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Potential Projects to Expand Access to Natural Gas Distribution

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Comments
of the
Vulnerable Energy Consumers Coalition
(VECC)

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These are VECC's comments with respect to the Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution.

Part II – Description of Proponent's Technical Expertise

We suggest the Guidelines take a pragmatic approach which recognizes that it is likely that most proposals put forward will be by recognized utilities. The Guidelines should dispense with the issue of technical expertise and financial capability for any applicant who is a gas utility currently operating in Ontario. For applicants who do not currently operate a utility financial competence should be considered from two perspectives: (1) private commercial entities; (2) municipal or other public-like organization, specifically First Nations held companies.

The reason for this bifurcation is that the filing requirements of an existing LDC would, it seems to us, to be different than those of a greenfield commercial or municipal proposal. For example, Enbridge would need to show why a proposed project does not fit within its current portfolio of projects. Such is not the case with a greenfield utility. Non-rate regulated LDCs (e.g. Kitchener Utilities) need not, in our opinion, be required to undertake onerous test as to whether they can operate a utility.

With respect to financial capacity Municipal or First Nation related companies may have a different test applied than "for profit" companies. Affiliates of these types of organizations would not, we think, need to provide the more onerous evidence expected of a private company of their corporate governance. All non-utility applicants should be required to demonstrate the ability to operate a natural gas distribution system.

Part III - Description of Project

For clarity we suggest this section be divided into two parts – description of the project and revenue estimates

Description

The Ministers letter contemplates projects that can reasonably be expect to start construction by 2023. Therefore, rather than an arbitrary 90-day deadline the OEB should accept all proposal with caveat that the filing guidelines explicitly ask whether a project can be started (given a reasonable regulatory approval period of say 6 months) by year end 2023. Municipal support and issues with respect to necessary easements and property acquisition should be clarified in this section.

We would suggest that the specific and detailed information on routing, pipeline size etc. be included in the section on project costs since this is the section which includes an explanation of the capital costs of the project.

Revenues

This section should include the customer forecast and attachment rates. In addition to the elements outlined in the draft guidelines we suggest that the applicant provide information on the basis for its customer attachment forecasts (e.g. survey information). Unless extenuating circumstances are provided almost all attachments can be expected within the first 10 years. A revenue forecast with +/- 10% attachment amount should be provided in order to understand the robustness of the business case.

Applicant's should also indicate the level of commitment from any large industrial customers in the expanding franchise. Such customers might be expected to provide letters of intent in support of a new gas franchise.

The annual volume assumptions and the basis for the forecast should be provided.

Applicant's should also provide their estimates of the proposed franchise's current heating/energy load source and the assumed cost of conversion (alternatively, the Board might establish a table of standard cost of conversion). The applicant should also be required to provide evidence as to how the customer attachment forecast was derived.

Part IV – Cost of Project

The purpose of the new legislation is, in part, to accelerate access to natural gas (construction must start by 2023). Therefore, it is appropriate for applicants to provide a detailed construction cost estimate. This should include: material costs, labour construction costs, environmental and approval costs, land acquisition costs and contingency. Since such cost estimates can be highly variable and depend on the expertise\experience of the Applicant an AACE class or class (e.g. A-D) should be provided. This will allow the Board to assess project cost risk.

Part V and VI – Funding & Distribution Charge & Cost Benefit Analysis

The Minister's letter of December 12, 2019 specifically asks that the Board consider the dollar amount of subsidy to meet the Board's profitability threshold (Item #2).

In our view the applicant should make an assessment of the subsidy based on the modeling of the estimated revenues (attachments/load) and the costs (operating and capital). The model should be based on asset life of between 40-50 years. In our view the Board should establish a 10-year rate stability period as the basis for any subsidy.

Using a discounted cash flow (cost-benefit) analysis the applicant can produce a "market" or "sustaining" rate. Such a rate may be higher than the average or median Enbridge rate class equivalent but still attract sufficient attachments to make the project economically feasible and without a subsidy (see for example the proposal of the Corporation of the Town of Marathon EB-2018-0329). It is not clear to us the necessity allowing rates below the project sustainable rate simply to have a gas rate equivalency with another utility or even within a utility. Subsidies should be given when such a rate can be shown to be sufficiently detrimental to the attachment forecast.

Even if not implemented the derivation of a market or sustaining rate is important so as to understand the long-run viability of the project. Projects which cannot be sustained at an unsubsidized rate may ultimately become non-viable once the initial assets are exhausted and need to be replaced. Certainly, this may be the case for northern regions which have slow or even declining populations. Or, if the applicant is an existing LDC, the subsidy will become an ongoing cost burden to utility ratepayers. The long-run implication of the project should be understood from the material filed under the filing requirements

<u>Other</u>

Since a number of potential projects are likely to be in Northern Ontario and other isolated communities there is an issue as to whether there are sufficient tradespersons (gas fitters, etc.) may become an issue. In initial period many of today's large gas utilities provided comprehensive to ensure customers had safe and reliable "behind the meter" service. The Board may wish to ask applicants how it intends to aid customers to ensure they have the appropriate service available to them.

The Board has also recently seen unique gas supply proposals. Given recent history it is clear that LNG and CNG could form the gas supply part of a proposal. In our view the Board should have a section seeking information on the gas supply proposals of the applicant. If an LNG or CNG facility is proposed then issues such a backstopping need to be addressed in the application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED