

BY E-MAIL AND WEB POSTING

March 5, 2020

**TO: All Participants in the Consultation on the Draft Guidelines for Potential Projects to Expand Access to Natural Gas
All Other Interested Parties**

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

The Ontario Energy Board (OEB) has today issued its Final Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (Final Guidelines), which are attached as Appendix A to this letter. The Final Guidelines have been informed by and benefitted from stakeholder comments on the Draft Guidelines for Potential Projects to Expand Access to Natural Gas Distribution (Draft Guidelines) that were issued for comment on December 19, 2019.

Interested project proponents that wish to file project information for inclusion in the OEB's report to the Ministry of Energy, Northern Development and Mines (Ministry) must do so by June 3, 2020 in accordance with the Final Guidelines.

On December 12, 2019, the 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 collect and analyze 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 (Report), and this Report will serve as an input to assist the government in making a determination on future expansion projects.

The Section 35 Letter also expresses the government's intention to further increase access to natural gas by making additional new projects eligible for ratepayer funded financial support totaling approximately \$130 million, using the mechanism set out in Ontario Regulation 24/19, Expansion of Natural Gas Distribution Systems made under section 36.2 of the OEB Act. Changes to that 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 in undertaking this initiative:

- 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. Given the focus on assessing whether potential projects can be implemented substantially as proposed, the following are the key additional considerations that are included in the Final Guidelines, some of which have been revised relative to the Draft Guidelines in response to stakeholder comments:

- A ten-year rate stability period for each proposed project in order to demonstrate, as required by the Section 35 Letter, a commitment to be held to the project costs and volume forecast set out in the project information provided to the OEB.
- 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.
- The estimated annual distribution charges that are expected to be borne by residential customers to be connected by each proposed project.
- The estimated revenue requirement over the ten-year rate stability period and the capital costs and rate base at the end of the rate stability period.

OEB Consideration of Stakeholder Comments

Twenty-one stakeholders submitted comments in response to the OEB's December 19, 2019 letter, including natural gas distributors, compressed natural gas (CNG) and liquefied natural gas (LNG) service providers, ratepayer groups, industry associations, environmental groups and groups representing Indigenous peoples. Most stakeholders submitted comments on the Draft Guidelines, with relatively few comments submitted on the three additional issues on which the OEB also invited comment in that letter:

- The sufficiency of the 90-day window to submit project information.
- Confidentiality of information that may be contained in project information filed by interested project proponents based on the Draft Guidelines.
- Two alternative options for addressing the requirement in the Section 35 Letter that a proponent must be the holder of the Certificate unless the Certificate holder does not propose a project for the area.

Below is an overview of the many issues raised in the stakeholder comments, and the OEB's consideration of them. In considering stakeholder comments, the OEB has been mindful that the intention underlying the Section 35 Letter is to facilitate access to natural gas distribution systems for communities that are not currently connected to such a system. The OEB has also been mindful that its Report is expected to be provided to the Ministry by August 31, 2020, and that minimizing regulatory burden for stakeholders is a focus of the Government.

Comments on the Draft Guidelines

General Comments

A number of stakeholders provided comments on the general approach to be taken by the OEB in response to the Section 35 Letter.

One stakeholder stated that, in addition to giving consideration to the benefits of converting from existing heating and hot water systems to natural gas, potential harm should be considered as well (including, for example, potential harm to alternative energy suppliers). The stakeholder suggested that the OEB's process should include a period for the solicitation of written comments from those who would be adversely affected by the proposed projects. The stakeholder further suggested that the OEB could then include these impacts in the Report. Along similar lines, three stakeholders proposed that the OEB require project proponents to compare savings associated with switching to natural gas against savings associated with other energy alternatives available or potentially available to customers (e.g., heat pumps, etc.). The OEB does not consider that an assessment of potential harm to alternative energy suppliers or the savings associated with other energy alternatives is in keeping with the intention underlying the Section 35 Letter.

