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BY RESS and EMAIL

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Our File No. 20100199

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2010-0199 – Gas Market Review

We are counsel for the School Energy Coalition. These are SEC's final comments flowing out of the materials filed by the parties, and the stakeholder conference on October 7th and 8th.

In making these comments, we have been assisted by an opportunity to review draft submissions from a number of other parties. As noted below, we have kept our comments at a general level, and left more detailed comments to others.

General

1. ***Interest of SEC in the Proceeding.*** The 5,000 schools that together make up the School Energy Coalition are one of the largest non-residential groups of gas consumers for space and water heating purposes in Ontario. The cost of more than \$150 million per year that schools pay for gas is a key part of their operating costs.
2. ***Role of SEC in the Proceeding.*** Notwithstanding our interest, SEC recognized from the outset that other parties, including CME and IGUA as well as others, were better positioned to take the lead on these issues. SEC joined with several other ratepayer groups to retain John Rosenkranz, a top expert in the field, and his input into the process

proved invaluable as it unfolded. CME took much of the leading role in this on behalf of the other ratepayer groups.

Changes in the Market

3. **Commodity Prices.** It is clear that the changing face of gas markets, on both the supply and demand sides, will affect the price of the commodity, sometimes in unpredictable ways. Although the availability of shale gas has already had an impact, for example, we have seen very recently that it is also possible that depressed prices will limit shale gas production. This may be a short term or a long term factor. We do not see that managing this aspect of the situation is a responsibility or appropriate role of the Board. Schools, either through groups of schools, or through consortia with other buyers, generally engage gas procurement firms to optimize their market purchases. Only rarely are schools system gas customers.
4. **Transportation Costs.** On the other hand, the changes in the gas market will almost certainly have significant impacts on the costs of various transmission options, which do end up being part of the Board's regulatory regime. How those impacts will play out, and how they will interact with commodity prices, is not yet clear. The Board can see from the diversity of comments and opinions throughout this process that no-one yet has a firm grasp on what can reasonably be expected. Will the flow on the TransCanada Mainline drop sufficiently that the cost of using it becomes a serious problem, and if so whose risk is that? There is certainly a good chance this will happen, but it is still a chance, and the timing is not predictable. Similarly, the hubs that are used, and in particular the role of Dawn, remain in a state of flux. In addition, at present it appears that the main game-changer may be Marcellus Shale, but we are too early in the process to know whether Utica Shale gas may also, at least for a period of time, have a significant impact on Ontario and Quebec supplies and therefore transmission options and costs.
5. **Storage Costs and Market.** Similarly, changes in the Ontario cost of gas from various sources and using various means of transportation will affect the price and prospects for storage, both locally and in a broader market area. In an uncertain market, volatile price signals may incent building new storage, and then not, and may direct promoters of new storage to different locations. None of this appears to be predictable at this time.
6. **Environmental and Energy Policy Issues.** If shale gas is the most important single factor affecting the changing marketplace, the environmental issues, as well as related energy policy issues, may be a significant barrier to shale gas production. The rules may be different in different jurisdictions (Quebec vs. New York, for example), and even within a jurisdiction it may be a few years before the rules are stable.

Board Responses

7. **Specific Recommendations.** Mr. Rosenkranz provided additional recommendations arising out of the stakeholder conference in a Supplementary Report dated October 26, 2010. Those recommendations, which have been provided to the Board as an

attachment to the submissions of the City of Kitchener, cover all of the specific actions that SEC believes the Board should take at the present time. We therefore adopt them by reference.

8. **General Recommendation.** On a broader level, SEC is concerned with the high level of uncertainty in the commodity, transportation and storage markets right now as a result of these major changes playing out. Parties will, we believe, ask the Board, either now or over the near term, to take specific steps to “solve” perceived problems, enable new opportunities, or establish rights between market players. Parties will also ask that the Board make decisions more quickly, and with less process, in order to respond with agility to the market. In our view, during this period of market uncertainty, a key goal of the Board in all of its actions should be to maintain flexibility. Every request put to the Board should be tested to see if there is any potential for it to narrow the Board’s options for dealing with future events. Where, as is so often the case, something that seems like a good idea reduces future flexibility, the Board should be hesitant to do it unless it can be shown that it works, not just in the highest probability future, but in all scenarios that have a reasonable likelihood of arising. In short, there is a time to be decisive and take a leadership role, and there is a time to be more cautious and take a “wait and see” approach. With a few exceptions, noted by Mr. Rosenkranz, this is a time to be cautious.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested parties (email)