Enbridge
50 Keil Drive N.
Chatham, Ontario, Canada
N7M 5M1

June 10, 2019

BY RESS, EMAIL AND COURIER

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

Dear Ms. Walli:

Re: EB-2018-0205 – Enbridge Gas Inc. – 2019 Federal Carbon Pricing Program Application – Reply Argument

In accordance with Procedural Order No. 2 issued by the Ontario Energy Board on April 2, 2019, please find enclosed Enbridge Gas Inc.'s Reply Argument.

The Reply Argument will be filed on RESS and a copy served on all parties.

Yours truly,

[original signed by]

Adam Stiers
Technical Manager, Regulatory Applications

c.c.: Myriam Seers (Torys)
Michael Bell (OEB Staff)
EB-2018-0205 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 Enbridge Gas Inc., pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders to establish rates resulting from the *Greenhouse Gas Pollution Pricing Act*.

REPLY ARGUMENT OF ENBRIDGE GAS INC.

June 10, 2019

A. Overview

1. Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") (collectively, the "Utilities") were Ontario corporations incorporated under the laws of the Province of Ontario carrying on the business of selling, distributing, transmitting, and storing natural gas within the meaning of the *Ontario Energy Board Act, 1998* (the "Act"). EGD and Union amalgamated effective January 1, 2019 to become Enbridge Gas Inc. ("Enbridge Gas").

2. This Reply Argument responds to the arguments set out in the submissions of Ontario Energy Board (the "Board" or "OEB") Staff and intervenors. Enbridge Gas has attempted to avoid repetition. This Reply Argument should therefore be read together with Enbridge Gas's Argument-in-Chief.

3. In summary, Enbridge Gas's Reply Argument is organized as follows:

   B. Enbridge Gas's proposed rates and volume forecasts are broadly supported by OEB Staff and intervenors;

   C. Enbridge Gas's proposed deferral and variance accounts should be approved, on a final basis, as proposed;

D. There is no need to adjust the proposed presentation of the charges on customer bills; and

E. Enbridge Gas's proposed Communication Plan is reasonable.

4. Defined terms not otherwise defined in this Reply Argument bear the meanings assigned to them in the Argument-in-Chief.

B. Enbridge Gas's proposed rates and volume forecasts are broadly supported by OEB Staff and intervenors

5. OEB Staff and all intervenors either support or do not oppose Enbridge Gas's volumetric forecast and proposed rate increases to comply with the GGPPA.[1] For example, *"OEB staff has no issues with respect to the volumetric forecast subject to the GGPP Act nor the unit cost used for 2019"*.[2] Further, OEB Staff submitted *"…that Enbridge Gas's proposal to recover charges on a volumetric basis is appropriate, as the costs are also incurred on a volumetric basis"*.[3] Energy Probe submitted that it *"believes that the volume forecasts and the proposed recovery method are reasonable and appropriate"*.[4] Energy Probe goes on to state that it *"supports the application of Enbridge Gas as filed"*.[5] CCC submitted, *"In developing the volume forecasts subject to the GGPPA, Enbridge Gas has used methodologies that have been approved by the OEB in previous applications. Accordingly, the Council supports the 2019 forecasts as presented. With respect to the volumetric charge the Council submits that Enbridge Gas has developed it consistent with the GGPPA."*[6]

6. ED in particular asked *"…that the orders requested by Enbridge be expedited so they can be made effective on July 1, 2019…Carbon pricing will be more efficient and effective the*

[1] OEB Staff Submission, pp. 3-4; Energy Probe Submission, p. 3; CCC Submission, p. 4; CME Submission, p. 1; IGUA Submission, p. 1; SEC Submission, p. 1; VECC Submission, p. 2.

[2] OEB Staff Submission, p. 3.

[3] OEB Staff Submission, p. 4.

[4] Energy Probe Submission, p. 3.

[5] Energy Probe Submission, p. 5.

