

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, C.15, Schedule B;

AND IN THE MATTER OF a Notice of Proposal to
Make a Rule regarding the establishment of a Storage
and Transportation Access Rule.

**Comments of Market Hub Partners Canada L.P.
regarding the Proposed Storage and Transportation
Access Rule (STAR), dated April 9, 2009**

May 25, 2009

Introduction

These comments are submitted by Market Hub Partners Management Inc. on behalf of Market Hub Partners Canada L.P. (“MHP Canada”) in response to the Proposed Storage and Transportation Access Rule (STAR) (the “Proposed Rule”) issued by the Ontario Energy Board (the “Board” or “OEB”) on April 9, 2009.

MHP Canada is a small, affiliated storage operator that is a relatively new entrant to the natural gas storage market in Ontario. MHP Canada operates the St. Clair Pool (1.1 Bcf of working gas capacity) and is a 50% owner, and manager of the development and operation, of the Sarnia Airport Storage Pool (5.26 Bcf of working gas capacity), which is expected to be placed into service this summer. MHP Canada continues to actively seek additional storage development opportunities in Ontario to increase its working gas capacity.

MHP Canada has been an active participant in the Natural Gas Electricity Interface Review (EB-2005-0551) and in the STAR proceeding (EB-2008-0052). MHP Canada has and will continue to advocate for a regulatory framework that: (a) does not unduly burden or diminish the effectiveness of the competitive storage services market in Ontario; and (b) does not disadvantage Ontario storage operators relative to competitors in neighbouring jurisdictions.

For ease of reference, MHP Canada has organized its comments in accordance with the same headings used in the Proposed Rule.

General and Administrative Provisions

Section 1.5 To Whom this Rule Applies

MHP Canada Comments

MHP Canada believes that the Proposed Rule is not sufficiently clear with respect to whom it applies. It is important that all market participants clearly understand their obligations at the outset of the STAR.

In section 1.2.1 of the Proposed Rule, the Board defines a storage company as a person engaged in the business of storing gas. In section 1.5, the Board states that the STAR applies to all natural gas transmitters, integrated utilities and storage companies that are legally permitted to do business in Ontario.

MHP Canada interprets the Board’s definition of a storage company to include only those parties operating physical storage facilities. MHP Canada also interprets section 1.5 of the Proposed Rule to therefore exclude from the requirements of the STAR any participants that offer storage services solely in the secondary market. MHP Canada respectfully requests confirmation of that understanding.

Section 1.6 Coming into Force

MHP Canada Comments

MHP Canada believes that the Board should provide market participants with clear direction with regards to when parties are required to be fully compliant with the STAR. MHP Canada interprets section 1.6 of the Proposed Rule to require full compliance with the STAR when the STAR comes into force (six months after September 11, 2009) and not when the STAR is issued (September 11, 2009). MHP Canada respectfully requests confirmation of that understanding.

Non-Discriminatory Access to Transportation Services

Section 2.1 Allocation of Transportation Capacity

MHP Canada Comments

Section 2.1.2

MHP Canada believes that the open season requirements of section 2.1.2 of the Proposed Rule, as more fully described in section 2.2, are not appropriate for contracting M16 transportation services to embedded third party storage operators.

The M16 transportation service is unique to third party storage operators embedded within the integrated Union Gas Limited (“Union”) system, providing transportation of natural gas between their storage facilities and Dawn.¹ M16 transportation is a regulated service with a Board approved rate schedule and terms of service. In MHP Canada’s experience, there are few variables within the M16 transportation contract: volume, including the quantity of firm and interruptible transportation; term; and where applicable, the amount of aid-to-construct for incremental facilities, including the custody transfer measurement station. Pricing for the M16 transportation service is based on the regulated rate for interconnection with the Union system either east or west of Dawn.

