

EB-2016-0004 Ontario Energy Board  
MoCreebec Eeyoud (MoCreebec) – S6:

## Exhibit S6

April 22, 2016

Prepared for MoCreebec by Awaatin – [www.anwaatin.com](http://www.anwaatin.com)

### Exhibit S6. Anwaatin. OEB Staff. 1

Interrogatory # 1

Ref: MoCreebec Eeyoud Evidence, Page 5

In its evidence, MoCreebec Eeyoud (MoCreebec) has suggested that the Ontario Energy Board (OEB) establish a Universal Service Fund (fund that collects amounts from all Ontario natural gas customers) in order to expand natural gas service to unserved rural, remote and First Nation communities.

- a) In MoCreebec’s opinion, should the Universal Service Fund collect revenues as a fixed monthly charge or a volumetric charge? Does MoCreebec propose a specific charge or rate?

**Response:** MoCreebec assumes the OEB would determine a specific charge or rate, and therefore does not propose one. MoCreebec assumes the Universal Service Fund administrator would determine the most efficient approach to collecting revenues.

- b) Does MoCreebec recommend that the fund result in a permanent charge for natural gas customers or would it be a temporary surcharge applicable for a certain number of years?

**Response:** MoCreebec believes a “smart subsidy”<sup>1</sup> approach where eligible natural gas distributors bring a potentially loss-making or marginal project into a normal commercial rate of return after a one-time subsidy has been received. A “smart subsidy” bridges the natural gas distributor’s financing gap – to offset capital investments and capitalizing operating losses for the first few years of operation. If natural gas distributors are able to charge rates that reflect reasonable on-going operating costs to currently unserved communities, then there should be no need to consider ongoing support to natural gas distributors to cover annual operating costs. Therefore, once unserved rural, remote and First Nation communities targeted by Ontario and the OEB receive service through the application of a “smart subsidy”, there would be no need for a permanent charge for natural gas customers.

- c) Please explain the operational mechanism of the Universal Service Fund. Would the utilities collect the revenues under the Universal Service Fund and remit the funds to the OEB for dispersion under specific criteria determined by the OEB?

**Response:** MoCreebec understands this hearing connects directly to the Government of Ontario’s desire to expand natural gas distribution systems to communities that do not have access to natural gas *as*

---

<sup>1</sup> ICT Regulation Toolkit, 2016. International Telecommunication Union. Section 4.5 – Financing Universal Access and Service. <http://www.ictregulationtoolkit.org/4.5>

*soon as possible*. The energy poverty experienced by First Nations in Ontario is unacceptable and must be addressed immediately by providing First Nations people with the same modern heat energy choices enjoyed by the majority of people living in Ontario. MoCreebec envisions two approaches for a Universal Service Fund. First, a simple, fast and efficient approach is for incumbent operators with many customers to establish an internal Universal Service Fund in their service areas, and maximize economies of scale to reduce charges to existing customers who would ultimately support subsidies to unserved communities. The incumbent's ratepayers would pay an OEB approved surcharge that the operator would transparently apply as a "smart subsidy" to targeted unserved areas. The subsidy would require the incumbent operator to prove that there is a capital investment gap and prove that this gap represents an unfair burden. Second, in areas beyond the service areas of incumbent operators, the OEB may choose to allow incumbent operators the opportunity to expand the service areas to enable them to extend an internal Universal Service Fund and provide service quickly, or may choose to establish a competitive process where incumbents and new entrants can compete for a "smart subsidy" to serve a targeted community or region. The OEB could begin to determine the most efficient approach by asking incumbent operators to determine areas near their current service areas where they would be willing and able to operate an internal Universal Service Fund to take advantage of economies of scale and efficiencies, with specific community targets.

Areas that remain unserved may either have the potential to be in a "smart subsidy zone" and be commercially viable through a "smart subsidy", or may be in a zone where there is a "true access gap" and beyond commercial viability even with a "smart subsidy" (see Figure 1). Areas that remain unserved by incumbent operators in a "smart subsidy zone" could be opened to a competitive process where a competitively tendered subsidy process awards "smart subsidy" funds to reward the most efficient operator that meets quality of service objectives and requires the lowest subsidy. Areas in a "true access gap" zone are areas that are beyond commercial viability even where initial smart subsidies are given.<sup>2</sup> This could be the case for remote First Nation communities that are not connected by all-season roads or by all-season access to water borne bulk shipping carriers. Given that provincial, federal and First Nation plans are moving forward to build several new all-season roads in Ontario, the number of remote, "true access gap" communities will be narrowing<sup>3</sup>

