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June 20, 2016

Ontario Energy Board  
2300 Yonge Street  
27th Floor  
Toronto, ON M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Community Expansion Generic Proceeding  
EB-2016-0004  
OSEA's Written Submission**

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Please find enclosed Ontario Sustainable Energy Association's written submission pursuant to the Board's Procedural Order No. 3 issued on May 30, 2016.

Yours truly,

Robert Woon

Encl.

Document #: 1003133

## **ONTARIO ENERGY BOARD**

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

**IN THE MATTER OF** an Application under the Ontario Energy Board's own motion to consider potential alternative approaches to recover costs of expanding natural gas services to communities that are not currently served.

### **WRITTEN SUBMISSION OF ONTARIO SUSTAINABLE ENERGY ASSOCIATION**

June 20, 2016

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#### **I. INTRODUCTION**

- 1 The Ontario Energy Board (Board) commenced a generic hearing on its own motion to consider the framework for all gas distributors and new entrants seeking to provide gas distribution services in communities that do not have access to natural gas.
- 2 The Ontario Sustainable Energy Association (OSEA) is supportive of assisting communities to move from more intensive greenhouse gas emitting fuels to less greenhouse gas intense fuels or more sustainable forms of heat and energy.

- 3 OSEA submits that the Board should amend the EBO 188 Guidelines and the existing framework to allow expansion into remote and northern communities where:
- (a) there is an economic benefit of natural gas compared to the existing fuel types (propane, diesel, electricity), including the cost implications of the greenhouse gas cap and trade system in Ontario,
  - (b) renewable and sustainable options (geothermal, solar) are more cost prohibitive than natural gas expansion, and
  - (c) there will be a reduction in greenhouse gas emissions based on fuel type.
- 4 OSEA submits that the EBO 188 Guidelines and framework for community expansions must require an assessment of the costs and feasibility of alternative sources of energy, including sustainable energy sources. In addition, all economic analyses under the framework must include an assessment of additional costs or savings under the cap and trade system and Ontario's Climate Change Action Plan.

## **II. EXISTING EBO 188 GUIDELINES**

- 5 In EBO 188, the Board recognized that a balance must be struck to assist communities obtain natural gas service where it is not financially feasible, while minimizing the effect of the new projects on existing ratepayers.
- 6 The Board met this balance by requiring utilities to have investment portfolios with a profitability index greater than 1.0 to include a safety margin. The Board specifically indicated that a P.I. of 1.0 was not appropriate given the inherent

risks. Further, the Board required that all projects achieve a minimum threshold P.I. of 0.8. The Board also permitted the continued practice of contributions in aid of construction for new customers to improve the profitability of projects.

- 7 The utilities are seeking an exemption to EBO 188 and approval of a framework that would allow the utilities to establish special community expansion portfolios.<sup>1</sup> The community expansion portfolios will have a P.I. of less than 1.0 (0.5 for Enbridge, 0.4 for Union).<sup>2</sup> The utilities want an exemption of EBO 188 that will allow individual projects with a P.I. of less than 0.8 to proceed. The utilities are also proposing additional surcharges on ratepayers and mechanisms to collect municipal contributions.
- 8 The utilities forecast that the existing ratepayers will not recover subsidies provided for the proposed community expansions projects.<sup>3</sup>

### **III. ONTARIO'S NEW LOW-CARBON ECONOMY**

- 9 On June 8, 2016, the Ontario Government published *Ontario's Five Year Climate Change Action Plan (2016-2020)*.<sup>4</sup> The Climate Change Action Plan was issued after the oral hearing was conducted for this matter and was not entered into evidence. The Board in its Procedural Order No. 3 issued May 30, 2016 welcomed the parties to provide submissions about the implications of a draft Climate Change Action Plan that was being circulated in the media on the community expansion framework.

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<sup>1</sup> Transcript Volume 1, p 200.

<sup>2</sup> Enbridge Evidence, p 21.

<sup>3</sup> Transcript Volume 1, p 190.

<sup>4</sup> <https://www.ontario.ca/page/climate-change-action-plan>

- 10 The final Climate Change Action Plan published on June 8, 2016 confirms the Ontario Government's commitment to addressing climate change and creating a low-carbon economy in Ontario.
- 11 The Climate Change Action Plan will involve significant investments to reduce greenhouse gas emissions from fossil-fuel use in buildings. The government identified that it wants to protect tenants from the price of carbon and ensure that the price of carbon does not get passed onto tenants who cannot make the necessary changes to reduce their energy use.<sup>5</sup>
- 12 Ontario will also be investing in retrofitting apartment buildings, schools, hospitals, universities and colleges with sustainable energy technologies, such as energy-efficient windows, solar energy and geothermal systems.<sup>6</sup> In addition, Ontario will be investing to help homeowners switch to low-carbon energy technologies, such as geothermal heat pumps, air-source heat pumps, solar thermal and solar energy generation systems.<sup>7</sup> New low-carbon standards will be incorporated into the Building Code to set long-term energy efficiency targets.<sup>8</sup>
- 13 Ontario anticipates investing approximately \$2.106 billion to \$3.024 billion in reducing greenhouse gas emissions from fossil-fuel use in buildings.<sup>9</sup>

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<sup>5</sup> Ontario's Climate Change Action Plan, p 26.

<sup>6</sup> Ontario's Climate Change Action Plan, p 26.

<sup>7</sup> Ontario's Climate Change Action Plan, p 27.

<sup>8</sup> Ontario's Climate Change Action Plan, p 27.

<sup>9</sup> Ontario's Climate Change Action Plan, pp 65-69.

#### IV. THE IMPLICATIONS OF ONTARIO'S CAP AND TRADE SYSTEM

- 14 A key piece of Ontario's Climate Change Action Plan is reducing greenhouse gas emissions with the introduction of a cap and trade system that links to the Western Climate Initiative.
- 15 On May 18, 2016, the Ontario Government passed the *Climate Change Mitigation and Low-carbon Economy Act, 2016* that establishes the cap and trade system in Ontario.<sup>10</sup> Ontario's cap and trade system will come into effect on January 1, 2017. Any revised community expansion framework will apply to expansion projects that will be installed and operated after January 1, 2017.<sup>11</sup> Therefore any proposed expansion projects must consider the implications of the cap and trade system within the economic analysis.
- 16 The *Climate Change Mitigation and Low-carbon Economy Act, 2016* establishes Ontario's goal to reduce greenhouse gas emissions from 1990 emission levels by 15% by 2020, 37% by 2030 and 80% by 2050.<sup>12</sup>
- 17 In order to meet Ontario's emission targets, significant reductions in greenhouse gas emissions will need to be achieved. The utilities' consultant, ICF International, identifies that even with the cap and trade and other initiatives, there will still be a gap to meet the emission targets. ICF concludes to meet the gap, there will need to be purchases of allowances from other jurisdictions or

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<sup>10</sup> SO 2016, c 7.

<sup>11</sup> Transcript Volume 4, pp 69-70. Transcript Volume 6, p 79.

<sup>12</sup> *Climate Change Mitigation and Low-carbon Economy Act, 2016*, s 6.

other initiatives involving new technologies to achieve greater greenhouse gas emissions reductions.<sup>13</sup>

18 The exact effect of the cap and trade system on natural gas prices is unknown, but the utilities acknowledge that it will naturally lead to an increase in natural gas prices.<sup>14</sup> Enbridge cites the Ontario Government's estimate that the average cost for home heating with natural gas will increase by \$5.00 per month or \$60.00 per year.<sup>15</sup>

19 The utilities do not deny that there is a risk that utilities will collect less revenue in the future because of the reduction of natural gas use and decrease in market penetration as a result of increased costs. The utilities expect that any risks of increased natural prices and costs relating to the cap and trade system will flow-through directly to the ratepayers.<sup>16</sup>

## **V. COMMUNITIES WANT ACCESS TO INEXPENSIVE ENERGY**

20 The Board in this matter heard testimony from several municipalities and First Nations supporting natural gas expansion into their communities. However, the main driver for support of natural gas expansion is lower energy costs and not natural gas itself. The communities are seeking lower energy costs to improve their economies and provide their residents with lower heating and water heating costs.<sup>17</sup>

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<sup>13</sup> Enbridge, Exhibit S3.EDGI.OGA.3, attachment, pp 13-14; Transcript Volume 3, pp 18-19.

