

COST RECOVERY STATEMENTS

1. In this proceeding, Enbridge requests approval of the Customer-related and Facilities-related unit rates (the “Cap and Trade Unit Rates”) to recover the cost of meeting Enbridge’s obligations under the Cap and Trade regulation related to Greenhouse Gas (“GHG”) emissions from relevant customers and Company facilities. Enbridge also requests approval of the methodology used to determine the Cap and Trade Unit Rates. Details about the Cap and Trade Unit Rates are included below, with the supporting calculations and the Unit Rates themselves detailed in the Schedules to this evidence. Refer to Appendix A, Table A1 through A5 to Exhibit G, Tab 1, Schedule 1.

Cap and Trade Unit Rates for 2017 (Customer-related and Facility-related)

2. Under the Climate Change Act and Cap and Trade Regulation, Enbridge is required to acquire sufficient emission allowances related to GHG emissions from its customers’ natural gas use and natural gas used in its own operations. The costs for those emission allowances will be recovered from customers through the Cap and Trade Unit Rates. As determined in the Board’s Early Determination, the Customer-related costs will be recovered from all customers except for Large Final Emitters (“LFE”), i.e., facilities that emit more than 25,000 tonnes of carbon dioxide equivalent (“tCO₂e”), “voluntary participants” in the Cap and Trade program who purchase their own emissions allowances. Natural gas derived from biomass, and natural gas distributed to downstream or out of province natural gas distributors are also excluded from Customer-related costs. Facility-related costs will be recovered from all customers.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

3. In order to determine the Cap and Trade Unit Rates, a first step is the determination of the forecast gas volumes to be consumed by customers (exclusive of LFEs, voluntary participants, volumes of natural gas derived from biomass, and volumes of natural gas delivered to downstream or out of province natural gas distributors) and for the Company's own operations. These volumes are then used for two purposes – to forecast the costs to acquire the necessary emission allowances and to determine the Cap and Trade Unit Rates needed to recover those costs.
4. Enbridge's volume forecast is available in Exhibit B, Tab 2, Schedule 1.
5. Enbridge's greenhouse gas emission forecast is available in Exhibit B, Tab 3, Schedule 1.

(i) Costs to meet Customer-related and Facility-related obligations

6. In order to estimate GHG emissions, natural gas volumes are converted to GHG emissions, in tCO₂e, using the equations and default emission factors from the methodology outlined in *Sections ON.20 and ON.400 of the Guidelines for Quantification, Reporting and Verification of Greenhouse Gas Emissions* and the global warming potentials listed in Schedule 1 of *Ontario Regulation 143/16 Quantification, Reporting and Verification of Greenhouse Gas Emissions*.
7. The forecast of costs for Enbridge to meet Customer-related and Facility-related obligations is determined by: (i) calculating the GHG emissions (Exhibit B, Tab 3, Schedule 1) associated with forecast volumes (Exhibit B, Tab 2, Schedule 1); (ii) establishing a forecasted cost of an emission allowance; and (iii) multiplying the GHG emissions by the price determined in ii).

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

8. Enbridge has forecasted the cost of an emission allowance based on the auction reserve, or floor, price at the Ontario auctions in 2017. The auction reserve price is calculated based on Section 71(1) of Ontario Regulation 144/16, *The Cap and Trade Program* (the "Regulation"), which states "The minimum price of an emission allowance in an auction is the higher of the annual auction reserve prices most recently established, as of the day of the auction, for each of Quebec and California".
9. As the actual WCI auction reserve price will not be known until early 2017 when it is published by the Auction Administrator, Enbridge has estimated it by using the methodology provided in the Cap and Trade regulations for each jurisdiction, and determining which will be the higher.
10. The auction reserve price in California is determined in accordance with California Code of Regulations Title 17, §95911, subsection (c)(3) *California Cap On Greenhouse Gas Emissions and Market-Based Compliance Mechanisms*, which states "The Auction Reserve Price in U.S. dollars shall be the U.S. dollar Auction Reserve Price for the previous calendar year increased by 5 percent plus the rate of inflation as measured by the most recently available twelve months of the Consumer Price Index for All Urban Consumers."
11. The auction reserve price in Quebec is determined using the same methodology as California, as per Section 49 of the Quebec's *"Regulation respecting a cap-and-trade system for greenhouse gas emission allowances"*.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

