**EB-2016-0004**

## Ontario Energy Board

**IN THE MATTER OF**

GENERIC PROCEEDING ON NATURAL GAS
EXPANSION IN COMMUNITIES
THAT ARE NOT SERVED

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**VULNERABLE ENERGY CONSUMERS COALITION**
**("VECC")**
**CROSS-EXAMINATION COMPENDIUM**

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Evidence of EPCOR

**May 10, 2016**

**TAB 1**

where competition 'in the market' is not possible, competition 'for the market' provides a meaningful alternative.

## C. Framework for Implementation

### C.1 Expansion Reserve

29. To achieve the significant benefits of expansion and following the policy direction from the Government, the Board should establish and administer an Expansion Reserve which would be funded by a small volumetric levy on Province-wide sales of natural gas to current customers. System expansion brings direct and indirect benefits throughout the Province.

30. The maximum potential support from the Expansion Reserve could be based on expected annual sales, averaged over a suitable period. For example, if Project A is expected to generate 10 times the sales volume of Project B, then its maximum support in aid of construction would be 10 times the maximum potentially available for Project B.

31. This 'per-unit' ceiling would be established in advance by the Board and publicly available. A volumetric based transfer has the appeal that a customer seeking service would be eligible for the same level of support, per unit volume, wherever she or he is located. Unspent or excess funds in the reserve could be returned to customers, based on their contributions, or retained for use in future years.

32. At the time of approval of the franchise agreement, the Board, which would be ultimately responsible for the distribution of funds, should determine whether the applicant would be eligible for support from the Expansion Reserve. An indication from the Province of the likely magnitude of its financial support would further expedite the development process.

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**TAB 2**

support.[35] It is unclear why support should not be used if available, given the desirability of expanding to currently unserved areas and the likelihood of wider benefits. In our view Provincial support should be accepted.

59. As per the Board request, the Union proposal puts forth options that would require relaxing certain restrictions of EB0 188, in particular the limitation on cross-subsidization. The impacts are to be limited to a maximum of $2 per month. These 'cross-subsidization' amounts are to be collected and administered by Union.

60. Our model contemplates a Province-wide Expansion Reserve that is administered by the Board or its designate, not by one or another distributor. Reserve funds would be available to incumbents and to entrants seeking to expand service to new areas, and would therefore help to level the playing field.

61. The purpose of the Reserve that we have proposed is to defray capital costs. As such the amounts are treated in much the same way as Capital in Aid of Construction, thus reducing the capital amounts that enter into rate base. Nor should the funds be used as insurance to ensure that the utility earns its rate of return.

## D.2 The Union Proposal Would Impede Franchise Competition

62. Approval of the approach put forth in the Union proposal would likely establish the regulatory approach for the future, and would have the effect of erecting a barrier to new gas distributors in their efforts to offer competing alternatives to those being proposed by incumbents. The Union proposal contemplates that higher rates paid by its customers be used only to support Union expansions. As discussed above, competition amongst gas distributors to serve new communities can bring considerable societal benefits and should be encouraged.

[35] Union Application, page 3.

**TAB 4**

unserved communities.

55. Union has indicated that its proposal is guided by a set of principles intended to balance the impacts on all affected parties: [33]

- Those that directly benefit from a project should contribute to the financial viability of the project;
- Expansion customer contributions to project feasibility should be commensurate with the savings achieved by switching to natural gas;
- Moderate cross subsidization from existing customers is acceptable, provided they are reasonable over the long-term;
- Natural gas distributors should not be exposed to financial risk related to the incremental new community capital investments.[34]

56. We are in broad agreement with the first three principles: our proposal contemplates that potential new customers, municipalities and existing customers contribute to system expansion costs. Competition for the franchise would reveal the willingness of all parties to contribute to the viability of the enterprise.

57. However, for reasons indicated above, we believe that the proponent should also be willing to contribute to project costs. Furthermore, in our view, natural gas distributors should not be shielded from all financial risks associated with the projects. The distribution of risk should be an outcome of the negotiation process and embedded in the franchise agreement.

58. Union has indicated that its proposal is designed to maximize the number of communities to receive natural gas services *without* the use of provincial funding

[33] Union Application, Updated Evidence, Filed: 2015-12-14, EB-2015-0179, page 6.

[34] Union Application, page 6.

**an essential feature of commercial transactions, particularly as circumstances and opportunities can differ materially from one location to another. Information on the approaching termination of existing agreements should be publicly available.** [See Section C.4 Facilitating Competitiveness.]

