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October 2, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2015-0029 - Submissions of London Property Management Association

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

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

c.c. Vanessa Innis, Union Gas Limited (e-mail)

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 the 2015 to 2020 Demand Side Management Plan.

SUBMISSIONS OF THE
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

These are the submissions of the London Property Management Association ("LPMA") related to the Union Gas ("Union") proposal for its 2015 to 2020 Demand Side Management ("DSM") Plan.

LPMA has members that are classified as residential and commercial customers on the Union system. LPMA members are served under rates M1, M2 and M4.

B. SUBMISSIONS

The submissions of LPMA are provided below and generally follow the Topics List as set out in the Ontario Energy Board ("Board") Procedural Order No. 1, dated May 12, 2015.

As a general comment, LPMA supports the 2015 to 2020 DSM plan as filed by Union, with some exceptions that are noted in the submissions below. These submissions have been guided by the EB-2014-0134 Report of the Board - Demand Side Management Framework for Natural Gas Distributors (2015-2020) dated December 22, 2014 ("the DSM Report").

1. Guiding Principles and OEB Priorities

LPMA submits that Union's DSM plan by and large incorporates and properly balances the guiding principles for the DSM framework set out in the DSM Report at pages 7 through 9.

While LPMA agrees with Union that its' plan is based on an attempt to balance competing policy considerations in accordance with the DSM framework and that some intervenors are likely to propose changes that are driven by policy considerations that are most important to them (Tr. Vol. 14, page 3), there areas where LPMA submits that the Board should deviate from Union's proposal. These areas are highlighted and discussed in the following sections, along with submissions from LPMA on what the Board should, or should not, approve.

With respect to 2015, LPMA supports the rollover of the 2014 plan parameters. This is not only consistent with the DSM Report, but also reflects the reality that 2015 will be nearly over before any decision is issued by the Board in this proceeding. As a result, the remainder of the submissions deal with 2016 through 2020.

2. DSM Targets

LPMA submits that there are three issues related to the DSM targets. The first is related to the setting of the 2016 targets; the second is related to the formula approach for setting targets for 2017 through 2020; and the third is the need for the targets to reflect aggressive increases in productivity and outcomes.

a) 2016 Targets

Union has set the 2016 targets based on a bottom up approach for each area of the plan (Tr. Vol. 1, pages 108-109).

LPMA submits that the Board should increase the 2016 targets across the board for each of the scorecards to reflect the built in bias to under forecast the levels of achievement that can be obtained.

This bias is the same as that routinely included in cost of service rate applications. A utility has an incentive to under forecast revenues and to over forecast OM&A expenditures and capital expenditures. This makes it easier for the utility to meet, and exceed, its Board approved return on equity. The same incentive exists in the DSM plan. By under forecasting the targets, it is easier for the utility to meet and exceed those targets. By doing so, the utility is able to achieve a higher incentive payment, paid for by ratepayers.

Under estimating the targets also reduces the risk that the utility will not achieve those targets. Given that the incentive payment kicks in if Union reaches 75% of its target, the impact of the bias is even more pronounced for the DSM plan than for the return on equity in a cost of service application. In other words, Union is receiving an incentive before they hit their target in the DSM plan. No such incentive accrues to Union if they fail to reach their approved return on equity. In fact, quite the opposite has happened since they have under earned.

LPMA also notes that Union has not applied any stretch or productivity gains in the setting of the 2016 targets.

LPMA further notes that Union has a history of exceeding its targets with respect to DSM. Under the scorecard approach approved in EB-2011-0327 for the 2012 through 2014 DSM plans, Union has exceeded the 100% target in each and every one of the scorecards in 2012 and 2013. Union has not yet filed the results for 2014. The information provided in the following table is taken from the annual DSM reports filed with the Board.

SCORECARD TARGETS ACHIEVED

	Resource Acquisition	Low Income	Large Industrial	Market Transformation
2012	119.0%	150.0%	150.0%	113.0%
2013	113.0%	155.0%	121.0%	166.0%
Average	116.0%	152.5%	135.5%	139.5%

As the above table illustrates, Union has consistently exceeded their targets. Even if Union achieves only 100% of their target in 2014 for each of the scorecards, the average for 2012 through 2014 would range from just over 110% for resource acquisition to 135% for low income.

