

Introduction

The Federation of Rental-housing Providers of Ontario (“FRPO”) appreciates the opportunity to make submissions to the Board on the topics contained in the generic proceeding considering Natural Gas Expansion to Communities.

Procedural Order No. 1, issued February 10, 2016, provides an effective description of the background to this proceeding, so we will not reiterate it here.

As the process evolved from the original application in EB-2015-0179 to the generic proceeding, the number of parties and the diversity of viewpoints seemed to expand exponentially. We commend the Board for providing the process which we believe increased the understanding of the issues by all stakeholders.

As a result, there is a risk that the quantity and depth of submissions could result in a clouding of the fundamental issues. In our view, we believe this potential complexity could result in compromises of some core principles of economic regulation that have been established by this Board that have allowed for rational expansion of natural gas systems which have contributed to the economy and quality of life in the province. Our desire is that in taking a “less is more” approach in the following submissions, we will focus on simplifying the case to the core issues and therefore will not address all topics on the issues list and will rely on other’s similarly aligned submissions that we have previewed. While our principle conclusion is that the province is well-served by EBO 188 with room for additional funding sources, to assist the Board in seeking potential alternative approaches, we have submitted a balanced evolution of the parameters and process of the EBO 188 construct in recommendation B.

Recommendations

- A. Maintain EBO 188 in its current form allowing for the addition of municipal contributions through forgoing taxes and increased customer contribution through surcharges while ensuring that the costs of carbon are included in the economic analysis.

In the alternative, to be responsive to the Minister's Letter¹ requesting the Board examine opportunities to facilitate rational expansion, FRPO would see merit in a public interest balance being established through the following proposed evolutions:

- B. Allow utilities to create appropriate SES and ITE's at the required level and term to make project sufficiently profitable to the level of 0.7. At that level, the utility can seek a Leave to Construct with the following caveats:
 - a. Requiring the utilities to maintain a rolling profitability at a level of not less than 1.0 removing the existing ratepayer safety margin
 - b. Making the utilities accountable for the accuracy of forecasts by allowing a return of capital and interest initially, then prorating the return on capital to the percent of actual volume relative to forecast volume.

¹ Minister of Energy letter to the Chair of the Ontario Energy Board dated February 17, 2015.

Efficacy of EBO 188

The purpose for the current proceeding was captured in the Board letter of January 20, 2016:

“In the generic proceeding, the Ontario Energy Board will consider possible alternative ratemaking frameworks to provide natural gas service to Ontario communities that do not currently have access to natural gas.”

The Board has used the EBO 188 as a means of providing a balanced approach to economically rational expansion of natural gas distribution services for about two decades. EBO 188 was determined to be an effective evolution of the E.B.O. 134 requirements that emanated from the Board’s assessment of the variety of utility approaches to system expansion prior to the proceeding. The foundational principle that the Board confirmed at that time was:

“Therefore, the Board does not believe that existing customers should subsidize new customers through higher rates as a result of the construction of financially unfeasible new distribution system projects”.²

In our view, despite the enormous amount of evidence in this proceeding we do not see any compelling reason for the Board to depart from that hallmark of regulatory practice. For the past two decades, the utilities have been able to expand to hundreds of thousands of new customers, some of which have been in new communities.³ The balanced approach of EBO 188 allows for an efficient

² Evidence of South Bruce Municipalities: [Mechanisms for Supporting Natural Gas Community Expansion Projects](#), Report of John Todd dated March 21, 2016 pages 11 and 12.

³ Exhibit J3.11

and effective approach to balancing the interests of all stakeholders considering economic and public interest factors.

Political Interest in Natural Gas Expansion

What is clear from this proceeding from the impassioned pleas of municipalities, in direct representation or by way of letter, is that municipal leaders have come to desire the perceived social and economic benefits that they believe would come from being able to access natural gas services for their constituents. In fact, when Union Gas addressed what their customers wanted and the acceptance of existing customers, they referred to communications with municipal leaders⁴.

