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Board Secretary
Ontario Energy Board
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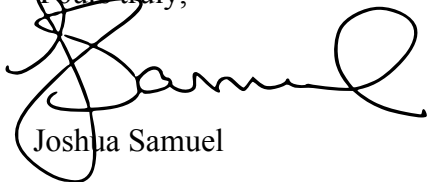
Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Subject: EB 2018-0004 Submission by Northeast

Pursuant to Procedural Order 3, please find herewith the submission by Northeast.

Yours truly,



Joshua Samuel

Enclosed

**ONTARIO ENERGY BOARD
GENERIC PROCEEDING ON NATURAL GAS EXPANSION IN COMMUNITIES
THAT ARE NOT SERVED**

Northeast Midstream LP (“Northeast”)

Submission to EB-2016-0004

Filed June 20, 2016

1 **Issue 4. Should the OEB consider exemptions or changes to the EBO 188 guidelines for**
2 **rural, remote and First Nation community expansion projects?**

3

4 The Board's *Guidelines for Assessing and Reporting on Natural Gas System Expansion in*
5 *Ontario* (E.B.O. 188) require that incremental projects be evaluated using a rolling Profitability
6 Index (PI) that compares expected revenue, net of gas commodity costs, to the capital invested
7 and incremental operating and maintenance costs, plus income and municipal taxes, and
8 discounts those amounts to the present values.

9

10 Northeast has presented evidence by Mr. Gulick that incremental gas-related costs, including
11 commodity costs, should be included when evaluating the options for supplying a system
12 expansion, and that different gas-supply options often have different economic impacts on the
13 local distribution company (LDC) and its customers.¹

14

15 With respect to what should be included in the economic assessment for providing natural gas
16 service to communities, Northeast submits that the Board require LDCs to incorporate all of the
17 costs associated with providing the incremental service in their economic analysis, including the
18 incremental capital invested; incremental expenses, such as taxes, operating costs, labour; and
19 incremental gas, storage and transportation costs, on a marginal-cost basis.

20

21 With respect to how community expansion costs are recovered, Northeast submits that the Board
22 should allow an LDC to proceed with any expansion project with a PI that clears a defined
23 threshold and roll the cost of gas into the system-wide weighted-average cost of gas
24 ("WACOG").² This treatment is consistent current practice and is supported by Enbridge Gas

¹ EB-2016-0004. Evidence filed by Northeast Midstream LP, March 21, 2016.

² In E.B.O. 188, the Board considered whether incremental gas storage and pipeline transmission costs should be included in the expansion analyses, and concluded that "although theoretically correct, the inclusion of forecast incremental costs for the transportation and storage of gas will add unnecessary complexity to the DCF calculations for distribution system expansion projects." E.B.O. 188, *Final Report of the Board*, January 30, 1998, paragraph 3.3.4.

1 Distribution. In evidence, Enbridge suggested that using liquefied natural gas (LNG) for
2 expansion customers would have a lower capital cost in many instances and more favourable
3 indicated project PI, and that the cost of the LNG required to serve such communities would be
4 recovered from all customers through the LDC's gas supply plan.³
5

6 **Issue 10. How will the Ontario Government's proposed cap and trade program impact an**
7 **alternative framework that the OEB may establish to facilitate the provision of natural gas**
8 **services in communities that do not currently have access?**
9

10 Ontario's cap and trade program puts a price on greenhouse gas emissions and creates a market
11 in which a limited number of emissions allowance can be purchased at auction and traded. It
12 creates an economic incentive to reduce greenhouse gas emissions, while providing participants
13 flexibility to either invest in energy efficiency measures or buy and trade emissions allowances.
14 It is a non-prescriptive mechanism in which market forces come to bear and enable participants
15 to make decisions based on specific project economics.
16

17 In the case of natural gas expansion projects, participants will need to factor in the price of
18 compliance with the cap and trade program within their long-term plans. Even with the cost of
19 compliance included in project forecasts, switching to natural gas will remain an economically
20 prudent decision for many homes, business and communities who have high fuel and heating
21 costs. Furthermore, converting high-emitting fuels and inefficient systems to natural gas systems
22 can contribute to greenhouse gas reductions, providing a further financial incentive to subscribe
23 to a new distribution network.
24

25 It is important to note that Ontario's Climate Action Plan (2016) accommodates the use of
26 natural gas. For example, the plan states:
27

³ EB-2016-0004. Evidence filed by Enbridge Gas Distribution, March 21, 2016, paragraphs 84 to 86.

1 [The Climate change Action Plan] will not take away personal choice: no one will have
2 to stop using gas in their home or give up their gas-powered car by a certain date. Rather,
3 the plan creates the conditions that provide choice. It gives consumers and businesses
4 more reasons to reduce their carbon footprint, and creates competitive conditions for the
5 adoption of low-carbon technology.

6
7 and

8
9 The province will continue to reduce greenhouse gas pollution in existing housing and
10 other buildings, and ensure new buildings do not contribute to increased net greenhouse
11 gas pollution. For existing homes, technologies such as geothermal and other home
12 heating solutions in new, highly efficient buildings can also be complemented with
13 natural gas.

14
15 With the implementation of the cap and trade program in Ontario, decision-making with respect
16 to the economics of expansion projects will logically include the cost of complying with the new
17 regulations. Given the flexibility and choice inherent with the program, natural gas systems will
18 remain an viable option for homes and business.

19
20 **Issue 12. How should the OEB incorporate the Ontario Government's recently announced**
21 **loan and grant programs into the economic feasibility analysis?**

22
23 Northeast submits that both the Natural Gas Economic Development Grant (“the Grant
24 Program”) and Natural Gas Access Loan (the “Loan Program”) should target projects that cannot
25 be addressed solely through new or revised Board guidelines to support community expansion
26 projects.

27
28 Where the Grant Program and Loan Program are used to assist residential, commercial and
29 industrial customers with conversion of their end-use equipment to natural gas, the conversion
30 should realize economic and environmental benefits.

1

2 Where the Grant Program is used to finance property, plant and equipment associated with the
3 delivery of natural gas, the funds should be treated as contribution in aid of construction and
4 reduce the rate base accordingly.

5

6 Where the Loan Program is used to finance property, plant and equipment associated with the
7 delivery of natural gas, the terms of the loan should be incorporated into the weighted average
8 cost of capital (“WACC”) used to calculate the revenue requirement for the project.