



Township of Perth East

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Ontario Energy Board
PO Box 2319, 2300 Young St., 27th Floor,
Toronto, Ont., M4P 1E4
Attn: Ms. Kirsten Walli, Board Secretary

March 2, 2016

Dear Ms. Walli,

Re: Township of Perth East Intervenor Submission – Application # EB-2016-0004

PART 1 - DRAFT ISSUES LIST

Perth East provides the following comments on portions of the Draft Issues List.

1. *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?*
 - a. Perth East will participate at this point in a discussion to determine if the OEB has this legal authority. Based on our understanding on the application put forward, this is not even what was being asked for in the application and as such should in no way impact the consideration of the application.
2. *Based on a premise that the OEB has the legal authority described in Issue #1, what are the merits of this approach? How should these contributions be treated for ratemaking purposes?*
 - a. Again, as identified above, based on our understanding on the application put forward, this is not even what was being asked for in the application and as such should in no way impact the consideration of the application. Debate about provincial policy on this question has merit, but should form no obstacle to the Union Gas application as it was not one of the base principles of the application and was not requested or suggested.
3. *Should the OEB consider exemptions or changes to the EBO 188 guidelines for rural and remote community expansion projects?*
 - a. Absolutely.
 - i. *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?*

- a. Absolutely yes. The province needs to implement changes to its guidelines pertaining to servicing rural and remote projects. The very basic reality that industry and the province are aware of is that infrastructure that covers a greater distance costs more than comparable sized infrastructure covering a short distance. That basic premise highlights the current policy of treating all projects the same is inappropriate. If it were not for this policy, the community of Milverton would have been served with natural gas many years ago. Requiring a PI (alternatively called the payback period of the capital investment) for a project that conveys gas one block from one subdivision to another in the adjacent block is completely different that one like Milverton that needs to convey across more than 20km. The policy clearly penalizes and disadvantages rural and remote areas and in fact benefits urban areas as it encourages growth and development to stay away from rural areas.
- ii. *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.*
- a) Perth East will not comment at this point as to what costs should be included. Perth East will reinforce its comment that it is essential that rural servicing projects must be allowed longer payback periods to allow the users to repay the capital investments recognizing the higher capital costs.
- iii. *What, if any, amendments to the EBO 188 Guidelines would be required as a result of the inclusion of any costs identified above?*
- a) Perth East has no comment at this point on this question.
- iv. *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?*
- a) A criteria would need to be established that recognizes longer distances on some servicing projects. It would need to include the distance to be conveyed over in relation to the number of customers served. Installing 20 km of infrastructure to serve 800+ customers is one thing, installing 20 km of infrastructure to serve 10 customers likely is not viable. Public interest factors that could be considered as well would be demonstrated economic benefit on the extended community from more cost effective, environmentally friendly energy as opposed to corporate interests based solely on their profit. This community economic benefit review should include the benefits of providing the service, **plus** the costs of not providing it.

4. *Should the OEB allow existing 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?*
 - a. Absolutely. This is a common practice successfully in place for many years and allows a mechanism for cost recovery from benefiting property owners. This is a common approach for extension of services such as water mains and sewers to unserved areas. Timing would need to be assessed based on economic factors to ensure it is realistic and still represents an economic benefit for the customers in the longer term. A meeting was held with our local business association on this very topic and the option of a scalable fee was widely supported. Customers who use more have the ability to save more, so therefore have the ability to contribute more than someone who only uses a small amount. This concept is commonly used with water and wastewater customers of many municipalities.

5. *Are there other ratemaking or rate recovery approaches that the OEB should consider?*
 - a. To this point, as far as Perth East understands, costs for expansion of gas services are placed entirely upon new services, i.e. growth pays for growth. There is merit in considering other models as well, some that the province is well aware of and which the province has used for many years and continues to use. While the application is not suggesting that new servicing be equally shared between new customers and existing customers of a utility, there can be a cost sharing opportunity to some degree that benefits both. As a service grows, costs per serviced property will continue to decrease due to economies of scale, bulk purchases, avoiding duplication of key resources, etc. Two examples which clearly show province's use this approach are its costs allocation its electrical distribution and generation systems, as well as its transportation systems (highways and rail). In both these examples, costs for growth and expansion are allocated to all users (as well as non-users of the systems) not just to those whose needs result in the requirement for expansion and extension of services. If this approach is utilized by the province itself for electrical energy distribution, it is unclear why it would be inappropriate for natural gas distribution in some modified form.

