



SIoux LOOKOUT

Hub of the North

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DELIVERED BY EMAIL

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Board Secretary
Ontario Energy Board
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Subject: EB-2016-0004 – Municipality of Sioux Lookout Comments

The Municipality of Sioux Lookout is submitting the following comments for Board consideration. These comments will be presented at the April 26th 2016 pre-hearing.

Background

The Municipality of Sioux Lookout is one of the last large northern Ontario communities without natural gas service and is located only 65km from the TransCanada Pipeline. The pipeline expansion could also provide natural gas service to nearby Lac Seul First Nation. Sioux Lookout's population is approximately 6000, however, as the "Hub of the North"; the community connects over 30,000 people in 33 First Nations communities to a state-of-the-art hospital and related health care, social and education services.

Sioux Lookout has been on a major growth curve with over \$250 million in capital projects completed in the past five years, including the new hospital, patient hostel, heritage train station redevelopment, downtown revitalization, MNR fire management centre and crew quarters, hotels, and an increase in serviced residential, commercial and industrial land. In 2016 major projects with a value totaling over \$50 million will start construction: a new high school, airport terminal expansion, and municipal infrastructure.

Sioux Lookout does not currently have a significant industrial load to supplement project capital costs. This could change if proposed mining developments in the area mature into producing mines. The absence of natural gas service to Sioux Lookout constrains industrial and commercial development and places a significant energy cost burden on existing residents, institutions, and businesses. Energy for space heating, water heating and process heating is currently provided by fuel oil, electricity, propane or wood. The lack of natural gas has a significant negative impact in recruitment and retention of human resources and businesses.

Long Term Energy Plan Objectives and EB-2016-0004

Ontario's Long term Energy Plan states: *The government will work with gas distributors and municipalities to pursue options to expand natural gas infrastructure to service more communities in rural and northern Ontario.* The Minister of Energy's February 18th 2015 letter to the Ontario Energy Board reinforces this commitment to expanding natural gas to rural and northern communities and encourages the Board to move forward with its review of options to facilitate connecting more communities.

The Ontario Energy Board has since issued a letter and initiated its hearing (EB-2016-0004) related to proposals and regulatory approaches to expanding access to natural gas. The Municipality of Sioux Lookout is concerned that the Union Gas Community Expansion proposal, Enbridge Community Expansion Project, and overall EB-2016-004 proceeding seems to be focused on expanding access to natural gas for communities that "are not currently served" or "rural and remote communities". While "rural and remote" can include northern Ontario, we believe the focus of these regulatory proceedings is inconsistent with the government objective, which clearly identified a specific need for expanding access to natural gas in northern Ontario.

While we are encouraged by some of the regulatory changes that are being proposed in this proceeding, we fear they will not result in any meaningful expansion of natural gas in northern Ontario. In the attached letter to the Minister of Energy, the Municipality of Sioux Lookout has asked the Minister to clarify to the Ontario Energy Board that the government policy relates to expansion of natural gas to rural and northern Ontario and that the proceeding should consider how any proposed regulatory changes will achieve those specific objectives.

Definition of a community in the context of this proceeding

Union Gas stated that its proposal is intentionally focused on small towns, villages and hamlets, due to the higher density of customers as compared to more rural settings. Union Gas defines the threshold as 50 homes or businesses. In most cases, small expansions such as these will only require 2 or 4-inch plastic pipe. While this strategy will increase access to natural gas in the short term for rural customers located close to existing gas pipeline service areas, it may not create the needed pipeline infrastructure to enable access to natural gas for other customers/large communities, or enable future economic development in these hubs.

In order to achieve Ontario's goal of expanding access to natural gas, the expansion initiative should focus on larger communities where there is a greater potential for economic development and the construction of larger lateral pipelines would increase the reach of natural gas to serve future customers along the line. As such, the Municipality of Sioux Lookout recommends the definition of "Community" should be higher than the threshold of 50 customers.

Further, it must be recognized that rural implies small clusters, or individual residences, spread out over a large rural area. Northern Ontario towns may be small, in the range of 1,000 to 15,000 populations, but they are generally high density, full-serviced, urban communities.

Energy Costs and Affordability in the North

In general, energy costs in Northern Ontario are higher than the rest of the province. The reasons include colder weather, longer winters, and a higher cost for alternative energy sources (fuel oil, propane and electricity). Since the average household income in Northern Ontario is lower than the rest of Ontario, the higher energy costs have a larger impact on energy affordability. This fact underscores the greater need for expanding natural gas in Northern Ontario, and that the OEB's proceeding should consider how the proposed regulatory changes, planning, and implementation will result in meaningful natural gas expansion in Northern Ontario.

