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**APPrO**  
ASSOCIATION OF  
POWER PRODUCERS  
OF ONTARIO

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**Association of Power Producers of Ontario (APPrO) Response to the  
Notice of Proposal to Make a Rule dated April 9, 2009 (Notice)  
Storage and Transportation Access Rule (STAR)  
EB-2008-0052**

The Ontario Energy Board issued its Notice of Proposal to Make a Rule on April 9, 2009. The Board invited comments from interested parties. APPrO has participated in the earlier stages of the STAR proceeding and has additional comments that it respectfully submits.

As part of the NGEIR Decision, the Board stated that it was necessary to ensure consumer protection within the competitive storage market and to ensure non-discriminatory access to transportation services for storage providers and customers. The Board concluded that it would initiate a process to develop rules of conduct and reporting related to storage and noted that there was merit to the development of a STAR. The purpose of the proposed STAR is to establish rules of conduct and reporting requirements to meet the Board's objectives. Based on stakeholder comments, the Board has refined the objectives as follows:

- Ensure open, fair and non-discriminatory access to transportation services for customers and storage providers;
- Provide customer protection within the competitive storage market; and
- Support transparent transportation and storage markets.

APPrO supports the objectives of the STAR. APPrO also has reviewed the proposed STAR issued by the Board on April 9, 2009. APPrO generally agrees with the Board on the majority of proposed rule as published. APPrO does however disagree with the proposed STAR and believes that there is a need to provide pricing information related to the sale of storage services.

Two of the underlying objectives of the STAR as noted above relate to customer protection within the competitive storage market and transparency of storage markets. These objectives underpin many elements of the STAR developed by the Board. However, in APPrO's view, these objectives cannot be fully accomplished without some form of price transparency.

Section 4 of the proposed STAR does require that the storage companies post an Index of Customers on a monthly basis. APPrO agrees that posting of these storage customers will help in understanding which parties have been successful in prior open

seasons and these storage customers may in fact be approachable to determine if they are interested in participating in the secondary market. The posting of Index of Customers will assist with transparency but, in itself, is an insufficient condition to providing sufficient transparency for the development of a competitive market.

Storage pricing is a combination of intrinsic and extrinsic values combined into a single price. Parties bidding on storage services offer a price that is reflective of the sum of these values over the duration of the storage contract. Storage companies have often suggested that looking at the forward curves (intrinsic value) is all that is necessary to get an estimate of the storage value at any point in time. APPrO agrees that the intrinsic value is a function of the marketplace and readily determined. Certain segments of the marketplace do recognize the option value of storage to take advantage of the volatility of the marketplace (extrinsic value). The extrinsic value of storage is company specific and those companies placing a high value on this aspect of the pricing will often be successful in storage open seasons.

If multiple parties bid on storage, only the winning party and the storage company know the winning price. All other parties bidding in the open season only know that their offer price was too low. They have no idea how much they may have underbid the winning price. Having some form of price disclosure will help future bidding parties better understand how the balance of the market values the extrinsic component of storage. This will allow parties to bid more competitively in the future. The alternative for a company that is unsuccessful in contracting for storage is to bid a higher price that includes a higher extrinsic premium in the subsequent open season. If this is unsuccessful, then continue bidding prices that have higher extrinsic premiums until their bid is ultimately successful. APPrO would suggest that this is a very inefficient process and is counter to the objectives of the STAR. Efficiency of a marketplace is also one of the requirements of competitive marketplace.

On page 17 of the Notice indicates:

“The Board notes that important market information may be in both the terms of service and the contract. Also, this information will allow market participants to make informed decisions (i.e., market participants can use this as a reference point).”

APPrO agrees with the Board on the need for market information and points out that terms and conditions related to pricing represent the most important market information related to the purchase and sale of a product or service. Storage companies usually award storage contracts on the basis of highest price or highest value offered. Absent having some form of price transparency, market participants have no reference points for future decisions.

Also noted on page 18 of the Notice:

“The Board questions the value of aggregate information given the range of potential storage services. The Board is also concerned about the challenges associated with protecting customer-specific information when there are a limited number of transactions.”

APPrO agrees that it may be important to protect customer-specific information when there are a limited number of transactions. However for those limited circumstances where there may be a limited number of transactions, the fundamental principle of

ensuring a competitive marketplace should not be abandoned for the balance of the marketplace. APPrO also notes that storage companies under the Federal Energy Regulatory Commission require price disclosure of all contracts.

APPrO also agrees that the more the pricing information is aggregated, the less valuable the information becomes. Aggregated pricing information is the compromise between the protection of customer-specific information and the need to ensure market efficiency and competitiveness. APPrO believes that there are a number of ways to address the concerns about price disclosure and the way information is aggregated to help make it meaningful and also protect the customer-specific information. APPrO offers some suggestions how this may be accomplished:

- During the NGEIR proceedings, storage companies made numerous references to their standard level of deliverability in their contracts. Since storage companies were unanimous in this regard, and since many storage contracts are for a term of 1 year, it would be appropriate to use this standard form of deliverability and term as the starting point for reporting of pricing information.
- Pricing information related to these types of contracts could be aggregated in some form and reported individually by the storage companies. This could be aggregated on a rolling average basis, on a volumetric weighted average basis or even a simple average basis to protect customer-specific information.
- Contracting for very short term contracts of a few days, weeks or even a few months may be driven by very specific customer requirements. Pricing information related to these types of very short term transactions may provide limited benefit in contributing to a competitive marketplace and could be exempted from the reporting requirements. This exemption could also apply to those storage related transactions where the price is posted by the storage company for anyone to accept.
- For contracts of a term of 1 year or greater with non standard deliverability (either higher or lower than the storage company standard), or other unique services, reporting could be done on some aggregated basis, segregated by deliverability and by contract vintage. For example these might be:
  - i. those higher than the standard and up to 5% deliverability, and,
  - ii. those contracts with deliverability over 5%.

If there were only 1 contract in one these categories, then to protect customer-specific information, some form of aggregation of pricing information could occur, provide the basis for the aggregation was disclosed.

- In the event that the storage company was unable to offer some reasonable form of price aggregation then with the customer permission, this pricing information might be disclosed. Alternatively if the customer does not provide permission to report such price, then the storage company could seek relief from the Board from having to report it or to report it in an aggregated way that deals with the customer-specific concern.

The Board could require storage companies and Board Staff, along with customer representation to develop the necessary methodologies of aggregation and reporting protocols to facilitate the transparency of this information. It may be necessary and reasonable to update these methodologies as conditions change over time. Storage companies could use their current channels for customer consultation or establish an ad-hoc committee for such purpose.

Without some reasonable form of price transparency, a competitive marketplace will not fully develop. APPrO believes that reporting requirements can be established that will not be burdensome to the storage company and also provide useful information to the marketplace and also protect customer-specific information.