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April 22, 2016

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

Attention: Ms. Kirsten Walli, Board Secretary

**Re: Natural Gas Expansion - Generic Hearing
Interrogatory Responses
OEB File No.: EB-2016-0004**

We are counsel to the Municipality of Kincardine, the Municipality of Arran-Elderslie and the Township of Huron-Kinloss (the “Municipalities” or “South Bruce”).

On behalf of South Bruce we file the enclosed Interrogatory Responses in regards to the above noted matter.

Yours truly,

BORDEN LADNER GERVAIS LLP

Original signed by John A.D. Vellone

John A.D. Vellone

Copy to: Michael Millar, OEB Counsel
Mayor Anne Eadie
Mayor Paul Eagleson
Mayor Mitch Twolan
Dr. Lawrence Murphy
Mr. John Todd
Mr. Bruce Bacon
Intervenors of Record

TOR01: 6296235: v1

EB-2016-0004

Exhibit S13

Municipalities of Kincardine, Arran-Elderslie and the Township
of Huron-Kinloss (“South Bruce”)

Interrogatory Responses

April 22, 2016

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1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.1**

4 Reference: Expansion of Natural Gas Distribution in Southern Bruce County, October 6, 2014,
5 Appendix C. Pages 15-16

6 **Interrogatory:**

7 Union Gas Limited (Union) has estimated the total cost to connect the municipalities of Chesley,
8 Paisley, Triverton, Kincardine, Point Clarke, Inverhuron, Ripley and Lucknow at \$97 million.
9 The cost is equally split between natural gas distribution and transmission lines. On the other
10 hand, NORTHERN has proposed over 200 kms of natural gas mains and distribution lines for a
11 total capital cost of \$70.2 million.

12 a) Please identify the reasons for the difference in the two estimates.

13 b) Does the NORTHERN proposal provide coverage to the same areas that Union has
14 proposed to cover?

15 c) Are there any timing differences in terms of when and how the service will be provided
16 by the two competing proposals?

17 d) Assuming that the NORTHERN proposal is accepted, will Union need to incur certain
18 expenditures to provide the transmission services to NORTHERN? If yes, please provide
19 details.

20 **Response:**

-
- 1 a) Please refer to the business case analysis attached as Appendix “C” to the municipalities
2 report for a comparison of the two proposals. In the most general terms, Northern Cross’
3 proposal combined gas storage with a smaller local pipe network to meet the needs of gas
4 consumers in the South Bruce area (with the new system to be acquired by the
5 municipalities).
- 6 b) A feature of the Northern Cross proposal was that it did propose to connect the
7 municipalities of Chesley, Paisley, Triverton, Kincardine, Point Clarke, Inverhuron,
8 Ripley and Lucknow. In addition, the Northern Cross proposal would also connect
9 Amberley and Dungannon. This is also noted in the Appendix “C” business case attached
10 to the municipalities report.
- 11 c) Yes, there were timing differences between the two proposals. Timing was also one of
12 the key factors that the municipalities considered when conducting their competitive RFI
13 process.
- 14 d) The Northern Cross proposal was indicative only and is not being pursued by the
15 municipalities. However the Northern Cross proposal did illustrate that a competing
16 proposal for gas expansion existed, and this is one of the reasons the municipalities why,
17 after completing a business case analysis, the municipalities chose to conduct a formal
18 RFI process to canvas the market for other potential gas expansion solutions. Following
19 this RFI process, the municipalities selected EPCOR as their preferred proponent. The
20 municipalities have each approved and signed a franchise agreement with EPCOR on
21 Feb. 22, 2016.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.2**

4 Reference: Expansion of Natural Gas Distribution in Southern Bruce County, October 6, 2014,
5 Appendix C. Pages 34-35

6 **Interrogatory:**

7 The report states that AMEC Environment and Infrastructure and Energy Fundamentals Group
8 reviewed the Union Gas Limited (Union) Proposal to provide gas distribution services to
9 Kincardine and surrounding areas. AMEC concluded that Union's proposed project may not be
10 justified or practical. They recommended consideration of an alternative that would involve
11 replacing the transmission part of the proposed project with the infrastructure necessary to allow
12 the delivery of Compressed Natural Gas (CNG) to distribution facilities. AMEC believed that
13 such an option would save about \$60 million in capital spending and allow the project to proceed
14 in stages.

15 a) Did Southern Bruce consider the option of sourcing Compressed or Liquefied Natural
16 Gas in place of building a transmission line? Please provide a detailed response including
17 any reasons for not considering such an option.

18 b) Did Southern Bruce try to verify AMEC's claim of saving \$60 million if a CNG option
19 was pursued?

20 **Response:**

1 a) This was considered at page 35 of the business case analysis attached as Appendix “C” to
2 the municipalities report. It concludes that while AMEC/EFG felt the alternative was
3 technically feasible, they lacked the cost information to justify a more definitive
4 conclusion regarding the commercial viability of this alternative. The AMEC report
5 provided no details on the economics of the CNG option. The estimated saving of \$60
6 million was obtained by simply removing AMEC’s estimate of the transmission
7 component of UGL’s capital expenditure estimate.

8 b) As part of the competitive RFI process, the municipalities tested the market for
9 innovative solutions to meet their local needs.

10 The competitive RFI process did not limit technological innovation. As described in the
11 evidence, Northern Cross proposed a novel approach that proposed to utilize gas storage.

12

13

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.3**

4 Reference: Expansion of Natural Gas Distribution in Southern Bruce County, October 6, 2014,
5 Appendix C. Page 77

6 **Interrogatory:**

7 The report discusses survey results conducted amongst homeowners and small-medium sized
8 businesses in Kincardine, Arran-Elderslie and Huron-Kinloss. While discussing results of home
9 water heating, the survey found that 1% of the respondents use geothermal energy for water
10 heating.

11 a) Please provide the number and percentage of respondents that use geothermal energy for
12 home water or space heating.

13 b) Did the municipalities consider geothermal energy as a potential source of energy in
14 place of natural gas?

15 c) Does the Ontario Government's proposed implementation of a cap and trade program to
16 manage climate change expectations impact the decision of the municipalities to pursue
17 natural gas as the preferred energy option?

18 **Response:**

19 a) The cited portion of the report is summarizing a survey that was conducted by
20 INNOVATIVE Research.

1 In response to this question, INNOVATIVE noted that the survey question did not ask
2 about geothermal directly. It was a volunteered response given if none of the listed
3 responses were correct in a respondent's case. The findings were as follows.

4 Among residential:

- 5 • 3.6% use geothermal for home space heating
- 6 • 1.1% for home water heating
- 7 • 3.6% for one or the other (everyone who uses it for water also uses it for space
8 heating)

9 Among business:

- 10 • 0.4% (1 respondent) used geothermal for space heating
- 11 • No respondents used geothermal for water heating

12 Both surveys were conducted by telephone among residents and small-medium sized
13 business establishments most likely to be in the service area, as identified by 6-digit
14 postal code.

15 The residential survey was conducted from July 31st, 2014 to August 6th, 2014. Stratified
16 random sampling was employed to ensure representativeness between the 3
17 municipalities in the service area and non-permanent residents as well. Results were also
18 weighted according to Statistics Canada 2011 census data for municipality and household
19 size. The total sample size is 753 which equates to a margin of error of $\pm 3.6\%$, 19 times
20 out of 20. Margins of error will be larger among sub-groups.

