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June 22, 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-2015-0363 - Comments of London Property Management Association

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

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

Encl.

**COMMENTS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION
ON
STAFF DISCUSSION PAPER
ON A CAP AND TRADE REGULATORY FRAMEWORK
FOR THE
NATURAL GAS UTILITIES**

June 22, 2016

The following are the comments of the London Property Management Association ("LPMA") on the Staff Discussion Paper on a Cap and Trade Regulatory Framework for the Natural Gas Utilities dated May 25, 2016 ("Staff paper"). The Ontario Energy Board ("Board") initiated this consultation in March, 2016.

The comments follow the Table of Contents of the Staff paper. Overall, LPMA is concerned with the complexity of the system and the potential that exists for significant additional costs to be borne by ratepayers. There also exists the potential for significantly different costs (on a per cubic meter basis) for customers served by different distributors. LPMA also is concerned with the government/Staff attempt to conceal the overall costs of the cap & trade system on ratepayer bills.

3. Guiding Principles of Framework

LPMA supports the guiding principles listed by Staff to ensure consumer protection.

However, with respect to cost recovery, LPMA submits that there should be an incentive for the distributors to reduce their facility-related compliance obligations. The purpose of cap & trade is to reduce, over time, the production of greenhouse gas ("GHG") emissions by putting a price on these emissions. Residential customers, along with all commercial, institutional and industrial customers will have an incentive based on the incremental costs to reduce their carbon emissions. However, if there is a 100% pass through available to distributors, there is no incentive for them to reduce their emissions. LPMA submits that this would be counter to the goal of the cap & trade system. Distributors should not be exempt from having an incentive. LPMA recommends that only 50% of the costs associated with distributor facility-related compliance costs be passed through to ratepayers, while the other 50% should be for the account of the shareholder. This would provide an incentive for the distributor to reduce their own emissions.

With respect to transparency, LPMA submits that a significant omission is the principle that the costs should be transparent to ratepayers. Ratepayers cannot be expected to react positively to the cost of GHG and look for ways to reduce their own emissions if they do not know what the cost to them of these emissions are included in their bills. Indeed, LPMA submits that the vast majority of ratepayers would not even be aware that they are paying additional amounts for a cap & trade system if this cost is not identified as a separate line item on the bill. LPMA submits that this is similar to the HST. It is identified as a separate line item on the bill. If it were not, many ratepayers would likely be unaware that they were paying HST on their gas consumption.

4. Compliance Plans

4.1.1. Regulatory Approach to Compliance Plans

LPMA submits that the Staff proposal for light handed regulation is appropriate in the longer term. This will provide the distributors with the flexibility to respond to changing market conditions and any unique circumstances that may be faced by one distributor and not another.

However, in the short term, LPMA believes that the Board needs to have a more active role in the initial setup of the compliance plans and provide guidance to the distributors. LPMA suggests that before the compliance plans for each of the distributors are finalized, there should be workshops/consultations/technical conference between all the distributors, the Board and intervenors. One workshop/technical conference should be held near the beginning of the process of putting together a compliance plan, based on the distributors initial plans. Feedback from the participants would be used to develop the plans further. A second workshop/technical conference would then be held prior to the finalization of the compliance plans and their submission to the Board for approval.

LPMA notes that an active Board, at least in the first several years, would appear to be consistent with the regulatory approach taken in both California and Quebec.

4.1.2 Duration of Compliance Plans

LPMA supports the preferred approach of a compliance plan spanning the entire compliance period, with the exception of the first year (2017).

LPMA believes that annual updates and reviews should be required. This would ensure that the Board and intervenors have the ability to review any changes to plan, especially during the initial years of cap & trade. This approach would be similar to the annual updates associated with the gas supply plan. Market conditions can change quickly and the distributors may need to adapt to those changes. These changes need to be approved by the Board and reviewed by intervenors.

4.1.3 Forecasting

LPMA supports the Staff proposals with respect to the load and GFG emission forecasts.

