



Ontario
Energy
Board

Commission
de l'énergie
de l'Ontario

DECISION AND ORDER

EB-2023-0196

ENBRIDGE GAS INC.

2024 Federal Carbon Pricing Program Application

BEFORE: David Sword
Presiding Commissioner

Fred Cass
Commissioner

February 8, 2024



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1 OVERVIEW

Enbridge Gas Inc. (Enbridge Gas) applied to the Ontario Energy Board (OEB) on September 28, 2023 for approval under section 36(1) of the *Ontario Energy Board Act, 1998* to increase rates effective April 1, 2024 to recover costs associated with meeting its obligations under the Government of Canada's Federal Carbon Pricing Program, and the regulations under the Ontario Emissions Performance Standards program for prescribed industrial facilities. The Federal Carbon Pricing Program was established as part of the *Greenhouse Gas Pollution Pricing Act*. In addition, Enbridge Gas requested to recover from customers the 2022 balances in certain deferral and variance accounts.

Enbridge Gas is required to pay to the Government of Canada a fuel charge for greenhouse gas emissions from the natural gas that it delivers to its non-exempt customers,¹ and incurs further obligations for greenhouse gas emissions from its own facilities. A Federal Carbon Charge and a Facility Carbon Charge are effective on Enbridge Gas customer bills to recover Enbridge Gas's customer-related and facility-related costs, respectively.

Enbridge Gas estimated the incremental bill impacts for the Enbridge Gas Distribution Inc. (EGD) and Union Gas rate zones.² 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 \$68.79 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$62.91 per year in the Union rate zones (based on annual consumption of 2,200 m³). The bill impact of the proposed common Facility Carbon Charge is a decrease of \$0.03 per year for the EGD and Union rate zones.

The total bill impact of the disposition of the deferral and variance accounts is a one-time charge of \$1.12 for a typical residential customer in the EGD rate zone, and a one-time charge of \$0.81 and \$1.06 for typical residential customers in the Union South and Union North rate zones, respectively.

In this Decision and Order, the OEB approves the rates requested by Enbridge Gas for the Federal Carbon Charge and common Facility Carbon Charge on a final basis. The OEB also approves the recovery of the 2022 balances in the deferral and variance accounts. The incremental bill impacts for a typical residential customer in each rate

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

² Enbridge Gas Inc. was formed by the amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited on January 1, 2019.

zone are shown in the table below, and are effective April 1, 2024.

Table 1 – Incremental Bill Impacts

	EGD Rate Zone	Union South Rate Zone	Union North Rate Zone
Total Federal Carbon Charge and Facility Carbon Charge (effective April 1, 2024)	\$68.79	\$62.91	\$62.91
DVA Clearance (effective April 1, 2024)	\$1.12	\$0.81	\$1.06
Total (effective April 1, 2024)	\$69.91	\$63.72	\$63.97
Common Facility Carbon Charge	0.0143¢/m ³	0.0143¢/m ³	0.0143¢/m ³

2 CONTEXT AND PROCESS

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. On April 1, 2024, it is expected that the fuel charge under the *Greenhouse Gas Pollution Pricing Act* will increase from \$65/tonne of carbon dioxide equivalent (CO₂e) to \$80/tonne CO₂e, equivalent to an increase from 12.39 ¢/m³ to 15.25 ¢/m³ of natural gas use.

This is Enbridge Gas's sixth application to recover its costs associated with the Federal Carbon Pricing Program. In a previous proceeding, the OEB approved a Federal Carbon Charge on Enbridge Gas customer bills to recover Enbridge Gas's Federal Carbon Pricing Program costs related to customer emissions and a common Facility Carbon Charge to recover Enbridge Gas's Federal Carbon Pricing Program costs related to facility emissions.³

The OEB also approved the establishment of three sets of Federal Carbon Pricing Program deferral and variance accounts.⁴ Effective January 1, 2022, the accounting orders for these deferral and variance accounts were amended to recognize the transition from the federal Output-Based Pricing System to the provincial Emission Performance Standards program for prescribed industrial facilities.⁵ 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." Effective January 1, 2024, a common facility charge was implemented consistent with approval in the previous Enbridge Gas Federal Carbon Pricing Program proceeding.⁶ The three sets of deferral and variance accounts are as follows:

- Customer Carbon Charge - Variance Accounts, to record the variance between actual Federal Carbon Pricing Program costs related to customer emissions and Federal Carbon Pricing Program costs recovered in rates related to customer emissions.
- Facility Carbon Charge - Variance Accounts, to record the variance between actual costs related to facility emissions and costs recovered in rates related to facility emissions.