21 The business establishment survey was conducted from August 5th, 2014 to August 12th
22 2014. Businesses in the service area, excluding the government, MUSH, and large
23 industrials, were randomly sampled from all 3 municipalities. To ensure the results are

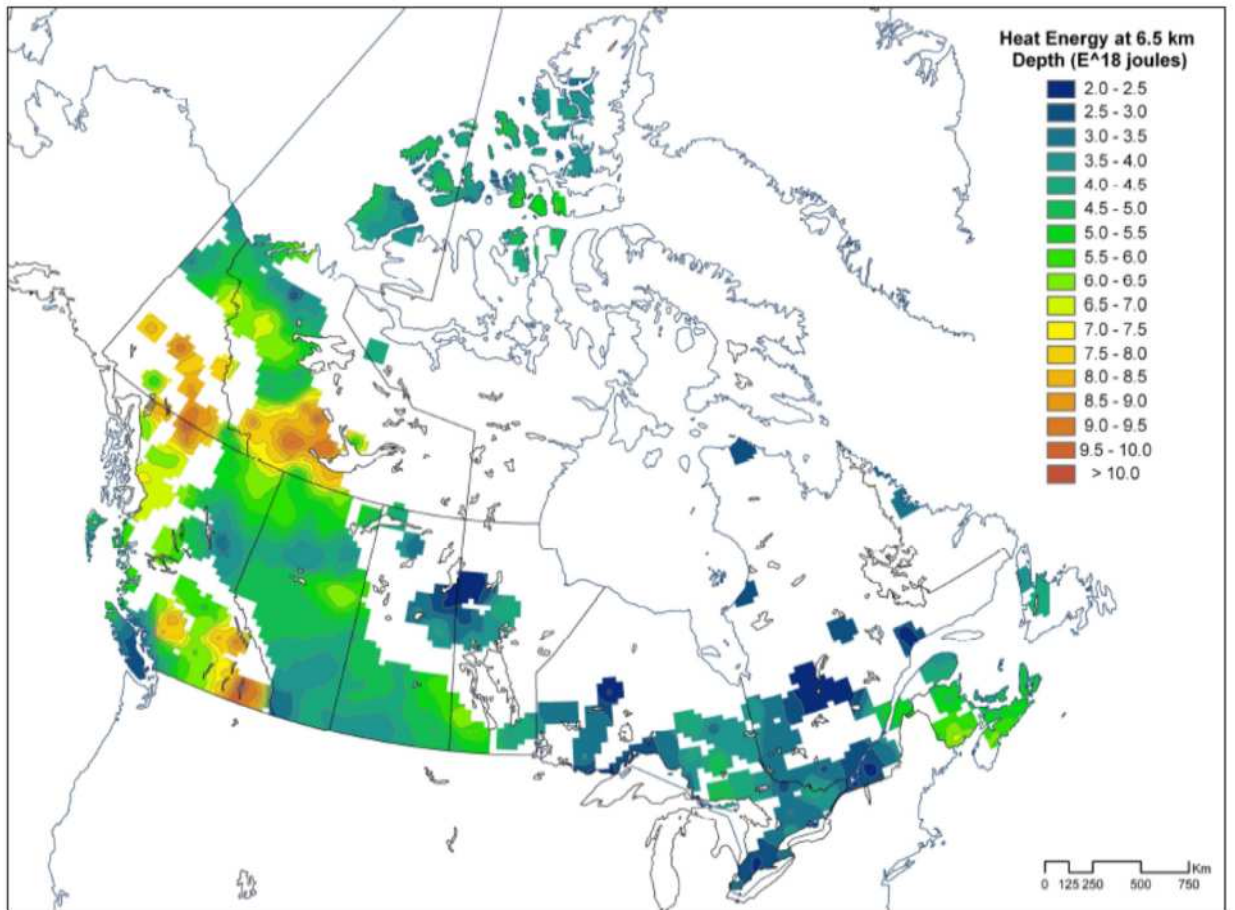
1 representative of the population, weights were applied for municipality and employment
2 size according to Statistics Canada Business Register data. The total sample size is 156.
3 The margin of error for a sample of this size, after a finite population correction, is
4 $\pm 7.4\%$, 19 times out of 20.

- 5 b) The municipalities' interest in this proceeding is focused on implementation of the
6 existing provincial policy that deals with expanding natural gas into communities not
7 currently being served. The objective is to expand the options available to consumers
8 from which choices will be made depending upon the suitability of the option to customer
9 needs.

10 If geothermal was an economically viable option, the municipalities would expect private
11 sector proponents to come forth with proposals. For example, and as described on page
12 77 of business case attached as Appendix "C" to the municipalities report, geothermal is
13 already being used by some customers to serve their thermal needs.

14 However, it is the municipalities understanding that the geothermal resource potential in
15 their region may be limited. While the municipalities are no experts in this area - we
16 refer the OEB to an excellent report titled *Geothermal Energy Resource Potential of*
17 *Canada* published in 2012 by the Geological Survey of Canada and available online at:
18 http://publications.gc.ca/collections/collection_2013/rncan-nrcan/M183-2-6914-eng.pdf.

19 The following is an excerpt of Figure 1 from this report which illustrates the geothermal
20 potential at approximately 6-7 km underground.



1

2

3

4

5

c) No. However, to the extent that the implementation of a cap and trade program may make geothermal a more economically attractive option for some consumers, the municipalities do not object to this as an outcome for those specific customers.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.4**

4 Reference: Rural Rate Assistance as a Ratemaking or Rate Recovery Approach which the OEB
5 should consider when assessing the Generic Hearing Issues related to Natural Gas System
6 Expansion, Bruce Bacon, Borden Ladner Gervais LLP, Page 3

7 **Interrogatory:**

8 The report notes that Ontario has a long history of achieving sustainable public policy objectives,
9 such as rural electrification, through cross subsidies from urban to rural utility customers. The
10 subsidies have ultimately become law in the case of rural rate assistance. The report recommends
11 that the OEB should consider a mechanism similar to rural rate assistance to mitigate the costs of
12 expanding natural gas service to Ontario communities that do not have access to natural gas.

13 a) The OEB is required to make provision for rural or remote electricity service under
14 section 79 of the Ontario Energy Board Act. Is there similar legislation for natural gas
15 that would allow the OEB to implement a similar mechanism as electricity?

16 b) Absent the required legislation, how should the OEB consider and implement a rural rate
17 assistance initiative for natural gas?

18 **Response:**

19 a) There is no such legislation that we are aware of.

20

1 However, on July 2, 2008 the OEB issued a letter to initiate a consultation process to
2 examine issues associated with low income energy consumers in relation to their use of
3 natural gas and electricity (EB-2008-0150). In that letter it stated:

4
5 "The Board has decided that it is appropriate to proceed with such a consultation
6 at this time due in part to the May 16, 2008 decision of the Divisional Court
7 regarding the Board's jurisdiction to consider the ability to pay when setting
8 utility rates. By majority decision, the Divisional Court held that the Board has
9 such jurisdiction, but did not opine on whether or how the Board should exercise
10 that jurisdiction. At this stage, the Board has made no decision about whether or
11 how the Board should exercise that jurisdiction. This consultation will allow
12 interested parties to provide input to the Board in relation to these latter
13 questions."

14
15 The result of that consultation was the development of the Low Income Energy
16 Assistance Program outlined in b). But also of interest is the Divisional Court decision
17 outlining that the OEB has broad authority under their governing legislation to employ
18 any method or technique that it considers appropriate to implement just and reasonable
19 rates. This included considering the ability to pay when setting utility rates. I could be
20 also considered with the possible implementation of rural rate assistance for gas
21 distribution in rural communities.

22
23 The Divisional Court decision is *Advocacy Centre for Tenants-Ontario v. Ontario Energy*
24 *Board*, 293 DLR (4th) 684.

- 25
26 b) The OEB has broad authority under their governing legislation to employ any method or
27 technique that it considers appropriate to implement just and reasonable rates. The OEB
28 has used this authority over the years to implement a number of sustainable public policy
29 objectives in the absence of specific authorizing legislation.

1

2 For example, the Report of the Board: Low Income Energy Assistance Program (EB-

3 2008-0150) issued March 10, 2009, sets out the Board's policies for implementation of a

4 "Low-Income Energy Assistance Program", or ("LEAP"). LEAP has three components:

5 (1) temporary financial assistance for low-income energy consumers in need; (2) the

6 benefit of access to more flexible customer service rules on matters such as bill payment

7 and disconnection notice periods; and (3) targeted conservation and demand management

8 programs. With respect to the financial assistance component, LEAP builds on the

9 "Winter Warmth" programs in which a number of distributors already successfully

10 participate.