LPMA also notes that prior to 2012, Union Gas exceeded their Total Resource Cost ("TRC") target upon which their incentive (the Shared Savings Mechanism) was based in each and every year. Moreover, during the 2007 through 2011 period, Union averaged 133% of their TRC target and in three of the five years exceeded their targets by more than 40%. This information is contained in the annual DSM reports found on the OEB's website.

LPMA submits that the trend is clear. Union has always exceeded their targets. This is partly due to good work by Union in delivering on their DSM plan over the years, but it is also due to conservative forecasting of targets each and every year. LPMA submits that if Union has continually exceeded their forecast targets for 7 years (2007 through 2013) there is an inherent under forecast bias built into those forecasts. The results and experience gained year after year has not been reflected in future forecasts.

LPMA submits that the Board should increase the 2016 resource acquisition scorecard target by 10% to 15% and the 2016 low income scorecard target by 35% to 50%. These increases are based on the figures in the above table for the higher end of the range and the assumption that Union hits only 100% of their targets for these two scorecards in 2014 for the lower end of the range.

These two scorecards account for more than 96% of the target utility incentive, as shown in Table 8 of Exhibit A, Tab 3. As such, LPMA submits that the Board should increase these targets as submitted above in order to encourage Union to be innovative and efficient and to stretch these targets.

LPMA further submits that the 2016 market transformation scorecard target should be increased from 2015 actual plus 20% to 2015 actual plus 25%. This 25% is more in line with the 139.5% achieved target shown in the above table for historical market transformation along with the assumption that Union hits only 100% of this scorecard in 2014.

With regards to the 2016 performance based scorecard target, LPMA submits that the target should be increased from 25 RunSmart Participants and 3 SEM participants to 33 and 4, respectively, reflecting Union's historical under forecasting of about 33% noted above.

For each of the scorecards, the change in the target level would flow through automatically to the lower and upper bands provided in the scorecards. LPMA makes further submissions with respect to the upper band being set at 125% of the target under Topic 4 - Shareholder Incentive, below.

b) Formula Approach for 2017 - 2020

LPMA supports a formula approach to set targets in 2017-2020 based on post audited results from the previous year. However, LPMA submits that the Board should make a number of changes to the formulae proposed by Union.

i) Resource Acquisition

In the resource acquisition scorecard, Union proposes to use the post-audit scorecard yield for the previous year times the resource acquisition pre-inflation promotion and incentive budget for the current year, times 1.02 for the cumulative natural gas savings metric. The same formula would apply for the Home Reno Rebate Participants metric, except there would be no adjustment of 1.02.

Elsewhere in this submission, LPMA submits that the Board should not allow Union to increase the DSM budget by the rate of inflation. However, if the Board does allow Union to do so, then the formula should reflect the after inflation promotion and incentive budgets for the current year. There is no evidence to support the outcome proposed by Union that it will cost more in the future to achieve the same level of savings. In fact, since much of the budget is dedicated to incentives - which do not change over the 2017 through 2020 period - an increase for inflation will allow Union to achieve more savings through more incentives, not higher incentives.

With respect to the 1.02 factor, which is a proxy for productivity growth through an increase in the yield, LPMA submits that this level is too small given the years of experience - and results - that Union has in delivering DSM programs to all types of customers. Surely this cumulative institutional knowledge is worth more than 2% per year when Union has continually exceeded its resource acquisition targets by more than 10% every year. LPMA submits that the Board should increase the 1.02 to 1.04 at a minimum.

As noted above, Union is not proposing any stretch adjustment for the Home Reno Rebate Participants metric. When asked why this was the case, Union simply stated that the target formula represented a challenging target setting methodology (Exhibit B.T2.Union.LPMA.7). Union has failed to show how this is a challenging target setting methodology, when it has repeatedly stated that the targets are based on a bottom up approach.

LPMA submits that the Board should impose a factor of 1.02 in the calculation of the 2017 target, 1.03 in the calculation of the 2018 target and a factor of 1.04 in the calculation of the 2019 and 2020 targets for the Home Reno Rebate Participants metric. This increase should reflect the learning curve of Union for this program.

ii) Low Income

Union proposes a formula approach that is identical for the three metrics in the Low Income scorecard. The previous year post audit scorecard yield is multiplied by the pre-inflation promotion and incentive budget. There is no stretch added to reflect any yield growth.