³ EB-2018-0205, Decision and Order, July 4, 2019

⁴ 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).

⁵ EB-2021-0208, Decision and Order, February 10, 2022

⁶ EB-2022-0194, Decision and Order, February 9, 2023, pp. 7-8

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- Greenhouse Gas Emissions Administration - Deferral Accounts, to record related administration costs.

Emissions from certain customers (e.g., large industrial customers and greenhouses) are eligible for full or partial exemption from the fuel charge under the *Greenhouse Gas Pollution Pricing Act*. These customer volumes are therefore subject to Enbridge Gas's common Facility Carbon Charge, but not its Federal Carbon Charge.

The OEB issued a Notice of Hearing on October 23, 2023, inviting parties to apply for intervenor status. No requests were received.

The OEB received three letters of comment which were placed on the record of this proceeding. These comments were taken into consideration during the evaluation of the application by the OEB.

The OEB issued Procedural Order No. 1 on November 10, 2023. This order established the timetable for a written interrogatory discovery process and written submissions.

On January 8, 2024, OEB staff filed its submissions on Enbridge Gas's application. Enbridge Gas filed its reply submission on January 22, 2024.

3 DECISION

The OEB approves the rates proposed by Enbridge Gas. The OEB concludes that a Draft Rate Order process is not necessary. Enbridge Gas shall file complete draft tariff sheets reflecting the determination in this proceeding as part of its April 1, 2024 Quarterly Rate Adjustment Mechanism application.

3.1 Federal Carbon Charge and Facility Carbon Charge

Enbridge Gas requested approval on a final basis of a Federal Carbon Charge of 15.25 ¢/m³, an increase from the current rate of 12.39 ¢/m³, effective April 1, 2024.

Enbridge Gas also requested approval to decrease the common Facility Carbon Charge from 0.0159 ¢/m³ to 0.0143 ¢/m³.

Enbridge Gas estimated that the incremental bill impact of the proposed Federal Carbon Charge and common Facility Carbon Charge (relative to the rates for these charges that are currently effective) for typical residential customers would be \$68.79 per year in the EGD rate zone (based on annual consumption of 2,400 m³) and \$62.91 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 is expected to pay to the Government of Canada for emissions from its non-exempt customers, effective April 1, 2024. Customers are charged the Federal Carbon Charge monthly based on actual billed volumes.

Enbridge Gas has used the same approach as in its previous Federal Carbon Pricing Program proceedings to determine which customers are eligible for reductions or exemptions from the fuel charge under the *Greenhouse Gas Pollution Pricing Act* and provides a corresponding reduction or exemption for the Federal Carbon Charge on these customers' bills.⁷

Enbridge Gas also requested approval of an updated common Facility Carbon Charge, effective April 1, 2024, to reflect forecast 2024 facility-related costs. Enbridge Gas used the same methodology to establish rates for the common Facility Carbon Charge (based on forecast facility-related emissions and costs, and customer volumes) as in its previous Federal Carbon Pricing Program proceedings.

OEB staff supported the proposed rates for the Federal Carbon Charge and common Facility Carbon Charge. In its submission, OEB staff noted that the requested rates for

⁷ Exhibit A, Tab 2, Schedule 1, pages 4-7

the Federal Carbon Charge and common Facility Carbon Charge have been established based on proposed changes to carbon pricing obligations at the federal and provincial levels, respectively.

OEB staff also agreed with Enbridge Gas that, although the average use consumption trends cannot clearly be attributed to the introduction of the Federal Carbon Charge, Enbridge Gas should continue to provide average use consumption trend analysis as part of its Federal Carbon Charge applications. This analysis can help the OEB assess overall trends as greater emphasis is placed on various Energy Transition activities.

As part of its reply submission, Enbridge Gas indicated that it will continue to assess the impacts of the Federal Carbon Charge on customer consumption and include an updated analysis in its future Federal Carbon Pricing Program applications.

Findings

The OEB approves the Federal Carbon Charge rates requested by Enbridge Gas, effective April 1, 2024, on a final basis. The OEB also approves the common Facility Carbon Charge rates requested by Enbridge Gas, effective April 1, 2024 on a final basis.

The OEB appreciates Enbridge Gas's efforts to continue to assess the impacts of the Federal Carbon Charge on customer consumption and is interested in continuing to see similar analyses related to consumption patterns in future Federal Carbon Pricing Program applications.

