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Sent by Electronic Mail and RESS E-filing

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Long:

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

Thank you for the opportunity to review and comment on the Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (the "Guidelines"), which was included as Appendix A in a notice by the Ontario Energy Board (the "OEB" or the "Board"), dated December 19, 2019.

Part I – Name of Proponent

1. No comment.

Part II – Description of Proponent's Technical Expertise and Financial Capability

2. The Guidelines should consider legacy gas providers and new entrants, including municipally owned providers of utility services, equally in order to accelerate the build-out of critical infrastructure for sustainable development and community rejuvenation.

3. Initiatives to provide the more affordable, cleaner and more reliable delivery of energy should not be the exclusive right of legacy gas providers.

4. Legacy gas providers and new entrants alike have brought to the OEB novel ideas and different approaches to overcome barriers with promising results. We expect this trend to continue as long as the final version of the Guidelines does not create excessive barriers to new entrants.

5. The historical community-utility relationship in the Ontario natural gas market is severely asymmetrical, resulting in requests for improved or expanded services by a community or First Nation often being ignored or rebuffed by legacy gas providers. By comparison, municipally owned electric and water utilities are accountable directly to the communities they serve, and the economic and social benefits largely remain in the communities.

6. The Guidelines should not restrict an unserved community or First Nation-led initiative from choosing its gas provider or require that civic leaders engage exclusively with executives of legacy gas providers, who likely have no pre-existing relationship with the community or First Nation.

7. In terms of an assessment of a proponent's technical expertise, proponents should be required to demonstrate that they have the management and human resources required to obtain all approvals, permits, licences, and certificates required to construct, operate and maintain the proposed project, or that they have an operating partner capable of doing the same.

Part III – Description of and Support for Project

8. Projects should form a mainstay to sustainable development and civic renewal by providing energy affordability, cleaner energy and more energy security and diversity.

9. Projects should be consistent with local, provincial and federal policies and investments to provide cleaner, more affordable, more efficient and more inclusive infrastructure.

10. The net benefits that accrue to new customers should include energy cost savings within the context of local social and economic conditions. Regional household income, average energy usage, yearly energy costs and budgeting should be considered along with simplified metrics, such as cost per attachment.

11. Careful attention should be given to projects that address historic and persistent infrastructure gaps, particularly in Northern Ontario and on First Nations, where natural gas projects are considerably more expensive and complex than similar projects in Southern Ontario. In other words, the Guidelines should encourage

proposals that provide the most significant economic, environmental and civic benefits for customers relative to the business-as-usual case.

12. Direct economic involvement of municipalities and First Nations should be of critical importance, along with the consideration of the socio-economic multiplier and spill-over effects, such as job creation and economic development, associated with the direct investment in infrastructure.

13. Projects should enhance the resiliency of industry as well as that of essential public services within municipalities and First Nations (for example, education and healthcare) against unplanned outages, the constraints of legacy energy systems and the lack of energy diversity.

14. Projects should be scalable and adaptable to population trends, climate change, consumption patterns and retirement/replacement of fossil energy systems over time.

15. Projects should be capable of shifting energy consumption away from high-carbon, resource-intensive and polluting sectors, providing net benefits for residents and communities, and should help overcome gaps and bottlenecks in the implementation of low-emission trade and transportation. Priority should be given to projects that transition northern, remote and First Nations communities from reliance on carbon-intensive power and heating to cleaner and more reliable energy.

16. Proponents should be encouraged to utilize alternative business and delivery models that leverage innovative partnerships to deliver a public good and offer opportunities and solutions that are not limited by the traditional mass-utility mindset. Several large projects, such as the East-West Tie, Wataynikaneyap Transmission Project and Southern Bruce Natural Gas Project, would not be where they are today had new entrants and approaches not been considered or supported.

17. All current and potential natural gas providers would benefit from a clear and transparent framework from the Board for municipal franchise agreements (MFAs) and certificates of public convenience and necessity (CPCNs). However, it is important for the Guidelines to balance regulatory expediency and cost efficiency with procedural fairness and due process when it comes to attaching rural and northern consumers or groups of consumers in a timely manner.

18. The Guidelines should encourage all potential proponents to invest the time and resources developing proposals for unserved communities regardless of any pre-existing or coincidental conditions.

19. The Guidelines should make it clear that any utility holding an MFA or CPCN for an unserved area is not eligible for an effective "right-of-first-refusal." It is entirely possible that it is not feasible for a CPCN holder to serve the community. Conveying such "right-of-first-refusal" (intentionally or unintentionally) to a legacy gas provider would do nothing to expand gas facilities to the unserved residents and businesses. Alternative proposals may provide a preferable option.

