EB-2016-0296
EB-2016-0300
EB-2016-0330

Union Gas Limited
Enbridge Gas Distribution Inc.
Natural Resource Gas Limited

Applications for approval of the cost consequences of cap and trade compliance plans

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SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

Union Gas Limited ("Union"), Enbridge Gas Distribution Inc. ("Enbridge") and Natural Resource Gas Limited ("NRG") each filed an application with the Ontario Energy Board ("OEB") on November 15, 2016 seeking approval of the cost consequences arising from each of their cap and trader compliance plans for the period January 1, 2017 through December 31, 2017.

The OEB assigned the following file numbers to the applications: EB-2016-0296 (Union), EB-2016-0300 (Enbridge) and EB-2016-0330 (NRG).

The OEB issued a Notice of Hearing for a combined public hearing to consider the Union, Enbridge and NRG cap and trade compliance plan applications on November 24, 2016. On November 26, 2016, the OEB issued an Interim Rate Order approving rates, on an interim basis, so that the gas utilities could begin to recover the projected costs associated with their cap and trade compliance plans until the OEB issued its final rates decision. The OEB indicated that its final rate decision would include any adjustments to the rates recovered on an interim basis pursuant to the Interim Rate Order.

The OEB issued its Decision on Issues List as part or Procedural Order No. 2 dated February 17, 2017.

The following are the submissions of the London Property Management Association ("LPMA") on some of the issues identified by the OEB. LPMA is not making any submissions with respect to some aspects of the compliance plans as some of the evidence was not publicly available to intervenors.

B. SUBMISSIONS ON ISSUES

The submissions which follow are generally based on the Union evidence, unless specifically noted otherwise. LPMA submits that the OEB should separately approve the cost consequences of the cap and trade compliance plans for each of gas utilities. However, LPMA submits that the approval of the plans should only deviate from one utility to another where there are specific or unique features of the plans. LPMA believes that consistency is important in order for parties to ultimately evaluate and benchmark the actual cost consequences of the compliance plans in future proceedings.

1. Cost Consequences - Are the requested cost consequences of the Gas Utilities' Compliance Plans reasonable and appropriate?

The composition of the requested compliance plans between the different types of options available to the utilities was not available for review by LPMA as this information was been declared confidential. Similarly, the costs and risks associated with the various options were not available publicly. As a result, LPMA is unable to determine if the requested cost consequences of the gas utilities' compliance plans are reasonable and appropriate.

Forecasts

1.1 Are the volume forecasts used reasonable and appropriate?

Union's evidence indicates that the forecast methodology employed for each of the components of its volume forecasts is consistent with that approved by the OEB in Union's 2013 Cost of Service proceeding (EB-2011-0210) (Exhibit 2, page 2). The components include customer volumes in the both the general service market and the contract market, along with facility volumes broken down into unaccounted for gas, compressor fuel and blowdowns, and buildings and line heaters.

Both of the general service market and contract market forecasts reflect reductions related to future consumption savings related to DSM program impacts that corresponds to the OEB-approved 2016-2020 DSM plan in EB-2015-0029. In addition, Union has removed the volume forecast associated with large final emitters and voluntary participants and wholesale customers.

LPMA submits that the Board should accept Union's customer related volume forecast that reflects the above noted methodology. LPMA submits that it is consistent with the forecast methodology used for rate setting purposes. Similarly, the customer related forecasts for Enbridge and NRG also appear to reflect the current approved methodology used for forecasting volumes used for rate setting purposes.

However, LPMA notes there does appear to be a difference between Union and Enbridge with respect to the inclusion of the impact of the provincial Green Investment Find ("GIF") customer abatement program. As illustrated in Exhibit 2, Schedule 1, Union has made a further reduction to the customer volume forecast related to the GIF, whereas Enbridge has not included any GIF related reductions (Exhibit B, Tab 2, Schedule 1, page 3), even though Enbridge has estimated the associated reduction to be about 13,000 10^3 m^3. This is further illustrated in Table 1 on page 6 of the same evidence, where the customer abatement program volumes are shown as 0.