The focus of comments received from two stakeholders was on encouraging projects that would serve Indigenous communities. Their other comments related to historic infrastructure gaps, energy poverty, and the potential impact on the electricity system resulting from reduced demand. Although it is not within the ambit of the OEB's mandate under the Section 35 Letter to direct proponents with regard to the communities that they may wish to serve, the OEB anticipates that some projects may propose to serve First Nations reserve lands or off-reserve Indigenous consumers. The OEB has added a new requirement in section 3.1 of the Final Guidelines requiring proponents to indicate whether their proposed project would serve any First Nations reserves, which may be useful information for the Ministry when considering proposed projects. The matter of off-reserve Indigenous consumers is discussed in the section on "Comments related to Part III" below. Issues relating to matters such as historic infrastructure gaps and potential impacts on the electricity system, while important, go beyond the scope of the matters that the OEB was asked to report to the Minister, and in the OEB's view cannot be meaningfully reviewed within the timelines set out in the Section 35 Letter.

One stakeholder suggested that the Report should refrain from ranking or rating proposed projects. The OEB wishes to clarify that the Section 35 Letter did not ask for a ranking of proposed projects, and the OEB does not intend to provide a ranking.

One stakeholder commented on the thresholds for leave to construct applications, including the prescribed amount of \$2 million and nominal pipe size of 12 inches. The stakeholder suggested that, in order to reduce the number of regulatory applications to the OEB and to reduce regulatory burden and costs, the prescribed amount should be increased to \$10 million and the nominal pipe size augmented to 16 inches. The stakeholder recommended that the OEB address the leave to construct thresholds as part of the Report. The OEB notes that changing those thresholds would require legislative change. While the OEB agrees that there is merit in a review of the thresholds given the length of time that they have been in place, this is outside the scope of what the OEB has been asked to do under the Section 35 Letter.

Several stakeholders proposed that the OEB require proponents to include information on their plans to provide Demand Side Management (DSM) programs for customers (from the time of conversion to natural gas and on an ongoing basis). One stakeholder suggested that the costs of offering DSM should also form part of the costs of the proposed projects. The OEB notes that there is not currently a common approach with respect to DSM across existing rate-regulated natural gas distributors. The OEB may also receive information on proposed projects from new entrants, who may not have DSM proposals developed at this time. The OEB will therefore not include specific requirements with respect to DSM in the Final Guidelines. However, the OEB takes this opportunity to note that it expects existing rate-regulated natural gas distributors with DSM programs to offer access to DSM programs to any new natural gas customers in accordance with policies and orders of the OEB prevailing at the relevant time. Other natural gas distributors whose rates become regulated by the OEB may also have the opportunity to make proposals to provide DSM programs as part of any new DSM framework going forward.

Comments related to Part II – Description of Proponent’s Technical Expertise and Financial Capability

One stakeholder suggested that the information required in Part II of the Draft Guidelines should not be required for any proponent who is a natural gas distributor currently operating in Ontario. The OEB agrees and has clarified that natural gas distributors that are currently rate-regulated by the OEB will not be required to provide the information set out in Part II of the Final Guidelines.

One stakeholder suggested that information related to a project proponent's financial capability should only need to be submitted once for each proponent, regardless of how many community expansion proposals are presented by that proponent. The Final Guidelines clarify that if a proponent who is not an existing OEB rate-regulated natural gas distributor intends to file information on multiple proposed projects, that proponent will only be required to file the information requested in Part II of the Final Guidelines once, unless the proponent has different organizational or financing structures for its proposed projects, in which case the Part II information must be filed for each different organizational or financing structure.

In regards to section 2.2 of the Draft Guidelines, one stakeholder suggested that municipally-owned greenfield utilities may not be able to provide information related to credit history or credit rating, and that the inability to provide this information should not impair the funding eligibility of greenfield utilities, particularly utilities located in northern Ontario. The stakeholder also asked for clarity with respect to the type of evidence that would satisfy the requirements regarding access to debt and equity markets (for example, confirmation that a comfort letter from a financial institution or the particulars of a negotiated credit arrangement should in their view suffice). The OEB has clarified in the Final Guidelines that new entrants that cannot provide the information identified in section 2.2 should explain why that is the case and file the best financial information that they have available.

