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

BY EMAIL

July 8, 2020

Ms. Christine E. Long
Registrar & Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc. – 2020 Federal Carbon Pricing Program Application
OEB File Number: EB-2019-0247

In accordance with Procedural Order No. 2, please find attached the OEB staff submission on Enbridge Gas Inc.'s 2020 Federal Carbon Pricing Program application. The attached document has been forwarded to Enbridge Gas Inc. and to all other parties to this proceeding.

Yours truly,

Original Signed By

Michael Parkes
Project Advisor, Application Policy & Conservation

Encl.

ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc.

2020 Federal Carbon Pricing Program Application

EB-2019-0247

July 8, 2020

General Background

The federal *Greenhouse Gas Pollution Pricing Act* (GGPPA) established a federal carbon pricing program (FCPP). Under the GGPPA, Enbridge Gas Inc. (Enbridge Gas) is required to pay to the federal government a federal carbon charge for greenhouse gas emissions from the natural gas that it delivers to its non-exempt customers, and further amounts for its own facility emissions.[1] The federal carbon charge under the GGPPA came into effect on April 1, 2019, and increased on April 1, 2020.

In a previous proceeding[2], the Ontario Energy Board (OEB) approved a Federal Carbon Charge on Enbridge Gas customer bills to recover Enbridge Gas's FCPP costs related to customer emissions and a Facility Carbon Charge to recover Enbridge Gas's FCPP costs related to facility emissions, and established three sets of FCPP deferral and variance accounts (DVAs):[3]

- Federal Carbon Charge – Customer Variance Accounts (FCCCVAs), to record the variance between actual FCPP costs related to customer emissions and FCPP costs recovered in rates related to customer emissions
- Federal Carbon Charge – Facility Variance Accounts (FCCFVAs), to record the variance between actual FCPP costs related to facility emissions and FCPP costs recovered in rates related to facility emissions
- Greenhouse Gas Emissions Administration Deferral Accounts (GGEADAs), to record the administration costs associated with the FCPP

Background on this Proceeding

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 GGPPA. Enbridge Gas also applied to dispose of the 2019 balances in the FCPP DVAs.

On February 11, 2020, the OEB issued an Interim Decision and Order. The OEB approved Enbridge Gas' proposed rates for the Federal Carbon Charge and Facility Carbon Charge on an interim basis, effective April 1, 2020. The OEB did not approve interim disposition of the balances in Enbridge Gas' FCPP DVAs and directed Enbridge Gas to file updated evidence with the final December 31, 2019 balances in these accounts when audited numbers became available. The OEB also directed Enbridge

[1] Certain customers (e.g. industrial customers and greenhouses) are eligible for full or partial exemption from the federal carbon charge under the GGPPA for their emissions, and are thus also exempt from Enbridge's Federal Carbon Charge.
[2] EB-2018-0205
[3] For each of the three sets of DVA, two accounts exist, one for customers in the Enbridge Gas Distribution rate zone and one for customers in the two Union rate zones (Union North and Union South).

Gas to propose options for the approach to disposition of the DVA balances that would smooth bill impacts.

On March 19, 2020, the OEB issued a Decision on Updated Intervention Requests and Scope of Proceeding, indicating that it would defer consideration of issues raised by Anwaatin Inc. and the Chiefs of Ontario ("the deferred issues") in this proceeding, as to whether the FCPP charges are constitutionally applicable in light of the *Indian Act*, relevant treaties, and section 35 of the Constitution, until such time as the Supreme Court of Canada (SCC) has rendered its decision on the appeals concerning the constitutionality of the GGPPA.

On May 14, 2020, Enbridge Gas filed an updated Application, including final audited December 31, 2019 balances in the FCPP DVAs, and a proposed methodology for disposition.

On May 22, 2020, the OEB issued Procedural Order No. 2, which established the procedural steps to address all issues in scope of this proceeding other than the deferred issues.

Application Summary

In its updated Application, Enbridge Gas requests:

- Approval on a final basis of rates for the 2020 Federal Carbon Charge and 2020 Facility Carbon Charge, effective April 1, 2020, at the same rates that the OEB previously approved on an interim basis.
- Approval of the year-end 2019 balances for all FCPP DVAs:
  - $145.70 million variance in customer-related costs in the FCCCVAs;
  - $0.98 million variance in facility-related costs in the FCCFVAs[4];
  - $1.60 million in administration costs in the GGEADAs.
- Approval to dispose of these balances according to Enbridge Gas's proposed allocation and disposition approach, which includes:
  - Prospective disposition over a six-month basis beginning October 1, 2020 for general service customers in the Union rate zones;
  - A one-time adjustment based on actual consumption between April 1, 2019 to July 31, 2019, disposed of over a three-month period beginning October 1, 2020, for all other customers.

