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May 5, 2017

VIA RESS, EMAIL and COURIER

Ms Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms Walli:

**Re: Enbridge Gas Distribution Inc. (“Enbridge”)
Cap and Trade Application (“Application”)
Ontario Energy Board (“Board”) File Number EB-2016-0300
Argument-In-Chief**

Pursuant to the Board’s Procedural Order No. 3 dated April 28, 2017, attached please find Enbridge Gas Distribution’s Argument-In-Chief.

This submission was filed through the Board’s Regulatory Electronic Submission System and will be available on the Enbridge website at www.enbridgegas.com/ratescase.

Please contact the undersigned if you have any questions.

Yours truly,

[original signed]

Lorraine Chiasson
Regulatory Coordinator

cc: Mr. D. O’Leary, Aird & Berlis LLP
All Interested Parties EB-2016-0300 (via email)

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Sched. B, as amended.

IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an order or orders approving and/or accepting its Cap and Trade Compliance Plan and approving or fixing rates and/or changes to recover the costs incurred undertaking its Cap and Trade Compliance Plan.

ENBRIDGE GAS DISTRIBUTION

ARGUMENT-IN-CHIEF

[PUBLIC]

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1. This is the Argument-In-Chief of Enbridge Gas Distribution Inc. (“Enbridge” or “Company”) in relation to its Application for approval of the reasonableness of the 2017 Cap and Trade Compliance Plan, its cost consequences and final unit rates (the “Application”). In accordance with Procedural Order No. 3, this argument will be followed next week by Argument-In-Chief which relates to the strictly confidential evidence filed by Enbridge. For the purposes of this Application and the approvals sought, Enbridge relies upon both the public and strictly confidential aspects of the proceeding including both Arguments-In-Chief.

INTRODUCTION

2. Royal assent was given to the *Climate Change Mitigation and Clean Economy Act* (the “Act”) on May 18, 2016. This was followed by approval of Ontario Regulation 144/16 being the “Cap and Trade Program Regulation” on May 19, 2016 (the “C & T Regulation”).
3. In anticipation of the *Act*, coming into force, by a letter dated March 10, 2016, the Ontario Energy Board (“Board”) initiated a consultative to develop a Regulatory Framework for Natural Gas Distributors’ Cap and Trade Compliance Plans (EB-2015-0363). This consultative included a presentation by Board Staff in April 2016, the issuance of a Board Staff discussion paper on May 25, 2016 and the receipt and review of comments by over forty stakeholders including Enbridge on the discussion paper.
4. On July 28, 2016, the Board issued an early determination on billing issues including the design of charges to recover Cap and Trade costs and the communication of those costs on customers’ bills. On the basis of this letter, Enbridge was able to finalize the design specifications of its IT billing system that would be responsive to the cost allocation and bill presentment requirements set by the Board. This work was successfully completed such that the upgrades to Enbridge’s billing system were operational for the January 1, 2017 commencement of the Cap and Trade program.

5. On September 26, 2016, the Board issued its Report on the Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade activities ("Framework"). At page 8 of the Framework, the Board noted that its role... "is to assess the [Compliance] Plans for reasonableness and cost-effectiveness in order to approve the cost consequences of those Plans". The Board also identified six guiding principles in the Framework which would guide its assessment of the reasonableness of the Compliance Plans filed by the Utilities. An overview of how the Company has addressed the guiding principles is discussed further in this document starting at page 7.
6. On November 15, 2016, Enbridge filed its Application with supporting evidentiary materials. The specific approvals sought by Enbridge are set out at Exhibit A, Tab 2, Schedule 1. In its Application, Enbridge requested approval by December 2, 2016 of Interim Cap and Trade Tariffs which would allow the Company to implement and begin recovering such Tariffs as of January 1, 2017.
7. By an Interim Rate Order dated November 24, 2016 ("Interim Order"), the Board approved Enbridge's proposed tariffs to recover the cost consequences of its Cap and Trade Compliance Plan on an interim basis effective January 1, 2017. The Board approved the interim rates as outlined in Appendix B to the Interim Order. Enbridge has added the approved amounts to its rate schedules effective January 1, 2017.
8. It should be noted that the volume forecasts, GHG emissions forecasts and carbon cost forecasts used to generate the approved interim rates are the same forecasts and carbon price proxy which Enbridge proposes that the Board use for its final rates Order. Importantly, any difference between the cost / amount the utility actually paid for compliance instruments with respect to customer and facility related emissions and the amount the utility actually recovered from customers through Cap and Trade charges in 2017 will be recorded in the proposed new

variance account: the Greenhouse Gas Emissions Customer and Facility Cost Variance Account (“GGECFCVA”).¹