---

<sup>2</sup> Ibid

<sup>33</sup> For example, Mushkegowuk Council has completed an All Season Road Pre-feasibility Study and identified both a coastal road route that would connect with Moosenee, Moose Factory and the Ontario Northland railway terminus, and four candidate routes for an inland all season road to connect to the Ontario highway system at either points near Constance Lake First Nation and Calstock/Hearst or near Fraserdale/Smooth Rock Falls, enabling Attawapiskat, Kashechewan and Fort Albany First Nations to have all season access to transportation services ([http://www.mushkegowuk.com/?page\\_id=3577](http://www.mushkegowuk.com/?page_id=3577) ). As well, Webequie First Nation in partnership with the First Nations of Eabametoong, Neskantaga and Nibinamik, are completing a regional community service corridor study to connect the remote First Nations to the Ontario highway system (<http://www.cbc.ca/news/canada/thunder-bay/ring-of-fire-road-proposal-to-get-785-000-government-study-1.2977552>)

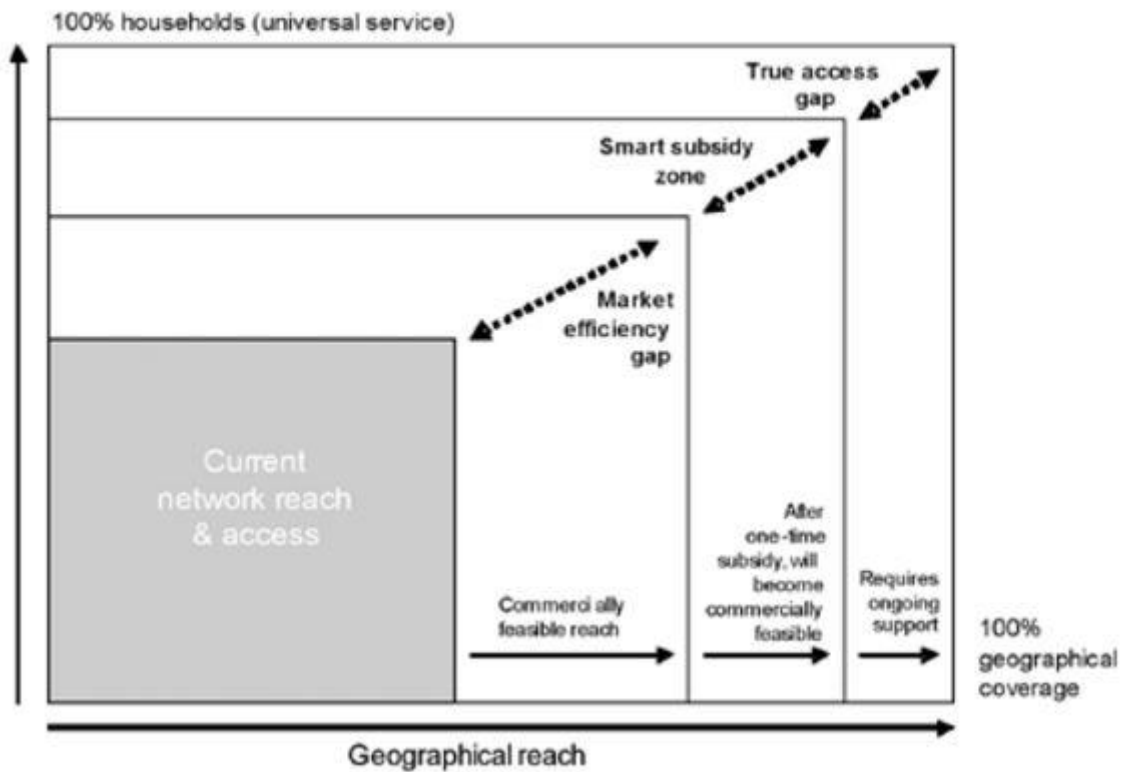


Figure 1: Universal Service Gap Areas. Source: “Telecommunications & Information services for the Poor. Towards a Strategy for Universal Access”, by J. NavasSabater, A. Dymond, N. Juntunen, 2002.

Operators serving “true access gap” areas or communities would need additional capital costs for storage facilities and on-going operational financial support to provide service. Alternatively the cost of service for “true access gap” areas may remain un-economic until all-season transportation services become available.

**Exhibit S6. Anwaatin. OEB Staff. 2**

Interrogatory # 2

Ref: MoCreebec Eeyoud Evidence, Page 6

In its evidence MoCreebec has submitted that a primary objective of the Universal Service Fund would be to make sure that First Nation reserves and communities with substantial indigenous populations that do not have access to natural gas, have access to natural gas as soon as possible.

