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February 26, 2016

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-2016-0004 - Comments on Draft Issues List by London Property Management Association

Please find attached the comments on the draft issues list from the London Property Management Association in the above noted proceeding.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

Encl.

Ontario Energy Board

Application under the Ontario Energy Board's own motion to consider potential alternative approaches to recover costs of expanding natural gas service to communities that are not currently served

**COMMENTS ON PROPOSED ISSUES LIST
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION**

February 26, 2016

The following are the comments of the London Property Management Association ("LPMA") on the Draft Issues List that was attached as Schedule A to Procedural Order No. 1 dated February 10, 2016.

A. General Comments

Definition of Community

Throughout the draft issues list there is reference to communities (Issue 1, 3, 4, 6), rural and remote community expansion projects (Issue 3), new communities (Issue 4) and communities that do not have access to natural gas (Issue 8).

However, there is no issue that addresses what the definition of a community is. A community is generally defined as a group of any size that shares something in common, such as geographical location, religion, etc. While it may be clear that in the context of this application, a community is a geographical location, there is no clear definition of how many people or buildings or potential customers constitutes a community. It is also not clear how the geographical boundaries of a community would be established.

The need for a working definition of a community is required not only to determine who would be included in a community, but who is not included in a community. For example, do three potential customers on the outskirts of London, where a short main extension is required for gas service to be provided, constitute a community? This is a relevant question because the result of the application may be that different rules will apply to potential customers based on whether or not they qualify as a community expansion.

Investment Portfolio and Rolling Project Portfolio

The current EBO 188 guidelines require an investment portfolio to have a profitability index ("PI") of 1.1 or more and a rolling project portfolio PI of at least 1.0. In addition an individual project must have a minimum PI of 0.8.

The investment portfolio includes all distribution projects necessary to attach any customers of all rate classes in a given test year. An annual normalized reinforcement amount is added to the year's costs to mitigate the impact of large reinforcements in any one year. The PI of 1.1 is to provide a safety margin to minimize adverse impacts resulting from forecast error.

The rolling project portfolio excludes customer attachments where the customer is being attached to existing natural gas service mains. It does include all customers forecast to attach to a new system in future years as well as the normalized reinforcement amount identified in the investment portfolio. The rolling project portfolio is a rolling PI calculated over a twelve month period.

LPMA believes that there are a number of potential issues that are not addressed by the current draft issues list related to the investment and rolling project portfolios. Indeed there does not appear to be any reference to a rolling project portfolio. Potential issues include the following:

- a) What is the impact on existing customers of reducing the investment portfolio PI from 1.1 to 1.0?
- b) What is the impact of the addition of the normalized reinforcement amount that is added to the costs in the calculation of the PI and is there better information that could be used?
- c) Are the normalized reinforcement amounts impacted by DSM activities and will they be impacted by the additional costs from the cap and trade system being implemented in Ontario? In other words, will reduced volumes result in a reduction in reinforcement requirements?
- c) Given that the EBO 188 guidelines are meant to ensure that existing customers do not suffer a rate increase over the long term as a result of distribution system expansion, while recognizing that rates will be higher in the short term, LPMA believes there is a need for some sort of a rolling project portfolio. Rather being over a 12 month period, a rolling PI of perhaps 3 or 5 years may be more appropriate. The use of such an approach should be investigated.
- d) If the Board approves a profitability index of 1.0 or less, how will the inherent forecast risks be dealt with given that the distributors have an incentive to forecast high attachments and/or use in order to justify additions to rate base, which benefit the shareholder.
- e) The rolling project portfolio currently excludes the costs and revenues associated with new customers attaching to mains built prior to the last 12 month period. Given that these attachments tend to be more profitable to the distributors, their exclusion reduces the rolling PI. LPMA believes that the OEB should consider including such additions to the calculation of the rolling PI. This is because it is the impact on existing customers

over the long term that is the most important aspect and this impact should take into consideration all attachments.

B. Specific Comments on Draft Issues

Issue 3 - Bullet Point 1 - Should the OEB consider projects that have a portfolio profitability index (PI) less than 1.0 and individual projects within a portfolio that have a PI lower than 0.8?

It is not clear if this issue contemplates a separate portfolio profitability index for community expansion projects, or one that includes both community and non-community expansion projects.

One issue is whether there should be two portfolio profitability indices, one for community expansion projects and one for the remainder of projects considered under EBO 188 as well as what constraints should be placed on the PI for both the portfolio and the individual projects.