Comments related to Part III – Description of and Support for Project

3.1 – General Overview of Project

One stakeholder suggested modified language that specifies the inclusion of Indigenous communities, and Indigenous community members both on- and off-reserve, as an explicit subset of communities to be connected. As noted above, the OEB has modified the language in section 3.1 to require that any on-reserve communities that would be served by a proposed project be identified. The OEB will not require that proponents identify off-reserve Indigenous consumers, as it may be difficult for proponents to obtain sufficiently accurate information in time to include it in their project information given the timelines established by the Section 35 Letter.

Other stakeholders suggested that a description be provided as to how a proposed project aligns with any local energy plans, including a Municipal Energy Plan, Indigenous Community Energy Plan, and with regional planning processes, and how the proposed project would comply with policy statements made in the provincial

government's Growth Plan for Northern Ontario. The OEB will not require proponents to address the alignment of a proposed project with any applicable energy plans, as the incremental benefit may not outweigh the incremental burden required to explain relevant linkages.

One stakeholder suggested that proponents should be required to explain their gas supply plans, including sources of the commodity, upstream transportation, and any other gas supply considerations that may be unique to their proposed project. The OEB believes that for new entrants, a high-level description of their sources of the commodity, upstream transportation, and any other relevant gas supply considerations could be useful for context. The OEB already has this information in the gas supply plans filed by the rate-regulated natural gas distributors. In addition, all proponents proposing projects using CNG and/or LNG will be required to provide a high-level description of the approach to procuring supply, including the infrastructure that will be required. The OEB has added these requirements to section 3.1 of the Final Guidelines.

3.2 to 3.4 – Customer Attachment and Volume Forecasts and Estimated Conversion Costs

Many stakeholders suggested that proponents should include supporting documentation to substantiate their forecasts and cost estimates. Stakeholders also suggested that proponents be required to conduct and provide sensitivity analyses for volume forecasts and conversion cost estimates. As indicated in the Section 35 Letter, the OEB is to analyze proposed projects with a focus on assessing whether they can be implemented substantially as proposed, in support of which the OEB is to call for a demonstrated commitment by the proponent that it would be willing to be held to the project costs, timelines and volume forecast set out in the project information provided to the OEB.

To give effect to this requirement, the Final Guidelines require a ten-year rate stability period for each proposed project, including in respect of attachment forecasts. Proponents should expect to bear the risk for the ten-year period if the customers they forecast do not attach to the system and/or actual project costs (capital and OM&A) are higher than expected. This is consistent with the OEB's South Bruce decision¹, where the OEB approved a ten-year rate stability period, which will hold the proponent to its forecast costs and not allow it to recover any over-spending from ratepayers during that period.

¹ EB-2016-0137, EB-2016-0138, EB-2016-0139

Proponents are responsible for accurately forecasting attachment rates, volumes and costs. To the extent they do not do so, they should not expect that they would be able to recover any additional costs from ratepayers for at least the ten-year rate stability period. As a result, the OEB is of the view that it is not necessary for the proponent to file supporting documentation or sensitivity analyses in relation to their customer attachment forecast and cost estimates.

Several stakeholders suggested that estimates of greenhouse gas emissions and emissions reductions associated with converting a community to natural gas should be provided as part of the project information. The OEB agrees that this information could be a useful input to the Ministry's consideration of proposed projects. Section 3.4 of the Final Guidelines makes provision for greenhouse gas emission estimates related to converting existing heating and water heating systems to natural gas to be included in the proponent's assessment of household energy impacts.