6. *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?*
 - a. The wording of this question is unclear. Perth East has no comment on this question at this point in time.

7. *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?*
 - a. The periodic review of agreements and policies is always a good idea to ensure that they remain current and appropriate based on the needs and economic conditions of the time. That being said, a review of Municipal Franchise

Agreements and Certificates of Public Convenience should not stall the application currently before the OEB as it was made in accordance with the Municipal Franchise Agreements and Certificates of Public Convenience currently in place. The projects listed in the current application are clearly required at this time. Efforts to stall these projects based solely on debates about what should or shouldn't happen with other currently unknown projects is irresponsible to those who require service now. It is Perth East's suggestion that the OEB could if it wished, authorize these listed projects to proceed as outlined in the application and authorize the requested amendments for these specific projects only. Debate could then continue for projects over the long term while then having the benefit of first-hand knowledge of the application of these amendments to see how well the approach actually worked.

8. *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)*
 - a. Again, these may be valuable discussions for the OEB to have at some point, but in no way should they stall the application currently before the OEB. The reality is that a number of options were considered when developing a plan for the community of Milverton. Perth East already has a franchise agreement in place with Union Gas since 2005. No other company has gas mains anywhere near this community that could provide this service. No other company has even contacted Perth East regarding Milverton. An economic evaluation looking at LNG plants suggests that the scale of expenditure required is several times the cost of extension of a gas main as proposed and as such is not viable. Continuing to stall this project from moving forward when there is no realistic, viable, economic, available alternative is irresponsible. The reality is that stalling this project intentionally disadvantages this community's future, and it costs the community a collective loss of more than \$1.3 million annually. This is an enormous loss for a community of only approximately 800 homes and businesses. Additionally, any new entrants to the industry must be able to demonstrate experience in actual operations of a gas utility, the ability and committed resources to respond to any and all emergencies that can occur in relation to operation of a gas utility. Municipalities will have significant resistance and concerns relating to new operators that may not have the ability or resources necessary to respond to protect the communities they are serving in the event of an emergency.

PART 2 - Impacts on Perth East if Milverton does not move forward now

Clearly the OEB has heard from opponents to the submission which was prepared at the Province and OEB's request in an effort to provide natural gas service to a number of rural and remote communities, including Milverton. Unfortunately, it would appear that some of those opposed have no viable alternative in place that could easily and economically be implemented to serve Milverton. It is disheartening that some would intentionally hold an entire community in a disadvantaged position, and at significant economic loss to the community for the opportunity to discuss business options for them elsewhere in the

province. Some might see this approach as extremely self-serving while quantitatively harming a community in need. Perth East therefore has prepared this submission so the OEB can have a clear understanding of the community's point of view to give a more balance and realistic perspective.

In her 2014 mandate letters to various Ministers, Premier Wynne indicated that extending natural gas to currently underserved communities is a priority for the Province of Ontario. This is a follow-up to a pledge that the Liberals made during their campaign – funding of \$200 million in no interest loans to municipalities and \$30 million in grants for underserved communities. In the Provincial Budget released in March 2015, the Province included \$200 million in no interest loads and \$30 million in grants.

Essentially what Perth East was told in February of 2015 by the Province was that the mechanism for applying for and accessing the funds specifically allocated by the Province for this exact type of project have not been developed, but we were assured that we would be notified “once further details are available”. To date, we have received no such notice.

The OEB responded at the same time with the request/suggestion that a submission by natural gas utilities be made to the OEB with recommendations/suggestions for regulatory reform that would be beneficial in terms of providing the necessary economic parameters to allow our project to move forward.

