



Ontario  
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**BY EMAIL**

January 10, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Enbridge Gas Inc.  
2023 Federal Carbon Pricing Program Application  
OEB File Number: EB-2022-0194**

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

Yours truly,

Vince Mazzone  
Application Policy & Conservation

Encl.

cc: All parties in EB-2022-0194



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Enbridge Gas Inc.**

**2023 Federal Carbon Pricing Program**

**EB-2022-0194**

**January 10, 2023**

## 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,<sup>1</sup> 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, on April 1, 2021, and on April 1, 2022. The Fuel Charge will increase again on April 1, 2023.

In a previous proceeding, the 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.<sup>2</sup> The OEB also approved the establishment of three sets of FCPP Deferral and Variance Accounts (DVAs).<sup>3</sup> Effective January 1, 2022, the accounting orders for these DVAs were amended to recognize the transition from the federal Output-Based Pricing System (OBPS) to the provincial Emissions Performance Standards (EPS) program for prescribed industrial facilities.<sup>4</sup> The applicable account definitions were updated to include reference to both federal and provincial regulations and the applicable account names were updated to remove the word "Federal." The three sets of DVAs are as follows:

- Customer Carbon Charge –Variance Accounts (CCCVA), to record the variance between actual FCPP costs related to customer emissions and FCPP costs recovered in rates related to customer emissions.
- Facility Carbon Charge – Variance Accounts (FCCVA), 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, 2022 for approval under section 36(1) of the *Ontario Energy Board Act, 1998* (OEB Act) to increase rates to recover costs associated with meeting its obligations under the GGPPA and the regulations under the Ontario EPS program for prescribed industrial facilities.

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<sup>1</sup> 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.

<sup>2</sup> EB-2018-0205, Decision and Order, July 4, 2019

<sup>3</sup> 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).

<sup>4</sup> EB-2021-0208, Decision and Order, February 10, 2022

## Application Summary

In its application, Enbridge Gas requested:

- Approval on a final basis of an updated Federal Carbon Charge of 12.39 ¢/m<sup>3</sup>, an increase from the current rate of 9.79 ¢/m<sup>3</sup>, effective April 1, 2023, 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, 2023, to recover Enbridge Gas's forecast 2023 FCPP facility-related costs.
  - Enbridge Gas requests approval to increase the Facility Carbon Charge from 0.0070 ¢/m<sup>3</sup> to 0.0079 ¢/m<sup>3</sup> for the EGD rate zone and from 0.0141 ¢/m<sup>3</sup> to 0.01620 ¢/m<sup>3</sup> for the Union rate zones.
- Approval of the year-end 2021 balances for the following DVAs:
  - (\$1.05) million variance in facility-related costs in the FCCVAs.
  - \$3.79 million in administration costs in the GGEADAs.
  - The CCCVAs have a zero balance.
- Approval to dispose of the 2021 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 of a common Facility Carbon Charge of 0.0157 ¢/m<sup>3</sup> for all customers, effective January 1, 2024, to align with the Enbridge Gas's timing to rebase rates for the first time as an amalgamated utility.

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 \$62.42 per year in the EGD rate zone (based on annual consumption of 2,400 m<sup>3</sup>) and \$57.24 per year in the Union rate zones (based on annual consumption of 2,200 m<sup>3</sup>). The bill impact of the proposed common Facility Carbon Charge effective January 1, 2024 is an increase of \$0.19 per year for the EGD rate zone, and a decrease of \$0.01 per year for the Union rate zones in addition to the increase proposed for April 1, 2023.

The total bill impact of the proposed 2021 DVA disposition is a one-time charge of \$1.17 for a typical residential customer in the EGD rate zone, and a one-time charge of \$0.42 and \$0.53 for typical residential customers in the Union South and Union North rate zones, respectively.