One stakeholder suggested that the OEB develop standardized household energy cost comparison models that include various energy alternatives in a potential gas expansion scenario, and which would include, for example, uniform assumptions related to carbon costs and landed costs of natural gas, propane, electricity, or other fuels. While the OEB sees merit in standardizing the assumptions to facilitate the OEB's review of costs and savings as between projects, the timelines indicated in the Section 35 Letter are not compatible with the OEB undertaking that kind of work in a responsible way. For clarity, however, the calculation of household energy costs for natural gas should include conversion costs, commodity costs, associated upstream transportation costs to Ontario, incremental CNG and LNG costs (where applicable), costs under the federal *Greenhouse Gas Pollution Pricing Act*, and distribution costs. The major assumptions (e.g. conversion factors) used in the calculations must also be provided. The OEB has added this clarification in section 3.4 of the Final Guidelines.

In regards to section 3.3, two stakeholders suggested that the annual average consumption level of 2,200 m³ in the Draft Guidelines should be allowed to vary if better information is available to estimate the annual consumption for a typical residential customer in a given community. The Final Guidelines clarify that the 2,200 m³ value is a default value. If a proponent has more accurate information regarding the annual consumption for residential customers in a given community, the proponent should use that value and explain how it has determined that it is more accurate than the default value.

3.5 – Proposed Construction Schedule

One stakeholder stated that it does not believe that information other than the date of construction being initiated and the estimated date of providing service is necessary. The OEB is of the view that the construction start date, the projected in-service date, and all major milestones are important information in considering whether a project can be implemented substantially as proposed. The OEB has therefore retained these requirements in the Final Guidelines.

3.7 – Certificate of Public Convenience and Necessity

One stakeholder suggested that when a proponent includes a copy of any Certificate, the proponent should specify whether the boundaries of the existing Certificate encompass the entire area which would be supplied with natural gas. The OEB agrees that proponents should specify the boundaries of the existing Certificate and indicate whether the boundaries encompass the entire area which would be supplied with natural gas.

Comments related to Part IV – Cost of Project

4.1 – Rate Stability Period

One stakeholder suggested that the requirement to commit to a period of rate stability should be decided on a case-by-case basis and not be imposed as a generic requirement. Another stakeholder proposed that a uniform ten-year rate stability period should apply for all proposed projects, as opposed to a minimum ten-year rate stability period. The OEB is of the view that a rate stability period should be reflected in the Final Guidelines as it is consistent with recent OEB decisions and gives effect to the requirement in the Section 35 Letter that the OEB analyze proposed projects with a focus on assessing whether they can be implemented substantially as proposed, including a demonstrated commitment by the proponent that it would be willing to be held to the project costs, timelines and volume forecast set out in their proposal. The OEB agrees that a standardized ten-year rate stability period should be used for all projects, as it is unlikely in any event that proponents would propose a longer rate stability period. Section 4.1 of the Final Guidelines reflects that change.

4.2 to 4.4 – Project Cost Forecasts

In regards to section 4.2, one stakeholder stated that because the Minister is looking for proponents to demonstrate a commitment to total project costs, details of project capital costs over the rate stability period should not be required by the OEB at this stage. Rather, the stakeholder stated that the net present value of the total net revenue of the project over the 40-year feasibility test period should be sufficient to evaluate proposed projects. Another stakeholder agreed with the requirement to include annual and total forecast costs during the rate stability period and that the proponent should take the risk that actual costs may differ from forecast (either higher or lower). One stakeholder suggested that costs related to upstream reinforcement should be considered a common assumption for all proposed projects to serve the same area. In other cases, the incumbent utility should be required to provide costing over a reasonable timeframe.

The OEB has determined that the total forecast capital costs of projects will only be required at the end of the rate stability period (i.e. year ten). This will ensure that sufficient information exists to determine the total capital costs that a proponent has committed to over the rate stability period. Accordingly, the OEB has removed the need for annual forecast capital costs during the rate stability period.

