

ONTARIO ENERGY BOARD

**NOTICE OF INTENT TO FILE AN APPLICATION FOR ORDERS RELATED TO
THE EXPANSION OF NATURAL GAS SERVICE TO THE TOWN OF MARATHON,
TOWNSHIP OF MANITOUWADGE, TOWNSHIP OF SCHREIBER,
TOWNSHIP OF TERRACE BAY AND MUNICIPALITY OF WAWA**

December 3, 2018

From: Corporation of the Town of Marathon

To: Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

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1. Intent to File an Application

1.1. Summary

1. With this submission, the Corporation of the Town of Marathon (the “Corporation”) on its own behalf and as representative of the Township of Manitouwadge, Township of Schreiber, Township of Terrace Bay, and Municipality of Wawa (collectively the “Municipalities”) wishes to inform the Ontario Energy Board (the “OEB”) of its intent to file an application (the “Application”) by June 28, 2019, to obtain the requisite approvals for the distribution of natural gas within the Municipalities (the “Project”).
2. The Application will request the following:
 - a. An order or orders approving a municipal franchise agreement for each Municipality, using the OEB’s Model Franchise Agreement as a template;
 - b. An order or orders granting a certificate of public convenience and necessity to supply natural gas within each Municipality;
 - c. An order or orders for a leave to construct natural gas distribution works within each Municipality;
 - d. An order or orders approving the mechanism used to set the rates charged to customers for natural gas delivery and provide long-term rate stability;
 - e. An order or orders requesting pre-approval of the cost consequences of one or more long-term natural gas supply and/or upstream capacity contracts; and
 - f. Any further or other related relief that the Municipalities may request and that the OEB may consider to be appropriate.
3. The Application will address the OEB’s “Environmental Guidelines for the Location, Construction and Operation of Hydrocarbon Pipelines and Facilities in Ontario;” the OEB’s decision in the Generic Proceeding on Natural Gas Expansion (EB-2016-0004); and other relevant codes, guidelines, laws and regulations regarding the supply, distribution, and financing of natural gas community expansion projects in Ontario.
4. The Municipalities expect to file the Application by June 28, 2019, in order to maintain the proposed commercial operation date of Fall 2020.

1.2. Notice to Natural Gas Providers

5. Pursuant to the decision and order for EB-2016-0004 and subsequent applications by parties to provide natural gas to new communities, the OEB is expected to

confirm whether there are other parties interested in serving the areas covered by applications through a Notice to Natural Gas Providers (a “Notice”).¹

6. The Corporation respectfully requests that the OEB post such a Notice addressed to all natural gas providers currently developing a plan to provide natural gas services to the Municipalities, inviting them to file a letter and the following minimum information, as enumerated by the OEB in previous cases:
 - a. The name of the company;
 - b. A description of the work already undertaken to support its application(s) to the OEB; and
 - c. The date by which the company will be ready to file its complete application(s) to provide gas distribution services to the communities.
7. The Corporation further requests that the OEB instruct any responding party to provide substantive information with respect to work undertaken as of the date of the Notice to support its application.² Specifically:
 - a. Evidence of municipal engagement with all five of the Municipalities;
 - b. A description of the proposed system design to serve all five of the Municipalities;
 - c. A preliminary gas supply plan; and
 - d. Confirmation that it is in a position to file a complete application with the OEB by June 28, 2019.
8. The Corporation also requests that the OEB require responses from interested parties no later than December 21, 2018, in order to maintain the proposed schedule for the Application and to provide gas distribution service to the Municipalities in a timely manner.
9. The Corporation is filing this Notice with the OEB with the knowledge that the financing of the Project is not confirmed. However, the OEB has previously issued Notices,³ ordered a Common Infrastructure Plan (“CIP”) hearing,⁴ to the extent

¹ See Ontario Energy Board EB-2015-0179 (Updated Community Expansion Proposal); EB-2016-0137, 0138, 0139 (Southern Bruce); EB-2017-0147 (Fenelon Falls); EB-2017-0260 (Bobcaygeon); and EB-2017-0261 (Scugog Island).

