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June 21, 2019

Delivered by Email, RESS & Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Enbridge Gas Inc.
Cap and Trade-related Deferral and Variance Accounts
Board File No. EB-2018-0331
Written Submissions of The Association of Power Producers of Ontario

In accordance with Procedural Order No. 4, please find enclosed the Association of Power Producers of Ontario's written submissions in the above noted proceeding.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A.D. Vellone

John A.D. Vellone

cc: David Butters, APPrO
All Parties to EB-2018-0331

EB-2018-0331

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

AND IN THE MATTER OF an Application by Enbridge Gas Inc. for an order or orders clearing 2016-2018 Cap-and-Trade-related deferral and variance accounts.

SUBMISSIONS OF THE
ASSOCIATION OF POWER PRODUCERS OF ONTARIO ("APPrO")

Filed: June 21, 2019

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INTRODUCTION:

1. Effective January 1, 2019, Enbridge Gas Distribution Inc. ("**EGD**") and Union Gas Limited ("**Union**") amalgamated to form Enbridge Gas Inc. ("**Enbridge Gas**").

2. The Association of Power Producers of Ontario ("**APPrO**") makes these written submissions on the application filed by Enbridge Gas with the Ontario Energy Board ("**OEB**") on February 21, 2019 seeking approval of the disposition and recovery of 2016-2018 Cap-and-Trade-related deferral and variance account balances for Enbridge Gas rate zones[1] (the "**Application**").

3. The Board assigned file number EB-2018-0331 to this proceeding.

4. APPrO's submissions are informed by the Report of the Board, *Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities*, EB-2015-0363 dated September 26, 2016 (the "**Framework**") and the Board's Decision and Order dated September 21, 2017 in respect of EGD and Union's applications for approval of 2017 Cap and Trade Compliance Plan cost consequences (the "**2017 Decision**")[2]

IMPACT ON APPrO MEMBERS:

5. Among APPrO's members are gas-fired generators in the Enbridge and Union Gas franchise areas. Within the Enbridge franchise, these generators take service primarily under Rate 125. Within the Union's North and South franchise areas, gas-fired generators primarily contract for distribution and transportation services under several rate classes, including Rate T2, Rate 20, Rate 100 and Rate M12.

6. These APPrO members participate in Ontario's electricity market administered by the Independent Electricity System Operator (the "**IESO**"). Gas-fired generators must, pursuant to the IESO market rules, make offers to bid into the electricity market based only upon their "marginal costs". The Hourly Ontario Electricity Price ("**HOEP**") is established as

[1] Enbridge Gas rate zones are comprised of EGD, Union North and Union South rate zones).
[2] EB-2016-0296 / EB-2016-0300 / EB-2016-0330

these offers are cleared and scheduled by the IESO.

7. In making these submissions, APPrO's objectives are to: (1) protect the interests of customers with respect to price of electricity service, (2) to promote the economic efficiency and cost effectiveness in the generation of electricity, and (3) to facilitate the maintenance of a financially viable electricity industry.

8. These objectives are attained by ensuring that utilities, in this case EGD and Union, has acted with prudence and reasonableness in incurring their Cap and Trade costs.

COST EFFECTIVENESS, CONTINUOUS IMPROVEMENT AND PRUDENCE:

Table 1 – Administrative Costs and Compliance Obligation Comparison Chart

Year	Union's Costs for Salaries and Wages	EGD's Costs for Salaries and Wages	Union's Total Administrative Costs	EGD's Total Administrative Costs	Union's Compliance Obligation (10^3m^3)	EGD's Compliance Obligation (10^3m^3)
2016	$1,682,000[3] (73% of total)	$533,000[4] (61% of total)	$2,290,000	$867,000	Volume information not provided in EB-2018-0331	Volume information not provided in EB-2018-0331
2017	$2,438,000[5] (74% of total)	$695,000[6] (30% of total)	$3,280,000	$2,312,000	11,275,357[7]	8,287,761[8]
2018	$1,380,000[9] (56% of total)	$519,000[10] (26% of total)	$2,436,000	$1,890,000	20,097,791[11]	7,957,882[12]

