Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

June 21, 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. and EPCOR Natural Gas Limited Partnership
2016-2018 Cap and Trade-related Deferral and Variance Accounts
OEB File Number: EB-2018-0331

In accordance with Procedural Order No. 4, please find attached OEB staff's public submission in the above noted proceeding.

OEB staff has also filed separate submissions to Enbridge Gas Inc. and EPCOR Natural Gas Limited Partnership with respect to strictly confidential information.

Yours truly,

Original signed by

Laurie Klein
Policy Advisor, Application Policy and Climate Change

cc: All Parties in EB-2018-0331

ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc. and EPCOR Natural Gas Limited Partnership

2016-2018 Cap and Trade-related Deferral and Variance Accounts

EB-2018-0331

June 21, 2019

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INTRODUCTION

On December 7, 2018, the Ontario Energy Board (OEB) issued a Notice of Hearing and Procedural Order No. 1 for a combined hearing to proceed with a prudence review of the cap and trade-related variance and deferral account balances for Enbridge Gas Inc.[1] (Enbridge Gas) and EPCOR Natural Gas Limited Partnership (EPCOR Gas) (collectively, the Gas Utilities). Given that the applications in this proceeding were filed prior to the completion of the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union), this submission sometimes refers to the names of the predecessor companies for ease of reference.

Also, in the Notice and Procedural Order No. 1, the OEB directed the Gas Utilities to file supplemental evidence.

In this proceeding, the Gas Utilities are requesting approval to dispose and recover the 2016-2018 cap and trade-related balances relating to the discontinuance of the provincial cap and trade program. These balances are contained in three separate accounts:

- Greenhouse Gas Emissions Impact Deferral Account (GGEIDA)
- Greenhouse Gas Emissions Compliance Obligation – Customer-Related (GGECO-Customer-Related)
- Greenhouse Gas Emissions Compliance Obligation – Facility-Related (GGECO-Facility-Related)[2]

The following is the submission of OEB staff on the public record in the proceeding. In accordance with the OEB's Decision and Procedural Order No. 4, OEB staff's submissions on the strictly confidential evidence will be filed separately.[3]

OEB STAFF SUBMISSION on PUBLIC INFORMATION

EPCOR Gas

OEB staff has not identified any issues with the 2017-2018 balances in the GGECO variance accounts for EPCOR Gas. OEB staff has identified an issue with the 2016-2018 GGEIDA balance. OEB submits that EPCOR Gas should not recover its 2016

[1] Formerly of Enbridge Gas Distribution Inc. and Union Gas Limited
[2] For Enbridge Gas – Exhibit A, p. 10 and for EPCOR Gas - Application, p. 4.
[3] Strictly confidential treatment has been applied to the following two types of information: auction confidential and market sensitive information.

actual administration costs in the GGEIDA pursuant to the OEB's Decision and Order related to the 2017 Compliance Plans.[4]

The proposed 2016-2018 balances in the cap and trade-related deferral and variance accounts for EPCOR Gas are summarized below[5]:

EPCOR Gas	**2016**	**2017**	**2018**	**Total**
GGEIDA	$25,182	$125,188	$117,972	$268,342
GGECO-Customer-Related		$92,616	$(258,950)	$(166,334)
GGECO-Facility-Related		$913	$(2,174)	$(1,261)
Total	**$25,182**	**$218,717**	**$(143,152)**	**$100,746**

EPCOR Gas proposed to dispose of its cap and trade-related deferral and variance account balances over an 8-month period starting May 1, 2019 through December 31, 2019[6]. The monthly bill impact of a typical residential customer is estimated to be $1.12[7].

OEB staff supports EPCOR Gas' proposal to dispose of its balances over a 8-month period as this would result in reduced bill impacts for residential customers. However, EPCOR Gas' proposed starting period of May 1, 2019 will need to be updated and aligned with the OEB's decision in this proceeding. Also, EPCOR Gas may need to extend the time period for its interest calculation from April 30, 2019 to align with the OEB's decision in this proceeding.

OEB staff has not identified any issues with the 2017-2018 balances in the GGECO variance accounts as these costs are the difference between EPCOR Gas' actual costs for executing its compliance strategy and the amounts recovered in OEB-approved rates in 2017 and 2018.