Enbridge Gas estimates that the incremental bill impact of the 2020 Federal Carbon Charge and 2020 Facility Carbon Charge for typical residential customers is $47.07 per

[4] This value was updated in Enbridge Gas's response to interrogatories, from a value of $1.22 million in its Application and Evidence.

year in the EGD rate zone (based on annual consumption of 2,400 m^3) and $43.15 per year in the Union rate zones (based on annual consumption of 2,200 m^3). This is the incremental bill impact relative to the levels of the Federal Carbon Charge and Facility Carbon Charge that were effective prior to April 1, 2020. However, the 2020 Federal Carbon Charge and Facility Carbon Charge have already been approved on an interim basis, and there is no incremental bill impact of the requested final rates for these charges, relative to the interim rates currently in place.

The total bill impact of the proposed 2019 FCPP DVA disposition is an increase of $21.85 for a typical residential customer in the Enbridge Gas Distribution (EGD) rate zone, and increases of $16.01 and $16.58 for typical residential customers with annual consumption of 2,200 m^3 in the Union South and Union North rate zones, respectively.

Summary of OEB Staff Submission

OEB staff makes the following submissions. The rationale for these submissions is described in more detail in the following sections.

Enbridge Gas's Federal Carbon Charge should be approved on a final basis, effective April 1, 2020, at the current interim rate. Enbridge Gas should record the Federal Carbon Charge revenues (including any revenues from the disposition of the 2019 balance in the FCCCVAs) collected from on-reserve customers in the variance account, pending its consideration of the deferred issues at a future date.

The approval of the 2020 Facility Carbon Charge on a final basis, the disposition of the 2019 balance in the FCCFVAs, and the recovery of 2019 FCPP administration costs (through the GGEADAs) should not be impacted by consideration of the deferred issues.

Enbridge Gas's Facility Carbon Charge should be approved on a final basis, effective April 1, 2020, at the current interim rates.

The 2019 balances proposed for disposition in all FCPP DVAs should be approved. In regards to future FCPP applications, Enbridge Gas should be directed to include supporting evidence of its actions to manage facility-related emissions and costs.

Enbridge Gas's proposed allocation methodology for the 2019 balances in the FCPP DVAs should be approved, with disposition of these balances to begin effective October 1, 2020.

However, the OEB should consider modifying the disposition period proposed by Enbridge Gas. The OEB should consider a six-month disposition period for all customers in the Union rate zones, not just general service customers (as Enbridge Gas has proposed), in order to achieve the OEB's objective of smoothing the bill impact of this disposition. Enbridge Gas's proposed approach of a three-month disposition period for customers in the EGD rate zone should be considered, in order to preserve Enbridge Gas's ability to dispose of other DVA balances (unrelated to the FCPP) in the EGD rate zone in the following three-month period, subject to OEB staff's discussion on implementation further below. The OEB should make its final decision on the appropriate disposition period of the FCPP DVA balances as part of its review of Enbridge Gas's next QRAM application, where it can consider the combined bill impact of all rate adjustments being implemented at that time.

Changes to the proposed DVA unit rates will be needed, to account for the change in the balance in the FCCFVAs identified during the interrogatory phase, and (should the OEB agree with OEB staff's submission), the change in disposition period for the DVAs from a three-month to a six-month period for all customers in the Union rate zones. Enbridge Gas should be directed to include the updated calculations for these changes as part of its draft rate order implementing the OEB's decision.

The OEB should accept Enbridge Gas's proposed timing for future annual FCPP applications, which would be filed by the end of September of each year, requesting updated Federal Carbon Charge and Facility Carbon Charge rates for the coming year, and requesting disposition of DVA balances from the previous year (instead of the current year). This would provide adequate time for rate changes to be brought into effect on a final basis in the following year to match the timing of changes in the federal carbon charge that Enbridge Gas must pay to the federal government under the GGPPA, and would enable the OEB to consider the disposition of DVA balances based on audited year-end balances from the previous year and third-party verification of Enbridge Gas's facility-related emissions.

