emissions forecasts reasonable and appropriate?

14. EPCOR submits that its GHG emissions forecasts are reasonable and appropriate. First, EPCOR confirms that it followed the MOECC's *Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions* issued May 19, 2016,[4] thereby complying with the Board's recommendations for using government-approved methodologies to forecast GHG emissions. EPCOR further confirms that the forecasting method complies with O. Reg. 452/09, *Greenhouse Gas Emissions Reporting*.

15. In order to generate reasonable and appropriate forecasts for GHG emissions, EPCOR has opted for one-year forecasts due to the political uncertainty related to the Ontario election in 2018.[5] As discussed in the Plan,[6] in addition to market uncertainty, EPCOR has considerable consumption

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[3] Plan, p. 8.

[4] Plan, p. 9.

[5] Transcript, p. 108.

[6] Plan, p. 7.

uncertainty/volume variability related to the many agri-business customers who require natural gas for drying. At the time of the forecasting for the Plan, corn, bean and tobacco drying conditions were not accurately measurable. Considering the highly temperature sensitive load in combination with considerably unpredictable harvest conditions, reasonable and appropriate forecasting requires regular updating upon reviews of measurement. EPCOR continuously monitors actual GHG emissions and compares this data to the forecasts, and this process of comparison and adjustment informs EPCOR's procurement strategy.[7] In 2017, adjustments to volume forecasts were made up to 20% to compensate for variability seen in Q4 of 2017, largely related to agricultural drying loads.[8] EPCOR submits that the emissions forecasts are reasonable and appropriate.

1.3 – Forecasts: Is the carbon price forecast reasonable and appropriate?

16. Further to Board guidance, EPCOR used the averages of the Intercontinental Exchange ("**ICE**") daily settlement prices of a California Carbon Allowance for each day of the forecast period. This was carried through for each month of the forecast year, for carbon allowances of the 2018 vintage year at each delivery month in 2018.[9]

17. For settlement prices, EPCOR referenced the 21 trading days from September 1st, 2017 to September 29th, 2017. For the exchange rate, EPCOR used the Canadian Dollar Futures Settlements data posted on the Chicago Mercantile Exchange ("**CME**") for the January, March, June, September, and December trading strips between September 1, 2017 and September 29,

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7 Transcript, p. 104.

8 Plan, p. 23.

9 Plan, p. 11.

2017. Prices for future months with no actively traded exchange rate futures (February, April, May, July, August, October, November 2018) were imputed using arithmetic averages (for example, the price of February 2018 delivery on September 1, 2017 was taken as the average of the January 2018 and March 2018 strip prices settled on September 1, 2017). The exchange rates were then applied to the U.S. dollar ("**USD**") price to convert the USD price on ICE to Canadian dollars ("**CAD**"). The average price reported in the Plan, at the bottom of the table on page 11, is the arithmetic average of the settlement price in CAD posted on the table. EPCOR submits that this approach, consistent with Board guidance, is reasonable and appropriate.

1.4 – Compliance Plan: Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

18. As outlined more fully in the confidential unredacted version of the Plan, EPCOR elected to select and develop its Plan in a manner that was as cost-effective and as flexible as possible, reflecting strategic decision-making optimized for EPCOR's more unique situation as a relatively small natural gas distributor, all of which EPCOR submits was both reasonable and appropriate.

19. [redacted]

10 [redacted]

11 [redacted]

[redacted]

20. [redacted]

21. [redacted]

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12 [redacted]

13 [redacted]

14 [redacted]

15 [redacted]

16 [redacted]

1.5 – Compliance Plan: Is the gas utility's purchasing strategy reasonable and appropriate?

22. [redacted]

17 [redacted]

18 [redacted]

19 [redacted]

20 [redacted]

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

23. As outlined more fully in the Plan,[21] EPCOR estimated emissions allowance requirements and associated costs for 2018 using ICE average settlement prices, consistent with Board guidance, which EPCOR submits is reasonable and appropriate.

1.7 – Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?

24. EPCOR identified potential risks, including volume variability, emissions unit availability and allowance price variability, market risks, and risks of non-compliance, and provided its analysis of such risks in the Plan[22], all in accordance with Board guidance.

25. NRG also presented an analysis of three risk scenarios (low, medium, and high) and highlighted price risk and volume variability in particular in its analysis in the Plan.[23] EPCOR submits that this approach was reasonable and appropriate. EPCOR submits it has presented and conducted its Compliance Plan risk management processes and analysis reasonably and appropriately.

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[21] Plan, pp. 11,

[22] Plan, p. 23

[23] Plan, p. 26.

