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November 2, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0199 – 2010 Natural Gas Market Review - Comments of the London Property Management Association

The Ontario Energy Board ("Board") initiated a review of recent developments in North American natural gas supply markets to consider the implications for the Ontario natural gas sector. On July 13, 2010, the Board issued a letter describing the Board process for the 2010 Natural Gas Market Review.

On September 29, 2010, the Board hosted a question and answer session on the report by ICF International Inc. entitled "2010 Natural Gas Market Review". This was followed by a stakeholder conference on October 7 and 8, 2010 during which a number of participants made presentations.

As part of the August 20, 2010 letter concerning the stakeholder conference, the Board set out a list of the topics for discussion at the stakeholder conference. The Board also indicated that the overall objective of the Natural Gas Market Review was to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. The Board indicated that it intended to assess the impact of changing dynamics in North American natural gas supply markets, particularly due to increased shale gas production at Marcellus, on the Ontario energy sector over the next 3-5 years. Included in the review was the impact on prices, services and transportation infrastructure utilization.

The Board identified that a specific objective of the review was to assess the need, if any, for further regulatory initiatives in response to the impacts identified.

These are the comments of the London Property Management Association ("LPMA") in relation to the 2010 Natural Gas Market Review. Comments have been provided on the four questions posed in the August 20, 2010 letter. General comments have also been provided.

General Comments

a) Changing Dynamics & Uncertainty

The ICF Market Report concludes that more gas consumed in Ontario will be sourced in the U.S. and that less gas from the Western Canadian Sedimentary Basin ("WCSB") will flow into and through Ontario. Moreover, more of the gas consumed in Ontario or flowing through Ontario is likely to enter Ontario from Michigan through pipelines connected to Dawn.

While providing better access to a wider supply source for the gas commodity would help moderate increases in the commodity price, lower volumes transported on the TCPL mainline are likely to increase the associated tolls. This is likely to affect customers in Northern and Eastern Ontario significantly more than customers in Southern Ontario.

LPMA is concerned that there was no scenario analysis done as part of the ICF Market Report. There appears to be a significant amount of uncertainty surrounding the Marcellus shale in particular. The production capacity of the area, along with the growing environmental uncertainties (as seen in Quebec, for example) could significantly alter the short to medium term outlook for this potential supply into Ontario.

LPMA believes that, as a result, the market is likely to react conservatively until more of the issues are known and at least partially resolved. LPMA believes that the Board should also react conservatively in the face of the current unknowns.

b) Need for New Infrastructure

Based on the information provided by ICF Consulting International Inc. and on the material presented by various parties at the stakeholder conference, LPMA does not believe that there will be need for any significant expansion of natural gas pipelines in Ontario. Indeed, the only specific expansion identified throughout the consultation was the potential expansion of the TCPL system from Parkway to Maple. This expansion, which would not necessarily fall under OEB jurisdiction, would enable parties including Union and other market participants to move more gas transported through Southern Ontario, either from or through Dawn and potentially through Niagara to Eastern Ontario rather than relying on gas moved through Northern Ontario on the TCPL mainline. This could result in reduced gas costs (commodity and transportation) to those customers.

The other potential expansion was identified by the City of Timmins in their presentation material. The Great Lakes interconnection at Sault Ste. Marie feeds a transmission line that runs east to Elliot Lake. Union Gas operates a transmission line that runs west of the TCPL mainline at North Bay to the Espanola area. According to the Timmins submission this leaves a gap of approximately 40 miles. The Timmins submission suggests that the linking of these two systems, with some attendant looping of the systems currently in place could provide some access to alternative supplies for Northern Ontario customers. LPMA believes that this option should be investigated. The potential costs of the expansion and what capacity could be moved through the system could be compared to the potential gas commodity and transportation savings that would result.

The only potential for major new infrastructure requirements, in the view of LPMA, would be if it were economical and competitive to service more of Northern Ontario from the south rather than from the west. Since no party raised this possibility during the consultation it is not likely to be a viable alternative in the near term.

c) Existing Infrastructure

Part of the reason for a limited need for new infrastructure is the fact that a number of export points to the U.S. can be reversed to import gas. As some participants have indicated, this is already happening at Niagara. It has also been suggested that it could happen at other export points, depending on what happens on the U.S. side of the border.

Similarly, there is already significant capacity from Michigan to Dawn. If additional capacity is required, LPMA believes that market forces will determine how and when the additional infrastructure is put into place. The Dawn Gateway Pipeline is such an example.

d) Increasing TCPL Tolls

In the absence of increasing TCPL tolls, LPMA believes that parties would be hard pressed to find anything negative about the changing dynamics of the supply to the Ontario gas markets, particularly with respect to Marcellus shale production. More gas would be sourced closer to the province. Lower transportation costs and increased diversity of supply would be seen as positive developments for consumers in Ontario.

However, as emphasized throughout the consultation, Marcellus shale gas is likely to speed up the reduction in gas moved through the TCPL mainline. The volumes transported would likely decline even in the absence of the Marcellus production reflecting declining production in the WCSB and the increase in demand for gas in Alberta, most notably for oil sands projects.

The addition of Marcellus production adds another level to the decline. Even if no Marcellus gas was consumed in Ontario, it will impact on the TCPL volumes transported as it displaces a significant amount of gas that has been exported to the U.S. Northeast. In the absence of a reduction in the revenue requirement of the TCPL mainline or a move to negotiated rates, this volume reduction will result in an increase in tolls on the remaining volumes that flow through Northern Ontario. As noted elsewhere in these comments, the increase in TCPL tolls will have significantly different impacts in different parts of the province.