LPMA's submissions with respect to the use of pre inflation or after inflation in the previous section are applicable here as well, and for the same reasons.

When asked why there was no 2% increase applied to the natural gas savings in the Low Income scorecard, Union gas the same answer as they did for the Home Reno Rebate Participants metric in the Resource Acquisition scorecard (Exhibit B.T2.Union.Staff.6, part g). According to Union the targets represent "a challenging target setting methodology". LPMA disagrees. As with resource acquisition, Union is setting a target that it can easily meet and surpass so that it can earn the maximum incentive available.

LPMA submits that the Board needs to set challenging targets for Union, not accept targets that Union says are challenging.

iii) Performance-Based

Union proposes to increase the target for the RunSmart Participants metric by taking the previous year actual numbers and increasing them by 25%. LPMA has no issues with this.

The target for the RunSmart Savings is 10% in each of 2017 through 2020. LPMA submits that the percentage should be increased by year based on a formula that takes the post audit percentage of the previous year and increases it by 1 percentage point for the current year. This would reflect gradual improvements over time.

c) Productivity

In the Report of the Board - Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach dated October 18, 2012 ("RRFE Report"), the Board emphasized the need for continuous improvement in productivity and cost performance and on providing value for money for customers. LPMA submits that these objects are equally applicable to gas utilities and their spending and results on DSM.

LPMA submits that the increase in the targets based on the formulaic approach noted above do not reflect much of a productivity or efficiency increase, especially since many of the programs in the current DSM plan are programs that Union has many years of experience or where the programs are new to Union, it has access to the knowledge gained by other distributors who have learned over time. The proposed targets certainly do not reflect aggressive targets. The proposed targets reflect the status quo approach. Given the significant increase in the amount of ratepayer money being spent in the DSM plan, this is not longer acceptable to ratepayers.

Union has little if any risk under their proposal. After all, they are spending ratepayer money to receive a healthy incentive payment of more ratepayer money. Their only true risk is not maximizing the incentive payment.

LPMA submits that Union should be exposed to more risk given the potential $10.45 million reward each and every year. The most effective way to increase risk to Union and to increase value for money to ratepayers is to increase targets beyond those proposed by Union. Hitting their targets at 100% should not be a foregone conclusion. Union should have to reflect continuous improvement and work harder and smarter and be innovative to reach their 100% targets. Ratepayers deserve and expect nothing less.

3. DSM Budgets

LPMA submits that the Board should approve the DSM budget as filed by Union with the exception of the inflation that has been added to each of the years, as shown in Table 2 of Exhibit A, Tab 3.

In particular, LPMA supports Union's budget which is based on rate impacts on residential customers capped at $2 per month.

The DSM Report was quite clear in its guidance with respect to the residential rate impact. The Board clearly states that DSM costs, inclusive of DSM budget amounts and shareholder incentive amounts for a typical residential customer should be no greater than approximately $2 per month. The Board then goes on to state explicitly that this cost was estimated to be $70 million for Union. Removing the maximum annual shareholder incentive of $10.45 million leaves $59.55 million for the DSM budget.

As shown in Table 2 of Exhibit A, Tab 3, Union's pre-inflation budget rises from $56.3 million in 2016 to $59.5 million in 2020, in compliance with the guideline.

LPMA believes that some intervenors will propose significant budget increases beyond that proposed by Union. LPMA submits that these increases should be rejected for the same reasons as noted in their argument in chief (Tr. Vol. 14, pages 4 - 8). In short, Union's budget follows the guidelines and represents an appropriate balance, as determined by the Board in the DSM Report, between promoting energy conservation and energy efficiency but doing so with regard to rate and cost impacts to customers. This is clearly reflected in the second guiding principle set out in the DSM Report where the distributors are expected to achieve all the cost-effective DSM available in their franchise area, have regard to the Board's guidance that the costs to do so result in reasonable impacts for customers.

Appendix E, Schedule 3 of Exhibit A, Tab 3 shows the 2020 DSM amounts in the bill by rate class of Union's proposal. As noted at the beginning of this submission, LPMA members are served under rates M1, M2 and M4. The annual DSM costs included in the costs for typical customers served by these rates are $23.05 for M1, $2,040 for M2 and $7,337 for M4 customers. These costs translate into 3.1%, 3.6% and 3.7%, respectively of the total bills for these customers.

