EB-2008-0106

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors.

ARGUMENT OF THE BUILDING OWNERS AND MANAGERS ASSOCIATION OF THE GREATER TORONTO AREA ("BOMA") AND THE LONDON PROPERTY MANAGEMENT ASSOCIATION ("LPMA")

A. INTRODUCTION

This is the argument of the Building Owners and Managers Association of the Greater Toronto Area ("BOMA") and the London Property Management Association ("LPMA") related to the issue of a review of quarterly rate adjustment mechanisms, a review of load balancing obligations, cost allocation between delivery and gas supply, billing terminology and implementation issues.

B. REVIEW OF QUARTERLY RATE ADJUSTMENT MECHANISM ("QRAM")

Under this issue, there are seven sub-issues that need to be addressed, as identified in the Board's issues list. BOMA & LPMA provide submissions on each of the seven sub-issues below.

1) Trigger Mechanism

Currently Union has no trigger mechanism, while EGD does. EGD is proposing to eliminate the trigger mechanism. The rationale for this elimination has been provided by EGD at page 7 of Exhibit E1.

The QRAM methodologies for Union and EGD are similar in other respects, notably the use of a 21 day forecast of market prices and a 12 month forecast period, but are not aligned on the use of a trigger mechanism. Union implements QRAM changes to its rates every quarter regardless of the magnitude of the change. Customers have become accustomed to this quarterly change. There are no advantages to ratepayers or to the distributors of using a trigger mechanism. BOMA & LPMA recommend that the Board adopt EGD's proposal to remove the trigger mechanism. BOMA & LPMA also note that there does not appear to be any party in this proceeding that supports the continued use of the trigger mechanism by EGD.

2) Price Adjustment Frequency and Forecast Periods

Neither Union nor EGD is proposing any changes to either the price adjustment frequency or the forecast period. Both utilities use a quarterly rate adjustment based on a forecast period of 12 months. Other than the Gas Marketer Group ("GMG"), no other party has suggested any changes to either the frequency or period of the forecasts.

The GMG is proposing a monthly rate adjustment with monthly forecasting to match utility buying protocol (Exhibit K3.1). BOMA & LPMA submit that this proposal is fundamentally flawed and would result in added price volatility to customers.

The GMG proposal purports to match utility buying protocol. Both Union and EGD do buy gas on a monthly basis. However, unlike the situation in Alberta, the utilities in Ontario utilize storage to serve their customers. The use of storage allows the utilities to deliver gas to Ontario on a high load factor basis. Deliveries in excess of consumption in the summer months is put into storage and withdrawn in those months where consumption is in excess of pipeline deliveries.

Both Union and EGD purchase gas based on a 12 month cycle. This reflects the utilization of high load factor upstream transportation and storage in Ontario. As a result, the 12 month price forecast used by Union and EGD match the manner in which these utilities incur their gas supply costs. BOMA & LPMA believe this matching of a 12 month forecast for prices with the 12 month purchasing cycle is appropriate. The quarterly update ensures that rates reflect market pricing, while ensuring recovery of past variances on a prospective basis.

The fundamental flaw associated with the GMG proposal is shown in the table at the top of page 10 of Exhibit E1. This table provides a simplified example of the impact on the annual billing costs to a customer relative to the acquisition cost of the current methodology as compared to the GMG proposal. The simplification in this example is that the actual cost of gas each month is equal to the forecasted price. As this example shows, the current methodology, when applied to the equal monthly purchases equates the annual purchase price paid by the customer with the acquisition cost for the utility. The GMG proposal, however, results in a variance between what the customer paid and the utility acquisition cost. This would require an adjustment to prices going forward to clear this balance in the PGVA. In this example, the GMG proposal would actually lead to the deviation of future prices from market prices even when prices are exactly as forecast. The current methodology would not.