11

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.5**

4 Reference: Rural Rate Assistance as a Ratemaking or Rate Recovery Approach which the OEB
5 should consider when assessing the Generic Hearing Issues related to Natural Gas System
6 Expansion, Bruce Bacon, Borden Ladner Gervais LLP, Page 5

7 **Interrogatory:**

8 The report indicates that the Ontario Government was actively involved in the rural
9 electrification initiative. While describing the basic principles of rural electrification in Ontario,
10 the report notes that the Ontario Government subsidized 50% of the initial investment costs and
11 in rural districts where a deficit arose even with the maximum service charge, the Ontario
12 Government settled the deficit as a loan until all rural power districts combined operated with a
13 surplus.

14 The report seems to conclude that the government was actively involved in promoting and
15 financing rural electrification schemes. Is it possible for the OEB to achieve similar expansion
16 without significant financial support from the government?

17 **Response:**

18 While it is possible that the implementation of a rural rate assistance initiative for natural gas
19 could achieve similar expansion without any financial support from the government, the Ontario
20 Government has announced that it is supporting the expansion of natural gas access in areas of
21 the province that are not currently served through the \$200 million Natural Gas Access Loan and
22 the \$30 million Natural Gas Economic Development Grant. In this context, a rural rate

1 assistance initiative for natural gas would further facilitate the public policy objective of
2 expanding natural gas access in areas of the province that are not currently served.

3

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.6**

4 Reference: Mechanisms for Supporting Natural Gas Community Expansion Projects, Report by
5 Elenchus Research Associates Inc., March 21, 2016, Pages 12-20

6 **Interrogatory:**

7 The report provides an overview of initiatives outside Ontario to extend natural gas service and
8 the pooling of costs for electricity facilities for setting transmission rates in Ontario. In addition,
9 the report also provides a brief overview of the approach that has been adopted by the Canadian
10 Radio-television and Telecommunications Commission for subsidizing high cost areas to ensure
11 that Canadians in unserved or underserved areas have access to affordable telecommunications
12 services.

13 a) The British Columbia and Canadian governments undertook an initiative to extend
14 natural gas infrastructure serving the BC mainland to Vancouver Island. The Pacific
15 Coast Energy Corporation's application with the British Columbia Utilities Commission
16 (BCUC) to extend natural gas service was the result of an understanding between the
17 Federal and Provincial Governments on funding for the project. Please confirm that the
18 Federal and Provincial Governments approved the funding for the expansion project and
19 the BCUC merely reviewed the application but did not create an alternative framework
20 for the expansion initiative.

21 b) The report refers to Uniform Transmission Rates (UTR) in Ontario which is achieved by
22 pooling the costs of the five licensed electricity transmitters in Ontario. The report notes

1 that the UTR leads to cross subsidization as high cost transmitters are cross subsidized by
2 low cost transmitters. Please confirm that all electricity ratepayers in Ontario benefit from
3 the integrated transmission network managed by the five licensed electricity transmitters.

- 4 c) In the case of the Canadian Radio-television and Telecommunications Commission,
5 parties have recommended enhancements to the subsidy regime that would subsidize the
6 deployment of broadband facilities to unserved and underserved regions of the country.
7 Proposals to subsidize deployment of new facilities would continue to be funded through
8 an enhanced National Contribution Fund that requires all significant service providers to
9 contribute a percentage of revenue to the funding regime. Please provide an opinion on
10 whether the OEB has the required jurisdiction to establish a fund similar to the National
11 Contribution Fund noted above.

12 **Response:**

13 a) Confirmed.

- 14 b) This observation may be true; however, Mr. Todd is not aware of any analysis that
15 assesses the benefits of the integrated transmission network either regionally or by
16 customers connected to each transmission company to determine the relative costs and
17 benefits.

18 Nevertheless, it would appear that there are transmission lines in Ontario that have been
19 constructed primarily to serve relatively high costs regions of the province and there are
20 regions of the province that are much more expensive to integrate into the grid. The
21 transmission tariffs are the same regardless of the distance or cost of integration into the
22 grid.

1 c) The response to this question requires a legal opinion. Mr. Todd cannot provide the
2 requested opinion since he is not a lawyer. This question will be addressed by counsel in
3 the argument/submissions phase of this proceeding rather than as part of evidence.

4

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.7**

4 Reference: Evidence of Parkland Fuel Corporation

5 **Interrogatory:**

6 The evidence filed by Parkland Fuel Corporation highlights a number of concerns regarding gas
7 expansion that is funded through cross subsidies. Does Elenchus have any high level comments
8 regarding the recommendations of Parkland Fuel Corporation?

9 **Response:**

10 The evidence of Kalyan Dasgupta and James F. Nieberding filed on behalf of Parkland Fuel
11 Corporation is consistent with standard economic analysis. However, it assumes that government
12 policy should be designed to serve the goal of economic efficiency and that other goals should be
13 financed through taxes. This assumption is not as straight forward as it would seem. While it
14 appears at first blush to have merit, it is not consistent with the way in which policy objectives
15 are determined or with the way in which they are pursued in the real world. A real world
16 example is this Board's implementation of LEAP.

17

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce. Board Staff.8**

4 Reference: Exhibit 1, Pages 34-35

5 **Interrogatory:**

6 A theme that is central to these developments and the Board's Issues List is a re-examination of
7 the system expansion methodology currently used by the OEB-regulated natural gas distributors
8 and, more fundamentally, an examination of the most efficient and effective means of extending
9 natural gas service to unserved communities, particularly those that do not meet the current EBO
10 188 economic feasibility criteria.

11 The Issues List in this proceeding does not actually presuppose that any changes to EBO 188 will
12 be made. Issue 4 states: "Should the OEB consider exemptions or changes to the EBO 188
13 guidelines for rural, remote and First Nation community expansion projects?"

14 Elenchus' Report examines "the most efficient and effective means of extending natural gas
15 service to unserved communities, particularly those that do not meet the current EBO 188
16 economic feasibility criteria". Did Elenchus take it as a given that changes would be made to the
17 existing framework? In other words, is the Elenchus' Report focussed on "how" the Board could
18 adjust its processes to allow for more gas expansion, not "if" the Board should do so?

19 **Response:**

20 The Elenchus report addresses mechanisms that have been used to achieve the objective of
21 expanding the availability of utility services (natural gas distribution, electricity transmission and

1 telecommunications services) to make projects economic and/or utility services available at
2 affordable prices. It demonstrates that a variety of approaches have been used, including implicit
3 and explicit cross-subsidies, as well as government subsidies of service providers and/or
4 customers. While the Elenchus report suggests that a wide range of options are available to
5 address the issues being examined in this proceeding, it does not make recommendations as to
6 whether or how the current EBO 188 economic feasibility criteria might be revised.

7 Mr. Todd notes that the Southern Bruce approach to system expansion by EPCOR to serve the
8 Southern Bruce region would neither require nor preclude changes to the EBO 188 criteria.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.BOMA.83**

4 Reference: The approach and competitive solicitation process undertaken by the Municipalities
5 to facilitate the expansion of Natural Gas Service to Southern Bruce County, March 21, 2016

6 **Interrogatory:**

7 Did the franchise agreements signed by the three municipalities with EPCOR depart in any way
8 from the existing Model Franchise Agreement? If so, how? Please make copies of these
9 franchise agreements available. When will the municipalities or EPCOR submit the franchise
10 agreements to the Board for approval?

11 **Response:**

12 Yes. The franchise agreements were filed with the OEB for approval pursuant to Section 8 of the
13 *Municipal Franchises Act*. These agreements will be the subject of OEB review pursuant to this
14 separate application.

15 The form and content of these agreements are not relevant to the issues this Board panel is
16 considering in this EB-2016-0004.

17

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.BOMA.84**

4 Reference: Ibid, Page 2

5 **Interrogatory:**

6 Do the municipalities have any commitments from EPCOR in the franchise agreement or
7 otherwise, as to what its rates will be if it obtains the franchise for the municipalities?

8 **Response:**

9 No.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.CCC.1**

4 Reference: General

5 **Interrogatory:**

6 Please specify whether any of the submitted material is intended to be accepted as expert
7 evidence; if so, please specify precisely which assertions within the submitted material are
8 intended to be expert opinions and identify the relevant expert.