With respect to carbon price forecasts, LPMA submits that all distributors should use the same price forecasts. As Staff notes, a consistent carbon price forecast for all distributors is essential. LPMA submits that the Board should procure forecasts from a number of different sources to develop a consensus forecast of long term carbon prices that would then be used by each of the distributors. This would eliminate duplication by the distributors and eliminate the issue of different distributors using a different forecast or using a different set of forecasts to determine a consensus.

4.1.4 Compliance Plan Assessment

LPMA supports the use of one single general Marginal Abatement Cost Curve ("MACC") as this approach would be simpler and more straight forward than having each utility prepare their own MACC and then debating the differences between them. If there are unique circumstances that existing for a distributor, then they could provide proposed modifications to the MACC that would be specific for them.

LPMA does not support the Staff proposal for risk management at this time. The Board decided that costs related to risk management with respect to gas supply would not be allowed for recovery (EB-2007-0606), even though the distributors have decades of experience in the gas supply market.

The distributors have no experience in emissions trading market at this time. It would be very risk, in the view of LPMA to have the distributors engage in risk management activities that they have no experience in, and which have not yet developed in Ontario.

LPMA submits it would be prudent for the distributors to not get involved in risk management activities until the market for emissions trading becomes established. At that time the Board should review the potential gains and losses to ratepayers of the distributors being involved in the risk management process. This would also appear to be consistent with the level of risk management allowed in California and Quebec.

4.1.5 Treatment of Longer Term Investments

LPMA supports the submissions of Staff related to the treatment of longer term investments.

5. Cost Recovery

5.1.1 Cost Causation

LPMA submits that Table 4 in the Staff paper should be expanded to include a line for the shareholder and that costs related to facility related obligations should also be apportioned to the shareholder as noted for the reasons stated earlier in this submission.

5.1.2 Cost Allocation

LPMA supports the Staff proposals with respect to cost allocation.

5.1.3 Rate Design and Bill Presentment

LPMA agrees that the GHG emission costs should be linked with a customer's natural gas consumption and, therefore, agrees with the rate design proposal of Staff. LPMA also agrees that both of the rates (customer-related and facility-related) should be included as separate rates on the tariff sheets for all rate classes. As Staff note, these charges would apply to different sets of customers. In particular, the facility-related costs would be applied to all customers based on their natural gas consumption, while the customer-related costs would only be applicable to those customers that are not LFEs or voluntary participants, again based on their natural gas consumption.

With respect to the facility-related obligation costs and administrative costs, LPMA agrees with Staff that the per cubic meter charge for these costs could be included in the delivery charge as both of these costs are a cost of doing business and would be recovered from all customers. However, since there would be a separate rate on the tariff sheet for the facility-related costs, these costs could be shown as a separate line item on the bill, just as storage is shown as a separate line item on Union bills.

With respect to the customer-related obligation costs, LPMA agrees with Staff that the bill presentment should be the same for all distributors. This is especially true for customers that have accounts across multiple distributors.

However, LPMA strongly disagrees with the Board staff attempt to hide this charge in the delivery charge line of the bill. To support their position, staff relies on a consumer research study on time of use rates. There are no natural gas time of use rates. Numerous opinion polls and surveys that were conducted when the GST (now HST) was implemented indicated that consumers did not want this tax hidden in the price of goods. Consumers wanted transparency with respect to the cost.

As noted by staff, the LFEs and voluntary participants will not be required to pay the customer-related charge. As a result there would be different delivery rates for between these customers and all other customers. LPMA submits that this would create more confusion and customer call centre activity than showing the charge as a separate line item on the bill. LPMA also notes that customers in Quebec see a separate line item on their bill. LPMA submits that Ontario should be consistent with Quebec.

The Board speaks of customer focus and customer engagement and talks about transparency, yet when it comes to being upfront with customers, Board staff is proposing an opaque, hidden charge on the bill. LPMA submits that this is not appropriate.