12. As of the last WCI auction, which was held in August 2016, the WCI auction reserve price was \$12.73 USD or \$16.45 CAD¹. This price is based on the California auction reserve price, which was the higher of California and Quebec.
13. Based on the 2016 California auction reserve price above, Enbridge has forecasted the 2017 WCI auction reserve price to be \$17.70. This price is based on a U.S. Consumer Price Index of 2.3%, and an exchange rate of 1.2959².
14. The total Customer-related emissions for 2017 based on the Customer-related volume forecast is 20,907,621 tCO₂e. The derivation of that amount is set out in the Table 1, which is included at Exhibit B, Tab 3, Schedule 1.
15. The total Facility-related emissions for 2017 based on the Facility-related volume forecast is 229,145 tCO₂e. The derivation of that amount is set out in Table 3, which is included at Exhibit B, Tab 3, Schedule 1.
16. The costs to meet Customer-related and Facility-related obligations are determined by multiplying the forecast emissions for each category by the estimated price for emissions allowances.
17. As set out in Appendix A, Table A1, which is included at Exhibit G, Tab 1, Schedule 1, Enbridge's forecast Customer-related obligation costs in 2017 total \$370,064,899 (20,907,621 tCO₂e * \$17.70 CAD/t CO₂e).

¹ August 2016 price in CAD is based on exchange rate of 1.2922 as posted by the California Air Resources Board.

² As filed in to EB-2016-0215, Exhibit D1, Tab 2, Schedule 10.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

18. As set out in Appendix A, Table A2, which is included at Exhibit G, Tab 1, Schedule 1, Enbridge's forecast Facility-related obligation costs in 2017 total \$4,055,870 (229,145 tCO₂e * \$17.70/t CO₂e).

(ii) Cap and Trade Unit Rates

19. The derivation of the Cap and Trade Unit Rates for customer-related and facility-related obligations is based on several sets of information and is organized in the following manner:

- (a) Appendix A, Table A1, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by rate class, the 2017 forecast gas volumes for Customer-related obligations and shows the derivation of CO₂e emission costs as well as the Cap and Trade Unit Rate for Customer-related obligations based on an Enbridge's estimated 2017 auction reserve price for carbon emission allowances and net CO₂e emissions.
- (b) Appendix A, Table A2, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by component, the 2017 forecast gas volume for Facility-related obligations and presents the derivation of CO₂e emission costs as well as the Cap and Trade Unit Rates for Facility-related obligations based on Enbridge's estimated 2017 auction reserve price for carbon emission allowances and CO₂e emissions.
- (c) Appendix A, Table A3, which is found at Exhibit G, Tab 1, Schedule 1, summarizes the Cap and Trade Unit Rates for Customer-related and Facility-related obligations.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

- (d) Appendix A, Table A4, which is found at Exhibit G, Tab 1, Schedule 1, is a summary of the 2017 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.
- (e) Appendix A, Table A5, which is found at Exhibit G, Tab 1, Schedule 1 details the breakdown of the 2017 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.
20. As directed by the Board in the Early Determination in EB-2015-0363, “the customer-related costs will be recovered through a volumetric (m^3) rate charged to each customer based on their consumption. This rate will be separately identified on the Utility tariff sheet.” The Board has also determined that “the rate for facility-related costs will also be separately identified on the Utility tariff sheet.”
21. Accordingly, the Cap and Trade Unit Rates for customer-related and facility-related costs are separately identified in the Company’s Rate Schedules as follows: Cap and Trade Customer-Related Charge (if applicable) and Cap and Trade Facility-Related Charge. Both of these charges are shown on the Rate Schedules for each rate class. Refer to Appendix B, found at Exhibit 1, Tab 1, Schedule 1.
22. In the Early Determination, the Board also determined how Cap and Trade charges should be reflected on customers’ natural gas bills. The Board has directed that “charges related to the recovery of Cap and Trade Program costs will be included in the Delivery charge on the bill.”
23. The Company confirms that Cap and Trade charges will be included in the Delivery charges on customers’ bills.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy

24. For a typical residential customer consuming 2,400 m³ of natural gas per year, the sum of Cap and Trade charges for customer-related and facility-related costs will equal about \$80 in 2017 based on Enbridge's estimated auction reserve price.

25. Enbridge submits that for rate making purposes, it did not include any administrative or financing costs in the derivation of its Cap and Trade unit rates, such costs will be recovered through the GGEIDA and GGECFCVA, respectively. The Board's Staff Discussion Paper on a Cap and Trade Regulatory Framework for the Natural Gas Utilities notes, "Since administrative cost will form part of the utility's on-going business, staff suggests they be allocated in the same manner as similar existing administrative costs." Enbridge will seek cost recovery of its 2015 and 2016 administrative costs associated with the Cap and Trade program during its 2017 Compliance Plan filing, in August 2018 or as directed by the Board.

26. For an estimate of the administrative costs associated with the Cap and Trade program, refer to Exhibit C, Schedule 3, Tab 6.

Witnesses: A. Langstaff
A. Kacicnik
J. Murphy