



Enbridge  
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May 14, 2019

BY RESS, EMAIL AND COURIER

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2018-0205 – Enbridge Gas Inc. – 2019 Federal Carbon Pricing Program  
Application – Argument-in-Chief**

In accordance with Procedural Order No. 2 issued by the Ontario Energy Board on April 2, 2019, please find enclosed Enbridge Gas Inc.'s Argument-in-Chief.

The Argument-in-Chief will be filed on RESS and a copy served on all parties.

Yours truly,

[original signed by]

Adam Stiers  
Technical Manager, Regulatory Applications

c.c.: Myriam Seers (Torys)  
Michael Bell (OEB Staff)  
EB-2018-0205 Intervenors

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Sched. B);

**AND IN THE MATTER OF** an Application by Enbridge Gas Inc., pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders to establish rates resulting from the *Greenhouse Gas Pollution Pricing Act*.

**ARGUMENT-IN-CHIEF OF  
ENBRIDGE GAS INC.**

**May 14, 2019**

**A. Overview**

1. Enbridge Gas Distribution Inc. (“EGD”) and Union Gas Limited (“Union”) (collectively, the “Utilities”) were Ontario corporations incorporated under the laws of the Province of Ontario carrying on the business of selling, distributing, transmitting, and storing natural gas within the meaning of the *Ontario Energy Board Act, 1998* (the “Act”). EGD and Union amalgamated effective January 1, 2019 to become Enbridge Gas Inc. (“Enbridge Gas”).

2. Pursuant to the Government of Canada’s *Greenhouse Gas Pollution Pricing Act* (the “GGPPA”), which received Royal Assent on June 21, 2018 as part of the *Budget Implementation Act, 2018, No. 1*, a federal carbon pricing program (the “FCPP”) applies to any province or territory that requests it or that does not have an equivalent carbon pricing system, as determined by the federal government, in place by January 1, 2019.

3. The FCPP is composed of two elements that were originally intended to be effective January 1, 2019: (i) a charge on fossil fuels (the “Federal Carbon Charge”) imposed on distributors,<sup>1</sup> importers and producers; and (ii) an Output-Based Pricing System (“OBPS”) for prescribed industrial facilities. As the Utilities’ operations as integrated natural gas utilities in

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<sup>1</sup> In relation to the volumes of natural gas that a distributor delivers to its customers for their own consumption and for the volumes of natural gas that a distributor consumes in the operation of its distribution system to facilitate delivery of natural gas to its customers (i.e. for distribution buildings, boilers/line heaters and natural gas vehicle fleet fuel). See paragraph 9 for additional detail on Enbridge Gas’ obligations as a distributor.

Ontario fell under the purview of the GGPPA, the Utilities anticipated incurring incremental costs, including:

- (1) incremental program administration costs;
- (2) Customer-related Federal Carbon Charge costs, which the Utilities would be required to remit under the GGPPA for volumes delivered to their residential, commercial and industrial customers who are not covered under the OBPS; and
- (3) Facility-related (“Facility Carbon Charge”) costs, which the Utilities would be required to pay under the GGPPA arising from their facilities and operation of their gas distribution systems.

As a result, EGD and Union each filed 2019 Federal Carbon Pricing Program Applications on October 10, 2018 and October 9, 2018, under Ontario Energy Board (“OEB” or “Board”) file numbers EB-2018-0205 and EB-2018-0187, respectively.

4. On October 23, 2018, the federal government announced: (i) that Ontario would be covered by the GGPPA (as a “listed province”); (ii) a delay of the effective date of the Federal Carbon Charge on fossil fuels imposed on distributors, importers and producers from January 1, 2019 to April 1, 2019; and (iii) consultation on carbon price relief for qualified greenhouse operators. On December 11, 2018, in anticipation of their pending amalgamation, the Utilities jointly wrote to the OEB advising of their intent to file an updated and consolidated 2019 Federal Carbon Pricing Program application (the “Application”) on behalf of Enbridge Gas to address these changes to the FCPP and to request interim OEB approval of the facility-related deferral accounts and associated draft accounting orders for each of the EGD rate zone and Union rate zones. Enbridge Gas explained that the facility-related deferral accounts were required in order to begin recording emission costs resulting from storage and transmission compression fuel volumes and flaring volumes effective January 1, 2019. On December 14, 2018, the OEB approved the establishment of the Federal Carbon Charge – Facility Deferral Account for each of

the EGD rate zone and Union rate zones, as well as the associated accounting orders, on an interim basis.<sup>2</sup>

5. On January 11, 2019, Enbridge Gas filed its updated and consolidated Application for the EGD rate zone and Union rate zones seeking: (i) an order or orders allowing it to charge customers a Federal Carbon Charge on a volumetric basis, in the amount of the Federal Carbon Charge required to be paid pursuant to the GGPPA, effective April 1, 2019; (ii) an order approving or fixing just and reasonable rates effective April 1, 2019 to recover Facility Carbon Charge costs on a volumetric basis, included in distribution or transportation charges; (iii) approval to establish five new deferral and variance accounts to record the costs and variances resulting from compliance with the GGPPA; (iv) approval of its rates proposal as filed on an interim basis no later than February 28, 2019; and (v) approval of its rates proposal as filed on a final basis as part of the OEB's final Decision and Order for this proceeding.

6. On February 20, 2019, the Minister of Energy, Northern Development and Mines wrote a letter to the OEB encouraging the OEB to consider the government's objective of transparency for natural gas bills in any proceeding related to the implementation of the federal carbon tax, and to ensure that stakeholders have an opportunity to present their views to the OEB on the appearance of any associated new charges on natural gas bills. On February 28, 2019, the OEB issued an Interim Decision and Accounting Orders which denied Enbridge Gas's request for interim approval of proposed rates as filed, and approved Enbridge Gas's requested administration-related and customer-related deferral and variance accounts on an interim basis. The OEB went on to state that it would make a final determination on the proposed deferral and variance accounts in its Decision and Order for this proceeding and that it would consider the comments of stakeholders and submissions of parties prior to making a determination on any new charges and related bill presentation issues.<sup>3</sup>

7. On April 1, 2019, the OEB issued Procedural Order No. 1 which granted intervenor status and cost eligibility and determined that a single file number (EB-2018-0205) would be

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<sup>2</sup> EB-2018-0205/0187 Interim Decision and Accounting Order (December 14, 2018), p. 4.

<sup>3</sup> EB-2018-0205/0187 Interim Decision and Accounting Orders (February 28, 2019), p. 4.

referenced on all materials submitted as part of this proceeding going forward. On April 2, 2019, the OEB issued Procedural Order No. 2 which defined the scope of the proceeding:<sup>4</sup>

*“The OEB has determined that the scope of this proceeding will be limited to considering recovery of Enbridge Gas’ costs related to the FCPP and the presentation of the carbon charges on customers’ natural gas bills.*

*In this proceeding, the OEB will not be considering additional measures that Enbridge Gas should undertake to reduce either customer-related or facility-related emissions as an issue for adjudication.*

...

*The OEB will not be approving the forecast administration costs in this proceeding. Those costs would be subject to a review for prudence upon disposition...”*

The OEB went on to explain that the deferral and variance accounts approved by the OEB on an interim basis would be subject to the tests set out in the *Filing Requirements for Natural Gas Rate Applications*, that is: Causation, Materiality and Prudence, before the OEB determines if the accounts should be finally approved.

8. This Argument-in-Chief is organized as follows:

Section B: Enbridge Gas will outline its obligations under the GGPPA and the approvals it is seeking from the OEB as a result.

Section C: Enbridge Gas will outline the volume and carbon cost forecasts from which it has derived proposed unit rates.

Section D: Enbridge Gas will explain its proposed Federal Carbon Charge and Facility Carbon Charge and associated modifications to rate schedules.

Section E: Enbridge Gas will explain the need for the requested new deferral and variance accounts in a manner consistent with the criteria set out in the OEB’s *Filing Requirements for Natural Gas Rate Applications*.

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<sup>4</sup> EB-2018-0205 Procedural Order No. 2 (April 2, 2019), pp. 1-3.

**B. Enbridge Gas’s obligations under the GGPPA and subsequent relief sought**

9. As discussed in paragraphs 2 and 3, Enbridge Gas is required to register under Part 1 of the GGPPA as a “distributor” for the volumes of natural gas that it delivers to its customers for their own consumption (“Customer Volumes”) and for the volumes of natural gas that it consumes in the operation of its distribution system that are not covered by OBPS (“Company Use Volumes”) to facilitate delivery of natural gas to its customers (i.e. for distribution buildings, boilers/line heaters and natural gas vehicle (“NGV”) fleet fuel). The GGPPA requires Enbridge Gas to remit the Federal Carbon Charge to the government of Canada, on a monthly basis no later than the last day of the first month after the reporting period, for these volumes.<sup>5</sup> The Federal Carbon Charge is equivalent to \$20 per tonne of carbon dioxide equivalent (“tCO<sub>2</sub>e”) or 3.91 cents/m<sup>3</sup> for marketable natural gas in 2019 and increases by \$10/tCO<sub>2</sub>e annually, reaching \$50/tCO<sub>2</sub>e or 9.79 cents/m<sup>3</sup> for marketable natural gas in 2022.<sup>6</sup>

10. Enbridge Gas has proposed to present the Federal Carbon Charge associated with Customer Volumes as a separate line item on customers’ bills.<sup>7</sup> It has proposed to recover the costs associated with Company Use Volumes as part of the Facility Carbon Charge included in delivery or transportation charges on customers’ bills.

11. As set out in paragraphs 2 and 3, Enbridge Gas is also required to register under Part 2 of the GGPPA as an “emitter” for the volumes of natural gas that it consumes in the operation of its transmission and storage compressor stations (“OBPS Volumes”), which are “covered facilities” under the GGPPA, to facilitate delivery of natural gas to its customers.<sup>8</sup> Enbridge Gas has proposed to recover the costs associated with OBPS Volumes as part of the Facility Carbon Charge included in delivery or transportation charges on customers’ bills.

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<sup>5</sup> GGPPA, Section 69(1).

<sup>6</sup> Exhibit A, p. 4.

<sup>7</sup> Entities that are covered under Part 2 of the GGPPA are exempt from coverage under Part 1 of the GGPPA and subject to the OBPS established for industrial facilities in prescribed energy intensive and trade exposed (“EITE”) sectors. Entities included in the OBPS are required to apply to ECCC for a “covered facility” certificate which can then be used to apply to the Canada Revenue Agency for exemption from the Federal Carbon Charge. As discussed in the response at Exhibit I.APPrO.1, once customers provide Enbridge Gas their completed declaration form (outlining account numbers for their OBPS-registered facility), CRA-issued exemption certificate and registration confirmation letter, Enbridge Gas will update its billing systems to reflect exemption from the Federal Carbon Charge for applicable accounts.

<sup>8</sup> Please see the response at Exhibit I.STAFF.3, for additional detail regarding the OBPS.

12. Based on its obligations under Part 1 and Part 2 of the GGPPA, Enbridge Gas proposes to treat all prudently incurred costs of compliance with the GGPPA as a pass-through to customers. As such, Enbridge Gas is requesting approval, effective April 1, 2019, to: (i) charge customers a Federal Carbon Charge on a volumetric basis, in the amount of the Federal Carbon Charge required to be paid pursuant to the GGPPA; and (ii) recover Facility Carbon Charge costs on a volumetric basis, included in delivery or transportation charges on customers' bills. Enbridge Gas has estimated the 2019 cost of compliance with the GGPPA to be approximately \$361.4 million, and further forecasts 2019 administration costs of approximately \$3.1 million associated with preparation for and administration of requirements under the GGPPA.

13. Enbridge Gas is also requesting final approval to establish five new deferral and variance accounts to record the costs and variances resulting from compliance with the GGPPA, including: (i) administration costs to be tracked in a Greenhouse Gas Emissions Administration Deferral Account ("GGEADA"); (ii) customer-related Federal Carbon Charge cost variances between actual costs incurred and costs recovered in rates, related to Customer Volumes, to be tracked in the Federal Carbon Charge – Customer Deferral Accounts ("FCCDA") for each of the EGD rate zone and Union rate zones; and (iii) facility-related Facility Carbon Charge cost variances between actual costs incurred and costs recovered in rates, related to Company Use Volumes and OBPS Volumes, to be tracked in the Federal Carbon Charge – Facility Deferral Accounts ("FCCFDA") for each of the EGD rate zone and Union rate zones. Through its Decisions and Interim Accounting Orders (dated December 14, 2018 and February 28, 2019) the OEB approved the establishment of Enbridge Gas's proposed deferral and variance accounts as well as the associated accounting orders, on an interim basis.

14. As explained in the response at Exhibit I.STAFF.12, Enbridge Gas is seeking clarity with regard to the OEB's intent for the facility-related and customer-related accounts; specifically, whether the OEB intends for these accounts to be referred to as deferral accounts or alternatively as variance accounts (as proposed).<sup>9</sup>

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<sup>9</sup> For the purposes of responding to interrogatories related to these accounts and for the purposes of this Argument-in-Chief Enbridge Gas has assumed that these accounts are deferral accounts.

**C. Volume and carbon cost forecasts for the EGD rate zone and Union rate zones**

15. As set out in Exhibit B, Enbridge Gas forecasted total 2019 regulated volumes subject to the GGPPA, for informational purposes only, to be 9,350,651  $10^3\text{m}^3$  resulting in an associated forecast total cost of \$361.4 million. 9,182,794  $10^3\text{m}^3$  of these forecasted volumes and associated \$359.0 million of these forecasted costs are attributable to Customer Volumes and Federal Carbon Charge costs. The remaining 167,857  $10^3\text{m}^3$  of forecasted volumes and associated \$2.3 million of forecasted costs are attributable to Facility Volumes (composed of Company Use Volumes and OBPS Volumes) and Facility Carbon Charge costs.

16. For the purposes of estimating the Customer Volume forecast, Enbridge Gas excluded: (i) an estimate of customer volumes exempt from Part 1 of the GGPPA, including OBPS-qualified customer volumes with emissions exceeding 10 ktCO<sub>2</sub>e; (ii) estimated volumes delivered to downstream distributors; and (iii) 80% of the estimated volumes delivered to commercial greenhouse operators. Forecast 2019 Customer Volumes and Federal Carbon Charge costs are 5,778,241  $10^3\text{m}^3$  and \$225.9 million for the EGD rate zone and 3,404,553  $10^3\text{m}^3$  and \$133.1 million for the Union rate zones respectively.

17. Enbridge Gas's Facility Volume forecast is based on an estimate of the volume of natural gas and resulting emissions required for Enbridge Gas to facilitate delivery of natural gas to its customers. As discussed in paragraphs 9 to 11, Facility Volumes are composed of estimates for: (i) Company Use Volumes including distribution buildings, boilers/line heaters, and NGV fleet volumes, all of which are subject to the Federal Carbon Charge under Part 1 of the GGPPA; and (ii) OBPS Volumes including transmission and storage compression volumes, which are subject to the OBPS as Enbridge Gas's transmission and storage system is a "covered facility" under Part 2 of the GGPPA. Forecast 2019 Facility Volumes and Facility Carbon Charge costs are 19,168  $10^3\text{m}^3$  and \$0.323 million for the EGD rate zone and 148,689  $10^3\text{m}^3$  and \$2.010 million for the Union rate zones respectively.

**D. The proposed Federal Carbon Charge and Facility Carbon Charge**

18. As detailed at Exhibit E, Enbridge Gas requests approval to incorporate the impacts of the GGPPA into rates for the EGD rate zone and Union rate zones, effective April 1, 2019, including: (i) a new Federal Carbon Charge (related to Customer Volumes) and a new Facility

Carbon Charge (related to Company Use Volumes and OBPS Volumes); (ii) to update the Parkway Delivery Commitment Incentive (“PDCI”) credit for Union South customers and associated Union South in-franchise delivery rate changes as detailed at Exhibit E, p. 5; and (iii) to modify applicable rate schedules accordingly.

19. Enbridge Gas proposes to charge distribution customers the Federal Carbon Charge of 3.91 cents/m<sup>3</sup> based on actual volumes delivered, equivalent to \$20/tCO<sub>2e</sub>, as stipulated in the GGPPA and as discussed at Exhibit A and at paragraph 9,<sup>10</sup> with the exception of those customers exempted, in full or in part, from Part 1 of the GGPPA (as discussed at paragraph 16). Enbridge Gas proposes to record the difference between the Federal Carbon Charge amount collected through rates and the actual costs incurred in the FCCCDA for each of the EGD rate zone and Union rate zones and will apply to dispose of the final 2019 balances in these accounts in a future proceeding.

20. Enbridge Gas proposes to charge a common volumetric charge (derived from Enbridge Gas’s 2019 forecast volumes as described at Exhibit E, Table 1 and in the response at Exhibit I.APPrO.3) to recover the total regulated Facility Carbon Charge costs for each of the EGD rate zone (estimated 2019 costs of \$0.323 million) and Union rate zones (estimated 2019 costs of \$2.010 million). As discussed in paragraph 17, Enbridge Gas’s Facility Carbon Charge costs are expected to be incurred pursuant to both Company Use Volumes and OBPS Volumes. Enbridge Gas is proposing to recover Facility Carbon Charge costs from all rate classes based on in-franchise delivery volumes and ex-franchise transportation volumes, regardless of whether a customer is exempt from the Federal Carbon Charge. Enbridge Gas proposes to track the difference between the amount collected through rates and the actual costs incurred in the FCCFDA for each of the EGD rate zone and Union rate zones and will apply to dispose of the final 2019 balances in these accounts in a future proceeding.

21. As set out at paragraphs 9 to 11, Enbridge Gas has proposed: (i) to present Federal Carbon Charges associated with Customer Volumes as a separate line item on customers’ bills; and (ii) to recover the costs associated with Company Use Volumes and OBPS Volumes as part of the Facility Carbon Charge included in delivery or transportation charges on customers’ bills.

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<sup>10</sup> The GGPPA, Schedule 2 and Schedule 4

In its response at Exhibit I.STAFF.14, Enbridge Gas explains that there are several reasons for the OEB to support the proposed bill presentation of the Federal Carbon Charge and Facility Carbon Charge, including: (i) Enbridge Gas expects that the modifications necessary to combine these charges into a single line item on bills may require additional time and costs; (ii) customers can independently verify the Federal Carbon Charge rate as stipulated by the GGPPA; (iii) the nature of the Facility Carbon Charge is a cost incurred to deliver and transport natural gas; and (iv) presenting the Federal Carbon Charge on bills provides customers line-of-sight to the charge that they can most directly influence – the charge for their volumetric gas use.

**E. Need for new deferral and variance accounts to record administration costs and cost variances between the actual costs incurred and those recovered in rates**

22. As discussed at Exhibit D, at paragraph 13, and in the response at Exhibit I.STAFF.11, Enbridge Gas is seeking final approval of five new deferral and variance accounts in order to ensure compliance with and to effectively record the costs associated with the GGPPA and the FCPP:<sup>11</sup>

- A Greenhouse Gas Emissions Administration Deferral Account – to record the administration costs associated with the impacts of federal regulations related to greenhouse gas emission requirements for all rate zones (effective January 1, 2019);
- Federal Carbon Charge – Customer Deferral Accounts – to record cost variances between the actual customer carbon costs incurred and the amount collected in rates for distribution volumes delivered by Enbridge Gas in each of the EGD rate zone and Union rate zones; and
- Federal Carbon Charge – Facility Deferral Accounts – to record cost variances between the actual facility carbon costs incurred and the amount collected in rates in each of the EGD rate zone and Union rate zones.

