Ontario

Natural Gas Grant Program Proposal

Fiscal Prep / Major Projects Committee

January 2017

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Overview

- The Province has committed to expanding natural gas access to more communities in Ontario:
  - $200 million Natural Gas Access Loan and $30 million Natural Gas Grant (2014)
  - Requested that the Ontario Energy Board look at making the rules around natural gas expansion more flexible so that more projects could proceed on their own (2015).
- Late in 2016, the Ontario Energy Board decided to allow only limited flexibility (no cross-subsidization).
- In light of this, the loan program is unlikely to lead to meaningful expansion of natural gas. An enhanced ~$170 million grant program is needed instead.
  - $77 million from the existing grant program allocation and cancelling the loan
  - $95 million offset from the $2.6 billion Strategic Community Infrastructure Fund (SCIF) "set-aside" under Moving Ontario Forward - outside the GTHA.
- While using a portion of the SCIF set-aside would reduce flexibility to cost-match new federal infrastructure investments in 2018-19 and 2019-20, it would be consistent with the purpose of SCIF.

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Consistency with Electricity Rate Mitigation

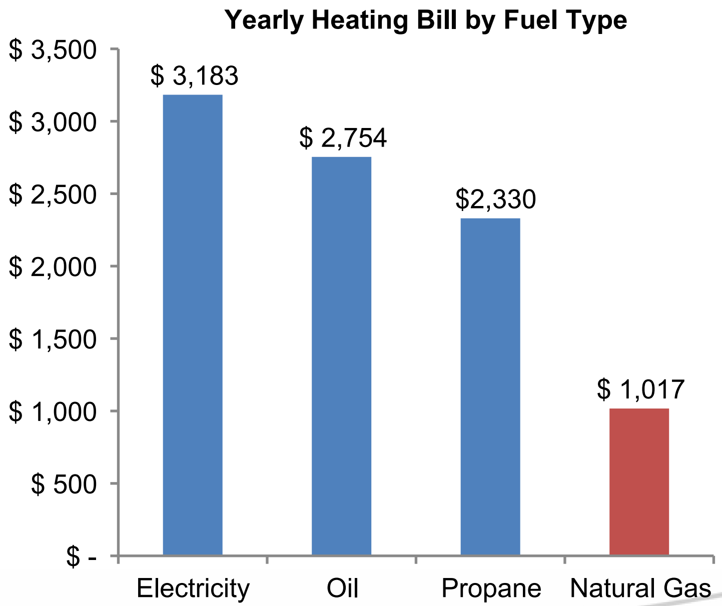
- The Natural Gas Grant Program (NGGP) would complement Ontario's actions on electricity rate mitigation by helping to further reduce total household energy bills.

- To date, Ontario has introduced new measures to decrease electricity bills for consumers. As of January 1, 2017, residential electricity consumers, farms and small businesses will receive a rebate equivalent to the provincial portion of the HST to reduce bills by 8% on the amount before tax. Furthermore, the province expanded the Rural or Remote Rate Protection (RRRP) program and the Industrial Conservation Initiative (ICI) to provide additional relief to eligible electricity consumers.

- The government is currently exploring additional opportunities for further rate mitigation. The NGGP will continue to complement this work by further reducing total household energy bills. **Note:** Specific electricity rate mitigation options under consideration would provide time-limited rate relief, whereas reducing home heating cost through natural gas access will be ongoing.

- Accessing natural gas has been a repeated request from communities and individuals, heard most recently in LTEP sessions and previously at AMO and ROMA events.

- Natural gas is currently the least expensive option for heating for most homes in Ontario, saving average households $1200 to $2100 annually on their energy bills. Improving access to natural gas will provide this option for more Ontarians.



Highlights of Proposed Program Design

	$170 Million Natural Gas Grant Program
Purpose	• Improve energy affordability (primary objective) as well as promote economic development via a competitive application process.
Program Size	• $172 million over four years (2017-18 to 2020-21).
Eligibility	Joint applications by: • Fully or partially unserved Municipalities OR Indian Act (Canada) Band Councils OR Local Services Boards, AND • Natural Gas, Liquefied Natural Gas and Compressed Natural Gas Distributors / Suppliers.
Project Types	• Capital projects to build new natural gas pipelines or compressors and related works. • Capital projects to build liquefied or compressed natural gas infrastructure, including liquefaction facilities, regasification facilities, storage facilities, local distribution networks.
Key Assessment Criteria	• Number and volume of new natural gas connections • Cost per new connection • Annual energy cost savings per connection • Impact on greenhouse gas emissions Additional criteria to assess how projects support economic development (rural and agri-business focus) could be included or there could be a dedicated stream.
Local cost-share	Proponents would need to demonstrate that local contributions are maximized (e.g., customers would be required to pay a surcharge or “stand-alone” rate and municipalities would provide grants equivalent to the increase in property taxes that will result from the project) or explain why these mechanisms cannot be used.