Treatment of Deferred Issues

The OEB previously indicated that it would defer consideration of issues raised by Anwaatin Inc. and the Chiefs of Ontario, as to whether the FCPP charges are constitutionally applicable in light of the *Indian Act*, relevant treaties, and section 35 of the Constitution, until such time as the Supreme Court of Canada (SCC) has rendered its decision on the appeals concerning the constitutionality of the GGPPA.[5] Due to the COVID-19 emergency, the SCC's hearing of these appeals has been delayed to September 2020.[6]

[5] Decision on Updated Intervention Requests and Scope of Proceeding, March 19, 2020
[6] Supreme Court of Canada, "Scheduled hearings for the month of September 2020", Case # 38781

Specifically, in its April 21, 2020 letter, the OEB stated that its

> …Interim Decision and Order of February 11, 2020 approved Enbridge Gas Inc.'s proposed unit rates for the Federal Carbon Charge and Facility Carbon Charge, on an interim basis, effective April 1, 2020. The postponement of the Deferred Issue does not limit the OEB's ability to address this issue at a future date.

OEB staff submits that there are two options to allow for the Deferred Issues to be considered at a future date. The first would be to set final rates for the 2020 Federal Carbon Charge and Facility Carbon Charge and to provide for the disposition of balances in the 2019 FCPP-related DVAs, but require Enbridge Gas to record the FCPP-related revenues that could potentially be impacted by consideration of the deferred issues in the variance account. The second would be to postpone the approval of the 2020 Federal Carbon Charge and the disposition of the 2019 balance in the FCCCVAs on a *final* basis until the deferred issues have been considered.

OEB staff submits that the first option would be preferred as it addresses Enbridge Gas's request for final 2020 FCPP rates and disposition of 2019 FCPP-related DVA balances, while ensuring that Enbridge Gas will be in a position to refund payments to certain customers, should the OEB eventually determine that these customers should not have been required to pay the Federal Carbon Charge. This option is also consistent with Anwaatin's request that "all such charges be placed in a deferral and variance account pending the Board's due consideration of the Deferred Issues."[7]

OEB staff submits that the Federal Carbon Charge revenues (including any revenues from the disposition of the 2019 balance in the FCCCVAs) collected from on-reserve customers should be tracked in the variance account. Enbridge Gas has the capability to distinguish on-reserve customers (for the purpose of HST exemption) in its billing system. There are approximately 3,500 customers in 21 communities in this category.[8] Should the OEB eventually determine that these customers should not have been required to pay the Federal Carbon Charge, Enbridge Gas will be in a position to refund these payments.

If the OEB adopts the alternative option of postponing the approval of the 2020 Federal Carbon Charge on a final basis until the deferred issues have been considered, the OEB should indicate that any subsequent consideration of this charge will only be in relation to the deferred issues. In addition, under this option, the final disposition of the

[7] Letter Re: Enbridge Gas Inc. 2020 Federal Carbon Pricing Program (FCPP) Application – Board response to Anwaatin Inc. (Anwaatin), April 15, 2020, p.2
[8] Exhibit I.Anwaatin.2(d)

2019 balance in the FCCCVAs should also be delayed.

The approval of the 2020 Facility Carbon Charge on a final basis, the disposition of the 2019 balance in the FCCFVAs, and the recovery of 2019 FCPP administration costs (through the GGEADAs) should not be impacted by consideration of the deferred issues, because these are operational costs recovered from all Enbridge Gas customers, including those customers who are exempt from paying the Federal Carbon Charge.

Rates for Federal Carbon Charge and Facility Carbon Charge

The OEB approved Enbridge Gas's requested rates for the Federal Carbon Charge and Facility Carbon Charge on an interim basis, effective April 1, 2020, in its Interim Decision and Order of February 11, 2020. The interim rate of 5.8700 ¢/m^3 for the Federal Carbon Charge matches the current charge that Enbridge Gas must pay to the federal government for its customers' emissions.

Enbridge Gas's subsequent update to its Application and Evidence did not request any changes to the rates for the Federal Carbon Charge and Facility Carbon Charge that were approved in the Interim Decision and Order. OEB staff has no concerns with Enbridge Gas's proposed rates or rate-setting methodology. DVAs are in place to record any discrepancy between forecast FCPP costs recovered through these charges and actual incurred costs.