Appendix E, Schedule 4 of Exhibit A, Tab 3 shows the average annual savings for DSM participating customers by rate class. Of particular interest in this table is that even the typical M1 customer that participates in DSM programs, the cost of $23.05 is greater than the savings of $14.76, resulting a net cost to the customer of $8.29. This is in addition to the cost to this typical customer of $23.05 in each year where they are unable to participate in any DSM program. In other words, even at the level of $2 per month, or $23.05 per year, a typical M1 customer saves less than it is costing them even when it participates in a DSM program. A higher budget would only result in a larger net cost to both non-participants and participants.

As noted at the beginning of this section, LPMA submits that the Board should not accept the inflationary increases that Union has added to the DSM budget. These figures are shown in the second last line of Table 2 in Exhibit A, Tab 3. Over the 2016 to 2020 period this cumulative inflation totals just under $15 million, which represents about 5% of the total budget over the 2016 through 2020 period. In fact in 2020, the inflation increase represents 8% of the total DSM budget. The inflation additions to the DSM budget are based on an inflation factor of 1.68%, and would be replaced each year based on the methodology noted at lines 11 to 17 on page 7 of Exhibit A, Tab 3.

LPMA submits that the Board should reject the inclusion of inflation for two reasons.

First, the DSM Report does not state that the budget should be increased for inflation. The guidelines clearly state, as noted above, that the total annual DSM amount for Union is $70 million, and removing the $10.45 million maximum shareholder incentive, results in $59.55 million. There is no increase in the total annual DSM amount of $70 million noted in the DSM Report. If there was to be an increase for inflation, the Board would have noted that the $2 per month residential impact would have been $2 per month, adjusted for inflation. It was not. Furthermore, the Board explicitly stated that the shareholder incentive of $10.45 million, which is part of the $70 million all in cost for Union is not to increase annually for inflation. It would be inconsistent and illogical for inflation to apply to part (DSM budget) of the $70 million and not to the other part (maximum shareholder incentive).

Second, Union has included the $15 million in the DSM budget, but has not provided any evidence as to what this additional money would be used for. Ms. Lynch conceded that Union has not indicated where this money would be allocated and spent (Tr. Vol. 3, pages 2-5).

However, the evidence is clear that this extra $15 million does not provide any additional savings since all of the proposed formulaic adjustments to targets are based on the pre-inflation promotion and incentive budgets. Yet has noted above, the calculated inflation amounts represent 5% of the total budget over the 2016 through 2020 period and 8% of the budget in 2020.

In summary, LPMA submits that the Board should not and cannot approve the $15 million in inflation related DSM budget costs because Union has not indicated what this money is to spent on and it does not provide for any additional savings or target growth under their plan.

4. Shareholder Incentive

LPMA notes that it is very difficult to explain to ratepayers that Union can earn a bonus of more than $10 million each year by spending $60 million. It is even more difficult to explain to them that Union is not actually spending their own money, but ratepayer money and that the bonus is also paid by the ratepayers. Add on the fact that Union can still get a bonus of several million dollars if they fail to meet 100% of their targets and ratepayers shake their collective heads in disbelief and begin to think this must be some kind of Ponzi scheme.

Therefore, in LPMA's view, it is extremely important that any shareholder incentive paid reflects real benefits for ratepayers.

LPMA's submissions with respect to the shareholder incentive address three issues: Union's proposal for the upper band to be based on 125% of target rather than 150%; the capping of the scorecards and adjustments to targets.

a) 125% versus 150%

Union proposes to set the upper band as 125% of the target in each of the scorecards. LPMA submits that the Board should reject this and set the upper band as 150% of the target in each of the scorecards.

Union has attempted to explain why the upper band should be set at 125% rather than the 150% as determined by the Board in the DSM Report (Tr. Vol. 1, pages 117-123 & Tr. Vol. 3, pages 12-14). In short, Union does not believe that they could reach 150% of the target with the additional 15% of the DSM budget they could spend to try and get there. Hence, the 150% is not a reasonable stretch.