Proponents are required to include any upstream reinforcement costs, and the OEB expects that the incumbent utility will provide an estimate of those costs to any proponent requesting one and will do so in a timely manner, whether or not it is providing information to the OEB for a proposed project to serve the same area. The OEB may be notified should any issues arise in that respect. The OEB expects that upstream reinforcement costs for all proposed projects to serve the same area should be the same. To the extent that the reinforcement costs for an incumbent utility's proposed project are materially different from the reinforcement costs that the utility has estimated for another proponent's project in the same area, the incumbent utility must identify in its filing that two separate estimates exist and explain the reasons for the differences. Section 4.2 of the Final Guidelines reflects these changes.

With respect to section 4.3, one stakeholder commented that, given that the Minister is looking for project proponents to demonstrate a commitment to be held to total project costs, the details of OM&A costs over the rate stability period are not needed by the OEB at this stage. In their view, the net present value of the total net revenue of the project over the feasibility test period should be sufficient. The stakeholder further commented that the OM&A costs should be the same as those included in the economic assessment of each project (i.e. only incremental OM&A costs should be included). Another stakeholder also suggested that project costs should include

incremental OM&A costs in order to avoid an over-recovery of costs. Another stakeholder supported the use of fully allocated forecast OM&A costs on the grounds that this ensures that there is no cross-subsidization of OM&A expenses between existing customers and customers of community expansions.

In order to streamline the project information submission process, the OEB has removed section 4.3, which appeared in the Draft Guidelines, as it is subsumed in the section of the Final Guidelines (now section 4.3) that deals with the revenue requirement. The OEB is, however, of the view that fully allocated costs should be used by proponents for the purposes of facilitating the OEB's review of costs between projects. This would allow for a more level playing field as between incumbent distributors and potential new entrants. However, for economic feasibility, incremental costs should be used in keeping with [E.B.O. 188](#).

In regards to section 4.4 of the Draft Guidelines (now section 4.3 of the Final Guidelines), one stakeholder commented that the total annual revenue requirement of the project over the rate stability period is not relevant to the assessment of the viability of an expansion project and that this information is implicit in the profitability index (PI) calculation. Another stakeholder agreed with the requirement to provide the total annual revenue requirement (as well as with the breakdown included in the Draft Guidelines) as proponents should bear the risk of the proposed revenue requirement over the rate stability period. This stakeholder also suggested that the OEB establish common assumptions (such as depreciation rates, capital structure, etc.). The OEB is of the view that the annual and total revenue requirement over the rate stability period is needed to demonstrate that a proponent can be held to its forecast total project costs. However, the OEB has streamlined the information to be provided by limiting it to total annual and cumulative revenue requirement over the rate stability period (i.e. with no breakdown of costs or the cost of capital) and rate base amount at the end of year ten.

One stakeholder suggested that, in order to evaluate the "all-in" cost of gas for proponents and consumers, incremental gas supply costs should be included in the analysis. The OEB is of the view that gas supply costs, including commodity costs and associated upstream transportation costs to Ontario, are not required as they are assumed to be common costs for all proponents. Assuming otherwise could introduce significant bias given that differences in gas supply cost projections between proponents could be material. However, to the extent that a proponent is proposing to use CNG or LNG, the costs of the infrastructure needed, as well as other associated costs, should be included as part of the project costs as CNG or LNG would displace pipelines to be built over a greater distance.

Comments related to Part V – Section 36.2 Funding

One stakeholder stated that information regarding the section 36.2 funding needed in year five per customer number and volumes is not relevant for the purposes of analyzing proposals, and that section 36.2 funding per customer number and volumes should only be required for year ten. The stakeholder also requested clarification regarding whether the full 40 years of system expansion surcharge (SES) revenue needs to be included in calculating the PI and section 36.2 funding information for a proposed project.