[6] CCC Submission, p. 4.

sooner that new rates are implemented. This will send a clearer price signal, result in smoother rates, and avoid additional interim financing costs relating to carbon costs."[7]

7. Although it is too late for Enbridge Gas to implement the charges to be effective July 1, 2019, Enbridge Gas is committed to implementing the charges at the earliest possible opportunity. Depending on the Board's direction and timing, Enbridge Gas could be in a position to do so as soon as August 1, 2019 (if the Application is approved as filed on or before July 2, 2019) or September 1, 2019 (if Enbridge Gas is directed to modify the presentation of the customer bills, as set out below, on or before July 15, 2019).

C. Enbridge Gas's proposed deferral and variance accounts should be approved, on a final basis, as proposed

8. Enbridge Gas's proposed deferral and variance accounts also face broad support or non-opposition from OEB Staff and intervenors.[8] Energy Probe emphasized that *"the proposed deferral and variance accounts meet the OEB's tests of: Causation, Materiality and Prudence."*[9] Similarly, ED submitted that Enbridge Gas's proposal regarding deferral accounts was reasonable and prudent.[10]

9. In response to Enbridge Gas's request for clarity from the OEB regarding the nature of the proposed customer-related and facility-related accounts, OEB Staff submitted that for 2019 these accounts are a hybrid of deferral and variance accounts, and are appropriately characterized as deferral accounts.[11] OEB Staff further submitted that, following the Board's approval of the associated rates, these accounts should be considered, and operate as, variance accounts from that point forward.[12] Enbridge Gas supports OEB Staff's interpretation of these accounts.

---

[7] ED Submission, p. 1.

[8] BOMA Submission, p. 5; CCC Submission, p. 4; CME Submission, p. 1; Energy Probe Submission, p. 5; LPMA Submission, p. 5; SEC Submission, p. 1; VECC Submission, pp. 5-6.

[9] Energy Probe Submission, p. 5.

[10] ED Submission, p. 1.

[11] OEB Staff Submission, pp. 5-6.

[12] OEB Staff Submission, pp. 5-6.

10. While BOMA does not oppose the establishment of an administration deferral account it believes that two such accounts should ultimately be approved by the OEB; one for each of the EGD rate zone and the Union rate zones.[13] This would not be efficient, as Enbridge Gas can sufficiently track costs directly associated with each rate zone without establishing additional accounts. Additionally, many costs will be incurred to support Enbridge Gas's compliance with the FCPP that are not specific to a particular rate zone, these costs will need to be apportioned between the rate zones. Enbridge Gas's future applications to dispose of balances in the proposed Greenhouse Gas Emissions Administration Deferral Account ("GGEADA") will provide rate zone-specific cost detail, including details of costs directly attributable to each rate zone, as well as costs apportioned between rate zones. Enbridge Gas's proposal to establish a single GGEADA while tracking rate zone specific costs separately is the most reasonable and prudent course of action as it helps to minimize the number of deferral accounts maintained by the utility and it is supported by a number of intervenors.[14]

11. ***Z-Factor treatment would not be appropriate.*** SEC argues that the administrative costs (forecasted at $3.1 million for 2019, not $1.8 million as SEC asserts), should be considered in isolation and receive Z-Factor treatment such that these costs should be absorbed within Enbridge Gas's existing operational budget.[15] The Board should reject SEC's submission.

12. Enbridge Gas's total forecasted cost of compliance with the GGPPA in 2019 is expected to exceed $364 million when considered in aggregate and as such greatly exceeds the materiality thresholds established for Enbridge Gas. As detailed in the response at Exhibit I.STAFF.11, consistent with the OEB's guidance from the Cap and Trade Framework, Enbridge Gas proposed to breakdown the costs associated with the Federal Carbon Pricing Program ("FCPP") into customer-related, facility-related and administration costs for ease of understanding the nature of these costs.[16] There is no

[13] BOMA Submission, p. 3.

[14] CCC Submission, p. 4; LPMA Submission, p. 5; VECC Submission, pp. 5-6.

[15] SEC Submission, pp. 1-2.