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

26. As indicated in the Plan, EPCOR is not expected to make long term investments for the 2018 compliance period, and will be using the Board's MACC to identify the financial feasibility of future investment opportunities in future compliance years.[24]

27. [redacted]

EPCOR submits that this approach is reasonable and appropriate

1.9 – Are the gas utility's proposed new business activities reasonable and appropriate?

28. In Exhibit 3 of its Plan, EPCOR indicated that it did not have plans for new business activities in 2018. EPCOR further explained that it will be putting additional resources into advancing biofuels programs in the Ontario market, noting its significant, proven experience and success in renewables.[26]

29. [redacted]

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[24] Plan, p. 26

[25] [redacted]

[26] Plan, p. 27.

[27] [redacted]

1.10 – Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

30. In 2018, EPCOR does not have an approved DSM plan. In 2017, NRG and EPCOR began promoting the Home Reno Rebate Program, funded by the Ontario Green Investment fund. As referenced on slide #14 of EPCOR's public presentation, this program continued to be offered into the 2018 compliance period.

31. Home Reno Rebate volume abatement assumptions were provided by Union Gas. Union estimates an annual reduction of 1000 cubic meters participating household. Applying these reduction estimates to the actual number of registered program in 2017, it was determined that 22,000 cubic meters of residential consumption would be eliminated. Forecasted participation for 2018 indicates that 33 participants will reduce residential consumption by 33,000 cubic meters.[28]

32. Considering that there is little to no mid or standard efficiency heating equipment remaining in our market, residential abatement is most effectively achieved by promoting improvements to building envelopes.

33. As noted on slide #15 of EPCOR's public presentations, a system integrity study on EPCOR's system is ongoing. The study is expected to be completed prior to the 2018 heating season. EPCOR believes that the results of this study will allow it to identify opportunities to reduce commercial and industrial consumption through targeted, custom abatement programs in the medium to long-term. EPCOR submits that this approach is reasonable and appropriate.

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[28] Transcript, p. 107.

1.10.1 - Are the gas utility's RNG procurement and funding proposals reasonable and appropriate?

34. At the time of development the Plan, EPCOR had not completed the transaction to purchase all of Natural Resource Gas Limited's distribution assets and therefore no RNG procurement and funding proposals were developed or submitted in the 2018 Compliance Plan.[29]

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

35. [redacted]

36. [redacted]

37. EPCOR submits that this approach is reasonable and appropriate

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

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29 Transcript, p. 102

30 [redacted]

31 [redacted]

38. A customer outreach program began in early 2017. The communication and Marketing initiatives included the following:

(a) Local print advertisements;

(b) Bill messages;

(c) IVR phone system messaging;

(d) CSR and field technician scripting;

(e) Web Site links to educate customers about Cap and Trade impacts;

(f) a Cap-and-Trade bill impact calculator was developed on the website; and

(g) Promotion of Home Reno Rebate in local publications and on EPCOR's website.

39. EPCOR's Aylmer office has seen a steep decline in the number of Cap & Trade related complaints and inquiries. In addition, increased customer uptake in the Home Reno Rebate program indicate successful communication and promotion. EPCOR submits that its outreach processes and methods are reasonable and appropriate

Issue #4: Deferral and Variance Accounts

4.1 - Deferral and Variance Accounts: Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

40. In the Decision and Order regarding the 2017 Cap and Trade Compliance Plans, EB-2016-0296/EB-2016-0300/EB-2016-0330, the Board directed NRG to establish:

(a) The Greenhouse Gas Emissions Compliance Obligation – Customer-related variance account (179-50);

(b) The Greenhouse Gas Emissions Compliance Obligation –Facility-related variance account (179-51);

(c) A GGEIDA to capture administrative cost, effective January 1, 2017.

41. These accounts were submitted to the Board on October 18, 2017 in Appendix C of the Cap-and –Trade Draft Rate Order and Accounting Orders. These accounts were adopted by EPCOR, updated and submitted to the Board on November 10, 2017.[32] EPCOR submits that the proposed deferral and variance accounts as well as the disposition method to be reasonable and appropriate.

4.2 - Deferral and Variance Accounts: Are the proposed deferral account balances reasonable and appropriate?

42. As indicated in the Plan, deferral and variance account balances were not provided in the filing.[33] As explained more fully, this was because the accounting order had only recently been received and further revenue and expense reporting was required to determine accurate balances.

43. As explained during the oral hearing, the GGEIDA balances to date reflect prudent and responsible costs directly related to the administration of compliance obligations. Some of the administrative costs are difficult to accurately predict without significant program experience. As noted in the Public Presentation on April 27, 2018 balances for administrative costs incurred in

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32 Plan, Exhibit 6.