The OEB has determined that it will only require the section 36.2 funding information per customer number and volumes for year ten and not for year five, as information called for by sections 3.2 and 3.3 of the Final Guidelines will provide information on the pace of customer attachment and volumes. Sections 5.2 and 5.3 reflect that change. The OEB also confirms that the full 40 years of SES revenue needs to be included in calculating the project PI and section 36.2 funding information, consistent with the approach taken in the OEB's South Bruce decision. The OEB has also clarified in section 7.1 that, in keeping with the OEB's approach to avoiding cross-subsidization between customers, the PI for a proposed project is to be equal to one (1.0) and should be calculated on an individual basis (i.e. a proponent may not calculate its section 36.2 funding need based on a "portfolio" of projects).

Comments related to Part VI – Distribution Charge

One stakeholder stated that the funding required per customer to achieve the required project PI is the key piece of information that is required for an effective review of proposed projects and that the annual amounts recovered by a project proponent are implicit in the PI calculation that is to be provided by proponents. Another stakeholder suggested that the Draft Guidelines are not clear on whether the OEB intends proponents to identify average distribution charges or charges applicable to individual rate classes, and argued that some sort of average would be of limited value. This stakeholder noted that the Draft Guidelines clearly do not contemplate the provision of the kind of cost allocation information that would conventionally be relied upon in identifying and approving rates by rate class.

The OEB confirms that it does not expect that proponents will submit a cost allocation study to establish distribution charges at the rate class level, as this may be too onerous for proponents at this stage.

The OEB maintains that an estimate of distribution charges should be provided as it would be the foundation for determining the rates that would apply during the rate stability period. The OEB has, however, streamlined the Final Guidelines to only capture distribution charges for the residential class over the rate stability period. The OEB notes that, in keeping with the Section 35 Letter, this information is needed to estimate the extent to which a proposed project would reduce the household energy cost burden in the project area (section 3.4 of the Final Guidelines). The OEB has also revised section 6.1 to require proponents to confirm that there would be no material cross-subsidization between rate classes.

Another stakeholder proposed that the entire distribution charge, including both the underlying distribution rates as well as the SES, be subject to a ten-year rate stability period. To the extent that the rates in an expansion community are based on a utility's existing rates plus the SES, then these underlying rates may change through the utility's ordinary periodic rate cases to reflect, for example, an adjustment under an incentive regulation mechanism. In the OEB's view, taking this approach would introduce an assumption – that stand-alone rates are required for every community expansion project – that is inconsistent with OEB decisions². As a result, the OEB is not implementing this proposal.

Comments related to Part VII – Profitability Index

One stakeholder suggested that the PI calculation should be based on the OEB's E.B.O. 188. As discussed in the section on "Comments related to Part V" above, both the section 36.2 funding need and the project PI should be calculated based on an individual project and not on a "portfolio" of projects, in keeping with the OEB's approach to avoiding cross-subsidization between customers.

One stakeholder stated that there is no need for detailed supporting documentation related to the PI for each individual project. The OEB agrees and has modified sections 7.1 and 7.2 to only include a summary table with which proponents can demonstrate that the PI is equal to one (1.0). Any major assumptions used in the calculation, such as the discount rate, are also to be identified. The OEB expects that proponents will base their PI calculation on the methodology outlined in E.B.O. 188, except as otherwise stated in the Final Guidelines.

² For example, EB-2015-0179: Union Gas Ltd. Community Expansion

Comments related to Part VIII – OEB Approvals

One stakeholder commented that it would be difficult to identify required approvals beyond leave to construct, Certificates and franchise agreements. A project proponent would not typically be aware of other permits/approvals required from municipalities, conservation authorities, etc.

The OEB wishes to clarify that this section only pertains to approvals that will be required from the OEB. The OEB is not asking proponents to provide information on all other approvals or permits that may be required in respect of a given proposed project. For the purposes of preparing the information required by section 8.2 of the Final Guidelines, proponents should reference the performance standards posted on the OEB's [website](#) and where applicable assume a written hearing process.

Comments on the Sufficiency of the 90-day Timeline

The OEB received relatively few comments regarding the sufficiency of the 90-day period within which interested project proponents may file their information with the OEB.

One stakeholder suggested that the timeline biases in favour of incumbent distributors. Another stakeholder recommended that as much time as possible be provided for proponents to prepare submissions.