² See Ontario Energy Board. EB-2017-0260 and EB-2017-0261. Letter to EPCOR, December 7, 2017.

³ EB-2017-0260 and EB-2017-0216 (Enbridge Gas Distribution for Bobcaygeon and Scugog Island).

⁴ EB-2017-0137, 0138, 0139 (EPCOR and Union Gas Limited for Southern Bruce).

necessary, and a heard a leave-to-construct application⁵ regarding proposed community expansion projects that were contingent on uncommitted financing to avoid any further delays to the projects.⁶

2. Project Description

2.1. Proposed Location

10. The Municipalities are located on the North Shore of Lake Superior, along the Highway 17 corridor between Nipigon and Sault Ste. Marie. Attached hereto as Schedule 1 is a map indicating the location of the Municipalities.

2.2. Proposed Scope

11. The Municipalities are proposing a Project scope that encompasses a natural gas delivery system supplied by liquefied natural gas ("LNG") in each Municipality. Attached hereto Schedule 2 is a diagram of proposed natural gas delivery model.
12. The proposed scope of the Application includes the construction and operation of local gas delivery works in each Municipality, including the distribution mains, service pipes and meters as well as on-system LNG storage tanks and associated vaporization systems.⁷
13. Several gas supply alternatives were reviewed according to their cost effectiveness, reliability (which includes security of supply) and support for public policy. They included: a lateral pipeline from the TransCanada Mainline, LNG, CNG and propane/air. The preferred supply option is LNG from a new plant near Nipigon, Ontario, under development with financial support from the Government of Ontario through the Natural Gas Grant Program.⁸
14. It is expected that the LNG will be transported from Nipigon by truck to the Municipalities, where it will be stored locally. As required, the LNG will be converted into natural gas for distribution to homes and businesses in the service areas. Trucking distances from the LNG plant to the Municipalities range from 120 kilometres to 400 kilometres one way.

⁵ EB-2017-0147 (Enbridge Gas Distribution for Fenelon Falls).

⁶ In all cases, the proponents required grant funding from the Government of Ontario, which, if not obtained, would prevent them from proceeding with the projects.

⁷ The construction and operation of the LNG plant and the trucking of LNG are outside the scope of the Application.

⁸ Ontario Energy Board. EB-2018-0248. Nipigon LNG Corp. on behalf of Nipigon LNG LP. A CPCN to Construct Works to Supply Natural Gas in the Unincorporated Township of Ledger. Decision with Reasons, November 22, 2018.

15. The Application will include a Gas Supply Plan that demonstrates that the applicant has considered a variety of options and supports the upstream gas supply decisions.⁹ The Application will also provide separate costs for the upstream supply services and the distribution services.¹⁰

2.3. Public Need

16. At present, there is no natural gas supply or distribution within any of the Municipalities and no other entity has applied for or been granted authority to serve any of the Municipalities. Consequently, energy sources are currently limited to propane, fuel oil, wood and electricity, all of which are more expensive and less reliable than the proposed natural gas distribution system.

17. The proposed Project is consistent with the energy and economic development policies of the Government of Ontario, as articulated in the Fall Statement 2018:

*There is significant demand for natural gas, particularly among families and businesses in rural and Northern Ontario. Natural gas is the most common heating source in Ontario and is more affordable than other sources, such as electricity, oil or propane. The government is committed to meeting this demand and is taking action to expand access to natural gas across Ontario.... Expanding natural gas would make Ontario communities more attractive for job creation and new business growth, and send a clear message that Ontario is open for business.*¹¹

18. The energy cost savings associated with the Project alone will lower the financial strain on winter heating bills for residential, commercial, and institutional customers. In addition to the annual savings associated with converting to natural gas, the installation of new or updated heating systems will improve energy efficiency, further increasing the benefit to customers and the Municipalities.

