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January 8, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

RE: EB-2017-0087 – Written Submissions of London Property Management Association

Please find attached LPMA's written submissions on the unsettled issue with respect to the above noted proceeding. Due to a medical appointment on the morning of January 9, 2018, I unable to attend the hearing in person or by telephone.

I would appreciate it if this submission can be brought to the attention of the Board panel.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates
Encl.

cc: Adam Stiers (Union Gas)
Khalil Viraney (OEB)
Michael Miller (OEB)
Intervenors (e-mail)

EB-2017-0087

Union Gas Limited

Application for natural gas distribution, transmission and storage rates effective January 1, 2018

**SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION**

A. INTRODUCTION

Union Gas Limited ("Union") filed an application with the Ontario Energy Board ("OEB" or "Board") on September 26, 2017 for an order or orders approving rates for the distribution, transmission and storage of natural gas, effective January 1, 2018.

Following the filing of interrogatories and interrogatory responses in November, 2017, a Settlement Conference took place on December 13, 2017. A Settlement Proposal was filed with the Board on December 21, 2017.

The only issues addressed in the Settlement Proposal were the updates to the M12 rate schedule and the Panhandle Reinforcement Project. There was a complete settlement with respect to the M12 rate schedule updates and partial settlement with respect to the Panhandle Reinforcement Project.

The partial settlement with respect to the Panhandle Reinforcement Project included the settlement on the inclusion in 2018 rates of the net revenue requirement calculated in accord with the Board's Decision and Order in Union's Panhandle Reinforcement Project Leave to Construct application (EB-2016-0186), subject to an update to the capital cost to reflect Union's most recent total forecast capital cost of $242.8 million and the continuance of the Panhandle Reinforcement Project Costs Deferral Account (No. 179-156) to capture any difference between the actual and net delivery revenue requirement.

There was no agreement related to the issue of the final allocation of the Panhandle Reinforcement Project costs to rates for 2018.

The following are the submissions of the London Property Management Association ("LPMA") on the issue of the allocation of the Panhandle Reinforcement Project costs to rates for 2018.

B. SUBMISSIONS ON COST ALLOCATION

i) The EB-2016-0186 Decision and Order

In Union's Panhandle Reinforcement Project Leave to Construct ("Leave to Construct") application (EB-2016-0186), Union proposed two changes to the cost allocation methodology that was approved by the Board when rates were established in 2013 (EB-2011-0210). The approved 2013 rates were then used as the base rates for the subsequent 2014 through 2018 IRM price cap rate setting methodology approved by the Board (EB-2013-0202).

In the Leave to Construction application, Union proposed to allocate the Panhandle System demand costs in proportion to the firm Union South in-franchise Panhandle System Design Day demands. This was different from the Board approved cost allocation methodology which allocates costs based on the combined Panhandle and St. Clair System. As a result of the addition of significant Panhandle System project costs, Union submitted that the continued use of the combined systems for cost allocation purposes no longer reflected the costs to serve customers.

LPMA supported the change proposed by Union in principle, but submitted that the Board should reject the change on the basis that a cost allocation is a zero sum exercise and should be done only on a comprehensive basis and not only for one project. The following is taken from LPMA's EB-2016-0186 Submissions dated December 14, 2016 (pages 9 – 11).

"LPMA agrees that each transmission system should be allocated based on its design day demand customer mix if the mix of customers is significantly different in each system and the costs are significantly different for each system. For example, it would make no sense to allocate the Panhandle system costs based on the design day demands of the Dawn to Parkway system or some joint allocator of the Panhandle system and the Dawn to Parkway system. The costs are significantly different and the mix of customers served are significantly different from one system to the other. In a similar fashion, LPMA submits that it makes no sense to continue to use the joint allocator that includes the St. Clair system. The costs are now significantly different and the evidence shows that the mix of customers is also significantly different on these two systems.

Having agreed that a separate allocator for the Panhandle system is appropriate and justified, the question for LPMA is whether or not this proposed change is reasonable and justified under the current IRM regime, especially given that the impact is really only for one full year, 2018. Union will rebase for 2019 rates, and the impact in 2017 is small given the in-service date of November 1, 2017.