This was done. A very thorough and detailed submission was filed by Union Gas with extensive municipal consultations with the OEB on July 23, 2015 under filing number **EB-2015-0179**. This submission outlined in detail a number of regulatory reforms that would level the playing field for remote and rural communities and allow much needed servicing projects to proceed. Included with this submission were 5 specific projects/communities, including our community of Milverton that are shovel ready and would be in a position to finally move forward.

Key aspects of the submission with respect to the Milverton Project are as follows:

1. Project is economically viable
2. Paid for by users of the system
3. Would not cost the province anything
4. Would provide significant savings in terms of reduced energy costs for the entire community including residents, businesses, municipal facilities, the local school, as well as the local long term care facility.
5. Would provide significant savings in terms of reduced energy costs for future subdivisions, and would encourage much needed growth in the community
6. Would provide the ability to grow the system to the agricultural sector in the area that currently does not have access to natural gas.

Latest Developments

1. On January 20, 2016 the OEB issued its decision to place the hearing on hold. The OEB indicated that it will be holding new generic hearing on 3 key issues.

2. Subsequent to that the OEB issued another Notice on Friday February 5, 2016 which now says that Generic Hearing EB 2016-0004 will deal with the “Draft List of Issues” has now mushroomed to 12 points (8 points, 1 which has 4 sub-points).
3. It is extremely frustrating that over a course of only two weeks, the list has grown so dramatically, and is now labelled as a “Draft List of Issues”. This gives the impression that this list may still be added to, further complicating matters and potentially further delaying the hearing. It is very disheartening that the list of concerns can grow without any consultation with the communities actually included in the application to determine what the impacts on these communities will be of not proceeding with the proposal. This proposal has widespread support across the community. This certainly has the appearance of a one sided view. It is also disheartening to see that some of the issues listed as concerns did not even form a basis of what was requested or suggested in the application. It appears that concerns of the impacted communities have not even been considered at this stage. This seems counter intuitive as the apparent intent of the undertaking is to provide service to unserved communities.

What are the implications to Perth East?

The impacts of this delay are significant. Indications are that the OEB placing this application on hold could result in a delay of approximately 1 year. This means that residents and businesses in Milverton will continue to pay higher energy prices as they wait for natural gas to come to their community. This means that some residents and businesses of Milverton will once again experience loss of heat as a result of current suppliers not being able to meet current demands. This is unacceptable. The community of Milverton has a population of approximately 1,500 and this project would provide access to natural gas to more than 800 homes and businesses. Additional homes and businesses including the agricultural sector would be able to access natural gas off this line in the future. This decision of the OEB for a delay is a decision to continue to hold Milverton and the surrounding area at a disadvantage with comparable sized communities.

1. Conservative estimated **loss of \$1.3 million per year in energy savings for residents and businesses in Milverton.** This equates to a minimum estimated annual loss of \$1,600 per household and per small business. Losses are even larger at our key larger businesses and our local school.
2. Estimated loss of over \$60,000 in energy savings per year for municipal properties.
3. Estimated loss of over \$80,000 in energy savings per year for local long term care facility, Knollcrest. These are much needed dollars that could be much more effectively directed back towards actual patient care for senior citizens.
4. Significant deterrent to growth and development that Township has been working extremely hard to secure. Very real possibility that development of subdivisions will stall. In terms of perspective, the value of lost/delayed residential development if gas service does not move ahead is estimated at \$55 million. Similarly, the value of lost/delayed industrial development is estimated at \$8 million. The devastating

impacts of this economic loss both in terms of today and future impacts cannot be overstated.

5. Future connections to service adjacent smaller communities (Rostock and Wartburg) and the local agricultural areas will not be possible until after the Milverton service line is installed.

