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July 11, 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 - Reply Submissions of London Property Management Association

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

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

Encl.

EB-2016-0004

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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REPLY SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

July 11, 2016

The following are the reply submissions of the London Property Management Association ("LPMA") on the submissions of other parties in the generic proceeding on natural gas expansion in communities that are not served. The reply submissions are based on the overall submissions and do not focus on individual submissions except in a limited number of instances.

A. GENERAL SUBMISSIONS

The following are the general reply submissions of the LPMA with respect to the submissions filed in this proceeding. LPMA has grouped the submissions into three basic categories. The first category is the submissions of the distributors; the second category is the submissions of the municipalities and others that want natural gas service extended to their communities; the third category is generally the ratepayer groups and the other energy providers that oppose the use of subsidies from existing customers.

i) The Distributors

The distributors have added nothing new in their submissions.

As an example, Union states at page 13 of their submission that it's *"proposed approach considers those who will be impacted by and who will benefit from expansion, and strives to find an appropriate balance in terms of how the impact will be borne by different stakeholders commensurate with the benefits received."* This is part of Union's "principled approach".

In the bullet points that follow in the Union submission, the second bullet point states that expansion customer contributions to project feasibility should be commensurate with the savings achieved by switching to natural gas. The third bullet point states that moderate cross-subsidization from existing customers is acceptable, provided long term rate impacts are reasonable.

The evidence does not support Union's position. As outlined in the LPMA submission, at pages 4 through 8, and in the submissions of numerous other parties, it is clear that there is no need for a subsidy from existing customers. If the costs are to be borne by different stakeholders commensurate with the benefits received, then clearly there should be no costs borne by existing customers. There are no benefits to existing natural gas customers of the distributor proposals, other than maybe a 50 cent per year reduction in OM&A costs per customer. For Union this amounts to about $0.7 million a year, for a net present value over40 years of $12 million.

On the other hand, new customers save more than $300 million on a net present value basis and are only paying $19.0 in TES payments. Instead of having these new customers pay the shortfall on a net present value basis of $75 million (less than 25% of the projected savings), Union expects that existing customers will foot the bill, resulting a net additional cost to these customers of $63 million. Clearly this incredibly outrageous and indefensible result does not follow Union's own "principled approach".

Clearly the long term rate impacts of the distributor proposals on existing customers is not acceptable. Why should they pay additional costs for which they receive no, or very little benefit, while the new customers enjoy savings that would cover off the incremental costs fourfold?

LPMA supports the submissions of the Canadian Propane Association ("CPA") with respect to the potential benefits for the provincial or local economies. A comprehensive cost benefit analysis has not been completed by any party in this proceeding. Job gains in the natural gas sector could result in job losses in the propane sector. Attracting industry to a municipality may mean it did not go to another municipality - the net impact would be zero on the provincial economy. Energy cost savings enjoyed by one group is at least partially offset by additional costs to be paid for by another group of customers. Even if all of the pluses and minuses resulted in positive benefits, the costs should be paid for by the government, not natural gas ratepayers. If government wants to attract industry to a town, that is a subsidy that should be paid out of general tax revenues, since it will benefit the province as whole. Why should natural gas ratepayers subsidize industrial development? The next thing you know, somebody will be asking the Board to have natural gas ratepayers subsidize a new hockey arena.

LPMA must comment on the Union submission in paragraph 59:

> *"To the extent that parties express support for maintaining the status quo, such parties are doing so solely in their commercial self-interest and with little regard for provincial policy objectives, the cost impacts for Ontario's energy customers, the economic impacts on communities that are currently without access to natural gas service, and the broader environmental implications of forestalling conversions to natural gas."*

LPMA finds this comment ironic and disrespectful. After the potential phase out of natural gas for space and water heating by the year 2030 was leaked through the media, nobody was more vocal in their opposition about that than the distributors. The public relations departments were working overtime to dismiss the potential provincial policy objective of reducing the use of fossil fuels for space and water heating through the use of subsidies for solar and geothermal applications. Clearly the distributors did not like being on the other end of the subsidy stick. Here was the government, daring to propose subsidies to competing energy sources such as solar and geothermal that would adversely affect the natural gas industry and tilt the playing field away from natural gas. How dare they do something like that!

The gas distributors were expressing support for maintaining the status quo for natural gas, protecting their own commercial self-interest. They had little regard for provincial policy objectives, the cost impacts for energy customers, the economic impacts on communities or the broader environmental implications of moving off of natural gas.

