**EB-2013-0365**

# Ontario Energy Board

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

**AND IN THE MATTER OF** an Application by Union Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2014.

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**SUBMISSIONS OF THE**
**LONDON PROPERTY MANAGEMENT ASSOCIATION**

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## I. INTRODUCTION

Union Gas Limited ("Union") filed an Incentive Regulation Mechanism ("IRM") application along with a settlement agreement on July 31, 2013 with the Ontario Energy Board ("Board") seeking approval of a multi-year IRM framework for the period 2014 through 2018. The Board approved the settlement agreement filed by Union that established a framework to set rates for a five year term.

Union filed this current application on October 31, 2013, based on the approved framework, for an order or orders approving rates for the distribution, transmission and storage of natural gas, effective January 1, 2014.

A Settlement Conference was held beginning On March 17, 2014. Union filed a Settlement Agreement and Draft Rate Order on April 24, 2014 for rates effective January 1, 2014. The Settlement Agreement covered all issues with the exception of three issues: Parkway Delivery Obligation, allocation of Kirkwall metering costs, and the Leamington line project.  The Board accepted the settlement by of a Decision, Rate Order and Procedural Order No. 3 issued on May 12, 2014.

Negotiations related to the Parkway Delivery Obligation continued, and Union filed a Settlement Agreement on this issue on June 3, 2014.  The oral hearing commenced on June 5, 2014 and dealt with the two remaining unsettled issues.

These are the submissions of the London Property Management Association ("LPMA") on the two remaining disputed issues. Both issues are issues for which Union is not seeking any relief in the current proceeding.

## II. SUBMISSIONS

### a) Allocation of Kirkwall Metering Costs

The Board directed Union to review the allocation of Kirkwall metering costs in Union's 2013 cost of service rebasing proceeding, EB-2011-0210.  This direction was based on the fact that use of the Kirkwall Station has changed over time.  In particular, Union made modifications to its existing Kirkwall metering facilities in 2012 to allow for bi-directional flow at Kirkwall.

The modifications made reflect changing North American gas supply dynamics and enables gas arriving at Kirkwall to be transported to either Dawn or Parkway on Union's Dawn-Parkway transmission system.

Union's current cost allocation methodology allocates the Kirkwall metering costs to in-franchise and ex-franchise rate classes bases on a "commodity-kilometres" or distance-weighted demands allocation.  This cost allocation methodology reflects the fact that the Dawn-Parkway transmission system is designed to meet easterly design day requirements.  Rate classes use the Dawn-Parkway system to varying degrees based on their design day demand and the distance those design day demands are required to be transported along the Dawn-Parkway transmission system.

Union maintains that even while the Kirkwall station modifications enable gas arriving at Kirkwall to be transported westerly to Dawn, the facilities are still required on design day to meet easterly peak day demands (Exhibit A, Tab 1, pages 19-21).

LPMA submits that changes to the cost allocation methodology during an IRM term should only be made if there is a compelling reason to do so and if the impact on the allocation of costs to rate classes is significant.  Under the IRM approach, rates are to be adjusted mechanistically.  Changes to the cost allocation methodology do not allow for this type of mechanical change to rates.

LPMA submits that there is not sufficient evidence on the record in this proceeding to deviate from the cost allocation methodology previously approved by the Board for the allocation of the Kirkwall metering related costs. There is no compelling reason that the allocation of the Kirkwall metering related costs should be changed.

Furthermore, even if there was a compelling reason to change the allocation methodology, the impact on the allocation of costs to rate classes is extremely small. The impact of the change in allocating the Kirkwall metering costs as proposed by Mr. Rosenkranz on behalf of a number of intervenors would be to reduce the allocation to in-franchise rates (both Union South and Union North) and to increase the allocation to ex-franchise customers. The impact would be only about $217,000 per year (Tr. Vol. 1, pages 53-55 & 68).