## OEB Staff Submission

OEB staff supports the approval of the rates requested by Enbridge Gas for the Federal Carbon Charge and Facility Carbon Charge effective April 1, 2023. With regards to the common Facility Carbon Charge effective January 1, 2024, OEB staff seeks clarification from Enbridge Gas in its reply submission on why this request was not put forward in Enbridge Gas's rebasing application currently before the OEB. OEB staff also supports the recovery of the 2021 balances in the DVAs. OEB staff makes detailed submissions on the 2023 carbon charges, the common Facility Carbon Charge, the clearance of the 2021 DVA balances, and the management of facility-related emissions and costs.

### **Federal Carbon Charge and Facility Carbon Charge**

#### **Background**

Enbridge Gas requested approval on a final basis of a Federal Carbon Charge of 12.39 ¢/m<sup>3</sup>, an increase from the current rate of 9.79 ¢/m<sup>3</sup>, effective April 1, 2023.

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, expected to be effective April 1, 2023. 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 proceedings 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.<sup>5</sup>

Enbridge Gas also requested approval on a final basis of an updated Facility Carbon Charge, effective April 1, 2023, to reflect forecast 2023 facility-related costs. Enbridge Gas requested approval to increase the Facility Carbon Charge from 0.0070 ¢/m<sup>3</sup> to 0.0079 ¢/m<sup>3</sup> for the EGD rate zone and from 0.0141 ¢/m<sup>3</sup> to 0.01620 ¢/m<sup>3</sup> 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.<sup>6</sup>

#### **Submission**

OEB staff notes that the requested rates for the Federal Carbon Charge and Facility

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<sup>5</sup> Exhibit A, Tab 2, Schedule 1, page 11

<sup>6</sup> Ibid

Carbon Charge have been established based on proposed changes to carbon pricing obligations at the federal and provincial levels, respectively, that have not yet been put into law.<sup>7</sup> However, OEB staff submits that the rates have been established based on the best information available at this time, and also notes that the DVAs will record any cost impacts should these changes not be made.

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 if the Fuel Charge increases to \$65 per tonne of carbon dioxide equivalent, as expected. OEB staff submits that Enbridge Gas's Federal Carbon Charge should be approved on a final basis, effective April 1, 2023, at the requested rate of 12.39 ¢/m<sup>3</sup> 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, 2023, at the requested rate of 0.0079 ¢/m<sup>3</sup> for the EGD rate zone and 0.01620 ¢/m<sup>3</sup> for the Union rate zones, for all customers.

### **Deferral and Variance Account Disposition Requests**

Enbridge Gas is seeking disposition of \$3.79 million in administration costs in the GGEADAs and \$(1.05) million in the FCCVAs for 2021.

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

### **Balance in Greenhouse Gas Emissions Administration Deferral Accounts**

#### **Background**

Enbridge Gas seeks disposition of the \$3.79 million in administration costs in the GGEADAs for 2021. The breakdown of each of the cost elements are shown in Table 1 below.<sup>8</sup>

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<sup>7</sup> Exhibit I, Staff.1, Exhibit I.Staff.2

<sup>8</sup> Exhibit C, Tab 1, Schedule 1, page 4

**Table 1 - 2021 Administration Costs (\$millions)**

<b>Cost Element</b>	<b>2021 Forecasted Costs</b>	<b>2021 Actual Costs - EGD Rate Zone</b>	<b>2021 Actual Costs - Union Rate Zones</b>	<b>2021 Actual Costs - Total</b>	<b>Variance</b>
IT Billing System	0.22	0.12	0.10	0.22	0.00
Staffing Resources	1.10	0.58	0.35	0.93	(0.17)
Consulting and External Legal Support	0.30	0.32	0.19	0.51	0.21
Greenhouse Gas Reporting and Verification	0.05	0.03	0.02	0.04	(0.01)
Bad Debt	2.74	1.46	0.49	1.95	(0.79)
Other Miscellaneous Costs	0.16	0.01	0.00	0.01	(0.15)
Interest	N/A	0.08	0.04	0.12	0.12
<b>Total</b>	<b>4.57</b>	<b>2.59</b>	<b>1.20</b>	<b>3.79</b>	<b>(0.78)</b>

