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BY EMAIL

January 7, 2021

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

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc. – 2021 Federal Carbon Pricing Program Application
OEB File Number: EB-2020-0212**

In accordance with Procedural Order No. 2, please find attached the OEB staff submission on Enbridge Gas Inc.'s 2021 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.

2021 Federal Carbon Pricing Program Application

EB-2020-0212

January 7, 2021

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 Government of Canada a Fuel Charge to cover greenhouse gas emissions from the natural gas that it delivers to its non-exempt customers,¹ and incurs further obligations to the Government of Canada for greenhouse gas emissions from its own facilities. The Fuel Charge under the GGPPA came into effect on April 1, 2019, increased on April 1, 2020, and will increase again on April 1, 2021.

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:³

- Federal Carbon Charge – Customer Variance Accounts, 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, 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, to record the administration costs associated with the FCPP

Background on this Proceeding

Enbridge Gas applied to the OEB on September 30, 2020 for approval under section 36(1) of the *Ontario Energy Board Act, 1998* (OEB Act) to increase rates effective April 1, 2021 to recover costs associated with meeting its obligations under the GGPPA.

On November 10, 2020, the OEB issued [Procedural Order No. 1](#), which addressed requests for intervention and cost eligibility, and set dates for interrogatories and interrogatory responses.

On November 20, 2020, the OEB issued a [Decision on Scope of Proceeding](#), indicating that the scope of this proceeding would be limited to considering the recovery of

¹ Certain customers (e.g. industrial customers and greenhouses) are eligible for full or partial exemption from the Fuel Charge under the GGPPA for their emissions, and are thus also fully or partially exempt from Enbridge Gas's Federal Carbon Charge.

² EB-2018-0205

³ For each of the three sets, two accounts exist, one for customers in the Enbridge Gas Distribution rate zone and one for customers in the Union rate zones (Union North and Union South).

Enbridge Gas's costs related to the FCPP, specifically (i) updating the Federal Carbon Charge and Facility Carbon Charge on customer bills, to match the costs incurred by Enbridge Gas under the GGPPA; and (ii) considering Enbridge Gas's activities with respect to understanding, controlling, and mitigating its facility-related FCPP costs. The OEB also indicated that an issue raised in the 2020 FCPP proceeding (EB-2019-0247) regarding the applicability of the Federal Carbon Charge to First Nations on-reserve customers will be heard as part of the 2020 FCPP proceeding and not in the 2021 FCPP proceeding.

On December 11, 2020, the OEB issued a [Decision on Confidentiality and Procedural Order No. 2](#), which set dates for written submissions, and granted Enbridge Gas's request for confidential treatment for information provided as part of one interrogatory response.

Application Summary

In its Application, Enbridge Gas requested:

- Approval on a final basis of a Federal Carbon Charge of 7.83 ¢/m³, an increase from the current rate of 5.87 ¢/m³, effective April 1, 2021, to match the increase in the federal Fuel Charge that takes effect on the same date.
 - For First Nations on-reserve customers, Enbridge Gas requests that this rate be approved on an interim basis.
- Approval on a final basis of an updated Facility Carbon Charge, effective April 1, 2021, to recover Enbridge Gas's forecast 2021 FCPP facility-related costs.
 - Enbridge Gas requests approval to increase the Facility Carbon Charge from 0.0049 ¢/m³ to 0.0066 ¢/m³ for the EGD rate zone and from 0.0088 ¢/m³ to 0.0127 ¢/m³ for the Union rate zones.

Enbridge Gas estimated that the incremental bill impact of the Federal Carbon Charge and Facility Carbon Charge (relative to the rates for these charges that are currently effective) for typical residential customers would be \$47.08 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$43.23 per year in the Union rate zones (based on annual consumption of 2,200 m³).

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, 2021, at the requested rate. As per Enbridge Gas's application and the OEB's November 20, 2020 Decision on Scope of Proceeding, this rate should be interim for

First Nations on-reserve customers, and Enbridge Gas should continue tracking the Federal Carbon Charge revenues collected from on-reserve customers.