LPMA supports Union's proposal to include the GIF related volume reductions in their volumetric (and hence GHG emission) forecasts as reasonable and appropriate. LPMA further submits that Enbridge should do the same, despite their claim that the estimate is uncertain and relatively minor in relation to the total volumes. LPMA submits that consistency is important and Enbridge should follow Union's lead with respect to the customer abatement program.

LPMA has reviewed Union's facility related forecasts and believe they are appropriate as the methodologies used appear to be reasonable.

1.2 Are the GHG emissions forecasts reasonable and appropriate?

The GHG emissions forecasts are essentially driven by the customer-related and facility-related volumetric forecasts. The only other driver of the GHG emissions forecasts are the application of slightly different conversion factors from volumes to emissions for certain facility related volumes.

Union has calculated the GHG emissions in accordance with the Guidelines for Quantification, Reporting and Verification of Greenhouse Gas Emissions dated May 16, 2016 ("Guideline"). Union describes these calculations in more detail in their evidence at Exhibit 2, page 6 for customer related emissions and page 7 for facility related emissions.

LPMA submits that Union has properly followed the Guideline with respect to the calculation of the GHG emissions forecasts for both customer related and facility related emissions. While LPMA has not reviewed the forecasts of Enbridge and NRG in the same level of detail, it appears that they have also followed the Guideline appropriately.

1.3 Is the carbon price forecast reasonable and appropriate?

Union has proposed that for 2017, the carbon price forecast should be based on an Ontario price and not a California market price since Ontario will not be linked to the California market in 2017 (Exhibit 2, page 8). LPMA submits that this is appropriate and should be approved by the OEB.

Like Union, LPMA is concerned that by using the lower California market price than that expected by Union in the Ontario market has the potential to result in large variance account balances to be recovered from customers in the future. Union has estimated that the difference in costs based on the $17.24 California based price and the $17.70 Ontario based price is about $7 million that would need to recovered from customers in the future (Exhibit 2, page 9).

Union is not proposing to update the cost of the compliance options to reflect the results of the March, 2017 Ontario Auction results (Tr. Vol. 2, page 93), which are shown on page 7 of Exhibit K1.2, a compendium provided by the School Energy Coalition, where the settlement price is shown as $18.08.

This increase, if sustained for the remainder of 2017, would result in the addition of about $6 million in the variance account to be recovered from customers in the future (Tr. Vol. 2, page 94). This is virtually identical to the $7 million impact that Union indicated it was trying to avoid by using an Ontario based price in place of the lower California based price.

LPMA submits that the OEB should direct Union (and Enbridge and NRG) to update their compliance plan costs to reflect the $18.08 settlement price for the March auction rather than the forecast price of $17.70 used as the preliminary price. This will help to ensure that ratepayers are not hit with large charges in the future, especially when the magnitude of those future charges is not known. In the best-case scenario, customers would receive a refund if the costs average less than $18.08. In the worst-case scenario, the amount accumulating in the variance account to be recovered from customers would be reduced by $6 million.

Compliance Plan

1.4 Is the gas utility's Compliance Plan overview reasonable and appropriate?

LPMA is unable to determine if the compliance plan overview is reasonable and appropriate because all of the information required to make such a determination is not available to LPMA.

1.5 Has the gas utility reasonably and appropriately conducted its Compliance Plan option analysis and optimization of decision making?

LPMA is unable to determine if Union has reasonably and appropriately conducted its compliance plan option analysis and optimized its decision making because all of the information required to make such a determination is not available to LPMA.

1.6 Are the proposed performance metrics and cost information reasonable and appropriate?

LPMA is unable to determine if the proposed performance metrics and cost information is reasonable and appropriate because all of the information required to make such a determination is not available to LPMA.

1.7 Has the gas utility reasonably and appropriately presented and conducted its Compliance Plan risk management processes and analysis?

LPMA is unable to determine if Union has reasonably and appropriately presented and conducted its compliance plan risk management processes and analysis because all of the information required to make such a determination is not available to LPMA.