9. On January 27, 2017 the Board issued Procedural Order No. 1 with a draft issues list. Submissions from various stakeholders were received and the Board by its Procedural Order No. 2 dated February 17, 2017 approved the issues list. Procedural Order No. 1 also provided for the filing and response to interrogatories both public and those subject to strict confidentiality. The public hearing commenced on Tuesday April 18, 2017 and concluded following the strictly confidential hearing involving Enbridge on Monday, April 24, 2017.

CONFIDENTIALITY

10. Enbridge notes that unlike prior oral hearings before the Board, the *Act* contains at sections 29 and 32 specific prohibitions against certain conduct and the release of certain information. Briefly, section 29 contains prohibitions against market manipulation, fraud and “tipping”. Section 32 contains a prohibition against a person disclosing participation in an auction and “any other information relating to the person’s participation in an auction, including the person’s identity, bidding strategy, the amount of the person’s bids and the quantity of emission allowances concerned, and the financial information provided to the Director in connection with the auction”.
11. Given the Company’s commitment to operating in full compliance with all legal requirements and the objective of pursuing the most cost effective means of meeting its Cap and Trade Compliance obligations, Enbridge has taken a very cautious approach when it comes to both its internal operations and the sharing of information including the information filed in this proceeding. Such an approach is also appropriate given the significant penalty provisions in the *Act* for a breach of the above-noted provisions.

¹ Application Ex F, T1, S1

12. In recognition of the above statutory restrictions, the Framework identifies two types of information to be strictly confidential and therefore only available for review by the Board and Board Staff: Auction Confidential and Market Sensitive Confidential Information. The Board in the Framework also recognizes the need for caution in terms of the treatment of sensitive information. At page 9 of the Framework it states:

The OEB recognizes that the Ontario Cap and Trade market is still nascent, and that the protocols and procedures surrounding confidential information must evolve as the market matures. The OEB believes that, in the early stages of the market's development, the appropriate approach must not only comply with the *Climate Change Act* and associated regulations, it should also be cautious and have regard to market integrity in order to protect customers from undue costs while still making appropriate information publicly available where possible.

13. Enbridge notes that subsequent to the original filing of its Application on November 15, 2016, Enbridge was approached by Board Staff with a request that Enbridge consider placing on the public record portions of the evidence which Enbridge had originally filed as strictly confidential. In response to the request of Board Staff, the Company reviewed the evidentiary citations in question and agreed to place wholly or in a redacted form portions of the evidence which were previously filed as strictly confidential. Accordingly, the Application was revised to include this additional publicly available evidence which was filed on January 18, 2017 and January 27, 2017. This additional evidence is identified in Schedule B to the Board's Procedural Order No. 1 dated January 27, 2017.
14. While Enbridge is desirous of being as transparent as possible, this Application is subject to the unique requirements of the *Act* and the C & T Regulation. This being said, Enbridge continues to be of the view that the release of information should be undertaken on a very cautious basis. As noted in the pre-filed evidence, to the extent that third parties are able to take steps based on information disclosed which results in an increase in the cost of Enbridge meeting its compliance obligations, then rate payers will be negatively affected.²

² Ex A, T3, S1, p5

ACTIONS TAKEN BY ENBRIDGE DEVELOPING ITS PLAN

15. With the issuance of the Framework on September 26, 2016, Enbridge began the finalization of its Compliance Plan. Enbridge recognized that with a commencement date of January 1, 2017 for the Cap and Trade regime in Ontario, it must necessarily begin preparing before the Framework was issued. In fact, the business readiness of the Company for the Cap and Trade program was identified as a top priority in early 2016.³
16. To this end, the Company began addressing the key elements necessary for successful implementation of the Cap and Trade program including:
- Addressing incremental GHG reporting activities necessary to document the additional customer-related emissions starting in 2017;
 - Familiarizing resources with the Cap and Trade Regulation as well as with relevant market tools, information sources, and key stakeholders;
 - Completion of the CITSS application;
 - Ensuring appropriate trading personnel were Cap and Trade ready;
 - Development and deployment of billing programs to collect customers' Customer-related and Facility-related obligations associated with the Cap and Trade program; and,
 - Preparation of internal reporting requirements.⁴
17. In addition to the above, the Company also began and successfully completed the necessary upgrades to its billing system so that it would be operational January 1, 2017. The costs and revenue requirement associated with the above-noted activities have been recorded in the 2016 Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA").