EPCOR Gas proposed to include its 2016 actual administration costs of $25,182 in the GGEIDA. EPCOR Gas argued that the 2016 costs in the GGEIDA were incurred to plan and prepare for the cap and trade program and to ensure that the required processes were in place by the implementation date. It was EPCOR Gas' position that the 2016 administration costs were prudently incurred to effectively administer and manage the cap and trade program, and therefore it is reasonable to include these costs in the GGEIDA.[8]

[4] EB-2016-0296 / EB-2016-0300 / EB-2016-0330, Decision and Order, September 21, 2017.
[5] Application, p. 5. Includes interest calculated up to April 30, 2019.
[6] Application, p. 6.
[7] Application, p. 11.
[8] OEB-STAFF-1, p. 2.

OEB staff notes that the OEB, in its Decision and Order[9] related to the 2017 Compliance Plans, directed EPCOR Gas to establish the GGEIDA to track its administrative costs, effective January 1, 2017. Therefore, OEB staff submits that EPCOR Gas should not recover the 2016 actual administration costs of $25,182 in the GGEIDA pursuant to the OEB's Decision and Order. OEB staff also submits that allowing EPCOR Gas to claim the 2016 actual administration costs without a deferral account effective January 1, 2016 constitutes retroactive ratemaking. OEB staff is of the view that it is the responsibility of the natural gas distributor to request deferral and variance accounts that will allow the distributor to track costs starting at a particular date.

OEB staff has not identified any issues with the 2017 balance in the GGEIDA. However, OEB staff notes that there may be a discrepancy in the 2018 GGEIDA balance.[10] In particular, the 2018 actual administration costs in one interrogatory response is shown as $105,380[11] and in another response it is shown as $103,369[12]. This discrepancy should be addressed in EPCOR Gas' Reply Argument in this proceeding.

Enbridge Gas

Salaries and wages costs are tracked in the GGEIDA account for EGD and Union. OEB staff submits that Union has double the salaries and wages costs compared to EGD and this has not been justified. Therefore, OEB staff submits that the OEB reduce the recovery for Union's wages and salaries costs in the GGEIDA by 5-10% (or by $275,000 - $550,000). OEB staff has not identified any issues with the 2017-2018 balances in the GGECO variance accounts for Enbridge Gas.

Enbridge Gas requested approval to dispose and recover the 2016-2018 final cap and trade-related balances as at December 31, 2018:[13]

Account (in 000's)	EGD Rate Zone	Union Rate Zones
GGEIDA	$(705)	$(40)
GGECO-Customer Related	$(6,135)	$1,158

[9] EB-2016-0296 / EB-2016-0300 / EB-2016-0330, Decision and Order, September 21, 2017.
[10] In OEB-STAFF-1, p. 3, the 2018 actual administration costs is $105,380 and in OEB-STAFF-3, p. 3, the 2018 actual administration costs is $103,369.
[11] OEB-STAFF-1, p. 3
[12] OEB-STAFF-3, p. 3
[13] Ex A, p. 10.

Account (in 000's)	**EGD Rate Zone**	**Union Rate Zones**
GGECO-Facility Related	$1,244	$188
Total	**$(5,596)**	**$1,307**

For EGD, the impact of the proposed final disposition of the cap and trade balances is estimated to be a refund of $0.59 for a typical residential customer which would be administered to customers as a one-time billing adjustment on their October 2019 bills.[14]

For Union, the impact of the proposed final disposition of the cap and trade balances is estimated to be an increase of $0.38 per month for a typical residential customer in Union South and a decrease of $0.08 per month for Union North residential customers based on a 3-month disposition period from October 1 to December 31, 2019.[15]

OEB staff has not identified any issues with the balances in the GGECO variance accounts as these costs are the differences between Enbridge Gas' actual costs for executing its compliance strategy and the amounts recovered in OEB-approved rates in 2017 and 2018.

However, as noted above, OEB staff has concerns that there is a large difference in the salaries and wages costs between EGD[16] and Union[17] in the GGEIDA as shown below:

	Incremental Actual Costs – Wages and Salaries*[18]			
	2016	**2017**	**2018 (Jan 1 – Jul 3)**	**2018 (Jul 4 – Sept 30)**
Union Rate Zones	$1,682,000 (8 FTEs)	$2,438,000 (12.5 FTEs)	$1,211,000 (11.4 FTEs)	$169,000 (3.5 FTEs)
EGD Rate Zone	$533,000 (2.8 FTEs)	$695,000 (4.4 FTEs)	$357,000 (5.0 FTEs)	$162,000 (4.0 FTEs)

*Average FTEs

[14] Ex D, T2, pp. 5-6.
[15] Ex D, T1, pp. 5-6
[16] Ex B, T1, p. 5.
[17] Ex B, T2, p. 5.
[18] Exhibit I.STAFF.6.