1.8 Are the gas utility's proposed longer term investments reasonable and appropriate?

Union has not included any long-term investments as part of the 2017 compliance plan (Exhibit 1, Updated, page 4). Union notes that outside of its compliance plan, that it has brought forward two proposals to government. These proposals include renewable natural gas and compressed natural gas for heavy duty vehicles. However, since these initiatives are not in scope for Union's 2017 compliance plan, LPMA is not making any submissions on them in this proceeding.

1.9 Are the gas utility's proposed new business activities reasonable and appropriate?

As in indicated in the evidence at Exhibit 3, Updated, page 46, Union is not proposing any new business activities in its 2017 compliance plan. Union again references its proposals for renewable natural gas and compressed natural gas but indicates once again that neither of these proposals are included in the 2017 compliance plan. As a result, LPMA is not making any submissions on them in this proceeding.

1.10 Are the gas utility's proposed greenhouse gas abatement activities reasonable and appropriate?

Union has included one greenhouse gas abatement activity within its 2017 compliance plan. As noted above the GIF funding received from the government will allow Union to pursue additional customer reductions that are incremental to the savings built into the existing OEB-approved DSM program. LPMA submits that this is appropriate, given than the GIF program is in place.

Union has indicated that is exploring a number of opportunities for customer abatement and is committed to studying possible future initiatives to reduce facilities emissions (Exhibit 3, Updated, pages 25-28).

LPMA supports the prudent review of any such opportunities and believes it would be premature for the OEB to require Union to include any such programs in the 2017 compliance plan. As indicated by Union, it does not have all the information it needs to prudently review any specific project (Tr. Vol. 2, pages 145-146).

2. Monitoring and Reporting – Are the proposed monitoring and reporting processes reasonable and appropriate?

As shown in the response to Exhibit B.LPMA.15, Union expects that the majority of the information provided to the OEB for monitoring and reporting would be treated as confidential. In fact, the only information available publicly would be the forecast, actual and variance for the total/weighted average volume procured, price and cost.

This will make any comparison or benchmarking between the distributors virtually impossible since the composition of the totals/weighted average would not be public. It also makes comparisons between the actual and forecast difficult. Volumetric variances will depend on not only changes in consumption from forecast (due to weather, economic activity, DSM programs, etc.) but also on the impact of abatement activity. The composition of these variances will not be available publicly. Similarly, the variance in the price between actual and forecast will be the result of different prices of the various instruments available to be used and a change in the composition of those instruments. Again, this information will not be available publicly.

LPMA understands the need for confidentiality, but is concerned that the monitoring and reporting will be essentially useless. The OEB could make the monitoring and reporting more useful by indicating to the distributors that they will be benchmarked both against one another and against their forecast, on the publicly available information. That is, the benchmarking would be based on the total/weighted average volume procured, the price and the total cost.

3. Customer Outreach – Are the proposed customer outreach processes and methods reasonable and appropriate?

LPMA submits that Union should not be spending much more than it already has on customer outreach. This is partly due to the fact that Union conducted significant customer outreach activities in 2016 prior to the implementation of cap and trade on January 1, 2017, as well as activities throughout the first several billing cycles in 2017.

LPMA submits that ratepayers are generally unaware of the impact of cap and trade on their total bills. Indeed, the increase as of January 1, 2017, while shown as a delivery increase may well have been viewed as an increase in the commodity cost of the natural gas. More likely, it was just seen as a change in the total bill that happens every three months as a result of the Quarterly Rate Adjustment Mechanism that has been in place for many, many years.

LPMA further submits that it is counter productive to spend hundreds of thousands of dollars on customer outreach to explain cap and trade to ratepayers while simultaneously hiding the same cap and trade costs in the delivery line of the gas bill.

As the response to Exhibit B.Staff.16 indicates, Union has had a low number of calls to its call centre that are related to cap and trade. The table provided on the second page of the response shows that about 1,000 calls were cap and trade related out of a total of almost 95,000 calls. Further, Union has indicated that it has already reduced the increase in call centre staff because the expected volume of calls did not materialize. Union forecast an increase of $275,000 for additional call centre staff (Exhibit 3, Schedule 2). However, Union indicated it now believes this figure will be about $100,000 in 2017 (Tr. Vol. 2, pages 121-122) and that as of the end of February, no call centre staff costs are going into the deferral account. LPMA submits that this is not surprising, given that customers do not see a separate cap and trade line item on their bill.

