MINISTRIES OF INFRASTRUCTURE, ENERGY AND AGRICULTURE, FOOD AND RURAL AFFAIRS

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

NATURAL GAS GRANT PROGRAM PROPOSAL

January 24, 2017

DRAFT CONFIDENTIAL

NATURAL GAS GRANT PROGRAM PROPOSAL

1.0 MINISTRY REQUEST

The Ministry of Infrastructure (MOI), the Ministry of Energy (ENERGY) and the Ministry of Agriculture, Food and Rural Affairs (OMAFRA) ("the Ministries") are requesting that Treasury Board/Management Board of Cabinet:

A. Approve the enhanced Natural Gas Grant Program ("the Grant program"), which will include:
   i. Competitive intake process
   ii. Funding for capital projects to expand access to natural gas and liquefied or compressed natural gas
   iii. Project selection framework focused on energy affordability and rural and agri-business economic development

B. APPROVE an increase of the Natural Gas Program transfer payment line to $5,554,000 in 2017-18, $53,051,100 in 2018-19, $33,452,400 in 2019-20, and $7,792,500 in 2020-21.

C. APPROVE the cancellation of the $200 million Natural Gas Access Loan Program ("the Loan Program") to partially offset the increase in the Grant Program.

D. NOTE that the Ministry of Infrastructure will reduce its future approval request under Strategic Community Infrastructure Fund by $15,002,800 in 2018-19 and $8,000,000 in 2019-20 to partially offset the increase in the Grant program.

E. RECOMMEND an Order-in-Council (OIC) revoking the OIC No. 1367/2016 (dated September 21st 2016) which authorized the Minister of Infrastructure and the Minister of Energy to make loans under the Loan Program.

F. DIRECT the Ministries to work together to finalize and implement the enhanced Grant Program.
   i. As part of this, the Ministries will work with the Ministry of Environment and Climate Change on the greenhouse gas emissions component of the assessment framework.

G. DIRECT the Ministries to work with the Ministry of Finance, Premier's Office and Cabinet Office to develop an appropriate communications plan.

H. NOTE that the Ministries will report through the PRRT process to address out-year implications.

2.0 PURPOSE OF REQUEST

The Ministries are requesting TB/MBC approval to increase the $30.6 million Natural Gas Economic Development Grant to $100 million (2017-18 to 2020-21) and cancel the $200 million Loan Program to partially offset the increase in the Grant Program.

TB/MBC approval is required at this time in order to announce the enhanced Grant Program at the 2017 Rural Ontario Municipal Association Conference (January 29 – 31, 2017). Intake for the Grant Program would open in March 2017.

3.0 KEY CONTEXT

- The $200 million Natural Gas Access Loan Program and the $30 million Natural Gas Economic Development Grant program were part of the Ministries' 2014 mandate letter commitments and subsequently affirmed in the 2015 and 2016 provincial Budgets.
- Budget 2016 committed to launching the Loan Program prior to the end of 2016. The Grant Program was being targeted for launch sometime in 2017.
- The Loan Program was approved by TB/MBC in September 2016 noting the out-year fiscal impacts and was tracking for approval in the 2017-18 PRRT. In light of recent developments (see below), the program has not been launched yet.
- On November 17, 2016, the Ontario Energy Board (OEB) completed a 10-month proceeding on the review of regulatory mechanisms to support the expansion of natural gas in the province.
    - As a result of the OEB's decisions, the number of expansion projects expected to move forward are significantly fewer than anticipated by distributors (e.g., 3 projects compared to 29 initially forecasted by Union Gas).
- Therefore, a more significant level of support is needed in order to support expanded access to natural gas in the province, which is better addressed through grant-based funding as opposed to interest-free loans.
    - There has been limited interest from municipalities and First Nations in borrowing under the Loan Program to fund the construction of natural gas infrastructure that would ultimately be owned by distributors.
- Cancellation of the Loan Program provides a partial fiscal offset to enhance the Grant Program which is expected to better address the funding gap that remains.

Natural Gas Grant Program – Design Overview

The proposed design of the enhanced Natural Gas Grant Program is outlined below. The Ministries will finalize the assessment criteria in advance of program launch.

Parameter	Description
Purpose	• Improve **energy affordability** (primary), as well as promote economic development.
Program Size	• A total grant size of **$100 million over four years** (2017-18 to 2020-21) is proposed.
Eligibility	Joint applications by: • Municipalities OR Indian Act (Canada) Band Councils OR Local Services Board, AND • Natural Gas, Liquefied Natural Gas and Compressed Natural Gas Distributors and Suppliers *Fully or partially unserved municipalities and First Nations would be eligible. More than one application per community could be submitted if more than one utility is interested in serving the community.*
Project Types	• Capital projects to build new natural gas pipelines or compressors and other related capital works. • Capital projects to build liquefied or compressed natural gas infrastructure, including pipelines, liquefaction facilities, regasification facilities, storage facilities and other related capital works.
Key Assessment Criteria	All projects would be ranked primarily according to how much they improve **energy affordability**. Consideration could be given to metrics such as: • Number and volume of new natural gas connections • Cost per new connection • Annual energy cost savings per connection • Impact on greenhouse gas emissions In addition, separate economic development criteria could be developed to target economic development, primarily rural and agri-business projects, either through a dedicated stream under the grant program or by integrating economic development assessment criteria into a single scorecard for all projects. The Ministries would work with Ministry of Environment and Climate Change (MOECC) to develop an appropriate assessment framework for the greenhouse gas emissions impact of proposed projects and how much emphasis would be placed on this criterion as part of the overall assessment.

