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May 31, 2018

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

Dear Ms. Walli:

RE: EB-2017-0224/EB-2017-0255/EB-2017-0275 – Submissions of London Property Management Association

Please find attached LPMA's interrogatories with respect to the above noted proceeding.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates
Encl.

cc: Adam Stiers (Union Gas)
Valerie Bennett (OEB)
Ljuba Djurdjevic (OEB)
Intervenors

EB-2017-0224
EB-2017-0255
EB-2017-0275

Enbridge Gas Distribution Inc.
Union Gas Limited
EPCOR Natural Gas Limited Partnership

Applications for approval of the cost consequences of 2018 cap and trade compliance plans

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SUBMISSIONS OF LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

Union Gas Limited ("Union"), Enbridge Gas Distribution Inc. ("Enbridge") and EPCOR Natural Gas Limited Partnership ("EPCOR") each filed an application with the Ontario Energy Board ("OEB") in November, 2017 seeking approval of the cost consequences arising from each of their cap and trade compliance plans for the period January 1, 2018 through December 31, 2018.

The OEB assigned the following file numbers to the applications: EB-2017-0224 (Enbridge), EB-2017-0255 (Union) and EB-2017-0275 (EPCOR).

The OEB issued a Decision and Order for a combined public hearing to consider the Enbridge, Union and EPCOR cap and trade compliance plan applications on November 30, 2017. As part of the same Decision and Order, the OEB denied the gas utilities' request for the interim approval of their proposed 2018 cap and trade charges. The OEB indicated that the proposed changes to the charges were not significant enough to warrant the change and that the gas utilities have variance accounts that track the difference between actual customer and facility related obligation costs recovered in rates.

The OEB issued a final Issues List as part of Procedural Order No. 2 dated February 7, 2018. As part of the same procedural order, the OEB determined that the RNG

Procurement and Funding model does not require approval because the model provides that ratepayers would not be allocated any costs arising from the incremental costs of gas associated with the procurement of RNG now, or in the future.

The following are the submissions of the London Property Management Association ("LPMA") on some of the issues identified by the OEB. LPMA is not making any submissions with respect to some aspects of the compliance plans as some of the evidence was not publicly available to intervenors.

B. SUBMISSIONS ON ISSUES

The submissions which follow are generally based on the Union evidence, unless specifically noted otherwise. LPMA submits that the OEB should separately approve the cost consequences of the cap and trade compliance plans for each of the gas utilities. However, LPMA submits that the approval of the plans should only deviate from one utility to another where there are specific or unique features of the plans. LPMA believes that consistency is important in order for parties to ultimately evaluate and benchmark the actual cost consequences of the compliance plans in future proceedings.

1. Cost Consequences - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

The composition of the requested compliance plans between the different types of options available to the utilities was not available for review by LPMA as this information was been declared confidential. Similarly, the costs and risks associated with the various options were not available publicly. As a result, LPMA is unable to determine if the requested cost consequences of the gas utilities' compliance plans are reasonable and appropriate.

LPMA is making submissions with respect to the forecasted costs to be included in the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA") and the Low Carbon Initiative Fund ("LCIF") and the request for pre-approval of these costs.

Greenhouse Gas Emissions Impact Deferral Account

The submissions with respect the GGEIDA are based on the forecasted administration costs and does not include the LCIF proposed expenditures. Submissions with respect to the LCIF are found in the following section.

Based on Union's Argument in Chief (Public) dated May 17, 2018, Union Gas continues to request that the OEB approve administrative costs of $4.0 million for the 2018 cap and trade compliance plan (para. 10). This is despite the reduction in costs due to a reduction in the number of FTE's in 2018 from 12.5 to 11.25 as noted in the response to Exhibit J1.1 and noted in paragraph 73 of Union's Argument in Chief. Based on the updated filed in Exhibit J1.1, the $4.0 million has been reduced to $3.734 million. This reduction of $270,000 is entirely driven by the reduction in FTEs and the corresponding reduction in staffing resources costs from $2.598 million (Exhibit B.SEC.15) to $2.328 million.

LPMA submits that any OEB decision related to the reasonableness and appropriateness of Union's proposed administrative costs should be based on the updated forecast of $3.734 million, not the $4.0 million original forecast.

LPMA further submits that the OEB should benchmark the forecasts for Union and Enbridge in determining an appropriate level of forecast administrative costs. The major difference between the two utilities is the staffing resources cost of $1.5 million for Enbridge and $2.328 million for Union (as updated in Exhibit J1.1). The major driver for this 55% difference is in the number of FTEs. Enbridge has forecast the need for 8.0 FTEs (Exhibit B.SEC.15), whereas the updated Union forecast (Exhibit J1.1) is 11.25, or 40% more than Enbridge.