LPMA submits that if the OEB is serious about educating ratepayers about cap and trade and the associated costs, it should direct the distributors to include a copy of the rate schedule with the bill that is sent out at least once per year. This would include paper copies sent to ratepayers that continue to receiver a paper copy of their bill and a PDF copy of the rate schedule to those ratepayers who receive a PDF copy of their bill by e-mail from Union (or the other distributors). The rate schedules should clearly show the impact of cap and trade on their rates. LPMA has further comments on the Union rate schedules under Issue 5.2 below.

4. Deferral and Variance Accounts – Are the proposed deferral and variance accounts reasonable and appropriate? Is the disposition methodology appropriate?

Union is requesting the approval of two new accounts and wording changes to the existing Greenhouse Gas Emissions Impact Deferral Account ("GGEIDA") (179-152) as explained in Exhibit 6.

Union's existing GGEIDA was approved by the OEB on April 7, 2016 in EB-2015-0367 and enables Union to record costs that it incurs related to the Ontario cap and trade program. For 2017, Union is requesting that the wording in this account be modified so that only the administrative costs associated with the impacts of provincial and federal regulations related to greenhouse gas emission requirements (Tr. Vol. 2, page 88). LPMA submits that the OEB should approve the new wording for the GGEIDA and restrict the amounts to be included in the account to administrative costs as proposed by Union.

With respect to the two new accounts requested by Union, LPMA notes that Union has called these the Greenhouse Gas Emissions Compliance Obligation – Customer-Related Deferral Account (179-154) and the Greenhouse Gas Emissions Compliance Obligation – Facility-Related Deferral Account (179-155).

LPMA supports the approval of separate accounts for customer-related and facility-related costs. This is partly due to the fact that the balances in the two accounts will be subject to different allocation methodologies and partly due to the fact that there are different facility-related rates for rate classes. This is different from the customer-related rate which is the same for all customers (excluding large final emitters, voluntary participants and wholesale customers). LPMA also submits that transparency will be enhanced by tracking the variance separately in the two accounts.

LPMA notes that both of the new accounts requested by Union have been labelled as deferral accounts, both in their names and in draft accounting orders found in Appendix A to Schedule 6. LPMA submits that these accounts should be labelled as variance accounts rather than as deferral accounts. Costs are not being deferred, as is the case for the GGEIDA. Both accounts will record the variance between actual costs and actual revenues collected and as such, should be properly labelled as variance accounts.

The second part of this issue concerns the appropriateness of the disposition methodology. LPMA has taken this to mean the balances in the rate classes, the allocation of balances in the accounts, the timing of the review of the balances and the length of the disposition period.

LPMA submits that the OEB should not and cannot make any determination in this proceeding with respect to the balances in the accounts or the allocation of the balances to rate classes. This should be done when the balances are known, including any information that might impact the allocation of the balances to rate classes (especially for the facility-related charges).

LPMA further submits that the OEB should not make any decisions with respect to the length of the disposition period as part of this proceeding. As both Union and Enbridge indicated, the disposition period may be impacted by the quantum of the balances to be cleared and that issue, along with the allocation of the balances to rate classes is best dealt with at the time of the disposition request.

However, LPMA submits that the OEB should direct the distributors with respect to the timing of the review of the balances and the allocation of those balances to the various rate classes. In particular, LPMA submits that the distributors should bring forward the balances in the variance and deferral accounts for disposal as part of their 2019 compliance plan filings which are due in August, 2018.

LPMA submits that it is important for the balances in the accounts for all of the distributors to be reviewed at the same time rather than separately. This is especially true for the 2017 balances which are the first year of balances in these accounts. In order to evaluate the prudency of the costs, LPMA submits that it will be necessary to benchmark the variances in the accounts across all distributors. This is also true with respect to the administrative costs included in the GGEIDA.

