

Reply to the Attention of Laura Brazil
Direct Line 416.865.7814
Email Address Laura.Brazil@mcmillan.ca
Our File No. 231915
Date April 22, 2016

RESS

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Attention: Kristen Walli
Board Secretary
boardsec@ontarioenergyboard.ca

Dear Ms. Walli:

**Re: CPA Responses to Interrogatories
EB-2016-0004**

We are counsel to the Canadian Propane Association (the “CPA”), an intervenor in this proceeding.

Enclosed are CPA’s responses to the interrogatories of Enbridge Gas Distribution Inc. in accordance with the Decision and Procedural Order No. 2, issued by the Board on March 9, 2016.

Yours truly,



Laura Brazil

/cs
Attach.
cc by email: Intervenors in EB-2016-0004

ONTARIO ENERGY BOARD

**Application under the Ontario Energy Board's own motion to consider
potential alternative approaches to recover costs of expanding natural
gas service to communities that are not currently served**

**CANADIAN PROPANE ASSOCIATION RESPONSES
TO INTERROGATORIES OF
ENBRIDGE GAS DISTRIBUTION INC.**

**CANADIAN PROPANE ASSOCIATION (CPA) RESPONSES TO
INTERROGATORIES OF ENBRIDGE GAS DISTRIBUTION INC. (ENBRIDGE)**

Interrogatory 1

Reference

CPA (page 9) "Union's application and evidence overstates the benefit to consumers of converting from propane to natural gas. This is described in detail in the Expert Report of Gerry Goobie dated 8 March 3, 2016."

Preamble

The CPA takes the position Union's EB-2015-0179 application and evidence overstates the benefit to consumers of converting from propane to natural gas.

Request

- a) Please provide all data and detailed analysis supporting the relative energy costs for space and water heating used to support the evidence of the CPA in this proceeding.
- b) Please provide retail residential propane prices that were offered to CPA member customers by CPA members for each month in 2014.

CPA Response

1 (a) Please see Exhibit S2.CPA.Northeast.1.

1 (b) Please see Exhibit S2.CPA.SEC.3.

Interrogatory 2

Reference

Section 2: "Natural gas subsidization violates rate-making principles"

Preamble

The CPA takes the position that subsidization across utility customers is outside of the ratemaking authority of the OEB and that such subsidization can only be justified on non-financial grounds such as the provision of general societal benefits or improving the provincial economy.

Request

- a) Please confirm that CPA member companies each achieve exactly the same degree of profitability for every customer which they serve.
- b) Please confirm that it is the CPA's understanding that the current EBO 188 Guidelines do provide for a degree of cross subsidy across gas utility system expansion projects.
- c) Please confirm that is the CPA's understanding that Stage 2 and Stage 3 Benefits as defined in EBO 134 cannot be considered in the evaluation of gas utility system expansion projects under the EBO 188 Guidelines.

CPA Response

2 (a) Not every propane customer generates the same profit, just as not every gas customer generates the same profit. But propane distributors must negotiate a price with their customers. If Propane Customer "A" pays a higher price, or a more profitable price, than Propane Customer "B", it is because Propane Customer "A" agreed to pay that price after considering the market and having the opportunity to negotiate with the supplier, or to take their propane business elsewhere, to a competing supplier to seek a better price. Propane distributors do not have the benefit of a regulator who can simply order one customer to pay for another. Propane distributors do not have the benefit of monopoly franchise territories in which they are free from the rigours of competition. Propane distributors do not have the benefit of being able to invest in uneconomic projects and still earn a fixed rate of return because they had a regulator levy a stipend on the customers of one of their competitors halfway across the province.

This is the very point. Propane distributors are forced to accept different profitability levels because they have to compete and earn each customer. If they open a new distribution centre and the customers do not come, they have to lower their pricing to a more attractive level, which is

why those new customers will be less profitable than others. They do not then turn to a propane regulator and ask for the power to force unrelated parties to make them whole.

2 (b) No, current EBO 188 Guidelines do not allow for pools of projects that have a PI of less than 1.0. As a result, there is no circumstance in which someone who receives no benefit would ever have to pay for someone who receives a benefit. Please see Exhibit S2.CPA.BoardStaff.2 for further details.

2 (c) The EBO 188 Guidelines explicitly require that:

- The Investment Portfolio be designed to achieve a profitability index ("PI") greater than 1.0.
- The Rolling (previous 12-month) Project Portfolio should achieve a PI of 1.0 or greater.

The EBO 188 Guidelines also clearly articulate a standard test for financial feasibility, or for calculating the PI. This test is based solely on the capital investment associated with the portfolio projects, the increase in operating cash flow associated with the portfolio projects, and the tax benefits associated with the portfolio projects. Stage 2 and Stage 3 benefits are not contemplated within this test. However, please see S2.CPA.EnergyProbe.3(c) and (d) for suggestions on how the social benefits which Stage 2 and Stage 3 would otherwise attempt to capture can easily be incorporated within the existing framework of EBO 188.