While the OEB understands the preference for more time to submit project information, the OEB is of the view that it is appropriate to maintain the 90-day period given that the Report is expected by August 31, 2020 as set out in the Section 35 Letter. This will allow for a 90-day window for submissions and a 90-day window for the OEB to analyze project information and submit its Report to the Ministry by August 31, 2020.

Comments on the Confidentiality of Information

The OEB received relatively few comments regarding information that interested parties believe should be treated as confidential as per the OEB's [Rules of Practice and Procedure](#) and its [Practice Direction on Confidential Filings](#). Neither of the existing rate-regulated natural gas distributors provided comments related to confidentiality.

As noted in its December 19, 2019 letter, the OEB intends to post each proponent's project information on the OEB website following the deadline for filing project information, subject to the exception noted in the next section.

Comments on the Options for Filing Information as between Certificate and Non-Certificate Holders

The OEB received relatively few comments related to the alternative options for addressing the requirement in the Section 35 Letter that a proponent must be the holder of the Certificate unless the Certificate holder does not propose a project for the area.

One stakeholder supported having the Certificate holder confirm in writing, immediately following the issuance of the Final Guidelines, to which Certificate areas they wish to bring forward a project (option 1), as this would be less administratively burdensome. Another stakeholder supported option 2 (i.e. allowing interested project proponents to bring forward proposed projects in areas where they do not have a Certificate, on the understanding that the Certificate holder in essence has a "right of first refusal"), stating that this option is more practical, and that the OEB should consider projects by non-Certificate holders. Another stakeholder stated that all proposed projects that satisfy the base requirements should be considered, regardless of whether or not the proponent is the Certificate holder. One stakeholder expressed concern with both options and proposed that the OEB allow multiple proponents, including the Certificate holder as well as others, to file project information and include them in the Report.

The OEB has selected option 2, as it appears to be more equitable and is less administratively burdensome for proponents. The other options suggested by some stakeholders are not compatible with the Section 35 Letter. As a result, the OEB will not include in its Report any proposed project from a non-Certificate holder unless the Certificate holder does not bring forward a project for the same area, and the OEB will not be posting project information for projects that are not included in the OEB's review.

Cost Awards

The issuance of the Final Guidelines marks the conclusion of this consultation. The OEB thanks all stakeholders for their contributions. A Notice of Hearing for Cost Awards will be issued separately.

Filing Instructions

All materials filed with the OEB must quote the file number, **EB-2019-0255**, be made in a searchable/unrestricted PDF format and sent electronically through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and email 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 computer access are required to file seven paper copies.

All communications should be directed to the attention of the Registrar 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

Yours truly,

Original signed by

Christine E. Long
Registrar and Board Secretary

Appendix A

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

Proponents completing the costing information outlined below should exclude the following unless noted otherwise:

- 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 revenue requirement

References to “section 36.2 funding” below are references to funding under section 36.2 of the *Ontario Energy Board Act, 1998* (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
<i>Natural gas distributors that are currently rate-regulated by the OEB are not required to complete this Part.</i>
<i>A proponent that is not currently rate-regulated as a natural gas distributor by the OEB and that has multiple proposed projects is only required to provide the information in this Part once, unless the proponent has different organizational or financial structure approaches for its projects. In that case, the information in this Part must be provided for each different organizational or financing structure.</i>

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	<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"> • 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 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. • 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. <p>New entrants that cannot provide the information identified in this section should explain why that is the case and provide the best information that they have available.</p>

Part III – Description of and Support for Project	
3.1	<p>Provide a general overview of the project, which is to include the following: communities to be connected, including whether the project would serve any on-reserve Indigenous communities; existing population of each community by residential, commercial/institutional and industrial sectors; routing; length of pipeline; and nominal pipe size.</p> <p>For a proponent that is not rate-regulated as a natural gas distributor by the OEB, provide a high-level description of sources of the commodity, upstream transportation, and any other relevant gas supply considerations. For all proponents proposing projects using CNG and/or LNG, provide a high-level description of the approach to procuring supply, including the infrastructure that will be required.</p>
3.2	Provide the annual and cumulative forecast of the number of customer attachments over the ten-year 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

