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BY EMAIL

January 12, 2022

Nancy Marconi
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Enbridge Gas Inc.
2022 Federal Carbon Pricing Program Application
OEB File Number: EB-2021-0209**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Vince Mazzone
Case Manager

Encl.

cc: All parties in EB-2021-0209



ONTARIO ENERGY BOARD

OEB Staff Submission

Enbridge Gas Inc.

2022 Federal Carbon Pricing Program

EB-2021-0209

January 12, 2022

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. The Fuel Charge increased on April 1, 2020 and on April 1, 2021 and will increase again on April 1, 2022.

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 (FCCCVA), 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 (FCCFVA), 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 (GGEADA), to record the administration costs associated with the FCPP

Enbridge Gas applied to the OEB on September 29, 2021 for approval under section 36(1) of the *Ontario Energy Board Act, 1998* (OEB Act) to increase rates effective April 1, 2022 to recover costs associated with meeting its obligations under the GGPPA. Enbridge Gas also applied to dispose of the 2020 balances in the FCPP DVAs.

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).

Application Summary

In its application, Enbridge Gas requested:

- Approval on a final basis of a Federal Carbon Charge of 9.79 ¢/m³, an increase from the current rate of 7.83 ¢/m³, effective April 1, 2022, to match the increase in the federal Fuel Charge that takes effect on the same date.
- Approval on a final basis of an updated Facility Carbon Charge, effective April 1, 2022, to recover Enbridge Gas's forecast 2022 FCPP facility-related costs.
 - Enbridge Gas requests approval to increase the Facility Carbon Charge from 0.0066 ¢/m³ to 0.0070 ¢/m³ for the EGD rate zone and from 0.0127 ¢/m³ to 0.0141 ¢/m³ for the Union rate zones.
- Approval of the year-end 2020 balances for the following DVAs:
 - (\$0.8) million variance in facility-related costs in the FCCFVAs.
 - \$2.44 million in administration costs in the GGEADAs.⁴
 - The FCCCVAs have a zero balance.
- Approval to dispose of these balances, according to Enbridge Gas's proposed allocation and disposition approach, through a one-time billing adjustment recovered from all customers in the EGD and the Union rate zones.
- Approval to amend the wording of the federal carbon pricing program FCPP-related deferral and variance accounting orders to recognize the change from the federal Output-Based Pricing System (OBPS) to the provincial Emissions Performance Standards (EPS).
 - Enbridge Gas filed tracked and clean versions of the amended accounting orders with its application.

Enbridge Gas estimated that the incremental bill impact of the proposed Federal Carbon Charge and Facility Carbon Charge (relative to the rates for these charges that are currently effective) for typical residential customers would be \$47.05 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$43.14 per year in the Union rate zones (based on annual consumption of 2,200 m³).

The total bill impact of the proposed 2020 FCPP DVA disposition is a one-time charge of \$0.72 for a typical residential customer in the EGD rate zone, and a one-time charge of \$0.27 and \$0.34 for typical residential customers in the Union South and Union North rate zones, respectively.⁵

OEB staff makes detailed submissions on the above-noted requests. OEB staff also

⁴ This value was updated in Enbridge Gas's response to interrogatories, from a value of \$2.54 million in its Application and Evidence.

⁵ The total bill impact for a typical customer in the EGD rate zone was updated in Enbridge Gas's response to interrogatories, from a total bill impact of \$0.76 in its Application and Evidence.

makes detailed submissions on two other areas of the application: the Parkway Delivery Commitment Incentive (PDCI) and the management of facility-related FCPP costs.

OEB Staff Submission

Federal Carbon Charge and Facility Carbon Charge

Background

Enbridge Gas requested approval on a final basis of a Federal Carbon Charge of 9.79 ϕ/m^3 , an increase from the current rate of 7.83 ϕ/m^3 , effective April 1, 2022.

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, 2022. 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 proceedings⁶ 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.

Enbridge Gas also requested approval on a final basis of an updated Facility Carbon Charge, effective April 1, 2022, to reflect forecast 2022 facility-related costs. Enbridge Gas requested approval to increase the Facility Carbon Charge from 0.0066 ϕ/m^3 to 0.0070 ϕ/m^3 for the EGD rate zone and from 0.0127 ϕ/m^3 to 0.0141 ϕ/m^3 for the Union rate zones.

