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BY EMAIL

May 27, 2019

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: OEB Staff Submission
Enbridge Gas Inc.
2019 Federal Carbon Pricing Program Application
OEB File Number: EB-2018-0205**

Pursuant to Procedural Order No. 2, please find attached the submissions of OEB staff in the above referenced proceeding.

Yours truly,

Original signed by

Michael Bell
Project Advisor, Application Policy and Climate Change

cc: All Parties in EB-2018-0205

ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc.

2019 Federal Carbon Pricing Program Application

EB-2018-0205

May 27, 2019

INTRODUCTION

Enbridge Gas Inc. (Enbridge Gas) seeks Ontario Energy Board (OEB) approval under section 36(1) of the *Ontario Energy Board Act, 1998* to increase rates to recover costs associated with meeting its obligations under the federal *Greenhouse Gas Pollution Pricing Act* (GGPP Act).¹

The GGPP Act establishes a federal carbon pricing program (FCPP) under which Enbridge Gas is required:

- To pay the Federal Carbon Charge to the federal government for volumes of natural gas that Enbridge Gas delivers to its residential, commercial and industrial customers² starting April 1, 2019
- To pay the Federal Carbon Charge to the federal government for company use volumes (such as distribution buildings, boilers/line heaters and natural gas vehicle (NGV) fleet) starting April 1, 2019
- To remit payment to the federal government for any excess Greenhouse Gas (GHG) emissions under the Output-Based Pricing System (OBPS) from the operation of its natural gas distribution system effective January 1, 2019³

On January 11, 2019, Enbridge Gas filed an updated and consolidated application for the EGD and Union rate zones seeking:

- An order or orders allowing it to charge customers a Federal Carbon Charge on a volumetric basis, in the amount of the Federal Carbon Charge required to be paid pursuant to the GGPP Act, effective April 1, 2019
- An order approving or fixing just and reasonable rates effective April 1, 2019 to recover Facility Carbon Charge costs on a volumetric basis, included in the distribution or transportation charge
- Approval to establish five new deferral and variance accounts to record the costs and variances resulting from compliance with the GGPP Act
- Approval of its rates proposal as filed on an interim basis no later than February 28, 2019
- Approval of its rates proposal as filed on a final basis as part of the OEB's final Decision and Order for this proceeding

On February 28, 2019, the OEB issued an Interim Decision which denied Enbridge Gas' request for interim rates. However, to allow Enbridge Gas to record its costs for potential future recovery, the OEB approved the establishment of three new accounts

¹Originally Enbridge Gas Distribution Inc. and Union Gas Limited each filed an application prior to their amalgamation into Enbridge Gas Inc. effective January 1, 2019.

² Includes customers who are not covered under the Output-Based Pricing System (OBPS).

³ For fuels used in Enbridge Gas' transmission and storage facilities. If Enbridge Gas exceeds its emission limit in 2019, it must remit payment by December 15, 2020.

on an interim basis to capture administration costs and customer-related variances.⁴ These accounts are in addition to the two accounts established, on an interim basis, to capture facility-related variances.⁵ The February 28, 2019 Interim Decision also noted that the OEB had received a letter from the Minister of Energy, Northern Development and Mines regarding the bill presentation of amounts under the FCCP.⁶ In the Interim Decision, the OEB indicated that it would consider the comments of stakeholders and submissions of parties prior to making a determination on any new charges and related bill presentation issues.⁷

On April 2, 2019, the OEB issued Procedural Order No. 2 (PO 2) that set out dates for intervenors and OEB staff to file written submissions. Also, in PO 2, the OEB determined that the scope of the proceeding would be limited to considering recovery of Enbridge Gas' costs related to the FCCP and the presentation of the carbon charges on customers' natural gas bills. The OEB stated that it would not be considering additional measures that Enbridge Gas should undertake to reduce either customer-related or facility-related emissions as an issue for adjudication. The OEB also indicated that it would not be approving the forecast administration costs in this proceeding.

The following are the submissions of OEB staff.

OEB STAFF SUBMISSION

Volumetric and Carbon Costs Forecast

The 2019 volume forecast subject to the GGPP Act are 5,797,409 10³m³ and 3,553,242 10³m³ respectively for the EGD and Union rate zones.⁸ Enbridge Gas indicated that the volumetric forecast was developed using the same methodologies which underpinned forecasts previously approved by the OEB.⁹

Enbridge Gas applied the 2019 unit cost of carbon of \$20 per tonne of carbon dioxide equivalent or 3.91 cents/cubic meter (¢/m³) to the 2019 volume forecast. The resulting total forecast cost is \$361.4 million for 2019.

OEB staff has no issues with respect to the volumetric forecast subject to the GGPP Act nor the unit cost used for 2019.

⁴ Interim Decision and Accounting Orders, February 28, 2019, p. 4.

⁵ Interim Decision and Accounting Order, December 14, 2018.

⁶ [Letter dated February 20, 2019.](#)

⁷ Interim Decision and Accounting Orders, February 28, 2019, p. 4.

⁸ Exhibit B, Tab 1, p. 1 for EGD Rate Zone and Exhibit B, Tab 2, p. 1 for Union Rate Zones.

⁹ Ibid

Proposed Federal Carbon Charge and Facility Carbon Charge

Enbridge Gas requested to charge customers a Federal Carbon Charge and a Facility Carbon Charge on a volumetric basis.

OEB staff submits that Enbridge Gas' proposal to recover the charges on a volumetric basis is appropriate as the costs are also incurred on a volumetric basis.

