June 24, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2018-0331 – Enbridge Gas Inc. – Cap and Trade-Related Deferral and Variance Accounts - Final Argument of the Consumers Council of Canada

We are representing the Consumers Council of Canada in the above-referenced proceeding. Please find, attached, our final argument.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Enbridge Gas, Regulatory Affairs
All Parties

EB-2018-0331

DISPOSITION OF THE CAP AND TRADE-RELATED DEFERRAL AND VARIANCE ACCOUNTS

ENBRIDGE GAS INC.
EPCOR NATURAL GAS LIMITED PARTNERSHIP

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

INTRODUCTION:

On July 3, 2018, the Government of Ontario effectively eliminated the Ontario Cap and Trade Program established through the *Climate Change Mitigation and Low Carbon Economy Act, 2016* ("Climate Change Act"). The Ontario natural gas utilities, Enbridge Gas Distribution Inc. ("EGD"), Union Gas Limited ("Union") and EPCOR Natural Gas Limited Partnership ("EPCOR" formerly Natural Resource Gas) had obligations to comply with the Climate Change Act. Those obligations were for Facility-related obligations for facilities that they own or operate and for Customer-related obligations for their customers that were not Large Final Emitters or voluntary participants.

In order to facilitate compliance with the Climate Change Act, the Ontario Energy Board approved, through a number of decisions, the establishment of deferral and variance accounts for the natural gas distributors. These accounts were established to track the variance between actual customer and facility related obligation costs and customer and facility related costs recovered in OEB-approved rates. In addition, accounts were established to record administrative costs associated with compliance with the federal and provincial climate change initiative.

On December 7, 2018, the OEB issued a Notice and Procedural Order No. 1 setting out procedural steps for the prudence review of the Cap and Trade deferral and variance accounts given the discontinuance of the program. The OEB noted that after the OEB completes its prudence review, and the balances are approved and disposed of, the accounts will be closed.[1]

On January 1, 2019 Union and Enbridge amalgamated becoming Enbridge Gas Inc. ("EGI").

On February 21, 2019, Enbridge Gas Inc. and EPCOR filed applications and evidence regarding the disposition and recovery of the costs in their 2016-2018 Cap and Trade deferral and variance accounts.

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[1] EB-2018-0331 – Notice and Procedural Order No. 1, dated December 7, 2018

These are the submissions of the Consumers Council of Canada regarding the disposition of the deferral and variance accounts for EGI. The Council is taking no position regarding the application by EPCOR.

SUBMISSIONS:

The Accounts:

For the former Union and EGD utilities the OEB approved the following accounts:

- The Union Greenhouse Gas Emissions Impact Deferral Account ("Union GGEIDA");
- The EGD Greenhouse Gas Emissions Impact Deferral Account ("EGD GGEIDA");
- The Union Greenhouse Gas Emissions Compliance Obligation – Customer-related variance account ("Union GHG-Customer VA");
- The Union Greenhouse Gas Emissions Compliance Obligation – Facility-related variance account ("GHG-Facility VA");
- The EGD Greenhouse Gas Emissions Compliance Obligation – Customer-related variance account ("Union GHG-Customer VA"); and
- The EGD Greenhouse Gas Emissions Compliance Obligation – Facility-related variance account ("GHG-Facility VA");

The Union GGEIDA was approved by the OEB on April 7, 2016, pursuant to an Application by Union for an account to "record the cost impacts of government requirements related to green house gas emissions."[2]

The EGD GGEIDA was approved as part of EGD's 2016 rates proceeding.[3]

The other accounts were approved by the OEB in its Decision regarding the 2017 Cap and Trade Compliance Plans.[4]

EGI - Union:

With respect to the Union GHG-Facility VA and the Union GHG-Customer VA the Council the Council is taking no position. The evidence related to these activities

[2] EB-2015-0376 - Decision and Accounting Order, dated April 7, 2016

[3] EB-2015-0114, Decision

[4] EB-2016-0296/0300/0330, Decision and Order dated September 21, 2017

was strictly confidential. Therefore, the Council has no basis to assess the reasonableness of the amounts in the accounts.

The GGGEIDA account is effectively a Z-factor, a mechanism provided for in the Union 2014-2018 IRM plan agreed to by parties through the Settlement Agreement and approved by the OEB. In that agreement the following Z-factor criteria were established. The costs must:

1. Causally relate to an external factor that is beyond the control of utility's management;
2. Result from, or relate to, a type of risk: for which a prudent utility would not be expected to take mitigation steps; and which is out of the realm of the basic undertaking of the utility
3. Not otherwise be reflected in the price cap index;
4. Be prudently incurred, and
5. Meet the materiality threshold of $4 million of annual net delivery revenue requirement impact per Z-factor event.[5]

The Council submits that the GGEIDA costs qualify for Z-factor treatment as they were incurred in response to an external factor that was beyond the control of the utility. They are also not otherwise reflected in the price cap index.

The costs, however, do not meet, the materiality threshold. In 2016 the costs were $2.292 million. In 2017 the costs were $3.282 million. In 2018 the costs were $2.013 million[6]. The criteria clearly state that the costs must meet the materiality threshold of $4 million of annual net delivery requirement impact. In no year did the annual costs exceed $4million.

This was something the former Union agreed to and it is important that all parties live with the requirements established through the Settlement Agreement and approved by the Board.

With respect to prudence the Council notes that the total GGEIDA costs for Union were $7.587 million whereas the costs for EGD were $4.98 million. Union's rationale for the difference is that relates to staffing. Union hired more FTEs whereas EGD drew on experience for other parts of the business to assist with the implementation and sustainment of the Cap & Trade program. [7] In addition, Union undertook work related to business development, technology and innovation. EGI also claims that some EGD costs were included in base rates whereas some of the Union costs were not.[8]

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[5] EB-2013-0202, Settlement Agreement, July 31, 2015
[6] Exhibit A/p. 9
[7] EB-2017-0224, Ex. I.4EGDI.SEC20
[8] Ex. I.STAFF.6

The Council does not believe Union has provided a sufficient rationale for the significant differences between its overall GGEIDA costs and those of EGD.

If the OEB decides to approve any of the Union GGEIDA costs those amounts should not exceed the cost levels incurred by EGD.

EGI - EGD:

With respect to the EGD GHG-Facility VA and the EGD GHG-Customer VA the Council the Council is taking no position. The evidence related to these activities was strictly confidential. Therefore, the Council has no basis to assess the reasonableness of the amounts in the accounts.

EGD's GGEIDA costs were $868,000 in 2016, $2.315 for 2017 and $1.797 in 2018. Although the costs for 2016 and 2018 do not meet EGD's approved materiality threshold for Z-factors of $1.5 million (as set out in EB-2012-0459), the Council is not taking issue with cost recovery. The GGEIDA was established in that same proceeding without an explicit materiality threshold.