OEB staff submits that Enbridge Gas's Facility Carbon Charge should be approved on a final basis, effective April 1, 2020, at the current interim rates of 0.0049 ¢/m^3 in the EGD rate zone and 0.0088 ¢/m^3 in the Union rate zones.

OEB staff further submits that Enbridge Gas's Federal Carbon Charge should be approved on a final basis, effective April 1, 2020, at the current interim rate of 5.8700 ¢/m^3, and that the Federal Carbon Charge revenues (including any revenues from the disposition of the 2019 balance in the FCCCVAs) collected from on-reserve customers should be tracked in the variance account, for the reasons discussed in the previous section of this submission.

Balance in Federal Carbon Charge - Customer Variance Accounts

Enbridge Gas seeks disposition of a 2019 balance of $145.70 million in the FCCCVAs. This large balance is due entirely to costs incurred in the four-month period between April 1, 2019 and July 31, 2019, plus $4.03 million in interest. For this period, Enbridge Gas was required to remit a federal carbon charge to the federal government for its customers' emissions, but a Federal Carbon Charge had not been included on the bills of Enbridge Gas customers to recover this cost.[9]

OEB staff has no concerns regarding the balances in the FCCCVAs and submits that these balances should be approved for disposition.

Balance in Federal Carbon Charge - Facility Variance Accounts

Enbridge Gas seeks disposition of a 2019 balance of $0.98 million in the FCCFVAs. This value was updated by Enbridge Gas in its interrogatory responses, from an earlier value of $1.22 million, due to a change to the calculation of Enbridge Gas's required payment to the federal government, related to Enbridge Gas's facility emissions from flared volumes of natural gas.[10]

The FCCFVAs record the variance between actual facility-related FCPP costs, and the facility-related costs recovered through rates. More than 90% of the 2019 balance in the FCCFVAs is attributable to period prior to July 31, 2019, when no Facility Carbon Charge had been included on the bills of Enbridge Gas customers to recover the costs of Enbridge Gas's facility-related emissions. The remainder of the balance is due to the variance from forecast of actual facility-related costs, and in the variance of revenue collected, due to the difference in forecast versus actual customer volumes.[11]

The bulk of Enbridge Gas's facility-related emissions are from its transmission and storage compressor stations. Enbridge Gas does not need to pay the federal carbon charge to the federal government for all emissions from these facilities. Instead, they are covered under the Output-Based Pricing System (OBPS), which sets a production-based emissions intensity target for different categories of industrial facilities, and imposes carbon pricing obligations to the federal government only for emissions in excess of this target.

The FCPP provides several options for Enbridge Gas to meet its OBPS obligation, including paying the federal carbon charge on excess emissions, or making use of other options such as purchasing surplus or offset credits. In its Application, Enbridge Gas calculated its 2019 facility-related costs on the assumption that it would pay the federal carbon charge to the federal government for all excess emissions. The resulting value ($1.97 million) accounts for the majority of Enbridge Gas's 2019 FCPP facility-related costs ($2.34 million in total).[12]

[9] The OEB had not completed its adjudication of the 2019 FCPP proceeding, and had determined that it would consider the comments of stakeholders and submissions of parties prior to making a determination on any new charges. EB-2018-0205, Interim Decision and Accounting Orders, February 28, 2019.
[10] Exhibit I.Staff.9 (a)
[11] Exhibit I.Staff.9 (a)
[12] Exhibit I.Staff.9 (a)

In response to interrogatories, Enbridge Gas confirmed that it has not yet remitted this 2019 OBPS obligation to the federal government. This payment is not due until April 15, 2021, and there is the potential for the final amount to change (e.g., due to use of surplus credits or offset credits, or adjustments due to the third-party verification of Enbridge Gas' 2019 OBPS report). In its response to interrogatories, Enbridge Gas noted that it did not expect to be able to use surplus credits or offset credits for its 2019 OBPS obligation, but that it would record any variance in its final 2019 OBPS obligation in the FCCFVAs, and seek to dispose of this variance through a future FCPP application.[13]

Subject to the caveats below regarding managing facility-related FCPP costs, OEB staff submits that the balance of $0.98 million in the FCCFVAs should be approved for disposition. A change in the proposed disposition rates included in Enbridge Gas's Application will be needed to account for the change in the balance in this account from its previous value of $1.22 million.