<sup>14</sup> Union Evidence, Exhibit A, Tab 1, p 37; Enbridge Evidence, pp 13-14.

<sup>15</sup> Enbridge Evidence, p 14.

<sup>16</sup> Transcript Volume 1, p 194; Transcript Volume 3, p 24; Transcript Volume 5, pp 210-213; Transcript Volume 6, p 67.

<sup>17</sup> Transcript Volume 1, p 82; Transcript Volume 4, pp 8-10.

21 Natural gas is only one way to lower energy costs. In fact, municipalities and First Nations are in support of alternatives to natural gas, including sustainable energy sources, if alternatives can provide lower energy costs and funding for conversion is provided, similar to the proposed subsidies for natural gas expansion.<sup>18</sup>

VI. **ASSESSMENT OF ALTERNATIVE OPTIONS MUST BE INCLUDED IN FRAMEWORK**

22 OSEA submits that any exemption to EBO 188 and framework for natural gas community expansion must include an assessment of alternative options to natural gas, including sustainable energy technologies.

23 The Board acknowledges that in order to create a framework for expansion of natural gas to a community, there must be an understanding of the available options to the community, stating:

*I think it would be impossible to create a framework of how you would allow expansion of natural gas without some understanding directionally, without the specifics of granularity of the options, without an understanding of what the spectrum of options may be, which would then allow you to create a framework that could possibly further analyze these in actual further proceedings. But I think we need to have a breadth of understanding of what the potential technologies and the direction on these technologies are going.<sup>19</sup>*

24 The utilities are proposing to expand into several new communities not currently served by natural gas. In order to expand into these communities, the utilities require some form of subsidy from existing ratepayers. The subsidy is

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<sup>18</sup> Transcript Volume 1, pp 83-84; Transcript Volume 3, pp 224, 228; Transcript Volume 4, pp 13, 15-16.

<sup>19</sup> Transcript Volume 1, p 91.



associated with the capital costs for the expansion. Without a subsidy, the capital costs make the project unfeasible.

- 25 Any subsidy for natural gas expansion must be consistent with the Ontario Government policy on climate change.
- 26 In light of the Ontario Government's plan to shift into a low-carbon economy and the implementation of a cap and trade system, OSEA submits that utilities must be required to assess sustainable energy technologies.
- 27 The cap and trade system will have significant impacts on fossil fuel prices, including natural gas. In combination, the Ontario Government is proposing to invest significant funds to allow customers to retrofit their buildings using sustainable energy technologies, such as geothermal.
- 28 Ontario's move to a low carbon economy creates real risks that future use of natural gas will decline for home heating and water heating and increases the risk of stranded assets as natural gas is expanded into these communities.<sup>20</sup>
- 29 OSEA submits that meaningful consideration should be given when considering expanding the number of people reliant on fossil fuels when Ontario is seeking to make strides to cut greenhouse gas emissions.
- 30 Given that existing and new ratepayers will be subsidizing the costs to expand into these new communities and that the costs are not fully recoverable, these projects should be considered as opportunities for sustainable energy technologies in lieu of or in combination with natural gas. If existing ratepayers

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<sup>20</sup> Transcript Volume 1, p 207.

should be required to subsidize any project, it should be projects that are meeting Ontario's goals of reducing greenhouse gas emissions and lowering energy bills. It is unfair for ratepayers to subsidize the proposed expansions of natural gas on one hand, while on the other hand being expected by the utilities to also be directly responsible for any increases costs relating to compliance with the cap and trade system.