If this was the only cost allocation change that was likely to take place at the rebasing application, then the change now might be justified. However, at this time, the magnitude of any proposed cost allocation changes at rebasing are not known.

What is known, however, is that Union also has an "Other Transmission" allocator in its cost allocation model. In the last rebasing application the assets allocated using this allocator were approximately $225 million, close to the costs for the Panhandle system. Union explained that this allocator was used for all the transmission lines in Union South, excluding the Panhandle system, St. Clair system and Dawn to Parkway system. Union also confirmed that were at least two other lines that would be included under this common allocator – the Dominion line and the Owen Sound line (Tr. Vol. 1, page 123).

As part of the rebasing application, LPMA would expect that Union would investigate the decoupling of these two transmission lines (and perhaps others that use the same allocator) in the same way that Union proposes to decouple the Panhandle and St. Clair system allocator into two to more accurately reflect the costs and mix of customers.

In addition, Union may bring forward other changes to the cost allocation model beyond the allocators for the transmission systems included in rate base. There may be changes to allocators that impact OM&A for example, or distribution rate base, or storage rate base.

The question that arises is whether or not the Board should accept a piecemeal change in the design day demand for some transmission systems, or wait until Union does a complete review of its transmission allocators for other systems such as the Dominion and Owen Sound lines and all other allocators used in the cost allocation model.

While LPMA believes that the Union proposal results in a more reasonable allocation of the Panhandle system costs, implementation of the proposed change now would result in increased costs allocated to some rate classes and decreased costs allocated to other rate classes and then in the rebasing application do the exact opposite. In effect by implementing only one allocation change at this time could result in rate instability for all rate classes when all other allocators are reviewed.

Cost allocation is a zero sum exercise. LPMA is concerned that changing only one aspect of the methodology could result in an allocation of costs that is biased because it is not based on a comprehensive review of all cost allocation methodologies.

LPMA recommends that the Board reject the proposed cost allocation changes until they can be dealt with as part of a comprehensive review of all cost allocation methodologies as part of the next rebasing application. LPMA further notes that this delay in the change in the allocation would only affect one full year of costs (2018) before Union rebases for 2019 rates. The impact on costs in 2017 is minimal given the projected in-service date late in 2017."

In the February 23, 2017 EB-2016-0186 Decision and Order the Board determined that it would not approve Union's proposal for the revised cost allocation methodology and that the proposal should be deferred to Union's next cost of service or custom IR application. The Board stated that it would be inconsistent to change the cost recovery for one project, while Union's other assets are recovered on a different basis. The Board further noted that a comprehensive review is required for parties to test, and the OEB to assess, the merits and implications of the proposal and that this should be at Union's next cost of service or custom IR application. The also noted that this proposal cannot be adequately considered during the IRM term, for one project in isolation.

LPMA notes that no party requested a review of the Board's decision on this issue in EB-2016-0186.

<u>ii) What Has Changed?</u>

LPMA submits that the only thing that has changed since the EB-2016-0186 Decision and Order is that Union no longer plans to rebase for 2019 rates, given the proposed merger with Enbridge Gas Distribution and the associated proposal for a methodology to make adjustments to rates using a price cap index for a 10-year period in the absence of any cost of service rebasing.

However, as indicated in the response at Exhibit B.IGUA.4, part c (November 21, 2017), Union has indicated that it intends to address concerns with the cost allocation of all Panhandle System costs in its 2019 price cap index rates application.

In Procedural Order No. 3, dated November 29, 2017 in the current proceeding, the Board stated that it was of the opinion that cost allocation issues can be better addressed prior to Union entering another price cap rate mechanism framework and that it would not be appropriate to address cost allocation changes in the last year of the current IRM framework where rate changes are supposed to be mechanistic. The Board indicated that any cost allocation changes are appropriate to be considered for the setting of 2019 rates.

