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January 15, 2020

Ontario Energy Board  
2300 Yonge Street  
Suite 2700  
Toronto, ON M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Northwatch's Written Submissions  
Potential Projects to Expand Access to Natural Gas Distribution  
Board File No. EB-2019-0255**

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Please see attached Northwatch's Written Submissions in the above-noted matter, pursuant to the Ontario Energy Board's letter dated December 19, 2019.

Yours truly,

Victoria Chai

cc: Brennain Lloyd (Northwatch)

Document #: 1655927

## **ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c. 15 (Schedule B), as amended

**AND IN THE MATTER OF** Invitation to Comment on Draft  
Guidelines for Potential Projects to Expand Access to Natural Gas  
Distribution (EB-2019-0255)

### **WRITTEN SUBMISSION OF NORTHWATCH**

January 15, 2020

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#### **I. OVERVIEW**

1 On December 12, 2019, the Ontario Energy Board (“Board”) received a letter from the Minister of Energy, Northern Development and Mines and the Associate Minister of Energy under the *Ontario Energy Board Act*, 1998, s. 35, asking the Board to report back to the Ministry of Energy, Northern Development and Mines on potential projects to expand access to natural gas distribution to communities that are not currently connected to a natural gas distribution system (“Expanding Access to Natural Gas Program”).

2 The Board issued Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (“Draft Guidelines”) in response to the December 12, 2019 letter. On December 19, 2019, the Board invited comments on the Board’s Draft Guidelines.

3 Northwatch is pleased to provide its comments to the Board on the Board's Draft Guidelines.

## II. **ABOUT NORTHWATCH**

4 Northwatch is a regional coalition of environmental and social justice/social development organizations in northeastern Ontario. It was founded in 1988 to provide a representative regional voice in environmental decision-making and to address regional concerns with respect to energy, waste, mining and forestry-related activities and initiatives.

5 Northwatch's founding members were local and district-based environmental or social justice organizations who wished to engage – among other things – in planning and policy reviews. Northwatch currently has a diverse membership which includes local and district-based environmental groups, cottagers associations, naturalist clubs, church-based Indigenous support groups, women's organizations, and local peace groups.

6 Northwatch has a long-term and consistent interest in natural gas planning in Ontario. In particular, Northwatch's interests are with respect to natural gas expansion projects in northeastern Ontario, conservation and efficiency measures, and rates and rate structures.

7 Northwatch focuses on northeastern Ontario, specifically the six federal districts of Nipissing, Timiskaming, Cochrane, Sudbury, Manitoulin and Algoma, though Northwatch works at times with colleagues in northwestern Ontario on select issues, and particularly on energy related matters.

8 Northwatch is well respected for its policy and research work, public education programs, and its holistic approach to environmental and social planning and decision-making. Through a membership that is geographically dispersed throughout the region and through more than thirty years of work that is regionally-based, Northwatch has an extensive knowledge of northeastern Ontario and the diverse and interconnecting issues of energy, natural resource and environmental management.

9 Northwatch's core principle is that energy planning should be done on a regional basis, with regional balance of demand and supply.

### **III. DISCUSSION**

#### **A. GENERAL PRINCIPLES APPLICABLE TO THE NATURAL GAS EXPANSION FRAMEWORK**

10 Northwatch submits that the following general principles should be applied to the natural gas expansion framework in Ontario:

- (a) Efforts to expand customer access to natural gas must take into consideration key factors in energy planning, including that:
  - (i) energy planning should strive for balance between local and regional supply and demand, and
  - (ii) the delivery of energy services should be distributed as equally as possible, particularly to consumers in northern and rural Ontario and Indigenous communities, where resources are needed the most.
- (b) Increasing access to natural gas must be coupled with an effective and multi-faceted energy conservation program in order to achieve net-positive

benefits. Natural gas can play an important role as a transitional fuel and an alternative to higher cost and higher carbon options, but will not achieve net positive benefits on its own.