Part III – Description of and Support for Project	
	interruptible.
3.3	<p>Provide the annual and cumulative forecast of volumes (in m³) over the ten-year rate stability period by residential, commercial/institutional and industrial sectors for each community.</p> <p>For the residential segment, the default value for the average consumption level is 2,200 m³ per year. A proponent that has more accurate information regarding the annual consumption for residential customers in a given community may use that value, in which case it must explain how it has determined that it is more accurate than the default.</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. The calculation of household energy costs for natural gas should include conversion costs, commodity costs, associated upstream transportation costs to Ontario, incremental CNG and LNG costs (where applicable), costs under the federal <i>Greenhouse Gas Pollution Pricing Act</i> and distribution costs. The assessment of household energy cost impacts should include greenhouse gas (GHG) emission estimates (whether positive or negative) related to converting existing heating and water heating systems to natural gas. The major assumptions (e.g. conversion factors) used in the calculations must also be provided.</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.
3.7	<p>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.</p> <p>Where the project proponent holds a Certificate for the areas to be served, specify the boundaries of the Certificate and indicate whether the boundaries encompass the entire area that would be supplied by the proposed project.</p>

Part III – Description of and Support for Project															
Part IV – Cost of Project															
4.1	Confirm that the proposed project includes a ten-year rate stability period.														
4.2	<p>Provide the total forecast of capital costs (including any forecast of upstream reinforcement costs) of the project at the end of the rate stability period (i.e. year ten).</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> <p>For projects proposing to use CNG and/or LNG, the costs of required infrastructure and other associated costs must be included as part of the total project capital costs.</p> <p>Include any upstream reinforcement costs in the total cost of the project. To the extent that the reinforcement costs for an incumbent utility's proposed project are materially different from the reinforcement costs that the utility has estimated for another proponent's project in the same area, the incumbent utility must identify in its filing that two separate estimates exist and explain the reasons for the differences.</p>														
4.3	<p>Provide the total annual forecast revenue requirement of the project over the ten-year rate stability period (using fully allocated OM&A costs) and rate base amount at the end of year ten.</p> <p>Complete the tables below:</p> <p>Revenue Requirement</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>Revenue requirement</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Description</th> <th>Year 10</th> </tr> </thead> <tbody> <tr> <td>Closing Rate Base</td> <td></td> </tr> </tbody> </table> <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>	Description	Year 1	Year 2....	Year 10	Total	Revenue requirement					Description	Year 10	Closing Rate Base	
Description	Year 1	Year 2....	Year 10	Total											
Revenue requirement															
Description	Year 10														
Closing Rate Base															

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 ten of the project.
5.3	Provide the section 36.2 funding amount per volume (m ³) in year ten of the project.

Part VI – Distribution Charge	
6.1	<p>Provide the estimated amount that the proponent proposes to recover from residential 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.</p> <p>Provide a confirmation that there would be no material cross-subsidization between rate classes.</p>

Part VII – Profitability Index / Benefit to Cost Ratio	
7.1	<p>Provide, in a summary table, the expected Profitability Index (PI) of the project, inclusive of the proposed section 36.2 funding. Provide any major assumptions used in the calculation, and specify all proposed section 36.2 funding, revenue from rates (including any proposed system expansion surcharges), capital contributions and municipal tax holidays or other municipal financial support.</p> <p>The project must have a PI of 1.0. The PI is to be calculated based on an individual project (i.e. not a “portfolio” of projects).</p>
7.2	Provide, in a summary table that otherwise meets the requirements of section 7.1, the expected PI of the project without the proposed section 36.2 funding.

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, Rate Order)
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. For this purpose, proponents should reference the performance standards posted on the OEB's website and where applicable assume a written hearing process.