Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL AND WEB POSTING

July 28, 2016

TO: Enbridge Gas Distribution Inc., Natural Resource Gas Limited, Union Gas Limited and All Participants in EB-2015-0363

RE: Cap and Trade Framework for Natural Gas Utilities – Early Determination regarding Billing of Cap and Trade Related Costs and Customer Outreach - File No.: EB-2015-0363

The Ontario Energy Board (OEB) has made a determination on billing and customer outreach in relation to the Cap and Trade framework to be implemented by Enbridge Gas Distribution Inc. (Enbridge), Natural Resource Gas Limited (NRG) and Union Gas Limited (Union) (collectively "the Utilities").

Background

Ontario has passed legislation to establish a Cap and Trade program for the purposes of reducing greenhouse gas ("GHG") emissions in Ontario[1]. Under the legislation, Ontario's natural gas utilities will have greenhouse gas (GHG) emission compliance obligations for:

- Residential, commercial and industrial customers (excluding Large Final Emitters, defined as emitting > 25,000 tonnes CO_2e per year) and natural gas generators
- Facilities owned or operated by natural gas distributors

[1] The *Climate Change and Low-Carbon Economy Act, 2016* ("*Climate Change Act*") received Royal Assent on May 18, 2016 and Ontario Regulation 144/16, The Cap and Trade Program ("*Cap and Trade Regulation*") was issued May 19, 2016.

In order to comply with the legislation, the Utilities will need to develop Compliance Plans to achieve their Cap and Trade obligations for both customer-related and facility-related obligations. The Compliance Plans will include a variety of measures such as GHG abatement activities and the purchase of emissions credits, either through auctions or other mechanisms. The OEB is responsible for assessing the cost effectiveness of the Utilities Compliance Plans for the purpose of cost recovery from ratepayers.

To facilitate its assessment of these costs, the OEB is developing a Regulatory Framework (the Framework). The Framework will provide guidance to the Utilities on the OEB's approach to assessing the costs of the Utilities' implementation of Cap and Trade and the recovery of those costs.

On May 25, 2016, the OEB issued a a Staff Discussion Paper (the Discussion Paper) for comment, which outlined OEB staff's initial views on the key elements, issues and options for the development of a Cap and Trade Framework as it relates to natural gas utilities. Comments on the issues and proposals set out in the Discussion Paper were received from over 40 stakeholders, including the Utilities, from consumer groups representing residential, commercial and industrial gas users and from environmental organizations. All comments are posted on the OEB's website.

The OEB has identified two issues that require early determination to facilitate the Utilities' implementation of the Cap and Trade Program by January 1, 2017. The Discussion Paper contained staff proposals on these issues. By way of letters dated April 15 and 21, 2016, Union and Enbridge indicated that they will need about six months to implement billing system changes to ensure they are ready to bill Cap and Trade related costs to customers when the Cap and Trade Program comes into effect January 1, 2017. In response to the Utilities' request the OEB has made this determination on billing for the recovery of Cap and Trade related costs and with respect to customer communications and outreach as set out in the OEB's May 25 letter.

Summary of the OEB Determinations

Billing

A determination on the billing issue requires that decisions be made on a number of underlying rate design questions. **The OEB has accepted staff's proposals on these matters as outlined in the Discussion Paper.** The Utilities are expected to ensure the necessary system changes have been made in accordance with its determination in order that rate design and billing determination is ready for implementation by January 1, 2017.

Customer Outreach

The OEB has not adopted staff's proposal on customer outreach and messaging as set out in the Discussion Paper. **The OEB will not require the Utilities to have their communications approved by the OEB. Rather, the OEB will provide key messaging to be used by the Utilities to ensure consistent information is provided to all consumers.**

Discussion of Billing of Cap and Trade Costs

Under the Cap and Trade program, each utility will need to develop a Compliance Plan to meet its GHG compliance obligations under the *Climate Change Act*. The Compliance Plan will include costs of:

- Facility-related obligations for measures related to GHG emissions from facilities owned or operated by the utilities
- Customer-related obligations for measures related to GHG emissions from natural gas-fired generators and residential, commercial and industrial customers who are not Large Final Emitters (LFEs) or voluntary participants
- Administration to meet compliance obligations

The OEB's determination addresses the two issues identified in the May 25 letter relating to the billing of the above noted costs; the type of rate and how the rate is to appear on natural gas bills.

This determination does not address the amount of the costs to be recovered or the actual rate impacts. These matters will be determined in a future rate hearing where the OEB will undertake a detailed review and assessment of the cost consequences of the Compliance Plan submitted by each of the natural gas utilities.

Rate Design

In order to determine the type of rate, the OEB considered the issues of cost causation, cost allocation and rate design. The OEB notes that most stakeholders supported the approach on these matters as set out in the Discussion Paper.

The OEB has determined that customer-related obligation costs will be recovered from all customers except Large Final Emitters (LFEs) and voluntary participants, who are responsible for managing their own compliance obligation.

Customer related costs are driven by gas consumption, which causes the GHG emissions, and therefore should be allocated and recovered based on a customer's consumption. The OEB has determined that 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. Given that the rate will not apply to LFEs and voluntary participants, the tariff sheet will indicate it should be applied "as applicable" similar to other charges which are not uniformly applied to a rate class. A separate customer-related rate on the tariff sheet will assist natural gas-fired generators who bid into the market. It will also provide the information necessary for large gas users who may qualify as voluntary participants to make decisions as to whether they wish to become voluntary participants.

The OEB has determined that facility-related obligation costs will be recovered from all customers, as they are directly related to the delivery of natural gas to customers.

Facility related costs will be allocated to rate classes based on consumption, given that the driver for GHG emissions is gas consumption. These costs will be recovered through a volumetric (m^3) charge based on consumption.

The rate for facility-related costs will also be separately identified on the Utility tariff sheet so that customers may easily identify these costs, and to facilitate tracking and updating as needed.

Administrative costs relating to the implementation and ongoing operation of the Cap and Trade Program will be allocated and recovered from all customers in the same manner as existing administrative costs.

Most stakeholders supported the proposal in the Discussion Paper that administrative costs should be recovered from all customers. Stakeholders representing large gas users commented that a portion of these costs should not be borne by the LFEs or voluntary participants, as they would be incurring their own administrative costs to comply with the Cap and Trade Program. These stakeholders also commented that the load and associated GHG emissions from the LFEs and voluntary participants are not part of a utility's compliance obligation and that, as a result, their liability for the utility's administrative costs should be limited to those incurred in meeting facility-related GHG obligations only.

The OEB agrees that administrative costs will be incurred to support both facility-related and customer-related obligations. While the exact quantum of the administrative costs is not known at this time, based on research conducted on the experience in other jurisdictions the OEB does not expect these costs to be sufficiently material to justify the cost and time involved in allocating administrative costs differently than is the case today for all of a utility's other administrative costs. The OEB may revisit this approach in the future, based on experience with the Utilities' implementation of the Cap and Trade Program and associated administrative costs.

Billing

Having determined that there should be two volumetric charges related to the recovery of approved Cap and Trade costs, the next issue for determination is how these rates should be reflected on customers' natural gas bills. **The OEB has determined that charges related to the recovery of Cap and Trade Program costs will be included in the Delivery charge on the bill**.

Comments from the Utilities and commercial, institutional and industrial gas consumers suggested that Cap and Trade related costs should be a separate line item on the bill in order to provide greater transparency and visible price signals. Some residential consumer groups specifically stated that it was not necessary to reflect Cap and Trade Program costs as a separate line as long as customers were otherwise informed of the Cap and Trade Program and resulting costs.

The OEB has determined that charges to recover costs incurred by the Utility to meet its facility-related obligations will be included in the delivery charge on the customer bill. Under the Climate Change Act, the Utilities are responsible for GHG emissions related to the operation of their equipment and facilities, as is the case for any other LFE. These costs will be part of the utility's on-going business and should be reflected in the ongoing cost of doing business like all other utility costs of operation.

The OEB has also determined that costs incurred by the natural gas utilities to meet their customer-related obligations will be included as part of the Delivery charge on the customer's bills. This charge will be included for all customers other than LFEs and voluntary participants. The Utilities are required by the Climate Change Act to be responsible for the GHG emissions related to all natural gas delivered on their distribution systems and in order to comply with this obligation they will incur costs. While these costs are not specifically tied to the activity of operating a gas transmission or distribution system, they are an ongoing business obligation of a natural gas distributor under the *Climate Change Act*.

Stakeholders who support a separate line item argue that a separate line item is needed to provide greater transparency and appropriate pricing signals to customers. The OEB agrees that it is important to provide customers with the information they need to better understand energy costs so that they can make appropriate choices about their energy use.

The OEB will ensure that those customers who require more detailed information will have access to that information by requiring utilities to separately identify charges associated with the recovery of Cap and Trade Program compliance on the Utility's tariff sheet. Tariff sheets are available on the Utilities' websites. Utilities will also be required to include information on Cap and Trade in the description section of monthly customer bills. In addition, as discussed below under Communications, the Utilities will be expected to provide customers with ongoing information about the Cap and Trade Program in accordance with guidance provided by the OEB.

In the OEB's view, separating out Cap and Trade related costs as a line item on the bill is inconsistent with the manner in which all other ongoing costs of operating the utility are reflected on the bill. The public policy objective of the Cap and Trade Program is to reduce GHG emissions. For the vast majority of customers, a separate line item will not provide any form of meaningful price signal. Customers other than voluntary participants cannot avoid the Cap and Trade Program related costs which will be borne by the Utility and allocated to them. Costs associated with Cap and Trade Program compliance are part of the Utilities' cost of providing natural gas service similar to other delivery costs. In the OEB's view the most important driver of consumer behaviour is total price. This has been borne out by research that the OEB has undertaken in the past in relation to consumers' response to electricity bills. This research showed that low volume customers are much more focused on the total amount owing on their bill than individual line items.

Stakeholders representing large gas users, in particular LFEs, suggested that the charge should be separated to enable them to confirm that they had been charged the appropriate amounts, recognizing the different treatment of LFEs in relation to the recovery of customer-related obligation costs. Since the OEB is requiring separate rates on the utility tariffs, large gas users (such as LFEs and voluntary participants) will have access to the information necessary to determine the amount they will be/have been charged in any billing period for both facility-related and customer-related costs.

Customer Outreach and Key Messaging

The OEB has determined that in order to provide all Ontario natural gas consumers with consistent information, Utilities will be expected to use a set of key messages in their customer communications which will be provided by the OEB. The OEB will not require Utilities' customer communications to be approved before they are issued.

Stakeholders had a variety of views regarding consumer communications. Ratepayer and industry groups generally supported staff's proposal that the OEB review and approve each utility's proposed communications strategy. One residential consumer group supported a comprehensive effort on the part of the OEB and the Utilities to educate customers. The Utilities and some other stakeholders did not support explicit OEB approval of messaging and wording. They suggested that the Utilities have a better understanding of their customers and that they should manage their own communication strategies. Several of these stakeholders did support sharing bill insert communication and/or key themes to be included in customer education. The Utilities were also concerned that an additional approval process could delay the provision of timely information to customers.

The OEB considers appropriate customer outreach and education to be essential to consumer understanding of the Cap and Trade Program and the way in which the program will affect consumer bills. Given that the program is being implemented across the province, consistent messaging across all Utilities will minimize the potential for customer confusion.

The OEB has therefore decided that it will provide the Utilities with key messages that should be included in communications to low volume consumers, and will not require the Utilities to submit their communications to the OEB for approval. This will ensure consistency in messaging while allowing the Utilities the flexibility to develop their communications strategies in a way that they believe best responds to the needs of their customers. The key messages will be provided by the OEB in a separate letter. The OEB will expect the Utilities to provide their customer communication materials to the OEB prior to any Cap and Trade-related information being delivered to customers.

The OEB thanks all stakeholders for their comments on the Discussion Paper. Comments on the issues not addressed in this letter will inform the OEB as it proceeds to finalize the rest of the Framework for issuance this Fall. If stakeholders have questions regarding this letter, they may contact Laurie Klein at laurie.klein@ontarioenergyboard.ca or Rachele Levin at rachele.levin@ontarioenergyboard.ca

Yours truly,

Original signed by

Kirsten Walli
Board Secretary