

BY E-MAIL AND WEB POSTING

December 19, 2019

**TO: All Rate-Regulated Natural Gas Distributors
All Participants in EB-2016-0004 and EB-2018-0329
All Other Interested Parties**

**RE: Potential Projects to Expand Access to Natural Gas Distribution
Ontario Energy Board File No. EB-2019-0255**

On December 12, 2019, the Ontario Energy Board (OEB) received a [letter](#) (Section 35 Letter) from the Minister of Energy, Northern Development and Mines and the Associate Minister of Energy under section 35 of the *Ontario Energy Board Act, 1998* (OEB Act) asking the OEB to examine and report back to the Ministry of Energy, Northern Development and Mines (Ministry) by August 31, 2020 with information on potential projects to expand access to natural gas distribution to communities that are not currently connected to a natural gas distribution system.

Among other things, the Section 35 Letter notes the Minister's expectation that the OEB will, in early 2020, issue a call for information, including details of the information to be filed by interested project proponents. To that end, the OEB is issuing draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (Draft Guidelines) for stakeholder comment.

This letter sets out additional background information as well as details regarding the consultation on the Draft Guidelines.

Background

On July 1, 2019, section 36.2 of the OEB Act came into force. That section, which was added to the OEB Act by Bill 32, *Access to Natural Gas Act, 2018*, establishes a framework for the funding of natural gas expansion projects by natural gas ratepayers.

Ontario Regulation 24/19, *Expansion of Natural Gas Distribution Systems (Regulation)*, sets out nine projects that are eligible for financial support subject to receiving any

necessary OEB approvals, the mechanism by which funding would be collected from ratepayers and distributed to the project proponents, and related matters. The Regulation requires that rate-regulated natural gas distributors charge each of their customers a rate of \$1/month (for each account that the customer has with the natural gas distributor) to help support the eligible expansion projects.

The Section 35 Letter

The provincial government intends to further increase access to natural gas by making additional new projects eligible for ratepayer-funded financial support. The government intends to make approximately \$130 million available to support new projects that can reasonably be expected to commence construction between 2021 and 2023. Financial support is intended to be limited to potential natural gas expansion projects that would otherwise be considered uneconomic.

As noted in the Section 35 Letter, the OEB will be responsible for collecting and analyzing information about possible natural gas expansion projects with a focus on assessing whether the projects can be implemented substantially as proposed. The OEB is expected to report back to the Ministry by August 31, 2020 as an input to assist the government in making a determination on future expansion projects. Changes to the Regulation will be required to enable the provision of ratepayer-funded financial support for any such projects.

The Section 35 Letter identifies the following as matters to be considered by the OEB:

- The number of customers (in terms of customer count, volume of gas to be distributed and customer type) that would be connected by each proposed project.
- The total cost of each proposed project, as well as the dollar amount of support needed for each proposed project to meet the OEB's profitability threshold.
- The proposed construction start date and construction period for each proposed project, as the provincial government's focus is on projects that can reasonably be expected to start construction by 2023, allowance being made for the timelines typically applicable to the process of obtaining regulatory approvals.

- The project proponent's demonstrated experience, technical expertise and financial ability to build and operate a natural gas distribution system.
- Support for the proposed project from Band Council(s) and/or local government, as applicable, demonstrated through a written expression of support and/or a commitment to financial support.
- If a proposed project is in an area where a Certificate of Public Convenience and Necessity (Certificate) exists, the proponent must be the Certificate holder unless the Certificate holder does not propose a project for the area.
- The extent to which the project proponent expects that the proposed project would reduce the household energy cost burden in the project area.

As set out in the Section 35 Letter, the OEB is expected to apply its expertise in undertaking this initiative. The following are additional considerations given the focus on assessing whether potential projects can be implemented substantially as proposed:

- The breakdown of project costs must identify capital and operating, maintenance and administration (OM&A) costs.
- The expected annual distribution charges that are expected to be borne by the customers to be connected by each project.
- The demonstrated commitment to be held to the project cost and volumes forecasts will be in the form of a minimum 10-year rate stability period for each proposed project. Proponents would bear the risk for the 10-year period (or longer if proposed) if the customers they forecast do not attach to the system and/or actual project costs (capital and OM&A) are higher than expected.
- The demonstrated commitment to timelines for seeking regulatory approvals will be in the form of a schedule for applying for any OEB approvals and identification of the date by which each is required in order to meet the proposed in-service date.