LPMA submits that the appropriate time for a review of cost allocation methodologies is during a cost of service/rebasing proceeding, when all allocation factors and methodologies can be reviewed. Since cost allocation is a zero sum activity, LPMA submits that changing the allocation for one cost in the absence of a review of other similar costs is not appropriate. The Kirkwall station is a small component of the overall Dawn-Parkway system and adjusting the allocation for this small component at this time is not appropriate.

As shown in Exhibit B1.3, part (b), Union has stated that it intends to review the cost allocation methodology at its next rebasing proceeding. Union indicates that this approach is part of their ongoing review in which they take a look at their cost allocation methodologies to ensure that those methodologies continue to be appropriate (Tr. Vol. 1, pages 56-57). LPMA supports this approach.

**<u>b) The Leamington Line Project</u>**

This issue relates to Union's contracting practices with respect to the Leamington Line Project. This project was in response to requests for additional natural gas service greenhouse growers in the Leamington area.

Union applied for a leave to construct for the Leamington Line (EB-2012-0431). The Board granted Union leave to construct and noted that the project economics, as updated by Union, resulted in a profitability index of greater than 1.0. As a result, the project did not require Union to collect a contribution from greenhouse growers prior to constructing the proposed pipeline.

However, as noted by Union in their Argument-in-Chief dated June 13, 2014, the profitability index was in excess of 1.0 assuming the forecast revenues could be achieved. In this situation, no upfront aid to construction was required. The revenue forecast, however, was predicated on contracting with the greenhouse growers for commitments to Union related to the length of the contract, the minimum annual volume and the contract demand. These are all components of a contract that are required to arrive at the revenue forecast.

The Ontario Greenhouse Vegetable Growers ("OGVG") is seek relief from the Board; however it is unclear to LPMA what relief is being sought. The June 9, 2014 letter from OGVG appears to request that the Board relieve customers of their contractual commitments to Union and permit them to renegotiate their contracts.

It appears that the OGVG request is based on the belief that because no aid to construction was required from the greenhouse growers for the Leamington Line, they should not be required to commit to the contractual requirements to which they agreed.

LPMA submits that the OGVG proposal would result in other customers paying for the costs associated with the Leamington Line, rather than the customers for which the line was built. This subsidization is not appropriate.

The OGVG approach undermines the EBO 188 approach that ensures that customers that create the demand for additional investments pay for it, rather than having existing customers subsidize new customers.

Union's approach to recovering the costs from contract customers through the terms of the contract (term, MAV, CD) is not a new concept, nor is it unique to Union. It was an alternative to requiring customers to pay an upfront aid to construction. The Union witness confirmed that the customers were given the option of paying an aid to construct, or signing a contract guaranteeing a minimum volume for a minimum period (Tr. Vol. 1, pages 158-159). If a customer now does not want to sign a contract for a minimum volume for a minimum period, then LPMA submits that they should then be required to pay a corresponding aid to construct that ensures that other ratepayers do not subsidize the cost of the Leamington line.

The OGVG proposal is misguided. Based on Union saying no upfront aid to construction was required, OGVG believes that no contractual minimums are required. However, the only reason no upfront aid to construction is required is because the revenues generated from the contractual commitments were sufficient to cover the cost of the project. In the absence of these contractual commitments, an aid to construction would be required to allow the project to go ahead. LPMA takes no position on whether the Board should require the greenhouse growers to pay for the chicken (an upfront contribution, with no contractual requirements) or the eggs (no upfront contribution, but with contractual commitments).

LPMA does take the position, however, that the costs should be paid for by the customers that created the need for the Leamington Line and that other customers should not be expected to subsidize the cost of this project through their rates.

In summary, LPMA supports Union's argument-in-chief with respect to this issue.

## III. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs for participating in this proceeding. It is submitted that the LPMA has participated responsibly in all aspects of this process in an efficient manner.

All of which is respectfully submitted this 24th day of June, 2014.

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