SUMMARY

The following key points are provided as a summary of the issue:

- a. The closest gas main with available capacity is in Sebringville which is over 20 km from Milverton. Milverton is the only urban centre in Perth East. It's the only unserved urban centre in the extended area.
- b. Growth, development, and employment has consistently gone to other adjacent communities who have natural gas.
- c. Zoned land is available for residential and industrial growth. Services including water and wastewater are available for that growth. School capacity is available, all community services (recreation, emergency services, library, etc.) are available with capacity at no additional costs.
- d. The community of Milverton and the surrounding area would have been serviced and benefitted from growth and economic development years ago if regulatory limitations would not have been in place
- e. The Province has indicated that climate change impacts are a significant concern and that any and all steps that can be taken to reduce the carbon footprint of Ontario should be undertaken.
- f. Natural Gas is needed for sustainable energy for building community with a future
- g. Natural Gas is needed for growth and development to protect the local economy
- h. The local Business Association will be submitting comments and concerns detailing the impacts on their businesses and their financial futures.
- i. Servicing this community with natural gas will make a significant contribution in achieving this stated priority of the Province.
- j. In her 2014 mandate letters to various Ministers, Premier Wynne indicated that extending natural gas to currently underserved communities is a priority for the Province of Ontario. This is a follow-up to a pledge that the Liberals made during their campaign – funding of \$200 million in no interest loans to municipalities and \$30 million in grants for underserved communities. In the Provincial Budget released in April 2015, the Province included \$200 million in no interest loans and \$30 million in grants
- k. In February 2015 Perth East asked for access to these specifically allocated funds.
- l. In March 2015, Perth East was told the process was not yet in place to access funds, but would be informed when the funds would be available.
- m. Still no notice to date for Perth East to access these funds

- n. In Late February of 2015 the Ontario Energy Board (OEB) responded with the request/suggestion that a submission be made to the OEB with recommendations/suggestions for regulatory reform that would be beneficial in terms of providing the necessary economic parameters to allow our project to move forward.
- o. This was done. A very thorough and detailed submission was filed with the OEB on July 23, 2015 under filing number **EB-2015-0179**.
- p. The Township of Perth East accepted the commitments of the Province and the OEB in good faith. With no warning that this was even a concern, On January 20, 2016 decision of OEB to place the hearing on hold citing 3 key issues which they would address in a separate new generic hearing. Notice on Friday February 5, 2016 now says that the "Draft List of Issues" has mushroomed to 12 points (8 points, one of which has 4 sub-points)
- q. The appearance of this whole process and the new and developing roadblocks are very disheartening and extremely detrimental to the community.
- r. Economic losses in terms of energy costs alone are expected to be approaching \$1.5 million annually for only approximately 800 homes and businesses.
- s. Economic losses in terms of lost residential development alone are expected to be approaching \$55 million.
- t. Economic losses in terms of lost industrial development alone are expected to be approaching \$8 million.
- u. The economic losses associated with the significant loss of employment opportunities has far reaching, and long lasting impacts.
- v. This is not sustainable, especially since this same municipality has lost \$1.5 Million in OMPF funding over the last few years as a result of other provincial policy decisions.
- w. If the Province and the OEB have the well-being of rural Ontario and small communities as a priority, it needs to address this situation immediately and not continue to consciously make decisions to hold this community at a disadvantage.

What is Perth East Requesting?

1. Encourage the OEB to complete its generic hearing EB 2016-0004 as quickly as possible. Do not delay the hearing based on concerns raised by others where the specific issues do not even form any aspect of the submission what so ever and these parties have no other viable, economical solutions to offer as an alternative. While not making a direct comparison, in similar types of hearing processes, there are mechanisms to dismiss what some would suggest in that the approach taken by others could possibly be interpreted as approaching frivolous and vexatious and as such could be simply dismissed.
2. Encourage the OEB to complete its hearing EB 2015-0179 as quickly as possible to allow a new regulatory framework which would permit the servicing of many unserved communities **at no cost to the province**, while at the same time significantly benefiting the province resulting directly from growth, development,

reduced costs, increased property taxes, and not to mention environmental benefits.

3. Rectify the current policy and regulatory environment that disadvantage lower income rural and remote communities by encouraging growth to only take place in large urban centres. This is blatantly unacceptable and is not defensible.

All of which is respectfully submitted

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Schwendinger', is written over a light blue rectangular background.

Glenn Schwendinger
Chief Administrative Officer