Fiscal Impact

Estimated Natural Gas Grant Program Offsets						
$M	2016-17	2017-18	2018-19	2019-20	2020-21	Total (2017-18 to 2020-21)
Existing Natural Gas Grant Program Allocation	0.0000	0.0000	15.20	7.70	7.70	30.60
Offset from cancelling the Natural Gas Loan Program	0.15	5.56	22.9	17.8	0.09	46.35
Transfer from SCIF to Natural Gas Grant Program	0.00	0.00	76.90	18.30	0.00	95.20
TOTAL	0.15	5.56	115.00	43.80	7.79	172.15
Existing SCIF allocation	0.00	0.00	160.00	420.00	690.00	1,270.00
Remaining SCIF Allocation (net of Natural Gas Grant and CWWF)	0.00	0.00	48.90	389.50	690.00	1,128.40[1]

[1]This represents the remaining SCIF funding to the end of 2020-21. Total remaining SCIF funding (ends in 2023 -24) would be approximately $2.49B

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Potential Timeline

Milestone	Potential Timeline
TB/MBC and Cabinet	January 24, 2017
Program Announcement	January 29-31, 2017 (ROMA Conference)
Intake Opens (3-month application window)	March 2017
Intake Closes (application deadline)	May – June 2017
Application review and approval	June 2017
Announce successful projects	Fall 2017
Successful projects proceed to the Ontario Energy Board for approval	August 2017 – January 2018
Construction begins	Spring 2018
Projects start coming into service	2019
Last milestone payment under the program	March 2021

Proposed TB/MBC Minute

Approve the expanded Natural Gas Economic Development Grant Program. In this regard:

i) Approve the expanded Natural Gas Grant program (“the Grant program”), which will include:
   a) Competitive intake process;
   b) Funding for capital projects to expand access to natural gas and liquefied or compressed natural gas;
   c) A project selection framework focused on energy affordability and rural and agri-business economic development.

i) Approve the launch of the Grant program at the 2017 Rural Ontario Municipal Association (ROMA) Conference scheduled from January 29 to 31, 2016.

i) Approve the cancellation of the $200 million Natural Gas Access Loan program (“the Loan program”) to partially offset the increase in the Grant program.

i) Note that the Ministry of Infrastructure has identified the following offsets, which will offset the remaining fiscal impact of the program
   d) $12,162,000 over three years (from 2017-18 to 2019-20) from the Municipal Infrastructure Investment Initiative transfer payment; and
   e) $124,700,000 over two years (2018-19 and 2019-20) from a notional allocation for the Strategic Community Infrastructure Fund (SCIF) under the Moving Ontario Forward – Outside the GTHA.

i) Note that the Ministry of Infrastructure will reduce its future approval request under Strategic Community Infrastructure Fund to $48,900,000 in 2018-19 and $389,500,000 in 2019-20.

i) Note that the Ministry of Infrastructure will return through the 2017-18 PRRT to provide further details on future year fiscal implications.

i) Direct the Ministries of Infrastructure, Energy and Agriculture, Food and Rural Affairs to work together to report back to TB/MBC on program parameters and program administration details prior to the launch of the intake process in March 2017.

i) Direct the Ministries to work with the Ministry of Finance, Premier’s Office and Cabinet Office to develop an appropriate communication plan.

i) Recommend the Legislation and Regulations Committee (LRC) revoking the Order-in-Council issued to authorize ministries making loans in accordance with the Loan Program.

Appendix – OEB Regulatory Review

- The following table outlines a comparison of the OEB's decisions as part of its regulatory review on natural gas expansion, compared to requests made by the province's major natural gas distributors:

Key Union and Enbridge Proposals	OEB Decision
• Allow expansion surcharges directed at customers attaching to new systems.	• "Stand alone" rates or surcharges for new customers are now allowed. • Utilities will have to keep these rates stable for at least 10 years.
• Allow "incremental tax equivalent" (i.e., municipalities refund the additional property tax revenue they receive as a result of utility investments).	• Voluntary municipal contributions allowed.
• Reducing profitability index to allow projects with lower profitability to be undertaken.	• Not accepted. • With the ability to set "stand alone" rates or surcharges, there is no need to change the profitability index.
• Subsidization of expansion costs through higher rates charged to existing customers.	• Not accepted. • With the ability to set "stand alone" rates or surcharges, there is no need to charge higher rates to existing customers.

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