

Introduction

The Federation of Rental-housing Providers of Ontario (“FRPO”) appreciates the opportunity to provide the Board with reply submission in response to parties’ initial submissions in the generic proceeding considering Natural Gas Expansion to Communities. Procedural Order No. 3, issued May 30, 2016, provides an effective description of the background to the consecutive rounds of submissions, so we will not reiterate it here.

Consistent with our “less is more approach” in our first round of submissions, while we have the vast majority of the submissions, we do not believe it is a valuable contribution to the Board or this process for our submissions to be a recounting or reformulating of all of the submissions we support (or worse a reframing of the positions of those we do not support as some may strive to do). Instead, following are a few critical points we support from the collection of submissions that we want to highlight for the Board as noteworthy for their consideration and ultimate determination.

Efficacy of EBO 188 has been Time-Tested and Serves Ontario Well

As was communicated in the first round of our submissions, we believe that the EBO 188 framework continues to serve the province well. The strong consensus of ratepayer groups is the continued use of the EBO 188 guidelines as a foundation for the analysis of economic potential of expansion projects. In our view, this support stems from an acceptance and re-affirmation of the Board as an

economic regulator whose role is distinct from a social policy formulator. We endorse the well-articulated position of IGUA as aligned with our views here.¹

Opportunity to Vary Term and Quantum of Beneficiaries' Contributions

While the support for the efficacy of the EBO 188 framework was consistent among ratepayer groups, there was also a consensus of support for the enhancement of the framework using the proposed contributions of municipalities through forgone taxation and customers through expansion surcharges. However, we support, as many did, the increase in the term and quantum of these surcharges.

Term: Union Gas proposed a ten year limit to these payments while Enbridge proposed 40 years or term required to make the project economic. We support the Enbridge approach and cannot see any sound economic reason to limit the term to ten years especially considering the proposed alternative is relying on a cross-subsidization from existing ratepayers. We also support the submission of Board staff that the term of forgone taxation could be increased.²

Quantum: Both utilities proposed a surcharge of \$0.23/m³. Clearly the evidence in this case demonstrates that the economic benefit to new expansion customers is greater than this value. We support the summary analysis on the issue presented by CCC³ including their recognition that after increasing the term and quantum, some projects are going to identifiable as completely non-economic which in our view, is a cue that other alternatives ought to be considered.

¹ Written Submissions of the Industrial Gas Users Association, paragraphs 1-13.

² OEB Staff Submission, pages 20-22

³ Submissions of the Consumers Council of Canada, paragraphs 16-31.

Existing Ratepayer Subsidies Should Not be Included to Fund Expansion

While it is not surprising that the strongest support for subsidization of expansion projects by existing ratepayers came from the natural gas distribution utilities, there was almost universal rejection of this approach from other stakeholders. In our view, the stated opposition to an existing ratepayer subsidy stems from the appropriateness of the subsidy and the Board's authority to order such an approach. In our respectful submission, the most persuasive and compelling argument on the lack of appropriateness of such a subsidy is captured in the submissions of Parkland Fuels⁴ which we gratefully adopt. While we appreciate the multiplicity of views on the Board's authority to impose a subsidy, our firmly held belief is that if the government wanted to the Board to impose subsidies, it would have directed that approach and it did not.

It is in this area that we communicate our strongest opposition in our replies to the first round of submissions. In the introduction to its submissions, citing public pressure and without specific reference to directions from the government, Union attempts to reframe the issues in the proceeding from should regulatory changes be made to how⁵. In our view, this assertion is in contradiction to the Board's stated intent in its letter that initiated the current proceeding⁶. We respectfully submit that public pressure from a flow of requests, incited by interested parties, should not influence the Board's sound judgement in recognizing the lack of economic rationale behind the heavily cross-subsidized utility proposals.

⁴ Parkland Fuels Corporation Final Argument, paragraphs 36-73.

⁵ Submissions of Union Gas Ltd., paragraph 7.

⁶ Board Letter to All Parties in EB-2015-0179, issued January 20, 2016

Lack of Utility Risk or Contribution

As recognized by many parties, including Parkland⁷, the incumbent utility proposals place the majority of the cost and all of the risk of their proposals on their existing customers who do not obtain a material benefit. Union Gas states that status quo on the regulatory construct for community expansion would not support the objectives contained in the Minister's February 17, 2015 letter.⁸ It is ironic that they would note that given that the letter requests the Board examine "what options may exist to facilitate connecting more communities to natural gas" (emphasis added). As a direct result, the Board chair issued a letter⁹ requesting proposals that incorporate, among other considerations, flexibility with respect to cost recovery. Yet, the utilities have proposed status quo on items related to depreciation, ROE and risk.

It is telling that the only potential natural gas distributor who supported varying from the status quo in this area was EPCOR¹⁰.

"EPCOR believes utilities can bear some of the risks of conversion as long as those risks are clearly defined and do not endanger the financial health of the utility".

This statement is well aligned with our alternative recommendation B from our original submission which we have highlighted for emphasis and included as Appendix A attached to these submissions. In our view, if status quo is not an

⁷ Parkland Fuels Corporation Final Argument, paragraphs 37 c)

⁸ Submissions of Union Gas Ltd., paragraph 55.

⁹ OEB Letter "Expansion of Natural Gas Distribution", issued February 18, 2015.

¹⁰ Argument of EPCOR Utilities Inc., page 43

option, then a balanced evolution of the parameters of EBO 188 ought to be considered including increased utility contribution and risk.

Conclusion

After reviewing the range of submissions in this proceeding, we are affirmed in our belief that natural gas expansion founded on the regulatory construct of EBO 188 will serve Ontario well. 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 enhanced 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.

All of which is Respectfully Submitted on Behalf of FRPO,



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APPENDIX AIn 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 affect 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 plus appropriate interest** 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.