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June 20, 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 - Submissions of London Property Management Association

Please find attached the submissions 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

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SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

June 20, 2016

The following are the submissions of the London Property Management Association ("LPMA") on the issues raised in the generic proceeding on natural gas expansion in communities that are not served. The submissions are based on the evidence filed by Union Gas Limited ("Union") in both this proceeding and in EB-2015-0179 and the evidence filed by Enbridge Gas Distribution Inc. ("Enbridge") in this proceeding, as well as the evidence filed by other parties in this proceeding.

LPMA has a number of general submissions with respect to the proposed community expansions which are provided under Section A. Specific submissions with respect to the approved issues as set out in the Ontario Energy Board ("Board") March 9, 2016 Decision and Procedural Order No. 2 are provided in Section B.

Finally, Section C contains a number of recommendations to the Board.

A. GENERAL SUBMISSIONS

The following are the general submissions of the LPMA with respect to the issues raised in this proceeding. Some of these general submissions may overlap with submissions on the specific issues provided in Section B and/or the recommendations to the Board provided in Appendix C.

i) Rational Economic Expansion

LPMA supports the rational economic expansion of natural gas to potential customers in Ontario. This means that LPMA supports expansion to communities that currently do not have access to natural gas. It is also includes the expansion to customers that may require short main extensions in order to connect to the distribution system. It also includes the connection of customers where mains are already in place, both for existing buildings that have not yet converted to natural gas and buildings that may be built in the future along existing mains.

LPMA's support for the rational economic expansion of natural gas also means that potential customers should be treated fairly and subject to the same rules regardless of where they happen to be located. This issue is discussed more fully in section (ii) below.

LPMA defines economic expansion as any group of projects that does not result in any adverse long term rate impacts on existing customers. This means that the rolling project portfolio has a profitability index of 1.0 or greater (Tr. Vol. 6, page 3 & S15.Union.BOMA.55).

Even though there is no adverse rate impact on existing customers in the long term, in the short term, existing ratepayers provide a subsidy to new customers even when the profitability index is 1.0 or higher. In the case of an uneconomic expansion, the profitability index is less than 1.0 and existing ratepayers end up subsidizing the new customers over both the short and long term.

LPMA submits that they may be limited instances where this long term subsidy from existing ratepayers may be justified. This justification may be based on such things as energy cost savings achieved by the new customers, greenhouse gas emission reductions, and economic development.

LPMA further submits that rational expansion means expansion that is both reasonable and sensible. In other words, the expansion should be logical and make sense.

LPMA submits that the Union and Enbridge proposals are neither rational nor economic. Clearly, with profitability indices well below 1.0 for the proposed projects in aggregate, they are not economic as structured under the utility proposals. They are not rational, because under both proposals, existing customers would be required to subsidize new customers even though those new customers will have private benefits far in excess of the level of subsidization that they will receive from existing customers. This is dealt with in more detail in sections (iii) and (iv) below.

However, LPMA believes that the projects, or at least the majority of them, could be made to be both rational and economic. Throughout the remainder of these submissions, LPMA makes a number of recommendations that would improve the economics and ensure that that existing customers do not subsidize new customers where it is not needed. This would result in a reasonable approach that makes sense for all parties and delivers net benefits from community expansion.

ii) A Discriminatory Approach

LPMA submits that the Union and Enbridge proposals create three classes of customers. Each class of customer would end up paying a different amount to connect to the gas distribution system. The proposals also provide different methods of paying to the three classes of customers.

The three classes of customers are those in a new community expansion project, those that would qualify under the short main extension program and those that currently have access to natural gas, but have not yet connected to the distribution system.

Customers in a new community expansion project would be required to pay a TES for a period of up to 10 years, but the amount would be based on an equivalent contribution to get the project profitability index ("PI") to 0.4.

Customers under the short main extension program would be required to make a TCS payment for up to ten years and if the PI does not hit 1.0 by the end of this period, they will also be required to make a contribution in aid to construction.

Customers that currently have access to natural gas would continue to be subject to the EBO 188 guidelines, and may have to paid an aid to construction to get the project PI to 0.8 or 1.0, depending on the investment and rolling project portfolios. They may not have the option of a TES-like payment over a number of years.

LPMA submits that it is not appropriate that customers should have to pay different amounts to connect to the distribution system based on different rules which in turn are based on the size of the community. Why should an identical customer in a community of 25 houses be expected to provide more funding for a project than a customer in a community with 50 houses because their projects requires a PI of 1.0 instead of 0.4?

LPMA submits that all potential customers, regardless of their location, should be treated equally. This does not mean that the aid to construction or the TES should be the same. It simply means that the consequences of the profitability index calculation should be based on the same requirements for all customers.

LPMA submits that the Board should not accept a proposal that discriminates between customers based on where they are located and results in different rules being applied to them.

iii) Benefits Should Follow Costs

LPMA submits that the Board should continue to follow the regulatory principle that benefits follow costs. In other words, customers who pay for something should receive a benefit from that. Customers should not be put in a position where they are paying for something that provides them with no benefit.

The utility proposals require existing customers to pay for the uneconomic expansions. LPMA submits that the existing ratepayers are not receiving any benefit for this payment.

The utilities propose that the existing customers receive a benefit through the resulting economies of scale of adding new customers. Union has quantified this to be about fifty cents per customer per year (S15.Union.BOMA.59). This translates into savings of about $700,000 per year. Later in this submission, LPMA proposes the use of this savings as a buffer in reducing the required investment portfolio profitability index from 1.1 to 1.0.

Other benefits are said to include economic development and greenhouse gas emission reductions. However these benefits do not accrue to existing gas customers. Rather they accrue to all residents of the province. If there is any subsidy, it should come from the province, on behalf of the people who will benefit. Indeed, the provincial government has indicated that it has loan and grant programs to help the community expansion process.

The other group that derive direct benefits are the new customers. The benefit that they receive is that their energy costs will be reduced. After taking into consideration the conversion costs, their benefit is the net savings that they will have.

The evidence clearly indicates that the benefits to be received by the new customers is substantial and yet their contribution to the projects is a fraction of the subsidy that would be provided by existing customers. The details and ramifications of this are discussed in further detail in section (iv) below.

On a final note, LPMA submits that the Board should consider the issue of choice in this proceeding. The utilities have the choice of whether or not to proceed with each of the projects. Potential new customers have the choice to spend money up front to save money over the long term by connecting to the gas system. However, the existing customers have no choice whatsoever in this proposal. As shown in the response to EB-2015-0179, Exhibit JT1.11, on a discounted basis, it is the existing customers that would shoulder more than 76% of burden from the net revenue shortfall. The customers that will benefit, are paying less than 20% of the cost.

<u>iv) No Subsidies Are Required from Existing Customers</u>

LPMA supports the view of Dr. Nieberding (on behalf of Parkland Fuels) with respect to the issue of who should pay if a project cannot proceed without a subsidy as expressed in the following testimony.

> *MR. DUNCANSON: Thank you, Dr. Nieberding.*
> *Based on your analysis, if some form of subsidy is deemed to be warranted, who should pay for that subsidy in the circumstances?*
> *DR. NIEBERDING: Well, if there are private benefits -- if there are only private benefits to expansion customers, then they should pay. If there are external benefits that accrue specifically to natural gas ratepayers, then the ratepayers ought to pay. And finally, if there are province-wide benefits, then all taxpayers ought to pay.* (Tr. Vol. 5, page 6)

To the above list, LPMA would add municipalities that are expected to benefit from the economic development that is expect to follow natural gas into the communities.