Requirements to maximize rate-based and municipal contributions	• All projects would be required to utilize stand-alone rate or surcharges, and incremental tax equivalent (ITE) contributions from municipalities, or provide an explanation of why such contributions cannot be made. • Utilities could be encouraged to offer new customers on-bill financing to for equipment conversion costs (e.g., ducting, furnaces, etc.).
Program Timing	• Announce funding envelope and high-level program parameters at the 2017 ROMA Conference (January 29-31, 2017). • Open Intake March 2017 and provide applicants approximately 90 days to prepare applications. • Successful projects identified in fall 2017. Approvals would be conditional on OEB rate-setting and leave-to-construct approval. • Construction begins as early as spring 2018 (conditional on OEB approval). • Projects would likely start to come in-service (i.e., customers start to hook up) in early 2019.

Natural Gas Grant Program – Delivery

OMAFRA or Infrastructure Ontario (IO) could deliver the Grant Program, including signing Grant Agreements and making transfer payments to successful recipients. The Ministry of Infrastructure will transfer the required allocation for the Grant Program to OMAFRA or IO through an in-year submission.

An overview of the program delivery process is as follows:

Application Intake

- Guidelines and application forms/business case templates are made available in March 2017.
- Applicants are given 90 days to apply.
- Applications submitted to and assessed by OMAFRA or IO for eligibility.

⇩

Project Evaluation

- MOI, ENERGY, OMAFRA and MOECC assess expansion projects on the basis of energy affordability, economic development and greenhouse gas emissions impacts.

⇩

Funding Decision

- MOI approves grant requests for natural gas infrastructure projects.
- Conditional approval is provided (potentially to multiple projects), and successful applicants are notified.

⇩

Ontario Energy Board

- Proponents seek OEB approval for a rate setting and leave-to-construct (if applicable) application.

⇩

Grant Agreement and Reporting Requirements

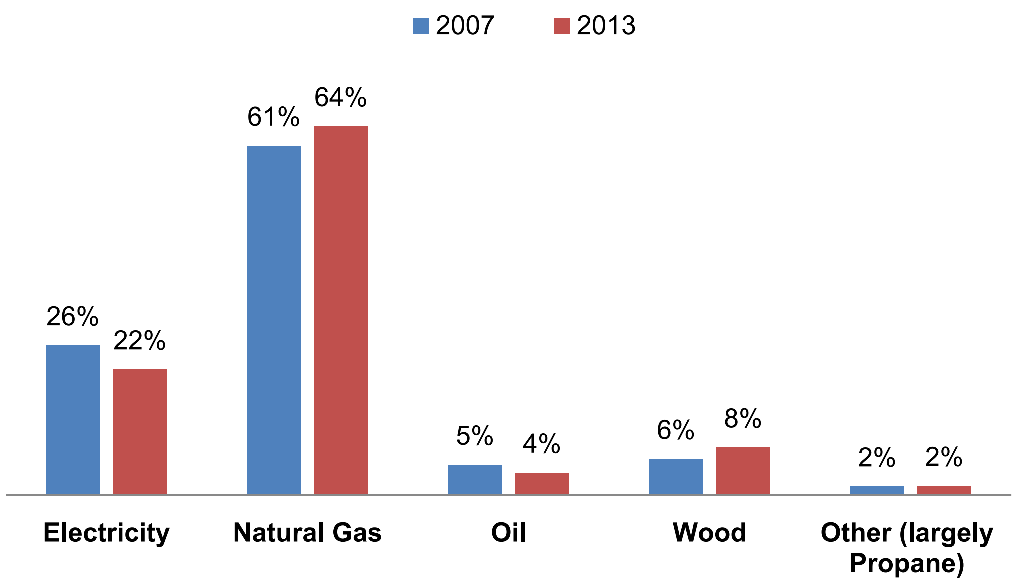
- Following project approval by the OEB, execute draft transfer payment agreements and begin providing funds according to agreements.

4.0 BACKGROUND

Natural Gas as an Affordable Source of Energy

Natural gas is the dominant heating source in Ontario and has historically been cheaper than alternative sources, including electricity, heating oil and propane.