Question 1 - Given the changes identified in the ICF Market Report, what might be the opportunities for Ontario gas market participants (i.e., producers, storage providers, transmitters, distributors, wholesale and retail gas marketers, gas generators, and industrial, commercial and retail users)?

As LPMA has noted in its general comments, there is considerable uncertainty at this point as to what the changes are likely to be and what the magnitude of their impact on Ontario will be. In the absence of any scenario analysis, it is unclear whether the impacts on gas users in Ontario will be significant. There was also little discussion on the potential impact on Ontario gas users by region within the province.

It would appear that gas users in Northern Ontario may be the most adversely affected if the scenario that underlies the ICF Market Report come about because of the likely increase in TCPL mainline toll as volumes on this line continue to decline. Gas users in Southern Ontario appear to be those that may benefit the most from the changes as new supply sources moderate increases in commodity costs and multiple transmission systems enter Southern Ontario. Eastern Ontario appears to be the area where the impacts are least likely to be known at this time. The addition of the Parkway to Maple capacity on TCPL and the potential for importing gas at Iroquois and/or Quebec may moderate the impact of rising TCPL tolls.

While there appears to be limited potential for additional storage development in Ontario at such points as Niagara, there may be potential to access more U.S. based storage and import gas into Ontario during the peak demand season. This could require additional import capacity although at this point this would only be speculative. The ICF Market Report indicates that imports at Niagara are likely to be in the shoulder months and not during peak consumption periods.

Question 2 - What might be the challenge for Ontario gas market participants?

The challenge for Ontario gas market participants is that the changes that are likely to occur will result in a more complex and variable gas supply environment. There are likely to be more choices for market participants. However, these increased choices may lead to poor decisions. New facilities may be built on the expectation that they will be utilized for a long term only to find that changing market dynamics have changed the outlook in a few years. Long term contracts may lock market participants into higher cost choices than new options currently not available.

LPMA submits that the biggest challenge to gas market participants in Ontario may well be a lack of co-ordination in the planning process. In addition to the planning within Ontario by Union, Enbridge, TCPL and other potential storage and transmission developers, there is planning that needs to be co-ordinated with neighbouring jurisdictions to ensure that the gas can get to Ontario when and where it is needed.

Question 3 - If, as a result of new gas supply from the Marcellus, new or an expansion of Ontario natural gas pipelines under the jurisdiction of the OEB are proposed, should potential impacts on existing pipeline facilities in the market (in terms of Ontario customers) be considered? If so, why, and what are the implications and/or risks of doing so? If not, why, and what are the implications and/or risks of not doing so?

As noted above, LPMA does not believe that any significant new or expansion of Ontario natural gas pipelines under the jurisdiction of the OEB will be required in the short or medium term. However, if such expansions are required, then the potential impacts on existing pipeline facilities and the corresponding impact on Ontario customers must be taken into account.

In the view of the LPMA, the only way that Ontario customers can be assured that the impact on them is being taken into account is if the Board requires and integrated resource planning process for not only the Ontario gas utilities, but also TCPL and neighbouring jurisdictions. For example, seamless access to regional storage is essential if more gas is to be sourced in the U.S. and imported into Canada. Building additional capacity from Niagara to Kirkwall, for example, needs to be evaluated at both ends of the system. More gas at Kirkwall is only desirable if it can be moved from Kirkwall to where it will be consumed. This may involve an expansion from Kirkwall to Parkway,

Parkway to Maple, or being able to move more gas from Parkway into the Metro Toronto area. At the same time, sufficient gas must be available at Niagara to support the increased capacity to Kirkwall. This may involve additional pipeline capacity from the Marcellus production and/or storage capacity in the area as well as expectations of adequate Marcellus production to serve not only the U.S. market, but also to export to Canada. Each of these sections of lines may be proposed by different parties and co-ordination would be required at all levels, including that of regulatory oversight.

Question 4 - What further action, if any, might the Board undertake on its own or in conjunction with others? Are there areas in which there is need for alignment between the work of the Board and other regulatory agencies? If so, how might that alignment be achieved?

If the production of Marcellus shale gas becomes an important factor in supplying the Ontario market, then Ontario will become more dependent on deliveries from U.S. pipelines to access this new source of supply at the levels required. LPMA believes that market forces will ensure that this occurs. However, the Board has an important role to play to ensure that Ontario customers have access to these markets (production, storage, transportation). Not only should this access be available in the neighbouring jurisdictions, but the Board must also ensure that there is non-discriminatory access within the province to these markets.

LPMA believes that the Board should work closely with the regulators in neighbouring jurisdictions, including FERC to promote the movement of gas to Canada and to ensure access to the gas, storage and services that may be provided.

Similarly, with respect to the NEB, LPMA believes that the Board should ensure that Ontario consumers are being adequately represented in TCPL toll proceedings. As noted previously, the biggest negative impact of the changing market dynamics is the likely increase in TCPL tolls to Ontario as the volumes transported decline (partly due to declining WCSB production and displacement of gas destined for Ontario, Quebec and the U.S. Northeast). This may involve the Board becoming directly involved in tolls proceedings at the NEB to adequately address the issue of the increasing burden of rising tolls on Ontario consumers, particularly those in the north and north western parts of the province.

Sincerely,

Randy Aiken

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