Enbridge Gas indicated that the higher number of FTEs for Union (and associated higher wages and salaries costs) arise principally from the following two reasons:

- Union took a strategic approach to begin working on longer-term investments, new business activities and abatement including offset opportunities earlier
- Union and EGD operated under different incentive regulation (IR) models.[19]

Enbridge Gas further argued that the OEB, in its Decision and Order related to the 2017 Compliance Plans, sent an unequivocal signal to the distributors to continue their pursuit of longer-term investments, new business activities and abatement including offset opportunities. In particular, Enbridge Gas focused on a part of the Decision and Order where the OEB stated that it "… finds that the administrative costs proposed by the each of the Gas Utilities to meet their 2017 cap and trade compliance obligations are consistent with the expectations established in the Cap and Trade Framework."[20]

With respect to the OEB's Decision, OEB staff proposes that Enbridge Gas is missing the following paragraph where the OEB states that…"actual costs for each of the Gas Utilities to meet their cap and trade compliance obligations will be assessed for cost-effectiveness and reasonableness when they are filed as part of the 2019 Compliance Plan proceeding". Therefore, OEB staff submits that the reasonableness of the administration costs was not determined in that proceeding. The OEB must determine in this proceeding whether Enbridge Gas has met its burden of establishing the prudency of the costs claimed, including the salaries and wages for Union.

Further, OEB staff notes that the two reasons provided above do not adequately explain why Union has more than double the total average FTEs over the 2016-2018 period. Enbridge Gas has associated the 5.5 incremental FTEs in 2017 and 2018 with the fact that Union took a strategic approach to longer-term investment, new business activities and abatement opportunities.[21] Yet this would mean that the 8 or so FTEs[22] would be due to the different IR models that each legacy distributor was operating under. OEB staff does not understand how the difference in the IR models could account for such a large difference.

Over the 2016-2018 period Union's salaries and wages costs were $3,753,000 higher than EGD's for doing similar cap and trade work. OEB staff submits that this amount has not been sufficiently justified. Also, OEB staff understands that some of the cap and

[19] Exhibit I.STAFF.6
[20] EB-2016-0296 / EB-2016-0300 / EB-2016-0330, Decision and Order, September 21, 2017, p. 16.
[21] Exhibit I.STAFF.6, pp. 2-3.
[22] Based on the average FTEs for 2016-2018. OEB staff has calculated the difference in FTEs between Union and EGD as follows: FTE= 8 + (12.5-5.5) + ½ year or 0.5* (11.4-5.5) – (2.8+4.4+(0.5*5.0)) = 8.25 FTEs

trade work for EGD was already being recovered in rates prior to the launch of Ontario's cap and trade program.[23] However, no FTEs and associated costs were provided so that a direct comparison could be made between EGD and Union. Further, there appears to be overlapping or duplicative work with respect to the 5.5 incremental FTEs. For example, Union had 0.5 FTEs dedicated to examining offset protocols when Union also retained consultants to provide expertise on the offsets market in 2017 and 2018[24]. In addition, Union had 3 FTEs performing what appears to be similar work with regards to examining renewable natural gas and low carbon opportunities.[25]

In the absence of better information, an argument could be made that the OEB could reduce the entire difference for Union's FTEs for the total period to align with EGD especially given that Union's compliance obligation was smaller than EGD's. This would amount to a 68% reduction[26] in the Union claim. However, OEB staff is of the view that there are justifiable reasons for why Union should have a higher claim than EGD: (i) this was a nascent market, (ii) some (but an unknown number of) FTEs for EGD were already being recovered in rates[27], and (iii) Union was ramping up to develop its in-house expertise (e.g., Union's Facility Abatement Study).[28]

That being said, OEB staff is of the view that these reasons do not on their own justify such a significantly higher claim. Therefore, OEB staff submits that the OEB reduce the recovery for Union's wages and salaries costs in the GGEIDA by 5-10% (or by $275,000 - $550,000). OEB staff believes this is reasonable given Union has not adequately justified the level of salaries and wages and that there appears to be overlapping or duplicative work.

For all the reasons noted above, a 5-10% reduction in salaries and wages is reasonable in OEB staff's view.

All of which is respectfully submitted

[23] Exhibit I.STAFF.6, p. 6.
[24] Exhibit I.CCC.5
[25] Exhibit I.STAFF.6
[26] $3,753,000/$5,500,000 = 68%
[27] Exhibit I.STAFF.6, p. 6. OEB staff understands that some of the cap and trade work for EGD was already being recovered in rates prior to the launch of Ontario's cap and trade program.
[28] Exhibit I.STAFF.6, pp. 4-5.