The GMG approach would also lead to perverse results for different customer profiles. For example, if a customer had a summer load only and consumed 600 m^3 in each month from April through September and nothing in the October through March period, their annual consumption would still be 3,600 m^3, the total acquisition cost would remain at $1,325.71 since the utility would continue to purchase 300 m^3 per month to serve this customer. Under the current QRAM methodology, the annual bill to the customer would still equal the same $1,325.71 since the price charged is unchanged month to month. However, under the GMG proposal the total costs to the customer would be $1,248.56. These figures are shown in the table below, which takes the table on page 10 of Exhibit E1 and changes only the consumption profile of the customer.

	Delivery m^3	Monthly Market Price	Assumed Acquisition Price	Consumption m^3	Monthly Bill @ 12 month price	Monthly Bill @ monthly price
October	300	0.374	112.14	0	0.00	0.00
November	300	0.382	114.58	0	0.00	0.00
December	300	0.393	117.81	0	0.00	0.00
January	300	0.400	120.11	0	0.00	0.00
February	300	0.398	119.34	0	0.00	0.00
March	300	0.392	117.45	0	0.00	0.00
April	300	0.329	98.69	600	220.95	197.38

May	300	0.323	96.77	600	220.95	193.54
June	300	0.325	97.39	600	220.95	194.78
July	300	0.366	109.67	600	220.95	219.34
August	300	0.368	110.54	600	220.95	221.08
September	300	0.371	111.22	600	220.95	222.44
Total	3,600		1,325.71	3,600	1,325.71	1,248.56
					Difference	(77.15)

As shown in this example, the customer would pay $77.15 less over the full year than the actual acquisition cost of the gas to the utility under the GMG methodology. In the EGD example, the winter profile customer would pay $42.36 more than the acquisition cost using the GMG methodology. These examples illustrate that under the current QRAM methodology, both customers pay the actual acquisition costs associated with their annual gas usage. However, under the GMG methodology, one customer pays more (winter peaking) than the acquisition cost while the other customer pays less (summer peaking) than the acquisition cost of gas. This difference is due entirely to fact that the utility buys the same amount of gas each month regardless of when it is consumed by the customer. This is the fundamental flaw of the GMG proposal. It fails to recognize the difference between consumption profiles and purchase profiles.

BOMA & LPMA submit that it would be fundamentally unjust to customers to adopt a rate adjustment mechanism that ignores the reality of gas purchasing and can result in some customers paying more than the actual cost of gas while others pay less than the actual cost.

The rate adjustment methodology which adjusts rates on a quarterly basis and utilizes a 12 month rolling forecast should be maintained as the methodology used by the distributors. Customers have become accustomed to the quarterly rate changes and the methodology has proven that it results in greater price stability than a monthly adjustment.

3) Methodology for the Calculation of the Reference Price

The threshold question under this issue is whether a single Ontario-wide reference price should be used as the basis for the gas supply commodity charge. BOMA & LPMA submit that the answer to this question is no.

Natural gas distributors in Ontario operate their distribution systems independently of one another and use different purchasing strategies that reflect their different geographic locations. Indeed, even within Union, there are different purchasing strategies for the South and North operational areas that reflect the geographical differences.

BOMA & LPMA submit that since each utility has a unique supply portfolio/plan that meets its operational needs and reflects its geographical location, the average price of the gas will also vary between the utilities. Imposing an Ontario wide price, which would not be equal to that of either Union or EGD would result in reference price that does not reflect the expected costs of either utility. The best reference price that should be used by each utility is the one that reflects their individual cost expectations.

If an Ontario wide reference price were to be used there would be an automatic built in difference between the reference price and the price for each of the individual utilities that would have to be trued up at a later date since gas acquisition costs are as pass through cost to ratepayers. This would lead to higher variance account balances and greater rate volatility. This is not a desirable result for ratepayers or the utilities.

BOMA & LPMA submit that the reference price for each utility should reflect the 12 month supply portfolio of that utility. The methodology used by Union and EGD appears to be consistent with one another. Each utility calculates a weighted average cost of gas based on a forecast of the Empress market price for the forward 12 month period included in a QRAM. Adjustments for other supply costs specific to each utility are then made to the Alberta border price to reflect the supply/transportation portfolios of each utility. BOMA & LPMA are not aware of any problems associated with this methodology and support its continued use.