This distributor hypocrisy is further laid bare in paragraphs 82 and 83 of the CPA submission. Like the CPA, LPMA agrees with Union's statement of principle in its entirety as well as the replacement by CPA of "Union's customers" with "existing customers" and replacing "another utility's customers" with "new customers". The resulting paragraph is replicated here, for emphasis:

> ***"Imposing a charge on existing customers for purposes of subsidizing new customers' cost of service would be contrary to the established ratemaking principle of "benefits follow cost". Existing customers would be incurring***

costs without receiving any corresponding benefits. On the flip side, new customers would be receiving a benefit without incurring any corresponding costs. To establish rates on this basis would not be consistent with the just and reasonable standard. This would be comparable to having existing customers pay more to subsidize an industrial customer's cost of labour. It is unrelated to any aspect of the service to existing customers."

The offshoot of this is, of course, that existing ratepayers of Union and Enbridge would be better off if all unserved communities were served by someone other than Union and Enbridge. A new distributor can serve a currently unserved community and recover those costs on a cost of service basis. In other words, the customers of that new distributor will pay what it costs to serve them, just like the current customers of Union and Enbridge. If Union or Enbridge serve these communities however, the new customers will be subsidized at the expense of existing customers of those distributors. This does not result in rates that are either just or reasonable. Perhaps the Board should forbid Union and Enbridge to service these new communities. Existing customers would thank the Board for saving them hundreds of millions of dollars!

LPMA submits that the Board should consider, for a moment, what is the status quo? The status quo is EBO 188, which was worked well for a long time. It does precisely what it was designed to do. It protects existing customers from subsidizing uneconomic expansions. It ensures the <u>rational</u> expansion of the natural gas system. It ensures that the customers who receive the benefit of natural gas service pay for that benefit.

The status quo is also the competitive energy market. In many of the unserved communities, natural gas, absent subsidies, is not competitive. This is dealt with in more detail in part (ii) below.

<u>ii) The Communities That Want Access to Natural Gas</u>

The submissions of the communities that want access to natural gas really want access to cheaper energy. If that is natural gas, they want natural gas. On the other hand, if propane or geothermal or wood or whatever was cheaper, that source would be preferred.

The evidence in this proceeding is quite clear. A municipality or group of potential customers call the utility and indicate they are interested in having natural gas available in their communities. When the utility tells them that expansion to the community is uneconomic and cannot sustain the investment without a significant capital contribution or some other funding mechanism, they say thanks, but no thanks. When the utility comes back and says, well we could get you gas if somebody else subsidizes you, they say, hey, that is great idea!

LPMA submits it is always easier if somebody else pays the costs. However, the Board is not here to easy. It is here to approve rational economic expansions and to protect ratepayers.

Would it be a great idea if anyone who wanted a $100,000 Tesla could pay $40,000 for it and have the other $60,000 subsidized by someone else? Of course it would and the result would be a lot more Tesla's on the road. The new Tesla customer would pay 40% of the cost (equivalent to Union's minimum PI of 0.4 that means the new customers only pay 40% of the costs).

If the government provided a subsidy for the remaining $60,000 out of general tax revenues in order to pursue its' policy objectives, that would be fine. But if the subsidy were to be paid for by a special levy on existing Tesla owners, would that make sense? Of course not. But that is exactly what Union and Enbridge are asking the Board to approve.

The communities that want access to natural gas, assuming it is the cheapest option available, want to be subsidized, even though the evidence in this proceeding is clear that the full costs for the expansions in almost all of the communities identified by Union and Enbridge is a fraction of the energy savings for those communities. In other words, in the absence of any subsidy from existing customers, the projects pay for themselves, using only a small portion of the savings that the community members will achieve.

If the members of the community choose not to avail themselves of this option, it is probably the result of one of two reasons. First, they probably would never convert to gas because of the fears of explosions, leaks etc. LPMA believe this is a small percentage of potential customers, but they do exist.

The second reason is probably the driver behind the rejection of natural gas by a potential customer by the majority of such customers. This reason is the lack of understanding and education. The time value of money needs to be explained to people. The costs of all alternatives need to be known before a rational choice is made. For example, the positive impact on the value of a house or business of lower energy costs is often overlooked.

This is precisely why LPMA supports customer education and workshops in which all participants in the industry are present. This is set out at pages 8-9 in the LPMA submission. The Board should enable such events, with participation by ratepayer groups, environmental groups, the natural gas distributors, propane dealers, geothermal companies, HVAC contractors, electricity distributors, solar distributors and real estate agents (LPMA notes that the provincial government will mandate home energy audits before a house can be sold), at a minimum.

The result would be a win-win-win outcome. New customers could choose an energy that saves them money over the long term. Businesses (whether natural gas, propane, geothermal, etc.) would determine if they wanted to invest for the long term through their business in the community. Existing customers would not need to subsidize new customers over the long term.

iii) Those That Oppose the Use of Subsidies from Existing Customers

The general consensus among those parties that oppose the use of subsidies from existing customers is that they are not required. They are not required because the energy cost savings of the potential new customers are more than enough to cover the costs of the expansions to the new communities, with significant savings left over.