Heating fuel consumption in Ontario

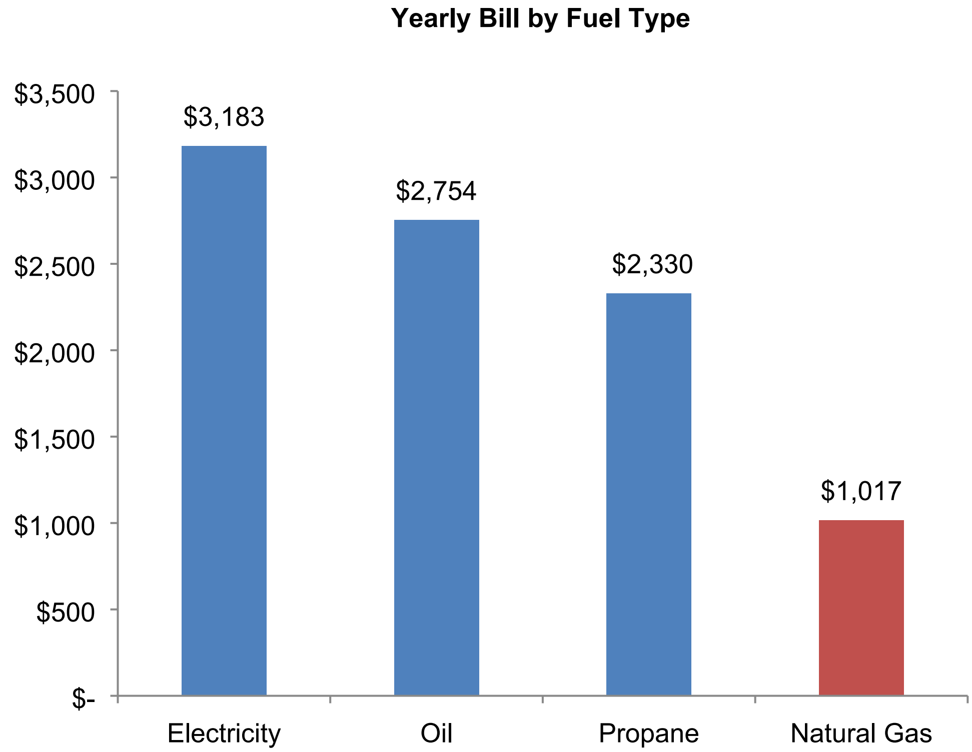


Source: 2014 NRCan Energy Use Data Handbook Tables

In Ontario, customers continue to switch to natural gas where available from other energy sources because of cost savings and reliability.

- An average consumer can expect to save an estimated $2,100 in annual energy costs by using natural gas rather than electricity.*
- An average consumer can expect to save an estimated $1700 in annual energy costs by using natural gas rather than oil.*

*These savings are net of temporary surcharges (estimated at around $500 annually) that could be levied by distributors on new customers.



Source: Estimated projections prepared by the Ministry of Energy (January 2017). Estimates include cap and trade, HST and rebate. Based on Enbridge Gas conversion calculator available at https://www.enbridgegas.com/homes/start-stop-move/why-switch-natural-gas/calculate-savings-calculator.aspx for a house with a natural gas bill of $900 before tax for space and water heating (typical Enbridge customer). Figures include estimated rate increases in natural gas, oil and propane as a result of cap and trade and decreases in electricity costs as a result of the 8% electricity rebate. Does not include surcharges or higher standalone rates new expansion natural gas customers would face.

To achieve these savings, customers would need to replace or convert the equipment in their home (e.g., ducting, furnaces, etc.) so it can be fuelled by natural gas. Submissions put forward as part of the OEB Generic Hearing on Natural Gas Expansion (EB-2016-004) included a variety of competing estimates for conversion costs. One estimate suggested costs can range from over $10,000 to convert from electricity to $1,525 to $4,000 to convert from oil or propane.[1] There may also be additional costs to certain customers to connect to the gas utility's distribution network (e.g., connection from house to a distribution main). Actual conversion cost for homeowners may be subject to significant uncertainty and variability.