Enbridge Gas's Facility Carbon Charge should be approved on a final basis, effective April 1, 2021, at the requested rate. Enbridge Gas's forecast 2021 facility-related FCPP costs (which determine the level of the Facility Carbon Charge) have the potential to change significantly should Ontario's Emissions Performance Standards come into effect for the 2021 compliance period, replacing the output-based pricing system (OBPS) under the GGPPA. However, it is not yet known whether this change will come into effect for the 2021 compliance period. Enbridge Gas's requested 2021 Facility Carbon Charge rates are based on the current legal compliance requirements (continued applicability of the OBPS), and the Federal Carbon Charge - Facility Variance Accounts are in place to record the variance between actual FCPP costs related to facility emissions and FCPP costs recovered in rates, for future disposition.

Enbridge Gas has taken reasonable action to date to manage its facility-related FCPP costs. As facility-related FCPP costs recovered through the Facility Carbon Charge will likely continue to increase in future years (should the Government of Canada implement the proposals in its recently released climate plan), Enbridge Gas should continue to assess and act on opportunities to reduce these costs.

Federal Carbon Charge

Enbridge Gas requested approval on a final basis of a Federal Carbon Charge of 7.83 ¢/m³, an increase from the current rate of 5.87 ¢/m³, effective April 1, 2021. The incremental bill impact of this change (relative to the current rate) for typical residential customers, if approved, will be \$47.04 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$43.13 per year in the Union rate zones (based on annual consumption of 2,200 m³).

The requested rate for the Federal Carbon Charge matches the volumetric rate for the Fuel Charge that Enbridge Gas must pay to the Government of Canada for its customers' emissions, effective April 1, 2021. Customers are charged the Federal Carbon Charge monthly based on actual billed volumes.

Enbridge Gas has used the same approach as in its previous FCPP proceedings⁴ to determine which customers are eligible for reductions or exemptions from the Fuel Charge under the GGPPA, and provides a corresponding reduction or exemption for the Federal Carbon Charge on these customers' bills.

The Federal Carbon Charge is currently approved on an interim basis for First Nations

⁴ EB-2018-0205, EB-2019-0247

on-reserve customers, as a result of the OEB's [August 13, 2020 Decision and Order](#) in the 2020 FCPP proceeding, pending a determination in that proceeding as to the applicability of this charge to First Nations on-reserve customers in light of the *Indian Act*, relevant treaties, and section 35 of the *Constitution Act, 1982* (the Deferred Issues).

In this Application, Enbridge Gas requested to increase the Federal Carbon Charge on an interim basis for First Nations on-reserve customers, and indicated that it would continue tracking such charges until the OEB makes a determination on the Deferred Issues, and would also continue noting the interim nature of this charge in its rate schedules. In its Decision on Scope of Proceeding, the OEB indicated its intent that, at the conclusion of this proceeding, the Federal Carbon Charge will remain interim for First Nations on-reserve customers. The OEB did not specify whether the interim rate for the Federal Carbon Charge for First Nations on-reserve customers should remain at its current rate, or increase as requested by Enbridge Gas. OEB staff submits that the rate should be increased, such that all customers, including First Nations on-reserve customers, are charged the Federal Carbon Charge at a rate of 7.8300 ¢/m³. This would be consistent with the OEB's determination in the 2020 FCPP proceeding, which also saw an increase to the Federal Carbon Charge for all customers, applied on an interim basis for First Nations on-reserve customers.

Given the above considerations, OEB staff believes that Enbridge Gas's methodology for establishing the Federal Carbon Charge is appropriate. OEB staff submits that Enbridge Gas's Federal Carbon Charge should be approved on a final basis, effective April 1, 2020, at the requested rate of 7.8300 ¢/m³ for the EGD rate zone and the Union rate zones, for all customers, with the exception of on-reserve First Nations customers, for whom this rate should be approved on an interim basis.