In their submission, Union, at paragraph 57, states that *"Even when conversion costs are accounted for, access to natural gas service can provide significant savings for energy customers"*. However, this statement is premised on significant subsidies being provided by existing customers as part of the ill conceived distributor proposal. LPMA and others have also concluded, based on the evidence in this proceeding from those same distributors, that if the new customers pay the full price of their connection with no subsidy from existing customers, that even when conversion costs and the full cost to serve are accounted for, and paid for by those customers that benefit from the connection, access to natural gas service can provide significant savings for energy customers. Therefore, no subsidy is required.

The other general consensus among those parties that oppose the use of subsidies from existing customers is that the avoidance of any risk by the distributors is laughable. For example, Union proposes two variance accounts. One would track the revenue requirement associated with a project while the other would track the revenue generated from the new customers of the project. These balances would be trued up to existing customers. In other words, if the capital cost was higher than that forecast by Union (and let's face it, when has the capital cost ever come in below budget?), Union would automatically recover those costs, including a higher return on equity. The company has no incentive to control capital costs. In fact, its' shareholder gets a bigger dollar return if they go over budget. Clearly this is the wrong signal to send under any type of cost of service or incentive regulation. The distributors are also incented to over forecast customer attachments and use per customer. The higher the both of these are, the lower the surcharge that is implemented and the lower the subsidy required from existing customers under the distributor proposals. However, again, if attachments are lower than forecast or the average use per customer is lower than forecast, all of the risk is transferred to existing customers to pick up the tab.

The Parkland Fuels Corporation ("Parkland") submission identifies a third risk - retention risk - which could be larger than the other two combined (paragraphs 50 and 53 - 56). This retention risk is the risk of the new customers converting away from natural gas at some time in the future. The impact of this is twofold. It may result in stranded assets, or at least assets that no longer fully utilized. It would also result in lower revenues from the lost temporary expansion surcharge revenue. This would again leave the existing customers holding the bag.

LPMA notes that Union apparently sees this as a critical risk and something that could occur within the next 20 years. This is illustrated by the following passage, taken from Union's current application in EB-2016-0186, which was filed in June, 2016:

> *"Union is proposing the Project at a time of uncertainty resulting from the Ontario Cap and Trade program and the recent issuance of the Ontario government's 5-year (2016-2020) Climate Change Action Plan ("CCAP"). In response to this risk, Union has calculated the revenue requirement and resulting rate impacts of the Project based on a 20-year estimated useful life of the assets rather than the weighted average useful life of approximately 50 years based on Board-approved depreciation rates.* ***<u>Union submits depreciating the asset over a 20-year term better aligns the cost with the timing of reported restrictions and potential elimination of natural gas heating in homes and businesses as noted in the CCAP</u>****."* (emphasis added)

Union is not willing to take on the risk of customers moving from natural gas to an alternative fuel, but is happy to stick existing customers with that risk.

B. REPLY TO SPECIFIC SUBMISSIONS

There is one area where LPMA believes that a specific reply to a portion of a submission is required. This reply relates to the Board Staff submission found on page 21 of that submission and repeated here:

> *"Union and Enbridge have proposed that the expansion surcharge and ITE contributions should be treated as revenue as opposed to a capital contribution. Interrogatory responses and evidence at the hearing revealed that ratepayers receive greater benefits in terms of a lower revenue requirement when the TES and ITE contributions are treated as revenue. OEB staff supports the position of Union and Enbridge."*

As illustrated in the LPMA submissions at pages 11 through 13, the total revenue requirement based on the distributor proposals to treat the temporary expansion surcharge as revenue rather than a contribution to the capital cost of the project results in a higher total revenue requirement in virtually every year of the 40 year horizon. The net present value of the revenue requirement over 40 years of the two approaches results in ratepayers having to pay about 25% more in total under the distributor backed revenue proposal as compared to the contribution in aid approach.

The response to B.LPMA.1 shows that existing customers would be better off under their proposal for only a few years at the beginning of the 40 year period. The response deals with the <u>net</u> revenue requirement, after the TES revenue is deducted from the total revenue requirement. After the first few years, the net revenue requirement, like the total revenue requirement, is higher under the revenue approach compared to the contribution approach. On a net present value basis, even the net revenue requirement is higher under the revenue approach as compared to the contribution approach.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA worked with other intervenors throughout the process to limit duplication while ensuring that the record was complete. LPMA shared several parts of its draft submissions with other parties and was provided with draft submissions on a number of the issues by other parties, thereby reducing duplication in submissions.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

July 11, 2016

Randy Aiken
Consultant to London Property Management Association