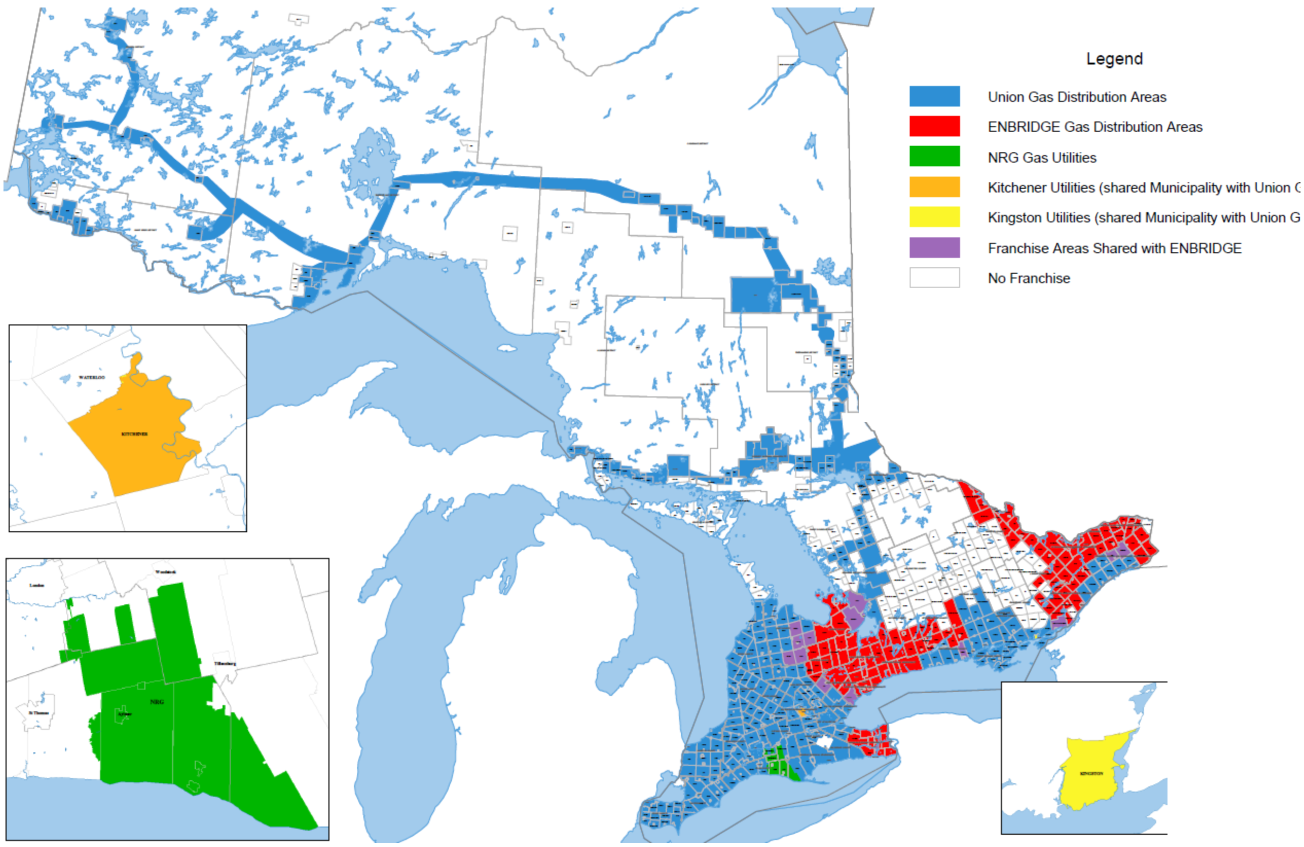
[1] Union Gas evidence, EB-2015-0179, Exhibit A, Tab 1 UPDATED, page 20 of 47, filed 2015-12-14.

Natural Gas Expansion in Ontario

Natural gas infrastructure is owned by utilities. Expansions are currently funded under a rate-payer model regulated by the OEB.

Ontario is mainly served by two large investor-owned natural gas distributors: Union Gas (approximately 1.4 million customers) and Enbridge Gas (approximately 2 million customers).

Natural Gas Franchise Areas in Ontario*



Source: Union Gas
*Note: The map indicates areas that have Franchise Agreements in place with a natural gas distributor. However, not all areas may currently have a natural gas system in place.

Gas distributors must seek permission from the OEB via a leave-to-construct application to build new natural gas infrastructure in a community.[2] As part of its review, the OEB examines the economics of the project to ensure that the total portfolio of expansion projects in a gas distributor's proposal do not lead to undue

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[2]Only applies to projects that meet one of the following criteria: the diameter of the pipe is 12 inches or greater; the operating pressure is equal to or greater than 2,000 kilopascals; the cost of the project is greater than or equal to $2,000,000; the length of the pipe required exceeds 20Km.

rate increases for existing customers. While a distributor cannot increase rates on existing consumers to subsidize proposed expansion projects, an expansion portfolio itself can blend projects with customers that are less costly with those that are more costly. The OEB also sets a limit as to how unprofitable a single project can be (called the "profitability index"). In cases where a project is below the feasibility threshold, the distributor may ask the new customers to pay to offset the additional costs.

Existing Efforts to Support Natural Gas Expansion

Communities, rural and northern areas in particular, see access to natural gas as an opportunity to lower heating costs and drive economic development. The Ontario Federation of Agriculture, for instance, has indicated Ontario farms and rural businesses rely heavily on sound infrastructure and competitive energy rates, and the extension of natural gas pipelines to rural Ontario would provide a significant economic boost to the region.

However, most areas of the province where it is economic for gas utilities to expand the system under the existing OEB rules have been connected. Connecting small, rural or remote communities can be cost-prohibitive because they are located far from existing natural gas distribution facilities and/or the population density is low. These communities continue to face a funding gap in accessing natural gas.

- Based on a sample of 101 communities (43,735 potential customers) submitted by Union as part of its 2015 expansion proposal to the OEB, the average gross capital cost of connecting these communities is approximately $35,137 per potential customer.
- Similarly, based on a sample of 39 communities (20,490 potential customers) submitted by Enbridge as evidence into OEB generic review process, the average gross capital cost of connecting these communities is approximately $39,360.
- Comparatively, connections that have been deemed economic and completed in the past few years cost approximately $5,000 per customer.

To date, the provincial focus has been on leveraging regulatory and existing low-cost levers (i.e., the Infrastructure Ontario Loan Program) to help expand access to natural gas.

- On February 17, 2015, the Minister of Energy, in a letter to the Chair of the OEB, encouraged the OEB to examine opportunities to facilitate access to natural gas services to more communities.
- On February 18, 2015, the OEB issued a letter stating that it will hear requests for regulatory flexibility in the context of expansion projects. The OEB invited parties with the appropriate technical and financial expertise

to propose, within their application, any options to address these regulatory issues.