Union's logic is flawed. The premise that they only have the 15% additional DSM spend assumes that they have spent 100% of the DSM budget to reach the 100% target levels. In other words, they have not been able to improve upon their delivery of the programs relative to their forecasts.

If this is indeed the case, then LPMA submits that Union should not expect to come anywhere close to 150% of their targets. Productivity and efficiency gains do not start after you hit 100% of the target. If done right, these gains start at 0% of the target.

On the other hand, if Union is able to achieve 100% of their target by spending 80% or 90% of their DSM budget, then they will have this additional 10% to 20% to spend, in addition to the 15% additional DSM spend. If the upper band of the target is only 125%, then the additional spending available is almost guaranteed to get them to this level. LPMA submits that achieving the maximum shareholder incentive should not be a walk in the park. It should be hard to achieve it and based only on spending more money, but more on spending smart.

The ninth guiding principle in the DSM Report states that the amount of shareholder incentive will depend on meeting or exceeding the DSM targets, including natural gas savings targets, and will take into consideration the relative difficulty in achieving other goals the Board expects the gas utilities to achieve. At page 22 of the DSM Report, the Board explicitly says *"In order to earn the maximum annual incentive, the gas utilities will need to meet 150% of their targets".*

If Union simply meets its 100% target by spending 100% of its budget, it should not expect to be able to reach the upper band by simply spending the extra 15% of the budget it is allowed to spend. There should not be an incremental shareholder incentive for simply spending more ratepayer money. The incremental shareholder incentive (above 100% of target) should reward a distributor for doing better than expected by reaching 100% of the target with less than 100% of the budget.

LPMA also notes that Union has not provided any evidence to support a proposition that their mix of programs is somehow unique in that it would not enable them to reach 150% of their targets. Even if this were the case, then Union has chosen a path that will not let hit the 150% and the Board should not reward them by reducing the upper band to 125%.

Finally, if the Board does approve the use of the 125% for the upper band, then LPMA submits that the Board should eliminate the lower band of 75% and set it equal to the 100% target. In other words, Union gets no bonus for achieving less than 100% of their target.

b) Capping of Scorecards

Union proposes to cap the DSM incentive amount at the scorecard weighted score of 125%. Elsewhere in this submission, LPMA submits that the Board should change the upper band to 150%.

Further, Union proposes to cap the incentive on the weighted scorecard score for each of the resource acquisition, low income, market transformation and performance based scorecards and not on the score for the individual metrics within each scorecard (Exhibit B.T4.Union.LPMA.28).

LPMA submits that the Board should cap the incentive at 150% of each metric within each of the scorecards. LPMA submits that there are three key reasons that Board should adopt this proposal.

First, it eliminates the potential for gaming the calculation of the incentive. This was noted in the evidence of the Green Energy Coalition ("GEC") in Exhibit L.GEC.1 at page 34. While the example provided was specific to Enbridge, it is equally applicable to Union.

In the response found in Exhibit B.T4.Union.LPMA.28, Union indicated that they would qualify for their maximum incentive associated with the low income scorecard if they hit 132% of the first two metrics (single family cumulative natural gas savings and social and assisted multi-family cumulative natural gas savings) while at the same time failing to achieve 75% in the third metric (market rate multi-family cumulative natural gas savings). Union confirmed this result during cross-examination (Tr. Vol. 2, pages 126 - 127).

The potential for gaming is readily apparent. Union could simply shift the budget associated with the third metric, which has the lowest weighting, to the two other metrics which have higher weights. There could be multiple reasons for doing this, such as the actual yields being lower than expected for the third metric, or higher than expected yields for one or both of the first two metrics.

Dollars could also be shifted away from the low income market rate multi-family metric to the resource acquisition budget. Union would qualify for the maximum low income incentive, despite abandoning one part of that market in favour of pursuing a higher stakeholder incentive in the resource acquisition scorecard.

The second reason for the capping of individual metrics is that it eliminates the risk that a metric has been set too low. The GEC evidenced above also discusses this in the example noted in its evidence at page 34 of Exhibit L.GEC.1. LPMA agrees that this is an issue, especially when combined with the submissions in Topic 2 - DSM Targets about the tendency to under forecast targets.

Third, the capping of individual metrics within each scorecard would reflect the balanced approach that is set out in the DSM Report and is related to the above two reasons: potential gaming and metrics set too low.