³ Ex C, T1, S1, p15, p57

⁴ Ex C, T1, S1, p16

18. In 2016 Enbridge also attended and presented at conferences and events to increase its as well as its customers' knowledge and awareness of Cap and Trade policy and market development. Enbridge joined various associations which have provided access to carbon market professionals and insights on new compliance instruments. The Company has and continues to establish relationships with policy makers and market makers.⁵
19. Internally, Enbridge has engaged appropriately qualified individuals who are responsible for, amongst other things, reporting under Ontario Regulation 143/16: the Quantification, Reporting and Verification of Greenhouse Gas Emissions Regulation ("GHG Reporting Regulation"). Enbridge staff have further completed the necessary registration and addressed the eligibility requirements to participate in Ontario's Cap and Trade markets.⁶
20. For the purposes of assisting in the development of its 2017 Compliance Plan, Enbridge sought the assistance of a recognized third party carbon market expert which it retained on August 2016, Alpha Inception LLC ("AI").⁷ The Compliance Plan was developed with the assistance of the recommendations from AI.⁸
21. The Company ultimately finalized its Compliance Plan based upon the Guiding Principles and requisite elements set out in the Framework. The Compliance Plan was ultimately formatted and filed in accordance with Appendix 8 of the Framework which are the filing guidelines for Natural Gas Utility Cap and Trade Compliance Plans.
22. This Argument-In-Chief will now review how Enbridge's Compliance Plan is consistent with the Framework and how it will therefore result in costs that are reasonable and prudently incurred. This Argument-In-Chief is formatted in the order of the headings set out in the Framework.

⁵ Ex C, T1, S1, p16, para 58

⁶ Ex C, T1, S1, p17

⁷ Ex C, T1, S1, p2

⁸ Ex C, T1, S1, p3

GUIDING PRINCIPLES

23. The Board at page 7 of the Framework sets out the six guiding principles which it will use as a guide for its assessment of the reasonableness of Utilities' Compliance Plans. Enbridge specifically states in its pre-filed evidence that it believes its Compliance Plan and its preferred strategy meet these guiding principles.⁹ The Company's discussion of how the Guiding Principles were addressed is further articulated in the section of the pre-filed evidence: Compliance Option Analysis & Optimization of Decision-Making.¹⁰ As well, Enbridge's witness and the head of its Carbon Strategy Group, Ms. Oliver-Glasford noted in evidence at the outset of the hearing that:

Enbridge followed the Board's Framework and, in particular, was responsive to the Board's six guiding principles: cost effectiveness, rate predictability, cost recovery, transparency, flexibility, and continuous improvement.¹¹

24. In respect of the cost effectiveness of Enbridge's plan, while some of the evidence is strictly confidential, the evidence which does exist on the public record confirms that the Company has implemented a risk assessment, review and response set of protocols which will optimize economic efficiency. The Public evidence detailing governance and accountability¹² as set out in the pre-filed evidence should provide comfort to stakeholders that the Company's Cap and Trade activities will be optimized for efficiency and risk management. The governance and accountability protocols that the Company has implemented will provide the flexibility necessary and the platform for continuous improvement which will allow its Cap and Trade activities to both respond appropriately to market changes and evolve based upon experiences gained.

25. More specifically, Enbridge has assembled a team of senior management and employees with appropriate expertise to form the Carbon Procurement Governance Group ("CPGG"). The members of this group are identified in evidence¹³ and

⁹ Ex C, T1, S1, p3

¹⁰ Ex C, T2, S7

¹¹ Transcript ("TR") v.1, p12

¹² Ex C, T1, S1, p6

¹³ Ex C, T1, S1, p7

include representation from Market Development, Finance, Energy Supply, Legal, Carbon Strategy and Regulatory Affairs. In 2017, the CPGG's primary mandates include: development and maintenance of Carbon Procurement procedures and policies; implementation of Enbridge's Carbon Procurement strategies; the execution of procedures and policies; and ensuring policies are suitable in operation¹⁴. The CPGG will use its meetings to review and discuss relevant carbon policies and market developments.