Part IV – Cost of Project

20. The following comments regard gas supply costs and are not intended to encourage changes in the way the revenue requirement is calculated in this section or the way the distribution charge is calculated in Part VI or the profitability index ("PI") is calculated in Part VII. However, the OEB should be aware of and should be able to evaluate the full incremental effect on the cost of gas resulting from a system expansion beyond an existing utility-serviced territory. If gas supply costs are not a consideration in the Guidelines, then the preferred expansion projects are most likely to be the ones with lowest distribution charge or highest PI, regardless of the source and cost of the gas supplying the distribution system.

21. To understand the potential "all-in" cost of gas for proponents and consumers, all of the costs associated with providing the incremental service – the incremental capital invested, incremental expenses (taxes, operating, labour, etc.) as well as incremental gas supply costs (fixed and variable storage, balancing and transportation costs) – should be included in the economic analysis.

22. The Guidelines should require proponents proposing an expansion supplied by a new pipeline connection to consider the full marginal costs associated with the incremental pipeline, storage and/or balancing capacity to support the new load.

23. Proponents should be required to consider options other than a new pipeline for supplying gas to customers in the expansion territory. The cost of building a new distribution system and attaching new customers would be very similar, if not the same, regardless of how gas was supplied to that system. However, supplying gas to more remote communities would require that pipelines be built over a greater distance, increasing the total amount of section 36.2 funding needed to support expansion investments. By comparison, the cost of the upstream gas supply services provided by liquefied natural gas ("LNG") or compressed natural gas ("CNG") could reduce the overall cost consequences of an expansion project, decreasing the total amount of section 36.2 funding needed to support the project's investments.

24. Where a proponent is proposing LNG or CNG facilities for gas supply, it should include the cost of sufficient redundancy in attached storage, vaporization or decompression and related facilities to reflect the comparable level of service that would be expected from a pipeline connection. It is understood that the configuration of the alternate gas supply facilities would vary with each application and would depend on a number of factors, such as distance to an LNG or CNG supply source, local storage and vaporization or decompression capacity, load characteristics on the expansion system, and expected weather and climate conditions.

25. The Guidelines should require proponents to include a high-level assessment of the cost of each gas supply option against the flexibility and scalability (up and down) that the option provides. For example, at what point does a system supplied by LNG or CNG become large enough to support a pipeline?

26. Proponents should identify potential sources to originate carbon-neutral supplies of renewable natural gas ("RNG") to displace conventional natural gas over time. The potential sources for RNG may be local sewage treatment plants, landfills and biomass digesters. The Guidelines should require proponents to specify projects and estimate costs in accordance with all applicable standards, specifications and requirements for both natural gas and carbon-neutral RNG, when and as it is available.

Part V – Section 36.2 Funding

27. The OEB should be aware that the requirement for a rate stability period may lead to certain unintended consequences and negative externalities.

28. Rates rely on demand forecasts and construction costs, which inherently contain some degree of uncertainty. In the case of a system expansion, uncertainties reside in projections of construction costs, customer conversion rates, projected gas costs, timing of cost and revenue flows, and effects of climate change policies.

29. It is entirely possible that a rate stability regime, which commits proponents to fixed costs in the face of high uncertainty, could lead a proponent to understate demand and/or overstate construction costs to depress the PI. In such a case, the proposal would exaggerate total amount of section 36.2 funding needed to support the project's investments.

30. There is a related dynamic. The level of fixed costs and variable costs can also affect capital costs and market penetration rates. A rate stability period may cause a proponent to decide to rely on investments that carry a low capital cost

and high operating costs to avoid fixed-cost risks and shift the variable-cost risks to the customers.

31. If the Guidelines include a rate stability mechanism, it should apply to the distribution charge only. The mechanism should not apply to "pass-through" costs that relate to certain commodity, service and carbon charges that are intended to be passed through to customers without profit or a markup.

Part VI – Distribution Charge

32. See comments to Part IV and Part V.

Part VII – Profitability Index / Benefit to Cost Ratio

33. See comments to Part IV and Part V.

Part VIII – OEB Approvals

34. While not specific to the Guidelines, in order to streamline the OEB approvals process the Board should provide clear direction with respect to the "substantial interest" test to determine whether a public-interest party is granted intervenor status in a community expansion proceeding.

We appreciate the opportunity to provide input to the Board in its ongoing consideration of this important program. If you have any questions with regard to what we have outlined above, please do not hesitate to contact me.

Sincerely,

[Original Signed By]

Joshua Samuel