Union has attempted to explain this difference based on the different incentive regulation models between the two utilities, as noted in the response to Exhibit B.SEC.15. In particular, the response suggested that Enbridge had included some FTEs and costs associated with cap and trade compliance plans in their base rates. However, as indicated in the discussion between Mr. Wolnik and Mr. Dantzer (Tr. Vol. 1, pages 72-74), Union actually did not verify this portion of the response which was provided by Enbridge.

As noted in Tab 2 of Exhibit K1.3 (EB-2012-0459, Exhibit D1, Tab 8, Schedule 5), Enbridge was not in a position as part of its customized IR plan for 2014 through 2018 to estimate any costs of the requirements and potential ramifications related to greenhouse gas emissions reductions in Ontario. Enbridge proposed that any such costs that were incurred would be included in the requested GGEIDA account.

As noted under Issue 4.2 below, it is also quite clear that Enbridge had no cap and trade compliance plan costs included in their 2016 revenue requirement and no such addition has taken place for either 2017 or 2018.

Finally, LPMA notes that both Union and Enbridge had actual costs related to their 2017 cap and trade compliance plans that were significantly lower than that forecast and approved in the EB-2016-0296/EB-2016-0300/EB-2016-0330 Decision and Order dated September 21, 2017. In particular, Enbridge had forecast total administrative costs of $2.917 while the actual costs were $2.274, or 22% below forecast while Union had forecast total administrative costs of $4.223 million while the actual costs were $3.219 million, or nearly 24% below forecast. The actual 2017 administrative costs are shown in Exhibit B.SEC.15. Clearly both utilities padded their 2017 forecasts and there is no evidence to suggest that this has been changed for the 2018 forecasts.

Both Enbridge and Union have indicated that they have not looked at any potential savings resulting from the proposed merger of the utilities. LPMA submits that regardless of whether or not a merger was proposed, Union and Enbridge should be working together, as members of the same corporate group, in order to avoid needless duplication and costs that are borne by the ratepayers. To not do so violates a number of goals set out by the OEB.

Utilities are expected to achieve continuous improvements that reduce costs by presenting plans for delivering services that meet the needs of their customers while controlling their costs. Failure to work together, as part of the same corporate group, would violate this goal.

In addition, utilities are expected to develop a genuine understanding of their customers' interests and preferences and reflect those interests and preferences in their plans. Customers want value for their money. By not working together, Union and Enbridge are reducing the value that customers are getting for their money. They are paying for two sets of administration when only one is of value. Duplication provides no value to customers.

In summary, LPMA submits that the OEB should reduce the proposed administrative costs for both Union and Enbridge and strongly indicate to them that regardless of merger or no merger, they should be working together to ensure customer value for their money and improvements to reduce or eliminate needless duplication of costs.

LPMA further submits that the OEB should reduce the staffing resources costs of Union to a comparable level of that of Enbridge. Even if the OEB does not require Union and Enbridge to work together more closely than is proposed, it should reduce the Union staffing resources costs of Union by $0.8 million. This would bring the Union cost down in line with that of Enbridge and would reflect a benchmarking of sorts between the two utilities.

Low Carbon Initiative Fund

LPMA submits that the OEB should not approve any costs associated with the LCIF. LPMA does not believe there is any good reason for natural gas ratepayers to pay more than they already are under the cap and trade program in the province.

The cap and trade costs to customers are supposed to be used to fund projects just like the ones that have been identified by the utilities that would be funded by the LCIF. Why should customers be expected to pay twice?

LPMA does not object to the concept of the LCIF. However, the LCIF should be funded through government programs, research grants and/or funds from other interested parties such as trade organizations and equipment manufacturers and not additional funds taken from ratepayers.

If the OEB does approve the LCIF with funding from ratepayers, then LPMA submits there should be a number of conditions imposed on the approval.

First, the approval for the funding should only be applicable to 2018. There is much activity going on in this area with respect to government funding and third-party research and involvement. The fluidity of the situation is such that any long-term approval of the LCIF is not warranted.

Second, as noted in the hearing, Union has not identified $2.0 million of funding required in 2018. As shown in Exhibit JT1.17, as of mid-April of this year, Union had only identified $1.158 million of funding requirements, of which only about $0.1 million had been spent year-to-date.

It is doubtful that Union has spent much more through to the end of May since it stated in the response to Exhibit B.SEC.11, part (d) that:

"Union must have certainty of recovery in order to pursue new technology initiatives that serve to reduce future GHG emissions and related costs on behalf of ratepayers. Union seeks assurance from the OEB in this proceeding that actual LCIF costs will be deemed reasonable and consistent with the expectations established in the Framework if executed on the basis outlined in Union's application. Union expects that these amounts will not be subject to further review unless there is a change in circumstances that warrants review as determined by the OEB when they are filed for disposition."

Given that a decision in this proceeding will not be issued until at least half the year is over, there is no reason to suggest that Union needs the $2.0 maximum they have asked for.

LPMA submits that if the Board does approve a ratepayer funded LCIF it should be capped at $1.2 million to reflect the projects and costs found in Exhibit JT1.17. It would not be appropriate for the OEB to approve amounts for unknow projects.

Third, Union and Enbridge have requested approval of the amounts in the LCIF and that these amounts would not be subject to further review unless there is a change in circumstances that warrants review as determined by the OEB when they are filed for disposition. LPMA submits that the OEB should not approve the request for a blank cheque for up to $2 million to either utility.

The OEB has moved to an outcomes-based approach to regulation. How could the OEB issue a blank cheque to a utility for ratepayer funds without knowing or even reviewing the outcomes associated with the expenditures? The interests of ratepayers and utilities would not be aligned in such a situation. Only the interests of shareholders would be aligned with that of the utilities. The outcomes of the initiatives would be meaningless since the utility/shareholder could collect all their money without delivering anything of value to customers.

Fourth, LPMA submits that any benefits that accrue to the utility, now and in the future, from any of the initiatives funded by the LCIF using ratepayer funds should be to the account of ratepayers. This would include any royalties or intellectual property or any other monetizable benefit that results from the use of ratepayer funds. The costs are being paid by ratepayers, not shareholders. The benefits need to flow to those that funded the costs.

Pre-Approval of GGEIDA and LCIF Costs

Union and the other utilities are requesting a determination from the OEB that the cost consequences of their compliance plans are just and reasonable. Union is requesting this determination on the $4.0 million in forecasted 2018 administrative costs and up to $2.0 million in cost consequences associated with the LCIF, both of which would be recorded in the 2018 GGEIDA.

At the same time, Union has indicated that a final determination of the reasonableness of the cost consequences associated with the 2018 compliance plan, including the LCIF, would be the subject of a future proceeding.

LPMA submits that the OEB should make the same finding in this proceeding as it did in the EB-2016-0296/EB-2016-0300/EB-2016-0330 Decision and Order dated September 21, 2017. At page 16 of that Decision and Order the OEB stated:

"The OEB finds that the administrative costs proposed by the each of the Gas Utilities to meet their 2017 cap and trade compliance obligations are consistent with the expectations established in the Cap and Trade Framework.

The actual costs for each of the Gas Utilities to meet their cap and trade compliance obligations will be assessed for cost-effectiveness and reasonableness when they are filed as part of the 2019 Compliance Plan proceeding. Decisions around disposition of any variance accounts will be made in that proceeding and not as part of a Deferral and Variance Account application (see section 5.10.2 for variance account clearance discussion).

The OEB recognises that the cap and trade program is new and that the Gas Utilities will be able to refine their cost estimates over time with experience."

Forecasts

1.1 Are the volume forecasts used reasonable and appropriate?

Union's evidence indicates that the forecast methodology employed for each of the components of its volume forecasts is consistent with that approved by the OEB in Union's 2013 Cost of Service proceeding (EB-2011-0210) and in the 2017 Cap and Trade Compliance Plan proceeding (Exhibit 2, page 3). The components include customer volumes in the both the general service market and the contract market, along with facility volumes broken down into unaccounted for gas, compressor fuel and blowdowns, and buildings and line heaters.

Both of the general service market and contract market forecasts reflect reductions related to future consumption savings related to DSM program impacts that corresponds to the OEB-approved 2016-2020 DSM plan in EB-2015-0029 (Exhibit 2, page 5). In addition, Union has removed the volume forecast associated with large final emitters and voluntary participants and wholesale customers.

LPMA submits that the Board should accept Union's forecast methodology. LPMA submits that it is consistent with the forecast methodology used for rate setting purposes.

However, LPMA submits that Union's customer related forecast is too high and should be adjusted to reflect the more recent information provided by Union in the response to interrogatories.

In particular, Union indicated in the original evidence (Exhibit 2, page 2) that to calculate its volume and emissions forecast, it used the June 7, 2017 list of capped participants provided by the Ontario Ministry of the Environment and Climate Change ("MOECC"). The evidence further stated that any changes to the list of mandatory and voluntary participants that occur during 2018 would be addressed on an actual basis.

As shown in the response at Exhibit B.LPMA.21, the most recent list of capped recipients was provided by the MOECC dated November 24, 2017. Union indicates that as a result of the update, there is a 7% reduction of the volume forecast underlying Union's GHG obligation from 7,702 10^6 m^3 to 7,161 10^6 m^3. LPMA submits that this is a significant reduction and is based on information received in 2017. The forecast should be updated to take into account the better information based on the MOECC updated list of capped recipients. While LPMA does agree with Union that any changes to the list of mandatory and voluntary participants that occur during 2018 would addressed on an actual basis, the known changes that took place in 2017 should be reflected in the 2018 forecast.

Similarly, LPMA submits that the impact of the Green Investment Fund ("GIF") should be updated to reflect the most recent information available. The original forecast of Union was 7,035,000 m^3, as shown in the response to Exhibit B.LPMA.25. However, as noted in that response, subsequent to the filing of the original evidence, Union refined the estimated GIF savings that resulted in the forecasted number of Union customer participants from 7,035 to 8,820 and an estimate of the GIF related volume reduction to 8,820,000 m^3, an increase of more than 25%. Again, LPMA submits that the OEB should direct Union to update their volume (and emissions) forecast to reflect the most recent information available.

LPMA has reviewed Union's facility related forecasts and believe they are appropriate as the methodologies used appear to be reasonable.

1.2 Are the GHG emissions forecasts reasonable and appropriate?

The GHG emissions forecasts are essentially driven by the customer-related and facility-related volumetric forecasts. Submissions on these volumetric forecasts were provided above under Issue 1.1. The only other driver of the GHG emissions forecasts are the application of slightly different conversion factors from volumes to emissions for certain facility related volumes.

Union has calculated the GHG emissions in accordance with the Ontario MOECC Guidelines for Quantification, Reporting and Verification of Greenhouse Gas Emissions

January 2017 (“Guideline”). Union describes these calculations in more detail in their evidence at Exhibit 2, pages 9-10 for customer related emissions and pages 10-11 for facility related emissions.

LPMA submits that Union has properly followed the Guideline with respect to the calculation of the GHG emissions forecasts for both customer related and facility related emissions.

1.3 Is the carbon price forecast reasonable and appropriate?

Union has proposed that for 2018, the carbon price forecast should be set in accordance with the methodology set out in the EB-2015-0363 Report of the Board – Regulatory Framework for Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities (“Framework”) and is based on the 21-day strip of ICE daily settlement prices for a California Carbon Allowance (“CCA”). As of September 30, 2017, the CCA 21-day strip calculation results in a price of $18.99 CAD/tonne CO_2e. This was based on data for the September 1 to September 29, 2017 period (Exhibit 2, Schedule 2).

Union has deviated from the Framework with respect to their 2018 compliance plan related to cost recovery. Specifically, Union has used the annual carbon price forecast as the proxy carbon price for setting cap-and-trade charges, rather than the weighted average cost of compliance as stipulated in the Framework. LPMA supports this deviation and agrees with Union that using information that is from a verifiable public source provides transparency for customers and stakeholders.

However, LPMA is concerned that the 21-day strip being used is from September, 2017. This data is eight months old and could be significantly out of date. Moreover, actual data, including actual foreign exchange rates is available for at least the first one-third of 2019, being January through April.

LPMA submits that the OEB should require Union and the other utilities to update the 21-day strip to reflect the most recent information available in future applications as opposed to using the figures provided in their original evidence. This would include, if applicable, the use of actual monthly data for the year in question. LPMA sees no reason why the use of the most recent information for cap and trade cost purposes should be treated differently than the most recent information for QRAM purposes when it comes to the calculation of gas supply costs.

Compliance Plan

1.4 Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

LPMA is unable to determine if Union has reasonably and appropriately conducted its compliance plan option analysis and optimized its decision making because all of the information required to make such a determination is not available to LPMA.

1.5 Is the gas utility's purchasing strategy reasonable and appropriate?

LPMA is unable to determine if Union's purchasing strategy is reasonable and appropriate because all of the information required to make such a determination is not available to LPMA.

1.6 Are the proposed performance metrics and cost information reasonable and appropriate?

LPMA is unable to determine if the proposed performance metrics and cost information is reasonable and appropriate because all of the information required to make such a determination is not available to LPMA.

1.7 Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?

LPMA is unable to determine if Union has reasonably and appropriately presented and conducted its compliance plan risk management processes and analysis because all of the information required to make such a determination is not available to LPMA.

1.8 Are the gas utility's proposed longer term investments reasonable and appropriate?

Union has not included any long-term investment projects that will impact its 2018 compliance obligation (Exhibit 3, Tab 7). However, Union indicates that it is investigating several customer and facility abatement technologies. Union is not requesting any specific approval related to longer term investments (other than the Low Carbon Initiative Fund), so LPMA is not making any submissions on this issue.

Submissions related to the Low Carbon Initiative Fund are made elsewhere in this submission.

1.9 Are the gas utility's proposed new business activities reasonable and appropriate?

As indicated in the evidence at Exhibit 3, Tab 8, Union is not proposing any new business activities that will impact its 2018 compliance obligation. Union is not requesting any approval related to new business activities as part of its 2018 compliance obligation. As a result, LPMA is not making any submissions on this issue in this proceeding.

LPMA notes that Union makes reference to the 2017 compliance plan, where it was indicated that it had made two specific proposals for new business activities being pursued with the Ontario Government: renewable natural gas ("RNG") and compressed natural gas ("CNG").

LPMA further notes that in the EB-2016-0296 (2016 Compliance Plan) Union indicated that both of these initiatives were not in scope for Union's 2017 compliance plan and that the proposals to the government were outside of its compliance plan.

LPMA's submissions with respect to RNG are found under Issue1.10.1.