Draft Guidelines

Based on the above, the OEB has developed the Draft Guidelines set out in Appendix A. These Draft Guidelines are being issued for stakeholder comment. Once finalized, the Guidelines will govern the filings to be provided to the OEB by interested project proponents.

At this time, given the nature of the request set out in the Section 35 Letter and of the work expected to be done to prepare the OEB's report, the OEB does not anticipate inviting stakeholders to comment on the proposed projects.

Invitation to Comment on Draft Guidelines, Timelines and Confidentiality

The OEB encourages participation in this consultation on the Draft Guidelines by all interested parties.

Those interested in participating should indicate their intent by filing a letter with the OEB by **December 23, 2019** in accordance with the filing instructions set out below. The letter should include a statement as to whether the participant is requesting cost award eligibility.

Written comments on the Draft Guidelines are due on **January 15, 2020**, and should be filed in accordance with the filing instructions set out below.

The OEB anticipates finalizing the Guidelines in early 2020, with a view to allowing a period of 90 days within which interested project proponents may then file their information with the OEB. Stakeholders that wish to comment on the sufficiency of this 90-day timeline should include these comments with their comments on the Draft Guidelines. The OEB will communicate the deadline for the filing of project information when it posts the final Guidelines.

As noted above, the Section 35 Letter requires that a proponent be the Certificate holder unless the Certificate holder does not propose a project for the area. The OEB would be assisted by comments from interested parties on which of the following two

approaches is preferred in order to address this issue, and their rationale for that choice:

- Require Certificate holders to confirm in writing, immediately following finalization of the Guidelines, the Certificate areas for which they intend to bring forward a proposed project in response to the OEB's call for information.
- Allow interested project proponents to bring forward proposed projects in areas for which they do not have a Certificate, on the understanding that if the Certificate holder brings forward a proposed project for that area the OEB will not include the project proposed by the non-Certificate holder in its review unless the project proposed by the Certificate holder does not comply with the Guidelines. In that case, information filed by the non-Certificate holder will not be posted on the OEB's website.

Except as noted above, the OEB intends to post each proponent's project information on the OEB's website after the deadline has passed for filing project information. Interested project proponents should identify, in their comments on the Draft Guidelines, any information that they believe should be treated as confidential as per the OEB's *Rules of Practice and Procedure* and its *Practice Direction on Confidential Filings*. The final Guidelines will reflect the OEB's determination on which, if any, information will be treated as confidential. Information that the OEB treats as confidential will not be posted on the OEB's website, but may be provided to the Ministry with the OEB's report if necessary to support the content of that report or if requested by the Ministry.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the OEB Act in respect of the provision of comments on the Draft Guidelines. Appendix B contains information regarding cost eligibility requests and cost awards for this consultation. Given the timeline for finalizing the Guidelines, the OEB is waiving certain elements of its usual cost award eligibility process. Costs awarded will be recovered from rate-regulated natural gas distributors based on their respective customer numbers.

Filings to the OEB in relation to cost award eligibility must be made in accordance with the filing instructions set out below. In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests will be strictly enforced.

Filing Instructions

All filings to the OEB must quote file number **EB-2019-0255** and be made electronically in searchable / unrestricted PDF format through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <https://www.oeb.ca/industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a USB flash drive in PDF format, along with two paper copies. Those who do not have computer access are required to file seven paper copies.

All communications should be directed to the attention of the Registrar and Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

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

Email: boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto, December 19, 2019

ONTARIO ENERGY BOARD

Original signed by

Christine E. Long
Registrar and Board Secretary

Appendix A

Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution

Proponents completing the costing information outlined below should exclude the following:

- Demand-Side Management (DSM) costs
- Gas commodity costs and associated upstream transportation costs to Ontario
- Royalty payments to municipalities if the payments are not recovered through the proponents' revenue requirements

References to "section 36.2 funding" below are references to funding under section 36.2 of the OEB Act.