- (c) Encouraging and implementing renewable energy alternatives should be prioritized in energy planning. While natural gas may be less carbon-intensive than some other fossil fuel energy sources, alternatives such as geothermal and/or solar energy should be prioritized. The Expanding Access to Natural Gas Program should not be a barrier to reducing fossil fuel use and subsequent carbon output.
- (d) Contributions to the funding of natural gas expansion projects by natural gas ratepayers should be equitable in accordance with usage and size of the consumer. A large commercial or industrial consumer should be making a more significant contribution to the fund than a small residential or small retail consumer.
- (e) The Expanding Access to Natural Gas Program should include criteria that will bar access to the fund for pipeline expansion projects which have an out-of-province end-point.
- (f) The Expanding Access to Natural Gas Program should include criteria that will bar access to the fund for natural gas projects whose stated purpose is other than to increase access locally to natural gas supply for in-Ontario customers.

B. THE EXPANDING ACCESS TO NATURAL GAS PROGRAM SHOULD BENEFIT CONSUMERS

11 The *Access to Natural Gas Act, 2018*, amended the *Ontario Energy Board Act, 1998*, to add the following section:

*36.2 (1) In this section,*

*“qualifying investment” means an investment that satisfies the prescribed criteria.*

***Board to provide rate protection***

*(2) The Board, in approving just and reasonable rates for a gas distributor, shall provide rate protection for consumers or prescribed classes of consumers with respect to costs incurred by the gas distributor in making a qualifying investment for the purpose of providing access to a natural gas distribution system to those consumers by reducing the rates that would otherwise apply in accordance with the prescribed rules.*

12 Northwatch submits that, pursuant to the *Access to Natural Gas Act, 2018*, the purpose of the Expanding Access to Natural Gas Program is to provide equitable access to a natural gas distribution system and to provide rate protection for consumers.

13 Equitable access to a natural gas distribution system includes expanding access to consumers in northern and rural Ontario and Indigenous communities, where resources are needed the most. This is consistent with the Ontario government’s statement that it is “committed to expanding natural gas access to thousands of households and businesses across the province in Ontario’s northern, rural and Indigenous communities”.<sup>1</sup>

14 The Expanding Access to Natural Gas Program should be designed to result in a system that provides the greatest benefit to consumers. Benefits should include:

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<sup>1</sup> Ministry of Energy, Northern Development and Mines, Natural Gas Expansion Support Program, January 7, 2020 <<https://www.ontario.ca/page/natural-gas-expansion-support-program>

- (a) increasing access to natural gas in a way that benefits multiple consumers versus a single consumer;
- (b) reducing the Province's carbon footprint through prioritized selection of projects that will switch consumers away from more carbon intensive energy sources and will encourage lower carbon alternatives; and
- (c) rate protection mechanisms such as those illustrated in Northwatch's principle (d) above, to proportionately allocate consumers' contributions to the fund based on usage and size of the consumer.

15 Northwatch notes that, despite the Province's commitment "to expanding natural gas access to thousands of households and businesses across the province in Ontario's northern, rural and Indigenous communities",<sup>2</sup> the initial project list of nine projects set out in O. Reg 24/19 included only two projects in northern Ontario.

16 One of those two northern projects is a project to service a single industrial customer, the Taylor Mine Site of Kirkland Lake Gold, in the Corporation of the Township of Black River-Matheson. This project is being developed by Union Gas (now Enbridge Gas).

17 The other of the two northern projects is a project to service a small number of high-end and very low-density single family dwellings on Northshore Rd. and Peninsula Rd. in the City of North Bay. This area is an exclusive neighbourhood within a municipality but outside the urban service area. This project is being developed by Union Gas (now Enbridge Gas).

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<sup>2</sup> *Ibid.*

18 These two projects benefit only a relatively small number of individuals. Northwatch submits that the Board must include project selection criteria based on equitable distribution of assets in order to provide the highest benefit to the most number of individuals, at the lowest cost.

