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July 8, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON
M4P 1E4

Dear Ms. Long

**RE: EB-2019-0247 Enbridge Gas Inc.- 2020 Carbon Pricing
Energy Probe Argument Submission**

Attached is the argument submission Energy Probe Research Foundation (Energy Probe) in the EB-2019-0247 Enbridge Gas Inc.- 2020 Carbon Pricing Application proceeding.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.
Consultant representing Energy Probe

cc. Patricia Adams (President, Energy Probe Research Foundation)
Enbridge Gas Inc. (Regulatory Affairs)
Intervenors of Record

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ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by Enbridge Gas Inc., for an order or orders for gas distribution rate changes and clearing certain non-commodity deferral and variance accounts related to compliance obligations under the *Greenhouse Gas Pollution Pricing Act*, S.C. 2018, c. 12, s. 186.

Enbridge Gas Inc. 2020 Federal Carbon Pricing Program Application

Energy Probe Argument Submission

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Enbridge Gas Inc. 2020 Federal Carbon Pricing Program Application

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BACKGROUND

Enbridge Gas Inc. (Enbridge Gas) applied to the OEB on November 18, 2019 for approval under section 36(1) of the *Ontario Energy Board Act, 1998* (OEB Act) to increase rates effective April 1, 2020 to recover costs associated with meeting its obligations under the Federal *Greenhouse Gas Pollution Pricing Act* (GGPPA). Enbridge Gas also applied to recover from customers the 2019 balances in the related deferral and variance accounts.

The GGPPA established a carbon pricing program under which a natural gas utility in Ontario, such as Enbridge Gas, is required to pay a carbon charge to the Government of Canada, for emissions from the natural gas that it delivers to its customers, and for its own emissions. The carbon charge under the GGPPA came into effect on April 1, 2019 and was increased on April 1, 2020.

Enbridge Gas's operations as an integrated natural gas utility in Ontario fall under the purview of the GGPPA, which result in the following costs being incurred:

- (i) incremental program administration costs,
- (ii) customer-related Federal Carbon Charge costs for volumes delivered by Enbridge Gas to its residential, commercial, and industrial customers who are not covered under the OBPS; and
- (iii) facility-related costs ("Facility Carbon Charge"), arising from Enbridge Gas's facilities and operation of its gas distribution system.

On February 11, 2020, the OEB issued an Interim Decision and Order, approving Enbridge Gas' request for interim rates related to the Federal Carbon Charge and Facility Carbon Charge on an interim basis, effective April 1, 2020. The OEB did not approve disposition of Enbridge Gas' *Federal Carbon Pricing Program* (FCPP)-related deferral and variance accounts, even on an interim basis, and directed Enbridge Gas to file updated evidence with the final December 31, 2019 balances in these accounts when audited numbers become available.

In its Decision on Updated Intervention Requests and Scope of Proceeding, issued March 19, 2020, the OEB confirmed that the review of Enbridge Gas' application will be limited to considering recovery of its costs related to the FCPP. This comprises:

- 1) updating the Federal Carbon Charge and Facility Carbon Charge on customer bills, to match the levels set in the GGPPA; and
- 2) the review and disposition of the 2019 balances in Enbridge Gas' FCPP-related deferral and variance accounts.

The OEB also indicated that the adjustment to Enbridge Gas' Federal Carbon Charge on customer bills to match the level set in the GGPPA is largely mechanistic.

On May 14, 2020, Enbridge Gas filed an updated Application, including final December 31, 2019 balances in the FCPP-related deferral and variance accounts, and a proposed methodology for disposition. In its updated Application, Enbridge Gas requested approval on a final basis of 2020 rates for the Federal Carbon Charge and Facility Carbon Charge, effective April 1, 2020, at the same rates that the OEB previously approved on an interim basis. Enbridge Gas also requested approval of 2019 balances for all FCPP-related deferral and variance accounts, and for an order to dispose of those balances effective October 1, 2020.

2019 CHARGES AND DISPOSITIONS¹

2019 FCPPA Charges

EGI has updated the 2019 volumes and charges and the related account balances for Customer and Facility Charges. It has also updated the 2019 Administration Costs, including Cap and Trade IT Costs.²

Energy Probe Submission

Energy Probe accepts EGI's updated evidence.

2019 DA Dispositions

The amounts to be disposed of include:

- (i) 2019 incremental program administration costs of \$1.60 million recorded in the Greenhouse Gas Emissions Administration Deferral Accounts (GGEADAs),
- (ii) 2019 customer-related costs of \$145.70 million recorded in the Federal Carbon Charge Customer Variance Accounts (FCCCVAs) from April 1, 2019 to July 31, 2019 related to residential, commercial and industrial customers,
- (iii) 2019 facility-related costs of \$0.98 million (amended)³ recorded in the Federal Carbon Charge Facility Variance Accounts (FCCFVAs) incurred due to a difference between actual and forecast facility-related costs, and
- (iv) a variance in the amount of revenue billed through the Facility Carbon Charge. (\$0.22 million for the EGD rate zone and \$0.76 million for the Union rate zones).

Enbridge Gas proposes: to allocate GGEADA balances to rate classes in proportion to the number of customers for the EGD rate zone and 2013 OEB-approved administrative and general expenses for

¹ EGI Evidence, Section E

² Exhibit I.STAFF 6; I.SEC.1

³ Exhibit I.STAFF.9 a)

the Union Rate Zones⁴; and to use actual customers' consumption volumes from April 1 to July 31, 2019 to allocate FCCCVA and FCCFVA balances and to derive disposition unit rates for the FCCCVAs, FCCFVAs, and GGEADAs.