However, despite this push of municipal leadership, when it comes down to the customer level, we firmly believe what customers are seeking is low cost energy. As opposed to substantiating that belief, we adopt the submissions of the Ontario Geothermal Association (“OGA”)⁵.

But the fundamental question is: “who should subsidize these financially unfeasible projects”⁶. It is clear that politicians want these programs, and the provincial government has asked the Board to examine opportunities to facilitate access to natural gas expansion. But that same letter closed with appreciating the Board’s “continued support to ensure the rational expansion of the natural gas

⁴ Transcript, Volume 5, May 11, 2016, page 130

⁵ FRPO previewed draft submissions of OGA and adopt their views in the Section entitled “What Do the New Customers Want”.

⁶ Financially unfeasible as measured by the current EBO 188 guidelines.

transmission and distribution system for all Ontarians”⁷. It was accepted by Union Gas that the same “rational” word is embedded in the Board’s objectives under the Ontario Energy Board Act, 1998.⁸ This letter, not directive, was written in this way by the Minister in spite of the fact that Union had requested that the Minister order the Board to increase the level of cross-subsidization⁹.

Utility Proposals are Not Economically Rational

So the government is not directing increased cross-subsidization for natural gas expansion. In fact, with recent policy developments to price the cost of carbon, there have been concerns expressed in terms of the long-term support for natural gas as the most economic, environmentally-friendly source of energy. However, to bring the perceived benefits of natural gas, there is a need for an upfront investment. But Union Gas testified that despite the long term benefits far exceeding the initial costs, potential customers are unwilling to pay for those costs¹⁰. To “bridge the gap”, through their submission of evidence, Union Gas and Enbridge Gas Distribution have outlined proposals to evolve EBO 188 requirements. These proposals have many common elements:

- Increased funding by new communities being served through forgoing municipal taxation revenue from the utility
- Increased funding by new community expansion customers through expansion surcharges
- Increased funding by existing customers through relaxation of the profitability threshold

⁷ Minister of Energy letter to the Chair of the Ontario Energy Board dated February 17, 2015.

⁸ Transcript Volume 4, May 10, 2016, page 192.

⁹ Transcript Volume 4, pages 184-185

¹⁰ Transcript Volume 5, pages 119-127

- No increase in funding nor acceptance of risk by the natural gas utility

It is interesting to note that the new expansion customers and their communities would receive heavily subsidized natural gas service. This service would be subsidized by existing customers who do not receive any significant benefit but not the utility whose shareholder stands to profit in the order of tens of millions of dollars over the life of the project.¹¹

At the same time, one of the costs of this approach not easily quantified is the impact on investments already made in existing alternative energy sources which would be undermined by these proposals, if implemented, by essentially picking winners and losers in terms of energy source¹². We very much respect the contribution of Parkland Fuels expert evidence and testimony in regard to the impact of subsidies on existing markets. At the outset of their testimony, the Chair invited parties to make submissions on the Board's consideration of weight on their contribution¹³. In the respectful submission of FRPO, these experts provided very sound economic constructs and principles that were well referenced in their written submissions and were well-articulated in their testimony. We firmly believe that these economic approaches would be helpful to the Board and serve the public interest in these matters and, as a result, would be worthy of considerable weight.

¹¹ Exhibit J3.5 and EB-2015-0179 Exhibit JT1.11

¹² Transcript Volume 5, page 62-63

¹³ Transcript, Volume 5, page 11

Using the paradigm generated by the four economic principles in Parkland's evidence summarized at the outset of their testimony ("the 4 Principles")¹⁴, it is our informed submission that the proposals of the utilities are not economically rational and would urge the Board to bring a better balance to any evolution to the existing EBO 188 construct than either utility has offered. In addition, we believe that these principles underline the robust efficacy of maintaining the Board's practice of EBO 188 and point to where subsidies can be implemented.