[16] EB-2015-0363 Regulatory Framework for the Assessment of Cost of Natural Gas Utilities' Cap and Trade Activities, Section 6, p. 29.

reason to treat administrative costs associated with compliance with the GGPPA any differently than administrative costs were treated under Ontario's defunct Cap and Trade program. In its Cap and Trade Framework, the Board determined that administrative costs incurred to support both facility-related and customer-related obligations qualified as a cost pass-through to customers.[17] Thus, they should be treated as Y-factor events, which include costs associated with specific items that are subject to deferral account treatment and are passed through to customers without any price cap adjustment or consideration of materiality.[18]

13. Further, as set out in the response at Exhibit I.STAFF.11, the administrative costs forecasted by Enbridge Gas represent only the initial costs associated with managing Enbridge Gas's customer-related and facility-related obligations under the FCPP. Enbridge Gas expects that its administration costs will exceed this level in 2019 and beyond, to the extent that:

    i) the GGPPA and related legislation continues to be modified by government;

    ii) Output-Based Pricing System ("OBPS") regulations are finalized (including the establishment of a market for surplus credits and offset credits);

    iii) the FCPP is supplanted by alternative federal or provincial programming; or

    iv) incremental federal or provincial programs are launched (e.g., Federal Clean Fuel Standard).

14. In any event, Enbridge Gas's forecasted administration costs are not being disposed of at this time, and thus SEC's arguments are outside the scope of this proceeding. In its Procedural Order No. 2, the Board made clear that it would not be approving the forecast administration costs in this proceeding, and that actual administration costs would be subject to a review for prudence upon disposition.[19] Arguments about the appropriate

---

[17] EB-2015-0363 Regulatory Framework for the Assessment of Cost of Natural Gas Utilities' Cap and Trade Activities, Section 6.1, p. 31.
[18] Exhibit 1.STAFF.11, p. 4.
[19] Procedural Order No. 2, p. 2.

treatment of these costs are properly made at the time of disposition, and not as part of this proceeding.

15. ***Approval should not be conditional upon consultations***. APPrO argues that the OEB should require Enbridge Gas, as a condition of its approval in this decision, to consult directly with and obtain consent from all affected gas fired generators on Enbridge Gas's proposed disposition methodologies prior to seeking disposition of Enbridge Gas's proposed deferral and variance accounts.[20] The Board should reject APPrO's submission.

16. Consistent with the OEB's Procedural Order No. 2, the prudence of deferral and variance account balances, associated disposition methodologies and consultation on future disposition methodologies are not at issue in this proceeding. It is not reasonable or appropriate to make the OEB's approval to pass-through the costs of the GGPPA in Enbridge Gas's rates contingent upon APPrO's or gas fired generators' singular and subjective approval of disposition methodologies in the future.

17. The deferral and variance account disposition methodologies employed by Enbridge Gas, formerly Union and EGD, have been subject to review by the OEB and intervenors, including APPrO, and in all instances have been subsequently approved or adjusted by the OEB as part of that review accordingly. By actively representing the interests of its members in future OEB proceedings APPrO, on behalf of gas fired generators, will be afforded ample opportunity to support or oppose Enbridge Gas's proposed disposition methodologies in a transparent and balanced manner.

18. ***Deferral and variance accounts are not being cleared at this time***. LPMA submitted that the OEB should move immediately to clear the balances in Enbridge Gas's proposed customer-related and facility-related accounts as soon as possible, including through interim recovery, in order to avoid interest accumulation.[21] Enbridge Gas's forecasted balances in these accounts at June 30, 2019, as detailed in the response at Exhibit I.LPMA.3, are approximately $103.3 million, not $308 million as LPMA asserts. Similarly, ED asks that the OEB expeditiously approve Enbridge Gas's Application in

[20] APPrO Submission, p. 5.

[21] LPMA Submission, p. 6.

order to decrease financing costs associated with amounts remitted to the federal government on a monthly basis.[22]

19. OEB Staff submitted that Enbridge Gas should apply to dispose of the 2019 balances in its proposed deferral and variance accounts as part of a future annual Federal Carbon Pricing Program-related application so that all FCPP-related costs and balances are reviewed in the same proceeding.[23]

20. As set out in the response at Exhibit I.STAFF.13, Enbridge Gas supports the expedient and timely clearance of 2019 balances in the proposed accounts that accumulate during the period in which FCPP-related rates are not included on customers' bills, including interim disposition, through a stand-alone application or future annual Federal Carbon Pricing Program-related application.

