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Reply to the Attention of	Laura Brazil
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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 Vulnerable Energy Consumers Coalition 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

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CANADIAN PROPANE ASSOCIATION RESPONSES TO INTERROGATORIES OF VULNERABLE ENERGY CONSUMERS COALITION

CANADIAN PROPANE ASSOCIATION (CPA) RESPONSES TO INTERROGATORIES OF VULNERABLE ENERGY CONSUMERS COALITION (VECC)

Interrogatory 1

Reference

CPA Evidence p.3-7

a) Does the CPA contend that the Ontario Electricity Support Program is contrary to the role of the Ontario Energy Board as an economic regulator of just and reasonable rates? Please distinguish or compare the Program with a program of subsidization of uneconomic natural gas expansion.

b) Are there network externalities that benefit existing natural gas customers when service is expanded to unserved communities? If so how can they be measured?

c) Are there social objectives set out in the OEB Act that uneconomic natural gas expansion may serve to advance even though such expansion may not be in accordance with the strict application of the cost of service principles you have cited on page 6.

CPA Response

1 (b) The Ontario Electricity Support Program can be distinguished from the subsidization of uneconomic expansion in two ways:

i. The Ontario Electricity Support Program is specifically and explicitly mandated by legislation (section 79.2(2) of the OEB Act):

> ***Ontario Electricity Support Program***
> 79.2(2) Where the Board makes provision for rate assistance in accordance with subsection (1), the rates set and the related activities undertaken by the Board may be referred to as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French. 2015, c. 20, Sched. 31, s. 1.

The subsidization of uneconomic natural gas expansion is not.

ii. The purpose of the Ontario Electricity Support Program is to address a lack of affordability by low-income Ontarians. It serves to ensure that no one is left in the cold and dark simply because of their financial capacity.

But the proposed natural gas expansion subsidy serves quite a different purpose: it serves to provide greater choice and selection among a variety of energy sources to those who currently have access to energy, but do not have as wide a selection as others. It is about level of consumer choice, not level of income.

Without the Ontario Electricity Support Program, some of its beneficiaries would be without power. Their lives could be at risk. It is designed for people who have access to energy but not the money to pay for it. Conversely, without the proposed gas expansion subsidy, some of its beneficiaries would have to continue to heat their homes with electricity, propane, geothermal, oil, solar or other forms of energy. Their lives are not at risk. It is designed for people who have access to energy but want a greater selection.

1 (c) CPA is not aware of any such network externalities.

1 (d) No. In fact, uneconomic expansion is contrary to the objectives in section 2 of the OEB Act. For example, it fails to protect the interests of consumers with respect to prices and the reliability and quality of gas service the populations of unserved communities are not consumers. It also fails to promote the rational expansion of transmission and distribution systems.

Interrogatory 2

Reference

CPA Evidence p 8, 9

a) Please explain the regulatory approach to holding utilities accountable for forecast errors or "incentivized" for accuracy.

CPA Response

2 (a) There are lots of examples around the world where utilities bear some degree of risk associated with errors in forecasts that underpin rates. The use of a forward test year combined with price-cap regulation is one such example (i.e. 4th Generation IR for electricity distributors in Ontario). The starting rate under the performance-based framework is established, in part, based on a forecast of the number of customers, demand, and energy consumption in the forward test year. With prices fixed, the utility is exposed to some risk that the forecasts are inaccurate.

Interrogatory 3

Reference

CPA Evidence Exhibit 3 Tab 3, p.6

a) Please explain the process and result of removing the utility return on the subsidy provided for expansion of natural gas service

CPA Response:

3 (a) Please see Exhibit S2.CPA.BoardStaff.3.

Interrogatory 4

Reference

CPA Ex3 Tab3 p.10

a) Is the CPA's position that uneconomic natural gas expansion should be only funded by rates and surcharges from the newly served customers?

CPA Response

4 (a) Natural gas expansion should be funded only through rates and surcharges from the newly served customers, together with any government grants and loans if the government has determined to fund uneconomic expansion as a social policy objective.

Interrogatory 5

Reference

CPA Evidence Exhibit 9 Tab 9 pp. 8-12

"With a *long payback period and an expectation of relatively low propane and furnace oil prices for the foreseeable future, GPMi expects that few customers will* choose *to convert to natural* gas s*ervice."*

a) Please provide the price difference between natural gas and propane and furnace oil that would drive meaningful rates of conversion to natural gas.

b) Are the penetration levels of propane use set out on page 12 of this GPMi exhibit capable of being increased?

CPA Response

5 (a) As discussed on page 8 of the GPMi report, Union states that customers are reluctant to convert with payback periods of greater than four years. GPMi believes that number is likely lower as there are a number of other factors to consider. (see Exhibit S2.CPA.Union.3 e)) Union estimates an annual cost saving of $1,684 ($2,527 - $843) that leads to a payout of approximately 3.75 years. In order to achieve a payout of two years, the annual cost saving would have to be approximately $3,250.

5 (b) Yes.

Interrogatory 6

Reference

CPA Evidence Ex.9, Tab 9 p.13

a) Please explain why economic losses to the propane industry by customer replacement of propane by natural gas would not be at least matched by economic gains by the natural gas industry.

CPA Response

6 (a) This explanation is provided in detail under the heading "Economic Harm" on pages 15, 16 and 17 of the GPMi report (CPA Evidence, Exhibit 9, Tab 9).

Interrogatory 7

Reference

pg.3/Footnote 1

At the above reference CPA defines subsidization as: *"Natural gas subsidization means the <u>permanent subsidization</u> of natural gas expansion projects (i.e. subsidies for uneconomic expansion projects) by existing consumers either by payments to a consumer's own utility company or to another utility company."*

a) Please confirm that in CPA's understanding subsidization that is not permanent but only lasts a few years is not "natural gas subsidization".

b) Please confirm that the discussion of subsidization in CPA evidence refers to permanent subsidization.

CPA Response

7 (a) Please see our response to Exhibit S2.CPA.BoardStaff.2. It is possible that a project is profitable over the long run, but will experience costs that exceed revenues in the beginning, and revenues that exceed costs later on. If funding from one group of customers is used to finance this project in the beginning, and then that group of customers gets the money back through rate reductions or refunds later on once the project has broken even, that is not a subsidy – it is a loan. A permanent subsidy is one in which a fee is charged to a group of customers, whether for 1 year, 5 years or 50 years, and they never see a benefit for that money nor a refund of that money. It has been permanently taken from them and they never see it nor any benefit from it again.

7 (b) Please see our response to Exhibit S2.CPA.BoardStaff.2.