When developing a storage project, a third party storage operator will consider all available transportation options, including various interconnection locations within the integrated Union system as well as a direct connection to Dawn. Each interconnection location within the integrated Union system will be unique, as will be the associated M16 transportation service. For each interconnection point, a third party storage operator will also consider various combinations of firm and interruptible transportation services. MHP Canada’s experience would indicate that the integrated Union system, including all distribution, storage and transmission assets, was not built to serve, *inter alia*, the transportation needs of

¹ From the Union Gas Limited M16 Rate Schedule - “The charges under this rate schedule shall be applicable for transportation service rendered by Union for all quantities transported to and from embedded storage pools located within Union’s franchise area and served using Union’s distribution and storage assets.”

future storage developments. As a result, any firm transportation requirements incremental to available capacity on the integrated Union system would require the construction of additional facilities, which would be funded by the third party storage operator through an aid-to-construct.

The process of selecting an interconnection point and the amount of firm and interruptible transportation is iterative, complex and one of the most critical elements in achieving acceptable project economics and mitigating project risk. Transportation service can impact the type of storage service offered to the market (i.e. firm, interruptible or a combination of both). Accordingly, a third party storage operator requires the ability to explore all available alternatives and to negotiate a transportation service that optimizes project economics and risk.

MHP Canada finds a number of issues with respect to allocating M16 transportation capacity through an open season process. First, a storage operator may have a choice of interconnection locations within the integrated Union system. Each interconnection point is unique and the transportation services provided from each interconnection point may use different assets within the integrated Union system. Second, vital information, such as aid-to-construct costs, will vary based on interconnection point and firm transportation commitment. This makes it difficult to identify aid-to-construct costs to participants prior to any open season process. Third, based on third party storage development rates within Ontario and the fact that the M16 transportation service applies only to embedded storage operators, it is likely that few parties will participate in an open season. Finally, M16 transportation service is structured as an in-franchise service provided to a customer directly connected to and imbedded within the integrated Union system. MHP Canada is not aware of any other in-franchise transportation customer (i.e. residential, commercial or industrial) that is allocated capacity through an open season process.

Accordingly, MHP Canada submits that an open season process for allocating M16 transportation service is not practical, is not supported by market fundamentals and would only serve to restrict the flexibility of third party storage operators to tailor transportation service to their very specific needs. As stated in its September 9, 2008 submission, MHP Canada believes that M16 transportation remains appropriately treated on a first-come, first-serve basis. MHP Canada requests that the Board exempt M16 transportation service from the requirements of section 2.1.2, and in turn section 2.2, of the Proposed Rule when issuing the final STAR. To maintain compliance with sections 2.1.1, 2.1.3 and 2.1.4 of the Proposed Rule, a transmitter's tariff can describe: (a) the first-come, first-serve method of allocating capacity; and (b) the method for allocating capacity and any aid-to-construct costs if two parties were simultaneously seeking comparable M16 transportation service on the same portion of the integrated system.

Section 2.3 Shipper – Standard Terms of Service and Standard Forms of Contracts for Transportation Services

MHP Canada Comments

MHP Canada's interpretation of the Proposed Rule is that section 2.3 does not apply to the M16 transportation service. Rather, section 2.4 addresses standard terms of service and standard forms of contracts for transmitters that provide transportation services to a storage company connected to the transmitter's transportation system. MHP Canada respectfully requests confirmation of this understanding.

Section 2.4 Storage Company - Standard Terms of Service and Standard Forms of Contracts for Transportation Services

MHP Canada Comments

MHP Canada does not object to the Board requiring a transmitter to post its standard form of contract and terms of service. It agrees that if the Board requires transportation contracts, and related transportation agreements, to be posted that approval of these contracts is not necessary.

However, MHP Canada does object to any requirement under section 2.4.5 of the Proposed Rule to post Interruptible Service HUB contracts and enhanced Hub balancing agreements. These agreements cover balancing and parking services which are included in the definition of a storage service in section 1.2 of the Proposed Rule. Further, to the extent that these storage services are interruptible, under section 4.2.2 of the Proposed Rule, the Board would not require a transmitter to include such information in its Index of Customers. Therefore, a requirement to post this type of contract would appear inconsistent.

Reporting Requirements

As a small storage operator in a very large market, MHP Canada supports the development of relevant, simple and non-duplicative reporting requirements that do not disadvantage Ontario storage operators relative to competitors under the jurisdiction of other regulatory authorities.