1.10 Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

Union's evidence with respect to abatement activities was provided in four sections: the abatement construct, customer abatement programs, facilities abatement programs and provincial abatement programs. LPMA has provided brief submissions on each of the sections.

As a general submission, LPMA believes that the utilities should prioritize the abatement related projects based not only on the potential for abatement, but also on the cost to the ratepayer. The utilities should be required to estimate the cost per unit of abatement emissions reductions for their potential projects. The cost would only reflect the cost paid by the ratepayers through the GGEIDA. The cost of a pilot project, for example, could be reduced through the use of government grants, trade organizations, equipment manufacturers, etc.

The Abatement Construct

In general, LPMA supports the abatement construct as described by Union. However, LPMA submits that the OEB should require Union, and the other utilities, to pursue funding for these activities to the maximum extent possible and to report on these efforts as part of any application to recover the abatement related costs included in the GGEIDA. Ratepayers should not be paying costs where funding is available from other organizations, including government funds.

LPMA also submits that the utilities should also be maximizing non-monetary contributions from other parties in order to limit the direct involvement, and cost, to Union and its ratepayers. For example, pilot projects require not only financing, but also manpower to operate, monitor and report on them. Union may provide some or all of the financing for a pilot project but should limit its involvement in the operation of the project and encourage the participation of parties that would ultimately be involved in the commercial delivery of the pilot project. This would allow Union to gain not only the technical information associated with the project, but also commercial implementation issues as identified by the parties that would implement the technology on a commercial basis.

Customer Abatement Programs

LPMA's submissions with respect to the renewable natural gas ("RNG") customer abatement measure are provided in Issue 1.10.1 below.

With respect to all of the other customer abatement programs, LPMA submits that the OEB should require Union, Enbridge and EPCOR to work together on all customer abatement programs. This would eliminate the potential for any duplication or overlap that would cause needless costs for ratepayers. All information gained should be shared between all utilities and should be made publicly available as soon as the information is acquired.

In order to ensure public access, LPMA submits that the OEB should create a section of its website where all such information would be posted and be available to anyone interested in the information, whether individual ratepayers, trade organizations or individual contractors/companies that might be involved in the commercialization and/or delivery of the measures reviewed.

The utilities have indicated that they are doing some of the same projects because the impact or applicability may differ based on the regions served by the utilities (eg. Southern Ontario vs. Northern Ontario, urban vs. rural, etc.).

In such cases, LPMA submits that the potential for overlap is significant. If Union wants to investigate whether a measure that may work in Toronto in Thunder Bay, it should stagger its review to make sure that the measure has a positive outcome in Toronto. This would also allow Union to take into consideration any lessons learned in the Toronto pilot that would improve the Thunder Bay pilot and be reflective of the OEB's requirement for utilities to engage in continuous improvement.

Facilities Abatement Programs

The same submissions are applicable to facilities abatement programs as those above for customer abatement programs. Some of the facilities are similar across utilities. There is no need for duplication of efforts. Some of the facilities are different and should be separately investigated.

Provincial Abatement Programs

LPMA submits that the utilities should maximize theses initiatives where funding is available through government programs. These government programs are, in large part, funded by ratepayers through the cap and trade revenue generated from natural gas users.

1.10.1 Are the gas utility's RNG procurement and funding proposals reasonable and appropriate?

In Procedural Order No. 2 dated February 7, 2018 in this proceeding, the OEB determined that the RNG procurement and fund model did not require approval because that provided that ratepayers would not be allocated any costs arising from the incremental costs of gas associated with the procurement of RNG now, or in the future, pursuant to any contract entered into by the proponents for such supply.

The utility proposals are simple. Ratepayers would pay the forecasted cost of gas over the length of the contracts. In particular, the forecasted cost of gas would be the actual cost of gas used in the calculation of the cost of gas to be recovered from system gas customers. Any difference between the cost paid by the utilities to the RNG producers that is over and above the forecasted cost of gas and the forecasted cost of carbon credits at the time the contract is entered into would be funded by a provincial subsidy.

On the surface, this would appear to ensure that ratepayers are held harmless. However, this is not the case.

While LPMA does not object to the proposal to purchase RNG, it submits that the allocation of costs between different groups of customers result in an inequitable allocation of risks.

There is a clear and obvious risk to system gas supply customers of the current RNG proposal. That risk is that system gas supply customers bear the majority of the risk of the price of RNG being higher or lower over the contract term than the gas that is being displaced. As an example, if the forecasted RNG price for 2020 is $4/GJ, then the price paid by gas supply customers is $4/GJ. However, if the cost of gas displaced by the RNG volumes in 2020 is only $3.50/GJ, gas supply customers are allocated the increase. Similarly, if the cost of gas displaced by the RNG volumes is higher than the RNG price, the benefit of the lower priced RNG volumes accrues to system gas customers. Clearly, the variance, or risk, associated with the price forecasts falls mostly on system gas customers.