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.

Submission

OEB staff agrees with Enbridge Gas's calculation of the Federal Carbon Charge as it reflects the amount that it will be required to pay to the Government of Canada under the GGPPA for natural gas volumes delivered to non-exempt customers. OEB staff submits that Enbridge Gas's Federal Carbon Charge should be approved on a final basis, effective April 1, 2022, at the requested rate of 9.79 ϕ/m^3 for the EGD rate zone and the Union rate zones, for all customers.

OEB staff also agrees that Enbridge Gas's methodology to establish rates for the Facility Carbon Charge is appropriate. OEB staff submits that Enbridge Gas's Facility Carbon Charge should be approved on a final basis, effective April 1, 2022, at the requested rate of 0.0070 ϕ/m^3 for the EGD rate zone and 0.0141 ϕ/m^3 for the Union rate

⁶ EB-2018-0205, EB-2019-0247, and EB-2020-0212

zones, for all customers.

Deferral and Variance Account Disposition Requests

Enbridge Gas is seeking disposition of \$2.44 million in administration costs in the GGEADAs and \$(0.8) million in the FCCFVAs for 2020.

There is no balance in the FCCCVAs. Enbridge Gas tracks the difference between the Federal Carbon Charge amount collected through rates and the actual costs incurred in the FCCCVA for each of the EGD rate zone and the Union rate zones. Since Enbridge Gas remits the Federal Carbon Charge to the CRA based on actual billed volumes and the Federal Carbon Charge rate, consistent with the GGPPA, was being collected through rates, there is no FCCCVA balance for either the EGD or Union rate zones.

Balance in Greenhouse Gas Emissions Administration Deferral Accounts

Background

Enbridge Gas seeks disposition of the \$2.44 million in administration costs in the GGEADAs for 2020. The value in the GGEADAs was updated by Enbridge Gas in its interrogatory responses, from an earlier value of \$2.5 million, due to a correction. The breakdown of each of the cost elements are set out in the table below.⁷

Cost Element	2020 Forecasted Costs ⁹	2020 Actual Costs ¹⁰			Variance	
		EGD Rate Zone	Union Rate Zones	Total		
IT Billing System	0.40	0.17	0.14	0.31	(0.09)	
Staffing Resources	0.80	0.52	0.32	0.84	0.04	
Consulting and External Legal Support	0.20	0.08	0.05	0.13	(0.07)	
GHG Reporting and Verification	0.10	0.04	0.02	0.06	(0.04)	
Bad Debt	1.84	0.74	0.29	1.03	(0.81)	/c
Other Miscellaneous Costs	0.20	0.02	0.01	0.04	(0.16)	
Interest ¹¹	N/A	0.01	0.01	0.02	0.02	/c
Total	3.54	1.59	0.85	2.44	(1.10)	/c

With respect to the 2020 forecast costs in comparison to the 2020 actual costs, OEB staff notes that there was an increase in staffing resources only. Enbridge Gas attributes this to full time equivalents requirements (FTEs) increasing from four to five in

⁷ Exhibit C, p. 4 (corrected on December 15, 2021)

May 2020, reflecting resource requirements to facilitate compliance with the GGPPA and the incremental effort required for regulations related to Greenhouse Gas (GHG) emissions requirements including the federal Offset Regulation and the Clean Fuel Regulation.⁸

Consistent with the OEB's Decision and Order on Enbridge Gas's 2020 FCPP application, the \$1.03 million incurred for bad debt in the Greenhouse Gas Emissions Administration Deferral Accounts is exclusive of COVID-19 impacts. Enbridge Gas has recorded bad debt expenses for the FCPP related to COVID-19 in the COVID-specific sub-account.