26. While the gas supply markets and carbon markets are not identical, the Company is applying a Plan-Do-Check-Act/Review model¹⁵. While the specifics of some of the model are strictly confidential, in a similar manner to how the Company undertakes and meets its gas supply obligations, the Company will identify and consider the various options open to the Company meeting its Cap and Trade compliance obligations. It will then take the necessary actions that will be required to follow through on its preferred options. The Company will continuously and diligently monitor the various carbon instruments and developments in applicable jurisdictions and respond accordingly with the implementation of changes to strategy as are considered appropriate by the CPGG.
27. The Company includes at Exhibit C, Tab 2, Schedule 1 of its pre-filed evidence a description of compliance options in 2017 and its evidence about the optimization of decision making. This evidence identifies the various options open to the natural gas utilities. These include the purchase of allowances at auction, from the MOECC's strategic reserve, the secondary market or from other participants in bilateral sales. The evidence notes the availability under the *Act* and the C & T Regulation to use offset credits to cover a maximum of 8% of the Company's annual compliance obligation as well as abatement activities both facility and customer related. While the details of Enbridge's procurement strategy are strictly confidential, stakeholders should take comfort from the fact that Enbridge will

¹⁴ Ex C, T1, S1, p8

¹⁵ Ex C, T1, S1, p9

consider all available options. The result of the above activities and protocols will ensure the Company's Compliance Plan is cost effective.

28. Enbridge believes that as a result of the efforts described above, rate payers will benefit from rate predictability to the maximum extent reasonably possible. Stated differently, Enbridge believes its Compliance Plan will result in rate payers benefiting from the fact that the actual costs incurred should, to the extent reasonably foreseeable, be primarily recovered through the amounts embedded in rates.
29. The Compliance Plan is a 100% pass-through of costs incurred without any return to the Company. Given the use of GGEIDA and the GGECFCVA, only the difference between forecast and actual costs will be cleared to the rates. This is consistent with the cost recovery and transparency guiding principles.
30. For the above noted reasons and the additional reasons identified below, Enbridge submits that its Compliance Plan is fully compliant with and meets the Board articulated Guiding Principles.

COMPLIANCE PLAN DURATION

31. Enbridge has proposed a compliance plan for 2017 only as contemplated by the Framework at page 16. Enbridge believes that there are simply too many uncertainties which exist in the currently "Ontario only" market for it to have filed a multi-year Compliance Plan at this time.
32. These uncertainties include whether the linkage with California and Quebec will take place and if so, when. This linkage in part will be dependent upon various challenges in California to the continuation of its Cap and Trade program and the compatibility of Ontario's regime to California. Enbridge notes that while the

Governor of California has indicated his acceptance of compatibility,¹⁶ there has not been a formal confirmation of linkage between the two markets.

33. Ontario is still in the early stages of developing its protocols for offset credits. Whether these will be fully developed and in force in 2017 in Ontario, it is not yet known.
34. The marginal abatement cost curve ("MACC") which is under development by the Board as indicated at page 20 of the Framework has not been issued. As well, the Board has not completed its assessment of the longer term cost of carbon for the purposes of providing a long-term (ten year) carbon price forecast as contemplated at page 19 of the Framework.
35. Given the above, the Company believes the most prudent course was to provide a Compliance Plan for 2017 only. It will be filing a further Compliance Plan for 2018 on or before August 1, 2017.

FORECASTING REQUIREMENTS

36. For the purposes of generating the tariffs that will be added to rates to recover the forecast cost of Cap and Trade Compliance, the Framework requires each gas utility to prepare volume forecasts for both its customer related usage and for its own facility related usage. Customer related volumes exclude large final emitters and to the extent known, voluntary participants who are directly responsible for their own GHG emissions. Facility related volume forecasts will be based upon a utilities' own consumption forecast arising from its distribution, transmission and storage operations including unaccounted for gas. The Board specifically stated that it expects the utilities to use their existing OEB-approved methodology when preparing volume forecasts for the purposes of their Compliance Plans¹⁷.
37. Enbridge filed its volume forecast evidence at Exhibit B, Tab 2, Schedule 1 plus Appendix A. At paragraph 2 of this pre-filed evidence, Enbridge confirmed that the

