



# 2018 Ontario Cap & Trade Compliance Plan

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

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# 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

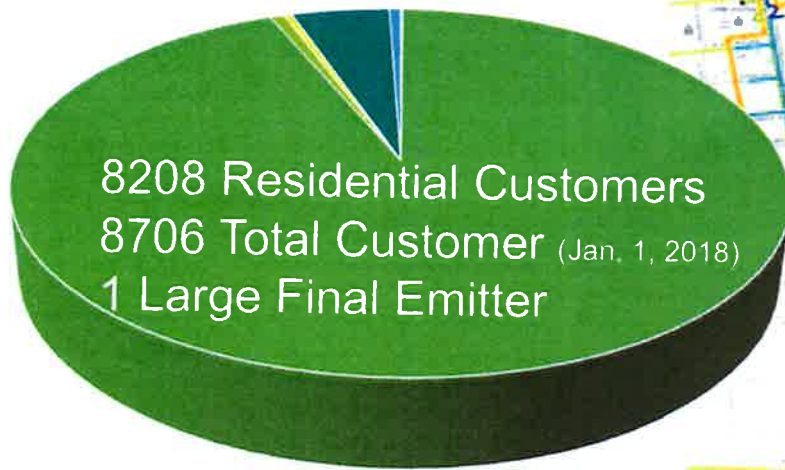
All NRG Employees were retained in the acquisition

## **17 Employees:**

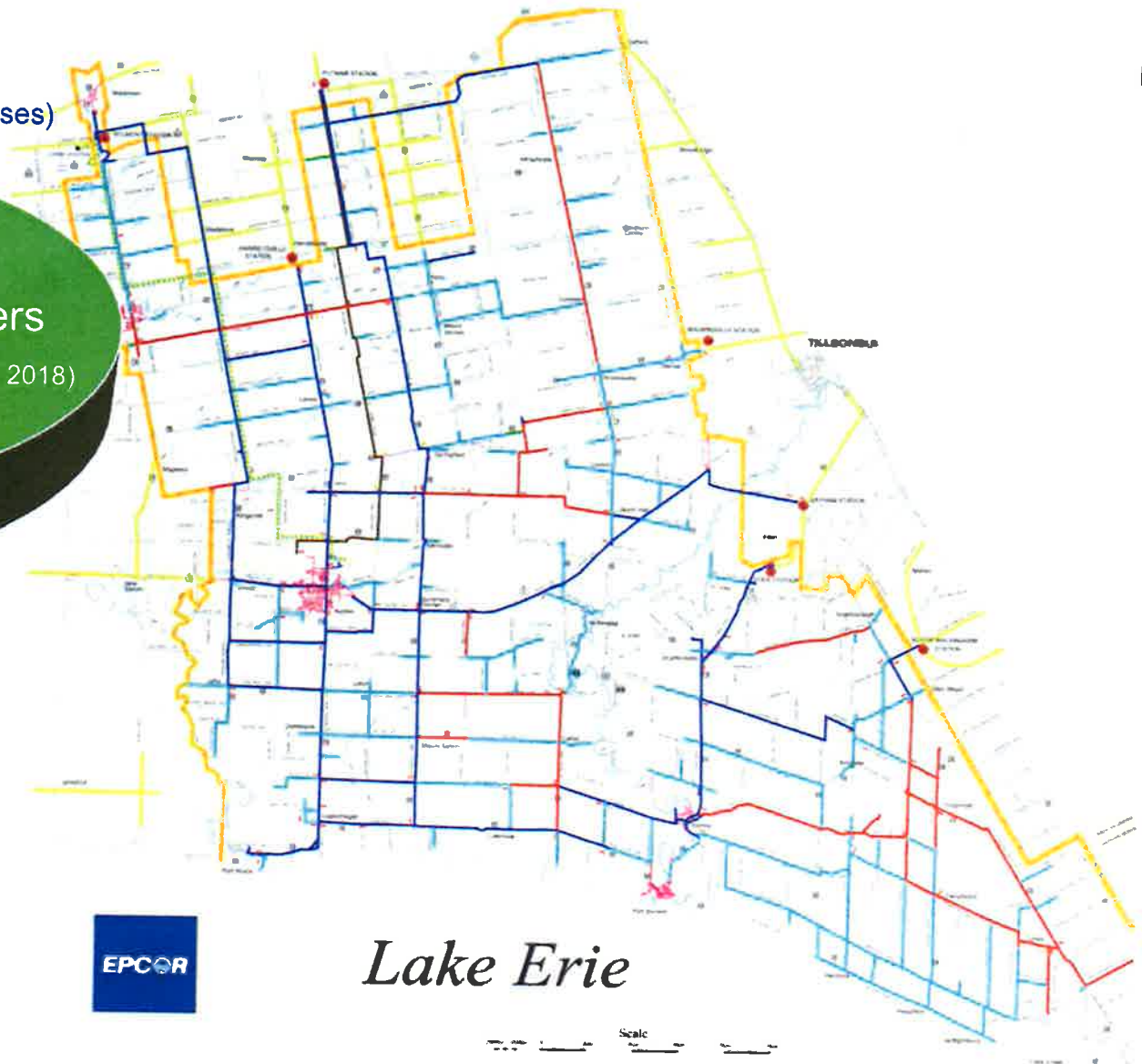
- 1 General Manager
- 2 Supervisors
- 6 Administration (CSRs, Billing, Dispatch, Collections, Sales Admin, AP)
- 6 Field Service Technicians
- 2 Field Construction

# EPCOR System

## Customer Profile (six rate classes)



- RESIDENTIAL
- INDUSTRIAL RATE 1
- INDUSTRIAL RATE 4
- COMMERCIAL RATE 1
- SEASONAL
- COMMERCIAL RATE 3



*Lake Erie*

Scale  
0 1 2 3 4 5 6 7 8 9 10

# 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



- 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

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# 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 forecasts 33,000 m<sup>3</sup> 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

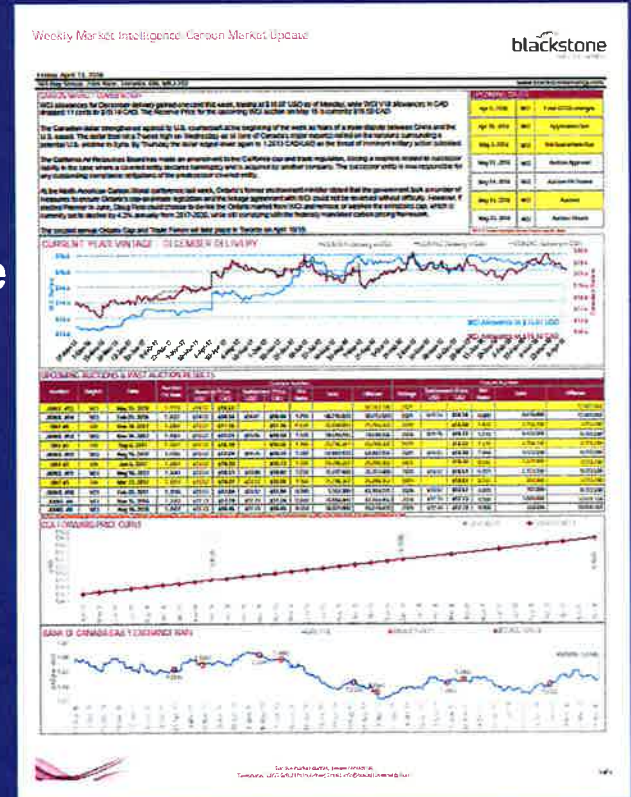
# 2018 Market Expectations

- 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

# 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