The DSM Report reflects this balanced approach in a number of places such as the following:

> *"For the annual targets and metrics, the Board continues to be of the view that the gas utilities should incorporate multiple performance metrics using a weighted scorecard approach into their DSM plans. The performance scorecards should include metrics for both total net annual and lifetime (cumulative) natural gas savings. The scorecards should also include other performance metrics that will motivate the gas utilities to undertake the appropriate activities that result in sustained, long-term results and reduced natural gas consumption levels to ultimately lower overall costs to the natural gas system."* (page 12) and

> *"The Board expects the gas utilities to include metrics that reflect the key priorities outlined in Section 4.2 – Budgets. These priority areas should receive an appropriate amount of attention, particularly early in the new multi-year DSM plan period, so that material advancements are made in the near future and maintained throughout the course of the 6-year framework and beyond. The gas utilities should allocate an appropriate portion of the shareholder incentive amount to these key priority areas to help drive activity. The shareholder incentive is discussed further in Section 5 below. The Board expects the gas utilities will develop and propose balanced scorecards that appropriately direct the utilities' efforts to achieve significant long-term natural gas savings as well as address other key priorities outlined in the DSM framework."* (pages 12-13)

The Board expected utilities to include metrics that reflect the key priorities outlined in the budget section of the DSM Report. LPMA submits that this means not only setting budgets to reflect these priorities, but also spending to plan to achieve those priorities and not reallocating dollars to where they provide more of a return with respect to the potential incentive available.

LPMA submits that Union has set its DSM budget largely in accordance with the balanced approach set out in the DSM Report. However, there is nothing that would compel Union to maintain that balanced approach if it discovers that achieving some of its metrics is more difficult than forecast. In the absence of the shareholder incentives, Union would have no reason to deviate from its plan. However, the inclusion of shareholder incentives does provide Union with reasons to deviate from its plan - higher incentives relative to what could be earned by staying the course. LPMA submits that the Board has to ensure that the incentive structure does not lead to results that are inconsistent with the priorities set out in the DSM Report.

In summary, LPMA supports recommendation 5-b-i of GEC on page 46 of Exhibit L.GEC.1 that a limit of 150% of the weight of the metric be placed on the amount that any performance metric can contribute to the score computed for a scorecard. This limit would be in place for each scorecard and for each of 2016 through 2020.

c) Adjustments to Targets

Union proposes to make adjustments in input assumptions that arise during the audit and evaluation process to adjust the LRAM for the year being audited, but this information would not be used to adjust the shareholder incentive in the year being audited (Tr.. Vol. 1, pages 37-38). In other words, Union is proposing that the best available information be used for LRAM purposes, but ignored for shareholder incentive purposes. LPMA submits that this is ridiculous.

The better information would only be used on a go forward basis for subsequent years for the incentive calculation, after this information is used to adjust the targets for those subsequent years. It is apparent to LPMA that Union wants to avoid the assumption of any risk whatsoever in their quest for maximum shareholder incentives. Ms. Lynch said as much in the following exchange with Mr. Millar (Tr. Vol. 1, page 127):

> *MR. MILLAR: But you are not actually proposing to use the best available information; right? You are proposing to ignore the best information in the year that it happened and apply it in the next year.*
>
> *MS. LYNCH: Well, I would say that the information that was used to set our target is the same information that's used to assess our achievement, so we are just looking for consistency in that.*

By looking for consistency between the same information being used to set the target and that used to assess the achievement, Union is eliminating the forecast risk surrounding the assumptions used. If the Board were approve this approach, it would be a complete departure from the assumption of forecast risk by the distributor in a rates application.

LPMA also submits that the Board needs to look at the payment of the shareholder incentive from the customer point of view. Ratepayers can understand paying an incentive for actual results. They certainly do not understand paying for fictional results. This is compounded by Union's proposal, which LPMA agrees with, to use the best information available in the calculation of lost revenues through the LRAMVA. Ratepayers are being asked to keep the company whole based on <u>actual</u> reduced consumption.

However, when Union turns around and says no, our incentive should not be based on actual consumption reductions, but rather on consumption reductions they thought would take place, ratepayers can only shake their head in disbelief.