Facility Carbon Charge

Enbridge Gas requested approval on a final basis of an updated Facility Carbon Charge, effective April 1, 2021, to reflect forecast 2021 facility-related costs. Enbridge Gas requested approval to increase the Facility Carbon Charge from 0.0049 ¢/m³ to 0.0066 ¢/m³ for the EGD rate zone and from 0.0088 ¢/m³ to 0.0127 ¢/m³ for the Union rate zones. The incremental bill impact of this change (relative to the current rates for the Facility Carbon Charge) for typical residential customers is \$0.04 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$0.10 per year in the Union rate zones (based on annual consumption of 2,200 m³).

Enbridge Gas used the same methodology to establish rates for the Facility Carbon Charge (based on forecast facility-related emissions and costs, and customer volumes) as in its previous FCPP proceedings.

Impact of COVID-19 Emergency

Establishing the rate for the Facility Carbon Charge relies on an estimate of forecast customer volumes from April 1, 2021 to March 31, 2022. In response to interrogatories regarding whether this forecast had been adjusted due to the COVID-19 emergency,⁵ Enbridge Gas noted that it did not make any specific adjustment to its General Service Market volume forecast, but that the Q2 2020 Economic Outlook that this forecast was based on did include a forecast of variables that inherently includes certain COVID-19 pandemic impacts (such as GDP, unemployment and housing starts). Enbridge Gas also noted that its forecast included adjusted consumption volumes for Contract Market customers to project the impact of the COVID-19 pandemic, using historical data based upon the impacts resulting from the 2008 economic recession.

Enbridge Gas also noted that the Federal Carbon Charge – Facility Variance Accounts are in place to record any discrepancy between forecast facility-related costs recovered through the Facility Carbon Charge and actual incurred facility-related costs. Enbridge Gas indicated that it does not expect such balances to be material relative to the total forecast cost of compliance with the GGPPA in 2021.

Potential Changes to 2021 Facility-Related OBPS Cost

The majority of Enbridge Gas's forecast 2021 facility-related costs (\$4.0 million out of \$5.9 million)⁶ are from its transmission and storage operations, which are subject to the output-based pricing system (OBPS) under the GGPPA. Enbridge Gas incurs obligations to the Government of Canada for emissions in excess of a sector-based emission intensity benchmark. Options to meet OBPS obligations include paying the Fuel Charge on excess emissions, purchasing surplus credits from facilities who were below their emissions threshold, or purchasing offset credits from facilities not subject to carbon pricing that generated greenhouse gas emissions reductions from voluntary actions.

Enbridge Gas's forecast 2021 OBPS cost assumes that Enbridge Gas will pay the Fuel Charge on all excess emissions. The other compliance options under the OBPS are not yet in effect (no surplus credits have been issued, and the federal offset program has not yet been established).

On September 21, 2020, the Government of Ontario announced that the Government of Canada has determined that Ontario's Emissions Performance Standards (EPS) are an acceptable carbon pricing alternative to the federal OBPS for eligible industrial facilities; however, the timeline for the changes to the GGPPA needed to bring into effect the

⁵ Exhibit I.Staff.4

⁶ Exhibit A, pp. 9-11 of 16

Ontario EPS has not yet been established.

Once these changes have been made, Enbridge Gas would be subject to the EPS instead of the OBPS, which would change Enbridge Gas's facility-related costs.

In the current application, Enbridge Gas has assumed that it will remain subject to the federal OBPS in 2021, and not the Ontario EPS. Enbridge Gas noted that it could amend its application once additional details are announced. Enbridge Gas estimated that transitioning from the OBPS to the EPS for the 2021 period could reduce its facility-related compliance costs by approximately \$1.9 million.⁷

On December 17, 2020, after the close of record in this proceeding, the Government of Ontario posted a proposal on the Environmental Registry ([ERO 019-2813](#)). The proposal notes that the Government of Canada has not yet made a decision on a start date for compliance obligations under the EPS program but that the options under consideration are for industry to have compliance obligations under the EPS program begin with their 2021 emissions or their 2022 emissions. The Ontario regulatory proposal is drafted based on a 2021 start date (i.e., covering 2021 emissions and onwards), in advance of a federal decision, and would be adjusted if the Government of Canada decides on a 2022 start date.