33 Plan, p. 35.

2018 were significantly below estimations, particularly regarding customized billing software adjustments and specialized reports as well as incremental internal labour.[34] EPCOR submits that the proposed deferral and variance balances are reasonable and appropriate.

4.3 - Deferral and Variance Accounts: Is the disposition methodology appropriate?

44. As indicated in the Plan, the disposition of the GGEIDA balances will, if approved, occur in 2019.[35] The method of disposition would be determined by the amount of the balance. A one-time adjustment, versus a recovery through rate rider, would be dependent on the impact to rate payers. A one-time adjustment would only occur if the adjustment would be seen as harmless by the rate payer.

45. EPCOR submits that the proposed disposition method is reasonable and appropriate, as it considerers lessening the impact of disposition upon customers if the charge has potential to present unnecessary hardship to the ratepayer.

Issue #5: Cost Recovery

5.1 – Cost Recovery: Is the proposed manner to recover costs reasonable and appropriate?

46. As outlined further in the Plan, the bill impact on all EPCOR ratepayers will be the same, with the exception of one LFE.[36] That is, all rate payers except the LFE will see a cap-and-trade related charge in their delivery cost and in administrative charges. EPCOR submits that this approach is reasonable and appropriate.

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[34] Transcript, p. 110.

[35] Plan, p. 34.

[36] Plan, pp. 34-35.

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

47. EPCOR submits that the tariffs are just and reasonable. The tariffs reflect a medium risk procurement strategy and tariffs remain in-line with the other OEB regulated utilities.

48. In the Compliance plan, facility-related tariffs are shown separately from customer-related charges in the manner illustrated in the schedule for General Service Residential below. The following table is from Appendix "A" TO DECISION AND INTERIM RATE ORDER EB-2018-0120:

RATE 1 - General Service Rate

Rate Availability
The entire service area of the Company.

Eligibility
All customers.

Rate

a) Monthly Fixed Charge $13.50

b) Delivery Charge
First 1,000 m^3 per month 16.2312 cents per m^3
All over 1,000 m^3 per month 10.9099 cents per m^3

c) Cap and Trade Customer Related Charge (1) 3.33402 cents per m^3
Cap and Trade Facility Related Charge (1) 0.03414 cents per m^3

d) Gas Supply Charge and System Gas Refund Rate Rider (if applicable) Schedule A

Meter Readings
Gas consumption by each customer under this rate schedule shall be determined by monthly meter reading, provided that in circumstances beyond the control of the company such as strikes or non-access to a meter, the company may estimate the consumption each month as of the scheduled date of the regular monthly meter reading and render a monthly bill to the customer thereof.

<u>Delayed Payment Penalty</u>

When payment is not made in full by the due date noted on the bill, which date shall not be less than 16 calendar days after the date of mailing, hand delivery or electronic transmission of the bill, the balance owing will be increased by 1.5%. Any balance remaining unpaid in subsequent months will be increased by a further 1.5% per month. The minimum delayed payment penalty shall be one dollar ($1.00).

<u>Bundled Direct Purchase Delivery</u>

Where a customer elects under this rate schedule to directly purchase its gas from a supplier other than NRG, the customer or their agent, must enter into a Bundled T-Service Receipt Contract with NRG for delivery of gas to NRG. Bundled T-Service Receipt Contract rates are described in rate schedule BT1. The gas supply charge will not be applicable to customers who elect said Bundled T transportation service.

Unless otherwise authorized by NRG, customers who are delivering gas to NRG under direct purchase arrangements must obligate to deliver said gas at a point acceptable to NRG, and must acquire and maintain firm transportation on all pipeline systems upstream of Ontario.

Note (1): Cap and Trade Customer and Facility Related Charges are effective January 1, 2017 and will be implemented January 1, 2018.

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

49. EPCOR will implement final rates in the first billing period of 2019 unless a procedural order from the Board prescribes a different time-frame.

50. As mentioned previously in section 5.3 above, EPCOR will treat this similar to a foregone revenue calculation and charge the difference by way of a one-time adjustment or by way of a rate rider in order minimize bill impacts on ratepayers.