Section 4.2 Index of Customers

MHP Canada Comments

(i) *Section 4.2.1*

MHP Canada submits that the Index of Customers should be updated on the first day of each calendar quarter to reflect contracts: (a) in effect on the first day of that quarter; and (b) that meet the criteria of section 4.2.2 of the Proposed Rule. Since the Index of Customers is primarily based on FERC practices and competitors in other jurisdictions are governed by those practices, MHP Canada finds no compelling reason for the Board to require an update of the Index of

Customers on a more frequent basis than FERC.² Monthly updating of the Index of Customers is onerous and inefficient and puts Ontario service providers, including small storage operators, on unequal footing with neighbouring FERC-regulated competitors. Therefore, MHP Canada submits that the first sentence in section 4.2.1 of the Proposed Rule should be amended to read:

“On the first business day of each calendar quarter, a transmitter, a storage company and an integrated utility shall update its Index of Customers.”

(ii) Section 4.2.2

MHP Canada believes that the market receives limited value in posting short-term storage services contracts in the Index of Customers. Therefore, in the interest of efficiency, MHP Canada submits that section 4.2.2 (ii) of the Proposed Rule be amended to read:

“For all firm storage contracts with terms of one year or greater in effect the first business day of each quarter, the information as per section 4.2.4; and”

(iii) Section 4.2.3

For clarity, MHP Canada recommends that the Board amend section 4.2.3(iv) of the Proposed Rule to read:

“iv) Firm Contract Quantity (in GJ);”

(iv) Section 4.2.4

Similar to that above, MHP Canada recommends that the Board amend sections 4.2.4(v) and (vi) of the Proposed Rule to read:

“(v) Maximum Daily Firm Withdrawal Quantity (in GJ);

(vi) Maximum Daily Firm Injection Quantity (in GJ);”

In addition, MHP Canada recommends that the Board, in section 4.2.4 of the Proposed Rule, clarify that the requirements of that section apply to firm storage contracts as set forth in section 4.2.2. This is consistent with the wording in section 4.2.3 of the Proposed Rule. Therefore, MHP Canada recommends that the Board amend the first portion of section 4.2.4 of the Proposed Rule to read;

“For all firm storage contracts with a term of one year or greater, a storage company or an integrated utility shall post the following information on the Index of Customers:”

² Code of Federal Regulations, Title 18, Part 284.13 (c).

Section 4.4 Storage Inventory

MHP Canada Comments

MHP Canada would support reporting of storage inventories under the Proposed Rule on a semi-annual basis, similar to the timing requirements of FERC.³

If the Board requires weekly posting of storage inventories, MHP Canada is concerned with the proposed format. In the U.S., storage operators regularly provide storage inventory data to the Energy Information Administration (the "EIA"), part of the Department of Energy. The EIA aggregates the data and publishes storage inventory information weekly on both a national and state-by-state basis. The EIA does not appear to publish its weekly information in a format that would provide data specific to each storage operator. In fact, the EIA has the ability to report information as "withheld to avoid disclosure of individual company data".⁴ MHP Canada suggests that the Board adopt this model for reporting storage inventories, which would serve to provide timely information to market participants and allow the Board to access storage inventories for each Ontario storage operator on a confidential basis.

Section 4.5 Design Capacity

MHP Canada Comments

MHP Canada does not see any value in reporting base gas quantity and, therefore, total storage capacity, in sections 4.5.1(i) and 4.5.1(ii) of the Proposed Rule. MHP Canada believes that working gas capacity represents the total storage capacity and is the only capacity-related information relevant to market participants and the Board. Accordingly, MHP Canada submits that sections 4.5.1(i) and 4.5.1(ii) should be removed prior to issuing the final STAR. Further, total working gas capacity can be utilized in the storage inventory reporting suggested by MHP Canada.

Since gas injected and withdrawn from storage is physically measured by volume (10^3m^3 or MMscf), a heat content conversion ($\text{GJ}/10^3\text{m}^3$) is required in order to report working gas capacity in energy units (PJ). The Board should consider reporting working gas capacity in volume (10^3m^3 or Bcf).

All of which is respectfully submitted on May 25, 2009.

³ Code of Federal Regulations, Title 18, Part 284.13(e).

⁴ www.eia.doe.gov