ONTARIO ENERGY BOARD STAFF INTERROGATORIES

ON THE EVIDENCE OF PARKLAND FUEL CORPORATION

Ontario Energy Board Community Expansion Proceeding

EB-2016-0004

Interrogatory # 1

Ref: Affidavit of Gary Highland, paragraphs 12-13

Mr. Highland's affidavit states that "[t]he difference in emissions between propane and natural gas combustion are insignificant."

Does the word "emissions" include greenhouse gases? If not, what are the differences in greenhouse gas emissions between propane and natural gas combustion?

Interrogatory # 2

Ref: Affidavit of Gary Highland, paragraphs 12-13

The affidavit states that while propane will not contribute to pollution in its unused state if released, natural gas will. Methane is 25-27 times more toxic as a greenhouse gas than carbon dioxide. Fugitive emissions of natural gas during extraction, transmission and distribution are still being quantified, however both the Canadian and US federal governments recently committed to reducing methane emissions by 25%.

In your opinion, is fugitive emission of natural gas a larger issue in extraction and processing or distribution?

Interrogatory # 3

Ref: Comments on Economic Issues Raised in EB-2016-0004, Kalyan Dasgupta and James F. Nieberding, Ph.D., Pages 16 and 17, Para 5.5 to 5.7

The evidence notes that the traditional method of pricing new natural gas pipeline construction has been to roll in new capital expenditures with the existing rate base of pipelines and to increase rates accordingly. The evidence further suggests that from a strict economic efficiency perspective, the correct approach to follow is a strict incremental cost approach; each project should produce incremental revenues that exceed its incremental cost. The report claims that the dangers of cross subsidization are inherent in rolled in pricing.

a) The OEB in its EBO 188 guidelines has attempted to address the issue of the incremental cost approach by setting the minimum target of the Rolling Project Portfolio at 1.1. Please provide your opinion on this guideline set by the OEB and explain why this guideline is not sufficient to address any incremental cost concerns.
b) The report raises concerns about rolling in new capital expenditures into existing rate base in order to calculate rates. However, the report does not recommend any alternatives. If alternatives do exist, please explain how these alternatives would be implemented for ratemaking purposes including the use of multiple rate bases and the process of allocating costs across the different rate classes.

Interrogatory # 4

Ref: Comments on Economic Issues Raised in EB-2016-0004, Kalyan Dasgupta and James F. Nieberding, Ph.D., Page 22, Para 6.8 and 6.9

The evidence states that an important reason for regulating a firm is that it has market power that is unlikely to be corrected by competitive entry. This would not, however, describe the position of a new natural gas system in areas where other fuels are incumbent. The areas that are currently unserved by natural gas pipelines may well be relevant geographical markets for the purpose of competitive analysis. This competition economics perspective suggests that far from rolling-in the capital of these systems into a regulated rate base, these systems should be operated much as unregulated affiliates are operated.

a) Are the authors suggesting that the Ontario Energy Board (OEB) forebear from regulating expansion of natural gas in communities that are not economic to serve? If so, how would the OEB protect the public interest in that context and ensure just and reasonable rates?
b) Assuming that the OEB were to forebear from regulating rates in areas that are not economic to serve and the communities do receive natural gas service, is there a possibility that this could eventually lead to a monopoly gas service provider in the specific communities?

Interrogatory # 5

Ref: Evidence of EPCOR Utilities Inc. (Dr. Adonis Yatchew), pages 12-13 and 21-22

Evidence of Mr. Dasgupta and Dr. Nieberding

Dr. Yatchew's evidence recommends that the Board establish and administer an "Expansion Reserve". The Expansion Reserve would collect a levy from all small volume natural gas customers, and use these funds to finance natural gas expansion in the province. The Expansion Reserve could be accessed by any gas distributor.

Without repeating the concerns that have been expressed about cross subsidization in Parkland's evidence, do Mr. Dasgupta or Dr. Nieberding have any comments on EPCOR's proposed Expansion Fund?