System gas supply customers would shoulder the majority of the risk through the PGVA mechanism, while a small portion of the risk would accrue to other customers (direct purchase, ex-franchise) through the allocation of some of the price risk being allocated to unaccounted for gas ("UFG"), compressor fuel and other company used gas. The costs associated with these items is based on the PGVA reference price.

LPMA submits that the allocation of the majority of the risk associated with this RNG abatement program is unfair. Why should system gas customers be at risk for the majority of the variance, both positive and negative, for both the commodity cost of gas and UFG while direct purchase customers be at risk for only a small portion that flows through UFG?

There is a similar allocation issue between capped participants, voluntary participants and wholesale market customers for whom the utilities do not purchase carbon credits. As an example, a system gas customer that is also a voluntary participant would be allocated more risk (through the gas commodity charge) than a direct purchase voluntary participant where the only RNG abatement related risk allocated to them would be through UFG.

LPMA submits that the OEB should ensure that there is an equitable distribution of the risk – both positive and negative – among all customers.

As shown in the response to Exhibit JT1.23, Union expects to purchase, on average 0.49PJ per year of RNG. As per Exhibit J1.3, Union's annual facility related gas requirement forecast for 2018 is 3.4 PJs, of which 3.2 is related to UFG. In other words, the entire RNG purchases could be easily absorbed as a portion of the UFG requirement.

As also noted in Exhibit J1.3, any gas cost variance for UFG is recorded in the Unaccounted for Gas Price Variance Account (Deferral Account No. 179-141). In other words, both the utility and ratepayers are protected from price variances on the UFG volumes.

The costs associated with UFG and UFG price variances are allocated to all customers, regardless of whether they are system gas customers or direct purchase customers, in franchise customers ex franchise customers; or capped participants, voluntary participants, wholesale customers, or customers for whom the utility has carbon credit responsibility.

Rather than considering the RNG program as a customer abatement program, LPMA submits that it should be considered as a facility related abatement program and the costs **and risks** allocated accordingly. This allows all customer group and types to benefit from higher than forecast gas prices and share in the disbenefits from lower than forecast gas prices. Allocating the benefits and disbenefits mainly to system gas customers is not fair to any of the customers groups.

2. Monitoring and Reporting – Are the proposed monitoring and reporting processes reasonable and appropriate?

As indicated in Exhibit 4 (Updated Redactions), Union is not seeking recovery of 2017 compliance costs in this proceeding. Union was only able to provide partial year 2017 monitoring and reporting and indicated that monitoring and reporting for 2017 data in its entirety as part of Union's 2019-2020 Compliance Plan filing to be submitted later in 2018.

In addition to the above, the majority of the monitoring and reporting information provided in this proceeding related to 2017 has been redacted and therefore LPMA is not able to make any submissions with respect to the issue.

3. Customer Outreach – Are the proposed customer outreach processes and methods reasonable and appropriate?

LPMA submits that Union should not be spending any amounts on customer outreach in 2018. There is simply no need for it.

The evidence (Exhibit 5) indicates the 2018 communication plan has transitioned cap-and-trade outreach from program awareness and general education to communication that is based on cap-and-trade rates as a component of customers' bills using the same mechanisms used to communicate other changes in bills to customers, such as on-bill messages, newsletters, Union's website, Union's call centre and account representatives (Exhibit B.Staff.32).

The major cost related to customer outreach was related to the call centre. The response to Exhibit B.Staff.32 indicates that the volume of cap-and-trade related calls to Union's call centre has been low, and is currently averaging 1-2 calls per day.

In the EB-2016-0296 proceeding dealing with the 2017 compliance plan, Union realized that its original forecast of $275,000 for additional call centre staffing was too high based on lower than expected calls in the first few months of 2017. The forecast was reduced to $100,000.

As shown in Exhibit B.SEC.15, the actual total customer education and outreach costs for Union in 2017 was $2,000. This compared to $12,900 for Enbridge. For 2018, Enbridge has not forecast any customer outreach costs, while Union has forecast $8,000.

LPMA submits that customer outreach costs should be absorbed within Union's existing outreach programs and not be included in an account for recovery from ratepayers. Union is using existing communication channels which are part of the regular O&M costs of the utility.

4. Deferral and Variance Accounts

4.1 Are the proposed deferral and variance accounts reasonable and appropriate?

Union is requesting the continuation of three accounts that have been previously approved by the OEB. These accounts are the Greenhouse Gas Emissions Compliance Obligation – Customer-Related Deferral Account (No. 179-154), the Greenhouse Gas Emissions Compliance Obligation – Facility-Related Deferral Account (No. 179-155) and the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA") (No. 179-152). The first two accounts were approved by the OEB in EB-2016-0296. The third account was approved by the OEB in EB-2015-0367 and amended in EB-2016-0296.

LPMA supports the continuation of the three above noted accounts.