Part I – Name of Proponent	
Name of Proponent:	File No: EB-2019-0255
Project Name:	
Address of Head Office:	Telephone Number:
Name of Individual to Contact:	Office Telephone Number:
	Cell Phone Number:
	Email Address:

Part II – Description of Proponent's Technical Expertise and Financial Capability	
2.1	Describe the proponent's technical expertise to develop, construct, operate and maintain a natural gas distribution system.
2.2	Describe the proponent's financial capability to develop, construct, operate and maintain a natural gas distribution system, and provide the following: <ul style="list-style-type: none">• Current credit rating of the proponent, its parent or associated companies.• Financial statements for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information. If the proponent does not have financial statements (because it is a new entrant), the proponent is instead to

Part II – Description of Proponent’s Technical Expertise and Financial Capability	
	<p>provide pro forma financial statements for two years along with notes or business plans explaining the assumptions used in preparing the pro forma statements, where the documents must be signed by at least one key individual.</p> <ul style="list-style-type: none"> • If the proponent needs to raise additional debt or equity to finance the proposed project, evidence of the proponent’s ability to access the debt and equity markets.

Part III – Description of and Support for Project	
3.1	Provide a general overview of the project which is to include the following: communities to be connected; existing population of each community by residential, commercial/institutional and industrial sectors; routing; length of pipeline; and nominal pipe size.
3.2	Provide the annual and cumulative forecast of the number of customer attachments over the rate stability period, by residential, commercial/institutional and industrial sectors for each community. Indicate for each customer type whether the service to be provided would be firm or interruptible.
3.3	<p>Provide the annual and cumulative forecast of volumes (in m³) over the rate stability period, by residential, commercial/institutional and industrial sectors for each community.</p> <p>For the mass market segment the average consumption level to be used is 2,200 m³ per year.</p>
3.4	<p>Provide the estimated conversion costs to convert each of the existing heating systems (e.g., propane forced air, oil forced air, electric forced air and electric baseboard) and water-heating systems (e.g., electric, oil and propane) to natural gas. To the extent available, provide information on the current proportion of customers on each type of heating system.</p> <p>Provide the estimated annual costs of the existing alternative fuels relative to natural gas, including the annual savings with natural gas.</p>
3.5	Provide the proposed schedule for construction including the start date, all major milestones (with any phases) and the projected in-service date.
3.6	Provide letter(s) from the Band Council(s) and/or local government, as applicable, stating support for the project, including details of any commitment to financial support.

Part III – Description of and Support for Project

3.7	Provide a copy of the Certificate Of Public Convenience and Necessity (Certificate) for the area to be served, if held by the project proponent. If not, indicate whether another entity holds the Certificate for the area to be served if known, and if so, identify the Certificate holder.
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Part IV – Cost of Project

4.1	Describe the proposed rate stability period for the project (minimum of 10 years).																																								
4.2	<p>Provide the annual and total forecast of capital costs (including any forecast of upstream reinforcement costs) of the project over the rate stability period.</p> <p>Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD. For interest during construction, the proponent is to use the OEB-prescribed interest rate for construction work in progress (CWIP).</p>																																								
4.3	<p>Provide the annual and total fully allocated forecast of OM&A costs of the project over the rate stability period.</p> <p>Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD.</p>																																								
4.4	<p>Provide the total annual forecast revenue requirement of the project over the rate stability period. The total annual revenue requirement should identify OM&A costs (including taxes and depreciation, and an explanation of the depreciation rates used), and cost of capital (including capital structure, return on equity, long-term debt rate and short-term debt rate). Complete the tables below:</p> <p>Revenue Requirement</p> <table><tr><th>Description</th><th>Year 1</th><th>Year 2....</th><th>Year 10...</th><th>Total</th></tr><tr><td>OM&A</td><td></td><td></td><td></td><td></td></tr><tr><td>Depreciation</td><td></td><td></td><td></td><td></td></tr><tr><td>Taxes</td><td></td><td></td><td></td><td></td></tr><tr><td>Total</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table> <table><tr><th>Description</th><th>Year 1</th><th>Year 2....</th><th>Year 10...</th><th>Total</th></tr><tr><td>Rate Base</td><td></td><td></td><td></td><td></td></tr></table>	Description	Year 1	Year 2....	Year 10...	Total	OM&A					Depreciation					Taxes					Total										Description	Year 1	Year 2....	Year 10...	Total	Rate Base				
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Part IV – Cost of Project

	Cost of Capital				
	Capital Components	Ratio	Cost Rate (%)	Return Component (WACC)	Return Amount (\$)
	Return on Equity				
	Long-term Debt Rate				
	Short-term Debt Rate				
	Total	100%			
Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD.					