- 31 Other potential options are available to the new communities, such as sustainable energy technologies, which must be considered in the community expansion framework. The Board heard evidence that sustainable energy technologies, such as geothermal, can meet the heating and water heating loads required by the communities but provide lower impacts to the environment and better energy efficiencies.<sup>21</sup>
- 32 The main barrier for sustainable energy technology penetration into communities is the high initial capital costs to install these technologies.<sup>22</sup> However, in communities where there is no existing natural gas infrastructure, the costs to covert to sustainable energy solutions, such as geothermal, may be less than natural gas expansion.<sup>23</sup>
- 33 Incorporation of sustainable energy technologies in new communities is consistent with Ontario's Climate Change Action Plan and cap and trade system.
- 34 The operating costs of some sustainable energy technologies will be lower than natural gas, and the savings will increase as natural gas prices rise with the

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<sup>21</sup> Transcript Volume 5, pp 63-64.

<sup>22</sup> Transcript Volume 5, p 64.

<sup>23</sup> Transcript Volume 5, pp 69, 78-81.

implementation of the cap and trade system.<sup>24</sup> This will equate to lower energy bills for customers.<sup>25</sup> Lower energy bills are the main driver for communities that are seeking natural gas expansion.

- 35 OSEA submits that utilities should be required to provide an assessment of alternative options to natural gas, including sustainable energy technologies. The utilities must show that the installation of sustainable energy technologies is less economical than the proposed natural gas expansions. If natural gas expansions are not more economical than sustainable energy technologies, the natural gas expansion project should not be able to proceed.
- 36 The assessments should not be limited to old technology, but must reflect the most recent cost assessments and new and innovative technologies at the time of application.
- 37 The utilities do not object to the principle of reviewing alternatives in the framework. However, utilities are concerned that they might not be qualified to perform the assessments.<sup>26</sup>
- 38 OSEA respectively submits that the utilities can and should be in a position to assess sustainable energy technologies. The utilities were given specific authority by the Minister of Energy to own and operate renewable energy electricity generation facilities, generation facilities that use technology that

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<sup>24</sup> Transcript Volume 5, pp 71-72.

<sup>25</sup> Transcript Volume 5, pp 72-73.

<sup>26</sup> Transcript Volume 4, p 70. Transcript Volume 6, p 56.

produces power and thermal energy, energy storage facilities, and assets such as solar-thermal water and ground-source heat pumps.<sup>27</sup>

39 In addition, data and information on costs and economic benefits are available and accessible from manufacturers and industry associations.<sup>28</sup>

40 The existing EBO 188 does not address greenhouse gas emissions and was developed prior to Ontario's Climate Change Action Plan and implementation of the cap and trade system. EBO 188 must be amended to reflect Ontario's low carbon economy and cap and trade system. Future community expansions of natural gas must take into consideration Ontario's expected decrease in reliance on fossil fuels, the increasing costs of carbon emissions and the expanding role of sustainable energy technologies.

## **VII. CONCLUSIONS**

41 OSEA submits that the Board should amend the EBO 188 Guidelines and the existing framework to allow expansion into remote and northern communities where:

- (a) there is an economic benefit of natural gas compared to the existing fuel types (propane, diesel, electricity), including the cost implications of the greenhouse gas cap and trade system in Ontario
- (b) renewable and sustainable options (geothermal, solar) are more cost prohibitive than natural gas expansion, and
- (c) there will be a reduction in GHG emissions based on fuel type.

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<sup>27</sup> Order in Council No. 1540-2009 dated September 8, 2009.

<sup>28</sup> Transcript Volume 5, pp 86-87.

42 OSEA submits that the EBO 188 Guidelines and framework for community expansions must require an assessment of the costs and feasibility of alternative sources of energy, including sustainable energy sources. In addition, all economic analyses under the framework must include an assessment of additional costs or savings under the cap and trade system and Ontario's Climate Change Action Plan.

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