It is noted that Union is not seeking any approval with respect to the forecast of administrative costs included in its evidence in terms of either the quantum of the costs or the type of costs to be included in the account (Tr. Vol. 2, page 86). LPMA supports this approach, as it is consistent with the decision in EB-2015-0367. The review of the quantum and type of costs is best suited for review as part of the 2019 compliance applications. LPMA notes that all three distributors agreed that this timing was appropriate (Tr. Vol. 1, page 26, Tr. Vol. 2, pages 128-129, Tr. Vol. 3, page 50).

5. Cost Recovery

5.1 Is the proposed manner to recover costs reasonable and appropriate?

LPMA supports the recovery of costs as proposed by Union and believes it is reasonable and appropriate.

The customer-related emissions costs will be recovered through a charge per cubic metre that is the same for all customers (excluding large final emitters, voluntary participants and wholesale customers). LPMA submits that this is appropriate.

Union has allocated the facility-related emissions costs to the different rate classes based on the three different types of costs included in this category: unaccounted for gas, compressor fuel and blowdowns, and company use gas. This allocation recognizes that different rate classes incur different levels of costs depending on the type of cost (Tr. Vol. 2, pages 131-132). These costs will be recovered from all customers, including large final emitters, voluntary participants and wholesale customers. LPMA submits that this is appropriate since the facility-related costs are paid for by all customers and should be approved by the OEB.

LPMA notes that Enbridge has proposed an additional reporting to the OEB where particular material thresholds have been triggered (Tr. Vol. 1, page 14). The thresholds proposed by Enbridge include a 25% increase in the actual weighted average cost of an allowance, a 25% changed in forecasted volumes or significant market changes that require notification. Union has not proposed any such trigger (Tr. Vol. 2, page 98).

LPMA submits that there should be a trigger mechanism in place for each of the distributors. This mechanism would alert the OEB and other interested parties if the balance in the variance account(s) is becoming substantial. However, LPMA submits that the trigger should by symmetrical – i.e. regardless of a debit or credit in the account(s), the OEB and other interested parties should be alerted and able to provide submissions on whether the balance should be cleared on an interim basis.

In the response to Undertaking J1.4, Enbridge indicated that a 25% change in the weighted average cost of an allowance or a 25% change in forecasted volumes would result in a balance in the variance account of approximately $94 million. The figure for Union, based on forecasted costs of $275 million, would be about $69 million.

LPMA submits that these are significant potential balances that would attract millions of dollars in interest costs in addition to the original balances that would have to be cleared to ratepayers. LPMA also notes that if volumes are significantly higher than forecast – possibly as the result of colder than normal temperatures – there would likely be a compounding impact on the weighted average cost of an allowance since the demand for allowances would be higher.

Enbridge has indicated that it chose the 25% trigger figure because it is the same threshold as is currently in place for gas costs through the QRAM process (Tr. Vol. 1, page 39).

LPMA submits that the OEB should approve a trigger mechanism, but adopt a lower threshold than 25%. As noted above, the 25% translates into account balances of $94 million for Enbridge and $69 million for Union. LPMA submits that a threshold of 10% would be more appropriate. The corresponding account balances would be about $37 million for Enbridge and $27.5 million for Union. These are still significant potential balances, but LPMA believes that these figures provide an appropriate balance between the potential account balances and the additional reporting requirement. Given that 2017 is the first year for these accounts and that there is a lot of uncertainty with respect to how the market will develop and work in the short term, the OEB should approve a smaller threshold than that used for gas supply costs, at least for the first few years of the cap and trade program.

5.2 Are the tariffs just and reasonable and have the customer-related and facility-related charges been presented separately in the tariffs?

LPMA is unable to comment on whether or not the tariffs are just and reasonable because it does not have access to the information related to the compliance plans that would enable to make a determination on this issue.

LPMA does agree that the customer-related and facility-related charges have been presented separately in the tariffs for both Enbridge and NRG.