Part V – Section 36.2 Funding

5.1	Provide the total amount of section 36.2 funding needed to support the project.
5.2	Provide the section 36.2 funding amount per customer number served in year 5 and in year 10 of the project, if the project has a 10-year rate stability period. If the project's rate stability period is greater than 10 years, provide the section 36.2 funding amount per customer number served at the mid-point and end-point of the projects' rate stability period.
5.3	Provide section 36.2 funding amount per volume (m ³) in year 5 and year 10 of the project, if the project has a 10-year rate stability period. If the project's rate stability period is greater than 10 years, provide the section 36.2 funding amount per volume (m ³) at the mid-point and end-point of the project's rate stability period.

Part VI – Distribution Charge

6.1	Provide the estimated amount that the proponent proposes to recover from customers on an annual basis (inclusive of any system expansion surcharge) in the form of an estimated annual distribution charge inclusive of fixed and variable charges over the rate stability period that would be applied to all new customers.
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Part VII – Profitability Index / Benefit to Cost Ratio	
7.1	<p>Provide the expected Profitability Index (PI) of the project, inclusive of the proposed section 36.2 funding. Provide supporting documentation in the form of an itemization of costs and revenues.</p> <p>The project should meet the OEB's PI of 1.0. The PI calculation is to include all proposed section 36.2 funding, proposed system expansion surcharges, capital contributions and municipal tax holidays or other municipal financial support.</p>
7.2	<p>Provide the expected PI of the project without the proposed section 36.2 funding. Provide supporting documentation in the form of an itemization of costs and revenues.</p> <p>The PI calculation is to include proposed system expansion surcharges, capital contributions and municipal tax holidays or other municipal financial support.</p>

Part VIII –OEB Approvals	
8.1	Identify any OEB approvals that will be required for the project (Leave to Construct, Certificate of Public Convenience and Necessity, Municipal Franchise Agreement, etc.)
8.2	For OEB approvals identified in section 8.1, provide a schedule for applying for them and the date by which each of these approvals is required to meet the proposed in-service date.

Appendix B

To Letter Dated December 19, 2019

EB-2019-0255

COST AWARDS

Cost Award Eligibility

The OEB will determine eligibility for costs in accordance with its [Practice Direction on Cost Awards](#). Any person intending to request an award of costs must file with the OEB a written submission to that effect by **December 23, 2019**. The submission must identify the following:

- The nature of the person's interest in this initiative
- The grounds on which the person believes that they are eligible for an award of costs (addressing the OEB's cost eligibility criteria as set out in section 3 of the OEB's *Practice Direction on Cost Awards*)
- An explanation of any other funding to which the person has access
- The name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known

Given the timeline for finalizing the Guidelines, the OEB is waiving that part of its usual cost award eligibility process that allows the regulated entities from whom any costs awards will be recovered to object to requests for cost award eligibility. All cost award eligibility requests will be posted on the OEB's website, and the OEB will then make a determination on the cost eligibility of the requesting participants.

Eligible Activities

Cost awards will be available for the following activities:

ACTIVITY	TOTAL ELIGIBLE HOURS PER PARTICIPANT
Written comments on the Draft Guidelines	Up to 5 hours

Cost Award Amounts

The OEB will apply the principles set out in section 5 of its *Practice Direction on Cost Awards* when awarding costs. The maximum hourly rates set out in the OEB's Cost Awards Tariff will be applied. The OEB expects that groups representing the same interests or class of persons will make every effort to communicate and coordinate their participation in this process.

The OEB will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the OEB will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the OEB's *Practice Direction on Cost Awards*.