On forecast costs, Enbridge Gas corrected the forecast for 2022 costs for staffing resources.⁹ Enbridge Gas stated that the total forecast staffing costs for 2022 should be \$0.94 million based on 5.5 FTEs. This represents a 12% increase over 2020 staffing costs of \$0.84 million, which was based on an average of 4.6 FTEs. With respect to the forecast for overall administration costs, Enbridge expects the main driver to be an increase in bad debt related to the Federal Carbon Charge. Bad debt related to the Federal Carbon Charge has increased due to the annual increase of the Federal Carbon Charge rate and the year over year increase to total Enbridge Gas bad debt. The forecasted increase to total Enbridge Gas bad debt is a function of historical arrear balances, bankruptcy, unemployment, inflation rates and general economic forecasts.¹⁰

Enbridge Gas noted that it is containing growth in staffing costs by using internal resources outside of the Carbon Strategy team, where reasonable to do so. For example, efficiencies were identified by having the Environment department complete OBPS reporting and verification, given they are accountable for other facility-related GHG reporting activities.

Submission

OEB staff agrees that 2020 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. OEB staff has reviewed the supporting evidence and supports the disposition of the balance of \$2.44 million in administration costs in the GGEADAs for 2020. OEB staff takes no position on the 2022 forecast costs given that these amounts will be disposed of in a future application.

Balance in Federal Carbon Charge - Facility Variance Accounts

⁸ Exhibit C, p. 5

⁹ Exhibit I.Staff.4

¹⁰ Exhibit I.EP.3

Background

Enbridge Gas is seeking disposition of the 2020 facility-related variance of \$(0.80) million in the FCCFVAs, including \$(0.04) million for the EGD rate zone and \$(0.76) million for the Union rate zones. The FCCFVAs record the variance between actual facility-related FCPP costs, and the facility-related costs recovered through rates. Enbridge Gas's facility-related volumes and associated costs are composed of Company Use Volumes (facilities which are not covered under the OBPS) and OBPS Volumes from January 1, 2020 to December 31, 2020. Enbridge Gas's 2020 facility-related obligation was \$3.15 million (\$0.82 million related to Company Use Volumes and \$2.33 million related to OBPS Volumes), of which \$2.91 million is attributable to Enbridge Gas's regulated utility operations.

Submission

OEB staff has no concerns with Enbridge Gas's calculations regarding the balance in the FCCFVAs. OEB staff has reviewed the supporting evidence and supports the disposition of the balance of \$(0.80) million in the FCCFVAs for 2020.

Transition from the OBPS to the EPS

Background

On September 21, 2020, the province of Ontario announced that the Government of Canada accepted Ontario's carbon pricing system for industrial emitters, known as the Ontario EPS program, as an alternative to the federal OBPS. On March 29, 2021, the Government of Canada announced that effective January 1, 2022 the EPS will replace the OBPS in Ontario. The GGPPA was amended on September 1, 2021 to remove Ontario from Part 2 of Schedule 1 of the GGPPA, enabling the EPS to take effect in Ontario as of January 1, 2022.

In this application, Enbridge Gas noted that it is working to understand the transition plan from the OBPS to the EPS. Certain aspects of this transition had not yet been finalized by the relevant governmental authorities and may ultimately impact the costs incurred by Enbridge Gas in complying with the GGPPA and EPS. Since filing Enbridge Gas's application on September 29, 2021, the federal and provincial governments have released further information on the registration process-required for Ontario facilities to transition from the OBPS to the EPS.¹¹ This update has no impact on Enbridge Gas's forecasted 2022 EPS compliance obligation included in the pre-filed evidence.¹² Enbridge Gas also confirmed that the transition will have no impact on its-forecasted 2022 EPS compliance obligation included in the pre-filed evidence and will not create a

¹¹ Exhibit I.Staff.1

¹² Ibid

cost variance within the Facility Carbon Charge – Variance-Accounts.¹³

Enbridge Gas is proposing to amend the wording of the FCPP-related deferral and variance accounting orders to recognize the change from the OBPS to the EPS. Enbridge Gas stated that it will be subject to both federal and provincial regulations beginning January 1, 2022, Enbridge Gas is proposing to update the accounting orders to reflect this change, effective January 1, 2022. Enbridge Gas is requesting to update the applicable account definitions to include reference to both federal and provincial regulations and to update the applicable account names to remove the word “Federal.” Enbridge Gas filed tracked and clean versions of the amended accounting orders for approval.