[3] EB-2018-0331 - Application Exhibit B, Tab 2, page 6
[4] EB-2018-0331 - Application Exhibit B, Tab 1, page 5
[5] EB-2018-0331 - Application Exhibit B, Tab 2, page 9
[6] EB-2018-0331 - Application Exhibit B, Tab 1, page 8
[7] 2017 Forecast Volume EB-2016-0300 Exhibit B Tab 2 Schedule 1 Page 5 – combining customer-related and facility-related GHG emission obligations.
[8] 2017 Forecast Volume EB-2016-0296 Exhibit 7 Schedule 1 at Page 1 – combining customer-related and facility-related GHG emission obligations.
[9] EB-2018-0331 - Application Exhibit B, Tab 2, page 14
[10] EB-2018-0331 - Application Exhibit B, Tab 1, page 13
[11] 2018 Forecast Volume EB-2017-0224 Exhibit B Tab 3 Schedule 1 Page 5– combining customer-related and facility-related GHG emission obligations.
[12] 2018 Forecast Volume EB-2017-0255 Exhibit 2 Schedule 1 Page 1– combining customer-related and facility-

9. The amount of actual administrative costs for Cap and Trade activities that EGD and Union are now seeking to recover totals over $13 million.

10. Table 1 shows that Union's estimated compliance obligation is significantly lower than EGD's estimated compliance obligation for GHG emission in 2017 and 2018. However, Union's administrative costs are significantly higher than EGD's. APPrO submits that Union has not justified why their administrative costs are higher than EGD's despite having a lower compliance obligation.

11. Union's actual costs for salaries and wages were more than double that of EGD during the 2016-2018 period. Enbridge Gas argues that Union's FTE requirements over the 2016 to 2018 period were higher compared to EGD's because Union took on longer-term investments, new business activities and abatement and offset opportunities earlier. They had treated the 2017 Decision as "an unequivocal signal to the Utilities to continue their pursuit of longer-term investments, new business activities, abatement opportunities and associated offset opportunities."[13]

12. In particular, Enbridge Gas quoted from the 2017 Decision: "The OEB finds that the administrative costs proposed by each of the Gas Utilities are consistent with the expectations established in the Cap and Trade Framework."[14]

13. APPrO submits that this quote regarding OEB's findings on the administrative costs is not reflective of the 2017 Decision. In the 2017 Decision, the OEB did not assess the <u>cost-effectiveness</u> or <u>reasonableness</u> of EGD and Unions proposed costs. The OEB decided that the assessment for cost-effectiveness and reasonableness of the actual costs for EGD and Union will take place when they are filed as part of the 2019 Compliance Plan proceeding.[15] Therefore, no finding on whether the costs were cost-effective and reasonable were made.

14. APPrO also submits that EGD and Union failed to combine their resources to better manage

related GHG emission obligations.

[13] EB-2018-0331 - IRR Exhibit I.STAFF.6 at page 4.

[14] Ibid.

[15] EB-2016-0296 / EB-2016-0300 / EB-2016-0330 Decision and Order dated September 21, 2017 at page 16.

their administrative costs.

15. As mentioned, EGD and Union merged to form Enbridge Gas effective January 1, 2019. However, prior to this, on February 27, 2017, Enbridge Inc. (EGD's parent company) acquired all of the common stock of Spectra Energy (Union's parent company) and therefore Union became a wholly owned subsidiary of Enbridge.[16] This means that both utilities have been operating under common ownership since early 2017.

16. Despite having the advantage of being able to share resources for administering the Cap and Trade programs as early as 2017, EGD and Union chose to continue to operate as separate entities and only after the amalgamation of EGD and Union will they develop a detailed integration plan.[17] This clearly works against the principles of the Framework, which is to promote cost effectiveness and economic efficiencies.