LPMA submits that, effectively, nothing has changed from the EB-2016-0186 Decision and Order in that the allocation of the Panhandle Reinforcement Project will be an issue in the setting of 2019 rates. This is regardless of whether 2019 rates are set on a cost of service basis, a custom IR basis, or a rates proposal associated with a merger. Indeed, one could consider the 10-year rates proposal associated with the merger with Enbridge to be a custom IR application.

As a result, LPMA submits that there is no justifiable reason for the Board to deviate from its decision in EB-2016-0186. The Board approved the continue allocation of costs based on the Board approved methodology that set base rates for 2013 (EB-2011-0210) and indicated that any proposed changes should reviewed as part of a cost of service application or custom IR where the proposed changes – and other proposed changes – can be adequately considered.

<u>iii) Allocation of Panhandle Reinforcement Project Costs to 2018 Rates</u>

In Procedural Order No. 3, the Board determined that it would not examine cost allocation issues in this proceeding indicating that any such changes were outside the scope of this proceeding and noted that it would not be appropriate to address cost allocation changes in the last year of the current IRM framework where rates changes are supposed to be mechanistic.

LPMA submits that the Board has already determined that the costs associated with the Panhandle Reinforcement Project would be allocated based on the Board approved cost allocation methodology that was used to set 2013 rates. The Board has also already determined that it would not be appropriate to address cost allocation changes in the last year of the current IRM framework and that it would be inconsistent to change the cost recovery for one project during the IRM framework.

LPMA submits that any changes in costs allocated to 2018 rates or recovered through adjusted future rates (for example, through a deferral account or some other mechanism) would be inconsistent with the Board's decision on this matter and would be inconsistent with good regulatory practice.

Any such changes – regardless of how they are implemented (interim rates, deferral account, etc.) – and regardless of whether they are considered retroactive or retrospective

– effectively undermines the cost allocation methodology that has already been approved by the Board for 2018 rates.

LPMA submits that the Board has determined the allocation of the Panhandle Reinforcement Project costs in the EB-2016-0186 proceeding. It would be inconsistent for the Board to now approve any mechanism that would indirectly change the allocation of costs for 2018 from that already approved by the Board. LPMA submits that that any such mechanism would have the same impact as a direct change to the cost allocation methodology. Such a transparent back door approach would be inconsistent with good regulatory practice.

LPMA reiterates its submission from the EB-2016-0186 proceeding. Cost allocation is a zero sum exercise. LPMA remains concerned that making a change for only one project could result in an allocation of costs that is biased because it is not based on a comprehensive review of all projects undertaken and completed during the IRM term. Nor does it take into account any changes in the allocation of costs associated with other transmission pipelines in the Union South system.

As the Board is aware, the allocation of costs to different types of customers is not perfect. There will always be some inequity to some customers. However, LPMA submits that the inequity would be compounded if the Board were to effectively change the Board approved allocation of costs in 2018 rates by shifting some of those costs to other customers to be recovered in future rates.

iv) Re-Allocation of 2018 Costs for Future Recovery

If the Board does put in place some mechanism that effectively allows the re-allocation/recovery of 2018 costs on an after the fact basis to be recovered in future rates, LPMA submits that any such mechanism should not be limited to the costs associated with the Panhandle Reinforcement Project.

As an example, the "Other Transmission" allocator noted in LPMA's submissions in EB-2016-0186 (and included above) should be reviewed from a number of perspectives. Should it be disaggregated into a Dominion Transmission Line allocator, an Owen Sound Transmission Line allocator and a smaller Other Transmission Line allocator, or perhaps the Panhandle line should be incorporated into the existing Other Transmission Line allocator. Is the mix of customers served by the Panhandle line significantly different from that served by either the Owen Sound or Dominion lines? Allowing for a change in the allocation of costs for one project would not be fair if a comprehensive review is not done.

In summary, LPMA does not believe the Board should approve any mechanism that will effectively change the allocation of costs included in 2018 rates and who they are recovered from in the future. It would be bad regulatory practice. If the Board should do so, it should direct Union to file a comprehensive review of all cost allocation matters (not limited to transmission allocators) as part of the 10-year rates proposal filed by Union and Enbridge.

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.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
January 8, 2018

Randy Aiken
Consultant to London Property Management Association