19 Northwatch notes a third example where a single industrial customer is the main beneficiary of increased access to natural gas. In Board Staff's submissions in EB-2018-0329 about the North Shore LNG Project, Board Staff notes the example of the Terrace Bay Pulp Mill.<sup>3</sup> The Terrace Bay Pulp Mill agreed to a demand response program, where the Mill would increase its use of natural gas when gas supply resources were not required by the utility's firm customers, and would decrease its use of natural gas when gas supply resources were required by the utility's firm customers. In Board Staff's submissions, Board Staff notes the risk of significant rate increases to other ratepayers if the Mill reduces its consumption of natural gas or stops consuming natural gas.<sup>4</sup>

20 Northwatch submits that this is another example that illustrates the need for equitable project selection criteria that consider benefits to multiple consumers, rather than one main industrial consumer. This is because reliance on one industrial consumer creates significant risk to all other ratepayers who may face increased rates if the industrial consumer reduces or fails to consume natural gas.

### C. SPECIFIC COMMENTS ON THE DRAFT GUIDELINES

21 In addition to the general comments stated above, Northwatch submits specific comments on the Draft Guidelines as outlined in Appendix A.

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<sup>3</sup> EB-2018-0329, North Shore LNG Project, Board Staff Submissions dated January 6, 2020.

<sup>4</sup> *Ibid.*



**APPENDIX A**

<p align="center"><b>Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution</b> (Appendix A to OEB Invitation to Comment, EB 2019-0255)</p>		<p align="center"><b>Northwatch Comments</b></p>												
<table border="1"> <tr> <td colspan="2" data-bbox="201 449 1083 478"><b>Part I – Name of Proponent</b></td> </tr> <tr> <td data-bbox="201 478 753 554">Name of Proponent:</td> <td data-bbox="753 478 1083 554">File No: EB-2019-0255</td> </tr> <tr> <td colspan="2" data-bbox="201 554 1083 630">Project Name:</td> </tr> <tr> <td data-bbox="201 630 753 730">Address of Head Office:</td> <td data-bbox="753 630 1083 730">Telephone Number:</td> </tr> <tr> <td data-bbox="201 730 753 886" rowspan="3">Name of Individual to Contact:</td> <td data-bbox="753 730 1083 785">Office Telephone Number:</td> </tr> <tr> <td data-bbox="753 785 1083 840">Cell Phone Number:</td> </tr> <tr> <td data-bbox="753 840 1083 886">Email Address:</td> </tr> </table>		<b>Part I – Name of Proponent</b>		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:	<p>Project location should be identified here, including by District or County, Township or municipality, Treaty area, and First Nations' territory</p>
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<p align="center"><b>Part II – Description of Proponent’s Technical Expertise and Financial Capability</b></p>														
2.1	<p>Describe the proponent’s technical expertise to develop, construct, operate and maintain a natural gas distribution system.</p>	<p>This should include any actual related experience, rather than simply “expertise” which may be more conceptual than practical; description of experience should include types of terrain previously operated in, and project outcomes and operating period(s).</p>												
2.2	<p>Describe the proponent’s financial capability to develop, construct, operate and maintain a natural gas distribution system, and provide the following:</p> <ul style="list-style-type: none"> <li>• Current credit rating of the proponent, its parent or associated companies.</li> <li>• 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 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.</li> </ul>	<p>This information should include clear and accurate information about any ownership or shareholder arrangements and any parent companies or subsidiaries.</p> <p>Financial information should be required for a period longer than two years; at least five years financial and operating information should be required.</p>												

	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>If the proponent has a corporate ownership structure that includes multiple owners, a board of directors, or other influencing structures this information should be provided.</p>
<p><b>Part III – Description of and Support for Project</b></p>		
3.1	<p>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.</p>	<p>This information should include the current and projected energy use and supply for these sectors.</p>
3.2	<p>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.</p>	<p>Supporting information should be included which is qualitative and verifiable.</p>
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>	<p>Supporting information should be included which is qualitative and verifiable.</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>Supporting information should be included which is qualitative and verifiable.</p> <p>Wood heat and solar water and space heating systems that are in use should be identified.</p>