9. What types of processes could be implemented to facilitate the introduction of new entrants to provide service to communities that do not have access to natural gas. What are the merits of these processes and what are the existing barriers to implementation? (e.g. Issuance of Request for Proposals to enter into franchise agreements)

**The Board should maintain a registry of interested proponents and a comprehensive database of franchise agreements should be made available. (The Board can determine the information that must be publicly available while ensuring protection of commercially sensitive data.) Board approvals should be conditional on the municipality or other governing authority having conducted a process of due diligence. This may be, but does not necessarily need to be an 'RFP' process. The franchise approval process could also be used by applicants to seek approval for innovative new services that may be necessary to make service in the expansion territory viable. During this early stage, it would be appropriate for the Board to determine whether the proponent is eligible for support from the Expansion Reserve.** [See Section C.4 Facilitating Competitiveness.]

10. How will the Ontario Government's proposed cap and trade program impact an alternative framework that the OEB may establish to facilitate the provision of natural gas services in communities that do not currently have access?

**TAB 5**

**Exhibit S4.EPCOR.Board Staff.8**

**Reference:** **Evidence of Adonis Yatchew for Epcor Utilities Inc., Pages 12-13, Paras. 29-38**

Dr. Yatchew's evidence proposes an "Expansion Reserve" whereby the OEB would establish and administer a reserve that would be funded through a levy on Ontario's existing natural gas customers. System expansion could then be partially funded by this reserve, subject to certain parameters.

**Request:**

(a) Is Dr. Yatchew aware of any other jurisdiction that uses a similar type of reserve to support natural gas system expansion? If so, please provide details.

(b) In Dr. Yatchew's opinion, does the OEB have the jurisdiction to establish an Expansion Reserve and implement an Expansion Charge on customer bills?

(c) OEB staff would be assisted by some more detail on how the Expansion Reserve would work. Please elaborate on the examples provided in paras. 30-31.

(d) Would an Expansion Charge be applicable to all customer classes: residential, commercial, industrial and contract customers?

(e) Epcor's proposal recommends a volumetric levy on province-wide sales of natural gas. Does Epcor propose any maximum monthly surcharge for large commercial or industrial customers or would the volumetric levy determine the monthly surcharge irrespective of the amount?

(f) Under Epcor's proposal, would the ratepayers of one utility be responsible for paying a portion of the cost of capital of another utility? Is Dr. Yatchew aware of any cases in other jurisdictions where this has happened?

(c) Implementation could incorporate the following:

i. The Board would determine an appropriate volumetric levy to be applied to all natural gas customers. As an upper bound, the Board may consider a magnitude similar to that proposed by Union in its application which represents an increase of about \$3 to \$4 per year for a residential customer consuming 2,200 $m^3$ per year in Union South. This in turn suggests a levy of about \$0.002 per $m^3$.

ii. All natural gas distributors would recover the levy from their customers through a new charge code identified on the customer's monthly bill. The funds would be transferred to an Expansion Reserve account administered by the Board.

iii. Once a prospective distributer reaches a franchise agreement with a municipality, it would apply to the OEB for franchise approval. At the same time, it could apply for access to funds from the Expansion Reserve. The maximum amount would be based on forecasted volumes of sales over the forthcoming 10-year period in the expansion area.

iv. The prospective distributor would be eligible for a contribution from the Expansion Reserve if

   a. it met the normal Board criteria for approval of a franchise, certificate of public convenience and leave to construct;

   b. it demonstrated a Profitability Index of 1 for the expansion project; the profitability index would be calculated recognizing Government grants and loans, contributions from the municipality, customers and the utility, contributions from the Expansion Reserve, and revenues from future natural gas sales.

v. Any funds collected from the Expansion Reserve would be treated as a 'Contribution in Aid of Construction'. The distributor would not earn a regulated rate of return on these funds.

vi. The term of the Expansion Reserve could be set at 10 years, with a Board review after 5 years. If and when the Board decides to terminate the Reserve, the funds would be redistributed to ratepayers.

(d) Yes, under our proposal, a small volumetric levy on Province-wide sales of natural gas would apply to all current customers.

# TAB 6

**South Bruce Interrogatory Responses**

**EXHIBIT S13**

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

Reference: the Municipalities Report/pp. 4-5

**Interrogatory:**

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

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

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

**Response:**

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