9 **Response:**

10 The following material is intended to be accepted as expert evidence:

- 11 • “Mechanisms for Supporting Natural Gas Community Expansion Projects” prepared by
12 Mr. John Todd, President, Elenchus Research Associates Inc.; and
- 13 • “Rural Rate Assistance as a ratemaking or rate recovery approach which the OEB should
14 consider when assessing the Generic Hearing issues related to natural gas system
15 expansion” prepared by Bruce Bacon, Senior Utility Rate Consultant, Borden Ladner
16 Gervais LLP.

17 In each case, the entire report is being submitted as expert evidence. The reports include detailed
18 supporting materials and references to support the analysis presented therein. Each of the reports
19 include the CV of its author. Each has been prepared in accordance with the Board’s rules
20 regarding expert evidence. And each includes a signed acknowledgement of expert’s duty.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.CCC.2**

4 Reference: the Municipalities Report/pp. 4-5

5 **Interrogatory:**

6 Preamble: Union estimated that the capital expenditures for the project would be close to \$97
7 million and that the resultant required CIAC paid by the Municipalities would be just under \$86
8 million (based on forecast 2012 costs).

9 [Re: Northern Cross Proposal] The development of the new natural gas delivery system would
10 consist of three phases with total capital expenditures amounting to \$70.2 million, substantially
11 less than the Union proposal.

12 What is EPCOR's total estimate for the capital expenditures for it to provide natural gas
13 distribution to the Municipalities?

14 **Response:**

15 The proposals received by the municipalities in response to the RFI process that was conducted
16 are strictly confidential and commercially sensitive information. In addition, EPCOR's estimates
17 are not directly relevant to the issues this Board panel is considering in this EB-2016-0004. On
18 EPCOR's web site information provided on the project states that capital expenditures will be
19 between \$100 m and \$120 m.

20

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.CCC.3**

4 Reference: the Municipalities Report/pp. 3,11

5 **Interrogatory:**

6 Preamble: Elenchus estimated that access to natural gas in Arran-Elderslie, Kincardine and
7 Huron-Kinloss ultimately could save consumers approximately \$27M annually in lower energy
8 costs.

9 The RFI process clarified the nature of the regulatory restrictions that impeded the expansion of
10 natural gas markets. The major impediments in this regard included the combination of using
11 current rates and a profitability index of 1.0 to determine a required contribution in aid of
12 construction on the part of the municipalities. This proved to be an insurmountable hurdle. The
13 stand-alone option provided more flexibility in the determination of rates which allowed
14 consumers to realize energy cost savings while paying higher rates, at least initially, than
15 surrounding communities.

16 Union attempted to deal with this problem in its EB-2015-0179 application to the OEB via its
17 proposed TES mechanism. Stand-alone rates, and possibly contributions over time by the
18 municipalities, also raise the possibility of narrowing the size of any subsidy required to support
19 the expansion of natural gas markets.

20 Given the estimated annual savings of \$27M as a result of access to natural gas, is it the
21 Municipalities' evidence (assuming a capital cost in accordance with EPCOR's estimate) that
22 given the appropriate flexibility to set a rate schedule that allows the distributor for the franchise

1 area to charge rates to new customers that are high enough to recover the costs of the project
2 over a suitable time while remaining low enough to allow new customers to enjoy reduced net
3 energy costs, a project to provide distribution of natural gas in the franchise area represented by
4 the Municipalities is feasible without external funding? If not, why not, what level of external
5 funding is required (assuming the estimated capital costs for the EPCOR proposal), and how was
6 that level of external funding determined?

7 **Response:**

8 This question is very complicated. What we can say, which we hope is helpful, is the following:

- 9
- 10 • The municipalities understanding is that currently external funding will be necessary to
11 support the expansion of distribution of natural gas into the franchise area represented by
12 the municipalities. This funding may come in the form of interim pipe tax relief granted
13 by the municipalities, from the provincial tax base through subsidies or loan programs, or
14 from the rate base.
 - 15 • The actual level of external funding required is not known to the municipalities at this
16 time. It depends on a number of unknowns including the actual solution being proposed,
17 the costs at the time of construction, and assumptions about uptake, among other things.
18 In addition, the information is not directly relevant to the issues this Board panel is
19 considering in this EB-2016-0004.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Enbridge.1**

4 Reference: Report prepared by the Municipality of Kincardine, the Municipality of Arran-
5 Elderslie, the Township of Huron-Kinloss & Henley International Inc. (“the Municipalities”)
6 “The approach & competitive solicitation process undertaken by the Municipalities to facilitate
7 the expansion of Natural Gas services to Southern Bruce County (the “RFI Report”).

8 **Interrogatory:**

9 Preamble

10 (RFI Report, page 8) It is stated that “Among other things, the RFI obtained information from
11 interested parties about their direct experience with respect to:

- 12 • system design and technical due diligence;
13 • financing;
14 • constructing;
15 • obtaining regulatory approvals and compliance;
16 • distribution rate design;
17 • natural gas storage; and
18 • owning and/or operating a regulated natural gas distribution utility.”
19

20 Request

-
- 1 a) Please provide a copy of the Request for Information and all related documentation that
2 was issued by the Municipalities to potential respondents on March 27th 2015.
- 3 b) Please provide copies of all of the proposals from the six (6) different respondents to the
4 Municipalities Request for Information noted in the RFI Report along with all
5 documentation (emails, reports, written reports) associated with the evaluation of these
6 proposals.
- 7 c) Please explain why the Municipalities have a preference for one potential gas distribution
8 services provider over any others absent of any reliable information on the cost of
9 providing this service to the Municipalities, their constituents, the Province of Ontario or
10 any other entity?
- 11 d) Please provide detailed references confirming Epcor's experience in the design,
12 ownership and operation, financing, construction of natural gas distribution and storage
13 facilities.

14 **Response:**

- 15 a) Please refer to Attachment 1 to these interrogatory responses for a copy of the RFI that
16 was issued by the Municipalities to potential respondents on March 27, 2015.

17 As described in section 11 of the RFI, the RFI process was strictly confidential and
18 governed by binding confidentiality agreements with respondents.

- 19 b) The municipalities strongly object to third parties, including potentially unsuccessful
20 proponents, attempting to misuse the Board's discovery process in an attempt to obtain
21 access to competitive bids that were submitted in response to a confidential RFI process.

1 The information requested is not relevant to the matters at issue before the Board in this
2 EB-2016-0004.

3 c) While all the proposals submitted were well considered the Municipalities concluded that
4 EPCOR's proposal provided the best opportunity to work through these complicated
5 issues jointly and finally bring natural gas service to all three Municipalities.

6 d) The municipalities strongly object to third parties, including potentially unsuccessful
7 proponents, attempting to misuse the Board's discovery process in an attempt to obtain
8 access to information contained in a competitive bid that was submitted by the successful
9 proponent in response to a confidential RFI process. The information requested is not
10 relevant to the matters at issue before the Board in this EB-2016-0004.

11

12

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.ED.1**

4 Reference: John Todd pre-filed evidence, page 20

5 **Interrogatory:**

6 Does the Mr. Todd agree that existing gas consumers should be required to subsidize expansions
7 of Ontario's natural gas distribution system only if all of the following criteria are met:

8 a) The expansion will lead to a net reduction in Ontario's greenhouse gas emissions [e.g.,
9 this could occur if the new customers' previous energy source (e.g., heating oil) had
10 higher greenhouse gas emissions];

11 b) Expanding the gas system is the most cost-effective, feasible option to achieve the
12 greenhouse gas emission reductions [i.e., do not expand the gas distribution system using
13 existing customer subsidies if the emission reductions could be achieved at a lower cost
14 by energy efficiency or renewable energy investments (e.g., home energy retrofits, heat
15 pumps)]; and

16 c) The subsidy is necessary to make the project happen [e.g., do not require existing
17 customers to subsidize an expansion of the gas system if the cost could be recovered from
18 the new customers via a surcharge on their gas rates]?

19 If "no", please fully justify your response. Please specifically address each of the three criteria in
20 your response. Note that the above three criteria would not be to the exclusion of other criteria
21 required for community expansion.