As noted above, the potential new customers of the community expansion projects have the potential to save significant amounts by converting to natural gas. Union estimated the net energy savings to customers involved in the 29 projects that were proposed to be $313 million (EB-2015-0179, Exhibit A, Tab 1, Updated, pages 38-40), as part of its stage 2 economic test. The net energy savings reflect the existing fuel cost less the cost of new natural gas equipment, the cost of natural gas and the TES payments.

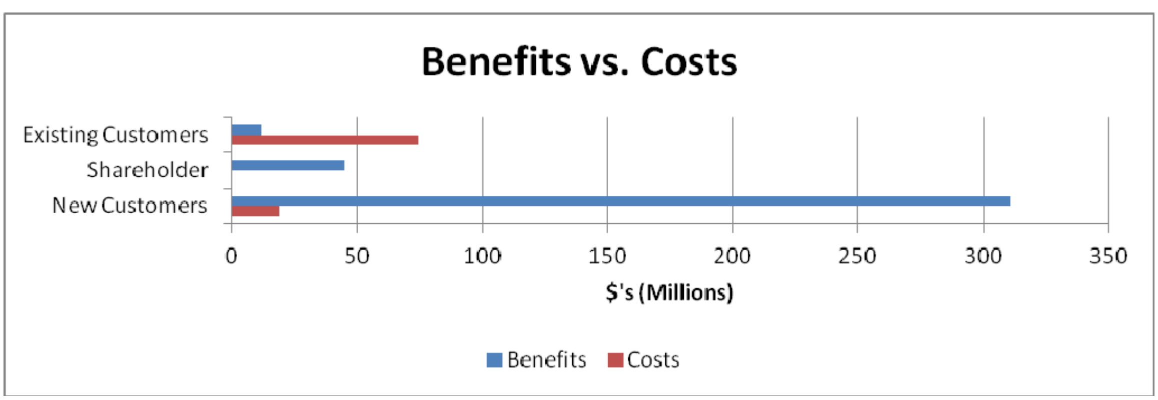
Union also did a number of scenarios to show the sensitivity of the calculation of the savings, including changes in attachment rates and the term of the savings. Union concluded that the savings under all ranges of scenarios was in the several hundred of millions of dollars range.

The $313 million net present value of net savings was updated in the response to Exhibit J4.8 (EB-2016-0004) to $311 million based on Union's updated evidence in EB-2015-1079 that was filed in December, 2015. The undertaking responses also provided a net present value of the savings of $277 million based on revisions to the oil and propane fuel prices. The response provided in Exhibit J6.3 (EB-2016-0004) also indicates that the net present value of the shareholder return is $45 million.

As noted earlier, the existing customers are expected to save approximately $700,000 a year due to the economies of scale. Over a 40 year period with a discount rate of 5.1% (Union's weighted average cost of capital), this equates to a net present value of savings for existing customers of about $12 million.

A review of the discounted columns shown in Exhibit JT1.11, which is an updated and corrected response to Exhibit B.LPMA.16 in EB-2015-0179, shows the total NPV of the revenue shortfall in the project economics for the 29 projects proposed by Union is $97.9 million. This shortfall would be made up by collecting $19.0 in TES payments from the new customers, $4.2 million in ITE payments from municipalities and $74.7 million from existing customers.

Based on these estimates, the magnitude of the savings for new customers as compared to existing customers is in the range of 20 to 25 times higher. This begs the question as to why existing customers should be paying any subsidy at all, never mind a subsidy that equates to a net present value of $74.7 million (EB-2015-0179, Exhibit JT1.11). This is illustrated in the following graph.



Note that municipalities have not been included in the above graph. While the pay the ITE, this offset by the increase in property taxes on the mains and services. The net present value of the benefits is likely to be positive, given the economic development that is supposed to accompany natural gas to the communities. However, it has been assumed that this incremental revenue will be used to pay off the interest fee loans that the municipalities may receive from the provincial government.

This begs the question why existing customers are paying a NPV of $74.7 million to save $12 million, while new customers are paying a NPV of $19.0 million when they are saving something in the neighbourhood of $300 million. LPMA submits that the utility proposals do not add up and that the subsidy from existing customers should not be approved by the Board. The new customers are saving four times what the additional cost to them would be if they were required to make up the $74.7 million rather than having it passed over to existing customers.

Clearly, the utility proposals do not follow the regulatory principle that benefits should follow costs. One group of customers has a $300 million benefit and are only paying $19 million, while another group of customers has $12 million benefit, for which they will pay $75 million. The linkage between who benefits and who pays the costs has been broken.

This analysis does not include the other benefits of expanding natural gas to these selected communities. Economic development that has been forecast to take place in these communities will increase property taxes for the municipalities and income taxes for the provincial and federal governments. As noted above, LPMA assumes that the municipalities will use the additional property tax revenue to pay back the loans from the province. In this way, along with the ITE, the municipalities are contributing to the economics of these projects based on the benefit that they will receive.

The benefit to the new customers of net energy savings is not the only benefit that will accrue to these new customers. As indicated by Mr. Goulding of London Economics International, new customers would also benefit from their access to natural gas through an increase in the value of their house, all things being equal (Tr. Vol. 1, pages 92-93). These benefits are on top of the net energy savings that have been quantified by Union and Enbridge.

LPMA submits that the same would be true of businesses that now have access to natural gas. Their costs have decreased, so the value of the business would increase.

LPMA submits that there is no rational basis to expect existing customers to provide a subsidy to new customers when the new customers benefit by a factor of four relative to the subsidy they would be receiving under the utility proposals.

LPMA notes that it has focused its analysis on the Union figures provided in this proceeding. The corresponding figures for Enbridge show a similar story in that the benefits that accrue to the new customers are far in excess of the subsidy that would come from existing customers.

v) Customer Education & Workshops

The need for customer education was discussed by Dr. Nieberding. In particular, it was that if factors such as myopia or poor information cause consumers to under value the switch to natural gas, then the appropriate response would be to educate them about the benefits of doing so (Tr. Vol. 5, page 4). LPMA strongly agrees.

LPMA submits that the Board, natural gas utilities, other energy service providers (such as geothermal and solar) and ratepayer representatives should provide community based customer education and workshops. These workshops and educational materials would be aimed at providing information for potential new customers in terms of their potential costs, conversion costs and the impacts of switching to natural gas.

The impacts should include an explanation of payback periods, the impact on greenhouse gas emissions in a cap and trade environment and the impact on the value of their house from converting to natural gas, among other things.

The objective of the workshops would be to provide the information that a potential new customer would need to make an informed decision about whether they should convert to natural gas, some other form of energy or some combination of forms, how much they would be willing to pay and over what period in order to reduce their energy costs.

These workshops should not be limited to natural gas savings. As noted above, they should be open to all forms of energy providers to provide information to their existing or potential new customers. LPMA submits that a customer cannot make an informed decision about switching to natural gas if they do not know the alternatives available to them, such as geothermal and solar water heating, as just two examples.

Elsewhere in this submission, LPMA submits that there should be a mandatory energy audit performed before a customer converts to natural gas. Not only would this inform potential customers of their specific potential savings, but it would also identify options available to them to reduce their overall energy consumption. Information on this would also be provided in these educational materials and workshops.

Finally, LPMA submits that the Board should hold all leave to construct and franchise related hearings in the communities that are impacted. This would allow greater participation by those residential and business customers that would be impacted by the applications. It would be educational and informative for all parties involved.

vi) Risk Transference From the Distributor to Existing Customers

LPMA has significant concerns with the proposals of both Union and Enbridge with respect to the transfer of risk from the distributor to existing customers. This concern is higher with Union because of the proposal for two variance accounts discussed in EB-2015-0179 at Exhibit A, Tab 1, Updated, pages 34-35).

The first of these deferral accounts is the Community Expansion Project Deferral Account. This account would be used to capture any variance between the forecast net revenue requirement approved in rates and the actual revenue requirement for all community expansion projects, including timing differences between the in-service date and the inclusion in rates.