19. The Project will build economic capacity in Northern Ontario and promote, attract, and support growth in the existing and emerging priority economic sectors identified in the *Growth Plan for Northern Ontario*. It will help Northern communities and businesses respond to their economic opportunities and challenges according to

⁹ The Gas Supply Plan will be submitted with the Application for approval in order to protect consumers and comply with the OEB's "Framework for the Assessment of Distributor Gas Supply Plans," October 25, 2018.

¹⁰ Ontario Energy Board. Decision with Reasons in the matter of EB-2016-0004, p. 22.

¹¹ Ontario, Government of. (2018). Fall Statement 2018. November 2018.
<https://www.fin.gov.on.ca/fallstatement/2018/chapter-1b.html#section-6>.

their individual priorities, and to pursue regional collaboration to advance common goals to strengthen Northern Ontario's competitive advantages.

2.4. Expected Benefits

20. The Project is a transformative initiative to support the economic development of Northern Ontario through the expansion of natural gas delivery to off-pipeline communities.
- a. Communities without natural gas service will have timely access to delivery services in a manner that maximizes energy affordability, cost effectiveness and community acceptance.
 - b. The Project is one of the highest-impact natural gas expansion projects in Ontario.
 - c. Project development is well advanced. Subject to a timely decision from the OEB for the necessary approvals and orders to construct and operate the Project, the estimated commercial operation date is Fall 2020.
 - d. The Project is a community-led and endorsed initiative.
 - e. The Project is expected to provide residents and businesses with significant energy cost savings. Most of that money will stay within the Municipalities.
 - f. The Project will contribute towards the GDP of Ontario and cut GHG emissions from the built environment in Ontario.
 - g. The Project has scale. The "virtual pipeline" distribution model is proven in numerous markets where traditional pipeline models do not work, such as Fairbanks, Alaska. Where feasible, the model can be expanded to include additional Northern Ontario municipalities, First Nation communities and the Ring of Fire.

2.5. Evidence of Municipal Support

21. The Project has the support of the Municipalities through resolutions.

3. Applicant

3.1. The Municipalities

22. The Municipalities wish to effect the establishment of local gas delivery systems in each of their respective territories pursuant to: (1) the policy objectives of the Government of Ontario; (2) the OEB's guidelines regarding natural gas expansion; and (3) new investments in natural gas supply infrastructure in Northwestern Ontario made possible through the support of the Natural Gas Grant Program.

23. The Municipalities are all established under the laws of the Province of Ontario. Their combined population is approximately 11,000 people. Energy costs are a critical issue for residents, businesses and the Municipalities themselves. At present, they do not have access to natural gas in any form.
24. The Municipalities have a diverse and successful track record of identifying, building, and maintaining public infrastructure projects and delivering critical core services for the residents and businesses of the Municipalities. Collectively, the Municipalities own and oversee a wide range of linear assets, including roads, water and waste water systems, sewers, and bridges. These assets have an estimated replacement value of more than \$400 million.
25. The Municipalities have participated in a wide range of collaborative initiatives that provide for infrastructure assets and services to enhance economic development, competitiveness, prosperity, reputation, and the overall quality of life in their communities. Examples include: the remediation of the former Marathon Pulp Mill, making way for an industrial park; the creation of the Nawiinginokiima Forest Management Corporation, a first-of-its-kind local forest management company involving communities and First Nations; and the development of seniors supportive housing.

3.2. Municipal Utility

26. The Municipalities are proposing to create a local gas distribution company (the “Utility”) with the technical and financial capacity to develop, build, and operate the Project within the Municipalities and potentially within additional communities, where feasible. The Utility will be a municipal corporation, with the Municipalities as the beneficial owners.
27. To keep delivery rates as low as possible, the Utility will maximize low-cost capital contributions from public-sector sources. The Utility’s complete business and financing plan, including the identification of funders and key personnel, will be submitted as part of the Application.
28. To further minimize natural gas rates, the Municipalities will contribute annual payments equivalent to the incremental property tax paid by the Utility on its gas works once the Project commences operation.

