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June 17, 2014

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

Dear Ms. Walli:

RE: EB-2014-0199 – Comments of London Property Management Association

Please find attached the comments of the London Property Management Association in the above noted proceeding.

Randy Aiken

Randy Aiken
Aiken & Associates

Attachment

EB-2014-0199

Ontario Energy Board

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to review the Quarterly Rate Adjustment Mechanism process for natural gas distributors.

SUBMISSIONS OF THE LONDON PROPERTY MANAGEMENT ASSOCIATION

I. INTRODUCTION

On June 3, 2014, the Ontario Energy Board ("Board") issued a Notice of Proceeding and Procedural Order No. 1 related to a review of the Quarterly Rate Adjustment Mechanism ("QRAM") process for natural gas distributors.

These are the submissions of the London Property Management Association ("LPMA") related to the first phase of the review. The Board has indicated that this first phase will examine the QRAM process including the filing of the application and supporting evidence, triggers for a substantive review and the timelines for review and comments. The phase will also review the Board's policy with respect to rate mitigation and examine protocols with respect to consumer communications.

The Board set out four issues in the June 3, 2014 Notice. LPMA provides comments on each of these issues in the following section.

II. ISSUES

(i) Whether the QRAM process should be amended to require, in certain cases, a substantive review of the application, including a review of the execution of the gas supply plan?

LPMA submits that nothing is absolute. While the QRAM process is intended to be mechanical in nature and has been so for years and years, there may be circumstances when a substantive review of the application may be warranted. This would include, but not be limited to, a review of the execution of the gas supply plan. It could also include a substantive review of changes in gas flows, weather impacts, contracting practices, market trends, and so on.

While such a substantive review may be necessary in certain circumstances, LPMA also submits that it should not impact on the predictable timing of changes in gas rates for system gas customers on a quarterly basis on January 1, April 1, July 1, and October 1 of each year. From a system gas customer's perspective, these regular changes to prices are much preferred to the system that existed in the past (prior to the QRAM) where prices were only adjusted when a threshold was exceeded. This often caused significant and unexpected price changes. The QRAM mechanism allows for frequent changes that send appropriate price signals to system gas customers while not accruing large balances in the variance account.

LPMA submits that if a substantive review is undertaken, it should not impact on the timing of the changes in the QRAM price being implemented. This was the approach taken by the Board the recent April 1, 2014 QRAM application of Enbridge Gas Distribution. Any impacts that result from the substantive review can be implemented in future QRAM proceedings.

(ii) If the QRAM process is amended as described, what circumstances should trigger a substantive review?

LPMA submits that a substantive review should only be triggered if the **increase** in the system gas supply charge exceeds a predetermined percentage. There should not be a substantive review if there is a significant decrease in the system gas supply charge.

LPMA does not believe the review should be triggered by an increase based on a percentage of the total bill. This is because the composition of the total bill can vary significantly between customers in the same rate class and even more so between customers in different rate classes that include system gas customers. There would likely be cases where an increase in the total bill does not exceed the predetermined percentage threshold on an aggregate basis, but would exceed this threshold for a significant number of customers. This situation would likely raise issues from ratepayers of why the Board approved a mechanical change in the price when some customers are significantly impacted.

As for the level of the predetermined percentage increase in the system gas supply charge, LPMA does not provide a recommendation, at this time, for the threshold. For example, if the Board continues with the quarterly rate adjustment, the threshold would be different than if the Board were to determine that rate adjustments should be done on a monthly or bi-monthly basis.

(iii) Whether the Board should establish a policy on rate mitigation to protect system-supply customers from rate volatility; for example, by further smoothing rate impacts over time?

LPMA does not support the establishment of a policy on rate mitigation to protect system-supply customers from rate volatility for numerous reasons.

First, protection from rate volatility includes, by definition, not only significant price increases, but also significant price decreases. Ratepayers would not view a mechanism that delays decreases in gas supply charges in a favourable light and would be quite controversial.

Second, since a significant change in prices is more likely to be based on increases rather than decreases, LPMA does not support the smoothing of rate impacts over time because of the increased cost to system gas customers due to the additional interest costs on the balances in the PGVA accounts. While interest rates are currently low by historical standards, they still add to the costs that need to be paid by system gas customers for rate smoothing. If interest rates start to edge up, this added burden to system gas customers will also increase.

Third, rate smoothing eliminates the ability of customers to compare system gas costs with direct purchase options available to them. The artificially smoothed system gas rates are not comparable to prices available in the market place. This could lead customers (both system gas and direct purchase) to make purchase decisions based on inaccurate information. Consumers are being deprived of their ability to react appropriately to those prices.

Fourth, LPMA submits that the Board should not meddle with market prices. The Board does not regulate market prices, but does control how the resulting costs are recovered from the relevant customers. If market prices are modified for regulatory purposes, there is a possibility that other market prices may also be modified for regulatory purposes. These market prices could include, for example, increases in interest rates that would impact the cost of debt, the allowed return on equity and carrying costs on deferral and variance accounts. The question then arises should the Board smooth rate impacts over time if this contributes to a significant increase in rates? LPMA submits that this is a slippery slope and further submits that there may be a fine line between regulatory purposes and political purposes.