The Need for an Inclusive Planning Process

To date, community expansion planning by the incumbent distributors has been at the desktop level only, without proper stakeholder involvement. As such, it should not be used to assess the viability or prioritization of projects where funds for community expansion may be limited.

By way of example, in EB-2015-0179 Union Gas indicated its opportunities assessment list of 100 projects was based on *"a series of high level assumptions related to key economic modeling inputs"*. Sioux Lookout ranks 69th on the list, and as such, likely wouldn't be a candidate for natural gas expansion using these high level assumptions. Our analysis shows Union Gas' assessment may be flawed.

In 2012, the total cost of the Red Lake Gas Pipeline Project was \$44 million. The Sioux Lookout project would be similar in scope. However, when additional surrounding communities were added to the scope, the cost estimate by Union Gas ballooned to \$134 million. The table below shows the comparison.

	Distance from Source	Population (2011)	Cost
Red Lake (2012)	58 km	4,670	\$44 million (actual)
Sioux Lookout	65 km	5,037	???
Sioux Lookout, Hudson, Lac Seul FN, Frenchman's Head	132 km	5,960	\$134.4 million*

*Estimated by Union Gas n EB-2015-0179)

Sioux Lookout is not dismissing the viability of natural gas expansion to its surrounding communities. If the project is properly scoped, Sioux Lookout believes many of these customers could be served.

This comparison and analysis demonstrates how Union Gas' assessment is high level only, and is not reflective of the true feasibility of expanding natural to prospective communities.

Depending on the outcome of this proceeding, utilities may have a limited capacity to carry out expansions due to portfolio or funding limits. In addition, the feasibility of projects and interest of Municipalities could change as a result of this proceeding. As such, prior to utilities moving forward with expansions under a new regulatory framework that promotes natural gas expansion, the Board should define a planning and implementation process related to natural gas expansion.

We believe that gas distributors should work in cooperation with Municipalities and other key stakeholders in planning expansion of natural gas and any related implementation of utility or program funding.

Regional planning was one of the key aspects of the Renewed Regulatory Framework for Electricity planning (RRFE). Similarly, the Municipality of Sioux Lookout recommends the Board develop a natural gas planning process that involves key stakeholders and increases transparency.

E.B.O. 188 Exemptions/Changes and Other Mechanisms

The Municipality of Sioux Lookout supports the following potential changes to E.B.O. 188:

- Allowing portfolios and projects with PI's of less than 1.0 and 0.8, respectively;
- cross subsidization across utilities;
- longer revenue horizons and customer forecast periods;
- use of minimum design cost.

Furthermore, there should not be any regional portfolio restrictions that limit community expansions by a utility. By way of example, Union Gas has various rate classes, including a Northern Rate. A regional rate base or portfolio limit (such as the Northern Rate) may not be able to accommodate many new investment projects, and as such, there should not be in any regional portfolio restrictions to natural gas expansions. This should not be an issue under cross subsidization.

In addition, E.B.O. 188 should also include a mechanism for refunding customers that make an initial capital contribution to a project if future large customers utilize the facilities (similar to sunset clause in Transmission System Code).

The Municipality of Sioux Lookout supports the establishment of customer surcharges for natural gas expansions; however, experience (e.g. Parry Sound expansion) has shown that this mechanism would likely not be as effective as other proposed mechanisms, since surcharges could negatively impact uptake.

A natural gas expansion reserve or fund could be a good mechanism for implementing projects; however, the Board should consider how such a fund would be administered. The provincial objective is to expand natural gas to rural and northern communities. The Municipality of Sioux Lookout recommends that such a fund have parameters to achieve these goals. By way of example, a certain amount of funds should be allocated specifically to natural gas expansion in Northern Ontario.

Public Interest Factors

Public interest factors should include:

- Energy cost savings
- The impact (affordability) of energy costs
- The positive impact of reduced energy costs for health care and education facilities
- Environmental benefits (e.g. avoided emissions and fuel spills)

- Safety
- The local benefit to the municipality related to the ability to attract or retain businesses and grow.
- The GDP impact of the project;
- Projected employment impacts of the project
- First Nation support

Distributor Competition

The Municipality of Sioux Lookout supports mechanisms that would provide greater flexibility and competition towards carrying out the community expansions.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Lawrance".

Mayor Doug Lawrance

Cc: Khalil.Viraney@ontarioenergyboard.ca