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July 11, 2016

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Our Matter No.: 1171932

Calgary

**SENT BY ELECTRONIC EMAIL**

Ottawa

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
27th Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

Vancouver

New York

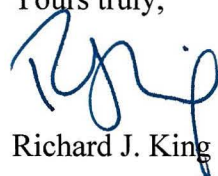
Dear Ms. Walli:

**Board File No. EB-2016-0004**  
**Parkland Fuel Corporation (“Parkland”) Reply Submission**

In accordance with the Board’s Procedural Order No. 3 issued on May 30, 2016, please find enclosed Parkland’s reply submission in the above-noted matter.

The submission is being filed on RESS and two hard copies will be sent to the Board.

Yours truly,



Richard J. King

Enclosure

c: Intervenors in EB-2015-0179 and EB-2016-0004

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B, as amended (“OEB Act”), and the regulations made thereunder; and

**AND IN THE MATTER OF** a generic proceeding convened on the Board’s own motion under section 19 of the OEB Act regarding the expansion of natural gas service into communities not currently served.

**EB-2016-0004**

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**Parkland Fuels Corporation**

**Reply Argument**

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**July 11, 2016**

To: Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

## Introduction

1. Parkland Fuels Corporation (“Parkland”) makes this submission in response to the final arguments of the following parties in the EB-2016-0004 proceeding:
  - (a) Union Gas Limited (“Union”);
  - (b) Enbridge Gas Distribution Inc. (“Enbridge”); and
  - (c) EPCOR Utilities Inc. (“EPCOR”).(collectively, the “Utilities”)
2. Many of the issues raised in the final arguments of these parties have already been addressed in Parkland’s final argument. Parkland continues to rely on its previous submissions and will not repeat them again in reply.

## There is No Evidence that Subsidies are Required

3. In its final argument, Union states that “little of the expansion of distribution services contemplated in this proceeding will be possible without some form of cross-subsidization”.<sup>1</sup> There is no evidence to support this statement. The Utilities evidently proceeded on the assumption that subsidies were required, but their evidence did not consider whether subsidies were in fact required or appropriate, or if another funding mechanism might be a preferable approach. As discussed in paragraphs 6 through 9 of Parkland’s final argument, there are a number of other potential options for funding natural gas expansion that have not been explored at all in this proceeding, including financing solutions. There is simply no evidentiary basis to conclude that subsidies are required to facilitate natural gas expansion.

## The EB-2012-0092 Filing Guidelines Are Irrelevant to this Proceeding

4. At paragraph 17 of Enbridge’s final argument, Enbridge cites the Board’s Filing Guidelines on the Economic Tests for Transmission Pipeline Applications (EB-2012-0092) to support its position that existing customers should support uneconomic projects that are found to be in the overall public interest if the subsidy does not cause an undue burden on any individual, group or class. However, the EB-2012-0092 Filing Guidelines only apply to transmission pipelines, not distribution pipelines. By their nature, transmission pipelines serve broader interests than distribution pipelines, which primarily only benefit the specific customers connected to those projects. While the Board has determined that it may be reasonable for existing customers to contribute to the costs of transmission pipelines that benefit Ontario as a whole, that is not the Board’s policy for distribution pipelines as

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<sup>1</sup> Union Final Argument, para. 8(a).

reflected in EBO-188. As a result, the EB-2012-0092 Filing Guidelines have no relevance to this proceeding.

**The “Benefits Follow Costs” Principle Means Existing Customers Should Not Pay**

5. In its written evidence during the proceeding and again in its final argument, Union cites the “benefits follow costs” principle when challenging EPCOR’s inter-utility cross-subsidization proposal.<sup>2</sup> EPCOR similarly states in its argument that if a customer benefits from something, it is reasonable for them to pay for it.<sup>3</sup> Following this principle, the customers that pay for a particular facility or service (regardless of whether they are paying directly or through inter- or intra-utility cross-subsidization) should also benefit from that facility or service.
6. The Utilities have demonstrated that the new customers that connect to expansion projects may realize cost savings. But that is the only real quantifiable benefit that has been established in this proceeding. Despite EPCOR’s claim in its final argument that it is an “uncontroverted fact” that existing customers will benefit from community expansion projects,<sup>4</sup> there is no evidence that this will occur. In reality, despite the fact that existing customers will be paying for the majority of the costs of natural gas expansion projects, they will not realize *any* benefits from this expansion:
  - (a) The Utilities have suggested that beyond cost savings for new customers, the community expansion projects may result in economic spin-off benefits in the communities served by the expansions, but no work has been done to determine whether these spin-off benefits would outweigh the business losses and spin-off *costs* that would result from displacement of alternative fuel providers. In addition, to the extent there are any economic spin-off benefits from community expansion projects, these benefits will be realized by the local communities, not the existing utility customers.
  - (b) Similarly, while there is disagreement among the parties as to whether natural gas expansion would actually result in net environmental benefits, even if such benefits occurred they would be realized by all Ontarians and not existing utility customers specifically.
  - (c) The only specific benefits for existing customers that have been identified by the Utilities are “reduced unit transmission, distribution, storage and commodity costs” resulting from higher system utilization.<sup>5</sup> However, when Union quantified these

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<sup>2</sup> Union Evidence at page 4; Union Final Argument, para. 23.

<sup>3</sup> EPCOR Final Argument, p. 11-12.

<sup>4</sup> EPCOR Final Argument, p. 15.

<sup>5</sup> EPCOR Final Argument, p. 22.

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“benefits”, it was determined that they would cause existing customers’ average bills to decrease by only about \$0.50 per year – far less than the expected bill increases that are projected as a result of the Utilities’ proposals.<sup>6</sup> This cannot reasonably be characterized as a “benefit”, but rather should be viewed as a slight offset against the projected cost increases for existing customers.

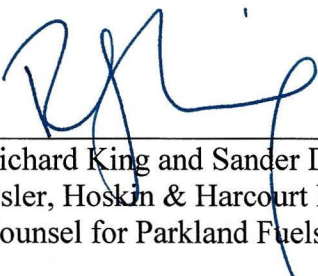
7. As a result, the “benefits follow costs” principle that the Utilities appear to support suggests that the parties that pay for the community expansion projects should be the same parties that benefit from those projects. This could include the new expansion customers, the expansion communities, or even all Ontarians (through general taxation). But it does not include existing utility customers who will not realize any benefits from these projects.

### Conclusion

8. For all of the reasons set out in Parkland’s final argument as well as this reply argument, Parkland submits that the Board should reject the Utilities’ proposals to have existing customers subsidize natural gas expansion to unserved areas.

Respectfully submitted,

July 11, 2016  
Toronto, Ontario



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Richard King and Sander Duncanson  
Osler, Hoskin & Harcourt LLP  
Counsel for Parkland Fuels Corporation

cc: EB-2016-0004 Intervenors

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<sup>6</sup> Exhibit J4.6.