With respect to the 2021 forecast costs in comparison to the 2021 actual costs, OEB staff notes that there was a slight increase in one cost element (Consulting and External Legal Support). Enbridge Gas provided reasons for the variances for each cost element. For Consulting and External Legal Support, Enbridge Gas noted that these costs were higher than budgeted for three reasons: additional legal support to assist with the OEB proceeding regarding the Applicability of Charges to Indigenous Customers, which relates to Enbridge Gas's 2020 Application, increased consulting and external legal support required in 2021 to procure eligible Credits and Recognized Units, and Enbridge Gas engaged external consultants to understand the impacts of known and potential future federal and provincial regulations.

Enbridge Gas noted that costs for staffing and wages were lower than forecast due to the Carbon Strategy team averaging 4.8 full time equivalents (FTEs) throughout 2021, less than the 6 FTEs forecast. Enbridge Gas further noted that the number of FTEs increased from 4.5 to 5.5 in June 2021 reflecting the resource requirements to facilitate compliance with the GGPPA, evaluate and procure eligible compliance units under the OBPS and the incremental effort required for regulations related to greenhouse gas emissions requirements including the federal Offset Regulation and protocols,<sup>9</sup>

<sup>9</sup> <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/federal-greenhouse-gas-offset-system.html>

and the Clean Fuel Regulation,<sup>10</sup> as well as supporting Enbridge Gas in understanding and responding to new federal and provincial regulations related to greenhouse gas emission reductions.

Enbridge Gas advised that the \$1.95 million incurred for bad debt is exclusive of COVID-19 impacts.<sup>11</sup> Enbridge Gas has further confirmed that it recorded bad debt expenses for the FCPP related to COVID-19 in the COVID-specific sub-account, consistent with the OEB's Decision and Order on Enbridge Gas's 2020 FCPP application.<sup>12</sup>

Enbridge Gas's 2023 staffing costs are currently forecast to be \$1.45 million.<sup>13</sup> Enbridge Gas noted that these fully allocated costs are for the 6.5 FTEs that are currently working in the Carbon Strategy team in 2022 plus one additional FTE that it expected to hire in 2023. Enbridge Gas further notes that this level of staffing reflects the incremental level of effort Enbridge Gas has experienced to date and expects to continue in order to facilitate compliance with the GGPPA and EPS Regulation in 2023, including the incremental effort to evaluate and procure Emissions Performance Units (EPUs).

Enbridge Gas noted that the GGPPA and EPS Regulation impacts a wide variety of groups across the organization and wherever reasonable to do so Enbridge Gas has leveraged existing resources outside of the Carbon Strategy team and will continue to do so going forward. Enbridge Gas further noted that this approach is consistent with Enbridge Gas's commitment to cost effectiveness, productivity gains and continuous improvement.

### Submission

OEB staff has reviewed the supporting evidence and supports the disposition of the balance of \$3.79 million in administration costs in the GGEADAs for 2021. OEB staff takes no detailed position on the 2023 forecast costs, including incremental staffing needs, given that these amounts will be reviewed and disposed of in a future application. However, OEB staff submits that Enbridge Gas should continue to leverage existing resources outside of the Carbon Strategy team, and continue to look at other ways to contain growth in future administration costs. OEB staff notes that the purpose of the GGEADAs is to record the administration costs associated with the impacts of federal and provincial regulations related to greenhouse gas emission requirements. Some of the activities of the Carbon Strategy team (e.g. leading the development of energy transition plans) may potentially be outside of the proper scope of the

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<sup>10</sup> <https://pollution-waste.canada.ca/environmental-protection-registry/regulations/view?Id=1170>

<sup>11</sup> Exhibit C, Tab 1, Schedule 1, page 7

<sup>12</sup> Ibid

<sup>13</sup> Exhibit C, Tab 1, Schedule 1, page 10



GGEADAs. As energy transition becomes a more significant element of Enbridge Gas's business in future years, Enbridge Gas must ensure that only appropriate activities are recorded in the GGEADAs. OEB staff notes that within its rebasing application, Enbridge Gas is proposing a large FTE increase for energy transition activities (to be recovered through base rates beginning in 2024, not the GGEADAs).<sup>14</sup> For 2023, OEB staff will not necessarily support including general energy transition costs in the GGEADAs.