D. There is no need to adjust the proposed presentation of the charges on customer bills

21. OEB Staff and intervenors broadly supported or did not oppose Enbridge Gas's proposal to present the Federal Carbon Charge (for customer-related or Customer volumes) as a separate line item on customer bills.[24] Further, OEB Staff, Energy Probe, ED and SEC also supported or did not oppose Enbridge Gas's proposal to include the Facility Carbon Charge (for Enbridge Gas facility-related or Company Use volumes) in the delivery or transportation charges on bills.[25]

22. OEB Staff submitted that, *"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*

---

[22] ED Submission, pp. 1-2.

[23] OEB Staff Submission, p. 6.

[24] OEB Staff Submission, pp. 4-5; CCC Submission, p. 3; CME Submission, p. 2; Energy Probe Submission, p. 4; ED Submission, pp. 2-3; IGUA Submission, p. 2; SEC Submission, pp. 2-3; VECC Submission, p. 3.

[25] OEB Staff Submission, pp. 4-5; Energy Probe Submission, p. 4; ED Submission, pp. 2-3; SEC Submission, pp. 2-3.

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 customers' consumption."[26] Similarly, ED submitted that Enbridge Gas's requested orders and proposal regarding bill presentment are reasonable and prudent.[27]

23. ***Proposed changes to bill presentment unnecessary and undesirable.*** Certain intervenors (BOMA, CCC, FRPO, and LPMA) argue that the Facility Carbon Charge should be combined with the Federal Carbon Charge line item on customers' bills while other intervenors (CME and VECC) argue that the Facility Carbon Charge should be set out as a separate and distinct line item on customer bills.[28] IGUA argued for either of these alternatives.[29] These changes to bill presentment would involve an additional – and unnecessary – cost to ratepayers and delay the implementation of proposed rates. Further, they would reduce overall transparency and lead to customer confusion.

24. Other intervenors agree with Enbridge Gas's position. Energy Probe highlighted that combining the two charges is not necessary: *"If the objective of the GGPPA is to provide customers with an incentive to reduce their use of natural gas, customers need information of the consequences of their own use, not the use of natural gas by Enbridge in its operations. Combining the two charges would provide gas customers with inaccurate information."*[30] Similarly, ED is of the view that Enbridge Gas's proposed bill presentation is reasonable, because *"a single line item on bills is the most straightforward and easy to understand approach."*[31] ED also submitted that including Facility Carbon Charges in the delivery and transportation charge, as proposed, is reasonable and in the best interest of ratepayers because these costs are minimal and are properly classified as an operational cost, and combining Federal Carbon Charges

[26] OEB Staff Submission, pp. 4-5.
[27] ED Submission, p. 1.
[28] BOMA Submission, p. 4; CCC Submission, p. 3; CME Submission, p. 2; FRPO Submission, pp. 1-2; LPMA Submission, p. 4; VECC Submission, pp. 3-4.
[29] IGUA Submission, pp. 2-3.
[30] Energy Probe Submission, p. 4.
[31] ED Submission, p. 2.

(customer-related) and Facility Carbon Charges (facility-related) costs on bills could cause confusion.[32]

25. Enbridge Gas agrees with OEB Staff, Energy Probe and ED and in particular with the assertion that when compared to the forecasted total cost of compliance with the GGPPA of approximately $364 million, the total forecasted Facility Carbon Charges of approximately $2.3 million are minimal. Facility Carbon Charges will comprise 0.2% or less, of total FCPP-related charges and less than 0.04% of customers' total bill. Enbridge Gas estimates that on a monthly basis, for residential customers, the Facility Carbon Charge will equate to approximately $0.01 to $0.03. Enbridge Gas expects that for up to five months per year, the Facility Carbon Charge will be zero dollars due to low consumption. Enbridge Gas's standard practice is not to display line items that equate to a charge of zero dollars on customer bills. It is neither necessary nor appropriate to set out such a minimal, ambiguous and intermittent amount separately on customers' bills to achieve transparency. Further, doing so is likely to obscure the Federal Carbon Charge, which is the most significant and influenceable cost to customers, and to cause significant customer confusion as the second line item would appear in certain months and not in others.