Enbridge Gas's Updated Application considers three disposition options including:

- (i) a one-month disposition (standard practice),
- (ii) three-month disposition, and
- (iii) six-month disposition.⁵

Enbridge Gas is proposing a one-time billing adjustment disposed of in three equal instalments over a three-month disposition period in order to smooth bill impacts for all customers, with the exception of general service customers in the Union Rate Zones (Rate M1, Rate M2, Rate 01 and Rate 10) for whom Enbridge Gas is proposing to dispose of the 2019 FCPP-related deferral and variance account balances prospectively over six months, consistent with the standard practice of disposition for this set of customers. The three-month disposition period provides a balance between acceptable bill impacts and the length of the disposition period.

Energy Probe Submission

EGI has explained in its responses⁶ to interrogatories and in its Argument-in-Chief why a three-month disposition for all customers cannot be implemented and accordingly the six-month disposition is necessary for Union Rate Zone. Energy Probe would prefer similar disposition periods for both Rate Zones, but as a practical matter, accepts the proposed different dispositions for EGD and Union Rate Zones this time. Enbridge Gas anticipates that starting in mid-2021 at the earliest it will be able to adopt a common disposition period and approach for all customers once an integrated billing system is implemented⁷.

2020 VOLUME AND CARBON COST FORECASTS

Enbridge Gas's updated application included cost estimates and volume forecasts for 2020 that are meant to be used for informational purposes only. Customers will be charged the Federal Carbon Charge and Facility Carbon Charge based on actual volumes. Enbridge Gas will seek disposition of any variance to forecast for 2020 as well as FCPP-related 2020 administration costs through a future application.

Enbridge Gas forecasted⁸ total 2020 regulated volumes to be:

- Customer Volumes subject to the GGPPA, of 17,480,521 10³m³ and associated charge of \$1,026.10 million, and

⁴ I.LPMA.7

⁵ I.STAFF.12,

⁶ Ibid; Exhibit I.LPMA.10

⁷ Exhibit I.STAFF.13

⁸ Application Exhibit B,

- Facility Volumes (composed of Company Use Volumes and OBPS Volumes) and Facility Carbon Charge costs. 163,707 10³m³ of forecasted volumes and associated \$4.24 million.

The Customer Volume forecast, Enbridge Gas excluded:

- (i) an estimate of customer volumes exempt from Part 1 of the GGPPA, including customer volumes qualifying for exemption for non-covered activities and OBPS-qualified customer volumes with emissions exceeding 10 ktCO₂e;
- (ii) estimated volumes delivered to downstream distributors; and
- (iii) 80% of the estimated volumes delivered to commercial greenhouse operators.

Effective April 1, 2020, Enbridge Gas increased the Federal Carbon Charge on an interim basis from 3.91 ¢/m³ (or \$20/tCO₂e) to 5.87 ¢/m³ (or \$30/tCO₂e) for actual volumes delivered, as stipulated by the GGPPA.⁹ Forecast 2020 Customer Volumes and Federal Carbon Charge costs are 10,616,577 10³m³ and \$623.19 million for the EGD rate zone and 6,863,944 10³m³ and \$402.91 million for the Union Rate zones.

Effective April 1, 2020 Enbridge Gas has increased the Facility Carbon Charge on an interim basis from 0.0036 ¢/m³ to 0.0049 ¢/m³ for the EGD rate zone and from 0.0084 ¢/m³ to 0.0088 ¢/m³ for the Union rate zones, as set out in Enbridge Gas's Updated Application.¹⁰

Enbridge Gas requests approval to incorporate the 2020 impacts of the GGPPA into rates for the EGD rate zone and Union rate zones, **on a final basis**, including:

- (i) the Federal Carbon Charge and Facility Carbon Charge that were approved on an interim basis and implemented in rates for the EGD rate zone and Union rate zones, effective April 1, 2020; and
- (ii) to modify applicable rate schedules accordingly.

Energy Probe Submission

a) Heat Content

One of Energy Probe's concerns was understanding the adjustments to measured Customer and Facility volumes for heat content, as well as confirming the standard conditions that apply to volumes reported under the GGPPA and Regulations¹¹. Energy Probe is satisfied EGI is applying the appropriate heat content adjustments for each of the Rate Zones. Accordingly, the actual adjusted volumes are properly reported to the CRA.

b) Effect of COVID-19 Economic Impact on 2020 Volume Forecasts

Energy Probe is concerned with EGI's proposal to incorporate the 2020 impacts of the GGPPA into rates for the EGD Rate Zone and Union Rate Zones, *on a final basis*,

⁹ Exhibit A, Table A-1.

¹⁰ Exhibit D, Table D-1.

¹¹ Exhibit I.EP.4; Exhibit I.STAFF.9 Attachments 1-4

For all utilities volume/demand forecasts have high levels of uncertainty affecting 2020 (and beyond). EGI has postponed work on the Dawn-Parkway Expansion project, in part, because of this forecast uncertainty.

Energy Probe is concerned that:

- EGI volume forecasts for 2020 (April 2020-March 2021) may be materially off the mark;
- Q3 commodity prices may increase FCPP bill impacts;
- Bad debt may be higher than forecast; and
- EGI's Output Based Pricing System may materially change

If the Board accepts implementation of the proposed 2020 rates, Energy Probe recommends that:

- (i) EGI provide the Board with a Q2 2020 "Reality Check" on its forecasts, and
- (ii) if necessary, amend 2020 FCPP rates accordingly.

Submitted on behalf of Energy Probe Research Foundation by its consultants:

**Roger Higgin
SPA Inc.**

**Tom Ladanyi
TL Energy Regulatory Consultants Inc.**