	Provide the estimated annual costs of the existing alternative fuels relative to natural gas, including the annual savings with natural gas.	The conversion rate per heating system type should be included, along with a calculation of the carbon implications of the conversion (i.e. will the conversion to natural gas be a net benefit in terms of carbon output, and to what degree).
3.5	Provide the proposed schedule for construction including the start date, all major milestones (with any phases) and the projected in-service date.	The degree to which contingency times have been built in should be clearly identified.
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.	The OEB should develop an informational guideline that the Band Councils, local governments, Municipal Councils and/or Service Boards are to be provided prior to making a statement of support for the project. In the statement of support the Council/Service Board should verify that it has received, reviewed and taken into consideration the information provided. The information should include an outline of the approvals process, an indication of cost implications for customers who convert to natural gas, a summary of environmental changes likely to result from the project infrastructure being developed, and a climate or carbon analysis.
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.	No comment.

<b>Part IV–Cost of Project</b>																																																														
4.1	Describe the proposed rate stability period for the project (minimum of 10 years).	No comment.																																																												
4.2	Provide the annual and total forecast of capital costs (including any forecast of upstream reinforcement costs) of the project over the rate stability period. 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).	No comment.																																																												
4.3	Provide the annual and total fully allocated forecast of OM&A costs of the project over the rate stability period. Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD.	No comment.																																																												
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&amp;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><b>Revenue Requirement</b></p> <table border="1"> <thead> <tr> <th>Description</th> <th>Year 1</th> <th>Year 2....</th> <th>Year 10...</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>OM&amp;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> </tbody> </table> <table border="1"> <thead> <tr> <th>Description</th> <th>Year 1</th> <th>Year 2....</th> <th>Year 10...</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Rate Base</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p><b>Cost of Capital</b></p> <table border="1"> <thead> <tr> <th>Capital Components</th> <th>Ratio</th> <th>Cost Rate (%)</th> <th>Return Component (WACC)</th> <th>Return Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>Return on Equity</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Long-term Debt Rate</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Short-term Debt Rate</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>100%</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>Where applicable, the inflation rate to be used is the most recent quarter average GDP IPI FDD.</p>	Description	Year 1	Year 2....	Year 10...	Total	OM&A					Depreciation					Taxes					Total					Description	Year 1	Year 2....	Year 10...	Total	Rate Base					Capital Components	Ratio	Cost Rate (%)	Return Component (WACC)	Return Amount (\$)	Return on Equity					Long-term Debt Rate					Short-term Debt Rate					Total	100%				<p>Here and/or elsewhere, applicants should be specific about potential consequences of a gap between projected and realized customer attachment, including and particularly with respect to large industrial customers.</p> <p>In providing information about forecast revenue, the applicant should be specific about the reliance of the project on large industrial customers. Supporting information about those large customers should be included that allows the Board to assess the likelihood of those large customers ceasing operation due to spent resources (e.g. in the case of a mine), changed market conditions, or financial vulnerability.</p>
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<b>Part V – Section 36.2 Funding</b>		
5.1	Provide the total amount of section 36.2 funding needed to support the project.	No comment.
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.	Here and/or elsewhere, applicants should be specific about potential consequences of a gap between projected and realized customer attachment, including and particularly with respect to large industrial customers.
5.3	Provide section 36.2 funding amount per volume (m <sup>3</sup> ) 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 <sup>3</sup> ) at the mid-point and end-point of the project's rate stability period.	No comment.
<b>Part VI – Distribution Charge</b>		
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.	Here and/or elsewhere, applicants should be specific about potential consequences of a gap between projected and realized customer attachment, including and particularly with respect to large industrial customers.
<b>Part VII – Profitability Index / Benefit to Cost Ratio</b>		
7.1	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.  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.	No comment.

7.2	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. The PI calculation is to include proposed system expansion surcharges, capital contributions and municipal tax holidays or other municipal financial support.	No comment.
<b>Part VIII –OEB Approvals</b>		
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.)	No comment.
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.	No comment.

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