1 **Response:**

2 No. The criteria identified in the question may be appropriate if the policy framework defines the
3 reduction of greenhouse gas emissions as the sole objective of the community expansion
4 initiative. Other objectives, such as economic development considerations and reductions in the
5 total energy costs of consumers would imply different criteria.

6 A decision with respect to the policy framework being proposed by parties to this proceeding, in
7 many cases implicitly, should be an outcome of this proceeding; hence, the policy objectives on
8 which a new approach to system expansion will be based cannot be assumed a priori.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.ED.2**

4 Reference: Bruce Bacon pre-filed evidence, page 11

5 **Interrogatory:**

6 Mr. Bacon states: “The electrification of rural Ontario occurred from 1911 to 1958, and over
7 these 47 years various methods of combining self-supporting funding and Ontario government
8 subsidies were used to fund the power system that provided electricity to rural communities.”

9 Does Mr. Bacon agree that from 1911 to 1958 Ontario Hydro’s electricity system was virtually
10 100% renewable?

11 **Response:**

12 To the best of Mr. Bacon’s knowledge it is his understanding the source of generation to Ontario
13 Hydro’s electricity system from 1911 to 1958 was mainly renewable.

14

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.ED.3**

4 Reference: Bruce Bacon pre-filed evidence

5 **Interrogatory:**

6 Does the Mr. Bacon agree that existing gas consumers should be required to subsidize
7 expansions of Ontario's natural gas distribution system only if all of the following criteria are
8 met:

- 9 a) The expansion will lead to a net reduction in Ontario's greenhouse gas emissions [e.g.,
10 this could occur if the new customers' previous energy source (e.g., heating oil) had
11 higher greenhouse gas emissions];
- 12 b) Expanding the gas system is the most cost-effective, feasible option to achieve the
13 greenhouse gas emission reductions [i.e., do not expand the gas distribution system using
14 existing customer subsidies if the emission reductions could be achieved at a lower cost
15 by energy efficiency or renewable energy investments (e.g., home energy retrofits, heat
16 pumps)]; and
- 17 c) The subsidy is necessary to make the project happen [e.g., do not require existing
18 customers to subsidize an expansion of the gas system if the cost could be recovered from
19 the new customers via a surcharge on their gas rates]?

1 If “no”, please fully justify your response. Please specifically address each of the three criteria in
2 your response. Note that the above three criteria would not be to the exclusion of other criteria
3 required for community expansion.

4 **Response:**

5 The purpose of the rural rate assistance evidence was to provide the OEB with information on
6 the history of expansions of electricity systems into rural and remote areas and thereby to equip
7 the OEB with a possible alternative rate recovery approach to provide natural gas service to
8 Ontario communities that do not currently have access to natural gas. If the OEB decided to
9 move forward with a rural rate assistance approach then the criteria for such an approach would
10 need to be developed by the OEB with input from interested parties.

11 The intent of this evidence was not to address the criteria associated with implementing the
12 approach. Mr. Bacon is not an expert in greenhouse gas emissions, and therefor refrains from
13 expressing an opinion on the criteria proposed by ED.

14

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.IGUA.2**

4 Reference: Report prepared by the Municipalities: The approach and competitive solicitation
5 process undertaken by the Municipalities to facilitate the expansion of Natural Gas services to
6 Southern Bruce County, page 11.

7 **Interrogatory:**

8 The report states:

9 *The process also pointed out the problem of the limitation of possible subsidization by*
10 *other natural gas customers to current natural gas distributors, a restriction that would*
11 *work against the entry of new participants in the market.*

12 a) Is it Southern Bruce's position that all existing Ontario gas ratepayers should be required
13 to subsidize gas system expansion to currently unserved or underserved communities?

14 b) Does Southern Bruce oppose subsidy by existing Union Gas Limited (Union) or Enbridge
15 Gas Distribution Inc. (EGD) customers of only Union or EGD gas expansion projects,
16 respectively (i.e. without a requirement that existing gas consumers contribute to
17 subsidies for competing gas expansion projects)?

18

19 **Response:**

1 a) This question is in the nature of argument, and is better addressed as part of the
2 submissions phase of this proceeding.

3 b) This question is in the nature of argument, and is better addressed as part of the
4 submissions phase of this proceeding.

5

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.IGUA.3**

4 Reference: Report prepared by the Municipalities: The approach and competitive solicitation
5 process undertaken by the Municipalities to facilitate the expansion of Natural Gas services to
6 Southern Bruce County, Appendix C (Expansion of Natural Gas Distribution in Southern Bruce
7 County, The Business Case).

8 **Interrogatory:**

9 At page numbered 55, Appendix C states:

10 *The heart of the problem is in the fact that the regulatory system (at least as currently*
11 *configured) does not allow for the passing on to new gas customers the incremental cost*
12 *of serving them on the existing system.*

13 At page numbered 58 of Appendix C, the report states:

14 *In the UNION option these costs are captured in up-front CIAC which is borne entirely*
15 *by the sponsoring municipalities. In the stand-alone option the impact of the risks tends*
16 *to be distributed over time and can be shared by consumers and the municipalities.*

17 Please indicate whether Southern Bruce supports those aspects of the Union and EGD proposals
18 which would permit the distributors to add a surcharge for new customers to contribute to the
19 costs of system expansion over time.

1 **Response:**

2 This question is in the nature of argument, and is better addressed as part of the submissions
3 phase of this proceeding. Overall, Southern Bruce expects that flexibility in rate determination
4 must be part of the overall package of measures needed to encourage natural gas expansion in
5 their municipalities.

6

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.IGUA.4**

4 Reference: Report prepared by the Municipalities: The approach and competitive solicitation
5 process undertaken by the Municipalities to facilitate the expansion of Natural Gas services to
6 Southern Bruce County, Appendix C (Expansion of Natural Gas Distribution in Southern Bruce
7 County, The Business Case).

8 **Interrogatory:**

9 The main Report filed in evidence indicates that the municipalities involved have signed a
10 franchise agreement with EPCOR, after the due diligence analysis and selection process
11 described elsewhere in the materials. The materials include forecast expansion cost and resulting
12 customer rate level data for various expansion options, but no information on the forecast costs
13 and resulting rate level for the EPCOR expansion program ultimately chosen.

14 a) Please provide a table that lists the most recent expansion cost and associated gas
15 commodity and delivery rates forecasts/estimates (for all customer classes for which rate
16 forecasts/estimates were developed or provided) considered by the municipalities for
17 each of the Union, the Northern, and the EPCOR expansion proposals.

18 b) Please provide tables that detail, for each of the Union, Northern and EPCOR gas
19 expansion proposals:

20 i. the current energy costs paid by typical Southern Bruce residents (residential,
21 commercial, institutional and industrial, as applicable);

-
- 1 ii. the conversions costs that would be incurred by these customers to
- 2 iii. convert to use of distributed natural gas;
- 3 iv. the energy costs that would result from the anticipated gas expansion
- 4 v. initiative under the gas expansion proposal; and
- 5 vi. the payback period for Southern Bruce residents under the gas expansion
- 6 proposal.
- 7 c) Please confirm that the Southern Bruce municipalities have determined that the EPCOR
- 8 proposal is economically sound and has entered into a franchise agreement with EPCOR
- 9 all assuming no subsidy for EPCOR's gas expansion initiative through gas rates paid by
- 10 EGD and Union customers.
- 11 d) Please indicate what expansion project subsidies, if any, have been assumed by the
- 12 Southern Bruce municipalities in choosing the EPCOR proposal and entering into a
- 13 franchise agreement with EPCOR.
- 14 e) Please indicate the status of EPCOR's expansion initiative, including:
- 15 i. Whether EPCOR has confirmed that it will proceed with the expansion, and if
- 16 not when such confirmation is expected.
- 17 ii. All remaining conditions precedent (other than OEB approvals) to EPCOR
- 18 proceeding with the expansion.
- 19 iii. The expected timing for the commencement of the expansion, and the
- 20 commencement of gas service to the municipalities.