3.2 Deferral and Variance Account Disposition Requests

Enbridge Gas is seeking disposition of \$5.48 million in administration costs in the Greenhouse Gas Emissions Administration Deferral Accounts and a credit of \$3.55 million in the Facility Carbon Charge Variance Accounts for 2022.

The total bill impact of the proposed 2022 Federal Carbon Pricing Program deferral and variance account disposition is a one-time charge of \$1.12 for a typical residential customer in the EGD rate zone, and a one-time charge of \$0.81 and \$1.06 for typical residential customers in the Union South and Union North rate zones, respectively.

There is an immaterial balance of \$4,924.37 in the Customer Carbon Charge Variance Accounts. Due to the small balances in the Customer Carbon Charge Variance Accounts, Enbridge Gas proposed to defer disposition until the balances become substantial enough (e.g., \$25,000 in aggregate) to generate a consumption volume rate that could credit customers.

Enbridge Gas tracks the difference between the Federal Carbon Charge amount collected through rates and the actual costs incurred in the Customer Carbon Charge Variance Accounts for each of the EGD rate zone and the Union rate zones. The variances recorded are due to deliveries of renewable natural gas and hydrogen to customers in 2022, through Enbridge Gas's OptUp program and Low Carbon Energy Project, respectively. Under the *Greenhouse Gas Pollution Pricing Act* and Fuel Charge Regulations,⁸ renewable natural gas and hydrogen are not subject to the Federal Carbon Charge.

Greenhouse Gas Emissions Administration - Deferral Accounts

Enbridge Gas requested disposition of the balance of \$5.48 million in administration costs in the Greenhouse Gas Emissions Administration Deferral Accounts for 2022 through a one-time billing adjustment. OEB staff indicated it was of the view that Enbridge Gas has reasonably responded to previous OEB direction, but noted that no further expansion of the Enbridge Gas Federal Carbon Pricing Program team is required unless under exceptional circumstances.

In its reply submission, Enbridge Gas indicated it did not agree with OEB staff that staffing resources should be capped. Rather, Enbridge Gas noted that consideration should be focused on the total administration costs within the Greenhouse Gas Emissions Administration Deferral Accounts regardless of the number of staffing resources on the team and that as long as total administration costs adhere to the direction from the OEB's 2023 Federal Carbon Pricing Program Decision, there should be no requirement to further restrict the staffing resources.

Findings

The OEB approves the disposition of the balance in the Greenhouse Gas Emissions Administration Deferral Accounts, with interest. The OEB notes that the 2022 balances mark the fourth time that the Federal Carbon Pricing Program related balances have been requested for disposition. After reviewing the expenditure balances requested for clearance, the OEB finds that the balance is reasonable and approves its disposition.

The OEB agrees with Enbridge Gas that, rather than a cap on staffing resources, the focus should be the total administration costs related to its Federal Carbon Pricing Program work. However, the OEB expects Enbridge Gas to continue to contain its total administration costs consistent with direction provided in the OEB's 2023 Federal

⁸ *Greenhouse Gas Pollution Pricing Act*, Fuel Charge Regulations (2018, c. 12, s. 187)

Carbon Pricing Program Decision that indicated the OEB expected the then current level of administrative costs to be sufficient.

While capped administrative (or staffing) costs will not be ordered, Enbridge Gas would need to demonstrate the basis for any increases, beyond Enbridge Gas's currently approved inflator (inflation less productivity and stretch factor), that may be requested in any future application.

Facility Carbon Charge - Variance Accounts

Enbridge Gas is seeking disposition of a credit balance in the 2022 Facility Carbon Charge Variance Accounts of \$3.55 million through a one-time billing adjustment. The Facility Carbon Charge Variance Accounts record the variance between actual facility-related carbon costs, and the facility-related costs recovered through rates.

OEB staff supported the proposal by Enbridge Gas for disposition of the balance in this account.

Findings

The OEB approves the disposition of the balance in the Facility Carbon Charge Variance Accounts, with interest. The OEB notes that this represents a refund to customers of Facility Carbon Charges that were previously collected. This refund is a result of the difference between the projected and actual customer volumes used to calculate the charges in 2022.