Managing Facility-Related FCPP Costs

OEB staff notes that Enbridge Gas's facility-related FCPP costs (due to greenhouse gas emissions from its facilities) were $2.34 million in 2019, a larger cost than Enbridge Gas's FCPP administration costs ($1.6 million in 2019, discussed in the next section).[14] Facility-related FCPP costs are forecast to increase to $4.25 million in 2020,[15] and will rise further in future years as the federal carbon charge payable to the federal government under the FCPP increases.

However, the evidence that Enbridge Gas filed to support its request for the disposition of the 2019 balance in the FCCFVAs included very little information on either the factors impacting Enbridge Gas's actual 2019 facility-related costs and emissions, or on Enbridge Gas's efforts to manage these costs.[16] These costs could potentially be reduced either by reducing facility-related emissions or by making use of options other than paying the federal carbon charge on excess emissions for its OBPS obligations, such as purchasing surplus credits or offset credits. Some additional information on these subjects was provided by Enbridge Gas in response to interrogatories, however, it was still rather limited.[17] Enbridge Gas noted several emissions reduction initiatives that had been previously undertaken under the Facility GHG Emission Reduction Plan, and noted that this plan has been replaced by a Carbon and Energy Efficiency Plan;

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[13] Exhibit I.Staff.8
[14] Exhibit I.Staff.9 (a)
[15] Application and Evidence (updated), Exhibit A, Pages 12-14 of 15. This cost includes $3.25 million for Enbridge Gas's OBPS volumes and $1.00 million for its Company Use volumes.
[16] Application and Evidence (updated), Exhibit C, pp. 12-13
[17] Exhibit I.Staff.8; Exhibit I.Staff.9

however, the new plan was not filed, nor were any specifics provided as to the emissions reductions achieved under the previous plan.[18]

The OEB has previously determined that the scope of this proceeding is limited to considering recovery of Enbridge Gas's costs related to the FCPP, including the review and disposition of the 2019 balances in Enbridge Gas' FCPP deferral and variance accounts.[19] OEB staff submits that this should not prevent the OEB from assessing the reasonableness of Enbridge Gas's efforts to manage its facility-related costs, which (unlike customer-related FCPP costs) are under Enbridge Gas's direct control. To facilitate the OEB's review, Enbridge Gas should be directed to include supporting evidence of its actions to manage facility-related emissions and costs in future FCPP applications.

Balance in Greenhouse Gas Emissions Administration Deferral Accounts

Enbridge Gas seeks disposition of the $1.60 million in administration costs in the GGEADAs for 2019. These costs have not previously been reviewed in any form by the OEB. OEB staff submits that the balance in these accounts should be approved for disposition, for the reasons discussed below.

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Exhibit C
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Table C-1
2019 Administration Costs

Cost Element	2019 Forecasted Costs[6] ($millions)	2019 Costs[7] ($millions)			Variance ($millions)
		EGD Rate Zone	Union Rate Zones	Total	
IT Billing System	0.60	0.30	0.22	0.52	(0.08)
Staffing Resources	1.20	0.44	0.28	0.72	(0.48)
Consulting & External Legal Support	0.20	0.04	0.03	0.07	(0.13)
GHG Reporting & Verification	0.10	0.00	0.00	0.00	(0.10)
Bad Debt	0.80	0.13	0.00	0.13	(0.67)
Other Miscellaneous Costs	0.20	0.08	0.05	0.12	(0.08)
Interest[8]	N/A	0.03	0.01	0.04	0.04
Total	**3.10**	**1.01**	**0.59**	**1.60**	**(1.50)**

[18] Exhibit I.EP.5 (c)
[19] Decision on Updated Intervention Requests and Scope of Proceeding, March 19, 2020, p. 5

Net of the entries for bad debt ($0.13 million) and IT billing system costs ($0.52 million, discussed further below), Enbridge's 2019 FCPP administration costs were $0.95 million.