1 **Response:**

- 2 a) The proposals received by the municipalities in response to the RFI process that was
3 conducted are strictly confidential. In addition, these estimates are not directly relevant
4 to the issues this Board panel is considering in this EB-2016-0004.
- 5 b) The proposals received by the municipalities in response to the RFI process that was
6 conducted are strictly confidential. In addition, these estimates are not directly relevant
7 to the issues this Board panel is considering in this EB-2016-0004.
- 8 c) The EPCOR proposal is economically sound. See also the response to Exhibit R13.South
9 Bruce.CCC.3.
- 10 d) See the response to Exhibit R13.South Bruce.CCC.3.
- 11 e) EPCOR has filed its franchise agreements with the OEB, and is currently awaiting this
12 regulatory approval. The project is still in early stages. EPCOR has given a commitment
13 to use commercially reasonable efforts to advance the project. In addition to OEB and
14 other regulatory approvals (such as environmental permitting), the project would need to
15 be economically viable, after taking into account any tax relief, subsidies, loans and
16 ratepayer support that is available. Because of the uncertainty associated with the
17 necessary regulatory approvals and funding mechanisms, a timeframe to commence the
18 expansion has not been finalized.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.IGUA.5**

4 Reference: Report prepared by the Municipalities: The approach and competitive solicitation
5 process undertaken by the Municipalities to facilitate the expansion of Natural Gas services to
6 Southern Bruce County, Appendix E (Ontario Premier's 2014 Mandate letter to the Minister of
7 Energy).

8 **Interrogatory:**

9 At the 4th page of the letter included as Appendix E, the Minister of Energy refers to "*the*
10 *Municipal Energy Plan Program*".

11 Please describe this program and its potential relevance, if any, to the matters under
12 consideration in this proceeding.

13 **Response:**

14 <http://www.energy.gov.on.ca/en/municipal-energy/>

15

1 **Response:**

- 2 a) The OEB's gas distribution expansion policy has explicitly accepted the subsidization of
3 unfeasible new distribution projects (i.e., inclusions of projects with PIs below 1.0 in the
4 rolling portfolio) provided that the amount of cross-subsidy did not result in undue rate
5 impacts. The interpretation of "undue" is a matter of policy that has depended on the
6 policy context that prevailed at the time of particular decisions.
- 7 b) Policy positions are not a matter of expert opinion. Mr. Todd agrees that the approach as
8 stated in part (a) above is a reflection of the historical approach of the OEB. Different
9 policies have been adopted by government and regulators in other jurisdictions and for
10 other types of utilities in the past and could be adopted by the OEB in the future.
- 11 c) The definition or quantification of "undue" cannot be accomplished using economic
12 analysis. It is a matter of policy as determined by government or regulatory bodies in
13 specific circumstances, as is demonstrated by the range of implicit and explicit policies
14 that have underpinned approached to the expansion of utility services across Canada in
15 the past.
- 16 d) See the response to (c) above.

17

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.IGUA.7**

4 Reference: Elenchus March 2015 Report; Mechanisms for Supporting Natural Gas Community
5 Expansion Projects, page 16.

6 **Interrogatory:**

7 In reference to the current Ontario approach to pooling electricity transmission costs and setting
8 a uniform transmission rate, the report states:

9 *One implication of this approach is that the approved costs of each of the five*
10 *transmitters are recovered from all users of the transmission network on the same basis.*

11 a) Could Mr. Todd explain the policy basis on which electricity transmission (as distinct
12 from electricity distribution) costs are recovered from all Ontario electricity consumers
13 “on the same [pooled] basis”?

14 b) Please explain the implications of the answer to part (a) of this interrogatory for the
15 issues under consideration in this proceeding.

16 **Response:**

17 a) Mr. Todd is not aware of the explicit policy basis of the UTR. It appears to be an
18 accepted historical practice. Given that the rate is uniform, it implies that the policy could
19 be either (i) that all Ontario users of the transmission system benefit to some degree from
20 the integrated transmission system and (ii) that it would be inequitable or impractical to

1 charge different categories of customers in Ontario different rates based on benefits
2 received or allocated costs. Other jurisdictions have adopted different approaches to
3 establishing transmission rates.

4 b) The implication is that the degree of explicit or implicit cross subsidy that is appropriate
5 in a specific situation is dependent on the policy context.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.1**

4 Reference: Municipalities' Report

5 **Interrogatory:**

6 Please confirm that the municipalities have not studied whether geothermal, or any other lower
7 carbon energy option, could be implemented instead of natural gas.

8 **Response:**

9 Confirmed. The municipalities' interest in this proceeding is focused on implementation of the
10 existing provincial policy that deals explicitly with supporting the expansion of natural gas into
11 communities not currently being served. The objective is to expand the range of available
12 choices to consumers.

13 If geothermal was an economically viable option, the municipalities would expect private sector
14 proponents to come forth with proposals. For example, and as described on page 77 of business
15 case attached as Appendix "C" to the municipalities report, geothermal is already being used by
16 some customers to serve their thermal needs.

17

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.2**

4 Reference: Elenchus Report, p. 1

5 **Interrogatory:**

6 Please confirm that the direct energy cost savings do not take into account any subsidies,
7 contributions in aid of construction, or other such amounts.

8 **Response:**

9 The current OEB feasibility criteria do not take into account internal cross-subsidies or CIAC;
10 those are the outcomes of the methodology. Presumably, there could be other forms of subsidy
11 (e.g., government) that could reduce the cost used in the EBO 188 economic feasibility criteria
12 which uses the economics (revenue and costs) from the perspective of the utility.

13

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.3**

4 Reference: Elenchus Report, p. 6

5 **Interrogatory:**

6 Please reconcile the cost per cubic metre of 18.6 cents on page 5 with 23.04 cents on page 6.

7 **Response:**

8 The Report states that the cost per m³ appearing on page 5 (18.6 cents) was the average Canadian
9 residential natural gas commodity cost as of October 2014, whereas the cost appearing in the
10 chart on page 6 (18.6 cents) was the Union Gas Southern and Northern region commodity cost of
11 natural gas as of January 2014.

12

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.4**

4 Reference: Elenchus Report, p. 7

5 **Interrogatory:**

6 Please provide the basis for the assumption that full saturation of customer connections will be in
7 5-7 years.

8 **Response:**

9 The reference to a period of 5-7 years to reach full saturation reflects the general experience of
10 Union Gas and Enbridge Gas Distribution as discussed by them over the years. The Board's
11 EBO 188 Guidelines call for a default customer attachment horizon of 10 years.

12

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.5**

4 Reference: Elenchus Report, p. 9

5 **Interrogatory:**

6 Please provide the basis for the statement “Natural gas is the marginal fuel for electricity
7 production during high demand hours in Ontario”. Please confirm that there is a negative
8 correlation between space heating demands (heating degree days) and natural gas generation in
9 most years. If that is not confirmed, please provide generation and load data showing the
10 correlation claimed.

11 **Response:**

12 In Ontario, the peak electricity demand hours are associated with air conditioning load, not space
13 heating load, since a high proportion of space heating load is met with natural gas as the energy
14 source while air conditioning load is met primarily with electricity as the energy source.

15 It is therefore logical to expect that in a typical year high space heating demand, which by
16 definition occurs in the winter months and is met by a number of energy types will not
17 correspond to summer months when air conditioning demand results in peak electricity demand
18 requiring reliance on Ontario’s highest marginal cost generation facilities (peaking plants). Note
19 that Elenchus has not researched operational data to provide this response, but merely confirms
20 the logical expectation as stated in the question.

21

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.6**

4 Reference: Elenchus Report, p. 10

5 **Interrogatory:**

6 Please restate Table 2 including extraction, transmission and distribution methane emissions for
7 natural gas, converted to CO2 equivalents, and provide the source and details of the expert's
8 assumptions for those emissions.

9 **Response:**

10 The annual emissions savings identified in Table 2 of the Elenchus Report at page 10 relates to
11 the emissions associated with end use consumption only. The report makes no assumptions
12 regarding, nor does Elenchus have ready access to, emissions data related to extraction,
13 transmission and distribution of natural gas or of the extraction and transportation of the
14 alternative energy sources. The Elenchus Report focused on local Southern Bruce impacts only.