- In response to the letter, Union Gas filed an application in July 2015 with the OEB seeking approval to provide natural gas service to certain communities that do not have access to natural gas. In that application, Union proposed alternative approaches to recover revenues in order to meet the investment needs to expand natural gas service to certain communities in Ontario. Union indicated that under its proposal, it could complete approximately 29 projects to provide natural gas service to 18,000 homes and businesses in 34 communities at an estimated cost of $135 million, without the need for any provincial funding.

In December 2015, the OEB determined that the issues raised in Union's application were common to all gas distributors including new entrants. The OEB therefore decided to establish a generic review process to deal with these common issues and put Union's application on hold. This review was held from February – November 2016, and the OEB received significant response from stakeholders on desired regulatory flexibility to support natural gas expansion. The review process culminated in a decision being issued by the OEB on November 17, 2016, which outlined:

- Natural gas utilities can now charge "standalone" rates to the new customers benefitting from natural gas expansion projects, to help cover the costs of expansion. This is a departure from the previous requirement for utilities to issue the same rates to consumers across the province.
- Utilities are ***not*** allowed to increase the rates of existing customers for the purpose of subsidizing expansion projects for new customers.
- Existing profitability thresholds for projects remain unchanged (as the issuance of higher standalone rates would naturally increase profitability).
- Municipalities may offer "incremental tax equivalents" to utilities if desired (i.e. refund the additional property tax revenue they receive as a result of the utility's investments).

Leading up to this result, regulatory flexibility had remained the most critical piece in expanding access to natural gas. Enbridge and Union had both created substantial expansion proposals predicated on the OEB decreasing the profitability thresholds and allowing the cross-subsidization of expansion projects across existing ratepayers. By allowing utilities to charge standalone rates, the OEB has provided a new tool to help utilities increase the profitability of projects and expand into new communities. However, in keeping with the Board's long-standing practice of not permitting consumers not benefitting from a project to be burdened with the costs of the project, utilities continue to be prohibited from cross-subsidizing projects between new and existing customer. This has significantly limited the expansion that Union and Enbridge thought possible under their proposed regulatory changes.

In parallel to the OEB review process, the province has been making efforts to promote the existing IO Loan Program to help expand access to natural gas. At the Association of Municipalities of Ontario Annual Conference in August 2015, the Province released guidelines to encourage the use of the IO loan program for the purposes of expanding access to natural gas. However, no loan applications have come forward thus far. Reasons could include:

- Natural gas expansion has historically been led by utilities with little or no financial support from municipalities.
- Municipalities may not be aware that these types of loans are eligible under the exiting IO Loan Program, even though municipalities would not own the asset being built (e.g. pipeline).
- It is possible that communities facing large expansion costs are averse to taking on debt for the purposes of financing private natural gas infrastructure, even where there would be a net benefit to residents.

In order to manage stakeholder expectations and show progress on the Province’s commitments around natural gas, the next step is to launch the Grant program. It is expected that the Grant program will provide a number of additional opportunities for natural gas expansion not currently captured by the parameters of the IO Loan Program, including:

- Non-repayable funding will not depend on credit assessments of applicants, and could fund projects that would potentially otherwise be infeasible.
- The Grant program will introduce eligibility to applicants currently ineligible under the IO Loan Program, including First Nations communities.
- The Grant program will introduce eligibility for non-traditional natural gas projects such as liquefied natural gas (LNG) projects:
    - Stakeholder feedback suggests liquefied natural gas could be a cost-efficient alternative to expanding natural gas pipelines to regions where building traditional natural gas pipeline infrastructure is cost prohibitive.
    - Early estimates from distributors indicate infrastructure required to support liquefied natural gas distribution could be as low as one-third the cost of building pipelines to serve certain remote communities.
    - As part of evidence submitted under the OEB’s generic review process, Enbridge indicated that 19 new communities could be connected to liquefied natural gas more cost-effectively than via traditional pipelines.

Climate Change

Residents of municipalities and Indigenous communities applying to the Grant Program would be switching from a mix of fuels – electricity, propane and fuel oil. As such, it is not possible to know the exact greenhouse gas (GHG) emissions impact of the program in advance. Residents switching from propane and fuel oil would reduce their carbon emissions, while residents switching from electricity would increase their emissions under the current electricity supply mix.

As part of program design, consideration was given to limiting eligibility for grants to consumers and projects switching from oil, propane, diesel or other more GHG-intensive fuel sources relative to natural gas. However, this would likely:

- Limit uptake for the Grant program by excluding electricity consumers who would see the greatest annual savings in energy costs from switching to natural gas.
- Be challenging to implement at a local level as underserved/unserved communities are currently using a mix of fuel sources.

Residents switching from fuel oil, propane or electricity to natural gas will see a significant financial benefit through reduced energy expenditures. These savings could be used to finance other GHG reducing initiatives such as home efficiency upgrades.

Cap and Trade Program

Natural gas distributors (producing over 25,000 tonnes or more of greenhouse gas emissions) are included under the province’s cap and trade program, which came into effect January 1st, 2017. To cover the costs of compliance with the cap and trade program, the OEB has approved an interim rate of approximately $0.033 per cubic metre of natural gas in 2017. This is anticipated to result in an increase of $68-80 dollars per year to the average residential gas utility customer.