Submission

OEB staff supports the amendments as proposed by Enbridge Gas to the wording in the accounting orders given that they reflect the change from the OBPS to the EPS. OEB staff submits that the accounting orders reflect the proposed amendments and should be approved as filed.

Parkway Delivery Commitment Incentive and Cost Recovery

Background

The 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 \$0.092 million (from \$13.573 million to \$13.665 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.

Submission

OEB staff notes that the requested changes are similar to what the OEB approved in the 2021 FCPP application. OEB staff has no concerns with Enbridge Gas’s

¹³ Exhibit I.VECC.2

calculations and the requested changes to the PDCI credit and resulting changes to Union South in-franchise delivery rates.

Managing Facility-Related FCPP Costs

Background

As part of its application, Enbridge Gas included evidence on potential options for reducing its facility-related emissions. In 2021, Enbridge Gas initiated the Facility GHG Emissions Reduction project. The Facility GHG Emissions Reduction project continues the work that Enbridge Gas has completed in previous years as part of the Carbon and Energy Efficiency (CEE) Plan¹⁴ by identifying and reviewing potential GHG emission reduction opportunities and strategies to support the ESG targets, and evaluating the feasibility, emission reduction potential and cost of opportunities identified.

In its 2021 FCPP application, Enbridge Gas identified four opportunities with the potential to reduce OBPS/EPS-volumes – 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. Two of the opportunities, online monitoring of compressor units and turbine air filter replacements have now been implemented.¹⁵

In addition to the previously noted opportunities, Enbridge Gas is currently developing a plan for compressor unit lifecycle replacement. As part of this long-term plan to replace identified compression, several factors are being considered in the evaluation of alternatives, including meeting the operating requirements for the storage and transmission systems, reliability, environmental compliance, and carbon reduction strategy. Enbridge Gas notes that there are currently no OBPS/EPS emissions impacts anticipated for 2022 and that emission reduction opportunities and the cost of carbon are being considered in the development of this strategy.

Enbridge Gas stated that it will continue to identify, track and report on emission reduction opportunities using criteria that effectively balance management of its compliance obligations under the FCPP, estimated capital costs, safety and operational reliability. Enbridge Gas further stated that it will include details of cost-effective emission reduction opportunities, as appropriate, in future FCPP applications.

¹⁴ In 2019, Enbridge Inc. (the parent company of Enbridge Gas) implemented a Carbon and Energy Efficiency Plan to identify emission reduction opportunities in each of its business units, including at Enbridge Gas.

¹⁵ As indicated in the 2021 FCPP application, Enbridge Gas will not be moving forward with the other two opportunities (Plant J Twinning and re-wheeling turbines) as they are currently not feasible due to their high costs per tonne compared to the excess emissions charge.

Actual GHG emission and reductions in OBPS/EPS costs resulting from these opportunities will be reflected in Enbridge Gas's future FCPP applications for clearance of FCPP-related DVAs.

Submission

OEB staff submits that Enbridge Gas has been reasonable in identifying ways to reduce its facility-related emissions and should continue assessing opportunities to reduce 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/EPS obligations.

OEB staff notes that in July 2021 the Government of Canada announced that the Federal Carbon Charge will increase by \$15 per year starting in 2023, rising to \$170/tonne CO₂e in 2030.¹⁶ Therefore, more emissions reductions opportunities may become viable as Enbridge Gas's facility-related costs continue to increase in the coming years.

Implementation

Enbridge Gas intends to reflect 2022 increases to rates for the Federal Carbon Charge and Facility Carbon Charge and the one-time adjustment for the disposition of the DVAs as part of its April 1, 2022 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 for the Federal Carbon Charge and Facility Carbon Charge 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). The unit rates for disposition of the DVAs can be found at Exhibit D, Tab 1, Schedule 4 for the EGD rate zone and at Exhibit D, Tab 2, Schedule 5 for the Union rate zones.

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 2022 QRAM application. This approach is similar to what the OEB approved in the 2021 FCPP application.

~All of which is respectfully submitted~

¹⁶ Exhibit A, Tab 2, Schedule 1, p. 4