A second issue is whether there should be a third portfolio profitability index that combines both the community and non-community expansion projects and what constraints should be imposed on the overall portfolio.

A third issue is how would the application of new levels for a PI at the portfolio level or at the individual project level impact on the ability of non-community expansion projects to get completed? Would there be additional capital constraints on the utility because of money spent on community expansion projects? Would there be changes in the portfolio project PI of 1.0 or in the individual project PI of 0.8 for non-community expansion projects?

Issue 3 - Bullet Point 2 - What costs should be included in the economic assessment for providing natural gas service to communities and how are they to be determined and calculated?

LPMA believes that costs should be both costs and revenues. There are a number of proposals for revenue streams to help fund the community expansion projects. These include, but are not likely to be limited to, an upfront aid to construction payment, monthly rate riders applicable to the customers in the newly serviced communities, municipal grants in lieu of property taxes, increased rates or rate riders applicable to existing natural gas customers and government grants and loans.

Other sources of revenues may be available, such as federal funding for native reserves, as it is and has been for electricity distribution systems serving these reserves. The IESO may make money available to help with cost shifting load from electricity to natural gas.

LPMA further submits that costs should not be limited to direct costs of providing gas service to the new communities. A potentially significant impact on non-residential customers would be higher distribution rates as the local electric LDC's face reduced kW and kWh volumes. This loss of load could result in higher electricity rates for the customers in the newly serviced communities. Through the cost allocation process, some of these costs could be allocated to the residential class as well. This means that there could be an impact on the savings available to customers as the result of connecting to natural gas.

Clearly the costs associated with cap and trade, as recently announced by the provincial government should be taken into account. The relative costs of heating oil, propane, natural gas and electricity should be considered in any analysis. The relative costs should also be incorporated into any savings estimates used to justify the projects.

Issue 3 - Bullet Point 3 - What, if any, amendments to the EBO 188 Guidelines would be required as a result of the inclusion of any costs identified above?

LPMA suggest that an addition to this issue would be whether or not any of the identified costs would be applicable to non-community expansion projects.

Issue 3 - Bullet Point 4 - What would be the criteria for the projects/communities that would be eligible for such exemptions? What, if any, other public interest factors should be included as part of this criteria? How are they to be determined?

LPMA submits that the government policy to reduce carbon emissions should be explicitly included under other public interest factors. This is especially important and relevant given that a significant number of conversion to natural gas are expected to be from electricity. As the OEB is aware, the composition of Ontario generated electricity is primarily from non-carbon producing sources including nuclear, hydro, wind and solar. At any given time, these sources account for the majority of the generation in Ontario, often exceeding 90% of the generation.

Issue 4 - Should the OEB allow existing natural gas distributors to establish surcharges from customers of new communities to improve the feasibility of potential community expansion projects? If so, what approaches are appropriate and over what period of time?

LPMA submits that the wording should be changed from "Should the OEB allow existing natural gas distributors to establish surcharges..." to "Should the OEB allow existing **and/or new** natural gas distributors to establish surcharges...". There is no reason why a new distributor in Ontario should not be accorded the same options as the existing distributors.

Issue 5 - Are there other ratemaking or rate recovery approaches that the OEB should consider?

LPMA believes that this issue is sufficiently broad so as to encompass potential options such as distributors being not for profit entities, reduced return on equity to reflect a reduction in business risk associated with fixed surcharges being received, lower depreciation rates to reflect new systems, a higher debt to equity ratio on the portion of rate base attributed to new community expansions and so on. Another possible rate mitigation approach would be for the distributors and the OEB to lobby the provincial and/or federal governments for an accelerated capital allowance on the cost of the infrastructure invested in serving communities currently without access to natural gas. If this issue is not sufficiently broad to encompass such items, then LPMA suggests that the wording be enhanced to reflect such approaches.

Issue 6 - Should the OEB allow for the recovery of the revenue requirement associated with community expansion costs in rates that are outside the OEB approved incentive ratemaking framework prior to the end of any incentive regulation plan term once the assets are used and useful?

If the Board were to alter the settlement agreement with Union Gas that is the basis for the current incentive ratemaking framework so as to allow community expansion costs in rates once the assets are used and useful, then there may well need to be a change in some other part of that agreement. Any such change, if any, would depend on the outcome of this application. LPMA would suggest adding the phrase ", and what other changes should be made to the approved incentive ratemaking framework" at the end of the issue.