¹⁶ Ex J2.4

¹⁷ Framework, p18

customer related and facility related volumetric forecasts were derived as consistent with Board approved methodologies currently in effect under the custom incentive regulation mechanism which was used for Enbridge's 2017 Rate Adjustment Application (EB-2016-0215) ("2017 Rates Application"). For the total customer related obligation, the 2017 volumetric forecast was adjusted for gas fired generation, DSM, forecast voluntary participants and those volumes derived from biomass or consumed outside Ontario¹⁸. The forecast for facility related volumes included natural gas used for boilers at gate stations, building heating, and natural gas vehicles as well as compressor fuel related to gas storage and unaccounted for gas. The total volume forecast is 11,275,357 10³m³ ¹⁹.

38. Enbridge is subject to the GHG Reporting Regulation. Its GHG emissions forecast as noted at page 18 of the Framework must be prepared in accordance with this Regulation. Enbridge's evidence in respect of its GHG emissions forecast is found at Exhibit B, Tab 3, Schedule 1.
39. At paragraph 4 of the pre-filed evidence, Enbridge confirms that its forecasts of natural gas volumes were converted to GHG emissions in tonnes of carbon dioxide equivalent ("tCO₂e") using the methodology, emission factors and global warming potentials provided in the GHG Reporting Regulation and Guidelines. This resulted in a total forecast compliance obligation in tonnes per CO₂e of approximately 21.1 million.²⁰
40. The Framework deals with carbon price forecasts beginning at page 18. While the Framework provided that utilities should set their annual carbon price forecast using the average of the ICE daily settlement prices of a California Carbon Allowance for each day of the forecast period, for each month of the forecast year, the Company for the reasons stated in evidence believes that a different carbon price proxy should be used for the generation of the applicable tariffs. The Company notes that

¹⁸ Ex B, T2, S1, p1

¹⁹ Ex B, T2, S1, p5

²⁰ Ex B, T3, S1, p5

the long-term (ten year) carbon price forecast has not yet been released and hence was not available for use with this Application.

41. Enbridge calculated the ICE forecast price at \$13.04 USD or \$16.90 CAD using the exchange rate used in Enbridge's 2017 Rates Application. Enbridge with the assistance of its consultant also developed a forecast of the 2017 WCI auction reserve price using a forecasted US consumer price index of 2.3% and the same currency exchange rate. This resulted in a forecast auction reserve price (i.e., floor) of \$17.70 CAD. Enbridge believes that using the forecast Ontario auction reserve price of \$17.70 is preferable over the ICE settlement price of \$16.90 CAD. By comparison, the actual auction reserve price for allowances available for sale at the March 22, 2017 Ontario auction (i.e., the floor price) was \$18.07 CAD.²¹
42. Enbridge includes at Exhibit G, Tab 1, Schedule 1, Appendix A in tabular form its gross and net natural gas volume forecasts by customer class, its calculation of resulting GHG emissions and the cost of allowances using a proxy of \$17.70 CAD. Table A5 details the proposed 2017 Cap and Trade unit rates for customer related and facility related GHG emissions broken down by rate class.
43. As noted in evidence, the Company undertook an analysis of its facility related forecast volumes and further divided its facility related usage into various components including company use, unaccounted for gas and compressor fuel. It developed these subcategories given that certain rate classes do not require compressor fuel and/or are not responsible for unaccounted for gas. This allowed the Company to remove from the facility related unit rate for appropriate customers those facility related volumes for which they should not be responsible.²²

FRAMEWORK'S APPROACH TO THE ASSESSMENT OF COST IMPLICATIONS

44. Beginning at page 21 of the Framework, the Board states that in determining whether the cost consequences of a utilities compliance plan are cost effective,

²¹ Ex K1.2, p6, p7

²² Ex I.5.EGDI.STAFF.25 and TR v.1, p64

optimized and reasonable, the Board will assess whether the compliance plan reflects optimized decision making. Such an assessment includes:

- A consideration of a diversity of compliance options;
- Risk mitigation;
- Whether a utility has approached its compliance strategy in an integrated manner; and
- Whether a utility demonstrates flexibility to adapt to changes.