4) Deferral and Variance Accounts and Disposition Methodology

BOMA & LPMA submit that the deferral and variance accounts used by both Union and EGD remain appropriate, even if they have slightly different names. As a result BOMA & LPMA submit that no change is required to these accounts.

With respect to the disposition methodology, Union clears the account balances prospectively over a rolling 12 month period. BOMA & LPMA believe that this methodology is appropriate and that it should be continued.

The rolling 12 month methodology eliminates large out of period and/or retroactive adjustments that are associated with the annual disposition of deferral accounts. This process also minimizes volatility in price adjustments by insuring that balances in the accounts do not grow over a long period of time and/or are recovered over volumes of less than a year in length.

BOMA & LPMA also note that the clearance of balances over a shorter time period creates the potential for cross subsidization across customers. The Union evidence at pages 30 and 31 of Exhibit E2 provides examples of such potential cross subsidization.

EGD currently uses a disposition methodology that clears the projected year-end PGVA balance each quarter using a rate rider based on the projected fiscal year end PGVA balance divided by the forecasted sales volumes for the remainder of the fiscal year. Because the volumes remaining in the fiscal year decline each quarter, there is a potential for significant unit rate volatility. In fact, in some circumstances, EGD may extend the recovery period to mitigate rate volatility. At the end of the fiscal year, a true up is performed.

BOMA & LPMA submit that this methodology is inferior to the 12 month methodology used by Union. It has two characteristics that are negative. First, the unit rate volatility can be significantly higher than that under the 12 month rolling methodology. Second, the current EGD methodology can result in cross subsidization among customers. For example, balances created in the January through March period are forecast to be recovered over the April through December period. This latter period will include customers that primarily use gas in the summer period and were not responsible for the cost variance created in the winter period. The 12 month rolling methodology allows for a greater portion of the cost variance created in the winter to be recovered in the following winter from the same customers.

EGD proposes to move to the 12 month rolling average methodology employed by Union. For the reasons given above, BOMA & LPMA strongly support this change and submit that the Board should direct EGD to move to this methodology as soon as possible.

5) Effect of a Change in the Reference Price on the Revenue Requirement

BOMA & LPMA submit that changes in the reference price should be reflected in changes in the revenue requirement. While this may cause some customer confusion as to why their delivery rates are changing in conjunction with a change in the gas commodity costs, it is submitted that this change is appropriate.

EGD is not proposing any changes from its current methodology. Union is proposing to eliminate the Intra-Period WACOG deferral account. This deferral account captures costs related to changes in the commodity cost of gas related to gas in inventory, compressor fuel and unaccounted for gas. The balance in this account is then cleared to/from customers on an annual basis.

Following elimination of the Intra-Period WACOG deferral account, Union would recover the same variances that result from changes in the commodity cost of gas through a quarterly resetting of distribution rates to reflect updates for these costs.

BOMA & LPMA support the proposed change by Union and the resulting elimination of the Intra-Period WACOG account. This will allow a more timely adjustment to rates at each QRAM filing rather than accumulating the variances over a year and then clearing that balance once a year.

6) Implications/Costs of Standardizing Pricing Mechanisms Across All Natural Gas Distributors

BOMA & LPMA submit that with the changes proposed by EGD and Union the QRAM processes are sufficiently aligned.

7) Filing Requirements

BOMA & LPMA support standard filing requirements as proposed by Union and EGD. BOMA & LPMA also support the timelines proposed by the utilities.

C. REVIEW OF LOAD BALANCING OBLIGATIONS

Union is not proposing any changes to its existing methodologies related to load balancing. BOMA & LPMA concur that there is no need for any changes. The methodologies currently in place are working well and do not need to be altered.

EGD uses a similar approach to Union, but with two significant differences: the reestablishment of the Mean Daily Volume ("MDV") for pools including weather normalization and the mechanisms for the check point management of the Banked Gas Account ("BGA").