Administration costs were a contested issue in the previous carbon pricing program that Enbridge Gas was subject to (the provincial Cap-and-Trade program). In its decision on the final disposition of the 2016-2018 deferral and variance account balances for the Cap-and-Trade program, the OEB stated that it "expects that Enbridge Gas will look for ways to administer the new program [Federal Carbon Pricing Program] in a cost efficient manner."[20]

Enbridge Gas notes that it reduced the number of full time equivalents dedicated to the Federal Carbon Pricing Program from 6 to 4, effective May 1, 2019, by merging the teams from the former Union Gas and Enbridge Gas Distribution, and is minimizing consulting and legal support costs by leveraging internal staff where possible.[21] OEB staff submits that 2019 FCPP administration costs are reasonable, given the size of the customer base for Enbridge Gas, the requirements to track customer exemptions, and the need to stay on top of policy and legal developments and meet compliance requirements related to the implementation of the FCPP. While the FCPP cannot be exactly compared to the previous Cap-and-Trade program (as that program imposed greater requirements on natural gas distributors in terms of developing a Cap-and-Trade Compliance Plan), OEB staff notes that the number of FTEs and the resulting administration costs are substantially lower under the FCPP than they were under the Cap-and-Trade program.[22]

IT Billing Costs

Enbridge Gas incurred costs of $0.52 million of revenue requirement related to its IT billing system in 2019, including: $0.41 million of revenue requirement associated with Cap-and-Trade related billing system functionality costs that were re-purposed to collect FCPP-related charges; and $0.11 million of OM&A incurred in 2019 for additional billing system modifications required for the EGD rate zone.[23]

The $0.41 million of revenue requirement is for capital expenditures made by the former Enbridge Gas Distribution and Union Gas in 2016 and 2017 to implement changes to

[20] EB-2018-0331, Decision and Order, Applications for the Disposition of Cap and Trade Related Deferral and Variance Accounts for the period 2016-2018, Page 10 of 15
[21] Exhibit I.Staff.5
[22] Costs for the Cap-and-Trade program in 2017, for internal salaries and wages alone, were $2.438 million for Union Gas and $0.695 million for Enbridge Gas Distribution (EB-2018-0331, Application and Evidence, Exhibit B, Tab 1, Page 8 of 22; Exhibit B, Tab 2, Page 9 of 23). Enbridge Gas's 2019 staffing costs for the FCPP were $0.72 million (EB-2019-0247, Application and Evidence, Exhibit C, Page 6 of 18).
[23] Application and Evidence (updated), Exhibit C, Page 7 of 18

billing systems to allow for the collection of Cap-and-Trade revenues.[24] The 2017 and 2018 revenue requirement associated with these expenditures was approved by the OEB as part of the final disposition of the 2016-2018 deferral and variance account balances relating to the discontinuance of the provincial Cap-and-Trade program.[25]

Enbridge Gas indicated that it will seek recovery of 100% of the remaining revenue requirement for these 2016 and 2017 capital expenditures, noting that all Cap-and-Trade billing system functionality has been re-purposed to collect FCPP-related charges.[26] In addition to the 2019 revenue requirement, there will be a further revenue requirement for these capital expenditures in 2020 and 2021, after which these expenditures will be fully depreciated.

OEB staff submits that that the OEB should approve the 2019 revenue requirement for this expenditure. The majority of the capital expenditures made in 2016 and 2017 to implement billing system changes to allow for the collection of Cap-and-Trade revenues will be functionally useful in support of collecting FCPP-related charges. This conclusion is supported by Enbridge Gas's listing of the billing system changes that were made to enable the collection of Cap-and-Trade revenues, as most of the listed changes will also be required to collect FCPP-related charges.[27] It is also supported by the relatively low costs that Enbridge Gas has subsequently incurred for additional IT billing system changes in order to collect FCPP-related charges ($0.11 million of O&M expenses in 2019, plus additional spending forecast for 2020, to be treated as capital, with a forecast $0.10 million revenue requirement in 2020).[28]

Allocation and Disposition of Balances in FCPP Deferral and Variance Accounts

Enbridge Gas has proposed to allocate balances to rate classes for both the FCCCVAs and the FCCFVAs in proportion to the actual customer volumes in each rate class that were subject to the Federal Carbon Charge and Facility Carbon Charge, respectively, from April 1, 2019 to July 31, 2019.

As noted earlier in this submission, 100% of the balance in the FCCCVAs was incurred during this four-month period. More than 90% of the balance in the FCCFVAs was incurred prior to July 31, 2019, although some of this balance was incurred between January 1, 2019 and March 31, 2019.[29]

[24] Exhibit I.Staff.6
[25] EB-2018-0331
[26] Exhibit I.Staff.6 (c)
[27] Exhibit I.Staff.6 (a)
[28] Exhibit I.SEC.1; Application and Evidence (updated), Exhibit C, Page 15 of 18
[29] Enbridge Gas's OBPS obligations began on January 1, 2019.