LPMA submits that ratepayers that opt to stay on system gas have elected to stay on that option knowing full well that the price will change every three months. Those customers that do not want to see their prices change on a regular basis and prefer a fixed price have that option through the offerings of the competitive market.

LPMA likens this to mortgage rates. A homeowner has an option to lock in a fixed mortgage rate for a longer term period (for example, 3 to 5 years), or the homeowner can opt for a variable rate that can change when interest rates change. If interest rates tick up, the market is sending a signal to the homeowner. The homeowner can then determine if they way to continue on with the variable rate or lock into a fixed rate. However, if the increase in interest rates were to be smoothed in the manner that the Board is considering for system gas customers, this market signal is muted and the homeowner cannot make an informed decision.

Finally, LPMA notes that a policy priority of the provincial government is conservation and reduced energy consumption. A price increase, especially those that are significant and highly visible, is a catalyst for consumers (not just system gas customers) to reduce their natural gas consumption. Increasing rates on a gradual basis (i.e. recovering the same amount over a longer period) mutes this incentive to conserve. Gradual price increases over a longer period that are equivalent to a significant increase over a shorter period are less visible to consumers, resulting in less emphasis to reduce consumption. This is an unintended consequence of the Board trying to mitigate the impact of market prices.

(iv) Whether the Board should establish protocols for communications to distribution customers?

LPMA notes that the Board already approves the customer notice that it sent to customers as part of the implementation of QRAM proceedings. LPMA submits that the Board should review these customer notices with the goal of enhancing customer clarity and understanding.

LPMA submits that the issue is more properly framed as customer education rather than customer communication. Communicating an increase in rates to customers is very much different than educating customers on the reasons for that change.

This education needs to extend beyond the changes in rates to the options that are available to customers. It should also reflect engagement with customers to see what options they would like to be provided by their gas distributor.

III. OPTIONS & ALTERNATIVES

LPMA submits that the Board should consider other options and alternatives to the rate smoothing of impacts over time, that ultimately leads to higher system gas costs.

i) Monthly Rate Adjustment Mechanism ("MRAM")

LPMA submits that the Board should consider the option of changing the QRAM process to a MRAM process when the potential of significant changes in gas costs exist, as they did during the extremely colder than normal weather this past winter.

The normal QRAM process and timing would continue to be the default. However, if there were a significant change in gas prices and/or the need to purchase additional gas (or shed gas) during a season, then the distributor should indicate to the Board that it believes that waiting to the following QRAM application could result in a significant impact on system gas rates.

By adjusting rates on a monthly (or bi-monthly) basis during a period of time where the cost of gas to be paid for by system gas customers would give customers more timely notice of a significant change in rates. This timely notice would be reflected in the increase in gas costs being more moderate because it would be phased in sooner, rather than waiting for the next QRAM process to take place. This would benefit consumers because they would be given advance notice of increases and potential increases relative to the QRAM process and allow them more of an opportunity to take measures to reduce their consumption.

ii) Earlier Filings

In order to have a substantive review, if required, LPMA submits that the Board should direct distributors to file a Phase 1 of the application on an earlier basis than currently contemplated for the QRAM applications.

Phase 1 would deal with the balance in the PGVA accounts and the projected balance at the end of the month immediately preceding the effective date of the change in the gas supply commodity charge. For example, it would be based on the projected PGVA balance at the end of June for a July 1 QRAM.

Phase 1 would not deal with the 12 month forecast. As the Board noted in each of the recent QRAM applications for the distributors, there was no issue with respect to the forecast of gas prices and purchases for the 12 month forward period. This is a mechanical exercise of taking the most recent pricing data available and applying it to the volumes to be purchased.

The issue was, however, the impact on gas costs resulting from costs paid or projected to be paid and included in the historical period included in the PGVA account. By filing this information earlier (and only when there has been a significant impact on the cost of gas) a more substantive review could be undertaken without undue delay in implementing the new QRAM price. Such a review could be focused on market conditions, weather impacts, force majeure situations, or gas supply execution, or whatever resulted in the significant change.

This split approach (Phase 1 and then the 12 month forward supply pricing) would allow the Board and interested parties to review the causes of a significant change emanating from the PGVA due to actual purchases, while continuing to use the most recent information available for the forecasting of the future gas costs.

iii) Distributor Fixed Price Offerings

LPMA submits that the Board should consider letting the distributors offer their customers a fixed price option. The price would be fixed for a period of one year. The option to stay on the current system, where prices change on a quarterly basis in response to market prices, with no rate smoothing, would continue to be an option to customers.

This would allow customers that do not want to move to a direct purchase contract to remain with their distributor, but allow them to lock in a fixed price for one year.

LPMA believes that this option, which could not be implemented as part of this review, should be considered in the second phase in the context of the 2014 Natural Gas Market Review.

All of which is respectfully submitted this 17th day of June, 2014.

*Randall E. Aiken_*

Randall E. Aiken
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London Property Management Association