COST RECOVERY STATEMENTS

1. In this proceeding, Enbridge requests approval of the Customer-related and Facility-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. 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 ("LFEs") (i.e., facilities that emit more than 25,000 tonnes of carbon dioxide equivalent ("tCO_2e")) and "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. Kacicnik
A. Langstaff
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 (after the impact of DSM and incremental abatement has been considered, but excluding the volumes for LFEs, voluntary participants, natural gas derived from biomass, natural gas delivered to downstream or out-of-province natural gas distributors) and for the Company's own operations. These volumes are then used 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 GHG 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 tCO_2e, 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 carbon price for rate setting purposes (refer to Exhibit B, Tab 4, Schedule 1); and (iii) multiplying the GHG emissions by the price determined in ii).

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8. As detailed in Exhibit B, Tab 4, Schedule 1, Enbridge has used the Intercontinental Exchange ("ICE") 21-day strip of a California Carbon Allowance ("CCA") for delivery in each month of the forecast period, 2018, converted to Canadian dollars ("CAD") using the same 21-day strip for foreign exchange for delivery in each month of the forecast period (the "ICE Price") for rate setting purposes. The carbon price for rate setting purposes is $18.99 CAD.

9. The total customer-related emissions for 2018 based on the Customer-related volume forecast is 19,855,327 tCO_2e. The derivation of that amount is set out in the Table 1, which is included at Exhibit B, Tab 3, Schedule 1.

10. The total facility-related emissions for 2018 based on the Facility-related volume forecast is 242,464 tCO_2e. The derivation of that amount is set out in Table 3, which is included at Exhibit B, Tab 3, Schedule 1.

11. The Customer-related and Facility-related costs for rate setting purposes are determined by multiplying the forecast emissions for each category by the ICE Price.

12. 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 2018 total $377,052,654 (19,855,327t$CO_2$e * $18.99 CAD/t CO_2e).

13. 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 2018 total $4,604,398(242,464t$CO_2$e * $18.99/t CO_2e).

Witnesses: A. Kacicnik
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(ii) <u>Cap and Trade Unit Rates</u>

(a) The derivation of the 2018 Cap and Trade Unit Rates for Customer-related and Facility-related obligations follows the same methodology as set out in the Company's 2017 Cap and Trade evidence (EB-2016-0300) with an exception of the carbon price for rate setting purposes and is organized in the following manner: Appendix A, Table A1, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by rate class, the 2018 forecast gas volumes for Customer-related obligations and shows the derivation of CO_2e emission costs as well as the Cap and Trade Unit Rate for Customer-related obligations based on the ICE Price and net CO_2e emissions.

(b) Appendix A, Table A2, which is found at Exhibit G, Tab 1, Schedule 1 summarizes, by component, the 2018 forecast gas volume for Facility-related obligations and presents the derivation of CO_2e emission costs as well as the Cap and Trade Unit Rates for Facility-related obligations based on the ICE Price and CO_2e 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.

(d) Appendix A, Table A4, which is found at Exhibit G, Tab 1, Schedule 1, is a summary of the 2018 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.

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(e) Appendix A, Table A5, which is found at Exhibit G, Tab 1, Schedule 1, details the breakdown of the 2018 Cap and Trade Unit Rates by rate class for LFEs and Non-LFEs.

14. 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."

15. 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 to this Exhibit.

16. 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." The Company confirms that Cap and Trade charges will be included in the Delivery charges on customers' bills. This practice has been in place since January 1, 2017.

17. For a typical residential customer consuming 2,400 m^3 of natural gas per year, the sum of Cap and Trade charges for Customer-related and Facility-related costs will equal about $86 in 2018 based on the ICE Price. This represents an increase of

approximately $6 compared to the forecasted Cap and Trade cost of $80 to a typical residential customer in 2017.

18. Bill impacts for non-LFEs are identified in Appendix C, found at Exhibit G, Tab 1, Schedule 1. Bill impacts for LFEs are identified in Appendix D, found at Exhibit G, Tab 1, Schedule 1.

19. For rate making purposes, Enbridge did not include any administrative or carrying costs or tax impacts in the derivation of its Cap and Trade Unit Rates, as such costs will be recovered through either the Greenhouse Gas Emissions Impact Deferral Account or the Greenhouse Gas Emissions Compliance Obligation – Customer-related Variance Account or the Greenhouse Gas Emissions Obligation – Facility-related Variance Account.

Witnesses: A. Kacicnik
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J. Murphy