

**ONTARIO ENERGY BOARD STAFF INTERROGATORIES  
ON THE EVIDENCE OF EPCOR UTILITIES INC.**

**Ontario Energy Board Community Expansion Proceeding**

**EB-2016-0004**

Interrogatory # 1

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 1, Para. 3

At paragraph 3 the evidence states:

In addition to these benefits, the Province has recognized the increasing divergence of energy costs between areas that enjoy natural gas service and those that do not, the latter usually being in rural areas where incomes are often lower.

- a) To date EPCOR Utilities Inc. (EPCOR) has shown interest in serving Kincardine and surrounding areas with natural gas. To the best of EPCOR's knowledge, does the Kincardine area have lower incomes than the Ontario average?
- b) Does EPCOR have any specific information regarding income in the communities that Union has proposed to serve? Are incomes in these areas below the Ontario average?

Interrogatory #2

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 3 and 4, Paras. 7-10

Dr. Yatchew's evidence discusses various communications from the Ontario Government that speak favourably of natural gas expansion.

- a) Is Dr. Yatchew aware of any statements from the Ontario Government that specifically reference a cross subsidy from existing customers to new customers that will be served by gas expansion?
- b) Is Dr. Yatchew aware of any statement from the Ontario Government that specifically references a subsidy (in any form) from the customers of one utility to the customers of a different utility?

## Interrogatory #3

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 5, Para. 12

Dr. Yatchew describes the lower carbon emissions that would result from a switch from heating with either propane or oil to heating with natural gas.

Does Dr. Yatchew agree that in Ontario carbon emissions from heating with natural gas would be higher than carbon emissions from heating with electricity? Is it possible to roughly quantify the difference in annual carbon emissions for a typical residential user as between heating with natural gas and heating with electricity?

## Interrogatory #4

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 7, Para. 17(d)

The evidence at para. 17(d) states:

New entrants may bring alternative business models which take advantage of, for example, economies of scope, by providing multiple services. These can bring savings to customers through the sharing of billing service costs and common overheads. The provision of multiple services by a single entity can also provide added convenience to customers. There is significant statistical evidence that multi-utilities can produce significant cost savings.

Does EPCOR plan to offer services (for example, water) other than natural gas distribution in Ontario?

Given the restrictions on business activities contained in Union Gas Limited (Union) and Enbridge Gas Distribution's (Enbridge) Undertakings to the Lieutenant Governor in Council, in EPCOR's view would Union and Enbridge be able to offer other services to customers? Does EPCOR anticipate that it might become subject to similar restrictions?

## Interrogatory #5

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 8, Para. 17(f)

Some enterprises applying for a franchise may choose to use their own funds to cover a portion of capital costs without the expectation that these contributions would be repaid by ratepayers. This will bring benefits to customers through lower rates, and to shareholders to the extent that a

valuable asset with market value will be created.

Does EPCOR plan to use its own funds to cover a portion of the capital costs of expansion into Ontario, without these contributions being repaid by ratepayers? If so, please provide details.

#### Interrogatory #6

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 8-9, Paras 19 and 22.

Dr. Yatchew's evidence points to examples from the United States where new entrants were able to facilitate natural gas expansion by financing the expansions with a rate of return below industry standards, or with no rate of return at all.

Does EPCOR propose to seek a rate of return below the Ontario Energy Board (OEB) approved rate of return for any of its planned expansion into Ontario? If so, please provide details.

#### Interrogatory #7

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 9-10, Para. 22

Dr. Yatchew's evidence discusses the business strategy of Summit Natural Gas of Maine:

It has offered innovative approaches to pricing including accepting a rate of return that is below industry standards for the initial years of the tariff plan, offering pricing structures that include up-front financial incentives to help defray the costs of converting to natural gas and offering 'on-bill' loans to help bridge the gap between up-front costs of conversion and eventual savings from switching to a cheaper fuel source.

- a) Does EPCOR support the use of these types of tools to promote natural gas expansion? Does EPCOR intend to propose similar tools with respect to its planned expansion into Ontario?
- b) Did the customers of Summit Natural Gas that were served by expansion receive any direct subsidy from existing customers of Summit Natural Gas? Did they receive any direct subsidy from the customers of other natural gas providers in Maine?

## Interrogatory #8

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 12-13, Paras. 29-38

Dr. Yatchew's evidence proposes an "Expansion Reserve" whereby the OEB would establish and administer a reserve that would be funded through a levy on Ontario's existing natural gas customers. System expansion could then be partially funded by this reserve, subject to certain parameters.