Imagine an investor buying a stock that has been reviewed by investment analysts and the consensus among those analysts is that the stock, which is trading at $10 today, should be trading at $12 a year from now based on a number of assumptions such as input costs and sales. A year goes by and the stock is trading at $9. Turns out costs were higher than forecast and sales lagged estimates. Union's proposal is equivalent to that investor selling the stock for $12 after a year, as they expected they could, ignoring the fact that the assumptions underpinning the $12 did not hold up. Obviously the investor will be disappointed when they go to sell their stock and realize they cannot get $12. That is the risk associated with stock market. Union wants to avoid potential disappointment and be rewarded based on assumptions that were wrong, rather than facing reality, by completely avoiding any risk.

Union has compared the changing of the incentive is like changing the goalposts on the utility (Tr. Vol. 14, page 19). LPMA submits that Union's analogy has gone further than they intended. Clearly, Union is comparing their proposal to a game. Ratepayers, on the other hand, do not consider DSM and the payment of incentives to be a game. This again highlights the approach of Union to DSM. Their approach, clear through their plan, is to take on no risk and to make a lot of money doing it. LPMA submits that DSM is about creating monetary and environmental benefits for consumers through lower consumption. Lower <u>actual</u> consumption, not lower <u>fictional</u> consumption. <u>Real</u> benefits, not <u>imaginary</u> benefits. Union should be rewarded if it achieves real benefits for consumers, not otherwise.

LPMA submits that ratepayers should not be expected to pay incentives for savings that do not actually occur. If the Board were to approve such a proposal as that of Union, ratepayers may not be right about the Ponzi scheme comparison, but they would certainly be right to believe that the shareholder incentive payment of up to $10.45 million each year is based on nothing but fiction.

<u>5. Program Types</u>

LPMA makes no submissions related to program types. LPMA is relying on the submissions of other parties who are more familiar and have greater expertise with the issues included in this topic and have examined these issues in detail through interrogatories and cross examination.

6. Program Evaluation (including Adjustment Factors)

Other than the submissions provided above regarding the use of the best information for the calculation of the shareholder incentive (provided under part (c) of Topic 4 - Shareholder Incentive), LPMA makes no submissions related to program evaluation, including adjustment factors. LPMA is relying on the submissions of other parties who are more familiar and have greater expertise with the issues included in this topic and have examined these issues in detail through interrogatories and cross examination.

7. Input Assumptions

LPMA makes no submissions related to input assumptions. LPMA is relying on the submissions of other parties who are more familiar and have greater expertise with the issues included in this topic and have examined these issues in detail through interrogatories and cross examination.

8. Cost-Effectiveness Screening

LPMA makes no submissions related to cost-effectiveness screening. LPMA is relying on the submissions of other parties who are more familiar and have greater expertise with the issues included in this topic and have examined these issues in detail through interrogatories and cross examination.

9. Avoided Costs

LPMA makes no submissions related to avoided costs. LPMA is relying on the submissions of other parties who are more familiar and have greater expertise with the issues included in this topic and have examined these issues in detail through interrogatories and cross examination.

10. Accounting Treatment: Recovery and Disposition of DSM Amounts

LPMA's submissions in this area are concentrated solely on the recovery of DSM related costs (budgets, DSMVA, shareholder incentive) to the customers in Rate M1. LPMA also recognizes that the same issue would be true for the customers in Union's north distribution area served under Rate 01.

The M1 rate class, unlike Union's other classes, contains both residential and commercial and industrial customers. The M1 rate class is for general service customers that consume less than 50,000 m^3 per year. Union's M2 rate class is for general service customers that consumer more than 50,000 m^3 per year, as per the response in Exhibit B.T3.Union.LPMA.20, there are an insignificant number (less than 50) of residential customers in Rate M2.

Most residential customers consume less than 5,000 m^3 per year, while most commercial and industrial customers included in Rate M1 consume more than this. LPMA has no issue with the methodology used by Union to allocate the residential DSM related costs to the M1 rate class, or with the allocation of a portion of the commercial and industrial DSM related costs to the class.

LPMA does, however, have concerns with the recovery of these costs solely through the delivery (volumetric) charge. LPMA submits that this results in the commercial and industrial customers in Rate M2 bearing a disproportionate share of the residential related costs. This is because the annual consumption for the commercial and industrial customers is, on average, higher than that for the residential customers. LPMA also recognizes that residential customers are paying for the commercial/industrial costs allocated to the rate class.

