



**BY EMAIL and RESS**

**Mark Rubenstein**  
mark@shepherdrubenstein.com  
Dir. 647-483-0113

Ontario Energy Board  
2300 Yonge Street  
27th Floor  
Toronto, Ontario  
M4P 1E4

May 27, 2019  
Our File: EB20180205

**Attn: Kirsten Walli, Board Secretary**

Dear Ms. Walli:

**Re: EB-2018-0205 –Enbridge Gas Federal Carbon Pricing Program – SEC Submissions**

We are counsel to the School Energy Coalition (“SEC”). Pursuant to Procedural Order No.2, these are SEC’s submissions on the application by Enbridge Gas Inc. (“EGI”) for various approvals related to the implementation of the Federal *Greenhouse Gas Pollution Pricing Act* (the “Act”), which it has called its Federal Carbon Pricing Program (“FCPP”).

SEC has reviewed the application in the context of the Board’s guidance in Procedural Order No. 2 regarding the scope of proceeding<sup>1</sup> and provides the following comments.

***Volumetric Rate.*** SEC has no concerns with the calculation of the FCPP volumetric rate for 2019.

***Deferral and Variance Account Requests.*** EGI is seeking approval for five different deferral accounts: one account related to administration costs, and four accounts related to the volumetric carbon charge.

SEC has no concern with the approval of the four carbon charge accounts, but does oppose the approval of the account related to administration costs.

It is important to consider separately these two types of requested accounts, even though they both relate to the same program. The volumetric carbon charge accounts are simply flow through accounts to recover the costs imposed on EGI by way of the *Act*. They are properly more akin to a Y-Factor. The administration costs account (Greenhouse Emissions Administration Deferral Account or GGEADA) relates to costs that are not pass-through in the traditional sense, but is established to recover costs incurred by EGI that are like any other distribution related costs.

In Procedural Order No. 2, the Board stated that it would consider in this application if the accounts meet the tests set out in the Filing Requirements for Natural Gas Rate Applications.<sup>2</sup> Unlike in a rebasing application (Cost of Service or Custom IR), for a utility that is in the midst of an approved ratemaking plan there is no unfettered ability to seek approval of an accounting order for a deferral or

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<sup>1</sup> Procedural Order No. 2, p.2

<sup>2</sup> Procedural Order No.2, p.2-3

variance account, even if it meets the basic test of causation, materiality and prudence. A distributor can only seek approval of a deferral and variance account that meets the requirements of a Z-Factor.

While those requirements are generally similar<sup>3</sup>, the materiality threshold is defined by the terms of the rate-setting plan and not the Filing Requirements. In the Board's *Decision and Order* in the Enbridge and Union Gas Amalgamation and Rate-Setting Mechanism proceeding, the Board determined the Z-Factor materiality threshold for the combined company would be \$5.5 million on a revenue requirement basis.<sup>4</sup>

SEC accepts that five requested accounts meet the requirements, with one exception. The proposed GGEADA does not meet EGI's materiality threshold. EGI's evidence is that it forecasts \$1.8M in administration costs in 2019.<sup>5</sup> The forecasted amount is only a third of the \$5.5M materiality threshold. On this basis, the Board should deny the approval of this account.

SEC disagrees with EGI's view that it is the costs of the program as a whole that should define the materiality threshold. It is the purpose of the specific account that should determine if it should be approved. The GGEADA relates to costs that are not pass-through (i.e. EGI is required to collect on behalf of its customers under the *Act* and remit to the Federal Government) but costs relating to the administration of the new requirements. The Z-Factor materiality requirement that the Board put in place recently for the combined utility represents a level of costs that it is expected EGI can absorb within its operational budgets. EGI can handle an additional cost of \$1.8M annually in costs to administer its responsibilities under the *Act*.

EGI may argue in reply that the proposed GGEADA is similar to that approved with respect to the previous Cap and Trade program, but the specifics of those previous approvals are important.

First, Enbridge Gas Distribution had its account approved in the context of its 2014-2018 Custom IR decision, not within the IRM term.<sup>6</sup>

Second, for Union Gas the Board first approved the account in its *Decision and Accounting Order* in EB-2015-0367, where it is explicitly stated that, at the time of disposition, the Board would "review the costs of prudence and will determine whether the costs are appropriate for recovery from ratepayers in the context of Union's IRM framework" [emphasis added]<sup>7</sup> The Board had not determined that matter yet, and its clearance is at issue in the on-going proceeding related to the disposition of Cap and Trade Related Deferral and Variance Accounts (EB-2018-0331).

The Board should deny approval of the GGEADA.

**Bill Presentment.** SEC agrees with EGI's proposal that the volumetric charge related to customers use be presented as a separate line item on the customers' bills.<sup>8</sup> As SEC noted in its submissions in the consultation leading to the *Regulatory Framework for the Assessment of Costs of Natural Gas*

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<sup>3</sup> SEC notes that there is an added requirement that the Z-Factor event be outside of management's control (See *Filing Requirements For Natural Rate Applications*, p.40). This is not an issue in this proceeding, as the impact of the *Greenhouse Gas Pollution Pricing Act* is clearly outside of management's control.

<sup>4</sup> Decision and Order (EB-2017-0306/EB-2017-0307 - Union Gas Limited and Enbridge Gas Distribution Inc.), August 30, 2018

<sup>5</sup> Exhibit C, Tab 1, Schedule 1, p.2

<sup>6</sup> Technically the account was established in its 2016 rates proceeding (EB-2015-0114). This was due to Enbridge's past practice, which has subsequently been eliminated, of re-establishing all previously approved deferral and variance accounts annually. The original establishment of the account was in the Board's 2014-2018 Custom IR decision. See *Decision with Reasons* (EB-2012-0459 – Enbridge Gas Distribution Inc.), July 14 2014, p.70;

<sup>7</sup> *Decision and Accounting Order* (EB-2015-0367 – Union Gas Ltd), April 6 2016, p.2

<sup>8</sup> Exhibit A, p.8



*Utilities' Cap and Trade Activities*, a separate line item is important for customers to understand the driver of the cost increase:

Customers need to understand, through bill presentment, that these added costs are more than just the cost of the utility providing a service to them. These specific costs are being recovered on their behalf to pay for their share of GHG emission reductions.

Customers should see directly how much it is costing them to emit GHGs. They should be able to connect that cost with their use, so that they can decide to reduce their emissions, and therefore reduce that cost.<sup>9</sup>

While the Board did not agree with the vast majority of stakeholders that a separate line-item was appropriate<sup>10</sup>, this proceeding allows for the opportunity to reconsider the issue afresh, to promote increased transparency.

Yours very truly,  
**Shepherd Rubenstein P.C.**

*Original signed by*

Mark Rubenstein

cc: Wayne McNally, SEC (by email)  
Applicant and Interested (by email)

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<sup>9</sup> EB-2015-0363, SEC Comments, June 26 2016, p.3-4

<sup>10</sup> *Report of the Board: Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities* (EB-2015-0363), September 26, 2016