15

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.7**

4 Reference: Elenchus Report, p. 10

5 **Interrogatory:**

6 Please restate Table 2 including geothermal space and water heating.

7 **Response:**

8 Elenchus is not in a position to restate the table as requested since Elenchus does not have
9 readily available data on CO₂ emissions related to geothermal space and water heating on a basis
10 comparable to that identified by OGA in the preceding question.

11

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.8**

4 Reference: Elenchus Report, p. 12

5 **Interrogatory:**

6 Please provide the backup calculations, with related data sources, for the conversion cost figure
7 of \$22 million.

8 **Response:**

9 The calculations are provided as Attachment 2 to these interrogatory responses.

10 The per customer cost of conversion figures were estimates supplied by a local HVAC contractor
11 with does these types of conversions.

12

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.9**

4 Reference: Union Gas Report, p. 7, 15, and BLG Report p. 27

5 **Interrogatory:**

6 Please confirm the current energy source or sources used by each of the five Industrials, and how
7 much of the load of each of the Industrials is process load as opposed to space or water heating
8 load. For each of the Industrials that have no current fuel type, please explain the nature of the
9 need for the proposed natural gas expansion.

10 **Response:**

11 The best information we have available is included in the reports at the pages cited by the
12 questioner.

13

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.10**

4 Reference: BLG Report

5 **Interrogatory:**

6 Please confirm that geothermal was not considered as an alternative to natural gas in the
7 development of the recommendations in this report.

8 **Response:**

9 Not confirmed. While the municipalities' interest in this proceeding is focused on
10 implementation of the existing provincial policy that deals explicitly with expanding natural gas
11 into communities not currently being served, the municipalities have no objections to certain
12 consumers choosing to use geothermal. The objective of the municipalities is to facilitate both
13 options available to consumers so they could make a choice between the two.

14 If geothermal was an economically viable option, the municipalities would expect private sector
15 proponents to come forth with proposals. For example, and as described on page 77 of business
16 case attached as Appendix "C" to the municipalities report, geothermal is already being used by
17 some customers to serve their thermal needs.

18

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.OGA.11**

4 Reference: BLG Report, p. 15

5 **Interrogatory:**

6 Please confirm that the figures of 50% industrial, 30% residential and 20% commercial are
7 throughput only, and do not reflect expected revenues. Please provide the equivalent percentages
8 on a revenue basis.

9 **Response:**

10 The figures referenced in this question are a summary of the information contained in the March
11 2012 Union report. A complete copy of the Union March 2012 report is attached as Appendix B
12 of the municipalities' evidence.

13 The breakdown in terms of revenues would be dependent upon the price structure implemented.
14 The Union study did not provide this level of detail.

15

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Parkland.1**

4 Reference: Evidence of John Todd on behalf of Southern Bruce, pgs. 4-19

5 **Interrogatory:**

6 Mr. Todd discusses several "case studies" in his evidence, including the approach adopted by the
7 Canadian Radio-television and Telecommunications Commission for subsidizing
8 telecommunications service into high cost areas.

9 a) Discuss how each of the "case studies" in Mr. Todd's evidence is relevant to the current
10 proceeding.

11 b) Does Mr. Todd consider the manner in which telecommunications service has been
12 historically subsidized in Canada to be economically efficient?

13 **Response:**

14 a) Each "case studies" illustrates the fact that regulators and government have adopted a
15 variety of different approaches to extending utility services to high cost areas that
16 depended on the specific policy and economic circumstances prevalent at the time and in
17 that jurisdiction.

18 b) Given that economic efficiency has never been the sole objective of Canadian
19 telecommunications policy, it can be presumed that an analysis of the economic
20 efficiency telecommunications policy in Canada would indicate that it is not. However, I

1 am not aware of any studies that have provided a definitive answer on the question. It
2 would be difficult to do so given the challenge in valuing the economic benefit of
3 expanding connections for network services, such as telecommunications, in which the
4 value of the service increases for all customers as the number of connected customers (or
5 market penetration) increases. The economic benefit is one policy rationale for pursuing
6 universal service and of requiring interconnectivity among all service providers.

7

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.1**

4 Reference: Municipalities Report, p.4

5 **Interrogatory:**

6 Please provide a copy of the independent analysis of the Union proposal prepared by
7 AMEC/EFT consultants.

8 **Response:**

9 Please refer to Attachment 3 to these interrogatory responses.

10

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.2**

4 Reference: Municipalities Report, p.7

5 **Interrogatory:**

6 Please provide a copy of the RFI package that Municipalities sent to utilities in both Canada and
7 the United States on May 27, 2015.

8 **Response:**

9 Please refer to Attachment 1 to these interrogatory responses.

10

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.3**

4 Reference: Municipalities Report, p.9

5 **Interrogatory:**

6 Please provide a copy of the responses to the initial RFI and second phase of the RFI by the
7 successful proponent EPCOR.

8 **Response:**

9 The proposals received by the municipalities in response to the RFI process that was conducted
10 are strictly confidential and commercially sensitive. In addition, these proposals are not directly
11 relevant to the issues this Board panel is considering in this EB-2016-0004.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.4**

4 Reference: Municipalities Report, p.9

5 **Interrogatory:**

6 Regarding all those proponents who responded to the RFI, please provide information regarding
7 the various submissions made regarding:

8 a) The role of subsidies

9 b) Customer rates estimates

10 c) System design and costs

11 **Response:**

12 The proposals received by the municipalities in response to the RFI process that was conducted
13 are strictly confidential and commercially sensitive. In addition, the content of the proposals
14 received by the municipalities relating to the three items cited in this question are not directly
15 relevant to the issues this Board panel is considering in this EB-2016-0004.

16

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.5**

4 Reference: Municipalities Report, p.11

5 **Interrogatory:**

6 Have the Municipalities entered into any other agreement(s) besides a Municipal Franchise
7 Agreement(s) with EPCOR to date. If so, please provide copies.

8 **Response:**

9 Yes, the municipalities have entered into other agreements with EPCOR. For example, the
10 municipalities entered into a confidentiality agreement with EPCOR as a respondent
11 participating in the RFI process. These agreements are not relevant to the issues this Board panel
12 is considering in this EB-2016-0004. The municipalities expect that other agreements with
13 EPCOR will be necessary in the future, such as an interim rebate agreement with respect to
14 municipal property taxes.

15 In addition, any information that is relevant to the franchise agreements will be filed with the
16 OEB by EPCOR as part of the Board's hearing on the franchise applications. This information
17 will be the subject of OEB review pursuant to this separate application.

18

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.6**

4 Reference: Todd Report, p.2-3

5 **Interrogatory:**

6 Mr. Todd discusses that due to the current rate-making methodology, the cost of the distribution
7 infrastructure to serve customers as reflected in the utility's revenue requirement is lower for
8 existing customers than identical new customers. Does Mr. Todd believe there is a methodology
9 to calculate what the appropriate Profitability Index should be to account for this? If so, please
10 provide details.

11 **Response:**

12 No. The concept of the Profitability Index as defined for a feasibility test is inconsistent with a
13 marginal cost approach, which is the basis of pricing in competitive markets where prices are
14 determined by current marginal costs rather than historical embedded costs.

15

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.7**

4 Reference: Bacon Report

5 **Interrogatory:**

6 Please explain how Mr. Bacon believes that the Rural Rate Assistance methodology can be
7 adapted for community expansion. Please provide a sample calculation.