26. LPMA argues that, if the Facility Carbon Charges are consistent with other costs included in delivery and transport charges, then Enbridge Gas should not be allowed to recover these costs and should not be granted deferral and variance accounts associated with them.[33] Similar to other intervenors (BOMA, CCC and FRPO), LPMA goes on to argue that the Facility Carbon Charge should be combined with the Federal Carbon Charge on customer bills.[34] These submissions ignore the operational nature and scale of these forecasted charges. Further, by combining Federal Carbon Charges with Facility Carbon Charges, customers' FCPP-related charges on bills would be irreconcilable with any cost of emissions issued by the federal government. To use LPMA's analogy to the

[32] ED Submission, pp. 2-3.
[33] LPMA Submission, pp. 3-4.
[34] LPMA Submission, p. 4.

harmonized sales tax ("HST"), how transparent would HST be if the rate charged to customers differed from the government's official posted rate of 13%?

27. As set out above, the Board has already determined that facility-related charges in the context of the Cap and Trade program should be treated as a pass-through to customers.[35] There is no reason facility-related charges pursuant to the federal GGPPA should be treated any differently. In any event, Facility Carbon Charges are operational in nature, resulting from emissions associated with: (i) the natural gas volumes consumed by Enbridge Gas (Company Use volumes) to operate (heat and power) its offices and technical buildings, line heaters, natural gas service vehicle fleet (under Part 1 of the GGPPA); and (ii) emissions associated with the natural gas volumes consumed by Enbridge Gas to operate its storage and transmission compressors (under Part 2 of the GGPPA). Given this, there is no basis to treat Facility Carbon Charges differently than any other operational cost, including government-imposed costs like property taxes and income taxes, which are part of rates but are not disclosed separately on customers' bills. Further, Enbridge Gas has proposed to include detail on the Federal Carbon Charge and Facility Carbon Charge on its rate schedules for the EGD rate zone and Union rate zones to provide transparency to customers.[36]

28. LPMA also argues that by combining the Federal Carbon Charge and Facility Carbon Charge into one line item on customers' bills, it should be simpler for Enbridge Gas to track the amount of money collected that needs to be remitted to the federal government.[37] LPMA's conclusion is not correct. Facility Carbon Charges are based on Company Use volumes which are subject to, and calculated in accordance with, both Parts 1 and 2 of the GGPPA. Combining these charges with the Federal Carbon Charge on customers' bills in no way saves money, makes accounting for remittance to the federal government any easier, or changes the accounting processes set out in the responses at Exhibit I.STAFF.4 and at Exhibit I.STAFF.9.

---

[35] EB-2015-0363 Regulatory Framework for the Assessment of Cost of Natural Gas Utilities' Cap and Trade Activities, Section 6, p. 30.

[36] Exhibit E, pp. 6-7.

[37] LPMA Submission, p. 3.

29. IGUA and CCC assert that Enbridge Gas has not adequately explained the costs or time to present the Facility Carbon Charge separately on customer bills, yet this was not part of Enbridge Gas's Application and this information was not requested as part of the interrogatory process.[38] Based on Enbridge Gas's preliminary estimates, the incremental administrative cost to develop a combined Federal Carbon Charge and Facility Carbon Charge single line item on customer bills would be approximately $43,000 in 2019,[39] and the incremental cost to develop a separate and distinct Facility Carbon Charge line item, in addition to the proposed Federal Carbon Charge line item, on customer bills would be approximately $41,000 in 2019.[40] Moreover, Enbridge Gas estimates that the incremental design, development and testing required for such changes would take a minimum of six weeks. Based on this timeline Enbridge Gas expects that it is too late to implement such changes for August 1, 2019 and that, dependent upon the Board's direction and timing, the soonest it could implement such changes would be for September 1, 2019 (if Enbridge Gas is directed to modify the presentation of customers' bills on or before July 15, 2019). Enbridge Gas reminds the OEB that, in addition to the incremental administration costs noted above, any additional delay to collecting charges from customers caused by changes to the proposed bill presentment will lead to the accumulation of incremental balances, including interest, in associated customer-related and facility-related deferral and variance accounts.