OEB staff notes that that the FCCCVA balances are much greater than the FCCFVA balances ($145.70 million versus $0.98 million), and that a billing system constraint for the EGD rate zone prevents disposition of account balances over different sets of volumes at the same time, which would be required if Enbridge Gas were to dispose of the FCCFVA balances based on actual customer volumes in each rate class between January 1, 2019 and July 31, 2019.[30] For these reasons, OEB staff supports Enbridge Gas's proposed approach of allocating balances to rate classes for both the FCCCVAs and the FCCFVAs in proportion to the actual customer volumes in each rate class that were subject to the Federal Carbon Charge and Facility Carbon Charge, respectively, from April 1, 2019 to July 31, 2019.

Enbridge Gas has proposed to allocate balances to rate classes for the GGEADAs (administrative costs) in proportion to the number of customers within each rate class for the EGD rate zone, and in proportion to each rate class's share of 2013 OEB-approved administrative and general expenses for the Union rate zones. OEB staff supports this approach, as it represents a reasonable approach to estimating the FCPP-related administrative expenses attributable to each rate class.

Enbridge Gas has proposed that the balances would be disposed of on a prospective basis (i.e., based on their natural gas consumption during the disposition period) for general service (GS) customers in the Union rate zones, and as a billing adjustment for all other customers, based on their actual natural gas consumption between April 1, 2019 and July 31, 2019. Enbridge Gas indicated that this difference in disposition approaches was necessary as it is limited to prospective recovery for the Union rate zones' GS customers due to billing system constraints.[31] Enbridge Gas indicated that it will not be able to adopt a common disposition period and approach for all customers until mid-2021 at the earliest.[32]

OEB staff notes that this leads to a degree of misalignment of costs for GS customers in Union rate zones, **within** a particular rate class, due to the different times when costs were incurred versus recovered. For example, a customer who uses natural gas for space heating only may have consumed little natural gas between April 1, 2019 and July 31, 2019 (and thus bears little responsibility for the accumulation of the balances in the DVAs), yet will pay for the disposition of these balances based on the customer's (likely higher) proportional share of the rate class's consumption between October 1, 2020 and March 31, 2021. As the large balance to be cleared in these DVAs is anticipated to be a one-time event, there will be no opportunity for this misalignment of costs to be evened out, on average, from future FCPP DVA clearances. Nevertheless,

[30] Exhibit I.Staff.12 (a)
[31] Application and Evidence (updated), Exhibit D, Page 11 of 15
[32] Exhibit I.Staff.13 (d)

OEB staff does not see a preferable alternative, due to the billing system constraints that require prospective disposition for these customers.

Disposition Period and Bill Smoothing

In its Interim Decision and Order, the OEB required Enbridge Gas to propose options for the approach to disposition of the balances in FCPP DVAs that would smooth bill impacts. The total bill impact of the proposed 2019 FCPP DVA disposition is an increase of $21.85 for a typical residential customer in the EGD rate zone, and increases of $16.01 and $16.58 for typical residential customers with annual consumption of 2,200 m^3 in the Union South and Union North rate zones, respectively.[33] The monthly bill impact will depend on the disposition period.

In its updated Application and Evidence, Enbridge Gas considered one-month, three-month, and six-month disposition periods, and has proposed the same disposition period as in its original Application and Evidence: prospective disposition over a six-month basis (beginning October 1, 2020) for GS customers in the Union rate zones, and a one-time adjustment based on actual consumption between April 1, 2019 to July 31, 2019, disposed of over a three-month period (beginning October 1, 2020), for all other customers (i.e., non-GS customers in the Union rate zones, and all customers in the EGD rate zone).

Enbridge Gas noted that a six-month disposition period is not proposed for customers in the EGD rate zone, because it would limit the ability to dispose of other deferral and variance account balances for the EGD rate zone during any part of the six-month period, due to billing system constraints.[34] Enbridge Gas notes that the three-month disposition period enables other account dispositions to begin the following quarter, such as the 2019 DVA balances and the 2019 earnings sharing and the 2017 and 2018 Demand Side Management DVA balances.