8 **Response:**

9 For discussion purposes only the following outlines illustrative steps that could be taken to
10 implement the rural rate assistance methodology

11 Step 1: Periodically (i.e. a period determined by the OEB), determine the weighting average
12 urban residential monthly bill for delivery for Enbridge Gas Distribution Inc (“Enbridge”),
13 Natural Resource Gas Limited (“NRG”) and Union Gas Limited (“Union”). For illustration
14 purposes, assume average monthly consumption is 170 m³

Distributor	Estimated Monthly Residential Delivery Bill for 170 m ³ (A)	Estimated Number of Residential Customers (B)	(C) = (A) * (B)	Contributing % (D)
Enbridge Gas Distribution Inc	\$35.09	1,850,000	\$64,909,942	59.4%
Natural Resource Gas	\$41.22	8,000	\$329,784	0.3%

Limited				
Union Gas Limited	\$35.21	1,250,000	\$44,012,550	40.3%
Total		3,108,000	\$109,252,276	100.0%
Weighted Average Urban Residential Monthly Delivery Bill = Total (C) / Total (B) = \$109,252,276 / 3,108,000 = 35.15 per month				

1

2 Step 2: The OEB would determine the appropriate level of differential between rural and urban
 3 residential rates above which rural rate assistance would apply. For illustration purposes, assume
 4 rural rate differential is 20%.

5 Step 3: The entity providing natural gas delivery service to the rural community would submit a
 6 cost of service application to the OEB according to OEB prescribed filing requirements. Within
 7 that application the applicant would develop residential delivery rates before applying rural rate
 8 assistance. For illustration purposes, assume the proposed “gross” monthly residential delivery
 9 bill for the rural community would be \$45.00 for a monthly consumption of 170 m³

10 Step 4: The application would also determine the rural rate assistance amount. It is assumed there
 11 would be 4,000 residential customers in the rural community. The annual rural rate assistance
 12 would be the \$45.00 minus \$35.15, from above, adjusted for the rural rate differential of 20%
 13 times the number of residential customers times 12. This would be (\$45.00 – (35.15 x 1.20 or
 14 \$42.18)) x 4,000 x 12 or \$135,360 which would provide funding to produce a “net” monthly
 15 residential delivery bill for the rural community of \$42.18 which is slightly above the delivery
 16 bill for Natural Resource Gas Limited .

17 Step 5: After the review of the application by the OEB and other parties, the OEB would
 18 approve the cost of service, the appropriate rates and the level of rural rate assistance.

1 Step 6: The OEB would order Enbridge, NRG and Union to pay the entity providing natural gas
2 delivery service to the rural community the portion of the rural rate assistance as per the
3 contribution percentage shown in the table above. For rural rate assistance of \$135,360, this
4 would result in a contribution of \$80,421 for Enbridge, \$409 for NRG and \$54,530 for Union. In
5 turn, Enbridge, NRG and Union would be allowed to recover the assigned amount in their
6 delivery rates. This would result in an annual cost per customer of 4.3 cents for Enbridge, 5.1
7 cents for NRG and 4.4 cents for Union.

8

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.SEC.8**

4 Reference: EB-2016-0137/138/139, Franchise Agreement, section 5

5 **Interrogatory:**

6 EPCOR has filed applications for approval of its Franchise Agreements with the Municipalities
7 of Arran-Elderslie, Kinkarden (sic) and Huron-Kinloss. In each of those Franchise Agreements,
8 EPCOR has agreed to pay each municipality an annual fee equivalent to 1% of the gross revenue
9 derived by it for natural gas supplied for consumption within the municipality net of the
10 commodity costs of supply. What role did the EPCOR's willingness to pay the annual fee have
11 in their selection as the natural gas proponent for the South Bruce municipalities? Please describe
12 the history and development of the annual fee.

13 **Response:**

14 EPCOR's proposed annual fee was only one of many factors considered by the Municipalities.
15 The Municipalities understand that annual fees paid by gas utilities to municipalities are common
16 practice in Western Canada. In the Ontario context, annual fees will help offset, over time, the
17 municipal property tax rebate that has been requested by EPCOR to help support the economic
18 viability of the gas expansion. The EPCOR franchise agreements were filed with the OEB for
19 approval pursuant to Section 8 of the *Municipal Franchises Act*. These agreements will be the
20 subject of OEB review pursuant to this separate application. The existence and rationale for any
21 annual fees are not relevant to the issues this Board panel is considering in this EB-2016-0004.

22

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Union.1**

4 Reference: EB-2016-0004 – Natural Gas Expansion Generic Proceeding

5 **Interrogatory:**

6 Preamble:

7 At p.2 of the Report prepared by the Municipality of Kincardine, the Municipality of Arran-
8 Elderslie, the Township of Huron-Kinloss & Henley International Inc. (dated March 21, 2016) it
9 notes that “*each of the three Municipalities signed a Franchise Agreement with EPCOR.*”

10 Question:

11 a) Please provide copies of the Franchise Agreement each of the municipalities signed and
12 provide a summary of any differences between these Franchise Agreements and the
13 Ontario Energy Board approved Model Franchise Agreement.

14 **Response:**

15 The franchise agreements were filed with the OEB for approval pursuant to Section 8 of the
16 *Municipal Franchises Act*. These agreements will be the subject of OEB review pursuant to this
17 separate application. The form and content of these agreements are not relevant to the issues this
18 Board panel is considering in this EB-2016-0004.

19

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Union.2**

4 Reference: Exhibit 1, Page 76 & 77

5 **Interrogatory:**

6 Preamble:

7 At p.8 of the Report prepared by the Municipality of Kincardine, the Municipality of Arran-
8 Elderslie, the Township of Huron-Kinloss & Henley International Inc. (dated March 21, 2016) it
9 references that the RFI obtained included information from interested parties about their direct
10 experience including “distribution rate design”.

11 Question:

12 a) Please provide a summary of the different rate design proposals that were included in the
13 RFIs received by South Bruce.

14 **Response:**

15 The municipalities strongly object to third parties, including potentially unsuccessful proponents,
16 attempting to misuse the Board’s discovery process in an attempt to obtain access to information
17 from competitive bids that were submitted in response to a confidential RFI process. In addition,
18 the different rate design proposals received by the municipalities are not directly relevant to the
19 issues this Board panel is considering in this EB-2016-0004.

20

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Union.3**

4 Reference: EB-2016-0004 – Natural Gas Expansion Generic Proceeding

5 **Interrogatory:**

6 Preamble:

7 At p.10 of the Report prepared by the Municipality of Kincardine, the Municipality of Arran-
8 Elderslie, the Township of Huron-Kinloss & Henley International Inc. (dated March 21, 2016) it
9 cites Customer Rates Estimates under item 4 of the Benefits of the Competitive Solicitation
10 Process.

11 Question:

12 a) Please provide the tariff or customer rate information provided to the municipalities by
13 the successful proponent to the RFI process.

14 **Response:**

15 The municipalities strongly object to third parties, including potentially unsuccessful proponents,
16 attempting to misuse the Board's discovery process in an attempt to obtain access to information
17 contained in a competitive bid that was submitted in response to a confidential RFI process. In
18 addition, the rate information in the successful proposal is not directly relevant to the issues this
19 Board panel is considering in this EB-2016-0004.

1 **South Bruce Interrogatory Responses**

2 **EXHIBIT S13**

3 **Exhibit R13.South Bruce.Union.4**

4 Reference: EB-2016-0004 – Natural Gas Expansion Generic Proceeding

5 **Interrogatory:**

6 Preamble:

7 At p.11 of the Report prepared by the Municipality of Kincardine, the Municipality of Arran-
8 Elderslie, the Township of Huron-Kinloss & Henley International Inc. (dated March 21, 2016) it
9 states that “*While all the proposals submitted were well considered the Municipalities concluded*
10 *that EPCOR’s proposal provided the best opportunity to work through these complicated issues*
11 *jointly and finally bring natural gas service to the communities of Southern Bruce.*”

12 Question:

- 13 a) Please provide the detailed ranking and scoring criteria upon which the evaluation of RFI
14 responses were based.
- 15 b) Please provide a copy of the RFI ranking and scoring results for each submission.
- 16 c) Please describe the extent to which demonstrable experience as a natural gas distributor
17 was a key consideration in the evaluation of the RFI responses.
- 18 d) Please describe the extent to which short and long term customer rates (or annual costs)
19 were a key consideration in the evaluation of the RFI responses.

1 **Response:**

2 (a) - (d)

3 The municipalities strongly object to third parties, including potentially unsuccessful
4 proponents, attempting to misuse the Board's discovery process in an attempt to obtain
5 access to competitive and confidential RFI process. This information is not directly
6 relevant to the issues this Board panel is considering in this EB-2016-0004.