It is expected that over the long term, the cap and trade program will create further upward pressure on the price of natural gas, eroding the savings over other energy alternatives, such as electricity. However, the exact impact that the cap and trade program will have in this regard is difficult to predict. It is expected that despite the potential impacts of the cap and trade program, natural gas will remain an affordable alternative to other energy sources in Ontario.

Climate Change Action Plan

In the 2016 Climate Change Action Plan, the Province has made commitments to increase the role of conventional and renewable natural gas in the transportation sector:

- Investments of up to $170 million over four years in a new Green Commercial Vehicle Program to help businesses buy low-carbon vehicles and technologies to reduce emissions.

- Investments of up to $100 million over four years to establish a network of natural gas and low- or zero carbon fuelling stations.
- Investments of $20 million over four years for a pilot program to promote the use of renewable natural gas from digestion of agricultural materials and food wastes for transportation.

In addition, the Province has committed to implementing a renewable content requirement for natural gas. This will be supported by an investment of up to $100 million over four years to support renewable natural gas and encourage its use in industrial, transportation and buildings sectors.

The proposed Grant Program would support some of these investments:

- The extension of natural gas infrastructure to rural areas would lead to greater market access for renewable natural gas produced at Ontario farms.
- Eligible applicants for the Grant Program include private sector entities building liquefied and compressed natural gas infrastructure.

Ontario Green Investment Fund

Ontario has invested $100 million from the Ontario Green Investment Fund to enhance the existing home energy audits and retrofit programs offered by Enbridge Gas Distribution and Union Gas. This investment will help about 37,000 homeowners across the province conduct audits to identify energy-saving opportunities and then complete retrofits, such as replacing furnaces and water heaters, and upgrading insulation. Homeowners who heat their homes with natural gas, oil, propane or wood are eligible under the programs.

This program is not intended to incent fuel switching and this is reflected in the program design and marketing (i.e., rebates do not prefer one fuel over any others and no efforts are made to encourage homeowners to switch fuels as part of program participation). However, a homeowner wishing to convert heating equipment to natural gas is able to do so under the program for a maximum grant of $2,100 (depending on the natural gas distributor).

Ontario Rebate for Electricity Consumers Act, 2016

In November, 2016, the Government passed the *Ontario Rebate for Electricity Consumers Act, 2016.* Since January 1st, 2017, the Act has been reducing pre-tax electricity bills by 8% for about 5 million residential consumers, farms and small businesses. This is expected to lower the average household bill for electricity consumers by about $130 per year.

5.0 TIMING

The enhanced Grant Program could be announced at the 2017 ROMA Conference. The table below sets out illustrative timelines for program launch, and review and approval of potential projects. It is reasonable to expect that projects will begin to come into service (i.e., customers would be able to connect to natural gas) in 2019.

Milestone	Estimated Timeline
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

6.0 FINANCIAL IMPACT

- The Grant Program has an existing allocation of $30.6 million over three years (2018-19 to 2020-21) approved under the 2016-17 PRRT.
- Cancellation of the Loan Program would provide a partial fiscal offset ($46.2 million from 2017-18 to 2020-21) to enhance the Grant Program.
- The remaining $23 million increase in the Grant Program (for a total of $100 million) would be offset by a reduction in the Ministry of Infrastructure's notional allocation for the Strategic Community Infrastructure Fund.

Grant program administration expenses would need to be managed from within the overall grant envelope. Program administration expenses will depend on final *program design as well as nature and quantity of applications. A preliminary estimate is $1 million (1% of the total program envelope).*

Estimated Natural Gas Grant Program Offsets						
$M	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Existing Natural Gas Grant Program Allocation	0.0000	0.0000	15.2000	7.7000	7.7000	**30.6000**
Loan Program Offset - *existing allocation*	0.1500	1.5000	1.5000	1.5000	0.0925	**4.7425**
Loan Program Offset - *Municipal Asset Management Planning*	0.0000	4.0540	4.0540	4.0540	0.0000	**12.1620**
Loan Program Offset - *Transfer from SCIF*	0.0000	0.0000	17.2943	12.1984	0.0000	**29.4927**
Transfer from SCIF to Natural Gas Grant Program	0.0000	0.0000	15.0028	8.0000	0.0000	**23.0028**
TOTAL	0.1500	5.5540	53.0511	33.4524	7.7925	**100.0000**

Rationale for Using Strategic Critical Infrastructure Fund (SCIF) to offset program increase

SCIF is an unallocated portion of Moving Ontario Forward Outside the GTHA funding. The fund was intended for infrastructure projects outside the GTHA, in response to feedback received as part of Moving Ontario Forward consultations in summer 2015.

The projects that are expected to move forward under the Grant program exist almost entirely outside the GTHA, and would provide significant economic benefit to small, rural and northern Ontario communities. This is consistent with the purpose of SCIF.