LPMA submits that this reduces Union's risk associated with the net revenue requirement to zero. Under cost of service regulation, Union is at risk for any variance between forecast and actual net revenue requirement. This net revenue requirement reflects differences in the level of capital expenditures as compared to forecast, the timing of these expenditures, the customer attachment forecast (level and timing) and the average use per customer forecast. Union's proposal eliminates all of these risks and provides them a guaranteed return on the equity component of the capital added to rate base.

There is no incentive for Union to control its capital expenditures. If they go over forecast, they will earn more money. There is no incentive to forecast accurately in terms of either customer attachments or average use per customer. If customers do not attach in the levels forecast by Union or they consume less than that forecast, Union has complete protection.

There is a similar level of risk for a utility under an incentive regulation plan. Higher capital expenditures lead to a lower rate of return, as do lower than forecast customer attachments and/or use per customer.

Union proposes that any variance in the account be cleared to all customers. This means that Union has transferred 100% of the risk, including the weather risk, to customers. Union's shareholder has no risk whatsoever, unlike under either cost of service of IRM.

The second deferral account is the Community Expansion Contribution Deferral Account. This account will capture the TES contributions from consumers and the ITE contributions from municipalities. This revenue would then be allocated to ratepayers.

LPMA submits that again, this reduces Union's risk. Again, there is no incentive for Union to forecast accurately. Once again, Union does not incur any risk associated with variances in the attachment forecast, the average use forecast or the weather risk. Moreover, these risks, which are now allocated 100% to ratepayers, are magnified because of the TES rate of $0.23 per m^3. Again, Union's shareholder has no risk whatsoever in terms of the TES and ITE revenues varying from that forecast.

Union's evidence confirms that there is no shareholder risk. In EB-2015-0179, Exhibit A, Tab 1, Updated, page 6, Union sets out a set of principles for the community expansion program. The fourth of the four principles is that natural gas distributors should not be exposed to financial risk related to the incremental new community capital investments.

LPMA submits that this is not appropriate. The shareholders should be subject to the same level of risk as they are under normal circumstances, whether cost of service or incentive regulation. As a result, LPMA submits that the Board should reject both deferral accounts. If, on the other hand, the Board approves the deferral accounts, then LPMA submits that the Board should set the rate of return on capital for these investments commensurate with the risk taken on by the utility. In other words, the capital structure should not reflect any return on equity. Instead, the cost of capital should only reflect the cost of short term and long term debt.

As indicated in Exhibit B.CPA.11 (EB-2015-0179), part (b), Union indicates that its community expansion project proposal is in direct response to the Board's initiative to address the Ontario government's desire to expand natural gas distribution systems to communities the currently do not have access to natural gas. Union further states that it has designed the proposal to minimize financial risk. LPMA submits, that Union has eliminated the financial risk associated with these projects.

Union also indicates in the interrogatory response that it would not be pursuing this proposal in the absence of Ontario government direction to further expand natural gas service, and would not take or accept financial risk for responding to this direction. However, Union has accepted and taken on the financial risk for this program by transferring all of the risk to existing customers. It is they that will bear all risks associated with this project. LPMA submits that this is neither fair nor justified.

So what does Union get in return for accepting no financial risk? Based on the response to Exhibit J6.3 (EB-2016-0004), the shareholder earns a shareholder return with a net present value of approximately $45 million. LPMA asks the question - for what?

Existing customers are being asked to bear all the risks and pay a net present value of a subsidy of $74.7 million (EB-2015-0179, Exhibit JT1.11), of which $45 million in net present value goes to the shareholder who has no risk. LPMA submits that this is inappropriate and should not be accepted by the Board.

vii)Treatment of Temporary Expansion Surcharge Payments

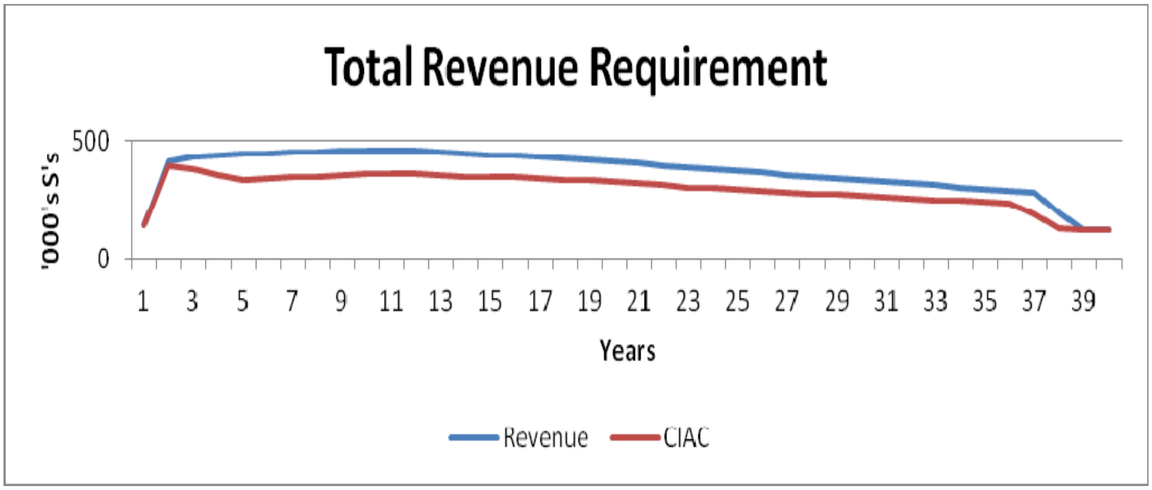
Both Union and Enbridge propose to treat the temporary expansion surcharge ("TES") payments as revenue, rather than as an contribution in aid of construction ("CIAC"). LPMA submits that the Board should require both utilities to treat the surcharge payments as a CIAC. It is clear, in the submission of LPMA, that treating these payments as a CIAC is more beneficial to ratepayers than treating the payments as revenue and ends up costing them less in both the short term and in the long term.

In the response to B.LPMA.1 in EB-2015-0179, Union indicated that ratepayers would be better off under their proposal to treat the surcharge payments as revenue rather than CIAC. The evidence in this proceeding clearly indicates that this is not true. In fact, the response provided in B.LPMA.1 indicates it is only true if you consider the net revenue requirement over the first few years of a project being in service. The net present value ("NPV") clearly shows, based on the figures used by Union, that using the TES as revnue results in a higher NPV of the costs to ratepayers than does the CIAC option.

LPMA submits that the analysis should be done based on the total revenue requirement, not the net revenue requirement which Union has used. The net revenue requirement used by Union is the total revenue requirement less the TES, ITE and incremental revenue generated from the new customers. In other words, the net revenue requirement is the revenue requirement that will need to be paid for by existing customers.

The total revenue requirement is that which will be paid for by all customers. The recovery of this total revenue requirement between new and existing customers will depend on the level of the TES and ITE and the duration of each of these.