## **Balance in Federal Carbon Charge - Facility Variance Accounts**

### Background

Enbridge Gas is seeking disposition of the 2021 facility-related variance of \$(1.05) million in the FCCVAs, including \$(0.25) million for the EGD rate zone and \$(0.80) million for the Union rate zones.<sup>15</sup> The FCCVAs record the variance between actual facility-related FCPP costs, and the facility-related costs that have recovered through rates based on the previously forecasted facility-related FCPP costs. 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, 2021 to December 31, 2021. Enbridge Gas's 2021 facility-related obligation was \$4.52 million (\$0.95 million related to Company Use Volumes and \$3.57 million related to OBPS Volumes), of which \$4.09 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 FCCVAs. OEB staff has reviewed the supporting evidence and supports the disposition of the balance of \$(1.05) million in the FCCVAs for 2021.

## **Common Facility Carbon Charge**

### Background

Enbridge Gas is proposing a common Facility Carbon Charge of 0.0157 ¢/m<sup>3</sup> for all customers, effective January 1, 2024. Enbridge Gas currently has an application before the OEB and is applying to rebase its rates for the first time as an amalgamated utility with a proposed effective date of January 1, 2024. As part of the rebasing of rates, Enbridge Gas noted that charges between the EGD and Union rate zones for contracts

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<sup>14</sup> EB-2022-0200, Exhibit 4, Tab 4, Schedule 3, page 6

<sup>15</sup> Enbridge Gas's application included an error which overstated the difference between actual and forecast 2021 facility-related costs (see Exhibit I.Staff.7), but the overall balance of \$(1.05) million in the FCCVAs requested for disposition was not affected by this error.

that existed prior to amalgamation will end.

Enbridge Gas noted that a common unit rate ensures all customers pay the same Facility Carbon Charge based on consumption. Enbridge Gas further argued that this approach is supported by the OEB's Decision and Order regarding the allocation and recovery of facility-related obligation costs of a single entity.<sup>16</sup>

Enbridge Gas further stated that the proposal for a common Facility Carbon Charge is also consistent with the approach to allocation and recovery of facility-related obligation costs for Union Gas where a common unit rate is charged to all in-franchise and ex-franchise customers. For 2023, Enbridge Gas will track the difference between the amount collected through rates and the actual costs incurred in the FCCVA for each of the EGD and the Union rate zones.

### Submission

OEB staff is not clear on why this request wasn't put forward in Enbridge Gas's rebasing application currently before the OEB. In that application, harmonized rate proposals will be reviewed. OEB staff requests that Enbridge provide details on this in its reply submission. If the proposal for a common Facility Carbon Charge is approved, OEB staff also agrees with the approach to track the difference between the amount collected through rates and the actual costs incurred in the FCCVA for each of the EGD and the Union rate zones for 2023.

## **Managing Facility-Related FCPP Emissions and Costs**

### Background

In its 2021 FCPP application, Enbridge Gas committed 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. The Decision and Order on Enbridge Gas's 2022 FCPP application stated that Enbridge Gas's next FCPP application should set out in a comprehensive fashion the management of Enbridge Gas's own obligations that identifies its approaches towards achieving efficiencies and reduction of carbon emissions related costs to its customers.<sup>17</sup>

To support the achievement of federal, provincial and Enbridge Inc. greenhouse gas emission reduction targets, and to support the reduction of facility-related emissions costs, Enbridge Gas stated that it is developing and implementing an emission reduction strategy for emissions resulting directly from Enbridge Gas's operations. This

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<sup>16</sup> EB-2016-0296/EB-2016-0300, Decision and Order, September 21, 2017

<sup>17</sup> EB-2021-0209, Decision and Order, February 10, 2022

strategy covers emissions from combustion of fuels in its buildings, equipment and vehicles, and methane emissions from venting and leaked natural gas.