Enbridge Gas's final 2021 OBPS obligation does not need to be settled with the Government of Canada until June 2022. Enbridge Gas indicated that any change in its final OBPS obligation due to the above factors (use of surplus or offset credits, transition to the Ontario EPS system) will be tracked in the Federal Carbon Charge – Facility Variance Accounts and included in a future FCPP application for disposition.

The ability to use the Federal Carbon Charge – Facility Variance Accounts to track differences between actual facility-related costs and facility-related costs recovered in rates, and to subsequently address this variance through disposition of the variance accounts, does not completely ensure that each individual customer will eventually end up paying the same amount as if the "correct" value for the Facility Carbon Charge was originally in effect. Enbridge Gas is limited to prospective recovery of deferral and variance account balances for general service customers in the Union rate zones due to billing system constraints.⁸ In other words, these customers will be charged or refunded their share of the balance in the Federal Carbon Charge – Facility Variance Accounts based on their volume of consumption in some future period, not the period when the balance in the variance account was incurred.

Should the EPS come into effect in 2021, Enbridge Gas's facility-related costs could

⁷ Exhibit I.Staff.1

⁸ EB-2019-0247, Decision and Order, August 13, 2020, p. 13

change, being reduced by approximately one-third. However, because the Facility Carbon Charge is a small charge that is recovered over all Enbridge Gas customer volumes, and the Federal Carbon Charge – Facility Variance Accounts are in place (albeit with the limitation noted above), this change would have a minor bill impact on customers.⁹

Given the above considerations, OEB staff believes that Enbridge Gas’s methodology for establishing the Facility Carbon Charge is based on the best available information at this time, and is appropriate. OEB staff submits that Enbridge Gas’s Facility Carbon Charge should be approved on a final basis, effective April 1, 2021, at the requested rate of 0.0066 ¢/m³ for the EGD rate zone and 0.0127 ¢/m³ for the Union rate zones.

Parkway Delivery Commitment Incentive and Cost Recovery

The Parkway Delivery Commitment Incentive (PDCI) is a credit provided to direct purchase customers delivering gas at Parkway, instead of Dawn. The PDCI credit is set at the M12 Dawn to Parkway commodity rate, which includes the Facility Carbon Charge and would increase by \$0.001/GJ, should Enbridge Gas’s requested increase to the Facility Carbon Charge be approved. The PDCI credit rate would increase by an equal amount.

By including the updated Facility Carbon Charge, the total cost of the PDCI credit would increase by \$0.089 million (from \$12.766 million to \$12.854 million). The cost of the PDCI credit is recovered from Union South in-franchise delivery rates.

Enbridge Gas requested approval to update the PDCI credit and Union South in-franchise delivery rates to reflect these changes. Enbridge Gas provided a derivation of the Union South in-franchise delivery unit rate changes.

OEB staff submits that the requested changes to the PDCI credit and resulting changes to Union South in-franchise delivery rates should be approved.

Managing Facility-Related FCPP costs

The OEB indicated that the scope of this proceeding includes considering Enbridge Gas’s activities with respect to understanding, controlling, and mitigating its facility-related FCPP costs.

As part of its application, Enbridge Gas included evidence on potential options for

⁹ At the proposed level of the Facility Carbon Charge in Union rate zones (0.0127 ¢/m³), the annual bill impact for a residential customer using 2,200 m³ is \$0.28, so a 1/3 reduction in actual 2021 facility-related costs would incur a variance of roughly \$0.09 per customer that would be addressed through disposition of the Federal Carbon Charge - Facility Variance Accounts.

reducing its facility-related emissions. Enbridge Gas indicated that it has undertaken work to evaluate the feasibility, emission reduction potential and cost of potential opportunities to reduce facility-related emissions. Enbridge Gas provided details on four such opportunities – online monitoring of compressor units, turbine air filter replacements, installing an electric drive compressor to operate in place of an existing turbine powered compressor (“Plant J twinning”), and re-wheeling turbines.