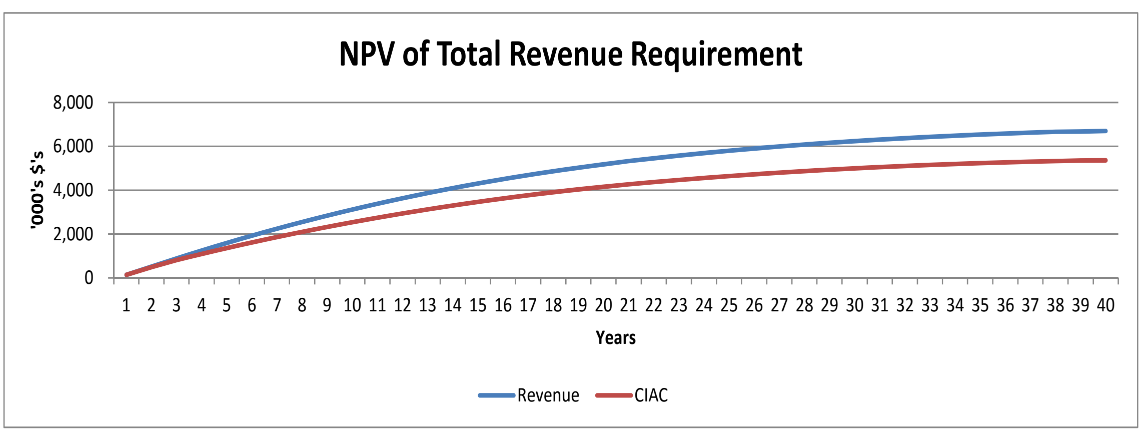
The following is a graphical representation of the total revenue requirement taken from line 11 of B.LPMA.1, Attachment 2 for the revenue approach proposed by Union and from line 11 of Attachment 3 for the CIAC approach proposed by LPMA.



The above graph clearly illustrates that in almost every year, the total revenue requirement based on Union's revenue approach is higher than that based on the CIAC approach recommended by LPMA.

The sum of the total revenue requirement over the forty years, which can be derived from the attachments noted, is $14.8 million under the revenue approach and $11.8 million under the CIAC approach. In other words, over 40 years, customers would pay $3 million more in rates under the Union proposal. This is to be expected, because under the Union approach, the cost of capital, depreciation and income tax costs will be higher because the rate base is higher.

The following graph shows the NPV of the two approaches. Once again the CIAC approach results in a lower total cost to ratepayers. Note that the NPV was calculated using the same discount rate of 5.10% as used by Union in the response the interrogatory.



The NPV over forty years of the Union revenue approach is approximately \$6.7 million, while the NPV over the same period of the CIAC approach is about \$5.4 million. In other words, the Union approach costs customers \$1.4 million or nearly 25% more than the CIAC approach.

LPMA notes that the interrogatory response and the above analysis is based on one project, Milverton. However, as indicated by Union, the pattern of the revenue requirement over the forty year time horizon *"appears to be similar for most of the projects"* (Tr. Vol. 6, page 6). If this is even close to being true, the use of the TES payments as offsets to capital rather than as revenue will reduce the net present value of the costs to be recovered from ratepayers by close to 25%.

In addition to the clear benefit of the CIAC approach to ratepayers, LPMA notes that the TES and the corresponding temporary connection surcharge ("TCS") under Union's small main extension proposal are in lieu of an upfront CIAC. In fact, Union's evidence (EB-2015-0179, Exhibit A, Tab 3, page 2) states that *"Customers will have a choice of using the TCS mechanism or paying an up-front CIAC in line with past practice."*

Clearly, the TES and TCS are mechanisms to avoid large upfront payments from customers that could result in lower conversions to natural gas. The TES and TCS payments, however, are still contributions made to enhance the economic feasibility of a project. They are not payments associated with any incremental ongoing cost of the expansions. LPMA submits that both the TES and TCS should be treated as CIAC.

LPMA does agree with Union's approach of the treating the incremental tax equivalent ("ITE") mechanism as a revenue. This is because the ITE collected each year will be an offset to the property tax paid each year.

viii) Board Recommendations to the Ontario Government

LPMA submits that the Board should make three recommendations to the Ontario government that would help improve the goal to provide gas service to more communities.

The first recommendation is that the Capital Cost Allowance ("CCA") should be accelerated for all capital expenditures associated with the expansion of natural gas in Ontario. This would result in increased CCA deductions in the early years of project and lower deductions in later years. Overall, the income tax burden would not be changed, but it would be deferred on average. This would result in an improvement in the profitability index calculations, because the higher income tax reductions in the early years would be weighted more heavily that the lower reductions in the later years.

In the recently announced Five Year Climate Change Action Plan ("CCAP"), one of the Action Areas was to consider accelerated capital cost allowance wherein the province would work with the federal government to explore the possible opportunities for accelerated capital cost allowance for technologies that reduce greenhouse gas pollution.

LPMA also notes that the CCA has been accelerated in the past for certain distribution and transmission assets. LPMA believes that the accelerated CCA would result in reduced costs for the community expansion projects to be recovered from customers.

Another Action Area in the CCAP is the potential removal of the HST on zero emission vehicles. Again the Ontario government will look for ways to work with the federal government to provide full relief to purchasers of new battery electric vehicles.

LPMA's second recommendation is that the Board recommend to the government the elimination of the HST on contributions in aid of construction and/or the TES and TCS surcharges for customers that convert to natural gas. The HST is a major component of the costs for customers to convert. Elimination of this portion of the cost would encourage more conversions to take place and to take place earlier, thereby increasing the economics of the projects.

Finally, LPMA recommends that the Board encourage the government to require mandatory energy audits for potential new customers before they convert to natural gas. These audits would be free to the customers, similar to the proposal in the CCAP that would require energy audits before a new or existing single family home could be listed for sale (Home Energy Rating and Disclosure Program). LPMA submits that like in the CCAP, the free energy audit would improve customer awareness by encouraging them to reduce their energy use and save even more money than what they would save by just converting to natural gas.

LPMA further submits that rolling out the energy audit requirement in the community expansion programs could be considered by the government as a test run for the large and more comprehensive rollout of the Home Energy Rating and Disclosure Program included in the CCAP.

ix) TES Calculation

LPMA has significant issues and concerns with the calculation of the TES of $0.23/m^3.

First, Enbridge seems to have simply adopted this figure from the Union Gas evidence. LPMA submits that there is no reason why this figure should be the same between the two utilities. Second, the Union calculation, which is found at Appendix E of Exhibit A, Tab 1 (EB-2015-0179) is based on a number of assumptions that are not supported by the evidence and are based on weighted averages that can vary significantly from one community to another.

Union assumes a required payback period of 3.75 years based on nothing but their view that it should not be longer than 4 years. It assumes an average annual consumption of 2,200 m3, which, in the view of LPMA, is likely to be significantly too high given that all new customers would be using high efficiency equipment and, under LPMA's proposal, would have undergone an energy audit to find other potential savings. The annual energy savings are driven by both price differentials and the mix of existing energy uses. LPMA notes that there was much discussion of the energy price differentials in this proceeding and notes that the consensus was that the differentials can vary both over time and by community. Similarly, the mix of existing energy uses varies from community to community.

Similarly, the conversion cost of $4,068 used by Union in the calculation is a weighted average of different conversion costs from different current fuels. Again this would vary by community.

The calculation of the TES charge of $\$0.23/m^3$ is very sensitive to the assumptions used. As an example, LPMA has calculated the TES charge with small changes to each of the four key assumptions. In particular, LPMA has done the calculation based on the following changes: the payback period is changed from 3.75 to 5.0 years, the annual consumption changed from 2,200 to 2,000 m^3, the annual every savings changed from $1,600 to $1,700 and the one time conversion cost changed from $4,068 to $3,968. Each of these changes is relatively minor and certainly all within the realm of possibility for a community. Based on these assumptions the TES nearly doubles, going from $\$0.23/m^3$ to $\$0.45/m^3$.

This highlights two issues to LPMA. First, the calculation of the surcharge is very sensitive to small changes in the assumptions. Second, the calculation will be very sensitive to community specific circumstances.

Ideally, there should be a TES calculated for each project. However, LPMA agrees with Union and Enbridge that this would be cumbersome to administer. However, given that the TES could be significantly different for various communities, LPMA submits that the

Board should approve the use of a number of different TES charges, in the range of 3 to 5.

