

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

BY: EMAIL AND WEB POSTING

February 18, 2015

To: All Applicants and Potential Applicants for Expansion of Natural Gas Distribution

Re: Expansion of Natural Gas Distribution

The Provincial Government has set out a goal of ensuring that Ontario consumers in communities that currently do not have access to natural gas are able to share in affordable supplies of natural gas. In an effort to facilitate enhanced access to natural gas for rural and remote communities and businesses in the province, the Ontario Energy Board (the "Board") is inviting parties with the appropriate financial and technical expertise to propose one or more plans for natural gas expansion.

In this context and depending on the nature and scope of any proposals made, the Board is aware that regulatory flexibility may be required. The Board will hear requests for regulatory flexibility or appropriate exemptions in the context of an application made for approvals pertaining to expansion portfolios and specific projects.

Background

In the Long Term Energy Plan the Ontario Government signaled that it would look at opportunities to expand natural gas service within the Province to areas that are not currently served. In support of this objective, the Government, through the Minister of Economic Development, Employment and Infrastructure, will be making available;

- \$200 million in Natural Gas Access Loans over two years to help communities partner with utilities to extend access to natural gas, and
- \$30 million in "Natural Gas Economic Development Grants" to accelerate projects with clear economic development potential.

In 1998, the Board established guidelines for the expansion of natural gas service in its *EBO 188 Report on Natural Gas Distribution System Expansion* (EBO 188). The intent of EBO 188 is to facilitate the expansion of natural gas service while holding other customers harmless from the cost of new connections.

EBO 188 adopts a portfolio approach for gas expansion/connections, which requires distributors to design a portfolio of projects that will achieve an overall profitability index (PI) of 1. This means that over the life of the projects within the portfolio, connected customers will pay the entire costs (through rates and a capital contribution if required). EBO 188 also specifies that any one individual expansion project within a portfolio or otherwise must meet a PI of 0.8. This requirement is intended to minimize cross-subsidization across customers within a portfolio.

While minimizing cross-subsidization either within a portfolio of projects, or between a portfolio and the rest of Ontario customers remains an important goal, the Board is cognizant that the specific requirements of EBO 188 may require some flexibility to expand access to natural gas for communities that are not currently served.

The Board's Approach

To the extent that the economics of a proposed project may not be accommodated within the current regulatory construct, the Board invites proponents to identify, within their applications, any options to address such regulatory issues. The Board will consider any such options as part of its adjudicative process. For instance, the Board may consider specific and supportable proposals that address;

- Whether the Board should allow existing natural gas distributors to establish surcharges to improve the feasibility of potential expansion projects by minimizing the level of required capital contribution.
- Whether the Board should allow for recovery of the revenue requirement associated with expansion costs in rates prior to the end of any incentive regulation plan term once the assets are used and useful.
- Whether projects that have a portfolio PI less than 1.0 and individual projects within a portfolio that have a PI lower than 0.8 should be considered.

Applicants should take the following into consideration when filing their application:

- Where no certificate of public convenience and necessity has been previously granted in a particular area, applications will be considered from all proponents with the requisite financial and technical expertise and experience.

- Proponents should develop proposals that, while ensuring safety and reliability, are cost effective and incorporate flexibility with respect to cost recovery (e.g. ROE, depreciation period, recovery of capital contribution, etc.).
- Proponents should develop proposals that include measures that foster predictability and cost certainty from a consumer perspective.
- Proponents should develop proposals that minimize impacts on existing natural gas ratepayers as a result of new expansion projects.

The Board is considering the need and manner in which to provide clarity for municipalities and potential new service providers on the processes needed to be taken to expand access to natural gas and will communicate further on this.

Invitation to Submit Application

The Board encourages parties interested in distributing natural gas to unserved rural and remote communities to submit an application seeking one or more required approvals (e.g. certificate of public convenience and necessity, franchise agreement, leave to construct) for the Board's consideration.

Subsequent to any Board approval of the above applications, a company would be required to apply to the Board for an order approving just and reasonable rates for the sale of gas and provisions of gas distribution services.

A summary of the requisite approvals is found under Appendix A of this letter.

Any questions relating to this letter should be directed to **Jason Craig** at jason.craig@ontarioenergyboard.ca at 416-440-8139. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original Signed By

Peter Fraser
Vice President, Industry Operation Performance

Appendix – A Description of Approvals

Certificate of Public Convenience and Necessity

In order to provide natural gas distribution services to consumers in Ontario, a company must apply to the Board for a certificate of public convenience and necessity for the service territory that is to be served.

The certificate of public convenience and necessity grants the gas distributor the right to construct infrastructure for the purposes of supplying gas to consumers in the service territory specified.

Numerous examples of certificate of public convenience and necessity applications can be found on the Board's website.

Franchise Agreement

In order to provide natural gas distribution services to consumers in Ontario, a company must also enter into a municipal franchise agreement with a municipality. The municipal franchise agreement is signed by both the municipality that is agreeing to be served and the distribution company.

The Board has the authority to approve the municipal franchise agreement. The municipal franchise agreement sets out the right for a natural gas distributor to operate works and add to works for the distribution of gas within the boundaries of a municipality.

In 2000, a Model Franchise Agreement ("MFA") was developed for use across the province.

The MFA sets out the obligations of the gas distributor in regard to the technical, construction, safety, and operational aspects of the natural gas distribution system within the municipality. The terms of the MFA ensure coordination between the municipality and the utility with regards to construction, operation and maintenance of the system. The standard term of the MFA is 20 years.

The model franchise agreement and examples of franchise agreement applications can be found on the Board's website.

Leave to Construct

Any company planning to build a distribution system in Ontario must apply to the Board for leave to construct if the proposed pipeline:

- a) is greater than 20 kilometres in length;
- b) is estimated to cost more than the amount prescribed by certain regulations (currently \$2 million); or
- c) uses pipe that has a nominal pipe size of 12 inches or more and has an operating pressure of 2,000 kilopascals or more.

Application may also be made to the Board to expropriate the land rights necessary to build the pipeline (and related infrastructure) once leave to construct is granted.

Leave to construct applications typically provide: a project summary, information regarding the need for the proposed project, facility planning information, the projected costs of the project and other economic, engineering, and environmental information (including detailed environmental reports), and the land requirements for the project (including plans for informing and negotiating with impacted landowners).

The Board's *Environmental Guidelines for the Location, Construction and Operation of Hydrocarbon Pipelines and Facilities in Ontario* provides detailed information regarding the planning requirements for locating new facilities, the mitigation measures required for pipeline (and related facility) construction and the process for review and approval of environmental reports. These guidelines can be found on the Board's website: http://www.ontarioenergyboard.ca/oeb/_Documents/Regulatory/Enviro_Guidelines_HydrocarbonPipelines_2011.pdf.

Numerous examples of leave to construct applications and the associated Board decisions on those applications can be found on the Board's website.