<u>Conclusion</u>

51. EPCOR submits that its 2018 Cap-and-Trade Compliance Plan is cost-effective, reasonable and optimized for EPCOR's unique circumstances as a relatively small natural gas distributor. EPCOR's decisionmaking throughout the process of developing and implementing its Cap-and-Trade Compliance Plans has been guided by cost-effectiveness, rate predictability, prudent cost-recovery as a cost pass-through, transparency, flexibility and continuous improvement. EPCOR is committed to strengthening its future Plans as it completes its process of transitioning to new

ownership under EPCOR, and looks forward to any guidance from the Board regarding its 2018 Plan.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

May 22, 2018

Patrick G. Welsh
Osler, Hoskin & Harcourt LLP
Counsel for EPCOR Natural Gas Limited Partnership

Appendix 1

2018 Ontario Cap & Trade Compliance Plan

EB-2017-0275

April 27, 2018

Brian Lippold, EPCOR
Kenneth Poon, Blackstone Energy Services
Patrick Welsh, Osler

Agenda (confidential)

1. ENGLP overview (as it relates to plan)
2. 2017 Plan highlights
3. 2018 Plan highlights performance
4. Identified risks
5. Abatement and Conservation activities
6. Administrative

NRG Acquisition

- EPCOR entered into an Asset Purchase Agreement with NRG on Nov 7, 2016
- MAAD Application was filed with the Board
- Decision and Order by the Board approved the sale on August 3, 2017
- The transaction was closed on Nov 3, 2017

NRG Acquisition

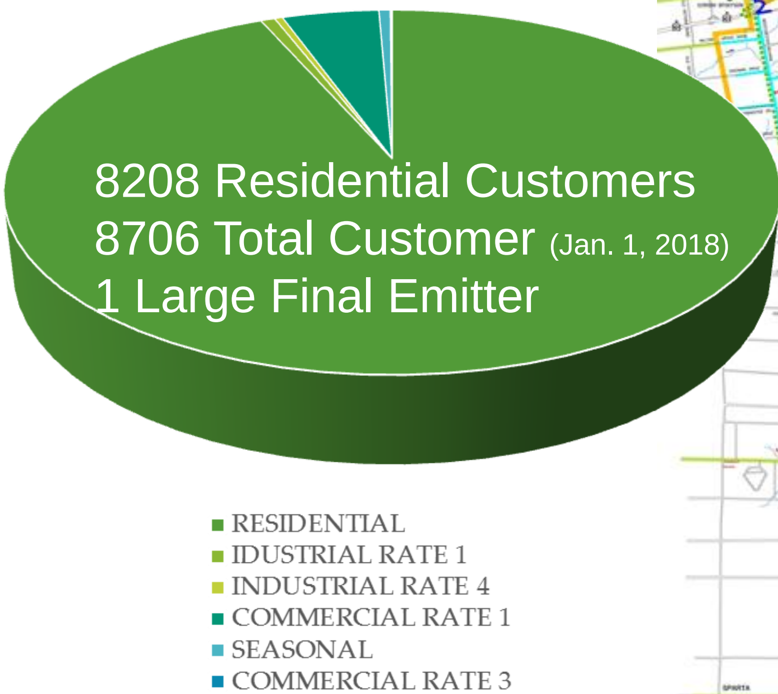
All NRG Employees were retained in the acquisition

17 Employees:

- 1 General Manager
- 2 Supervisors
- 6 Administration (CSRs, Billing, Dispatch, Collections, Sales Admin, AP)
- 6 Field Service Technicians
- 2 Field Construction

EPCOR System

Customer Profile (six rate classes)



EPCOR System

Gas Loss (fugitive emissions)

- Limited relief
- Low pressure system
- Newer system = Low leak levels

No Compressor or Storage facilities

Largely residential and agri-business

Predominantly supplied by Union (M9 /system gas customer)

EPCOR in Ontario

- Acquisition of NRG
- MAAD application before the Board for the Acquisition of Powerstream
- Recently awarded South Bruce Project
- Established a regional Board of Directors
- Susannah Robinson to lead operations as Vice President, Ontario

PROVIDING MORE

- Alberta’s Top Employers
- Alberta EnviroVista Champion
- *Corporate Knights’* Best 50 Corporate Citizens in Canada
- Canada’s Top Employers for Young People

2017 Plan Highlights: REVIEW

- Built-in procurement flexibility
- Continuous monitoring and identification of risks, allowance prices, exchange rate throughout period
- Continuous monitoring of emissions (actual vs forecast)
- Considers seasonality of collections vs timing of procurement, including cost of borrowing
- Procurement activities adjustments based on:
  - Allowance price forecast
  - Emission adjustments

2017 Plan Highlights : REVIEW

In 2017, NRG opted for Annual vs. multi-year Compliance Plans for the following reasons:

1. Linkage to WCI market were expected this year potentially bringing new procurement risks and opportunities to NRG

2. Ontario offset protocols were still in development

2. Political climate had potential to significantly impact price outlook

3. Annual plans continue to allow flexibility to adjust to market and regulatory changes

2018 Plan Highlights

- Built-in procurement flexibility
- Continuous monitoring and identification of risks, allowance prices, exchange rate throughout period
- Continuous monitoring of emissions (actual vs forecast)
- Considers seasonality of collections vs timing of procurement, including cost of borrowing
- Procurement activities adjustments based on:
  - Allowance price forecast
  - Emission adjustments

2018 Plan Highlights

EPCOR opted for Annual vs. multi-year Compliance Plans for the following reasons:

1. Carbon market still new and changing all the time, bringing new procurement risks and opportunities to EPCOR

2. Ontario offset protocols and opportunities continue to unfold

3. Unforeseen future regulatory or market changes can have significant impact on price outlook

4. Annual plans allow flexibility to adjust to market and regulatory changes

5. Expected expansion will bring new challenges and opportunities

2018 Plan Risks

- Market Risks
- Price risk: California Carbon Allowances (CCAs)
- Exchange rate risks
- Procurement risks: probability of obtaining allowances at target price
- Policy risks: market movements due to changes in policy and regulatory environments

Abatement & Conservation

- NRG did not participate in DSM

- ENGLP is promoting the ON Home Reno Rebate Program
  - Home Reno Rate abatement forecsts 33,000 m3 in 2018

Abatement & Conservation (continued)

Rate Case System Study:

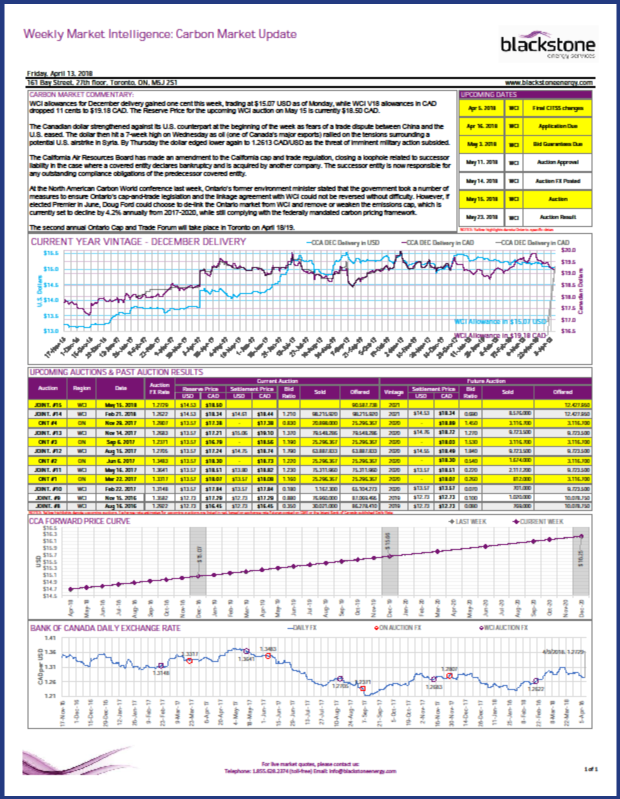
- ENGLP to deep dive on commercial/ industrial consumption behaviours & patterns
- Targeted abatement that would benefit distribution performance
- Leads to custom conservation programs

2018 Market Expectations

- Secondary market prices have declined substantially since Jan 2018
  - Driven by policy uncertainty
- Exchange rate volatility increased in 2018
- Ontario, QC participants should see higher allowance demand due to colder temperatures in Jan, Feb, March
- Release of V2016 in auctions → higher allowance supply
- Overall,
  - More volatility in pricing environment (in CAD),
  - Marginally higher demand, and
  - Higher supply

Market Intelligence; REPORTING and ANALYSIS:

- Secondary market pricing
  - USD and CAD
  - All future delivery period
- Auction Results and expected reserve price
- Foreign Exchange trend and analysis
- Upcoming auction dates
- Policy update and market analysis
- Weekly release



2018 Administration

- Measurement and reporting improvements
- Significant increase in IT costs for C&T revenue reporting
- Abatement tracking
- Website calculator tool development
- Marketing
- Increased Legal costs for regulatory processes
- Financing costs
- Considerable management time
- Banking fees, travel fees,
- R &D costs
- Customer touchpoint costs immeasurable for collections and billing

PROVIDING MORE EPCOR

GOVERNANCE

- Approach: *Status quo* pending further integration within EPCOR

- ENGLP overseen by general partner's board of directors

- Future: With access to EPCOR's broader resources (finance, health and safety, environmental, regulatory) ENGLP is reviewing existing practices and processes with a view to developing processes for cap and trade specifically and for the business more generally.

Thank You