The utility would calculate a specific TES charge for a project. This would then be slotted into one of 3 to 5 ranges for the TES. For example, if there were three ranges of $0.00 to $0.20, $0.20 to $0.40 and $0.40 to $0.60, and a community specific TES was calculated to be $0.38, the TES would be set at the midpoint of the range. In this example it would be set at $0.30. If the community specific TES was calculated to be higher than $0.60, it would be set at the figure calculated. This approach would more accurately align costs with recovery of those costs.

Finally, LPMA submits that the assumptions used in the calculation of the TES and the setting of the TES charge should be part of the leave to construct proceedings because that is where the community specific information would be provided by the utility and reviewed by interested parties and the Board.

x) Damage to Competitive Markets

LPMA submits that the Board should avoid approving a community expansion program that would result in damage to the existing competitive markets for fuel that exists in the communities. These markets are already served by multiple propane dealers, home heating oil dealers, solar and wind providers, geothermal providers and electricity distributors. The only reason that natural gas is not already in the mix is that is expensive to get the gas to these areas.

As noted earlier, LPMA supports the extension of natural gas to these communities, but only if the costs are paid for by the customers that will benefit from the extension. Customers will be able to choose between natural gas and other fuels based on a comparable basis. It is not fair to existing energy providers to have to compete against a subsidized alternative.

If the government announced it was going to subsidize the cost for residential, commercial and industrial customers to put in geothermal systems to replace fossil fuel use, LPMA submits that it would be very likely that Union and Enbridge would object to the resulting market distortions. The Union and Enbridge proposals result in the same type of market distortions.

As a result, LPMA submits that the Board should not approve any subsidy from existing customers. Not only does this hurt existing customers, but it also hurts energy suppliers in the competitive market in which they already operate. As indicated throughout this submission, subsidies are not required. The savings that accrue to the new customers are more than enough to allow them to make up the difference in the profitability index, with savings left over.

B. SPECIFIC SUBMISSIONS ON THE ISSUES

The following are the submissions of the LPMA with respect to the specific issues in this proceeding.

1. What is considered a community in the context of this proceeding?

Both Union and Enbridge have proposed a community be defined as a non-gas serviced geographic area which consists of a minimum of 50 existing homes and businesses. These areas would qualify as community expansion projects.

All other forms of distribution expansion which provides first time natural gas system access to customers would not qualify as a community expansion project, but would qualify as small main extension projects. These projects would include the extension of mains and related service attachments and service lines to individual commercial and industrial customers off existing mains. Different rules apply to small main extension projects compared to community expansion projects.

In addition to the number of existing homes and businesses, the Union and Enbridge definition of a community refers to a geographic area. There are no constraints placed on the geographic area, nor is it defined anywhere.

LPMA submits that the proposed definition of a community is insufficient and could easily lead to abuse and unfair treatment of potential customers as the two following examples illustrate.

As an example, 20 existing houses and 20 farms (businesses) that existing along a number of adjacent concessions in a rural area would not qualify for the preferred treatment under a community expansion project. However, a project could be defined to include these 40 potential customers and another 10 potential customers several kilometers away. In other words, in the absence of a geographical limit on the size of a community expansion project, almost any project could be resized to fit the criterion of a community expansion project.

Similarly, two hamlets 20 kilometres apart, each with 25 existing homes would not qualify as a community expansion project, but if it was proposed to build a line between the two hamlets, these two projects would now be one and would qualify for the benefits associated with being a community expansion project.

LPMA submits that any definition of a community needs to address the potential manipulation of the definition, such as the examples provided above. LPMA submits that one way to accomplish this could be to define a community as an area that, in addition to the quantum of 50 existing homes and businesses, is that it is also separate and identifiable from other communities. The two hamlets would be separate communities, and the two areas of farms would be separate and identifiable if the number of customers per kilometre were different between the two areas noted and the area in between the two clusters of customers. It is these "clustomers" that should be considered as communities, not the aggregation of a number of clusters.

It is also not clear to LPMA if the definition of a community needs to be, or should be, the same across utilities. This is discussed in more detail under Issue #3 below.

2. Does the OEB have the legal authority to establish a framework whereby the customers of one utility subsidize the expansion undertaken by another distributor into communities that do not have natural gas service?

LPMA has reviewed the evidence of both Union and Enbridge with respect to this issue and agrees with those submissions.

LPMA also notes that the Board does not have jurisdiction over a number of natural gas utilities in the province, including Kitchener Utilities, Utilities Kingston and Six Nations Natural Gas Company Limited. It would not be fair, in the submission of LPMA if the Board were to only require the utilities that it regulates (Union, Enbridge and Natural Resource Gas Limited ("NRG")) to contribute to the subsidization fund, even if only these three utilities could draw from it. This is because the reason for such subsidization is that the expansion to areas currently without access to natural gas would provide benefits for the province as a whole, not just to the newly served areas. If this is the case, then the costs associated with these benefits should be recovered from all Ontario taxpayers, not just natural gas ratepayers, and certainly not just a subset of some Ontario natural gas ratepayers.

3. Based on a premise that the OEB has the legal authority described in Issue #2, what are the merits of this approach? How should these contributions be treated for ratemaking purposes?

If the Board has the legal authority described in Issue #2, then LPMA submits the framework needs to include all natural gas ratepayers, not just those serviced by utilities regulated by the Board. The reason for this was provided in the submission to Issue #2 above.

LPMA submits that there are no merits to this approach but there are several drawbacks. For example, not all utilities contributing to the subsidy fund may be able to draw on those funds. For example, Kitchener and Kingston may not have areas in their cities that have 50 existing homes and businesses currently without access to natural gas. Similarly, NRG may not have a community with 50 existing homes and businesses for which it could apply for the use of some of the funds in the subsidy account.

As noted in Issue #1 above, it is not clear to LPMA whether the definition of a community should be the same across all utilities. For example, NRG may not have an unserviced community based on the criterion set out by Union and EGD (50 existing homes and businesses), but may have a community based on 25 existing homes and businesses. Similarly, depending on the definition of a community with respect to a non-gas serviced geographic area, Kitchener and Kingston may or may not have such projects. For example, would a street in Kitchener that has 30 customers and does not currently have a gas main on the street qualify for funding from the subsidy fund? Under the Union and Enbridge definition, it would not, but what if the definition is different for each utility?

Elsewhere in these submissions, LPMA submits that a subsidy is not required for any of the projects that should proceed if those potential customers that reap the benefits pay the costs. If the Board determines that this should be a guiding principle in the community expansion projects, then the need for a subsidy from one utility to another becomes a moot point.

If the Board does proceed with a framework whereby the customers of one utility subsidize the expansion undertaken by another utility, then any such contribution received has to be treated as an aid to construction. This is the only way that the Board and ratepayers can be assured that the utility that receives the subsidy does not turn around and earn a return on the amount of the subsidy. Whether this contribution comes from a customer of the utility that is expanding or from a fund set up to administer the contributions, the treatment needs to be fair and equitable and the utility receiving the subsidy cannot earn a return on money that it has been given to it, whether it is from a customer of the utility or from a customer of another utility. It should be treated the same as money that a utility receives from the loan and grant program recently announced by the provincial government.

4. Should the OEB consider exemptions or changes to the EBO 188 guidelines for rural, remote and First Nation community expansion projects?

Throughout these submissions, LPMA argues that the Board should not consider exemptions to the EBO 188 guidelines, but rather should consider a number of changes to the guidelines. These changes would not be applicable only to rural, remote and First Nation community expansion projects. They would be applicable to these projects and all other projects where the EBO 188 guidelines are currently applicable.

a) 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?