3.3 Managing Facility-Related Federal Carbon Pricing Program Emissions and Costs

In its 2021 Federal Carbon Pricing Program 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 Federal Carbon Pricing Program, estimated capital costs, safety and operational reliability. The Decision and Order on Enbridge Gas's 2022 Federal Carbon Pricing Program application stated that Enbridge Gas's next Federal Carbon Pricing Program application should set out in a comprehensive fashion the management of Enbridge Gas's own obligations and identify its approaches to achieve efficiencies and reduce carbon emissions related costs passed on to its customers.⁹

⁹ EB-2021-0209, Decision and Order, February 10, 2022

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

In its current application, similar to its 2023 application, Enbridge Gas provided a summary of the opportunities to date that it is implementing to reduce Emissions Performance Standards volumes.

These continue to 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.¹⁰

Enbridge Gas noted that as part of its Scope 1 and 2 GHG emissions reduction program, which addresses Enbridge Gas's direct and indirect emissions, a working group was established to support the identification and implementation of emissions reduction initiatives. The working group consists of functional leads (subject matter experts from Distribution Operations, Buildings/Fleet, Storage and Transmission Operations, and Engineering), and a support group (consisting of representatives from Asset Management, Finance, Regulatory, Energy Transition Planning and Integrated Management System).

Identified opportunities are reviewed on a regular basis by the working group, including revisiting any previous assumptions, project costs, and the cost of carbon. As part of regular working group meetings, members will work to continue to identify new opportunities.¹¹

Enbridge Gas has alternative compliance options to satisfy its annual Emissions Performance Standards compliance obligations aside from paying the excess emissions charge, including the purchase of Credits or Emission Performance Units from other Emissions Performance Standards participants. Enbridge Gas indicated that although the availability of counterparties looking to sell Emissions Performance Units was extremely limited, in November 2023 it was able to complete one transaction with an Emissions Performance Standards participant sourced through a consultant. Enbridge Gas purchased the Emissions Performance Units at a discount to the excess emissions

¹⁰ Exhibit A, Tab 2, Schedule 1, page 14, Table 3

¹¹ Exhibit I.Staff.1, page 3

charge. Through this transaction, Enbridge Gas was able to procure Emissions Performance Units for use towards its 2022 Emissions Performance Standards compliance obligation, at a cost savings of \$0.03 million.

OEB staff was supportive of Enbridge Gas's ability to purchase Emissions Performance Units to realize cost savings and more generally, its approach to annually updating its greenhouse gas reduction strategy. OEB staff noted it expects new opportunities to be identified by the working group Enbridge Gas has established.

Findings

The OEB is encouraged by the recent efforts Enbridge Gas has dedicated to considering alternative compliance options, including the development of the working group and purchase of Emissions Performance Units. As part of future progress updates, the OEB encourages Enbridge Gas to consider providing input on how other options, including renewable natural gas, hydrogen and carbon capture and storage may potentially contribute to reductions of either or both of the common Facility Carbon Charge and the Federal Carbon Charge, including pace and scale of developments in these areas.

4 IMPLEMENTATION

Enbridge Gas intends to reflect 2024 increases to rates for the Federal Carbon Charge and common Facility Carbon Charge and the one-time adjustment for the disposition of the deferral and variance accounts as part of its April 1, 2024 Quarterly Rate Adjustment Mechanism application.

OEB staff submitted that, if the OEB approves the 2024 rates requested by Enbridge Gas in this application (which OEB staff supported), a Draft Rate Order in this proceeding is not necessary.

Enbridge Gas agreed with OEB staff that a Draft Rate Order in this proceeding is not necessary.

Findings

The OEB finds that dispensing with the Draft Rate Order process will improve the efficiency of this hearing process and agrees that a Draft Rate Order process is not necessary. The rates approved by the OEB in this proceeding shall be brought forward by Enbridge Gas for incorporation in its April 1, 2024 Quarterly Rate Adjustment Mechanism application.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Enbridge Gas Inc.'s requested unit rates for the Federal Carbon Charge and common Facility Carbon Charge, as set out in Exhibit D, Tab 2, Schedule 1 for the EGD rate zone, and in Exhibit D, Tab 3, Schedule 1 for the Union rate zones, are approved on a final basis.
2. Enbridge Gas Inc.'s 2022 Federal Carbon Pricing Program deferral and variance account balances and its allocation of the 2022 Federal Carbon Pricing Program deferral and variance account balances by rate class are approved. The unit rates for disposition of the deferral and variance account balances can be found in Exhibit D, Tab 2, Schedule 4 for the EGD rate zone and in Exhibit D, Tab 3, Schedule 4 for the Union rate zones.
3. These rate changes are effective April 1, 2024.
4. Enbridge Gas Inc. shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto February 8, 2024

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar