The natural gas market in North America is undergoing significant changes due to the development of technology that is allowing the economic harvesting of shale gas. In the record of the review to this point, that fact seems uncontested. While the impacts of these changes and the rate of change are uncertain, it is clear that gas flow around North America will be different at the end of this decade than at the end of the last. However, analyzing those changes and preparing for eventualities is prudent. The Federation of Rental-housing Providers of Ontario (FRPO) is very supportive of this review and thank the Board for the opportunity to contribute.

As the Board is aware, FRPO has collaborated with other Ontario ratepayer groups in securing the services of Mr. John Rosenkranz to provide his expertise in reviewing potential implications for the Ontario natural gas market. Mr. Rosenkranz's report[1] and the resulting presentation are on record with the Board in this proceeding. FRPO supports the views in his submissions and adopts the positions taken and will provide some additional views in this submission. For efficiency, FRPO will only provide additional points and will refer to Mr. Rosenkranz's report for context or to add to the points he has made. To be clear, FRPO supports the Rosenkranz report in totality even if certain aspects are not referred to in this document. We will use the Board's questions posed for the stakeholder session to provide a framework for our comments.

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)?

2. *What might be the challenges for Ontario gas market participants?*

In our view, the development of technology to extract shale deposit is a significant opportunity to enhance the long-term energy future for the continent of North America. When harvested in an economically and environmentally sound fashion, shale gas provides greater opportunity for the continent's energy needs domestically. This development can be significant benefit to the North American economy.

Beyond the amount of gas available and changes to the supply demand balance, the location of eastern reserves creates opportunities for diversity of supply and minimization of fuel usage and resulting transportation costs to get the gas to market. These latter changes create significant opportunities and risks for stakeholders. In some cases, the opportunities for some can become the risks for others.

<u>Diversity of Supply</u>

The diversity of supply can create competition for some services which can result in the development of new services or paths for gas flow. In a more openly competitive market, this development could be viewed as nothing but beneficial to an end use consumer. However, in a regulated market that is required for economic efficiency of long term infrastructure investments, changes can disproportionate the level of risk and opportunities between buyers and sellers. In

[1] Rosenkranz Report submitted September 21, 2010

our view, the Board has an opportunity to use its role as regulator to balance the interests of market participants to continue rationale market development in the public interest.

One area for consideration is the utilization of existing infrastructure. With the prospect of diminished flow requirements for the TCPL mainline, the question could be asked what could the excess capacity be used for. One thought that we tried to explore at the Stakeholder Conference was could the capacity be used to provide balancing services. Unfortunately, there was a limitation in the knowledge of the participants about how the current Union North balancing service is effected that limited further understanding needed to propose ideas[2]. However, enhanced understanding of how the service is currently effected, where the revenues accrue and what options may be there for TCPL to provide the service could be explored. A shift in provider for balancing services for northern customers could allow more mainline utilization and the freed up storage to be used for other short-term balancing services to minimize in-franchise rates.

Enhanced System Reliability

Diversity of supply can create risks for under-utilized assets as described below. However, the increased number of paths available can create increased security of supply. In the last few years, there has been expressed concern with the evolution of contracting for transportation that there is a greater risk to security of supply. In EB-2008-0219, Enbridge expressed its concern for system reliability prompting the Board to ask Enbridge to work with stakeholders on solutions. The compromise agreement[3] required a significant shift in contracting for the utility and shippers resulting in ratepayer impact. With recognition of the prospect of additional strong supplies from the US northeast, particularly the Marcellus shale, we believe that the risk to system reliability of interruptible contracting on TCPL is significantly reduced. It is accepted that additional infrastructure must still be put in place, however, we respectfully submit that it would be in the public interest to consider the necessity of the some of the risk mitigation measures when that infrastructure is complete.