45. In terms of the first criteria, this argument has already identified the Company's detailed evidence about its consideration of the diversity of compliance options that are available. In addition, the pre-filed evidence details the Company's consideration of specific customer and facility related abatement possibilities. This is discussed further later in this argument.
46. The second criteria which the Board will consider in its review of whether Enbridge's Compliance Plan reflects optimized decision making is risk management. Enbridge devoted time and attention to its identification, assessment and analysis of risks and the development of the steps that could be considered to mitigate both the risks identified in the Framework and the other risks which Enbridge identified being financial transaction risks²³ and risk of data dissemination to market participants.²⁴
47. While much of the evidence relating to risk mitigation is the subject of strict confidentiality, as previously noted, Enbridge has put into place a governance structure and internal protocols which will provide the necessary resources to remain fully abreast of market related developments and to ensure that identified risks can be managed and the Compliance Plan adapted appropriately in response.

²³ Ex C, T4, S1, p24

²⁴ Ex C, T4, S1

In short, to appropriately manage the identifiable risk, the Compliance Plan has included an embedded flexibility which will allow senior management to make decisions on a timely basis that are responsive to changing circumstances and which are binding on the Company. This latter point is important in that by allowing the CPGG to make binding decisions on a timely basis, cost effective opportunities and options will not be lost because of a delay in moving forward. Enbridge therefore submits that its Compliance Plan demonstrates flexibility to adapt to changes consistent with the fourth assessment criteria articulated by the Board as noted above.

48. The third assessment criteria being whether a utility has approached its compliance strategy in an integrated manner must be viewed in the context of the nascent state of the carbon market in Ontario. While the Compliance Plan does not seek approval for specific customer or facility related GHG abatement programs, the Application provides an update on Enbridge's evaluation and consideration of various abatement opportunities.²⁵ The Company also confirmed in evidence that future projects will take into account the cost of GHG emissions.²⁶
49. Enbridge has stated in its pre-filed evidence that it does intended to include both short and long term facility related abatement programs in future Compliance Plan filings²⁷ and it is examining several near term opportunities to undertake customer abatement programs such as the introduction of renewable natural gas supplies into the Company's distribution network.²⁸ Enbridge further noted in evidence that over the medium and long term, it can achieve decarbonization and renewable content through the commercialization of less mature technologies.²⁹ While these abatement opportunities are promising, Enbridge notes that the typical development timeline for RNG and power to gas projects is estimated to range from 18 to 30

²⁵ Ex C, T3, S4 and Ex C, T3, S5

²⁶ Ex C, T3, S5 and Ex I.1.EGDI.STAFF.13

²⁷ Ex C, T3, S5, p3

²⁸ Ex C, T3, S4, p5

²⁹ Ex C, T3, S4, p5-7

months.³⁰ Enbridge further notes that the Board anticipates that approvals for such projects will be dealt with in a utility's regular Rates Application and/or a Leave-to-Construct Application.³¹

50. Another abatement initiative identified in evidence is the Company's intention to increase the use of natural gas for vehicles in partnership with the Province of Ontario. Enbridge notes that the Province has committed up to \$270 million in their Climate Change Action Plan to increase the use of low carbon trucks and buses.³² It is presumed that much of this funding will be sourced from the "Green Bank" which will be the recipient of the revenues generated by the compliance activities undertaken by market participants.
51. Enbridge acknowledges that there may be potential for incremental opportunity around energy efficiency.³³ Evidence of this is found in the Green Investment Fund ("GIF") Home Retrofit Program that is currently underway. In 2016, Enbridge entered into an Agreement with the MOECC to offer an advanced home energy audit and retrofit over the course of three years through the GIF.³⁴ This retrofit program is similar to Enbridge's existing home energy conservation ("HEC") DSM program. It is Enbridge's understanding that the funding for this program is seen by the Province as a "down payment" on the Cap and Trade program in that the funding will be sourced from the Green Bank. As such, it is fair to say that the GIF program is evidence of customer abatement activities having already been put into place but because the funding is sourced through the Green Bank as opposed to natural gas rates, there is no need for Enbridge to request additional funding as part of its 2017 Compliance Plan. As well, because the funding source is not through natural gas rates, it does not contravene the Multi-Year DSM Framework and subsequent decisions on the Utilities' Multi-Year DSM Plans by the Board in early 2016 following a comprehensive proceeding (EB-2015-0049). The forecasted

³⁰ Ex C, T3, S4

³¹ Framework, p27

³² Ex C, T3, S4, p7

³³ Ex C, T3, S4, p2

³⁴ Ex C, T3, S4, p3

results of the GIF are set out in Table 2³⁵ and include both natural gas savings and CO2e reductions.