Enbridge has separate line items in its rate schedules (Exhibit G, Tab 1, Schedule 1, Appendix B) that are clearly labelled as *"Cap and Trade Customer Related Charge"* and *"Cap and Trade Facility Related Charge"*, along with the corresponding rates for both of these charges. A review of the NRG rate schedules, as most recently approved in EB-

23017-0110 (NRG's April 1 QRAM application), shows the same labelling as used by Enbridge with the charges also shown as separate line items in the rate schedules.

On the other hand, Union does not present the customer-related and facility-related charges separately in the tariffs. This can be seen by looking at the M1 (residential) rate schedule in Exhibit 7, Appendix B.

Under the delivery charge section of the rate schedule, Union shows two different rates for each of the consumption blocks shown. One set of rates is labelled *"Including Customer-Related GHG Obligation"* and the other is labelled *"Excluding Customer-Related GHG Obligation"*. The delivery charges reference a note which further states that these charges *"Includes cap-and-trade rates of 0.0297 cents/m^3 for facility-related greenhouse gas obligation costs and 3.3181 cents/m^3 for customer-related greenhouse gas obligation costs, as applicable"*.

LPMA submits that the Union approach is less transparent than that used by Enbridge and NRG which have clearly labelled cap and trade related costs in the main body of the rate schedules. Union's approach requires ratepayers to find a footnote to find the same information.

LPMA submits that the vast majority of residential and small commercial and industrial customers will have significantly more problems finding and interpreting the cap and trade related costs in the Union rate schedules than they will in either the Enbridge or NRG rate schedules.

Many ratepayers, including LPMA's larger members, have properties in more than one gas distribution franchise. These ratepayers, including LPMA members, receive bills from more than one gas utility. LPMA submits that the OEB should direct the distributors to use the same approach to identifying the cap and trade related charges in their rate schedules. This is a customer friendly approach.

Since the cap and trade related costs are hidden within the delivery charge, the OEB has required all the distributors to present the customer-related and facility-related charges separately on the rate schedules. LPMA submits that the Enbridge and NRG approach does this in a clear and transparent manner. In particular, the Enbridge approach breaks the Rate 1 residential rate down into the major components of the fixed monthly charge, delivery charge, transportation charges, system gas supply charge and the two cap and trade charges.

The Union approach does not separate out the cap and trade related costs from the delivery charges. The components shown in the Union rate schedule include the fixed monthly charge, the delivery charge, the storage charge and the system gas supply charge. As noted above, the delivery charge includes cap and trade related charges. One set of rates includes only the facility-related charge while the other set of rates includes that charge and the customer-related charge. LPMA also notes that Union shows the monthly charge and storage charge as part of both of the sets of rates. This may raise questions as to why these charges are the same across both sets of rates, while the delivery charges (by block) are different. This confusion would not exist if the two cap and trade related charges were shown as separate line items in the rate schedules.

In summary, LPMA submits that the OEB should direct Union to adjust its rate schedules to the same format/approach used by both Enbridge and NRG.

6. Implementation – What is the implementation date of the final rates and how will the final rates be implemented?

LPMA submits that the implementation date of the final rates should be as quickly as possible following the OEB decision in this application. If the OEB makes no changes to the interim rates, the implementation date of final rates could be the same date as the decision.

However, if the OEB makes any changes to the rates relative to those proposed by the distributors, then LPMA submits that the implementation of the final cap and trade rates should be effective with the next QRAM rate change (i.e. either July 1 or October 1). As noted earlier in this submission, LPMA has submitted that the OEB should adjust the weighted average price of allowances to reflect the March auction market information in order to reduce the variances that could accumulate in the requested variance accounts (see Issue 1.3 above). Even if the implementation date of final rates is October 1, this change would help mitigate the potential for large balances in the variance accounts to be recovered from ratepayers in the future.

LPMA does not believe the OEB should approve the collection or disposition of any balances based on the difference between the interim rates and final rates (if the OEB makes changes) based on volumes consumed from January 1, 2017 to the implementation date. This submission is based on the fact that the costs and revenues associated with cap and trade are fully covered through variance accounts.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA worked with other intervenors throughout the application and hearing process to limit duplication while ensuring that the record was complete.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
May 19, 2017

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