In its application, Enbridge Gas provided a summary of the opportunities to date that it is implementing to reduce EPS volumes. These include storage and transmission operations online monitoring and air filter replacements for turbines. Enbridge Gas also identified additional opportunities to reduce emissions and facility related costs that are not currently considered financially feasible.<sup>18</sup> Enbridge Gas indicated that it will review and assess emission reduction opportunities on an annual basis, and opportunities will be assessed for cost-effectiveness, technical feasibility and emission reduction potential. The annual update of the greenhouse gas emission reduction strategy will begin in January 2023.<sup>19</sup>

Enbridge Gas has alternative compliance options to satisfy its annual OBPS and EPS compliance obligation aside from paying the excess emissions charge, including the purchase of Credits or EPU's from other OBPS or EPS participants, respectively, and in the OBPS purchasing Offset Credits or eligible Recognized Units. Enbridge Gas fulfilled the remainder of its 2021 OBPS compliance obligation on December 8, 2022 by paying the excess emissions charge of \$40/tCO<sub>2</sub>e.<sup>20</sup>

For Enbridge Gas's 2023 EPS compliance obligation, Enbridge Gas noted that the availability and market attributes of EPU's will be reviewed to determine if they present a viable means of reducing compliance costs. With 2022 being the first compliance period under the EPS program and the first EPU's not being distributed until the second half of 2023, only a few months before the first compliance deadline, Enbridge Gas anticipates that the availability of EPU's in 2023, for use towards its 2022 EPS compliance obligation, will be limited.

### Submission

OEB staff submits that Enbridge Gas has reasonably set out the ways to reduce its facility-related emissions. OEB staff is supportive of Enbridge Gas's approach to annually update its greenhouse gas reduction strategy and further notes that operational emissions reductions are discussed in Enbridge Gas's rebasing application currently before the OEB.<sup>21</sup>

With respect to Enbridge Gas's 2023 EPS compliance obligation, OEB staff notes that the supply of EPU's sold into the market may be limited, especially in the earlier years of the EPS program. OEB staff submits that Enbridge Gas should continue assessing

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<sup>18</sup> Exhibit A, Tab 2, Schedule 1

<sup>19</sup> Exhibit I.Staff.3d

<sup>20</sup> Exhibit I.Staff.4a

<sup>21</sup> EB-2022-0200, Exhibit 1, Tab 10, Schedule 3 and Schedule 8

opportunities to reduce emissions and costs.

### **Implementation**

Enbridge Gas intends to reflect 2023 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, 2023 Quarterly Rate Adjustment Mechanism (QRAM) application. Enbridge Gas intends for the proposed common Facility Carbon Charge to be implemented with the January 1, 2024 QRAM application.

OEB staff submits that if the OEB approves the 2023 rates requested by Enbridge Gas in this application (which OEB staff has supported), that a Draft Rate Order in this proceeding is not necessary. The unit rates for the Federal Carbon Charge and Facility Carbon Charge are shown in Exhibit D, Tab 2, Schedule 1 for the EGD rate zone, and Exhibit D, Tab 3, Schedules 1 for the Union rate zones. The unit rates for disposition of the DVAs can be found at Exhibit D, Tab 2, Schedule 4 for the EGD rate zone and at Exhibit D, Tab 3, Schedule 4 for the Union rate zones.

Alternatively, if a Draft Rate Order is necessary, Enbridge Gas may wish to file a Draft Rate Order with its reply submission to expedite the approval process, as was done in Enbridge Gas's 2022 FCPP application.

~All of which is respectfully submitted~