LPMA submits that a more appropriate recovery of the costs from customers within this rate class is to recover the residential related costs through a fixed charge per customer per month. This would recover the majority of the residential costs from residential customers, as they make up the majority of customers in this rate class. Residential customers make up more than 92% of the customers in Rate M1 (EB-2011-0210, Exhibit C3, Tab 2, Schedule 2, 2013 Rebasing Application). This would ensure that the residential related costs are recovered mainly from the residential customers.

The commercial/industrial related costs would continue to be recovered through the delivery (volumetric) charge. However, residential volumes make up about 73% of the volumes in the M1 rate class M1 (EB-2011-0210, Exhibit C3, Tab 2, Schedule 2, 2013 Rebasing Application). Recovery through the volumetric charge would only recover approximately 27% of the commercial/industrial DSM related costs from the commercial/industrial customers, which would not be appropriate.

However, as the Board is aware, the M1 rate is made up of 3 blocks. The first block is applied to the first 100 m^3 consumed each month; the second block is applied to the next 150 m^3 consumed each month; the third block is applied for all consumption over 250 m^3 per month. As shown in Exhibit H3, Tab 6, Schedule 1 as filed in EB-2011-0210 (2013 Rebasing Application), approximately 43% of the volumes in the M1 rate class are included in the third block, with the remaining 57% in the first two blocks.

LPMA proposes that the commercial/industrial DSM related costs should be recovered through the third block of the delivery (volumetric) charge. This would insure that the majority of these costs are recovered from commercial and industrial customers, since most residential customers would only consume more than 250 m^3 per month in a limited number of months in the winter.

While, not a perfect match, the recovery of the residential costs through the fixed monthly charge and the recovery of the commercial/industrial costs through the third block delivery (volumetric) charge would provide a more accurate and equitable recovery of DSM related costs from the different types of customers included in Rate M1.

<u>11. Integration and Coordination of Natural Gas DSM and Electricity CDM Programs</u>

LPMA's submissions with respect to this topic are simple, straight forward and short. The Board should direct Union to integrate and coordinate its DSM plan with electricity CDM programs and with the DSM plan of Enbridge.

LPMA is very concerned with the growing administration and overhead costs associated with both DSM and CDM. There is a lot of duplication in administration and overhead between Union, Enbridge and the IESO. Ratepayers pay for this duplication and receive nothing for it. Anything that can reduce duplication should not only be encouraged by the Board but should be mandated by the Board. Any savings should then be reinvested into programs that actually benefit ratepayers.

LPMA submits that the Board should direct Union (and Enbridge) to look at ways they can eliminate or significantly reduce administration and overhead costs by the end of the 2016 - 2020 plan, including options such as having one distributor run the plans in the future on behalf of both distributors, or having a third party administrate the programs on behalf of both distributors.

DSM spending and incentives, like any cost recovered from ratepayers, is all about ensuring that the ratepayers receive value for their money. If a third party can run the Union and Enbridge programs and achieve the same results while incurring lower administration and overhead costs, then this needs to be investigated. Similarly, if a third party is willing to "live with" a potential incentive of $10 million, instead of the combined $20.9 million for the two distributors, why wouldn't this option be explored? LPMA submits that DSM is not about the distributors and how much money they can make by delivering DSM programs. DSM is (or should be) <u>all</u> about ratepayers and how much money they can save and the environmental benefits they can generate through lower use.

<u>12. Further Infrastructure Planning Activities</u>

LPMA submits that the DSM and Infrastructure Planning Study should be a priority for Union to complete and file with the Board and intervenors as soon as is possible. Union proposes to have the study completed in time for the mid-term review (Exhibit B.T12.Union.Staff.32).

Given the potential impact of the results of this study and given the numerous expansions currently under way and expected to be undertaken by Union in the next several years, LPMA submits that the Board should direct Union to file the study as soon as possible, and not wait to file it as part of the mid-term review. The results of the study are not only applicable to DSM but are also applicable to the need and magnitude of expansion and reinforcement projects.

<u>13. Other</u>

LPMA has no submissions related to this topic.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs associated with its participation in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

October 2, 2015

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