7.0 STAKEHOLDER ANALYSIS

STAKEHOLDER	FEEDBACK SUMMARY
MUNICIPALITIES AND INDIGENOUS COMMUNITIES	• Concerned about energy fairness and want the opportunity to share in affordable supplies of natural gas. • Primarily looking for funding to help offset the upfront costs of expansion, as well as consumer conversion costs.
UNION and ENBRIDGE GAS *Established utility seeking to maximize connections by leveraging regulatory flexibility*	• Provide funding to marginally (un)economical projects with a minimum of 50 existing homes/businesses. • Projects must leverage flexibility (i.e., customer surcharge, increases in rates for existing customers and municipal property tax equivalent contributions). • Provincial funding should not support establishment of new utilities. • Customers should be responsible for conversion costs (e.g., furnace, ducting, etc.,).
EPCOR *New entrant trying to incent new customers to attach and build a rate base*	• Provincial funding should be used to subsidize consumer conversion costs. • EPCOR is seeking a combination of grants and loans to help fund consumer conversion costs.

NORTHEAST MIDSTREAM
New entrant developing a greenfield LNG distribution system
	• Natural gas programs should be open to private-sector proponents.
	• Eligible costs should include:
	  ○ Capital expenditures associated with the creation of LNG distribution systems
	  ○ 50% of consumer conversion costs
	  ○ Acquisition of LNG supply capacity

ONTARIO FEDERATION OF AGRICULTURE *Seeking to maximize access for individual*	• Provincial funding support to expand natural gas to rural households and farm businesses. • Provincial funding in the form of loans and grants to support contributions-in-aid-of-construction by individual property owners (e.g., cost of traversing the property

farm owners	setback) and equipment conversion costs.
MUNICIPALITY OF CHATHAM-KENT AND CEDARLINE GREENHOUSES *Seeking to expand natural gas delivery to greenhouses to serve these businesses year-round*	• Chatham-Kent region has existing access to natural gas. Existing Greenhouses (such as Cedarline) are seeking to expand existing capacity, and potentially attract new greenhouses to the region. • Interest in obtaining funding that would support "uninterruptible" supply of natural gas to greenhouses in the municipality.

Stakeholder Impact

Overall, stakeholder reaction to the launch of the Grant Program is expected to be positive. During discussions on the Loan program, many stakeholders spoke to the desire for non-repayable funding. Moving towards a larger Grant program in place of the Loan program could be interpreted as a significant positive stakeholder outcome.

However, if program criteria exclude contributions-in-aid-of-construction by individual property owners (e.g., cost of traversing the property setback), the OFA will likely react negatively as this will not provide the requested benefit to farm property projects. These concerns could be addressed through focusing the economic development component of the program on rural and agri-business outcomes and developing a communications strategy focused on the significant savings to consumers, especially farm properties, from switching to natural gas that would enable them to offset the up-front costs of connecting.

Additionally, if program criteria exclude areas that already have natural gas service, Chatham-Kent/Cedarline are likely to react negatively as this would deem their request ineligible.

The Propane Association and Ontario Geothermal Association have opposed subsidies for natural gas, arguing that government programs to expand natural gas create an uneven playing field in the energy sector.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Mitigation

Providing grants to projects that would have gone ahead without provincial funding.	Program guidelines will require applicants to utilize (or explain why they cannot utilize) "standalone rates" or surcharges to ratepayers in expansion communities, and secure incremental tax equivalent contributions from municipalities. This will help ensure applicants are utilizing available rate-based and municipal contributions to lower the amount of grant funding requested.
Climate Change Mitigation	Residents applying to the Grant Program would be switching from a mix of fuels – electricity, propane and fuel oil. As such, it is not possible to know the exact greenhouse gas (GHG) emissions impact of the program in advance. Residents switching from propane and fuel oil would reduce their carbon emissions, while residents switching from electricity would increase their emissions under the current electricity supply mix (the current electricity supply mix is approximately 90% GHG emissions-free). As such, there is a risk that the Grant Program will be seen as inconsistent with the Province's efforts to reduce reliance on fossil fuels. The Ministries would develop a responsive communications strategy that focuses on affordability and complementarity with other provincial efforts. The key message is that expanding access to natural gas is about energy affordability and providing consumers in underserved areas with more energy choices and lowering energy costs. These savings could be used to finance other GHG reducing initiatives such as building envelope improvements or the purchase of electric vehicles.
Cap and Trade Program increasing the price of natural gas	It is expected that over the long term, the cap and trade program will create further upward pressure on the price of natural gas, eroding the savings over other energy alternatives, such as electricity. However, the exact impact that the cap and trade program will have in this regard is difficult to predict. It is expected that despite the potential impacts of the cap and trade program, natural gas will remain an affordable alternative to other energy sources in Ontario.

9.0 JURISDICTIONAL ANALYSIS

Implementing the Grant program would place Ontario in a unique position in terms of the size and scope of a provincially-administered natural gas expansion program. The most similar program in Canada is provided by the province of Alberta, which has allocated funding to a natural gas umbrella organization, Federation of Alberta Gas Co-ops, to administer a rural gas expansion program.

Provincial energy corporations in Saskatchewan and Manitoba have provided loan programs to customers to promote energy-efficient upgrades, including to natural gas systems. These programs have not been provided interest-free, and are limited in terms of the size of loans provided.

In some jurisdictions in the United States with relatively mature natural gas markets, regulatory flexibility has been an important factor to natural gas expansion. Flexibility has largely included adjusting factors used in economic tests to make projects more feasible. This has included extending the development period (New York, Connecticut) and rolling in conversions-in-aid-of-contribution as part of tests (Maine).