29. The Utility will recover the Project costs through delivery rates charged to customers and potentially a contribution from a proposed rate-payer funded cross-subsidization program, if necessary.¹²
30. The Municipalities are assembling the Utility's development and management group. Team members have a diverse and successful track record of identifying, marketing, constructing, and operating new natural gas systems as well as substantial experience and ability in financing energy and infrastructure projects, many of which are significantly larger and more complex than the Project.
31. The Utility's management will work closely with the OEB as well as the Technical Standards and Safety Authority to ensure compliance with all relevant laws, codes, standards and guidelines.

4. Work to Date

32. Development work on the Project began in 2015, and has included: (1) engineering work related to geotechnical reviews, preliminary designs, technical assessments, and land studies; (2) commercial development work related to business models, plans, budgets, pricing, service offerings, telephone surveys in support of development of a forecast of potential customers or group of customers as well as their likelihood of converting to natural gas, and growth opportunities; and (3) work with respect to governmental, regulatory, and other third-party approvals, consents, orders, and authorizations.

5. No Evidence of Interest by Others

33. The Project is not in any utility's franchise area.
34. Union Gas Limited ("Union"), an Enbridge-owned company, and Enbridge Gas Distribution ("Enbridge") have been aware of the opportunity to provide gas service to the Municipalities for a considerable period of time.
35. In 2015, Union filed evidence in EB-2015-0179, which included consideration of extending gas distribution service to Terrace Bay, Schreiber, and Marathon.¹³ Union estimated the capital cost to connect the three communities was \$244 million. This information was used by Union to exclude Terrace Bay, Schreiber, and Marathon from the list of communities that it wished to serve.

¹² The *Access to Natural Gas Act, 2018* (Bill 32) has been introduced and would, if passed, authorize the creation of a rate-payer funded cross-subsidization Natural Gas Expansion Support Program. See EBR Registry No: 013-4060.

¹³ Ontario Energy Board. EB-2015-0179. Application, Exhibit A-1, Appendix D, Page 2.

36. In 2016, Enbridge filed evidence in EB-2016-0004, which included a list of community expansion projects under consideration using LNG as the natural gas source.¹⁴ Enbridge's list did not include any of the Municipalities.
37. In 2017, EPCOR Utilities Inc. ("EPCOR") wrote the OEB "to register EPCOR's interest in developing and submitting competitive proposals for natural gas expansion opportunities in Ontario."¹⁵ As a new entrant, EPCOR states it has been seeking opportunities to expand natural gas service. EPCOR has not met with representatives of the Municipalities to express EPCOR's interest in servicing the North Shore region as it did with representatives of the Township of Scugog and City of Kawartha Lakes regarding Scugog Island.

6. Timing and Process

38. Time is of the essence. The Corporation respectfully requests a response to the Notice by December 21, 2018.
39. Among other reasons, a response to the Notice is required by that date to ensure that the Municipalities have sufficient time to obtain regulatory approval for the Project and to construct the facilities, so that the service may commence by Fall 2020.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

DATED at the Town of Marathon in the Province of Ontario this 3rd day of December, 2018.

CORPORATION OF THE TOWN OF MARATHON

Original signed by

Daryl Skworchinski

Chief Administrative Officer and Clerk

¹⁴ Enbridge Gas Distribution. (2016). Evidence in the matter of EB-2016-0004, March 21, 2016, p. 29.

¹⁵ EPCOR. (2107). Letter to the Ontario Energy Board in the matter of EB-2017-2061. November 16, 2017.