The current EBO 188 guidelines uses two portfolios. The Investment Portfolio ("IP") and the Rolling Project Portfolio ("RPP"). The IP includes all distribution business costs necessary to attach any customers of all rate classes in a given 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 Board set a minimum IP target Profitability Index ("PI") of 1.1 to provide a safety margin to minimize adverse impacts result from forecast error. In addition any project included in the IP must have a minimum PI of 0.8.

The RPP excludes in-fill customers but includes all customers forecasted to attach to a new system in future years as well as the Normalized Reinforcement Amount noted above for the IP. The minimum target for the RPP is a PI of 1.0.

LPMA has interpreted this issue as whether or not the Board should allow portfolios to include projects that have a PI below 0.8, and if so, should the Board also allow the PI of the IP containing those projects to drop below 1.0.

LPMA submits that the Board should maintain the EBO 188 approach, but with three changes. These changes would be applicable to all projects, for all customers, including in-fill customers. This would eliminate the potential for customers to be treated differently and pay different amounts for the same thing. In other words, the potential for discrimination discussed earlier in this submission, would be eliminated. All customers, regardless of their location, would be treated the same and subject to the same requirements.

First, the Board should allow the utilities to include individual projects with a natural PI of less than 0.8 to be included in the IP but only if the addition of the TES, TCS, capital contributions and any other changes to the EBO 188 guidelines result in a minimum PI of 0.8. The term of the TES and TCS is discussed under Issue 5 below.

Second, the PI for the IP should be reduced from 1.1 to 1.0. Third, the Board should establish a RPP target of 1.0. However, this RPP would not be for a rolling 12 month period. Rather it should be for a rolling 3 year period initially, extending to a rolling 5 year period after the initial 3 year period is over.

As indicated above, these PI's would apply not only to community expansion projects, but also to all projects that currently fit under EBO 188. In other words, all customers would be treated the same.

As noted above, the Board set a minimum IP target PI of 1.1 to provide a safety margin to minimize adverse impacts resulting from forecast error. LPMA submits that the Board should relax this safety margin based on historical performance of both Union and Enbridge and the addition of the 3 or 5 year RPP PI. This would allow the utilities to be more aggressive in their inclusion of projects in their IP and allow projects with a PI of under 0.8 to be included.

Union has provided evidence (EB-2015-0179, Exhibit A, Tab 1, Updated, Table 6, p. 38) that over the last three years, it has a RPP that is above 1.0 with an average net present value of $14.6 million per year. In other words, if the IP PI was reduced to 1.0, the resulting net present value would be $0, and Union could do addition projects with PI's of less than 1.0.

LPMA further submits that there is still a safeguard for existing customers of reducing the PI to 1.0. This safeguard is not reflected in the calculation of the PI, and is based on the estimated $0.50 per customer decrease in OM&A due to economies of scale (S15.UNION.BOMA.59). This translates into savings for existing customers of about $700,000 per year and provides a safety margin on its own (Tr. Vol. 6, pages 4-5).

In any given year, the IP PI may fall below 1.0 on an actual basis. However, the use of the 3 or 5 year RPP PI would mitigate the impact of any one year and would allow years where the IP PI was greater than 1.0 to offset the impacts in those years where it was less than 1.0. This may be the result of a lumpy investment profile, or the timing of when certain projects go into service. In any case, LPMA believes that this would be appropriate because it is the long term impact on existing customers that is at issue and is of importance to ratepayers. If a 3 or 5 year RPP PI is at 1.0 or greater, it means that there are no existing long term adverse impacts on existing customers. The long term view is appropriate because the assets themselves are long lived.

Over a number of years, Union and Enbridge should be able to increase the number of projects they do with no adverse long term impacts on existing customers.

b) 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 has reviewed the evidence of Union with respect to this issue (EB-2016-0004, Exhibit A, Tab 1, pages 8-14) that deals with upstream reinforcement costs (including an advancement charge, if applicable), minimum design costs, rate base revenue, commercial/industrial revenue time periods and customer forecast time periods. LPMA supports the evidence of Union on each of these costs.

With respect to the inclusion of advancement charges, LPMA supports the two restrictions outlined by Union in their evidence (EB-2016-0004, Exhibit A, Tab 1, pages 10-11). In particular, LPMA supports the inclusion of the advancement charges if system reinforcement is advanced to within three years following the year the project is put into service and where a new attachment or load addition consists of a load of 200 m^3/hour or more.

c) What, if any, amendments to the EBO 188 and EBO 134 guidelines would be required as a result of the inclusion of any costs identified above?

LPMA does not believe that a review of the EBO 134 guidelines are required as part of this proceeding. LPMA agrees with the reasons provided by Union (EB-2016-0004, Exhibit A, Tab 1, pages 15-16) for this position.

With respect to changes the EBO 188 guidelines, LPMA agrees with the changes noted on page 15 of the Union evidence noted above at lines 6 through 17. However, LPMA does not agree with Union's proposed exemptions under EBO 188. As discussed throughout this submission, there is no need for the exemptions or the subsidies that would flow out of them.

d) 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 does not agree that any projects/communities should be eligible for an exemption from EBO 188. Rather, the modified EBO 188 would be applicable to all projects/communities/extensions.

LPMA submits that the key public interest factor that should be taken into consideration is the energy cost savings for the new customers. These estimated savings should be taken into account when determining what level of subsidy, if any, should be borne by existing ratepayers. Under EBO 134 guidelines, this would be considered a Stage 2 benefit.

Any other benefits, such as economic development, should also be considered, but only with respect to who pays for the expansion of the distribution system, and what level of subsidy, if any, should be paid for by different groups of customers.

e) Should there be exemptions to certain costs being included in the economic assessment for providing natural gas service to communities that are not served? If so, what are those exemptions and how should the OEB consider them in assessing to approve specific community expansion projects?

LPMA submits that all incremental costs for the minimum design of a project should be included in the economic evaluation of that project, subject to the three exceptions noted below.

Consistent with the submissions of Union, which LPMA supports, of Issue 4 (b) above, LPMA submits that any advancement charges for future upstream distribution system reinforcement not be included in the economic evaluation of a project where the reinforcement is not expected to take place for a period of three or more years following the year in which a project enters service.

LPMA also supports Union's submission that the incremental cost associated with a preferred design over a minimum design should not be included in the economic evaluation of a project.

Finally, LPMA supports the exclusion of transmission and storage related costs from the economic evaluation, for the reasons stated in Union's evidence (EB-2016-0004, Exhibit A, Tab 1, pages 18-19).

f) Should the economic, environmental and public interest components in not expanding natural gas service to a specific community be considered? If so how?

LPMA submits that where a project is not economically feasible (i.e. the project has a PI of less than 1.0 before any contributions or surcharges are applied), then public interest factors should be considered for both assessing whether to proceed with the project and who should contribute to the making the project feasible.

The opportunity costs of not proceeding with a project should be identifiable on a disaggregated basis including, but not limited to, energy cost savings to potential customers, increased municipal taxes (direct pipeline and connection taxes, increase in assessed property values and economic growth), employment and environmental benefits.

5. Should the OEB allow 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?

Yes, LPMA supports the ability of natural gas distributors to establish surcharges from customers of new communities to improve the feasibility of potential community expansion projects. This allows customers to pay over time rather than provide an upfront lump sum capital contribution. In many cases, customers cannot afford the upfront cost and allowing them to pay over time would benefit many potential customers.

However, LPMA also submits that the surcharge approach should also be available where a contribution is required from customers not included in a community expansion project. In other words, the surcharge approach should be available to all new connection customers, not just a subset of the new customers.

The use of a surcharge provides a means for a new customer to make a contribution to the financial feasibility of a project over time while at the same time maintaining the concept of postage stamp rates. Once the surcharge period is over, the customer will pay the same rates as others in their rate class.