Union is not requesting approval of any new deferral accounts as part of this proceeding (Exhibit 6, page 2). However, Union is requesting a sub-account of the GGEIDA related to the Low Carbon Initiative Fund. LPMA has provided submission with respect to this fund under Issue 1 above.

4.2 Are the proposed deferral account balances reasonable and appropriate?

Union is not seeking approval for the 2017 balances in any of the three accounts noted above under Issue 4.1 as it had not yet incurred a full year of revenue and costs to determine the balances in any of these accounts. Union has indicated that it expects to bring forward the 2017 balances in these accounts for disposition as part of its 2019-2020 Compliance Plan, which is expected to be filed later this year. LPMA submits that this is appropriate.

Union is requesting approval to dispose of the 2016 balance in its GGEIDA. The balance is a debit from ratepayers of $2.232 million, including interest costs to the end of 2016 (Exhibit 6, Schedule 1).

LPMA submits that the Board should deny recovery of this amount from ratepayers on the basis that the amount is not material.

As part of the EB-2013-0202 Settlement Agreement ("Settlement Agreement") dated July 31, 2013, parties agreed to a materiality threshold for Union Gas of $4 million for a Z-factor event as part of the multi-year incentive ratemaking framework ("IRM") for the 2014 through 2018 period. The Union witness agreed that the balance in the GGEIDA was less than the materiality threshold (Tr. Vol. 1, pages 54-55).

LPMA submits that the expense recorded in the GGEIDA in 2016 is clearly the result of a Z-factor event. As defined in the Settlement Agreement (page 23), a Z-factor event is causally related to an external even that is beyond the control of utility's management and results from, or relates to, a type of risk for which a prudent utility would not be expected to take risk mitigation steps and which is out of the realm of the basic undertaking of the utility. Further the cost increase/decrease should not otherwise be reflected in the price cap index and be prudently incurred. LPMA submits that the costs recorded in the GGEIDA meet the criterion for a Z-factor event. However, the balance in the GGEIDA does not meet the materiality threshold of $4.0 million of annual delivery revenue requirement impact per Z-factor event.

LPMA submits that the costs in the 2016 GGEIDA, therefore, do not meet the definition of a Z-factor event. Nor do they qualify as a Y-Factor pass through. All of the Y-factors allowed during the IRM period were identified within the Settlement Agreement. In addition, Appendix H of the Settlement Agreement identified all of the deferral and variance accounts that would continue during the IRM period. The GGEIDA was not included in this list of accounts, as it did not exist at that time.

The OEB accepted the Settlement Agreement as filed in the EB-2013-0202 Decision and Order dated October 7, 2013.

LPMA further notes that Union's actual and normalized actual return on equity exceeded the Board approved return on equity of 8.93%, with an actual return of 9.24% and a normalized return of 9.79% (EB-2017-0091). This translated into a revenue sufficiency of $7.3 million on actual basis and more than $20 million on a normalized actual basis.

If the OEB were to determine that Union is entitled to recover the costs in the GGEIDA, then LPMA submits that a portion of the salaries and wages included in the costs should be disallowed. As shown in Table1 of Exhibit 6, salaries and wages totalled nearly $1.7 million. This was the cost associated with 13 new roles and portions of existing roles totalling 0.5 full time employee ("FTE"). Due to the roles being filled throughout the year, the annual incremental FTE for the year was 8 FTE.

A comparison with the Enbridge 2016 GGEIDA shows a significant difference. Rather than the $2.25 million for Union, the Enbridge figure is $0.840 million. The composition of these amounts are shown in Exhibit B.SEC.15. As can be seen in that response, the major difference is related to staffing resources. The Union cost of $1.682 million is more than triple the $0.5333 million of Enbridge. The difference of nearly $1.15 million constitutes the majority of the difference in the total costs between Union and Enbridge.

On an FTE basis, Union had 8.0 FTEs in 2016 related to cap and trade activities, while Enbridge had only 2.8 FTEs (Exhibit B.SEC.15, Table 1). LPMA notes that the number of FTEs for Union, as compared to Enbridge, continues to be significantly higher in both 2017 and 2018.

LPMA submits that the OEB should benchmark Union relative to Enbridge with respect to the costs included in their respective GGEIDA accounts. The utilities should be highly comparable to one another given that both are in the same jurisdiction and had to respond to the same incremental requirements. LPMA notes that with the exception of the staffing resources costs, all of the other costs shown in Exhibit B. SEC.15 are comparable between the two utilities. The difference between the staffing resources costs is significant and has not been supported by any of the evidence in this proceeding.

The response to Exhibit B.SEC.15 states that the 2.8 incremental full time equivalents at Enbridge are dedicated staff to support implementation of cap and trade and that additional Enbridge staff provides support to the cap and trade function. Enbridge is not seeking recovery for the costs associated with the support staff because those costs were included in their custom IR model.