The goal of cap & trade is to set a price on carbon emissions. This pricing mechanism is designed to encourage users to take actions to reduce their carbon emissions, either but using less or substituting other forms of energy that produce less carbon emissions.

How are customers supposed know any of this, if the cost to them is hidden? How will they know the relative carbon cost of natural gas relative to other alternatives? How can the Board support the government goal of reduced carbon emissions through a price mechanism if the cost associated with the price mechanism is hidden from the consumer? That would be nonsense and counterproductive.

Consumers should expect transparency from their regulator. Transparency is required for trust. Lack of transparency breeds contempt. Consumers do not want to be talked down to or told that they may be confused by the addition of a line to a bill. Consumers want education and all the information they need to make informed decisions. How do you educate consumers on their actions if you hide the costs of their actions from them? How can you expect consumers to change if you are concealing the mechanism that is designed to encourage change.

LPMA compares this approach to driving down a road at 100 km/hour. In one case a sign that shows a maximum highway speed of 80 km/hour may be behind another sign or behind a tree, so the driver does not see the posted speed limit. If you do not know what the speed limit is, you are not going to reduce your speed. On the other hand, if you see the sign and therefore know what the speed limit is, you are more likely to take action and slow down.

Finally, LPMA notes that Board staff states, with respect to customer outreach and education that

"Customer outreach and education is essential as customers need to fully understand the provincial government's cap and trade program and the impact of the program on their bills. Also, customers need to be educated on how to manage their GHG emissions to reduce bill impacts." (Staff paper, page 39)

LPMA fully supports this statement. However, it is not clear how hiding the cap & trade program impact on their bills would, or could, lead to a full understanding of the cap & trade program by consumers. It is equally unclear how the impact of the program on their bills would be fully understood when it is hidden from them. In short, how does the Board expect to educate customers by hiding the costs from them?

5.1.4 Rate Setting Approaches

LPMA submits that rates should be set annually and trued up annually. This minimized any intergenerational issues that could arise from a longer rate setting period. Further, LPMA submits that the rates should be based on each distributor's weighted average price of the proposed compliance options specific to each distributor. This is the best forecast available, and should minimize variances to be trued up in the future, relative to using a carbon price forecast that may not be reflective of the mix of options being employed by a distributor.

6. Monitoring & Reporting

6.1 Issues and Options

In addition to the performance metrics provided in the Staff paper, LPMA suggests that the performance of a distributor should be benchmarked against other distributors in Ontario.

7. Customer Outreach and Education

7.1 Issues and Options

As noted above, LPMA supports the need for customer outreach and education, including full transparency on the bill.

LPMA supports the staff proposal on the role of the distributor. However, the distributor cannot be handcuffed in its customer outreach program by not disclosing the cost of the cap & trade program on its bill. That would be ridiculous.

Consumers would be confused if the distributors had information on their websites and/or in bill inserts on the impacts of the cap & trade program, but nothing on their bills. How would the Board expect the distributors to maintain a consistent and professional message with respect to cap & trade, when it is not even mentioned on the bill? If the Board wants to ensure that customers understand the costs and benefits of the cap & trade program, the costs of the program cannot be hidden.

LPMA strongly submits, that consistent with Quebec, that there should be a clear line item on all customer bills and this should be augmented by inserts and information releases to ensure customers are well-informed of activities and rationale for rate changes related to cap & trade compliance. Otherwise, the Board would be simply paying lip service to customer outreach and education.

8. Confidentiality of Cap and Trade Information

LPMA continues to support the concept that as much information as possible should be placed on the public record. It is not clear to LPMA why market sensitive information related to emissions costs should not be treated the same way as market sensitive information related to gas purchases, capital costs and tenders as just a few examples.

Requests for confidentiality should be dealt with on a case by case basis.

9. Other Issues

LPMA submits that the Board should assess the appropriateness of the DSM programs as part of the mid-term review provision scheduled for June, 2018.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

June 22, 2016

**Randy Aiken
Consultant to London Property Management Association**