7. Communications

Communication relating to this Letter should be directed to:

Daryl Skworchinski

CAO/Clerk

Town of Marathon

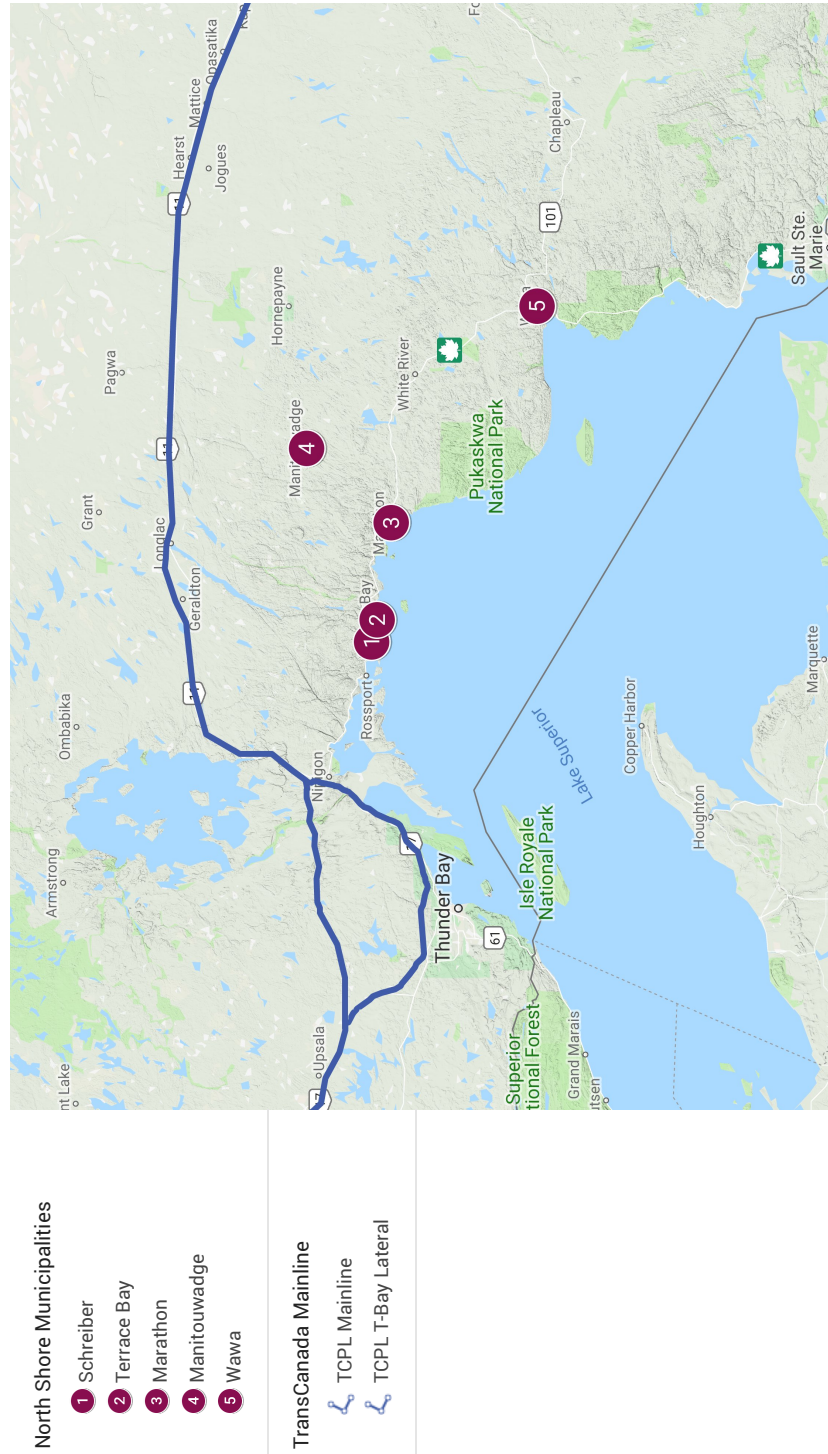
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8. Schedule 1: Locational Map



9. Schedule 2: Proposed Natural Gas Delivery Model