It is also worth noting that some jurisdictions in Canada provide on-bill financing for conversion costs associated with switching to natural gas. Some of these programs provide limitations on borrowing amounts.

10.0 LEGISLATIVE AND REGULATORY REQUIREMENTS

The ministries are seeking the revocation of OIC No. 1367/2016 which is the previously-approved OIC that was provided in support of the establishment of the Natural Gas Access Loan.

11.0 TRANSFER PAYMENT ACCOUNTABILITY

If the request is approved by Treasury Board/Management Board of Cabinet and ratified by Cabinet, the Ministry will work with legal to create a grant agreement. The agreement will include the following accountability provisions:

- Description of the intended use of the funds including the specific purpose for which the funds will be used and the nature of eligible expenditures;
- Report-back requirements, including periodic reporting on the use of the transfer funds;
- Right to independent verification/audit; and
- Right to recover funds if the funds were not used or will not be used for the intended purpose.

12.0 PERFORMANCE MEASURES

Performance measures will be developed as the detailed program design is finalized.

Evidence-Based Decision-Making

As recommended by TB/MBC's Centre of Excellence in the new Framework for Evidence-Based Decision-Making in the OPS, this proposal was developed using the best available analytics, research and information. The proposed program design reflects:

- Strategic alignment – open, flexible program design addresses a variety of financial barriers faced by communities and LNG providers to expand access to natural gas
- Impact – by providing a large grant program, the province will be able to expand affordable energy choices to consumers who would not be able to access such choices through standard market mechanisms
- Learning – by broadening the eligible applicant pool, the proposed program addresses some of the barriers posed by the existing IO Loan Program

13.0 COMMUNICATIONS

The enhanced Grant Program could be announced at the 2017 ROMA Conference with key messages as follows:

- The new grant program will provide approximately $100 million to help expand natural gas access to more communities across Ontario.
- Municipalities and First Nations will be able to work with utilities to bring forward proposals and we will select the communities that are most in need of more affordable energy.
- We are aiming to open the program up for applications in March. Detailed guidelines will be available at that time.
- The increased funding will help households and businesses, including those in small and rural communities, save up to $1,600 in heating costs every year.
- The economic development component of the program will include a focus on rural and agri-business outcomes.

Communications Objectives

- Create awareness that the Province is launching a new $100 million Natural Gas Grant Program.
- Demonstrate that the government understands the need to expand access to natural gas and increase energy affordability to unserved, rural and northern communities.
- Create an understanding of the key components of the program including who is eligible and when the application process will open.
- The new grant program directly reflects the objectives outlined in the Premier's 2016 mandate letter about helping communities access natural gas and supporting projects with economic development potential.

Strategy and Tactics

Potential rollout approach could include a high profile announcement including a Premier's keynote speech, alongside Minister Chiarelli, launching new grant program at ROMA on January 29/30, 2017.

Media availability following announcement with Ministers Chiarelli, Leal, Thibeault and Duguid, Union Gas and Enbridge, to provide technical details on the new program (timing, funding, etc.).

Communications products to support announcement would include:

- news release
- backgrounder
- key messages and QAs
- sustaining social media (twitter) and shareable
- Minister's op-ed
- Minister's call-in radio shows (focus on rural and northern radio stations)
- Stakeholder engagement sessions with key stakeholders as required, to help explain the benefits of the new grant program

Evaluation

Review of local and regional media and social media to determine extent of coverage.

14.0 RECOMMENDATION

The Ministry of Infrastructure (MOI), the Ministry of Energy (ENERGY) and the Ministry of Agriculture, Food and Rural Affairs (OMAFRA) ("the Ministries") are requesting that Treasury Board/Management Board of Cabinet:

A. Approve the enhanced Natural Gas Grant Program ("the Grant program"), which will include:
   i. Competitive intake process
   ii. Funding for capital projects to expand access to natural gas and liquefied or compressed natural gas
   iii. Project selection framework focused on energy affordability and rural and agri-business economic development

B. APPROVE an increase of the Natural Gas Program transfer payment line to $5,554,000 in 2017-18, $53,051,100 in 2018-19, $33,452,400 in 2019-20, and $7,792,500 in 2020-21.

C. APPROVE the cancellation of the $200 million Natural Gas Access Loan Program ("the Loan Program") to partially offset the increase in the Grant Program.

D. NOTE that the Ministry of Infrastructure will reduce its future approval request under Strategic Community Infrastructure Fund by $15,002,800 in 2018-19 and $8,000,000 in 2019-20 to partially offset the increase in the Grant program.

E. RECOMMEND an Order-in-Council (OIC) revoking the OIC No. 1367/2016 (dated September 21st 2016) which authorized the Minister of Infrastructure and the Minister of Energy to make loans under the Loan Program.

F. DIRECT the Ministries to work together to finalize and implement the enhanced Grant Program.
   i. As part of this, the Ministries will work with the Ministry of Environment and Climate Change on the greenhouse gas emissions component of the assessment framework.

G. DIRECT the Ministries to work with the Ministry of Finance, Premier's Office and Cabinet Office to develop an appropriate communications plan.

H. NOTE that the Ministries will report through the PRRT process to address out-year implications.