A major finding of the ICF report was the expectation that Ontario and northeast North America would rely less on supplies from WCSB[4] resulting in the risk of declining volumes on the TCPL mainline. Given current approaches to ratemaking for TCPL, the risk of declining volumes creates upward pressure on mainline rates. This issue is particularly challenging for those customers who are completely reliant on TCPL. It is respected that the ratemaking implications and many aspects of the North American market evolution are beyond the scope of authority of the Board. However, later in our submissions, we present our thoughts on some considerations for the Board given these risks to Ontario ratepayers.

Asset utilization inside of Ontario will also be impacted by the increased supply of natural gas in north-eastern North America. The risk of de-contracting of the Dawn-Parkway corridor has been identified by Rosenkranz[5] and Union Gas[6] in its presentation. This de-contracting could have a

[2] EB-2010-0199 Stakeholder Conference Transcript, October 8, 2010, pages 32-33/
[3] EB-2010-0219 Settlement Agreement accepted August 26, 2010
[4] ICF 2010 Natural Gas Market Review submitted August 20, 2010, page 9
[5] Rosenkranz report pages 8-10

huge impact on rates if ratepayers become responsible for the under-utilized pipe capacity. However, with challenge comes opportunity as it was reported[7]. Supply of gas proximate to the Union Gas storage facility at Dawn has created a greater demand for reversal of flow on the Dawn-Kirkwall-Niagara/Chippewa path. In fact, Union has recently applied for Board approval for a new M12-X rate[8]. While specific submissions on the ratemaking for this service should rightfully be reserved for that proceeding, we submit that this Board has opportunity to consider some of the traditional approaches to ratemaking and revenue allocation to ensure a balancing of interests between shareholders and customers. In the case of M12-X, we would submit that the revenues generated should be allocated to the revenue requirement for the Dawn-Parkway transmission assets. This approach would help to insulate ratepayers if the traditional Dawn-Parkway capacity is not fully utilized due to market changes. In the following section, we propose that all facility approvals should be considered in light of a utility-specific integrated resource plan.

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?

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?

The further integration of Ontario into the North American market creates opportunities for access to other services by non-Ontario suppliers. The Board has long recognized the need for the prudent planning of investments by utilities. Recently, the Board issued its expectations for approval of Long-term Contracting by utilities[9]. This process requires the applicant to show due consideration of the investment being made by utilities to meet the needs of its customers. We submit that the decision to build and maintain long-term capital assets should require no less rigour and, in our view, must be made in the context of an integrated plan.

Accordingly, we support the recommendation for a long-term resource planning process as called for by Rosenkranz for the reasons identified in his report[10]. Further, in considering the examples from other jurisdictions in that report[11], we would encourage the Board to consider the Integrated Resource Plan (IRP) approach by the New Hampshire Public Utilities Commission. In our view, the IRP approach would be very aligned with the recent initiatives by the Board and the policy of the Ontario government in setting planning frameworks for energy.

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[6] Union Gas presentation submitted October 5, 2010, page 16
[7] Union Gas presentation submitted October 5, 2010, page 21
[8] Ontario Energy Board, EB-2010-0296 Notice of Application dated October 5, 2010
[9] EB-2008-0280 Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts issued April 23, 2009.
[10] Rosenkranz report, page 16.
[11] Rosenkranz report, Attachment A, pages 20-22.

Historically, in reviewing facility applications, the Board has followed the findings in its EBO 134[12] Report of the Board in evaluating whether the public interest is served in approving infrastructure investment. We believe that the principles respecting undue burden underlying the process contained in Report are still valid. However, as noted by Rosenkranz, the process was precipitated to evaluate the economic and other public interest benefits of expansion to local communities. Given the evolution of the North American market to an integrated system, we believe that facility applications ought be viewed in a broader context with due consideration for where the risks be apportioned.