LPMA notes that when questioned about whether any of the staff that were embedded in base rates were working on the cap and trade program, the Enbridge witness replies that the cap and trade program team was fully incremental and was a very distinct team that was working on cap and trade (TR. Vol. 4, pagers 58-59). The Enbridge witness went on to indicate that it did leverage existing staff on top of their additional duties, but that the bulk of the workload was entirely covered by the incremental team.

A review of the evidence filed in EB-2015-0114, which was the proceeding to set 2016 rates for Enbridge, indicates that there was no adjustment in operating costs sought for recovery in the 2016 allowed revenue requirement (Exhibit D1, Tab 1, Schedule 1). Moreover, it was clear that any incremental costs incurred to assess, implement and ensure compliance with carbon cap and trade legislation should be included in the GGEIDA. In the response to Exhibit I.D2.EGDI.CCC.3 in EB-2015-0114, Enbridge stated:

"As a result of the Ontario Government's plan to implement a carbon Cap and Trade system, Enbridge believes the revenue requirement associated with incremental costs incurred to assess (impacts to customers and the Company), implement, and ensure compliance with carbon Cap and Trade legislation, should be recoverable through the Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA"). Given that the Cap and Trade legislation has not been finalized at this time, nor has the appropriate regulatory treatment, the Company is unable to provide a definitive list of costs to be recorded within the GGEIDA. Examples of potential costs could include:

- *Consulting costs required to understand the implications and necessary changes that may be required as a result of Cap and Trade legislation on the Company and customers,*
- *Billing system changes,*
- *Measurement, verification, and reporting compliance requirement costs,*
- *Customer communication/education costs (ie. website changes, bill inserts),*
- *OEB consultation costs.*

To date, Enbridge has incurred consultant costs in relation to gaining an understanding of the impacts of Cap and Trade legislation on the Company and its customers."

LPMA submits that it is clear that only incremental costs were included in the Enbridge 2016 GGEIDA. Union's evidence is also clear that for 2016, it incurred incremental administrative costs for salaries and wages. These costs comprised 13 new roles and portions of existing roles and that the average incremental FTE for 2016 was 8 FTE (Exhibit 6, page 6).

LPMA submits that Union has failed to justify why their incremental 8 FTEs was more than double that of Enbridge's 2.8 FTEs (Exhibit B. SEC.15) and the corresponding costs were more than triple that of Enbridge for salaries and wages. LPMA submits that if the

OEB allows the recovery of the 2016 GGEIDA, even through it is not material, that the amount should be reduced by $1.1 million, to reflect a reduction in the allowed staff resources comparable to that of Enbridge.

4.3 Is the disposition methodology appropriate?

If the OEB approves the recovery of any amounts from the 2016 GGEIDA from ratepayers, LPMA submits that Union's proposal to allocate the balance to rate classes in proportion to Union's 2013 OEB-approved Administrative and General O&M expense is appropriate since the costs included in the GGEIDA is composed of administrative costs related to the implementation of the cap-and-trade program.

LPMA also agrees with Union that the disposal of the 2016 GGEIDA balance should be in conjunction with the disposition of the 2017 non-commodity deferral account balances. This would reduce the number of rate changes for customers.

5. Cost Recovery

5.1 Is the proposed manner to recover costs reasonable and appropriate?

LPMA notes that the OEB has already determined that the final 2017 OEB-approved cap and trade charges would continue until such time as it completes its review and the OEB makes a determination of the approved 2018 cap and trade charges (Decision and Order dated November 30, 2017).

LPMA submits that the rates that result from the OEB's decision in this proceeding for the customer-related and facility-related obligation costs should be implemented as soon as possible following the decision, in conjunction with changes in rates through the QRAM process. This would reduce the number of rate changes to customers and avoid unnecessary customer confusion related to additional rate changes and explanations.

As noted above in Issue 4.3, LPMA agrees with Union that the disposal of the 2016 GGEIDA balance should be in conjunction with the disposition of the 2017 non-commodity deferral account balances.

5.2 Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

LPMA is unable to comment on whether or not the tariffs are just and reasonable because it does not have access to the information related to the compliance plans that would enable it to make a determination on this issue. Further, it should be noted that LPMA has submitted, under Issue 1, that the requested cost consequences of Union's 2018 compliance plan are neither reasonable nor appropriate.

LPMA does agree that the customer-related and facility-related charges have been presented separately in the tariffs for Union, as required.

6. Implementation – What is the implementation date of the final rates and how will the final rates be implemented?

LPMA submits that the implementation date of the final rates should be as quickly as possible following the OEB decision in this application and in conjunction with changes in rates through the QRAM process. This submission is based on the fact that the costs and revenues associated with cap and trade are fully covered through variance accounts and that quarterly rate adjustments are the norm for customers. Rate changes outside of the quarterly rate adjustments would only cause customer confusion.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA worked with other intervenors throughout the application and hearing process to limit duplication while ensuring that the record was complete.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
May 31, 2018

Randy Aiken
Consultant to London Property Management Association