Bill Presentation

Enbridge Gas stated that the 2019 Federal Carbon Charge of 3.91 ¢/m³ on volumes delivered to its residential, commercial and industrial customers¹⁰ will be presented as a separate line item on customers' bills.¹¹

Enbridge Gas also stated that the 2019 Federal Carbon Charge on company use volumes (such as distribution buildings, boilers/line heaters and NGV fleet) will be recovered from customers as part of the Facility Carbon Charge and that these costs will be included in the delivery or transportation charges on customers' bills.¹² The costs related to volumes (such as transmission and storage compressor facilities) that are covered under the federal OBPS will also be recovered from customers as part of the Facility Carbon Charge and as such will be included in the delivery or transportation charges on customers' bills.¹³ Enbridge Gas stated that the costs related to the Facility Carbon Charge are specific to the delivery and transportation of natural gas and should be included in delivery and transportation charges.¹⁴

In response to an interrogatory¹⁵, Enbridge Gas indicated that it is not seeking OEB approval with respect to bill presentment. Nevertheless, OEB staff submits that the OEB has authority to address bill presentation matters for natural gas distributors, including directing how amounts related to the FCPP should appear or be captured on customer bills, if it wishes to do so. The OEB determined how charges related to cap and trade compliance costs were to be addressed on customer bills¹⁶, and OEB staff submits that the OEB should do so in this proceeding as well in respect of each of the Federal Carbon Charge and the Facility Carbon Charge.

¹⁰ Customers that are covered under Part I of the GGPP Act.

¹¹ Exhibit A, p. 8

¹² Exhibit A, p. 9

¹³ Argument-in-Chief, p. 5

¹⁴ Exhibit I.STAFF.14, p. 2

¹⁵ Exhibit I. CCC.4, p. 1

¹⁶ In its early determination (https://www.oeb.ca/oeb/Documents/EB-2015-0363/OEB_Determination_Billing_Outreach_20160728.pdf) and in its *Report of the Board – Regulatory Framework for Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities* (EB-2015-0363), the OEB determined that charges related to cap and trade compliance costs were to be included in the delivery charges on customers' bills.

OEB staff supports Enbridge Gas' proposal to: 1) present the Federal Carbon Charge associated with customer-related volumes as a separate line item on customers' bills and 2) include the costs related to the Facility Carbon Charge in the delivery or transportation charges on customers' bills. In the view of OEB staff, this approach appropriately recognizes that the Facility Carbon Charge relates to Enbridge Gas' on-going operational activities and the Federal Carbon Charge is a specific amount that natural gas distributors are required to remit to the federal government based on the individual customer's consumption.

Deferral and Variance Accounts

On December 14, 2018, the OEB approved, on an interim basis, the establishment of the Facility Carbon Charge – Facility Deferral Account (FCCFDA) for each of the EGD and Union rate zones effective January 1, 2019.¹⁷

In its February 28, 2019 Interim Decision, the OEB approved the following accounts on an interim basis:

- Greenhouse Gas Emissions Administration Deferral Account (GGEADA) effective January 1, 2019
- Federal Carbon Charge - Customer Variance Account (FCCCVA) for the EGD rate zone effective April 1, 2019
- Federal Carbon Charge - Customer Variance Account (FCCCVA) for the Union rate zones effective April 1, 2019¹⁸

The OEB also noted that the accounting orders for the Federal Carbon Charge – Customer Variance Accounts are inconsistent between the EGD and Union rate zones. The OEB stated its expectation that the accounting orders were to be consistent for any final approval.

In its response to OEB staff's interrogatory, Enbridge Gas sought clarity from the OEB on whether the customer-related and facility-related accounts are variance or deferral accounts. At this time, Enbridge Gas assumed that the proposed accounts are deferral accounts but will comply with OEB's direction.¹⁹

OEB staff submits that for 2019 these accounts are a hybrid of deferral and variance accounts. As no charges have yet been approved by the OEB to be recovered in rates

¹⁷ EB-2018-0205/0187 Interim Decision and Accounting Order. These Interim accounts capture costs related to the OBPS effective January 1, 2019 and the facility-related costs effective April 1, 2019.

¹⁸ OEB's Interim Decision and Accounting Order.

¹⁹ Exhibit I. STAFF.12

for 2019, the accounts will only include the actual federal carbon amount remitted to the Canada Revenue Agency (CRA). OEB staff therefore submits that this is appropriately characterised as a deferral account.

However, after the OEB has approved the inclusion in rates of the federal carbon costs in 2019, the accounts will then capture the difference between the actual federal carbon amount remitted to the CRA and the federal carbon revenues recovered in rates. OEB staff submits that the accounts will then operate as variance accounts from that point on.

OEB staff submits that post 2019, the customer-related and facility-related accounts should be considered as variance accounts for each of the EGD and Union rate zones as these accounts would capture the difference between the actual federal carbon amount remitted to the CRA and the federal carbon revenues recovered in rates. For consistency, OEB staff submits that the customer-related and facility-related accounts should be treated as variance accounts as this will avoid changing the labelling of these accounts post 2019.

Timing of the Disposition – Deferral and Variance Accounts

Enbridge Gas indicated that it may choose to dispose of the 2019 balances as part of one of the following:

- A stand-alone Federal Carbon Pricing Program Deferral/Variance Account Clearance application
- A future Federal Carbon Pricing Program-related application
- Its 2019 Disposition of Deferral/Variance Account Balances and 2019 Utility Earnings application.²⁰

OEB staff expects that Enbridge Gas will file an annual Federal Carbon Pricing Program-related application. OEB staff submits that Enbridge Gas should dispose of the 2019 balances as part of a future Federal Carbon Pricing Program-related application so that all FCCP-related costs and balances are reviewed in the same proceeding.

All of which is respectfully submitted

²⁰ Exhibit I.STAFF.13