OEB staff finds Enbridge Gas's rationale as to why a three-month disposition period is the right approach for one set of customers and a six-month disposition period is the right approach for another set of customers unconvincing. On the one hand, Enbridge Gas has proposed a six-month disposition period for GS customers in the Union rate zones because it is "consistent with the standard practice of disposition for this set of customers", on the other hand, Enbridge Gas has not proposed a six-month disposition period for other customers, as it "may coincide with higher customer bills during peak heating months".[35]

[33] Application and Evidence (updated), Exhibit A, Page 15 of 15
[34] Application and Evidence (updated), Exhibit D, Page 13 of 15
[35] Application and Evidence (updated), Exhibit D, Page 13 of 15

OEB staff submits that the disposition period for the FCPP DVA balances can and should be aligned across Enbridge Gas's customer base to a greater degree than Enbridge Gas has proposed. The OEB could:

a) require a three-month disposition period for all customers;
b) require a six-month disposition period for all customers;
c) require a six-month disposition period for both GS customers and non-GS customers in the Union rate zones, and a three-month disposition period for customers in the EGD rate zone (thereby preserving Enbridge Gas's ability to dispose of other DVA balances in the EGD rate zone in the following three-month period).

In the absence of other factors impacting the bill, the six-month disposition period in options (b) or (c) better achieves the OEB's desired goal of smoothing bill impacts. The evidentiary record in this proceeding does not enable a full comparison of the combined bill impact of a three-month versus six-month disposition period, taking other factors impacting the bill into account (e.g. changes in commodity cost, seasonal differences in customer natural gas use). Enbridge Gas has stated its position that "any bill impact as a result of a future application (i.e. October QRAM) [should] be dealt with as a part of its respective proceeding".[36]

Therefore, given the evidence on record, OEB staff submits that option (c) should be preferred. However, the OEB should make its final decision on the appropriate disposition period of the FCPP DVA balances as part of its review of Enbridge Gas's next QRAM application, where it can consider the combined bill impact of all rate adjustments being implemented at that time.

Timing and Nature of Future FCPP Applications

Under the GGPPA, changes to the carbon charge that Enbridge must remit to the federal government for customer and facility emissions come into effect on April 1 of each year, with future increases scheduled in 2021 and 2022.[37] This update drives the rate updates to the Federal Carbon Charge and Facility Carbon Charge that Enbridge Gas requests from the OEB. For the 2020 FCPP application, Enbridge Gas requested that these rate changes be effective on April 1, 2020, to match the timing of the rate change under the GGPPA and to avoid the accumulation of unbilled and uncollected amounts from customers. This will likely also be Enbridge Gas's preference in future years.

In this proceeding, the OEB directed Enbridge Gas to file updated evidence regarding

[36] Exhibit I.LPMA.10 (a)
[37] Application and Evidence (updated), Exhibit A, Page 5-6 of 15

the proposed disposition of 2019 balances in all FCPP DVAs, based on actual costs incurred and recorded up to December 31, 2019. Enbridge Gas filed this updated evidence on May 14, 2020.

The timing of these two elements of the FCPP application is incompatible: it is impossible for the OEB to address the disposition of the previous year's FCPP DVA balances by the date (April 1 of each year) on which Enbridge Gas's requested FCPP-related rate changes for the current year would come into effect.

Enbridge Gas indicates that in future years, it would be in a position to file an FCPP application by the end of September each year.[38] Enbridge Gas is proposing to introduce a one-year lag in the clearance of FCPP DVAs. The September 2020 application would request any April 1, 2021 Federal Carbon Charge or Facility Carbon Charge rate changes, and would not request clearance of any FCPP DVA balances. The September 2021 application would request any April 1, 2022 rate changes, and request clearance of the year-end 2020 FCPP DVA balances.

OEB staff supports this proposed timing. Absent unforeseen complications, a September filing should provide adequate time for Federal Carbon Charge and Facility Carbon Charge rate changes to be brought into effect on a final basis in the following year to match the timing of changes in the carbon price that Enbridge Gas must pay to the federal government under the GGPPA, and would also enable the OEB to consider the disposition of DVA balances based on audited year-end balances and third-party verification of Enbridge Gas's facility-related emissions. Unlike this year, the balances in FCPP DVAs in future years are likely to be small, reducing the urgency to dispose of these balances promptly.

All of which is respectfully submitted.

[38] Exhibit I.Staff.1