Role of the Board

As noted above, one of the primary objectives of the Board is to facilitate the rational expansion of transmission and distribution systems. As economic regulator, the Board operates inside of its legislated authority and jurisdiction. We are not equipped to render a legal opinion on the Board's legal jurisdiction to create establish a framework to whereby the natural gas customers of one utility subsidize the expansion undertaken by another utility. However, in considering the question, we believe that the only reason that such a framework would be contemplated is that there is a belief that there is a provincial benefit to the expansion of natural gas service. In our respectful submission, applying the economic principles outlined in the 4 Principles, applying an economic provincial subsidy would be more aligned with the taxation authority of the provincial government.

In our view, the Board is exercising its authority as the economic regulator in canvassing views on alternatives to facilitate rational natural gas expansion. In our primary recommendation, the Board could allow for the contributions of those

¹⁴ Transcript, Volume 5, pages 5-6

benefiting from the program. This would include the potential for municipal contribution of forgoing taxation of the utility and the increased contribution of the new community customers through surcharges. However, as was evidenced by the utilities, unless there is significant increase in the term of contributions or the value of surcharges, these community expansions would likely not meet the profitability threshold of 1.0. In our view, this is where the role of the regulator stops and the role of the provincial government with their taxation authority starts.

The provincial government must believe that there are sufficient economic and social benefits to warrant their stated policy of investing in the expansion of natural gas services. As such, the utilities could have their respective proposals tested, by the slightly evolved EBO 188 construct including increased municipal and new customer contributions to allow the government an informed view of the economic shortfall. With that information, the provincial government could choose which community expansions are undertaken with provincial taxation support in the form of loans and grants. In our view, given the utilities stated view that customers have issue with the upfront cost, one potential approach is to allow the grants to go to subsidizing the customer conversion costs and/or the loans could be structured as no interest loans to customers tied to equipment conversions paid off over an extended period of time with the expected savings from their respective conversions. In this way, with increased prospect for acceptance, utility forecasts would be updated to show increased upfront conversion rates as previously-viewed late adopters are incented to convert earlier. The result should be a more profitable project. However, we respect that these ideas would need to be fleshed out and are not the direct content of this proceeding. But our primary recommendation is a continued application of EBO 188 with municipal and new customer contributions at a sufficient level to allow the government funding to be the catalyst for improved profitability.

In the Alternative, Relaxation of EBO Standards with Increased Utility Risk

We are cognizant that the Board's intent in the proceeding is to consider alternatives to facilitate natural gas expansion. To be of assistance, we would submit that a further evolution of EBO 188 could be considered. As noted in the summary of the utility proposals, while the municipality and new community customers who are the direct beneficiaries of the extended service must contribute to the expansion costs, the utility's shareholder who also would benefit is contributing nothing beyond the opportunity cost of management time in promoting these initiatives. In seeking to increase the value of their investments, they have promoted the relaxing of PI standards at the cost and risk of existing ratepayers. We would submit since they are advancing relaxation of these standards, they should come at the long term risk of the utility not while providing existing ratepayers with some risk mitigation in exchange for a relaxing the safeguards included in the profitability standards.

Through the proceeding, it has been the position of the utilities that they should not taken any additional risk. However, once the project is approved, the utility more than other party can effect the profitability of the project. Our concept would be for the utility to be granted approval for the project and be guaranteed a return of capital for investing its resources to make the project a reality. However, with appropriate accounting for the projects, the utility would earn its return on the capital by delivering on the forecast of customers and resulting volumes proportional to their original forecast. This would provide the utility with two opportunities to effect improved opportunity for its return: reducing the cost of building the project and increasing the utilization of the assets.

Conclusion

We believe that Ontario is well served by the past decisions of the Board. By increasing the funding of the direct beneficiaries of the projects, an evolved EBO 188 could continue to be a robust economic test for project viability. This evolution would include the contributions of municipalities and new customers while ensuring the net cost of carbon for the project is included. Then any additional subsidization should be in the ambit of the government in pursuing the social, economic and environmental welfare of the province.

We look forward to the opportunity to be of continued assistance to the Board in reviewing the submissions of others and supporting the contributions of those similarly aligned parties in the best interest of effective economic regulation for the province.

All of which is Respectfully Submitted on Behalf of FRPO,



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