With respect to the term of the TES, TCS and ITE, LPMA submits that the term should be set at the lower of 40 years and the year in which the project achieves a profitability index of 0.8. The 0.8 is the minimum level for a project proposed by LPMA as discussed under Issue 4 (a) above.

There is no evidence to support Union's submission that customers would not want a term of more than ten years. In fact, the evidence in this proceeding, from Enbridge, is that a forty year term is acceptable to customers, given that in each and every one of those years, the customers would save money, even when paying the TES.

LPMA has provided its submissions with respect to the treatment of the surcharge payments in Section A, part (vii) above.

6. Are there other ratemaking or rate recovery approaches that the OEB should consider?

There are other ratemaking or rate recovery approaches that the OEB could consider. However, LPMA submits that if a utility wishes to bring forward an alternative approach it should do so and it could be reviewed on its own merits.

As discussed above, LPMA submits that the Board should require the utilities to treat any revenues raised through the proposed surcharges as a capital contribution. As noted earlier in this submission, this provides a greater benefit to ratepayers than treating the payments as revenues through a lower revenue requirement.

7. 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?

LPMA submits that the Board should not allow for the revenue requirement associated with community expansion costs during the remainder of the incentive ratemaking ("IR") framework once the assets are used and useful for a number of reasons.

First, the current incentive regulation plans only go to the end of 2018. In other words, before either utility spends any capital on their proposed projects, the IR terms (2014 through 2018 rates) will be more than half over. LPMA submits that any expenditures made and placed into service by the end of 2017 and 2018 will be relatively small compared to the overall program expenditures. The resulting revenue requirement, less the incremental revenues, is not likely to be material.

Second, the EB-2013-0202 Settlement Agreement (dated July 31, 2013) already makes provisions for a Y factor for major capital additions and a Z factor for unanticipated events.

Union's community expansion program is just that: a program that aggregates a number of individual projects, each of which is to be exempted from EBO 188. The major capital additions Y factor agreed to by Union and parties has a number of criteria before a project qualifies.

In particular, the capital cost of the project must exceed $50 million, and the net delivery revenue requirement for a single new project must exceed $5 million. LPMA notes that both of these criteria use "project", not program or collection of projects.

A review of the capital costs provided for the 29 projects that Union may do over the next several years (EB-2015-0179, Exhibit A, Tab 1, Appendix D, Updated) reveals that only one of the projects would exceed the $50 million capital threshold (Kincardine et al.). Moreover, the total capital associated with the four projects that Union has requested approval for in EB-2015-0179 is less than $10 million, ranging from $0.49 million to $4.77 million. The total revenue requirement for these four projects, assuming no revenues, would likely be less than $1 million in the first few years. Other than the Kincardine project, the total revenue requirement for any project would not exceed $5 million before taking into account the incremental revenue that each of the projects would provide.

As a result, LPMA submits that the projects, other than Kincardine, would not qualify as a major capital addition Y factor. It is highly unlikely that the Kincardine project would be in service before the end of 2018, and even if it was, the revenue requirement would be only based on a portion of the year of the assets being in service and the resulting revenue requirement, before taking into account incremental revenues would almost certainly be less than $5 million.

Similarly, LPMA submits that the projects would not qualify as a Z factor, given that the net revenue requirement threshold to qualify as a Z factor is $4 million. Further, the capital expenditures are not "an external event that is beyond the control of utility's management". Hence, the projects would not qualify as a Z factor.

Union is asking the Board to make a change to the IR agreement by allowing a new cost to be included in rates that does not qualify for inclusion based on the agreement. LPMA submits that it would not be appropriate for the Board to make a change to the agreement without the agreement of all the parties to that agreement.

LPMA submits that the total net revenue requirement in 2017 and 2018, is not likely to be material, based on the materiality threshold of $4 million agreed to for Z factor purposes.

This is not to say that LPMA is totally against the inclusion of such net costs (revenue requirement less forecasted revenues) in rates for 2017 and 2018. However, such agreement would be conditional on negotiating other changes with Union and other parties to the EB-2013-0202 settlement agreement.

8. Should the OEB consider imposing conditions or making other changes to Municipal Franchise Agreements and Certificates of Public Convenience and Necessity to reduce barriers to natural gas expansion?

With the exception noted below, LPMA does not see any reason to impose conditions or make other changes to municipal franchise agreements and/or certificates of public convenience and necessity to reduce barriers to natural gas expansion.

Municipal franchise agreements are non-exclusive, meaning that more than one agreement can be in place for any geographical area. As a result, LPMA submits that the existence of an existing municipal franchise agreement does not create a barrier to other gas distributors that may be interested in serving a community that is not currently served, or to a portion of a municipality that is not currently served.

Similarly, LPMA submits that the current model franchise agreement does not result in any barriers to expansion. The model franchise agreement puts utilities on an equal footing. Allowing various forms of the franchise agreement is likely to result in more potential barriers than the model franchise agreement.

Certificates of public convenience and necessity do provide for exclusive rights to distribute natural gas to a specific geographic area. However, the geographic area does not need to include all of the area covered by the municipal franchise agreement. This would eliminate any potential barrier for another distributor that may be interested in serving a municipality or a portion of a municipality that is currently not served.

LPMA submits that a certificate can be amended by the Board to cover only the geographic areas actually served by a utility.

The exception noted above deals with a utility holding franchise agreements and/or certificates of public convenience and necessity for geographic areas that they do not serve. The "banking" of these agreements and certificates could be seen as a barrier to other utilities that may be interested in serving a community or portion of a municipality. This is because the onus would be on the new entrant to obtain the franchise agreements and certificates, while the existing utility already has them.

To counter this potential barrier, which LPMA submits is probably more of a perceived barrier as compared to an actual barrier, the Board should consider an expiry date for both franchise agreements and certificates for areas that are not served by the utility. For example, if an area of a municipality does not have access to natural gas five years after they are awarded, the agreements and certificates should default to the area actually served by the utility at that time. This would encourage the existing utility to expand service and if they did not, it would send a clear signal to other utilities that may be interested in serving the area.

<u>9. What types of processes could be implemented to facilitate the introduction of new entrants to provide service to communities that do not have access to natural gas. What are the merits of these processes and what are the existing barriers to implementation? (e.g. Issuance of Request for Proposals to enter into franchise agreements)</u>

LPMA does not believe that any new process needs to be implemented to facilitate the introduction of new entrants to provide service to communities that do not have access to natural gas.

If more than one utility wants to serve an area, each of them can bring forward applications for the required franchise, certificate and leave to construct applications to the Board. In addition, one utility can intervene in the application of another. Ultimately, the Board would decide which application should be approved.

LPMA agrees with the evidence of Union Gas (EB-2016-0004, Exhibit A, Tab 1, page 32), that a key input that the Board must take into consideration are the proposed rates that would be charged and the resulting impact on customers. Even more important than the Board knowing the impact on customers of different proposals, LPMA submits that the potential customers should know the impact. Hence the need for hearings in the communities, educational material and workshops.

Part of the transparency needed for the Board to decide which utility should be allowed to service is that all applications associated with a contested application (franchise agreement, certificate, leave to construct) should be held in the communities affected. In addition the Board should hold workshops in those communities to educate the customers. Neither applicant should be involved in those workshops, as they will each have their own agenda to promote.

However, LPMA disagrees that rates should be the only determining factor. Other factors need to be taken into consideration. In other words, the lowest rates may not be the best option. Other considerations would, in many ways, parallel the discussion in this case about the benefits of having natural gas in currently unserved areas. Such benefits from one application could include increased local employment and increased municipal taxes from a head office or service center.

Other less tangible factors may lead to the conclusion by a municipality, on behalf of their ratepayers, that the lowest rates are not the only thing that should be taken into account.

