ONTARIO ENERGY BOARD

NATURAL GAS EXPANSION GENERIC PROCEEDING

INTERROGATORIES TO ADONIS YATCHEW (on behalf of EPCOR)

From

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

1. **Reference:** Evidence, paragraph 22.

The evidence cites refers to a successful proposal by Summit Natural Gas of Maine (SNG) to extend gas service to previously unserved areas in that state. The evidence indicates that SNG's business strategy included:

> *…innovative approaches to pricing including accepting a rate of return that is below industry standards for the initials 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 upfront costs of conversion and eventual savings from switching to a cheaper fuel source.*

Has EPCOR considered any of these mechanisms, or any similar customer incentive mechanisms, to facilitate expansion of gas distribution unserved communities. If it has, please detail those considerations. If it has not, why not?

2. **Reference:** Evidence, paragraph 29.

Dr. Yatchew proposes an "Expansion Reserve" which would be funded by *"a small volumetric levy on Province-wide sales of natural gas to current customers"*, and the funds in which would be used to support gas service expansion by qualifying proponents.

(a) Please describe how this proposal differs in substance from the announced government grant and loan gas expansion programs, other than how the funds are collected.

(b) Please comment on the impacts on economic efficiency of adding such a levy to the delivered cost of gas for all Ontario gas consumers, as opposed to funding such a program through government collection (in the manner of collection of the funds for the government's gas expansion grant and loan programs). From the perspective of gas service price signal "fidelity", which mechanism would be preferable, and why?

(c) Should the recommended funding be available to alternative energy service proposals (LNG, CNG, bio-gas, district energy, micro-grid) if one or more such alternatives are demonstrably more economic?

(d) What criteria would Dr. Yatchew propose as required qualifications for access to the proposed fund?

(e) Would funding of customer conversion costs be an appropriate use of the proposed fund? If not, why not?

3. **Reference:** Evidence, paragraph 38.

Dr. Yatchew advocates a *"modest surcharge"* on current customers to fund currently uneconomic gas system expansion.

Could Dr. Yatchew please quantify what he considers *"modest"* to be for such a surcharge.

4. **Reference:** Evidence, paragraph 63.

Dr. Yatchew asserts that:

> *A regulatory model that allows incumbent providers to recover part of their capital expansion costs through higher rates charged to their existing customers, without having these funds available to competing entities, would seriously disadvantage potential entrants.*

Dr. Yatchew goes on to assert that this *"underscores the essentiality of creating a segregated fund, administered by the Board or its designate"*.

(a) Does the government's announced natural gas expansion grant and loan fund/program present any such disadvantage to potential entrants?

(b) Would expansion of the government's program achieve the objectives endorsed by Dr. Yatchew at least as well as an OEB mandated and administered levy on natural gas ratepayers? If not, why not?

5. **Reference:** Evidence, paragraph 66 and page 24 (top).

At the first reference, Dr. Yatchew states:

> *The allocation of costs in networks does not generally admit unique assignments based on cost causality. A range of outcomes can satisfy principles of equity.*

At the second reference, Dr. Yatchew states:

> *Cost allocations in networks (and more generally whenever there are common costs) do not have unique and unequivocal solutions based purely on principles of cost causality.*

(a) Does Dr. Yatchew offer these statements as justification for a degree of cross-subsidy of expansion projects by existing customers?

(b) If not, please provide further explanation of what is meant by these statements and how they relate to the issues addressed in Dr. Yatchew's evidence.

(c) If so, please provide further explanation of the meaning of these statements in the context of such cross-subsidies.

6. **Reference:** *Comments on Economic Issues Raised in EB-2016-0004*, filed on behalf of Parkland Fuel, paragraph 1.8.

In their evidence, Mr. Dasgupta and Dr. Nieberding discuss the load forecast risk associated with gas system expansions.

(a) Is EPCOR willing to assume the load forecast risk associated with its expansion project(s)?

(b) If not, how does EPCOR propose to allocate that risk?

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