PERFORMANCE METRICS AND COST INFORMATION

52. Enbridge notes that the Board plans to strike a working group³⁶ which will consider the appropriateness of Cap and Trade performance metrics recognizing there may be limitations to particular performance metrics that make them less or not appropriate. One metric, being the MACC, has not yet been issued. Similarly, the long term (10 year) cost of carbon forecast has not been issued. Enbridge presumes that these metrics, when available, will be used as benchmarks.
53. The Framework states that for the purposes of assessing the cost effectiveness of the Utilities' Compliance Plans, it will require each utility to calculate and provide key performance metrics including the cost per tonne of each compliance instrument or activity and a comparison of costs of investing in a GHG abatement activities as opposed to procuring emissions units.³⁷ The Framework at page 25 also indicates the Board will use the ICE annual price forecast as a benchmark. Enbridge notes that the use of ICE may need to be considered moving forward given the uncertain and current lack of market liquidity relative to the magnitude of the Utilities compliance obligations. Put another way, the Utilities should not be assessed against a price which may be unrealistic should it not reflect the impact of the Utilities participation.
54. Enbridge has proposed adding one further benchmark to the above list for 2017 being the "soft" ceiling price of \$66.49 CAD.³⁸ As noted in the response to BOMA IR 13³⁹, this is the price for allowances retained by the MOECC as a "strategic reserve". Enbridge notes that this "soft" price has been recalculated at \$63.81 CAD. Enbridge believes that this soft ceiling price should represent the maximum

³⁵ Ex C, T3, S4

³⁶ Framework, p24

³⁷ Framework, p24

³⁸ Ex C, T3, S1, p3

³⁹ Ex I.1.EGDI.BOMA.13

auction clearing price during 2017 and therefore should be used as a further benchmark. Finally, it should be recognized that Enbridge's Compliance Plan is for 2017 only. As such, the forecast Compliance Plan costs that are referenced are for 2017 only.⁴⁰

COST RECOVERY

55. Enbridge seeks approval of the customer related and facility related unit rates as set out in Exhibit G, Tab 1, Schedule 1 plus Appendices of its pre-filed evidence. As noted earlier, these unit rates are based upon a proxy cost of carbon emissions of \$17.70 per tonne. These are the same unit rates which were approved by the Board pursuant to its interim rate Order dated November 24, 2016. The Company is now seeking final approval for these unit rates.
56. The Company is proposing the establishment of a new variance account the GGECFCVA. This account will record the difference between the cost / amount the utility actually paid for compliance instruments with respect to customer and facility related emissions and the amount the utility actually recovered from customers through Cap and Trade charges.
57. In Enbridge's custom incentive regulation ("CIR") proceeding (EB-2012-0459) the GGEIDA was approved for the recording of administrative costs incurred going forward in relation to the anticipated Cap and Trade program. This account was necessary as no costs related to a future Cap and Trade program was included in the budgets used to set the Allowed Revenues in Enbridge CIR Rate Making Model.⁴¹
58. In respect of the administrative costs incurred in 2016, these have been recorded in the 2016 GGEIDA. Enbridge will seek recovery of these costs in 2017 at the same time as it clears its other 2016 deferral and variance accounts or as part of the

⁴⁰ Ex C, T3, S1, p1

⁴¹ Ex F, T1, S1, p1

August 2017 Cap and Trade Compliance Plan filing.⁴² Administrative costs incurred in 2017 will be the subject of a Clearance Application in 2018 as part of Enbridge's 2017 deferral and variance account Clearance Application or the Company's 2019 Compliance Plan filing which would be filed in August 2018.⁴³

59. In respect of any amounts recorded in the GGECFCVA, the Company is proposing that these be brought forward for clearance as part of the Company's 2018 true-up filing or pursuant to the Board's direction. Enbridge notes that as a particular year's actual GHG emissions are not calculated until June 1 of the following year as required by the GHG Reporting Regulation, any true-up should not occur until after this date. Enbridge's proposals are consistent with the Framework⁴⁴ in that true-ups should occur annually and that account balances should be administered on a prospective basis not a retroactive basis. In the event that a large account balance develops in the GGECFCVA, the Company notes the Board's willingness as expressed at page 33 of the Framework to examine more frequent true-ups in future.