1) MDV Reestablishment

EGD accepts that an MDV should reflect the actual requirement of a pool of accounts. As a result, EGD is proposing to adopt an MDV reestablishment process that is similar to Union in that it recognizes volumes changes related to weather normalization. The cost of this change has been estimated to be $3.7 million (Exhibit IR24, Schedule 9).

BOMA & LPMA support the EGD proposal to change the MDV reestablishment to reflect weather normalization. An MDV that more closely reflects the requirements of a pool of customers should reduce the BGA management needed for the pool under normal weather.

2) BGA Check Points

As noted above the second major difference between Union and EGD is the check point management of the BGA. EGD currently does not have a multi point balancing system in place, unlike the two check point model utilized by Union. EGD is not proposing any change in the BGA checkpoint methodology to harmonize it with, or move it closer to the Union methodology.

EGD has indicated that because of both geographical and operational differences between Union and EGD adoption of the Union methodology would causes costs and complexities that would outweigh the potential benefits. EGD has indicated that the total costs associated with implementing a multiple point BGA checkpoint methodology would be approximately $4.8 million in addition to the $3.7 million for the MDV change (Tr. Vol. 2, pages 113 – 114). The current EGD model involves less administration and less action required by the gas marketers.

The two point balancing used by Union is effective because of the existence of a large and fluid trading hub within Union's franchise that allows direct purchase customers to access or shed supply relatively easily. For direct purchase customers operating in EGD's franchise area, there is an additional issue related to transportation. This additional complexity calls into question the ability of direct purchase customers to respond to the check point requirements (Exhibit E1, pages 36 – 38).

BOMA & LPMA agree with EGD that the mechanisms used for load balancing should reflect the physical location and constraints of the utility. However, as detailed in the submissions of the Federation of Rental-housing Providers of Ontario ("FRPO") there appears to be confusion related to a lack of a distinction between peak daily balancing and seasonal load balancing. While EGD's concerns are certainly legitimate with respect to peak daily balancing and the constraints on EGD, it is not clear to BOMA & LPMA that these concerns about constraints would be the same relative to seasonal load balancing.

As a result, BOMA & LPMA submit that in its reply argument EGD should clarify its concerns about the physical location and constraints of the utility in being able to implement a multi point checkpoint balancing methodology specifically as it relates to seasonal load balancing. Based on this response, BOMA & LPMA submit that the Board should then accept that the status quo for EGD with respect to the BGA checkpoints if their explanation of why it would not work is adequate. In the alternative, the Board should direct EGD to bring forward a BGA methodology, which may well be different than that utilized by Union, for review in its next rates application.

D. COST ALLOCATION

Neither Union nor EGD have proposed any changes to their cost allocation methodology as it relates to the allocation of costs associated with the administration of the regulated supply and direct purchase supply options. BOMA & LPMA do not believe that any changes to the cost allocation are required for either Union or EGD. If either utility wants to make changes to their methodology, this can be reviewed in full as part of a rates application.

E. BILLING TERMINOLOGY

In the view of BOMA & LPMA there is no reason to require the utilities to incur costs to further harmonize their billing terminology. The terminology used by the utilities is already very similar.

No party has presented any evidence that customers require or want further harmonization across utilities. There is no evidence that customers compare bills across utilities with respect to the terminology. BOMA & LPMA submit that customers who do compare bills across utilities are interested in comparing the total bill, not the individual line items on a bill. Moreover, commercial and industrial customers that may have accounts in more than one gas distributors are sophisticated enough to understand the minor differences in terminology used.

F. IMPLEMENTATION ISSUES

BOMA & LPMA accept the implementation timelines provided by Union and EGD associated with their proposed changes (Intra-Period WACOG change for Union; removal of trigger, move to rolling 12 month rider, MDV changes for EGD) are appropriate and should be accepted by the Board.

G. COSTS

BOMA & LPMA requests that they be awarded 100% of their reasonably incurred costs of participating in this proceeding.

All of which is respectfully submitted this 15th day of May, 2009.

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