Therefore, we would encourage the Board to review facilities applications with a view comparable to the FERC's policy statement[13]:

> *The Certificate Policy Statement established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Certificate Policy Statement explains that in deciding whether to authorize the construction of major new pipeline facilities, the Commission balances the public benefits against the potential adverse consequences. The Commission's goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.*

In assessing the benefits and risks as outlined above, the Board would have opportunity to consider the apportionment of risks including recognizing that of utility shareholders as recommended by Rosenkranz[14].

Further, in considering the application as above, the Board could determine the potential for incremental ratemaking. These incremental rates can be made while allocating some costs to ratepayers for benefits realized by the investment. An excellent example of this approach is found in the Order and Issuing Certificate and Approving Abandonment for Tennessee Gas Pipeline Company[15]. This decision allowed for the allocation of costs and risks between the Tennessee Gas Pipeline, the proponent shipper, EQT and existing shippers through cost causality principles and differentiated ratemaking.

Recognizing the inter-dependencies of Ontario utilities with TCPL and other pipelines, we would submit that the Board can encourage the coordination of open season by Ontario utilities and TCPL. Union Gas presented the importance of such coordination in the Stakeholder Conference[16]. These inter-dependencies do not end with TCPL as neighbouring jurisdictions

[12] EBO 134 Review by the Ontario Energy Board of the Expansion of the Natural Gas System in Ontario issued June 1, 1987.
[13] Certification of New Interstate Natural Gas Pipeline Facilities, 88 FERC ¶ 61,227 (1999), order clarifying policy, 90 FERC ¶ 61,128 (2000), order clarifying policy, 92 FERC ¶ 61,094 (2000) (Certificate Policy Statement).
[14] Rosenkranz report, page 15.
[15] 131 FERC ¶ 61,140, Docket No. CP09-444-000 Issued May 14, 2010.
[16] EB-2010-0199 Stakeholder Conference Transcript, October 8, 2010, page 21.

such as Michigan and New York have receipt and delivery points that tie into Ontario utilities. As was presented in the application for Dawn Gateway[17], Michigan utilities do not adhere to minimum for North American standards for transportation service nominations. These types of differences could inhibit Ontario customers access to storage services in the geographic market area. It is submitted that communication between Ontario and Michigan regulators could assist in minimizing potential barriers for the benefit of all providers and the customers they serve.

As was noted earlier in our submissions, we recognize that some issues are beyond the scope of authority of this Board. However, given the growing consensus of the risk to Ontario ratepayers from potential de-contracting of the TCPL mainline, we would respectfully encourage the Board to consider if Ontario ratepayers are adequately represented in TCPL toll proceedings at the National Energy Board. In the US, it is common that state regulators participate in facility and rate proceedings to protect the interests of consumers in their state.

Conclusion

At the end of the Stakeholder Conference, Board staff concluded with the comment[18] "*Maybe it's more of, how can we get more information from the various players around the table before the Board at the time that an opportunity is discussed"?* While we, as FRPO, would expect that the Board could determine the appropriate process in its discretion under the Act, we believe that this change in North American gas flow has highlighted the inter-dependencies of Ontario natural gas infrastructure with that of the rest of the continent. We believe that by prior planning and evaluating Integrated Resource Plans by the utilities, individual market-driven or utility-driven applications can be evaluated in context using a context similar to the *Certificate Policy Statement*[19] included above.

We once again thank the Board for the opportunity to contribute to this review and would respectfully request the awarding of costs in accordance with the Procedural orders issued in this proceeding.

All of which is respectfully submitted on behalf of FRPO,

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[17] EB-2009-0422 Decision dated March 9, 2010, page 8.
[18] EB-2010-0199 Stakeholder Conference Transcript, October 8, 2010, page 88.
[19] Certification of New Interstate Natural Gas Pipeline Facilities, 88 FERC ¶ 61,227 (1999), order clarifying policy, 90 FERC ¶ 61,128 (2000), order clarifying policy, 92 FERC ¶ 61,094 (2000) (Certificate Policy Statement).