23. In its response at Exhibit I.STAFF.11, Enbridge Gas explains the need for these new accounts in the context of the eligibility criteria set out in the OEB’s *Filing Requirements for Natural Gas Rate Applications*:

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<sup>11</sup> As discussed at paragraph 14 and at Exhibit I.STAFF.12, Enbridge Gas is seeking direction from the OEB whether these accounts are to be referred to as deferral accounts or alternatively as variance accounts. For the purposes of this Argument-in-Chief and for responding to interrogatories Enbridge Gas has assumed that they are deferral accounts.

*“Enbridge Gas’s proposed deferral and variance accounts satisfy these eligibility criteria as: (i) the costs associated with the GGPPA and the FCPP are clearly outside of the base upon which rates were derived; (ii) the total forecasted cost of compliance with the GGPPA in 2019 is expected to exceed \$364 million and is appropriately considered in aggregate; and (iii) it is reasonable to determine that Enbridge Gas’s forecasted costs of compliance with the GGPPA are prudent on a preliminary basis as they are the direct result of and are primarily set by legislation that is outside the control of management, with which Enbridge Gas is obligated to comply. Further, the balances recorded in these accounts will be subject to further review upon disposition in a future proceeding.”*

Enbridge Gas goes on to explain that the total forecasted cost of compliance with the GGPPA and the balances recorded in these deferral accounts is expected to increase due to: (i) the annual increase of \$10/tCO<sub>2</sub>e to the Federal Carbon Charge mandated by the GGPPA, reaching \$50/tCO<sub>2</sub>e or 9.79 cents/m<sup>3</sup> for marketable natural gas in 2022; (ii) additional administration costs associated with new or incremental federal or provincial carbon programming; and (iii) the accumulation of total unbilled and uncollected amounts recorded in these accounts due to the OEB denying interim approval of proposed rates as detailed in the response at Exhibit I.LPMA.3.

24. As stated in the response at Exhibit I.STAFF.11, when reviewing similar accounting orders as part of Ontario’s Cap and Trade program, the OEB was satisfied that need was demonstrated and it subsequently granted approval to establish administration, customer and facility-related deferral and variance accounts accordingly. Similarly, Enbridge Gas’s consideration of GGPPA-related costs in aggregate is also consistent with the Cap and Trade Framework.

25. As explained in the response at Exhibit I.STAFF.13, Enbridge Gas is not applying to dispose of the 2019 balances in any of the five proposed deferral accounts. Enbridge Gas will apply to dispose of the balances in these accounts through a future proceeding, in which the OEB will engage in a prudence review in respect of the actual costs sought to be disposed of in each account.

**F. Conclusions and Relief Sought**

26. For the reasons set out above, Enbridge Gas respectfully requests that the Board make the following findings, determinations and orders:

- (1) Treat the costs associated with Enbridge Gas's compliance with the GGPPA as a pass-through to customers;
- (2) Approve Enbridge Gas's request to charge customers a Federal Carbon Charge on a volumetric basis, in the amount of the Federal Carbon Charge required to be paid pursuant to the GGPPA;
- (3) Approve Enbridge Gas's request to recover Facility Carbon Charge costs on a volumetric basis, included in delivery or transportation charges; and
- (4) Approve Enbridge Gas's request to establish five new deferral accounts resulting from compliance with the GGPPA on a final basis.

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**All of which is respectfully submitted this 14<sup>th</sup> day of May, 2019.**

*[Original Signed by]*

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Adam Stiers  
Technical Manager Regulatory Applications