LPMA notes that in many rural communities and small towns, there is a greater emphasis on such things as the 100 mile diet, buying local and supporting small local businesses in the face of competition from large corporations such as Walmart.

In this spirit, ratepayers may prefer a local utility over one headquartered in Toronto or Chatham. They may prefer local ownership over Canadian multinational or foreign ownership. They may prefer local government ownership (such as Kitchener and Kingston) over corporate ownership. They may prefer non profit ownership over a for profit utility. They may prefer that their local electricity distributor also own the gas utility. This Utilities Kingston type of model allows economies of scale to be shared by the electric and gas ratepayers, who are often the same.

10. How will the Ontario Government's proposed cap and trade program impact an alternative framework that the OEB may establish to facilitate the provision of natural gas services in communities that do not currently have access?

LPMA submits that the Ontario cap and trade program should not be considered in isolation in the determination of an alternative framework that the Board may establish to facilitate the provision of natural gas service in communities that do not currently have access to natural gas.

In particular, LPMA submits that the Board should also take into consideration Ontario's Five Year Climate Change Action Plan 2016-2020 ("CCAP") that was released earlier this month.

The cap and trade program will have the most impact on the estimated savings from switching from other fuels to natural gas. This is discussed more fully in Issue 11 below. However, the CCAP has more far reaching impacts on an alternative framework that may be established to facilitate the provision of natural gas service in communities that do not currently have access.

As an example, the CCAP discusses collaboration with indigenous communities in a partnership to ensure a transition to non-fossil fuel energy in a way that minimizes the impact on communities. LPMA notes that a number of the projects identified by Union are for First Nations communities. The Board needs to determine if extending a fossil fuel to these communities makes sense in the long term given the government emphasis on transitioning these communities to non-fossil fuel energy.

With respect to buildings and homes, the CCAP proposes a number of measures that would ultimately reduce the use of natural gas. These measures include updates to the building code with long term energy efficiency targets for new net zero small buildings that will come into effect by 2030 at the latest and consultation on initial changes that will be effective by 2020. These timeframes of fourteen and four years, respectively, are significantly shorter than the forty year plus life of the natural gas assets that the utilities want to invest in.

Other measures include the subsidization of electricity rates using cap and trade proceeds to offset the cost of greenhouse gas pollution reduction initiatives that are currently funded by residential and industrial customers on their electricity bills. This will narrow the price advantage for natural gas over electricity. Similarly a new program that targets northern and rural communities, including indigenous communities, will encourage households to switch out older polluting wood stoves for new high efficiency wood stoves. This will result in lower savings for customers converting to natural gas.

The CCAP also proposes to help homeowners, schools, universities, colleges and hospitals to purchase and install low carbon energy technologies such as geothermal heat pumps and air-source heat pumps, solar thermal and solar energy generation systems that reduce the reliance on fossil fuels for space and water heating. This is likely to lower the need for natural gas in currently unserved areas by some of the largest potential customers in those communities.

LPMA submits that the Board should take into account the government's CCAP and the emphasis in it on switching away from fossil fuels, including natural gas, to low carbon technologies such as geothermal and solar. Does it make sense to expand the use of natural gas into communities that currently do not have access with long lived assets while at the same time the government is promoting a relatively rapid transition away from fossil fuels, including natural gas, for heating and water heating? This is especially important and critical under the proposals of Union and Enbridge that effectively transfer all of the risks associated with financial viability of these projects to existing customers.

11. What is the impact of the Ontario Government's proposed cap and trade program on the estimated savings to switch from other alternative fuels to natural gas and the resulting impact on conversion rates?

LPMA submits that at high level, the impact of the proposed cap and trade program on the estimated savings to switch from other alternative fuels to natural gas is that the price advantage with respect some fuels such as home heating oil and propane will increase, because natural gas is less carbon intensive than those fuels. However, the savings associated with moving from wood to natural gas will be lower because a lot of wood is self provided in rural and northern areas and will not attract the carbon tax. In addition, as noted above, the government is proposing a program to replace old wood stoves with high efficiency stoves.

The cost advantage of natural gas over electricity will decline since most electricity is generated from non-carbon based sources. In addition, some of the cap and trade proceeds will be used to keep electricity rates affordable, according to the CCAP.

The resulting impact on conversion rates is likely a decrease in the conversions from wood and electricity due to the lower savings, and higher conversions from oil and propane, based on the higher savings. However, LPMA submits that the Board should review the estimated savings and conversion rates on a project by project basis. The makeup of alternative energy sources is diverse across communities, as is the cost of these fuels. This necessitates a project by project review of the potential savings. In addition, the cost of the cap and trade credits is expected to change over time and this should be included in any analysis of savings and conversion rates.

<u>12. How should the OEB incorporate the Ontario Government's recently announced loan and grant programs into the economic feasibility analysis?</u>

LPMA submits that any loans made available to municipalities by the provincial government that are then used by the municipalities to support the extension of the gas system should be applied as a contribution in aid of construction. Applying this funding would reduce the gross capital cost of a project in the economic feasibility analysis and increase the profitability index. This would ultimately reduce the level of the subsidy required from existing ratepayers under the Union and Enbridge proposals, and would reduce the level of surcharges to the new customers under the LPMA proposal.

The treatment of the grants could also be treated in this manner. However, LPMA submits that the Board should consider an approach where the $30 million in grants would be used to reduce the conversion costs for customers that switch to natural gas in the newly served communities.

The community expansion projects identified by Union and EGD have a total potential customer base of about 40,000 homes and businesses. Assuming 75% of these potential customers switch to natural gas, this would equate to about 30,000 customers. The $30 million in grants would then average $1,000 per conversion. This grant would represent about 25% of the average conversion costs calculated by Union (EB-2015-0179, Exhibit A, Tab 1, Updated, Table 2).

This reduction in conversion costs would significantly change the net savings per year calculated by Union in EB-2015-0179, Exhibit A, Tab 1, Appendix E in arriving at the TES rate of $0.23/m^3$. The reduction in the average conversion cost by $1,000 would increase the annual savings over the 3.75 year payback period used by Union from $515.20 to $781.87, and the TES rate could be increased from $0.23/m^3$ to $0.36/m^3$.

This increase in the TES rate would positively impact (i.e. reduce) the level of subsidization from existing customers under the Union and Enbridge proposals.

The added benefit of using the grants to help pay for the conversion costs for customers rather than as an aid to construction, is that it would likely increase the conversion rate of customers switching to natural gas since the upfront costs would be significantly reduced.

C. RECOMMENDATIONS TO THE BOARD

The following a summary of the recommendations of LPMA to the Board. They are discussed in detail in the above submissions.

* Make Changes to the EBO 188 Guidelines and do not grant exemptions to it
* Individual project PI can be less than 0.8, but must be brought up to a minimum of 0.8 through capital contributions, TES, TCS and any other changes to EBO 188
* Minimum investment portfolio PI should be lowered from 1.1 to 1.0
* Rolling project portfolio of 3 to 5 years should be required to maintain a minimum PI of 1.0
* Term of TES, ITE and TCS should be extended to the lesser of 40 years or when the project PI reaches 0.8
* TES and TCS surcharge revenues should be treated as contributions in aid of construction and not as revenues
* Board should hold workshops and provide educational information to customers in each community where expansion is being considered, in conjunction with the natural gas utility, other energy service providers and intervenor representatives
* Leave to construct and franchise related hearings should be held in the communities affected
* Recommendations to the Ontario government should include:
  - accelerated CCA rates for natural gas expansion expenditures
  - removal of HST on contributions in aid of construction and associated surcharges
  - mandatory energy audit before converting to natural gas

ALL OF WHICH IS RESPECTFULLY SUBMITTED

June 20, 2016

Randy Aiken
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