- a) Is Dr. Yatchew aware of any other jurisdiction that uses a similar type of reserve to support natural gas system expansion? If so, please provide details.
- b) In Dr. Yatchew's opinion, does the OEB have the jurisdiction to establish an Expansion Reserve and implement an Expansion Charge on customer bills?
- c) OEB staff would be assisted by some more detail on how the Expansion Reserve would work. Please elaborate on the examples provided in paras. 30-31.
- d) Would an Expansion Charge be applicable to all customer classes: residential, commercial, industrial and contract customers?
- e) Epcor's proposal recommends a volumetric levy on province-wide sales of natural gas. Does Epcor propose any maximum monthly surcharge for large commercial or industrial customers or would the volumetric levy determine the monthly surcharge irrespective of the amount?
- f) Under Epcor's proposal, would the ratepayers of one utility be responsible for paying a portion of the cost of capital of another utility? Is Dr. Yatchew aware of any cases in other jurisdictions where this has happened?
- g) The evidence at para. 32 states that the OEB should determine what projects are eligible for funds from the Expansion Reserve. What eligibility criteria does EPCOR propose?
- h) The evidence at para. 37 states that existing customers could benefit in the longer term from system expansion if expansion reduces their unit transmission, distribution, storage or commodity costs. Has EPCOR conducted any research to determine the likelihood of existing customers benefitting financially from system expansion if that expansion has a Profitability Index of, for example, 0.4 or 0.6?
- i) The evidence at para. 38 states that a "modest surcharge" to current customers would be within the bounds of equity. Can EPCOR quantify what it believes a "modest surcharge" to be? Under EPCOR's proposals, what is the maximum surcharge that existing customers could be faced with? What is the expected annual amount that would be collected into the "Expansion Reserve"?

## Interrogatory #9

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 14, Para 40

The evidence states that there may be communities with industrial or commercial customers who are willing to contribute to expansion costs in order to secure gas supply.

Is EPCOR aware of any industrial or commercial customers in Ontario that are willing to contribute to expansion costs in order to get gas service in their communities? If yes, please provide details.

## Interrogatory #10

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Page 15, Para. 44(a) and 10

Paragraphs 10 and 44(a) of the evidence reference \$230 million dollars in loans and grants being made available by the Provincial Government to support gas expansion.

As the Provincial Government has already made significant funds available to communities hoping to receive gas service, are additional subsidies from existing customers necessary?

## Interrogatory #11

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 16-17, Para. 47

Paragraph 47 of the evidence states: “[f]or existing distributors that are in the midst of an incentive ratemaking cycle, expansion costs and revenues would need to be treated separately from ongoing operations until the completion of the cycle, at which time they could be merged for the subsequent period.”

In EPCOR’s view, do the current incentive ratemaking frameworks that the incumbent utilities are currently operating under permit this type of separate treatment? Would amendments to the approved incentive ratemaking framework be necessary?

## Interrogatory #12

Ref: Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 20-21, Paras. 62-63.

The evidence articulates a concern that if Union (and presumably Enbridge) are permitted to subsidize community expansion through rates paid by their existing customers, this would seriously disadvantage any potential new entrants into the market, as they will have no existing customers from whom to collect a subsidy. This is one of the reasons that EPCOR proposes the Expansion reserve, which is funded by all gas ratepayers and accessible by any natural gas distributor.

Would EPCOR's concern about barriers to new entrants be alleviated if no customer subsidies were provided at all?

## Interrogatory # 13

Ref: Evidence of Parkland Fuel Corporation

The evidence filed in this proceeding by Parkland Fuel Corporation offers an extensive critique outlining a number of concerns with the use of cross subsidies to support system expansion.

Is Dr. Yatchew able to provide a high level response to the concerns raised in Parkland Fuel Corporation's evidence?

## Interrogatory # 14

Ref: Evidence of Union Gas Limited EB-2016-0004, Pages 28-30

Union has listed the minimum requirements that any utility proposing to provide natural gas service in Ontario should meet and fulfil core expectations that the OEB has of existing gas utilities in Ontario. These expectations are further subdivided into operational capability, core expectations and demonstrated financial stability.

Does EPCOR agree with the expectations outlined by Union in its evidence?

## Interrogatory # 15

Ref: Evidence of Canadian Propane Association, Exh. 3, Tab 3, Page 6

The evidence of Canadian Propane Association (CPA) notes that in the event the OEB authorizes cross-utility subsidization to occur, such that customers of one utility subsidize the expansion undertaken by another distributor, the OEB can mitigate some of the adverse impacts by removing the return on rate base component embedded in the subsidy so that there is only a return “of” and not “on” the capital investment associated with the expansion. With the return component removed, utilities will continue to benefit from the remaining non-financial, social and other benefits of natural gas expansion.

- a) Please provide EPCOR’s opinion on the approach proposed by CPA.
- b) Does EPCOR agree with the proposed approach of the CPA? If no, why not?