17. Enbridge Gas argues that the OEB must give consideration to the fact that Union and EGD were separate and distinct legal entities, operating under unique IR mechanisms, developing and implementing separate Compliance Plans and procurement strategies from 2016 to 2018.[18]

18. However, APPrO submits that the Framework encourages continuous improvement in the processes and practices utilities use to meet their compliance obligations cost effectively.[19]

19. In the Decision and Order of the 2017 Cap and Trade proceedings[20] OEB staff submitted that "flexibility should be built into internal and external resources such that future budgets can be adjusted to reflect cost savings in the event that Enbridge and Union combine their cap and trade activities."[21] OEB staff, like APPrO, also had the vision that EGD and Union should combine their Cap and Trade activities and encouraged the application of flexibility

[16] EB-2017-0306/EB-2017-0307 MAADs Application Exhibit B, Tab 1 at page 9
[17] EB-2017-0255 Interrogatory Responses ("IRR") Exhibit B.Staff.14a) at page 1
[18] EB-2018-0331 - IRR Exhibit I.STAFF.6 at page 7
[19] Framework at page 6.
[20] EB-2016-0296 / EB-2016-0300 / EB-2016-0330
[21] EB-2016-0296 / EB-2016-0300 / EB-2016-0330 Decision and Order dated September 21, 2017 at page 15.

for achieving cost effectiveness.

20. Similarly, in the previous 2018 Cap and Trade proceedings, APPrO submitted that the utilities should work more cooperatively to reduce the cost burden on ratepayers. APPrO raised an example where Union and Centra, prior to amalgamation, had operated under a shared service model and the same shared services model could be used by EGD and Union to administer at least in part the Cap and Trade programs.[22] APPrO reiterates this position.

21. APPrO submits that EGD and Union had the ability but failed to mitigate their administrative costs. In dealing with the FTEs for Federal Carbon Pricing Plan ("**FCCP**"), Enbridge Gas explained that EGD and Union were able to merge the Carbon Strategy teams at EGD and Union into one Enbridge Gas team and after reviewing the roles and responsibilities of the FTEs working on the FCPP, the number of FTEs were reduced from seven to five.[23] APPrO submits this same strategy could have been used to mitigate administrative costs for administering the Cap and Trade activities. However, EGD and Union had failed to do so for the Cap and Trade program.

22. Finally, Union has a Z-Factor materiality threshold of $4M[24].

23. As part of their Settlement Agreement in their IRM proceedings, criteria was set out for Z-factor. It included that the parties agree that for prospective or historical cost increases/decreases to qualify for pass through as a "Z factor", the cost increases/decreases must meet the materiality threshold of $4.0 million of **annual** net delivery revenue requirement impact per Z factor event. Net delivery revenue requirement will be defined in the same manner as set forth in Section 6.6 above."[25]

24. As shown in Table 1, the amount of administrative costs Union seeks to recover does not meet the $4M net delivery revenue requirement materiality threshold.

[22] EB-2017-0224/EB-2017-0255/EB-2017-0275 Final Submissions of APPrO dated May 31, 2018 at page 6.
[23] EB-2018-0331 - IRR Exhibit I.STAFF.4 at page 2.
[24] EB-2013-0202
[25] EB-2013-0202, Union Gas Limited Settlement Agreement, July 31 2015, Ex.A-2, section 8

DISPOSITION METHODOLOGY

25. The disposition methodologies used by Union and EGD for Cap and Trade deferral and variance account balances have been been an ongoing concern for APPrO.

26. In its Interrogatories[26], APPrO asked Enbridge Gas if EGD and Union (Enbridge Gas) consulted with gas-fired generators prior to proposing the disposition methodologies for the final Cap and Trade deferral and variance account balances for both EGD and Union rate zones. Enbridge Gas responded by saying that they had consulted with gas fired generators as well as APPrO and IESO prior to proposing disposition methodologies for these balances.

CONCLUSION:

27. APPrO submits that EGD and Union (i.e. Enbridge Gas) did not act with prudence and reasonableness in administering the Cap and Trade program. They did not use their resources to improve their cost-effectiveness and did not show any improvement in strategy for reducing the cost burden on ratepayers.

28. APPrO submits that the Board should reduce the amount recoverable for administrative costs, in particular, for the Union franchise to the costs range of EGD.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 21ST DAY OF JUNE, 2019

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A.D. Vellone

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John A.D. Vellone
Counsel for the Association of Power
Producers of Ontario

[26] EB-2018-0331 - IRR Exhibit I.APPrO.1 Page 1-2