30. ***Additional statement on bills***. CCC proposes that a footnote be included on customers' bills, in relation to the Federal Carbon Charge, that states *"This charge relates to the impact on your bill of the Federal Carbon Pricing Program."*[41] Enbridge Gas is willing to and capable of implementing a temporary message, in order to help inform customers, upon implementation of these charges and as required in the future. However, Enbridge Gas will tailor such messaging to maximize customer understanding while not exceeding

---

[38] CCC Submission, p. 3; IGUA Submission, pp. 2-3.

[39] Composed of approximately $30,000 for the Union rate zones and $13,000 for the EGD rate zone in 2019. Enbridge Gas anticipates some ongoing administration costs beyond 2019 tied to managing monthly rate exemptions and associated adjustments on bills.

[40] Composed of approximately $30,000 for the Union rate zones and $11,000 for the EGD rate zone in 2019. Enbridge Gas anticipates some ongoing administration costs beyond 2019 tied to managing monthly rate exemptions and associated adjustments on bills.

[41] CCC Submission, p. 3.

the maximum number of characters available and recognizing that the placement of this messaging on bills may vary. Enbridge Gas does not generally maintain such messages on a long-term basis on customers' bills in order to avoid customer complacence regarding its messaging.

31. In addition, Enbridge Gas has provided a detailed Communication Plan within its Application.[42] As detailed in the response at Exhibit I.STAFF.8, Enbridge Gas will continue to leverage the cost effective strategies outlined in its Communication Plan to communicate the details and impacts of the FCPP to its customers going forward.

E. Enbridge Gas's proposed Communication Plan is reasonable

32. ED states that Enbridge Gas's proposed communications plan is reasonable,[43] and argues that Enbridge Gas should highlight the federal governments Climate Action Incentive payments in communications as a source of funds for customers to invest in efficiency solutions.[44] VECC generally supports the Communication Plan, but emphasizes the need for bill inserts to help low-income and vulnerable customers understand the new charges.[45] BOMA states that the communications plan should include bill inserts explaining the charges and providing information on energy efficiency.[46]

33. As discussed in the responses at Exhibit I.STAFF.8 and at Exhibit I.CCC.3, Enbridge Gas intends to communicate FCPP-related bill messaging via bill inserts, on-bill messaging, on its website and through a social media campaign. Enbridge Gas is willing to consult with VECC and other stakeholders to tailor communications for low-income and vulnerable customers as appropriate going forward. As discussed in the response at Exhibit I.LPMA.4, Enbridge Gas will leverage planned FCPP-related communications to include information on existing energy efficiency programs, at no increased cost to customers, in order to help customers identify ways of mitigating their energy costs in 2019 and beyond. Enbridge Gas intends to include a hyperlink in its FCPP-related bill

[42] Exhibit A, Appendix C.
[43] ED Submission, p. 2.
[44] ED Submission, p. 1.
[45] VECC Submission, pp. 4-5.
[46] BOMA Submission, p. 5.

inserts to the federal government's publicly posted information on Climate Action Incentive payments.

F. Conclusions and relief sought

34. For the reasons set out above and in its Argument-in-Chief, Enbridge Gas respectfully requests that the OEB make the following findings, determinations and orders:

(1) Approve Enbridge Gas's request 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 GGPPA;

(2) Approve Enbridge Gas's request to recover Facility Carbon Charge costs on a volumetric basis, included in delivery or transportation charges; and

(3) Approve Enbridge Gas's request to establish five new deferral and variance accounts resulting from compliance with the GGPPA on a final basis.

****

All of which is respectfully submitted this 10th day of June, 2019.

[*Original Signed by*]

____

Adam Stiers
Technical Manager Regulatory Applications