- a) Does MoCreebec believe that the Universal Service Fund should give preference to natural gas distribution projects that serve First Nation reserves and communities?

**Response:** As stated above, the energy poverty experienced by First Nations in Ontario is unacceptable and must be addressed immediately by providing First Nations people with the same modern heat energy choices enjoyed by the majority of people living in Ontario. First Nations people live both within

First Nation communities and in communities with mixed populations. MoCreebec believes that targeting unserved communities where households are paying more than 2 times the average of similar households for heating should be prioritized for service - and that this would likely include most unserved First Nations in Ontario. MoCreebec's preference is for a Universal Service Fund approach that works quickly to meet the needs of unserved population areas where there are large numbers of First Nation residents who experience energy poverty.

**Exhibit S6. Anwaatin. OEB Staff. 3**

Interrogatory # 3

Ref: MoCreebec Eeyoud Evidence, Page 8

MoCreebec has provided one time capital cost for a virtual natural gas pipeline service to Moose Factory / Moosenee. The total cost is estimated to be \$21.6 million.

a) Please provide the source of the estimated capital cost.

**Response:** MoCreebec uses figures drawn from evidence provided by Union Gas on January 5, 2016 re: EB-2015-0179 – Union Gas Limited (“Union”) – Community Expansion Technical Conference Undertaking Responses, Exhibit JT1.2, with assumptions for a smaller customer base.

b) How many estimated customers would this project provide service to?

**Response:** MoCreebec is a “community within communities”. Membership is based in Moose Factory and Moosonee. These two communities have a combined population of approximately 6,000.

c) The estimated capital costs include shipping LNG from Union Gas Limited's Hagar facility onto flatbed railcars and to Moose Factory by truck and ferry. These costs seem to be of a recurring nature. Please explain how the LNG shipping costs would be classified as capital costs.

**Response:** The estimated capital costs in the table titled “Estimated One Time Capital for Moose Factory / Moosonee Virtual Pipeline Natural Gas Service” are one time capital costs and are not of a recurring nature. These include 4 LNG Trailers, 2 Vapourization Stations, and distribution mains, services and metering equipment.

d) Please recalculate the capital costs excluding any operating/recurring expenses.

**Response:** See above response.

**Exhibit S6. Anwaatin. OEB Staff. 4**

Interrogatory # 4

Ref: MoCreebec Eeyoud Addendum Evidence dated March 21, 2016, Page 2

MoCreebec states that the intent of EBO 188 is to facilitate the expansion of natural gas service while holding other customers harmless from the cost of new connections. The alternative of a Universal

Service Fund approach to awarding gas expansion/ connections fits with the intent of EBO 188. Please explain why the Universal Service Fund approach to awarding gas expansion/connections fits with the intent of EBO 188.

**Response:** EBO 188 describes the economic test that should be used to evaluate a proposed expansion of a gas distributor's distribution system to ensure that these undue rate increases for existing customers do not occur. The key principle behind the test is that total portfolio of expansion projects should not lead to a rise in the rates of existing customers over the long term. This allows a distributor to propose an expansion portfolio that blends projects with customers that are less costly to serve with those that are more costly. MoCreebec asserts that a Universal Service Fund approach with "smart subsidies" of a one-time nature, and short-term surcharges to existing customers is in keeping with the intent of EBO 188.

**Exhibit S6. Anwaatin. OEB Staff. 5**

Interrogatory # 5

Ref: MoCreebec Eeyoud Addendum Evidence dated March 21, 2016, Page 3

MoCreebec has suggested that rural, remote and Indigenous customers are willing and able to pay higher rates for services in relation to urban customers because the cost of alternatives are high.

a) Is the suggestion of MoCreebec that customers in rural and remote areas are willing to pay higher rates based on common understanding or is there any empirical evidence to support the statement? Please provide a detailed response.

**Response:** MoCreebec's suggestion is based on common sense. A family paying ten times the cost for heating a home vs. natural gas service is very likely to consider paying less for an alternative service, even if rates are higher than comparable service in an urban area.

b) Is MoCreebec suggesting that the OEB consider a different ratemaking framework for rural and remote communities wherein the specific communities would pay higher distribution rates on a permanent basis?

**Response:** MoCreebec is suggesting that different ratemaking frameworks may need to be applied to some rural, remote and First Nation communities that are within the "true access gap" and "smart subsidy" areas noted above, in order to make sure that existing ratepayers do not see a rise in rates over the long term, consistent with EBO 188.