CUSTOMER OUTREACH AND INFORMATION

60. The Company has undertaken extensive customer research and implemented an education and information program for the purposes of familiarizing its customers about the Cap and Trade program. The details of its customer outreach and information program are set out at Exhibit E, Tab 1, Schedule 1.
61. Enbridge began communicating about Cap and Trade with its customers in 2016. The channel used to deliver messages in 2016 included bill inserts, the call centre, the bill and bill envelope and Enbridge's website.⁴⁵ Examples of the communications with customers are attached as appendices to Exhibit E, Tab 1, Schedule 1.

⁴² Ex F, T1, S1, p2

⁴³ Ex F, T1, S1, p2

⁴⁴ Framework at p32 and 33

⁴⁵ Ex E, T1, S1, p2

62. Enbridge's outreach has also involved its large volume customers. It set a threshold of 4 million cubic meters of natural gas for such customers believing that this would ensure that customers that potentially emit more than 10,000 tCO₂e were aware of and might reasonably consider whether they should become a voluntary participant.
63. In 2017, Enbridge will continue its efforts to proactively communicate with its customers.⁴⁶ Enbridge's communication plan was filed as Appendix A to Exhibit E, Tab 1, Schedule 1. This plan will be updated as the year progresses and the Company will continue to leverage existing communication channels including its website by means of a dedicated page to Cap and Trade matters.⁴⁷

MONITORING AND REPORTING

64. The Framework requires annual monitoring and reporting by Enbridge on the results of its Cap and Trade activities and any changes to its compliance plan.⁴⁸ The Framework indicates that the performance metrics used to monitor a utilities' Compliance Plan will be the same as the performance metrics used to assess those plans as discussed above. The OEB will also use the latest settlement price from the quarterly auctions to benchmark utilities costs.
65. In response to the requirements of the Framework, Enbridge developed three reporting templates which it includes at Exhibit D, Tab 1, Schedule 1. The Compliance Instrument Transaction Ledger will outline the instrument transactions that occur and relevant related information such as date, instrument type, quantity, cost, etc. At the end of the year, it will provide a full record of the transactions undertaken.⁴⁹

⁴⁶ Ex E, T1, S1, p4

⁴⁷ Ex E, T1, S1, p5

⁴⁸ Framework, p37

⁴⁹ Ex D, T1, S1

66. The Compliance Instrument Summary will provide an aggregated view of each compliance instrument outlining the total quantity purchased, the percentage that it makes up of the portfolio and the total cost and cost per tonne.
67. The Forecast vs Actual Summary template is formatted based on the outline provided in the Framework. While much of the above information will of necessity be strictly confidential, with this information, the Board will have a detailed breakout of the activities of the Company meeting its compliance obligations during the year. Ratepayers should take comfort from the fact that the Board will have a complete picture of the Company's compliance efforts.
68. In addition to the above, Enbridge proposed at the outset of the oral hearing that it will also keep the Board apprised on material changes to its Compliance Plan.⁵⁰ The thresholds for the determination of what is sufficiently material to warrant putting the Board on notice are as follows:
- (a) 25% increase in the actual weighted average price of allowances;
 - (b) 25% increase or decrease in forecasted volumes;
 - (c) significant market changes (for example, linkage with the WCI being confirmed). Another example could be notification of exchange rate hedging activity.

RELIEF SOUGHT

69. The Company is seeking a determination from the Board that its 2017 Compliance Plan is reasonable and consistent with the Framework. As noted by the Chair at the commencement of the oral proceeding, the utilities are "seeking approval of the cost consequences arising from each of their Cap and Trade Compliance Plans for the January 1 to December 31 2017 time period."⁵¹

⁵⁰ TR. v.1, p14

⁵¹ TR. v.1, p1.

70. Enbridge acknowledges that the Board will undertake a review of its Compliance Plan's actual results at the time that it comes forward to seek clearance of its related deferral and variance accounts. This review could also take place as part of a subsequent years Compliance Plan filing. While such a review will take place, Enbridge submits that where a utility has received a determination that its Compliance Plan is reasonable, the actual cost consequences of following that plan should also be considered reasonable and give rise to a presumption of prudence.

All of which is respectfully submitted May 5, 2017

[original signed]

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