Enbridge Gas conducted a Discounted Cash Flow analysis of these 4 opportunities, based on inputs including the expected emissions reductions, avoided facility-related FCPP costs, and incremental capital costs. Enbridge Gas determined that two of these opportunities (online monitoring and air filters) are cost-effective, and is currently implementing these projects. These projects are estimated to reduce emission by about 4,000 tonnes carbon dioxide equivalent (CO₂e) over a 10-year period. Enbridge Gas determined that the other two opportunities are not cost-effective under current conditions.

Enbridge Gas indicated that the costs of the two projects being implemented were minor and would be funded as part of Enbridge Gas’s regular maintenance costs. Enbridge Gas confirmed it is not seeking to recover any costs associated with either of these projects through FCPP rates or FCPP-related deferral and variance accounts. Enbridge Gas indicated that in the future, should it implement projects for the sole purpose of reducing its facility-related emissions, it may seek to recover such costs as part of future FCPP applications.¹⁰

OEB staff submits that Enbridge Gas has taken reasonable action to date to manage its facility-related FCPP costs, and that Enbridge Gas should continue assessing opportunities to reduce these costs, which could include reducing facility-related emissions, or making use of options other than paying the Fuel Charge on excess emissions for its OBPS obligations. Enbridge Gas has indicated (within its forecast of 2021 administration costs) that it plans to evaluate (and potentially procure) offset credits.¹¹ These efforts can be reviewed in a future FCPP application.

OEB staff notes that while the GGPPA does not currently include any carbon pricing increase after April 1, 2022 (on which date the Fuel Charge will increase to \$50/tonne CO₂ e, or 9.79 ¢/m³ of natural gas), the Government of Canada’s recently released climate plan, “[A Healthy Environment and a Healthy Economy](#)”, proposes to continue increasing this charge, by \$15 per year starting in 2023, rising to \$170/tonne CO₂ e in 2030, and will also review the standards it uses to assess provincial carbon pricing

¹⁰ Exhibit I.Staff.2

¹¹ Exhibit C, p.3

systems.¹²

Should the Government of Canada follow through with this proposal, Enbridge Gas's facility-related costs will continue to increase, and more emissions reductions opportunities may become viable.

Administration Costs

Enbridge Gas has included a forecast of 2021 administration costs, for information purposes only. Administration costs in 2021 are forecast to be \$4.41 million, of which \$2.58 million is bad debt. Excluding bad debt, administration costs are forecast to be similar in 2020 and 2021. Enbridge Gas is not seeking approval to recover these costs in this application, and OEB staff takes no position on this forecast.

Draft Rate Order

Enbridge Gas indicates that it will file a draft rate order for final rates following issuance of the OEB's Decision and Order for this Application, and intends to reflect 2021 increases to rates for the Federal Carbon Charge and Facility Carbon Charge as part of its April 1, 2021 Quarterly Rate Adjustment Mechanism (QRAM) application.

OEB staff submits that if the OEB approves the rates requested by Enbridge Gas in this application (which OEB staff has supported), that a Draft Rate Order in this proceeding is likely unnecessary. The rates impacted by this proceeding are clearly shown (in Exhibit D, Tab 1, Schedule 1 for the EGD rate zone, and Exhibit D, Tab 2, Schedules 1 and 2 for the Union rate zone, which includes rate changes due to the change in the PDCI credit). Draft complete tariff sheets reflecting the OEB's determination could be filed by Enbridge Gas for each of the EGD rate zone and Union rate zones as part of its April 2021 QRAM application.

All of which is respectfully submitted.

¹² p.26, 28. The review of provincial carbon pricing systems could potentially include further consideration by the Government of Canada as to whether the Ontario EPS in its current form would remain a legal compliance alternative to the OBPS, although this is not explicitly mentioned in the Government of Canada's climate plan.